



EFFECT OF OUTSOURCING NON-CORE BUSINESS ACTIVITIES ON
ORGANIZATIONAL PERFORMANCE IN THE CASE OF ETHIOPIAN
COMMODITY EXCHANGE (ECX)

*A Research Paper Submitted to the Office of Graduate Studies in Partial
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Resource Management*

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DECLARATION

I, Ahmed Seid, declare that this thesis entitled “The Effect of Outsourcing Noncore Business Activity on Organizational Performance: in case of Ethiopian commodity Exchange (ECX)” is my original work. I further confirm that this paper has never been submitted to any other university for any degree, diploma or fellowship. Finally, I declare that all source materials used in this research has been dully recognized and acknowledged.

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Statement of Certification

This is to certify that the thesis carried out by Ahmed Seid on the topic entitled: “Effect of Outsourcing Non-Core Business Activities on Organizational Performance: in case of Ethiopian Commodity Exchange” is his original work and is suitable for submission for the award of Master of Art Degree in Human Resource Management.

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Effect of Outsourcing Non-Core Business Activities on Organizational Performance: in case
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ABSTRACT

In the current dynamic business world, organizations are always in searching different strategy to enhance their organizational performance and outsourcing becomes one of the widely embraced business strategies. However, in spite of the increasing trend in outsourcing arrangements, there are inadequate literature underpinnings on how outsourcing non-core business activities affect organization performance in different sector and the same is true in ECX. In order to bridge that gap this research sought to study the effects of outsourcing non-core business activities on organization performance in ECX. The researcher used descriptive and inferential research design method in carrying out his study. The study targeted a population of 682 staff from 11 departments. The researcher used stratified sampling method to pick sample respondents. Data was collected from primary sources through survey method by use of questionnaires and interview of the top level management. The data was quantitatively analyzed based on research objectives by using of statistical package for social sciences (SPSS) version 20 software. Both correlation and regression analysis were done. The study findings revealed that, though all of the dimensions of outsourcing non-core business practices have statistically significant positive relationship with organizational performance, service quality and communication was found to have no statistically significant predictive power on organizational performance of ECX, while the remaining two dimension, cost reduction and employee commitment, have found to have a statistically significant predictive power on organizational performance of ECX. Based on the study findings, the researcher recommended that: ECX should be more strict in following the deployment of committed outsource staff by designing competency framework which can ensure employees commitment and that can be strictly followed and meet by the outsource company in deploying employees which provide the outsourced noncore business activity of the Exchange, and ECX should not outsource an activity until they have confirmed that the service provider is capable of handling the activity with minimum reasonable cost in the way that can meet cost reduction objective of outsourcing.

Key words: Outsourcing, Organizational Performance, Non-core Business Practice and Competency Framework

Table of Contents

ABSTRACT.....	i
Acknowledgment	iv
List of Tables and Figures.....	v
List of Acronyms and Abbreviation.....	vi
CHAPTER ONE.....	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2. Statement of the Problem.....	4
1.3. Research Questions	5
1.4. Objectives of the Study.....	5
1.3.1 General Objective	5
1.3.2 Specific Objectives	5
1.5. Significance of the Study	6
1.6. Scope of the Study	6
1.7. Limitation of the Study	6
1.8 Definition of Terms	7
1.9. Organization of the Study	7
CHAPTER TWO	8
REVIEW OF RELATED LITERATURE	8
2.1. Theoretical Literature Review.....	8
2.1.1. Outsourcing.....	8
2.1.2 Organizational Performance	12
2.1.3 Service Quality.....	14
2.1.4 Employees Commitment.....	15
2.1.5 Communication.....	16
2.1.6 Cost Reduction	16
2.2. Empirical Literature Review	18
2.3. Conceptual framework.....	24
CHAPTER THREE	26
RESEARCH DESIGN AND METHODOLOGY.....	26
3.1 Description of the study area	26
3.2. Research Approach	27
3.3. Research Design.....	28
3.4. Sample Size Determination.....	28

3.5. Sampling Technique	28
3.6. Instruments of Data Collection	29
3.7. Data Validity and Reliability	31
3.8. Data Collection Process	33
3.9. Data Analysis	34
3.10. Ethical consideration.....	35
CHAPTER FOUR	36
RESULTS, ANALYSIS, AND INTERPRETATION.....	36
4.1 Introduction	36
4.3 Descriptive Analysis	38
4.4. Correlation Analysis	41
4.5. Regression Analysis.....	46
CHAPTER FIVE	53
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	53
5.1. Summary of Major Findings.....	53
5.2. Conclusion.....	56
5.3. Recommendation.....	57
5.4. Suggestions for Future Studies	59
REFERENCES	60
ANNEX I	i
ANNEX II	viii
Descriptive, Correlation and Regression Table	viii

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The Researcher

List of Tables and Figures

Table and figure	Page
Figure 3.1. ECX Organizational Structure.....	32
Table 3.3. Proposed and actual Number of respondent	34
Table 3.4. Variable and measurement Item Summery	36
Table 4.1: Demographic Characteristics of Respondents.....	40
Table 4.2: Reliability Analyses	43
Table 4.3. Composite scores of mean and standard deviation.....	45
Table 4.4 : Response on Organizational Performance.....	46
Table 4.5. Correlation between the variables.....	47
Table 4.6. Model Summery	52
Table 4.7: ANOVA.....	53
Table 4.8. Coefficient	54
Table 4.9 Outsource service payment VS Permanent summery.....	58

List of Acronyms and Abbreviation

CEO: Chief Executive Officer

ECX: Ethiopian Commodity Exchange

HR: Human resource

HRM: Human Resource Management

HRO: Human Resource Outsourcing

IT : Information Technology

PEOs: Payroll, Professional, employer organizations

RPO: Recruitment Process Outsourcing

SLA: Service Level Agreement

TCE: Transaction Cost Economics

The Exchange refers to Ethiopian Commodity Exchange

CHAPTER ONE

INTRODUCTION

This chapter deals with the background of the study, statement of the Problem, research question, Research Objectives, and Significance of the Study, Scope of the Study, limitation of the study, Definition of Terms and Organization of the Study.

1.1 Background of the Study

Outsourcing is defined as a contractual relationship for the provision of business services by an external provider (Belcourt, 2006). Outsourcing is also defined as the act of obtaining semi-finished products, finished products or services from an outside company and the company that outsources is called 'buyer', whereas the company that provides the service is known as the 'vendor' where the outsourcing service provider provides the service in the performance of the contract and the workers typically work under the directions of outsourcing service provider management (Dolgui & Proth, 2013).

Classifying organizational functions as Non-Core business and core business functions usually determined by the top management based on firms strategy and objectives. Outsourcing is part of firms' strategy which enables managers to focus their energies on their core business activities, that is, those activities which are the source of competitive advantage and which determine the success or failure of the organizations (Letica, 2016). Decision of outsourcing needs critical analysis regarding which activities or business process can be better performed internally and which can be done better by third party.

Organizational performance is a multi-dimensional concept that involves many aspects in its measurement. Kotabe (1998) identified three types of performance measures as necessary components in any outsourcing performance measurement system: strategic measures; financial measures; and quality measures. Other studies use additional dimensions of market performance such as costs savings, cycle time, customer satisfaction, and productivity to measure the effectiveness of outsourcing strategy.

Outsourcing is relatively a new phenomenon which is becoming very popular in modern organizations. According to Lysons and Farrington (2000), the history of outsourcing is deeply rooted in the history of the growth of modern business enterprise. Outsourcing was developed as a reaction to the over diversification of the 1970s and early 1980s. This led many enterprises to review the core activities and concentrate on their core competences.

There are many issues which lead organizations to look for strategic options for better performance and for competitive advantage. These issues include the augmentation of competitive pressures, business difficulties, limitation of sources, technologic complexities and specialization of tasks, acceleration of environmental changes, uncertainty about future, price increase, excessive enlargement of some organizations and legal considerations (Fraye, Scannell, & Thomas, 2000). One of these strategies is to focus on the core competencies and to entrust most of the activities to out-side suppliers or to outsource them. So in order to obtain the possibilities to do the tasks and simultaneously to give desirable services to the customers and to enable firms to react to various demands, outsourcing strategy is a necessary tool used by many progressive firms (Fraye et al., 2000; Masaaki, Mol & Murray, 2008).

In the current dynamic business world, organizations should focus on their competitive advantage and cannot be forced to produce everything by their own. According to Koszewska (2004), outsourcing is one of the best ideas that allow many companies to focus on what they do best and outsourcing what others can do better, faster, cheaper, and higher quality. Hence, it allows firms to concentrate their resources on their core business. It also allows access to specialize talent or expertise that does not exist within the firm

The most frequently outsourced business functions include information technology (IT) and human resources function in Europe and United States of America (Yeboah, 2013). A survey of United States Chief Executive Offices shows that 42 percent of communication firms, 40 percent of computer manufactures, and 37 percent of semiconductor companies rely on global outsourcing. According to another survey conducted by Duncan and Groves-Rowan

(1997), more than 65 percent of banks surveyed revealed that they were involved in at least one type of outsourcing function as cited in (Yeboah,2013)

The concept of outsourcing become increasingly important that outsourcing has been applied in many countries in Asian Community under the concept of economic integration, with a belief that economic integration will facilitate Asian Economic Community to enhance an even higher competitive advantages over other regions, to attract more intra-regional investments and trading, and to have high ability to sharing the expertise in various types of industries in creating more quality products and services (Somjai, 2017)

Outsourcing was also applied in many African chuntries. A survey conducted by the National Manpower Board in 2009, indicates that more than 73 percent of Nigerian business organizations surveyed were involved in at least one type of outsourcing function. Jennings (1996) affirms that human resource expenses are the primary reasons behind outsourcing as cited in Fapohunda, et al 2013.

In Ethiopia, many organizations nowadays are outsourcing their non-core business to the outsourcing company especially in the area of Facility Management (security, clearing, Runner), Human Resource Management (Job evaluation and salary survey) and Operational management. (Meresea, 2007)

The Ethiopian Commodity Exchange outsources Security, cleaning, runner, sorter, job evaluation and salary survey activities to the outsource service provider since 2011. However, there is little understanding on its effect and, it is considered as an activity which doesn't have an effect. This study was focus on the effect of outsourcing non-core business activities on organizational performance in the case of ECX and its finding will help other researcher in the area and to the Exchange for the way forward.

1.2. Statement of the Problem

Ethiopian Commodity Exchange (ECX) outsources some of its operational, facility management and human resource functions to improve its organizational performance. However, the company has not benefited as expected from outsourcing. Several symptoms and indicators of inefficiency were observed by the researcher. This includes like different compliant are forwarded by the outsource service user regarding the quality of outsourced services provide by the outsource service provider, commitment of the outsource employees who are deployed to deliver the required service become questionable by the service user and theft incident also registered frequently. Beside, lack of service providers' necessary capabilities regarding communication and coordination difficulties, time management, and material handling also put in question smooth communication and cost redaction part of the Exchange. During the preliminary assessment, outsource employees moral and integrity become questionable and the Exchange use outsourcing because it is the common trend and used by other organization without assessing its effect on Organizational Performance.

Consequently, customers and employees compliant on outsourced services has increased, frequent theft incident registered, outsource employees compliant on their parent organization and ECX to the regional government become headache and ECX confidentiality become deteriorated. Unless the problem is studied and resolved, its effect on organizational performance become uncontrollable and put in danger the existence of ECX.

In addition, empirically quite few studies were conducted in the area of outsourcing in Ethiopia. The focus of those studies was more on the benefit and challenges of outsourcing and very few in related with organizational performance. For example Ababu (2015) made his study on the benefit and challenges of outsourcing practice at Commercial Bank of Ethiopian, Belete (2016) study investigated the benefit and problem of outsourcing product distribution function at Heineken Breweries S.C and Tenkir (2017) the effect of outsourcing functions on company performance in the case of Commercial Bank of Ethiopia Formally

there is no research conducted in ECX so far to study the effect of outsourcing. Therefore, recognizing this empirical gap, the researcher focused on effects of outsourcing non-core business activities on organizational performance in the case of ECX.

1.3. Research Questions

1. Does Service Quality of the outsourced activities of the service provider affect organizational Performance of ECX?
2. Does employees' commitment of the outsourced activities of the service provider affect organizational performance of ECX?
3. Does Communication with service provider affect organizational performance of ECX?
4. Does outsourcing ensure Cost Reduction of ECX that affects organization Performance?

1.4. Objectives of the Study

1.3.1 General Objective

The general objective of this research is to investigate the effects of outsourcing non-core business activities on organizational performance in the case of Ethiopia Commodity Exchange.

1.3.2 Specific Objectives

The specific objectives of this study are:

1. To assess whether Service Quality of the outsourced activities of the service provider affects organizational Performance of ECX
2. To find out whether Employees' Commitment of the outsourced activities of the service provider affect organizational performance of ECX
3. To find out whether Communication with service provider affect organizational performance of ECX
4. To assess whether outsourcing ensures Cost Reduction that affects organization Performance of ECX

1.5. Significance of the Study

Ethiopian commodity Exchange is a unique organization which adopts and implements outsourcing as part of its strategy since its establishment. This study will help the Exchange to revisit its strategy in line with the organizational performance and help to take actions as appropriate based on the study finding and recommendation. Besides, it is helpful for the other researchers, who want to conduct the same types of research topic in the case of similar industry.

