

Addis Ababa University
College of Business and Economics
Department of Management



Assessment of Outsourcing Practices
In Ethiopian Electric Utility (EEU)

By: Hibrework Yimenu (I.D No. GSE 0053/07)

Supervised by Mohammed Seid (PhD