1.6. Scope of the Study

This study was conducted at ECX located in Addis Ababa and different Branches found in different part of the country and concentrated specifically on the effect of outsourcing non-core business activities of facility, Human resource and operational support activities outsourcing. The study delimited to five variables including four independent and one dependent. Independent variables included Service Quality, Employees Commitment, Communication and Cost Reduction. The dependent variable is organizational performance which will be tackled in the forms of Financial, Operational and Behavioral performance. The study cover dates from 2015 to the current situation. This period was related to the current respondents experience and there was consistency in management approaches. Both qualitative and quantitative research techniques and methods was used to provide the best understanding of a research problem.

1.7. Limitation of the Study

This study is delimited with five variables including four independent and one dependent variable. However, there are also other variables which can measure the performance of outsourcing. As a result, the research finding only indicates the performance of outsourcing with limited dimensions and may not provide a comprehensive performance of outsourcing. Beside this study is also unable to incorporate all ECX's organs which are found throughout the country and doesn't consider the views of the service provider. As a result,

the research finding might not give a comprehensive picture of all outsource employees and services performance

1.8 Definition of Terms

Organizational Performance: Organizational performance refers the degree of an organization achieving a specific objective, whose indicator was a variable, used measuring the efficiency and effectiveness of part of a system or the entire system so as to confirm the entire operating process conforming the set objective (Ge & Chao , 2008)

Employees Commitment: Employee commitment refers to an effective response to the whole organization and the degree of attachment or loyalty employees feel towards the organization (Ongori , 2007)

Service Quality: Service quality refers the comparison between Service quality of customer expectation and the real perception in the service process and after receiving service (Ong, 1998)

Communication: Communication refers to the extent to which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner (Simatupang & Sridharan , 2004)

Outsourcing: Outsourcing refers to contractual relationship for the provision of business services by an external provider (Belcourt, 2006)

1.9. Organization of the Study

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

CHAPTER TWO

REVIEW OF RELATED LITERATURE

The review of related literature part of this study generally deals with the theoretical as well as empirical evidences of the effect of outsourcing on organizational performance.

2.1. Theoretical Literature Review

2.1.1. Outsourcing

Outsourcing is a predetermined means of externally obtaining goods or services previously provided by the organization itself (Kakabadse & Kakabadse, 2000). Outsourcing is the act of obtaining semi-finished products, finished products or services from an outside company if these activities were traditionally performed internally (Dolgui & Proth, 2013). The company that outsources is called 'buyer', whereas the company that provides the service is known as the 'vendor' (Dolgui & Proth, 2013). Outsourcing also defined as contractual relationship for the provision of business services by an external provider (Belcourt, 2006). Dwyner and Tanner (1999) describe outsourcing as the process of finding other organizations to supply the buying organization with products or services, usually those that was previously created in-house. It is a strategic trend, caused in part by a trend in strategy where organizations focus on their core businesses.

2.1.1.1 Motive of Outsourcing

The business environment is really challenging in order to stay competitive in the global market. The companies are striving to find and develop the best strategies to achieve efficiency and leverage their capabilities and one viable solution for them is outsourcing, which currently is considered to be one of the best ways of reshaping management. (Barcal & Borza 2015) outsourcing is promoted as one of the most powerful trend. It is not only a cost saving exercise, but a strategic movement that allow managers to limit the firms functions for which they are responsible and focus on the core competencies and it enables companies to focus on their core capabilities, balances the number of employees, reduce costs, offers

access to new technology and improves the productivity and the quality (Alina-Cristina & Anca, 2015).

There are several reasons to believe that organizations attempt to outsource their activities. By justifying that outsourcing decisions are strategic, this strategy can be the source of many fundamental changes in the organization. Therefore, the most important point is to manage these crucial changes, precisely. The other point is that outsourcing does not mean absolve responsibility from an outsourcing organization or buyer. It means to entrust activities to outside organizations or people in order to achieve better efficiency, better responsiveness, and reduction of costs. (Espino-Rodriguez & Padron-Robaina, 2004). However, it does not mean to entrust the whole responsibilities

2.1.1.2 Advantage of Outsourcing

The reason of outsourcing some activity of an organization is different from organization to organization. However, all organizations adopt outsourcing strategy due to its advantage on their organizational performance. Elmuti (2003) identifies ten reasons for outsourcing which are reducing cost, improving quality, improving delivery and reliability, using resources not available internally, accessing new technology, accessing materials only available abroad, establishing presence in a foreign market, maintaining sufficient flexibility to respond to market conditions, reducing the overall amount of specialised skills and knowledge needed, making capital funds available for more profitable operations and focusing on core competencies.

Other outsourcing advantages that are common in the literature are also summarized by Dulgoi and Proth (2013): Cost saving—a lower cost is obtained by choosing a vendor that can perform the activities to be outsourced at a higher performance level of accuracy and efficiency than the buyer could; Reduce staff—not only there will be less persons on the payroll, but the buyer will not concern any more in facing the fluctuations in staffing due to

changes in demands because he pays for the amount of work that needs to be done and not for the persons needed to perform it. The hiring of the resources, training and efficient knowledge transfer is the responsibility of the vendor; free employees from tedious tasks in order to allow them to concentrate on core activities. It was noticed that a company outsources in the first place the repetitive activities that require a lot of time invested but do not bring back that much financial benefits

Moreover, outsourcing is important to gain benefit by taking advantage of external expertise or outsourcing non-core activities; to achieve greater financial flexibility by selling assets that were formerly used in the outsourced activity in order to improve company's cash flow; to gain access to external skills and technologies. This advantage is applicable only if the 'vendor' do not provide only the workforce, but takes the responsibility to improve the process through innovative procedures or technology and vendors are assumed to provide quality activities: paying for service creates the expectation of performance (in costs, quality, flexibility, etc.) (Dulgoi & Proth , 2013):

2.1.1.3 *Disadvantage of Outsourcing*

Every strategy has its own strength and weakness and the severity also depends on different internal and external factors to the organization. Outsourcing strategy also has its own disadvantages. Kotabe (1998) suggested that there could be some negative long-term consequences of outsourcing resulting from a company's dependence on independent suppliers. Such reliance on outsourcing may make it difficult for the company to sustain its long-term competitive advantages

Research conducted by Grauman and Paul (2005) shows that outsourcing HR activities can also increase the risk of losing confidential information; including reports, audit trails, and personal data and organizations may experience a loss of control over HR activities if they introduce outsourcing since it is affected by the quality of HR provider and the service agreement that exists between the provider and the organization. Failure to realise cost

savings because of hidden costs, poor service and lack of responsiveness by outsourcing providers emerge as a result of an ineffective outsourcing relationship

According to Moszewska (2004), the most frequently quoted types of outsourcing-related risks are dependence on the supplier, hidden costs, loss of know-how, loss of long-run research and development (R&D) competitiveness, service providers lack of necessary capabilities, communication and coordination difficulties, lack of supplier responsiveness, loss of control over decisions, poor quality of supply, fall in employee morale, loss of internal coherence confidentiality leaks and loss of intellectual property rights and reputation risks and customer satisfaction

2.1.1.4 Facility Management Outsourcing

Akkording to Kurdia, Abdul-Tharim, Jaffar, Azli, Shuib, and AbWahid (2011) Outsourcing facility management is a common trend which includes housekeeping, kitchen services, security and building setup, or interior and gardening services. All these activities are crucial requirements of any business institution. Outsourcing in facilities management defined as contracting out to obtain the services or products from an outside provider instead of having them provided by in-house resources. In the attempt of outsourcing, it is important to ensure that the company's mission and long-term goals and objectives are achieved. While the advantages of outsourcing seems to give value for money to the company by having more time to concentrate on core business and having the access to professional, expert and high-quality services. Outsourcing facility management services not only releases the unnecessary headaches but helps reduce expenses. Focusing and performing well in primary activities is the new success secret (Kurdia, et. al, 2011).

2.1.1. 5 Human Resource Outsourcing

Human resource outsourcing is a common trend for various organizations which includes different HR activities starting from a single process to the overall HR activities. Brown and Wilson (2005, p. 22) list twelve human resources services that are elements of HR

business process outsourcing or HRO includes Benefits administration, employment process outsourcing,. Hiring, recruitment, HR/Personnel management, Payroll, Professional, employer organizations (PEOs), Recruitment process outsourcing (RPO), Staffing services, Talent and human capital outsourcing, Training and staff development, ,Workforce consulting and management

2.1.1.6 Operational Support Outsourcing

According to kurdia etal (2011) Operational support activities will be defined based on the business process of the given business organization. As a result, the supporting operation like HR, finance, legal, etc. and core support operation which is outsourced to the third party like Sorter and Mezo Awchi

2.1.2 Organizational Performance

According to Thorpe and Holloway (2008), the starting point when designing a performance measurement system to assist performance management is the business strategy. Selecting the correct and representative performance indicators could actually respond the value and necessity of strategic activities in an organization as the top guidance for all organizational behavior (Muammer, 2013)

2.1.2.1 Organizational Performance Defined

Performance refers to the achievement of corporate objectives. In management, the achievement of organizational objectives and the promotion of organizational effectiveness through others (Kaplan & Norton, 1992).

Jao (2006) defined it as the process of corporate managers well utilizing internal and external resource for achieving organizational objective with high effectiveness and efficiency. Ge and Chao (2008) regarded Organizational performance as the degree of an organization achieving a specific objective, whose indicator was a variable, used measuring

the efficiency and effectiveness of part of a system or the entire system so as to confirm the entire operating process conforming the set objective

2.1.2.2 Organizational Performance Measurement

Gung and He (2005) classified three indicator to measure Organizational Performance, namely (i) financial performance such as return on investment, return on revenue, return on asset, market share, revenue growth and cost merit, (ii) Non-Financial performance including organizational existence, Stability and satisfaction (conforming to the expected objective of parent company, subjective assessment) and (iii) compressive performance, the simultaneous evaluation of financial and non-financial indicators.

According to Chang (2001) Organizational performance measured with three dimensions including (i) Financial Performance like revenue growth, earning per share growth rate and market share, (ii) Operating Performance like product quality, innovative degree and added value and (iii) Behavioral Performance containing turnover rate, employees moral, organizational attractiveness, employees productivity and organizational commitment of employees

According to Thorpe and Holloway (2008), one major framework for developing a set of performance measures for an activity or a business is the balanced scorecard which was the product of a research project conducted by the Harvard Business School and involving 12 leading companies in the United States. It allows managers to look at a business from four important perspectives and provides answers to the following questions:

1. How do we look to shareholders? (Financial perspective.)
2. How do customers see us? (Customer perspective.)
3. What must we excel at? (Internal business perspective.)
4. Can we continue to improve and create value? (Innovation and learning perspective.)

Outsourcing success can be measured in terms of the impact outsourcing has on organization performance and customer satisfaction. Organization performance can be measured by assessing the degree of achievement of the strategic, economic, productivity and other technological benefits of outsourcing contract. Customer satisfaction can be viewed as the level of acceptance or fitness between a customer requirement and outsourcing outcome (Elmuti, 2003)

2.1.3 Service Quality

Lin (2005) indicated that Service Quality was determined by consumer subjective assessment according to personal experience and perception. Chen and Hung (2005) regarded Service Quality as the overall assessment of customers towards various service offered by an organization which includes the attitude of service personnel and the evaluation of product quality. Lu-Chung (2006) made more complete definition of service quality and considered that customer with service quality was the comparison between Service quality of customer expectation and the real perception in the service process and after receiving service

2.1.2.1 Service Quality Measurement

Iztok (2011) indicates that Service Quality should be judged from process quality which indicates to customer judging service in the process and outcome quality refers to customer evaluation after service .Lehtinen (1991) proposed three dimension for service quality namely (i) physical Quality which contain physical product and support,(ii) Corporate Quality which indicates the customer evaluation of corporate image and (iii) Interaction Quality which indicates the interaction with customer

The SERVQUAL model proposes that customers evaluate the quality of a service on five distinct dimensions: reliability, responsiveness, assurance, empathy, and tangibles. The SERVQUAL instrument consists of 22 statements for assessing consumer perceptions and expectations regarding the quality of a service. Perceived service quality results from

comparisons by consumers of expectations with their perceptions of service delivered by the service providers (Zeithaml, Valeri , Parasuraman & Berry, 1990)

2.1.4 Employees Commitment

According to Akintayo (2010) employee commitment can be defined as the degree to which the employee feels devoted to their organization. Ongori (2007) described employee commitment as an effective response to the whole organization and the degree of attachment or loyalty employees feel towards the organization. Zheng, (2010) describes employee commitment as simply employees' attitude to organization. Meyer and Allen (1997) commitment is defined as a psychological state that characterizes the employees' relationship with the organization and has implication for the decision to continue membership in the organization.

2.1.3.1 Determinants of Employee Commitment

Ongori (2007) stated that the degree to which employees are committed or loyal to their organization depends largely on job enrichment, employee empowerment and compensation Avolio, (2004) examined the linkage between transformational leadership and employee commitment by focusing on psychological empowerment and structural distance showed that there is a positive association between transformational leadership and employee commitment revealing that psychological empowerment mediated the relationship between transformational leadership and employee commitment.

Akintayo, (2010) recommended that organizational support program needs to be introduced and provided for all levels of workers in order to reduce the burden of work-family role conflict interface and virtually induced commitment to their jobs. He further stated that the level of family responsibilities of the workers need to be considered during recruitment, in assigning responsibilities and placement process in order to foster employee commitment

Meyer, Allen and Smith (1993) develop three component model commitment might be accompanied by one or more of these mind-sets affective attachment to the organization, perceived cost of leaving and obligation to remain and therefor incorporated all three into their model. To distinguish among commitment, characterized by these difference mind sets, they labeled them affective, Continuous and normative commitment. This research work also use this model to measure employees commitment

2.1.5 Communication

Communication is viewed by (Haiemann, 2011) as the imparting of ideas and making oneself understood by others. It is also the process by which information is passed between individuals and/or organizations by means of previously agreed symbols

According to Banihashemi, (2011) all aspects and points to effective communication in the organization, it gain in conclusion that channels of communication is one of the most effective way in a relationship, and qualified managers have to pass over all stages of communication.

According to Simatupang and Sridharan (2004) communication is the extent to which a firm shares a variety of relevant, accurate, complete and confidential ideas, plans and procedures with its supply chain partners in a timely manner

2.1.6 Cost Reduction

According to Dulgoi and Proth (2013): one of the reason for outsourcing is for Cost saving—a lower cost is obtained by choosing a vendor that can perform the activities to be outsourced at a higher performance level of accuracy and efficiency than the buyer could. Oshri, Kotlarsky and Willcocks (2011) found out the statistical heterogeneity in the level of savings across industries and argued that the overall level of savings from outsourcing is approximately 6-12 per cent. Lev (2001) concluded that the often quoted 20%-savings rhetoric appears to be deceptively optimistic on average and unlikely to apply to many public-sector services.

Wisniewski (2001) maintains that indirect costs of production also need to be factored into the expenditure comparison equation. Such costs are incurred whether the service is provided internally or externally and should be included in any cost comparisons. These costs should be accounted for by allocating a percentage of such costs to the particular service activity in question (Wisniewski, 2001). Transaction costs such as writing the specification, drafting the contract, evaluating the tenders also need to be accounted for since it is the sum of production and transaction costs that determines whether any given activity should be conducted within the boundaries of the organization (Williamson, 1985).

2.2.4 Basic Theories related to Outsourcing

The concept of outsourcing is driven from and supported by various theoretical approaches like Resource based theory, core competency theory, Transaction cost theory and contractual theory (Henry. 2008)

Resource Based Theory. In view of resource based theory, organization can generate sustainable competitive advantage through its internal resource which can provide economic value to the firm, scarce, difficult to imitate, non-substitutable and not readily obtainable from markets (Priem & Butler, 2001). The theory indicates that, organization should focus on their internal resource which have the aforementioned features and use outsourcing for other resource needed.

Core Competency Theory. Core competency theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. The less proprietary or core activity and the more common a function is, the stronger a candidate it is for outsourcing to the best suited service providers who are experts in that field (Goffredson, et al, 2005).

Transaction cost theory has been developed to facilitate analysis of the comparative cost of planning, adapting and monitoring task completion under alternative governance

structure. On the other hand, transaction cost economics (TCE) or theory view the relationship between service receiver and service provider as a model that allows economic transactions to take place an activity is outsourced if a total profit after increasing income and reducing costs is greater than the overall transaction costs of outsourcing (Williamson, 1981).

Contractual theory is also important for the implementation of outsourcing strategy since it requires a legally bound contract which sets the institutional framework in which each party's rights, duties, and responsibilities are clearly defined.

2.2. Empirical Literature Review

Researches have been conducted in different parts of the world in different industries and form ownership regarding outsourcing related with organizational performance and practice, its benefit and challenges, reason for outsourcing and associated issues. In this section the researcher reviewed empirical studies touching on outsourcing noncore business activities and organizational performance

2.2.1 Outsourcing Noncore Business Activities and Organizational Performance

According to Kamanga¹ and Ismail (2016) on their study of the effects of outsourcing on organization performance in manufacturing sector in Kenya revealed that there was relationship between outsourcing and institutional performance. They use as diminution of outsourcing (independent variable) includes Outsourcing Cost, Quality, Technology adoption and Risk in studying its effect on organizational performance.

According to Tatu's (2016) study on outsourcing business activities and performance of public institution in Uganda, there was relationship between outsourcing and institutional performance. It established, however, that the dimensions of outsourcing includes Information Technology outsourcing, Human resource outsourcing and facility management outsourcing had different correlations with institutional performance.

Letica, (2016) study about activity – outsourcing relationship in Bosnia and Herzegovina companies practice revealed the majority of privately owned companies implement outsourcing to enhance company performance by controlling their operational cost and by focusing on the core business activity.

Sudawan Somjai, (2017) research aimed at investigating major advantages and disadvantages of promoting outsourcing in flow of business and economics of Thailand. It revealed that risk sharing is the most important factor of the advantages of outsourcing, then cost reduction such as operating cost and recruitment cost, expertise and fast delivery, and concentrate on core process production. Ali Nazari, (2012) Outsourcing and Its Impact on Operational Performance on telecommunication industry sector indicated that outsourcing could lead to reduce cost, improve quality, increase flexibility, better financial and non-financial performance and services.

Asiamah Yeboah, (2013) examined the relationship between outsourcing and organizational performance made up of 50 firms operating in the banking and insurance sectors of the economy of Ghana. Results revealed that a well implemented outsourcing strategy would reduce and control operating costs, improve the firm's focus, help the firm gain access to world-class capabilities and helps in sharing risks.

Tewoderos (2017) study to examine the effect of outsourcing none core business function on company performance in the case of commercial bank of Ethiopia. It revealed that outsourcing none core business has its impact on organizational performance. However, this research is concentrated on the area of different activities like security, cleaner and messenger and driving functions only.

2.2.1.1. Human Resource Outsourcing and Organizational Performance

Outsourcing human resource functions involves placing responsibility for various elements of the human resource function with a third-party provider. Olannye , Okoro and Moli, (2017) study is to examine the effect of Human Resources Outsourcing on

organizational performance in Nigerian Money Deposit Banks. The findings showed that there is a significant positive relationship between the variables of human resource outsourcing and organizational performance. This implies that its effect on organizational performance such as cost savings and productivity is as a result of outsourcing activities. Gilley, Matthew Geer and Resheed (2004) have analyzed relationships between HR outsourcing and organizational performance in manufacturing companies. They conclude that outsourcing of certain HR activities has a positive impact on overall company performance.

According to Tatu (2016) Outsourcing human resource functions has provided the organization with opportunities to add more experts to its resource pool, leads to improved reliability, responsiveness, flexibility and assurance of services improving service delivery is one of the most important reasons for outsourcing at the organization. There has been a significant reduction of expenditures in the organization as a result of outsourcing and the level of employee productivity at the organization has improved as a result of outsourcing. In general, the study finding indicates that outsourcing human resource functions had a significant effect on company performance.

2.2.1.2 Facility Outsourcing and Organizational Performance

Facility Management involves a number of outsourced activities and services. According to Kurdia et.al (2011), identifying that outsourcing facility management is a common trend which includes housekeeping, kitchen services, security and building setup, or interior and gardening services.

In the attempt of outsourcing, it is important to ensure that the company's mission and long-term goals and objectives are achieved. While the advantages of outsourcing seems to give value for money to the company by having more time to concentrate on core business and having the access to professional, expert and high-quality services. (Kurdia et.al , 2011),

Outsourcing facility management function services had allowed the organization to focus on its core functions. As a result, productivity will be heightened and the level of

quality emanating from such a business enterprise will increase and improved the performance of the organizations as well as operational efficiency. (Tatu.J,2016)

In Ethiopia, quite few studies were conducted in the area of outsourcing and those studies were more focused on the benefit and challenges of outsourcing. For example, Workalemhu (2015) in his study on the benefit and challenges of outsourcing practice at Commercial Bank of Ethiopian above 87% of the respondents had good understanding about the concept of outsourcing, above 79% of them were satisfied with the service received from the outsourced employees, and only 17% are unsatisfied with the service. Belete (2016) in his study on the benefit and problem of outsourcing product distribution function at Heineken Breweries S.C revealed that outsourcing saves time and cost, allowing managerial employees to focus on core business function, improving service quality, lowering investment requirement, increasing flexibility of product delivery and help the company cover wider sales territory than before are some of the major benefits. Tewoderos (2017) studied to examine the effect of outsourcing none core business function on company performance in the case of commercial bank of Ethiopia revealed that outsourcing none core business has its impact on organizational performance Hence, those studies directly and or indirectly indicate that outsourcing have a significant effect on organizational performance.

2.2.2. Service Quality and Organizational Performance

Service quality revealed strategic profit on both market share and return on investment and could reduce the production cost and effectively enhance organizational performance (Hung, 2001). Tan (1999) indicated that an enterprise with higher service quality would relatively present more significant Organizational Performance. Rust and Oliver (2000), stated that excellent service quality was the key factor in an enterprise enhancing Organizational Performance in the globalized market. According to Lin and Lee (2005), competitive advantage of an organization lied in the provision of high Service Quality that excellent service Quality not only enhance the organizational profitability but could

create excellent Organizational Performance for the organization. Moreover, Core competency theory suggests that firm activities should either be performed in house or by external service providers based on make or buy decision. As a result, outsourcing some organizational service to the best suited service providers who are experts in that field will result in higher service quality and organizational performance (Goffredson et al, 2005). Based on empirical literature and the tenets of core competency theory, the following hypothesis is developed

H1: There is a positive relationship between Outsourced activities Service Quality of the service provider and Organizational performance at ECX

2.2.3. Employees Commitment and Organizational Performance

Employee commitment seems to be a crucial factor in achieving organizational success. Individuals with low levels of commitment will do only enough to work by. They do not put their hearts into the work and mission of the organization by contrast; employees with high commitment to an organization see themselves as an integral part of the organization (Peace & Mohammed, 2014)

Ali, Rehman and Yusuf (2010) found that there is positive relationship between corporate social responsibility and employee commitment as well as between employee commitment and organizational performance. They therefore concluded that organizations can improve their performance through employees' commitment

Employees Commitment was characterized by 3 related factors (Mowday & Porter 1979): first, a strong belief in and acceptance of the organization's goals and values. Second, there should be a willingness to exert considerable effort on behalf of the organization, and lastly a strong desire to maintain membership in the organization. Moreover, the resource based theory suggested that organization can generate sustainable competitive advantage through its internal resource which can provide economic value to the firm, scarce, difficult to imitate, non-substitutable and not readily obtainable from markets (Priem & Butler, 2001).

As per this theory organization should focus on their internal resource which has the aforementioned features and use outsourcing for other resource needed for better organizational performance. Based on empirical literature and the tenets of Resource Based theory, the following hypothesis is developed

H2: There is a positive relationship between outsource service provider employees' commitment and Organizational performance at ECX

2.2.4 Communication and Organizational Performance

Chidiebere, Ngozi and Ifeoma (2015) shown that effective communication should be highly recommended to every organization in all the sectors of the economy and enhances performances since employees performed better when there are informed or communicated to than those who are not informed

Supply chain partners who exchange information regularly are able to work as a single entity and can understand the needs of the other partner better and, hence, can respond to market change quicker (Li, Ragu-Nathanb, & Raob , 2006). It has been revealed that buyer and supplier strategic information flows positively impact the relationship-specific performance of both sharing and receiving parties, among which delivery time, quality and flexibility are prevalent (Klein & Rai, 2009) Communication is operationalized to include the extent to which the firm and its key suppliers: (a) share critical, sensitive information related to operational and strategic issues; (b) exchange such information frequently, informally and/or in a timely manner; (c) maintain frequent face-to-face meetings; and (d) closely monitor and stay abreast of events or changes that may affect both parties (Krause and Ellram, 1997; Carr and Pearson, 1999).

Moreover, Core competency theory suggests that outsourcing some organizational service to the best suited service providers who are experts in that field will result in effective communication and organizational performance (Goffredson et al, 2005). Based on empirical literature and the tenets of core competency theory, the following hypothesis is developed

H3: There is a positive relationship between effective Communication with outsource service provider and Organizational performance at ECX

2.2.5 Cost Reduction and organizational Performance

According to Kiptum (2014) outsourcing has a significant effect on operational cost resulting in operational cost reduction. Cost reduction was mainly cost saving, better resource management and reduction in the number of employees thus promoting of overall cost efficiency

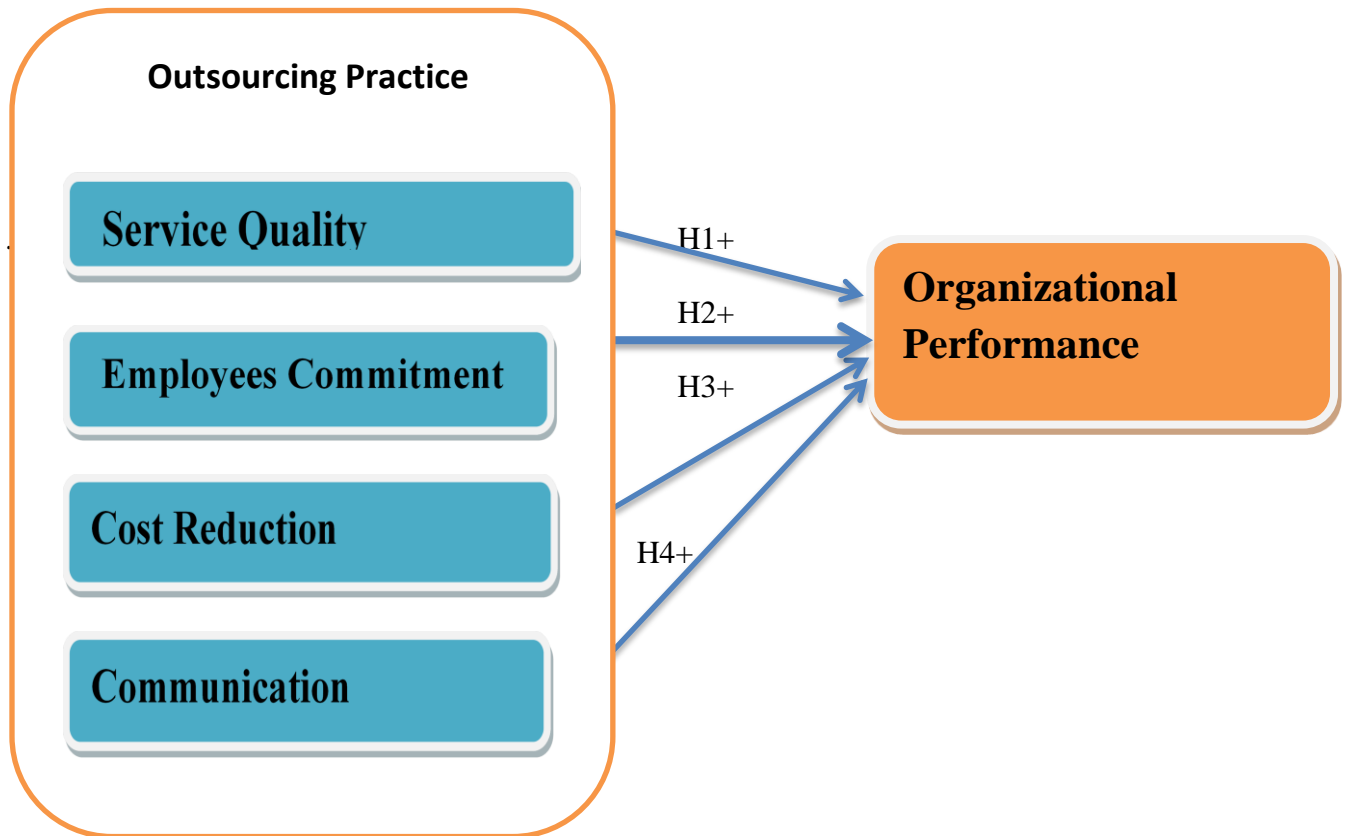
Kakumanu and Portanova (2006) note that the main driver in outsourcing is often cost reduction. In an empirical study of outsourcing by UK firms, Girma and Gorg (2006) concluded that high wages are positively related to outsourcing, suggesting that the cost-saving motive is important. Cost analysis of the outsourcing decision involves attempting to measure all important costs associated with the two alternatives-perform internally or outsource. Moreover, transaction cost economics (TCE) or theory view the relationship between service receiver and service provider as a model that allows economic transactions to take place an activity is outsourced if a total profit after increasing income and reducing costs is greater than the overall transaction costs of outsourcing (Williamson, 1981) Based on empirical literature and the tenets of Transactional economic theory, the following hypothesis is developed

H4: There is a positive relationship between Cost Reduction due to outsourcing and Organizational performance at ECX

2.3. Conceptual framework

The conceptual framework of this study is based on the literature reviewed on the assumption that the independent variables are Service Quality, Employee commitment Communication, Cost Reduction and the dependent variable is performance of the organization through (i) Financial Performance like revenue growth through cost reduction, (ii) Operating Performance like service quality, and (iii) Behavioral Performance containing

employees retention, organizational attractiveness, employees productivity and organizational commitment of employees



Independent Variables

Dependent Variable

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The general objective of this research is to investigate the effects of outsourcing non-core business activities on organizational performance in the case of Ethiopia Commodity Exchange.

3.1 Description of the study area

The Ethiopia Commodity Exchange is the first organized commodity market in Ethiopia, and among the first of its kind in Africa. The Exchange was established on March 2008 and its Head office is located around Mexico sequel –Alsam Chelelck Tawor. It has 22 warehouse branches in different region of the country and 3 trading center at Hawassa, Nekemite and Hummera.

The Ethiopia Commodity Exchange (ECX) is an organized marketplace, where buyers and sellers come together to trade, assured of quality, quantity, payment, and delivery. The Exchange is jointly governed by private-public Board of Directors. The design is unique in that it integrates the entire "eco-system" related to the market, spanning the central trading system, warehouse delivery centers, product grade certification, clearing banks, an arbitration tribunal, a market information system linking rural sites, remote electronic trading centers, and a secure data center to manage membership and market information. An over-arching legal framework and a government regulatory agency ensure the viability of this entire integrated environment.

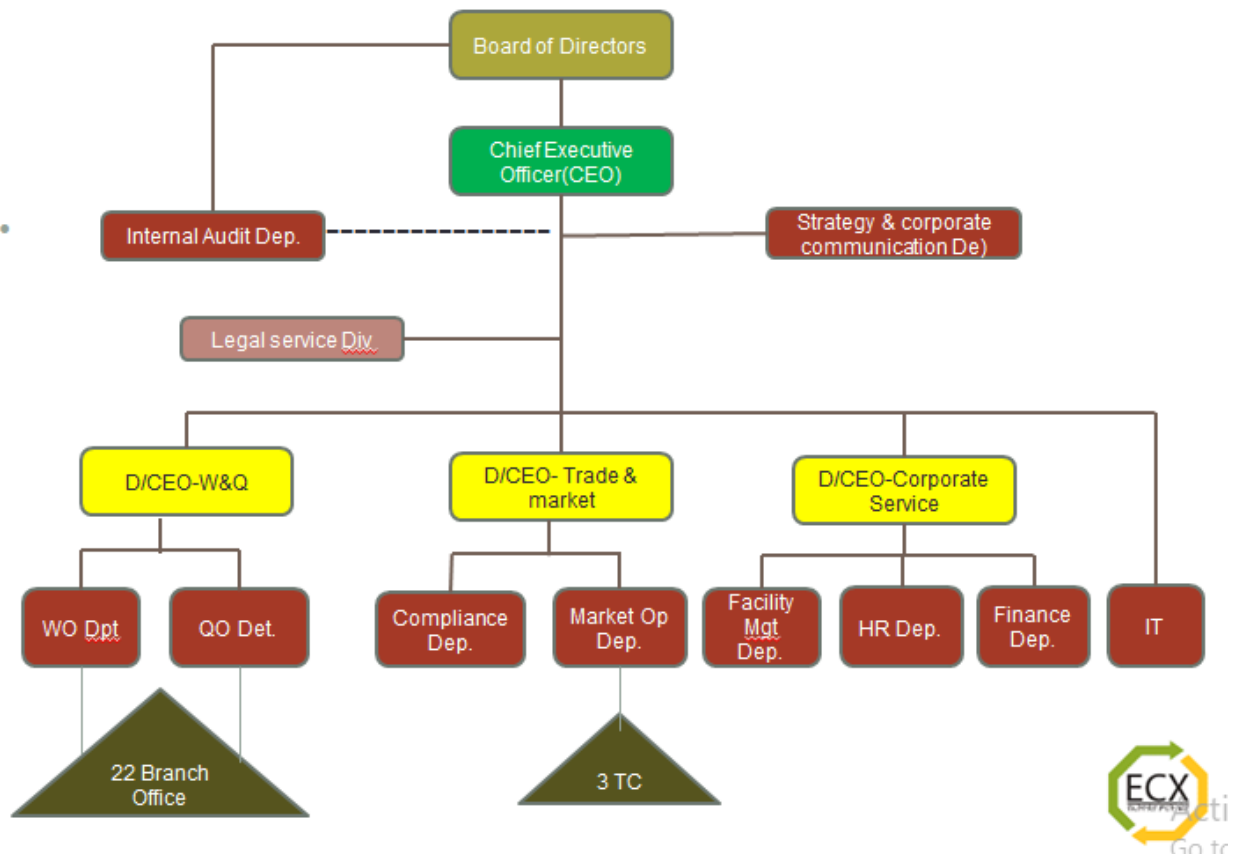
ECX is a national multi-commodity exchange that provides low-cost, secure marketplace services to benefit all agricultural market stakeholders and invites industry professionals to seek membership enabling them to participate in trading.

The Exchange has a vision to become a leading and dynamic Exchange in Africa. Its mission to be achieved by a modern, efficient, transparent and reliable market platform to serve the national development goals through adaptation of technology, excellence in innovation and

with integrity. The core value which indicates the beliefs and attitudes by which the ECX and its staff aim to conduct the business includes integrity, responsiveness, innovation, commitment to Excellency, team work, Dynamism and Team work

Figure 3.1 ECX Organizational Structure –

ECX Organogram



ECX Permanent Employees Data

The Exchange had 882 permanent employees and out of which 617 males and 265 females. In addition, ECX in average had 1197 (1265 for pick season and 1130 for slack season) outsource employees

3.2. Research Approach

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

qualitative approaches involve an in-depth probe and application of subjectively interpreted data

3.3. Research Design

This part of the document explains a brief presentation of the approach of the study and the research participants. By the same talk, it provides a comprehensive picture of the methods of data collection and presentation.

In this study descriptive and explanatory research approaches have been deployed. Besides, the research used some descriptive statistics (i.e., measure of central tendency such as: mean; and measures of spread: standard deviation), along with different inferential tools were used so as to elaborate the relationship and interactions between variables. .

3.4. Sample Size Determination

The sample size was determined using the Slovin's formula (Serakan, 2012-52)

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

Where: _ N is the population size _ n is the sample size _ e is the margin of error Applying 7% error margin, the sample size for the study were 129 (682/1+682(0.07²)members of the target Population. Therefore, the study's sample size of 129 is fair enough to represent the target population of the study area

3.5. Sampling Technique

In this study the researcher was employ Stratified Sampling. In this sampling technique, the total population was divided in to sub groups by the researcher with Departments and then simple random sampling was applied. These types of sampling are important when researchers want information about the component part of the population.

Such sub group Departments represents the universe and deemed capable of providing more reliable and focused information

Table 3.3. Proposed and actual Number of respondent

No	Department	Total Population (1)	Percentage from Each Department (2) (1*100/682)	Sample Size (3)	(4=2*3) Sample
1	CEO Office	17	2%	129	3
2	Compliance	22	3%	129	4
3	Facility Management	45	7%	129	8
4	Finance	17	2%	129	3
5	Human Resource	14	2%	129	3
6	Internal Audit	5	1%	129	1
7	Information Technology	25	4%	129	6
8	Strategy and Corporate Communication	17	2%	129	3
9	Warehouse Operation	298	43%	129	56
10	Market Operation	33	6%	129	6
11	Quality Operations	189	28%	129	36
Total		682	100%		129

3.6. Instruments of Data Collection

To obtain information on the research problem, the study used two data collection methods that is, both primary and secondary data collection methods. Primary data was

collected through structured questionnaires and interviews. Both closed and open ended questionnaires' and structured and unstructured interview was used and secondary data also collected from organizations manuals, guidelines, and policies.

Service Quality was measured with the SERVQUAL model proposes that customers evaluate the quality of a service on five distinct dimensions: reliability, responsiveness, assurance, empathy, and tangibles (Zeithaml, et.al. 1990)

Employee Commitment was measured using Meyer and Allen three component model of commitment characterized by three difference mind sets labeled as affective, Continuous and normative commitment (Meyer, et.al, 1993)

Communication was measured by adopted from Chen et al.(2004); Krause et al. (2007); Li et al. (2006) related with Informing in advance of changing needs; exchange of proprietary information; informing about events or changes that may affect the other party; information exchange frequency; timeliness, accuracy, and completeness of exchanged information

Cost reduction was measured by using 7 scale including reduction on number of employees, better use of time by employees, effective management of resources, reduce operating cost , focus on core business, improved overall operational cost efficiency, control of expenses which is adopted from the scale adopting from by using Dominike(2012) and Muweesi (2011)

Organizational Performance was measured with three dimensions including (i) Financial Performance like revenue growth related with cost reduction, (ii) Operating Performance like product/service quality and (iii) Behavioral Performance containing turnover rate, employees moral, organizational attractiveness, employees productivity and organizational commitment of employees (Chang , 2001).

Table 3.4. Variable and measurement Item Summary

Variables	Measure Adopted	No. of Items	Cronbach Alpha's Result
Service Quality	Zeithaml, et.al. 1990	20	.780
Employee Commitment	Meyer, et.al, 1993	18	.686
Communication	Chen, I.J., Paulraj, A., and Lado, A.A.(2004)	6	.716
Cost Reduction	Muweesi C. (2011)	7	.845
Organizational Performance	Change (2001)	6	.793

3.7. Data Validity and Reliability

3.7.1 Validity

In order to insure the validity of data collection instrument, the questionnaire was developed with due care containing multiple questions, and discussion questions. Maximum effort was applied to create logical link between the items in the questionnaire and the research questions as well as the objectives of the study.

The instrument also distributed to 10 professionals from Outsourcing Management Office, Facilities Management, Human Resource management, Operation Department employees and District Offices examined the instrument with the consultation of the Advisor. The validity of the research instrument pretested with the consultation of the Advisor was done before it was distributed. Based on their comment the questionnaires were distributed to the sample population.

3.7.2. Reliability

Internal consistency of items incorporated in the instrument was checked by using the Statistical Package for Social Scientists (SPSS) to compute the Cronbach Alpha Coefficient. As a research methodology rule, the researcher was ensuring a Cronbach Alpha Coefficient of at least 0.7 is realized. The formula for Cronbach's Alpha was used as follows:

$$\text{Cronbach's alpha} = \left[\frac{n}{n-1} \right] \left[\frac{SD^2 - \sum \text{Variance}}{SD^2} \right]$$

Where: n = Number of items on the test

SD = The Standard Deviation for the set of test scores, and

∑Variance = Summation of the variances of the scores for each of individual item on the test.

3.7.3. Reliability and Validity Test

Reliability refers to the extent to which a research instrument brings out consistent results or data after repeated trials. The most common reliability measure is the Cronbach's Alpha which gives an estimation of internal consistency by determining how all items on a test relate to all other items and to the total test (Cronbach, 1951). Reliability is given as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. As multiple items in all constructs were used, the internal consistency/reliabilities of the variables used to measure the effect of outsourcing non-core business practices on operational performance is presented in the following table.

Table 4.2: Reliability Analyses

Variable	Cronbach's Alpha	No. Items
Service Quality	.780	20
Employee Commitment	.686	18
Communication	.716	7
Cost Reduction	.845	7
Organizational Performance	.793	6
Average Cronbach's Alpha	.764	58

Source: survey data, 2019

Cronbach's Alpha for each value was established by the SPSS application and gauged against each other at a cut off value of 0.7 which is acceptable according to Cooper and Schindler (2008). Cronbach's alpha values of 0.7 and above is considered adequate, the average Cronbach's Alpha value was 0.764 as shown in table 3 above meaning the items

under each variable were consistent. The highest alpha value was 0.845 and it was in the case of Cost Reduction, whereas the lowest was for Employee Commitment with the alpha value of 0.686. The measurement scale for employee commitment is adopted from the standard measurement of affective, continuous and normative commitment of Meyer, et.al, 1993. While researchers generally consider values above 0.7 to be satisfactory, in social sciences values as low as 0.5 are reported to be acceptable (Jha, 2011). Similar employee commitment studies conducted in North America as reported by Meyer et al. (2002) tend to show lower correlation rates of less than 0.6.

Moreover, constructs depicted that the value of Cronbach's Alpha are above the suggested value of 0.5 thus the study was reliable (Davis, 1964) and As per George and Mallery (2003), the following rules of thumb is considered regarding reliability coefficient: "Alpha > .9 – Excellent, Alpha > .8 – Good, Alpha > .7 – Acceptable, Alpha > .6 – Questionable but reasonably acceptable, Alpha > .5 – Poor, and Alpha < .5 – Unacceptable reliability test and hence it was supposed that the scales used in this study were reliable to capture the constructs.

3.8. Data Collection Process

The researcher collects primary data by administering questionnaires. The questionnaires were distributed to the respondents and duration of one week was given to the respondents to fill the questionnaire. Follow ups was made to ensure high response rate. To effectively carry out interviews, the researcher was book appointments and carry out face to face interviews with the selected key Top managers. The interview was carried out with the help of an interview guide. At all times, the researcher ensure that interviews and delivery of questionnaires was done at times that do not interfere with the official work schedules of respondents and where they conflict, the researcher shall seek special permission from the management.

3.9. Data Analysis

Descriptive statistics provide a clear picture of the characteristics of sample units. To this effect the study was adopted both quantitative and qualitative data analysis procedures and techniques. Analysis of quantitative data from the questionnaire was involve coding, data entry and cleaning which will follow statistical rules and commands as well as measures like the mean, standard deviation, correlation and regression coefficients. The measurement of correlation coefficient was support the researcher to establish the existence or lack of existence of the direction as well as the strength of each dimension of the independent Variable with the Dependent variable while the regression Coefficients will assist in establishing the actual statistical contribution of each of the dimensions of the Independent Variable to the Dependent Variable.

Qualitative data was analyzed using the thematic analysis approach for identifying, analyzing and reporting patterns (themes) within data. Such a qualitative approach was adopted because it's the most suitable for analyzing qualitative response to interviews and will be presented in form of narratives. The data analysis was done by the use of version 20 SPSS software package. Data analyzed descriptively was presented in tables because they gave a systematic record of analysis. Both Correlation and Multiple Regression analysis was used to test the relationship between the independent variables and the dependent variables.

Regression model: the equation was expressed as follows:

$$Y = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \beta_4 (X_4) + e$$

Y – Organization Performance α - Constant (coefficient of intercept)

X1 – Service Quality

X2 – Employee Commitment

X3 – Communication

X4 – Cost Reduction

e – Error term

$\beta_1, \beta_2, \beta_3, \beta_4$ – Regression coefficient for four variables

3.10. Ethical consideration

Ethical issues in this research was concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using data for academic purpose only and ensuring that the respondents personality would not exploited. In this context the researcher was maintained all ethical considerations, code of conduct and conventions with regard to obtaining the consent of the respondents, acknowledging all sources and materials used as a reference , keeping the confidentiality of the respondent's response.

CHAPTER FOUR

RESULTS, ANALYSIS, AND INTERPRETATION

4.1 Introduction

The objective of this paper is to examine the effect of outsourcing non-core business activity on organizational performance in the case of ECX. This chapter contains the presentation, analysis and interpretation of data collected using the questionnaire and the key informant interview guide. Different statistical techniques were applied to provide answers to the research questions by investigating, interpreting and bringing forth implications drawn from the findings.

Accordingly, for the interest of keeping logical flow of the presentation, demographic information of the respondent and instrument reliability test will be presented followed by the presentation of descriptive statistics, correlation and regression analysis

Out of the total 129 questionnaires distributed, 119 (92%) were returned and only 111 (86%) were effectively used for analysis because 8 questionnaires could not be used for analyses since they were incomplete

4.1.1 Analyses of Respondent Characteristics

Table 4.1: Demographic Characteristics of Respondents

No.	Item	Respondents	
		No.	%
1	Sex		
	a) Male	73	65.80%
	b) Female	38	34.20%
	Total	111	100%
2	Age of respondents		
	a) 18-30	20	18%
	b) 31-40	76	68%
	c) 41-50	11	10%
	d) 51 and above	4	4%
	Total	111	100%

3	Educational Background of the respondent		
	a) Diploma	4	3%
	b) first Degree	69	63%
	c) > first Degree	38	34%
	Total	111	100%
4	Work Category of the Respondent		
	a) Assistant and below	6	5%
	b) Associate	8	7%
	c) Specialist/Supervisor	71	64%
	d) Managerial	26	24%
	Total	111	100%
5	Respondents Service Year at ECX		
	a) Less than 1 year	3	2.7
	b) 1 to 3 years	23	20.7
	c) 3+to 6 years	27	24.3
	d) above 6 years	58	52.3
	Total	111	100

Source: survey data, 2019

Table 4.1 shows the background information of the respondents. Of the total of 111 respondent, 73 (66%) were males and 38 (34%) were females. The data shows that both male and female participation was reasonable in relation with the total number employee found in EXC. .

In relation with age distribution of respondent the majorities of the respondents (68%) were aged between 31 to 40 years followed by the age categories of 18 to 30 years, 45 to 50 years and 51 and above with percentage scores of 18%, 10% and 4% respectively. This implies that about 96(86%) of the respondents are below 40 years of age.

As depicted on the above table 4.1, 69 (63%) BA/BSC, 38 (34%) MA/MSc and above, and 4 (3%) Diploma qualified respondents involved in the provision of information through questionnaires. From these data, about 107 (97%) of the respondents had an academic qualification of BA/BSC and above. This implies that the Exchange has fairly educated employees who can easily understand the research objective and the current outsourcing activities of the Exchange and provide reliable information to meet the research objective.

As indicated on the above respondent work category distribution, from the total of 111 respondent, the majority respondent or 71(64%) were found under the work category of Specialist/ supervisor position followed by managerial 26(24%), Associate 8(7%) and 6(5%) were found Assistant and below position. Generally, from the data one can conclude that, this study tried to cover respondents from different work category. This meant that most of the respondents were in positions that made them actively participate in the processes under study and would thus provide meaningful, valid and reliable information for the study since those group of work category directly and indirectly related with the current outsource activity of the Exchange.

As indicated on the above table which shows respondent category related with service year at ECX, the majority respondent 58 (52.3%) have above 6 year experience in ECX. 27 (24.3%), 23 (20.7%) and 3 (2.7%) of the total respondent have 3+ to 6 years, 1 to 3 years and less than 1 year experience in ECX respectively. It can be concluded that data for this study was collected from least experienced to more experienced respondents and the majority have enough experience of the given outsource service that was given for the last 5 year. As a result, their responses can be reliable.

4.3 Descriptive Analysis

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

The mean value shows the average of all respondents' perceptions on a certain dimension. While, standard deviation shows how diverse are the perceptions of respondents for a given dimension. For instance, range of high standard deviation means that the data are

wide spread, which means that respondents gave variety of opinion and range of low standard deviation implies that respondent's express close opinion

The rule of thumb pertaining to the intervals for breaking the range in measuring variables that are captured with five point scale (that ranges from strongly disagree to strongly agree) is 0.8, which is actually found by dividing the difference between the maximum and minimum scores to the maximum score Kidane (2012). Hence, a calculated composite mean value that ranges from 1 to 1.80 implies strong disagreement, whereas the remaining ranges of 1.81 to 2.6, 2.61 to 3.4, 3.41 to 4.2 and 4.21 to 5.00 representing respondents' perceptions of disagreement, neutrality, agreement and strong agreement respectively

The study sought to establish the effect of outsourcing non-core business activities on organizational performance in the case of ECX. Accordingly, an effort to examine the mean scores and the corresponding standard deviations under the respective scales of both the dimensions of the independent variable, namely Outsource Service Quality, Employee Commitment, Communication and Cost Reduction, and the dependent variable, namely Organizational performance.

4.3. 1. Respondents' Perception on Non-core Business Outsourcing Practice

As depicted on the below table, the mean values of each of the scales of the independent variable were calculated between 2.93 and 3.22 with standard deviations that range between 0.44 and 0.73.

Table 4.3. Composite scores of mean and standard deviation

Descriptive Statistics			
Variables/Dimensions	N	Mean	Std. Deviation
Service Quality	111	2.98	.59918
Employee commitment	111	2.93	.44433
Communication	111	3.16	.54149
Cost Reduction	111	3.22	.73031
Organizational Performance	111	2.95	.70063

Source: survey data, 2019

The highest mean and standard deviation is registered in the case of Cost Reduction and the lowest mean and standard deviation is registered in the case of employees' commitment. This indicates that the respondent moderately agreed that the use of outsourcing non-core business activity enable the Exchange to reduce cost, to improve communication, to ensure service quality and to have committed staff.

3.5.1. Respondents' Perception on Organizational Performance

As depicted on the below table, respondents were asked the extent to which the ECX has realized benefits as a result of Outsourcing. As a result, it's evident that the company has moderately realized a wide collection of benefits ensuing from the outsourcing activities in ECX. Among the listed include; minimizing cost of outsourced activities, ensuring service quality of the outsourced activity, improvement to institutional growth and Effective Communication, improvement to employees retention and employees productivity through outsourcing. The minimum mean score is given on ECX successfulness in having committed staff and the respondents are more likely disagree on the subject issue.

Table 4.4 : Response on Organizational Performance

Measurement Item		Frequency and percentage n (%) Total					Mean	SD
		Strongly Disagree	Disagree	Neutral	Agree	Strongly agree		
Organizational Performance								
We are successful in minimizing cost of Outsourced activities	N=111	2	8	37	48	16	3.61	.885
	%	1.8	7.2	33.3	43.2	14.4		
We are successful in assuring Service quality of outsourced activities	N=111	7	44	24	32	4	2.83	1.03
	%	6.3	39.6	21.6	28.8	3.6		
We are successful in having committed staff	N=111	12	47	16	36	0	2.68	1.04
	%	10.8	42.3	14.4	32.4	0		
There has been an improvement to institutional growth and Effective Communication	N=111	8	43	24	33	3	2.81	1.02
	%	7.2	38.7	21.6	29.7	2.7		
There has been an improvement to employees retention,	N=111	14	33	37	25	2	2.71	1.01
	%	12.6	29.7	33.3	22.5	1.8		
We are successful in improving employees productivity through outsourcing	N=111	7	27	31	44	2	3.06	.984
	%	6.3	24.3	27.9	39.6	1.8		

Source: Survey data 2019

Besides, the mean values of each of the scales of the dependent variable were calculated as between 2.95 with standard deviations of 0.700. This indicates that there is slight difference between the highest and lowest mean score of the independent dimension. Beside, composite mean score of 2.95 suggests that respondents were rating organizational performance as moderate in line with the independent dimensions. The result also related with Ali Nazari, (2012) study of Outsourcing and Its Impact on Operational Performance on telecommunication industry sector indicated that outsourcing could lead to reduce cost, improve quality, increase flexibility, better financial and non-financial performance and services.

4.4. Correlation Analysis

According to Kothari (2004), the term correlation refer to the strength of the relationship between two or more variables with coefficient ranging from -1.00 to +1.00 where -1.00 is a perfect negative correlation, +1.00 is a perfect positive correlation and 0.00 means there is no relationship between variables being tested. Pearson's coefficient of correlation is the most adopted way of measuring the extent of relationship between various given variables. Beside, as per the general guidelines of correlation regarding the strength of relationship among variables, correlations, .01 to .30 are considered weak, correlations of .31 to .70 are considered as moderate, and correlations of .71 to .90 are considered as strong relationship.

Accordingly, the correlation analysis conducted to analyze the relationship between the dimensions of the independent variable and operational performance and among the study variables is presented on the following table.

Table 4.5. Correlation between the variables

		Service Quality	Employee Commitment	Communication	Cost Reduction	Organizational Performance
Service Quality	Pearson Correlation	1	.405**	.605**	.499**	.378**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	111	111	111	111	111
Employee Commitment	Pearson Correlation	.405**	1	.350**	.508**	.420**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	111	111	111	111	111
Communication	Pearson Correlation	.605**	.350**	1	.554**	.334**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	111	111	111	111	111
Cost Reduction	Pearson Correlation	.499**	.508**	.554**	1	.442**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	111	111	111	111	111
Organizational Performance	Pearson Correlation	.378**	.420**	.334**	.442**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	111	111	111	111	111

Source: survey data, 2019

As clearly seen on the aforementioned table a moderate positive relationships have been identified between Service Quality and Organizational Performance ($r=0.378$, $p=0.01$), between outsource Employees Commitment and Organizational Performance ($r=0.420$, $p=0.01$), between Communication and Organizational Performance ($r=0.334$, $p=0.01$), and Cost Reduction and Organizational Performance ($r=0.442$, $p=0.01$), All the relationships are statistically significant at 99% confidence level

The results recommend that all the dimensions of outsourcing non-core business practice have positive relationship with the Organizational performance of ECX. However, the strength of relationship is somehow different for the dimensions involved since it has been revealed that outsource employees commitment and cost reduction have exhibited better moderate correlation with the dependent variable than the moderate relationship witnessed in

the case of outsource service quality and organizational performance, and communication and organizational performance. This implies that an improvement of outsource employee commitment moderately increase organizational performance and the more the cost of outsourced activities are reduced, moderately it will improve organizational performance when we compare to service quality and communication contribution towards the improvement on organizational performance.

3.6.1 Outsource Service Quality and Organizational Performance at ECX

As indicated on the above table, Service Quality and Employees Commitment have a significant positive moderate relationship as explained by the Pearson correlation coefficient of ($r=0.405$, $p = 0.01$). This implies that the more the outsource employees commitment, the more the service quality of the outsourced activities improved. There was also a moderate positive but significant relationship between Service Quality and Communication ($r=0.605$, $p=0.01$). This implies that the more communication between the Exchange and the outsource company improved, the more the service quality of the outsourced activities improved. Service Quality and Cost Reduction have a significant positive moderate relationship ($r=0.499$, $p=0.01$). The implication of this is that the more the service quality improved, the more the cost is reduced. While the relationship was high, for example in the case service quality and communication, the effect of one constraint on the other also perceived as high and significant.

There was also a moderate positive but significant relationship between Service Quality and organizational performance ($r=0.378$, $p=0.01$). This implies that the more the service quality of the outsourced activity improved, the more the organization performs. This finding also agreed with Tan (1999) indicated that an enterprise with improved service quality would relatively present more significant effect on Organizational Performance. Rust and Oliver (2000), stated that excellent service quality was the key factor in an enterprise enhancing Organizational Performance in the globalized market. According to Lin and Lee

(2005), competitive advantage of an organization lied in the provision of high Service Quality that excellent service Quality not only enhance the organizational profitability but could create excellent Organizational Performance for the organization.

3.6.2 Outsource Employee commitment and Organizational Performance at ECX

There was also a moderate positive but significant relationship between Employee commitment and Communication ($r=0.350$, $p=0.01$). This implies that the more outsource employees are committed, the more communication between the Exchange and the outsource company improved. Employee Commitment and Cost Reduction have a significant positive moderate relationship($r=0.508$, $p=0.01$). The implication of this is that the more outsource employees are committed, the more the cost of outsourced activities are reduced. Employee Commitment and Organizational Performance have a significant positive moderate relationship($r=0.420$, $p=0.01$). This implies that an improvement of outsource employee commitment moderately increase organizational performance.

The above findings also supported by Peace and Mohammed (2010) on their study Effect of Employee Commitment on Organizational Performance in Coca Cola Nigeria Limited Maiduguri in 2014, revealed that Employee commitment seems to be a crucial factor in achieving organizational success. Individuals with low levels of commitment will do only enough to work by. They do not put their hearts into the work and mission of the organization by contrast; employees with high commitment to an organization see themselves as an integral part of the organization. More over Ali et al (2010) also support the above finding.

3.6.3 Communication and Organizational Performance at ECX

Communication and Cost Reduction have a significant positive moderate relationship($r=0.554$, $p=0.01$). This implies that an improvement of communication between the outsource company and the Exchange improve cost reduction of the outsourced activities. Communication and Organizational Performance have a significant positive moderate

relationship($r=0.334$, $p=0.01$). This implies that an improvement of communication between the outsource company and the Exchange moderately improve organizational performance.

The result also supported by Chidiebere, et al (2015) on the study about the role of communication on organizational performance shown that effective communication should be highly recommended to every organization in all the sectors of the economy and enhances performances. The finding of Li et al (2006) also support that Supply chain partners who exchange information regularly are able to work as a single entity and can understand the needs of the other partner better and, hence, can respond to market change and as a result organization performance also improved.

3.6.3 Cost Reduction due to Outsourcing and Organizational Performance at ECX

Cost Reduction and Organizational Performance have a significant positive moderate relationship($r=0.442$, $p=0.01$). This is interpreted to mean that the more the cost of outsourced activities are reduced, moderately it will improve organizational performance. This result also supported by Tatu's (2016) in his study on outsourcing business activities and organizational performance of public institution in Uganda revealed that outsourcing results cost reduction in significant level on organizational performance. Letica, (2016) study about activity – outsourcing relationship in Bosnia and Herzegovina companies practice revealed outsourcing enhance company performance by controlling their operational cost and by focusing on the core business activity

Moreover, Asiamah Yeboah, (2013) examined the relationship between outsourcing and organizational performance made up of 50 firms operating in the banking and insurance sectors of the economy of Ghana revealed that a well implemented outsourcing strategy would reduce and control operating costs, improve the firm's focus, help the firm gain access to world-class capabilities and helps in sharing risks. Beside According to Kiptum (2014) outsourcing has a significant effect on operational cost resulting in operational cost reduction.

Cost reduction was mainly cost saving, better resource management and reduction in the number of employees thus promoting of overall cost efficiency

In general, the analysis result revealed that all the dimension of independent variable has significant positive moderate relationship with each other and the Dependent variable of Organizational Performance and all the relationships are statistically significant at 99% confidence level.

4.5. Regression Analysis

Regression is the determination of a statistical relationship between two or more variables (Kothari, 2004). The magnitude of the predicting power of the dimensions of the independent variable (i.e. Service Quality, Employee Commitment, Communication and Cost Reduction) on the dependent variable (i.e. Organizational performance) has been analyzed via multiple linear regression method.

4.5.1 Multicollinearity Analysis

Multi col-linearity is a problem that occurs with regression analysis when there is a high correlation of at least one independent variable with a combination of the other independent variables. As variables are highly correlated in a multiple regression analysis, it is difficult to identify the unique contribution of each variable in predicting the dependent variable because the highly correlated variables are predicting the same variance in the dependent variable. In this situation, the “overall” p-value may be significant but the p-value for each predictor may not be significant. Multi col-linearity exists when Tolerance is below 0.1; and VIF is greater than 10(Robert, 2006).

As indicated on table 7, the calculated Tolerance value of the dimensions of the independent variable of Service Quality, Employee Commitment, Communication and Cost reduction is 0.631, 0.713, 0.573, and 0.570 respectively. Hence, All the Tolerance values are within the acceptable level of greater than 0.1, whereas the VIF values are also less than the

cut of value of 10. The fact that the Tolerance and VIF values are falling within the acceptable limit entails in this particular study multicollinearity is not a serious problem

4.5.2 Multiple Regression Analysis Result

As indicated in Table 4.6, the regression analysis of the effect of outsourcing noncore business activity on organizational performance clearly shows the value of R and R². In this analysis the value of R is 0.520 which is a measure of the correlation between the observed value and the predicted value of the dependent variable (organization's performance). Adjusted R² which is known as the coefficient of determination was used to explain how organization performance varied with Service Quality, Employee Commitment, Communication and Cost Reduction (Chandan, 2011).

Table 4.6. Model Summary

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.520 ^a	.271	.243	.60944	.271	9.846	4	106	.000

a. Predictors: (Constant), CostRe, ServQual, EmploCom, Comm

The model summary table shows that 24.3% of change in organizational performance can be explained by four predictors namely Service Quality, Employee Commitment, Communication and Cost Reduction the remaining 75.7% of the variation in Organizational performance could be accounted for by other factors not considered in this study since the study is concentrated on non-core business activity which is outsourced only but organizational performance will be highly affected by the core business and non-core business which is not outsourced . Beside this indicates that further research might be needed.

Analysis of variance (ANOVA) was done to establish the fitness of the model used. The ANOVA table shows that the F-ratio (F=9.846, p=.000) was statistically significant. This

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

Table 4.7: ANOVA

ANOVA ^a						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	14.627	4	3.657	9.846	.000 ^b
	Residual	39.370	106	.371		
	Total	53.997	110			

a. Dependent Variable: OrgPer

b. Predictors: (Constant), CostRe, ServQual, EmploCom, Comm
Source: survey data, 2017

The below coefficient table 7 gives the results for the regression coefficient for the multiple linear equation.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

$$Y = 0.472 + 0.192X_1 + 0.357X_2 + 0.043X_3 + 0.223X_4$$

Where:

- Y = Organization Performance
- X1 = Service Quality
- X2 = Employee Commitment
- X3 = Communication
- X4 = Cost Reduction
- ε = Error term

As per the above equation, the beta value is a measure of how strongly predictor variable influences the criterion variable. From the regression equation holding all other independent variables a constant, a unit improvement in Employee commitment will lead to a 0.357 increase in organization performance and a unit increase in cost will lead to a 0.223 increase in organization performance.

Table 4.8. Coefficient

Model		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.472	.451		1.047	.298		
	ServQual	.192	.122	.164	1.572	.119	.631	1.584
	EmploCom	.357	.155	.227	2.308	.023	.713	1.402
	Comm	.043	.142	.033	.301	.764	.573	1.745
	CostRe	.223	.105	.233	2.120	.036	.570	1.755

a. Dependent Variable: OrgPer

Source: survey data, 2019

However, at 5% level of significance and 95% level of confidence, Employee commitment and cost reduction has a significance influence on the organizational performance with p-values of 0.023 and 0.036 respectively. The P-value associated with the coefficient for Service Quality and Communication is 0.119 and 0.764 respectively not statistically significant. As far as the strength of the predicting power of the two statistically significant dimensions is concerned, it is revealed that Cost Reduction has the strongest positive predicting power on the dependent variable with standardized coefficient of 0.233, followed by Employee commitment, with a standardized coefficient of 0.227.

The aforementioned findings were supported by similar previous studies. As per the above findings, cost reduction has a significance influence on the organizational performance. This finding also supported by Kamanga and Ismail (2016) on their study of the effects of outsourcing on organization performance in manufacturing sector in Kenya and Asiamah Yeboah, (2013) on his study to examine the relationship between outsourcing and organizational performance in the banking and insurance sectors of the economy of Ghana. Regarding the finding on employees commitment and organizational performance, previous study of Peace and Mohammed (2010) and Ali et al (2010) also support the above finding.

The research finding related with the non-significant level constraints of communication and service quality on organizational performance, similar findings also observed on communication in the study of Mekdes (2016) on her study assessment of employees perception of sourcing practice and its link with operational performance the case of Medecins Sans Frontiers (MSF) Ethiopia and on service quality Gerald, Grace and Christina (2014) on the study of outsourcing in cooperatives in Tanzania: assessing the contribution of outsourcing on organizational performance

Testing on hypotheses –significant and accepted

The study sought to establish the relationship between outsource employee commitment and organizational performance and Cost reduction and organizational performance at ECX. To get this, the researcher hypothesized as follows:

H2: There is a positive relationship between Outsourced employees' commitment of the service provider and Organizational performance at ECX

H3: There is a positive relationship between Cost Reduction and Organizational performance at ECX

As per the above research findings we can conclude that the hypotheses is significantly a working hypotheses at ECX

Testing on hypotheses –Non significant and rejected

The study also sought to establish the relationship between outsource service quality and organizational performance and communication and organizational performance at ECX.. To get this, the researcher hypothesized as follows

H1: There is a positive relationship between Outsourced activities Service Quality of the service provider and Organizational performance at ECX

H3: There is a positive relationship between Communication and Organizational Performance at ECX

As per the above research findings we can conclude that the hypotheses are non-significant and non-working hypotheses at ECX. The reason behind the non-acceptability of the above two hypotheses is due to that the service provided by the outsource company are non-core business activities which effect is non-significant on the overall organizational performance of ECX since ECX organizational performance is highly dependent on the service provided on the area of the core business activities. Besides, the two organization i.e the outsource company and ECX has their own communication platform designed towards the achievements of their organizational objective. Hence, communication between the two organizations might not be significantly affecting the overall organizational performance of ECX.

4.6. Analysis of Interview Questions

The second part of the analyses was centered on the opinions from the top Management of the Exchange. The aim was to consider opinions apart from employees and Managers that the top management actually sought in outsourcing for triangulation.

Accordingly, there were therefore questions regarding whether the current outsource practice improve organizational performance or not. The top management believes that though the total effect to improve organizational performance is not that much significant but it helps the Exchange mainly to reduce operational cost and to focus on core business that might be spent for managing more than 1200 employees.

Regarding the service Quality, employees' commitment, communication and cost reduction dimension of the current outsource practice on the area of facility, HR and operational function; the top management confirmed that the Exchange has benefited on cost reduction by comparing the monthly amount paid to the outsource company and what will happen if ECX recruited those staff by minimum salary scale of the Exchange.

Table 4.9. Outsource service payment VS Permanent summery

S.N	Description	No employee	Monthly Expense	Medical	Insurance	Uniform	Total Yearly Expense
1	Handle with outsourcing	1200	2,300,000.00	Included	Included	Included	27,600,000
2	Handle with Permanent employee with minimum salary scale of 2629	1200	3154800 (1200*2629)	Not Included	Not Included	Not Included	37,857600
3	Difference		-854,800.00				-10,257600

As the researcher observed from the secondary data, the Exchange monthly paid an average of ETB2,300,000.00 (two million three hundred thousand birr). Currently the Exchange has around 1200 outsource staff. If those activities which has been outsourced performed with permanent staff with minimum salary of 2629 birr, the Exchange would have spent around ETB3,154,800 (1200*2629) per month only for salary without including medical and GPA insurance and uniform related costs. As a result the Exchange can save ETB854,800.00 (eight hundred fifty four thousand eight hundred) per month and ETB10,257,600.00 (ten million two hundred fifty seven thousand six hundred) per year. However, the top management has questions on the quality of the outsource service and the commitment of the outsource staff. Besides, the interview assessment also indicates that the facility parts of the outsourced activities need more attention for the future improvement and the Exchange has strong stand on outsourcing strategy.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The general objective of the study was to assess the effect of outsourcing non-core business activities on organizational performance in the case of Ethiopian Commodity Exchange. This chapter discusses a summary of major findings obtained during the study. The findings were related to the research objectives and questions, the researcher's general conclusion about the results and recommendations based on the research objectives.

5.1. Summary of Major Findings

5.1.1. Respondent Demographic Summary

The major findings with regards to the demographic and general perception questions of the respondent indicates that from the total sample of the respondent 65.8% were males and 34.23% were female. A majority number of 68% were between the age range of 34 to 40 years and a majority of respondents 63% were first degree holders. From the total respondent 52.3 % served for above 6 years in the Exchange and 64% of the total respondent are found specialist/ supervisor positions.

5.1.2. Outsource Service Quality and Organizational Performance at ECX

From the study findings, the respondent moderately agreed that the use of outsourcing non-core business activity enabled the Exchange to ensure service quality with a Mean of 3.02. This indicated that the majority of the respondents were at least in modestly agreement that the existing outsource service quality had a positive effect on organizational performance at ECX. From the correlation analysis, there was also a moderate positive but significant relationship between Service Quality and organizational performance ($r=0.378$, $p=0.01$). This implies that as the service quality of the outsourced activity improves, the

performance of the organization also improves. The regression analyses result indicates that at 5% level of significance and 95% level of confidence The P-value associated with the coefficient for Service Quality is 0.119 which is not statistically significant.

5.1.3. Outsource Employee Commitment and Organizational Performance at ECX

The study found out that outsource employees' commitment as a result of outsourcing affected organization performance in ECX. Majority of employees' commitment indicators had an average mean of 2.95. The implication was that the outsource service provider was not deploying committed employee that could justify an improvement in organization performance. From the correlation analysis, Employee Commitment and Organizational Performance have a significant positive moderate relationship ($r=0.420$, $p=0.01$). This implies that an improvement of outsource employee commitment moderately increase organizational performance. The regression analyses result indicates that at 5% level of significance and 95% level of confidence, Employee commitment has a significance influence on the organizational performance with p-values of 0.023 and has the strongest positive predicting power on the dependent variable with standardized coefficient of 0.227 next to Cost Reduction

5.1.3. Communication and Organizational Performance at ECX

As indicated on the study result, the respondent views indicated that communication with outsource service provider had a moderate effect on organization performance with a mean of 3.16. This implied that outsource service providers need to ensure smooth communication since it had an impact on organization performance. From the correlation analysis the results show that Communication and Organizational Performance have a significant positive moderate relationship($r=0.334$, $p=0.01$). This implies that an improvement of communication between the outsource company and the Exchange moderately improve organizational performance. The regression analyses result indicates that

at 5% level of significance and 95% level of confidence The P-value associated with the coefficient for Communication is 0.764 which is not statistically significant

5.1.4. Cost Reduction and Organizational Performance at ECX

From the study findings, the view of the respondents was that cost reduction through outsourcing affects organization performance to a moderate extent with an average mean of 3.22. From the correlation analysis the results shows that there was a significant positive moderate relationship between cost reduction and organization performance as the correlation coefficient was found to $r=0.442$ and p-value was 0.01. This is interpreted to mean that the more the cost of outsourced activities are reduced, moderately it will improve organizational performance. The regression analyses result indicates that at 5% level of significance and 95% level of confidence, cost reduction has a significance influence on the organizational performance with p-values of 0.036. and has the strongest positive predicting power on the dependent variable with standardized coefficient of 0.233

5.1.4. Qualitative analysis Summery

As per the interview analysis, currently the Exchange has around 1200 outsource employee and as result of outsourcing the Exchange can save ETB854,800.00 (eight hundred fifty four thousand eight hundred) per month and ETB10,257,600.00 (ten million two hundred fifty seven thousand six hundred) per year. However, the top management has questions on the quality of the outsource service and the commitment of the outsource staff. Besides, the interview assessment also indicates that the facility parts of the outsourced activities need more attention for the future improvement and the Exchange has strong stand on outsourcing strategy

5.2. Conclusion

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

- As per the finding on the composite mean scores of the scales of the independent variables, namely Service Quality, Employees Commitment, Communication and Cost Reduction, the researcher conclude that outsourcing non-core business activity enable the Exchange to reduce cost, to improve communication, to ensure service quality and to have committed staff. Though the effect of the independent variables on organizational performance is different and categorized under moderate level, Cost Reduction effect on organizational performance is relatively high.
- As per the analyses result, the researcher also conclude that, though all of the dimensions of outsourcing non-core business practices have statistically significant positive relationship with Organizational performance, Service Quality and Communication was found to have no statistically significant predictive power on Organizational performance of ECX, while the remaining two dimensions have found to have a statistically significant predictive power on Organizational performance of ECX.
- Moreover, the results further infers that of all the predictors considered in this study, Cost Reduction contributes the most to the organizational performance followed by Employees Commitment as implicated by their larger coefficients.

5.3. Recommendation

Based on the major findings and conclusions of the study the following recommendations were forwarded:

- Ethiopian Commodity Exchange is required to review its existing outsource non-core business practices and make the necessary modifications in order to benefit from the performance improvements in terms of improved service quality, minimizing outsourcing cost, having committed outsource employees, institutional growth, effective communication, employees retention and productivity.
- As discovered by the findings of the study, the level of outsource non-core business practices and the corresponding Organizational performance at the disposal of Ethiopian Commodity Exchange are at best rated as moderate. The apparent moderate strategic sourcing practices and the corresponding Organizational performance together with the significant positive relationship that has been witnessed between the two, implicated that ECX need to work on its outsource non-core business practices in order to enhance its organizational performance.
- Since the finding of the study that suggested the relatively moderate positive relationship between Cost Reduction and Organizational Performance and considering the suggestion of the regression analyses that Cost Reduction have significant impact in explaining the changes in the dependent variable, ECX shall give special emphasis in improving the cost of the outsourced activity. This is, therefore, to recommend that ECX should not outsource an activity until they have confirmed that the service provider is capable of handling the activity with

minimum reasonable cost in the way that can meet cost reduction objective of outsourcing when outsource bidding evaluation conducted.

- Based on the revelation of the study that suggested the relatively moderate positive relationship that Organizational Performance has with outsource Employees Commitment and considering the suggestion of regression analysis finding that at Employee Commitment have significant impact in explaining the changes in the dependent variable, namely Organizational performance, ECX shall give special emphasis in improving outsource employee commitment. This is, therefore, to recommend that ECX should be more strict in deployment of committed outsource staff by designing competency framework i.e a characteristic of an employee that helps him/her contribute to successful job performance and achieve organizational objectives and help to focus on the most important qualities needed for job success like Ethiopian Airline used for their employees and hence this can be strictly followed and meet by the outsource company in deploying employees which provide the outsourced noncore business activity of the Exchange.
- Based on the objective related with outsource Service Quality and Organizational Performance, the Exchange not guaranteed Service Quality as expected from the outsource service provider in the area of the outsourced non-core business activities even if one of the major objective of outsourcing is to have quality service. Since there is moderate positive relationship between Service Quality and organizational performance, and Service Quality have an impact in explaining the changes in the dependent variable, namely organizational performance even if it's insignificant, the Exchange shouldn't ignore on focusing the improvement of outsourced noncore business Service Quality. It is therefore recommended that

ECX should engage the service provider on the quality standards and service level agreement (SLA) which are expected before entering into the contract

- Related with the third objective communication and Organizational Performance, ECX ought to know that communication is a very sensitive issue which if wrongly handled can bring many problems for the organization. Hence, it is recommended that the Exchange and outsource service providers should design mutual communication platform together in line with their organizational performance.
- Finally, the general recommendation was that the Exchange should outsource any business activity with a clear picture in mind as to why the Exchange wants to outsource. The Exchange should develop detail term of reference (TOR) which contain measureable key performance indicator that is expected to meet by the outsource service provider.

5.4. Suggestions for Future Studies

Since the subject study is concentrated on four dimension of outsourcing practice, future studies shall consider on other dimensions such as customer satisfaction, risk and other outsource service performance indicator that haven't been considered in this particular study as all domains cannot be covered in just one study. Lastly, since the current research was carried out in one organization (ECX), more research needs to be done in other areas in order to compare the results.

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ANNEX I

**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF COMMERCE
MA IN HUMAN RESOURCE MANAGEMENT
Questionnaire to be filled by Professionals and Managerial Employees found in
different Department**

The main purpose of this questionnaire is to gather data for Master's Thesis for partial fulfillment of master's degree in Human Resource Management, which is entitled as *effect of outsourcing noncore business activities on Organizational performance in the case of ECX*. Participation in this study is entirely voluntary, and unanimity and secrecy is maintained. Your genuine and timely response is highly important to arrive at sound conclusions. You are not required to write your names. Any information you provide is held in strict confidential manner.

In the case of any more information you may deem useful, please contact me on the following addresses:-

Tel.No : 0911964104

Email Address: ahmed.seid@ecx.com.et or ahmedc112mgt@gmail.com

Thank you in advance for your kind cooperation

General Guideline

1. Please read the questions carefully and indicate your answer on the space provided according to your choice by putting (X) sign on the box provided for all close-ended questions.
2. Read the question carefully and write your response in brief on the blank space provided for open-ended questions
3. Indicate your answer by choosing from: 1=Strongly Disagree, 2=Disagree, 3=Neutral 4=Agree, 5=Strongly Agree by putting a (X) sign in the box of your choice for the statement that best describes your perception

Part I Demographic Questions

Instruction: please put a tick mark (X) in the corresponding box to indicate your choice and write your short and precise answers for those followed by the blank space.

1. Gender: a) Male b) Female
2. Age: a) 18-30 b) 31-40 c) 41-50 d) 51 and above
3. Educational background: a) < Diploma b) Diploma
c) First Degree d) > first degree
4. Service Year in ECX : a) less than 1 year b) 1 to 3 years
c) 3+ to 6 years d) above 6 Years
5. What is your current work category or position in the Exchange?
a) Managerial b) Specialist
c) Associate d) Assistant and below

Part II

INSTRUCTION: List of items that are believed to measure variables of the study is given below. Please indicate your degree of agreement by putting an 'x' mark on appropriate boxes whereby 1=Strongly Disagree; 2=Disagree; 3=Neither Agree Nor Disagree; 4=Agree; 5=Strongly Agree.

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

S.N	Measurement Item	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
6	Service Quality					
6.1.	Outsource Service provider has up-to-date equipment					
6.2	Outsource employees are well dressed and neat in appearance					
6.3	Outsource Service provider physical facilities are visually appealing					
6.4	Outsource Service Provider visually appealing materials associated with the service					
6.5	Outsource service provider show sincere interest in solving our problems					
6.6	Service provider provides services at the time promised					
6.7	Service Provider performs the service right the first time					

S.N	Measurement Item	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
6.8	Service provider provides services at the time promised					
6.9	Service provider maintains error-free records					
6.10	Service Provider Inform us when services will be performed					
6.11	Service Provider readily respond to our request					
6.12	Service Provider offers prompt services to the Exchange					
6.13	Service provider always willing to help us					
6.14	Service Provider can able to instill confidence in our Service					
6.15	We feel safe in the outsource Service					
6.16	Outsource employees are courteous at all times					
6.17	Outsource Service provider have the knowledge to answer our questions					
6.18	Service provider have convenient operating hours					
7.19	Employees have customers best interests at heart					
6.20	Outsource employees given personal attention to all					
6.21	Outsource employees understand customers' needs					
7	Employee Commitment					
7.1	Outsource employees really feel as this organization's problems are their own					
7.2	They would be very happy to spend the rest of their career with this organization					
7.3	Outsource employees do not feel a strong sense of "belonging" to this organization					
7.4	Outsource employees do not feel "emotionally attached" to this organization.					

S.N	Measurement Item	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
7.5	Outsource Employees do not feel like "part of the family" at this organization					
7.6	Outsource employee's feels that this organization has a great deal of personal meaning for them.					
7.7	Right now, staying with their organization is a matter of necessity as much as desire					
7.8	It would be very hard for outsource employees to leave this organization right now, even if they wanted to.					
7.9	Too much of Outsource employees life would be disrupted if they decided to leave this organization now.					
7.10	Outsource employees feel that they have too few options to consider leaving this organization					
7.11	If outsource employees had not already put so much of themselves into this organization, they might consider working elsewhere					
7.12	To outsource employees, one of the few negative consequences of leaving this organization would be the scarcity of available alternatives					
7.13	Outsource employees do not feel any obligation to remain with their current employer.					
7.14	Even if it were to outsource employee's advantage, they do not feel it would be right to leave their organization now.					
7.15	Outsource employees would feel guilty if they left their organization now					
7.16	They feel that their organization deserves my loyalty.					
7.17	Outsource employees would not leave their organization right now because they have a sense of obligation to the people in it.					
7.18	Outsource employees owe a great deal to this organization					

S.N	Measurement Item	1	2	3	4	5
		Strongly Disagree	Disagree	Neutral	Agree	Strongly agree
8	Communication					
8.1	Exchange of information takes place frequently, informally and/or in a timely manner					
8.2	We keep each other informed about events or changes that may affect the other party					
8.3	The equipment required for effective communication is widely available in the outsource service provider (e.g. telephone, fax and internet)					
8.4	There is a smooth information flow among outsource service provider top management, supervisors and employees					
8.5	There is no dispute and fighting at work					
8.6	Outsource employees understand how their job contributes to the Exchange goals and objectives					
8.7	Outsource service provider has customer dusk service which address service user need on time					
9	Cost Reduction					
9.1	Outsourcing led to reduced number of employees in outsourcing areas					
9.2	Outsourcing led to better use of time by employees					
9.3	Outsourcing led to improved effective management of resources on outsourced area					
9.4	Outsourcing led reduce operating cost related to Outsourced activities					
9.5	Due to outsourcing, the Exchange has been able to focus on core business					
9.6	Outsourcing has improved overall operational cost efficiency					
9.7	Outsourcing has enabled control of expenses of outsourced activities					

10. Please indicate the degree to which you agree with the following statements regarding the organizational performance of your company after outsourcing

	Measurement Item	Score				
		1	2	3	4	5
10	Organizational Performance					
10.1	We are successful in minimizing cost of Outsourced activities					
10.2	We are successful in assuring Service quality of outsourced activities					
10.3	We are successful in having committed staff					
10.4	There has been an improvement to institutional growth and Effective Communication					
10.5	There has been an improvement to employees retention,					
10.6	We are successful in improving employees productivity through outsourcing					

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
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MA IN HUMAN RESOURCE MANAGEMENT
Questionnaire to be filled by Professionals and Managerial Employees found in
different Department

The main purpose of this Interview Question is designed to gather data from Top level management for Master's Thesis for partial fulfillment of master's degree in Human Resource Management, which is entitled as *effect of outsourcing noncore business activities on Organizational performance in the case of ECX*. Participation in this study is entirely voluntary, and unanimity and secrecy is maintained. Your genuine response is highly important to arrive at sound conclusions. Any information you provide is held in strict confidential manner.

In the case of any more information you may deem useful, please contact me on the following addresses:-

Tel.No : 0911964104

Email Address: ahmed.seid@ecx.com.et or ahmedc112mgt@gmail.com

Thank you in advance for your kind cooperation

Part III. Interview Questions.

1. Do you think the current outsourcing practice of ECX improve organizational performance of ECX
2. Do you think outsourcing of Facility, HR and Operational Support
 - 2.1 Improve ECX Service Quality
 - 2.2 Enable the Exchange to reduce its operational Cost
 - 2.3 Ensure communication effectiveness
 - 2.4 Enable to have committed staff
3. In which are (Facility, HR or Operational outsourcing) need more attention for further improvement

ANNEX II

Descriptive, Correlation and Regression Table

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	111	100.0
	Excluded ^a	0	.0
	Total	111	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.780	20

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	111	100.0
	Excluded ^a	0	.0
	Total	111	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.686	18

Reliability

Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	111	100.0
	Excluded ^a	0	.0
	Total	111	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.716	7

Reliability Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	111	100.0
	Excluded ^a	0	.0
	Total	111	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.845	7

Reliability Scale: ALL VARIABLES

Case Processing Summary

		N	%
Cases	Valid	111	100.0
	Excluded ^a	0	.0
	Total	111	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.793	6

Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
OutsorServProv	111	1.00	4.00	2.2252	.97873
OutsorEmpDres	111	1.00	5.00	2.7117	1.05647
OutsorSerFaci	111	1.00	5.00	2.7658	1.02651
OutsorSerMater	111	1.00	5.00	2.6216	.93472

OutsorSerInter	111	1.00	44.00	3.4414	4.01516
ServProvTime	111	1.00	5.00	3.0180	1.05298
ServProvPerf	111	1.00	23.00	3.2613	2.09637
ServProvError	111	1.00	4.00	2.5586	.73466
ServProvInfoirm	111	1.00	5.00	3.4234	.79257
ServProvRediResp	111	1.00	5.00	3.1081	1.03002
SerProvOfferExc	111	1.00	5.00	3.0811	.98290
ServWillHelp	111	1.00	5.00	3.1892	.91962
ServProvConfide	111	1.00	5.00	2.8919	.91802
FeelSafeOutSer	111	1.00	4.00	2.7477	1.02219
OutsorEmpICourt	111	1.00	5.00	3.0000	1.12006
Outserknowledge	111	1.00	5.00	3.1441	1.04313
ServProvConHr	111	1.00	5.00	3.4865	.81870
EmploCustomer	111	1.00	5.00	3.2613	.91166
OutsorPersAtt	111	1.00	5.00	3.1802	.98348
OutsorEplUnderCust	111	1.00	5.00	3.2883	.90842
Valid N (listwise)	111				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
OrgProblem	111	1.00	5.00	3.0000	1.15994
HppySpendRestCary	111	1.00	5.00	2.6126	1.19978
SenseBelonging	111	1.00	5.00	3.0090	1.33822
NotFeelEmotAttached	111	1.00	5.00	3.0721	1.15768
NotFeelFamily	111	1.00	5.00	2.9459	1.26375
OutsorEmpFeel	111	1.00	5.00	2.7297	1.16733
StayWithOrg	111	1.00	5.00	3.0180	1.19074
OutSorceEmploLeaveOrg	111	1.00	5.00	3.0901	1.12452
OutsorEmploDisrapted	111	1.00	5.00	3.1171	1.20407
OutsorEmpFeelFewOptionL eave	111	1.00	5.00	3.2793	.97394
OutsorEmpWorkingElsewhe re	111	1.00	5.00	3.3694	.84130
NegativeConseqLeavOrg	111	1.00	5.00	3.5946	1.05640
NotFeelObligation	111	1.00	5.00	2.7297	1.13575
OutsorEmpIAdvan	111	1.00	5.00	2.8919	1.05616
OutsorEmpFeelGuilty	111	1.00	5.00	2.5856	1.08266
FeelOrgDeservLoyalty	111	1.00	5.00	2.7568	1.09724
OutsorEmpNotLeaveBecaus eObligation	111	1.00	5.00	2.4414	.97873
OutsorEmpOweGreatDeal	111	1.00	4.00	2.5135	1.00783
Valid N (listwise)	111				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ExclInfo	111	1.00	5.00	3.5315	.80701
InfrmedEventChange	111	1.00	5.00	3.6036	.75413
Equipment	111	1.00	5.00	2.1982	.94214
SmoothInfoFlow	111	1.00	5.00	2.9099	.96812
NoDisputeFighting	111	2.00	5.00	3.3784	.85338
JobContrExc	111	1.00	5.00	3.6757	.85453
OutsorServProvDuskServ	111	1.00	5.00	2.8559	1.02555
Valid N (listwise)	111				

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ReducNoEmplo	111	1.00	5.00	3.1892	1.05756
BetterUseTime	111	1.00	5.00	3.3063	.98896
ImproveEffectMgt	111	1.00	5.00	3.0541	1.02547
RedOperCost	111	1.00	5.00	3.1441	1.00767
FocuCoreBus	111	1.00	5.00	3.4054	1.07347
ImprovOverOpertCost	111	1.00	5.00	3.1892	1.04893
EnableContExpense	111	1.00	5.00	3.3063	.89232
Valid N (listwise)	111				

Correlations

Correlations

		Service Quality	Organizational Per
Service Quality	Pearson Correlation	1	.377**
	Sig. (2-tailed)		.000
	N	111	111
Organizational Performance	Pearson Correlation	.377**	1
	Sig. (2-tailed)	.000	
	N	111	111

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

Correlations

		Organizational Performance	Employee Com
Organizational Performance	Pearson Correlation	1	.420**
	Sig. (2-tailed)		.000

	N	111	111
Employee Commitment	Pearson Correlation	.420**	1
	Sig. (2-tailed)	.000	
	N	111	111

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

Correlations

		Organizational Performance	Communication
Organizational Performance	Pearson Correlation	1	.334**
	Sig. (2-tailed)		.000
	N	111	111
Communication	Pearson Correlation	.334**	1
	Sig. (2-tailed)	.000	
	N	111	111

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

Correlations

		Organizational Performance	Cost Reduction
Organizational Performance	Pearson Correlation	1	.442**
	Sig. (2-tailed)		.000
	N	111	111
Cost Reduction	Pearson Correlation	.442**	1
	Sig. (2-tailed)	.000	
	N	111	111

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

Regression

Variables Entered/Removed^a

Model	Variables Entered	Variables Removed	Method
1	CostRe, ServQual, EmploCom, Comm ^b		Enter

a. Dependent Variable: OrgPer

b. All requested variables entered.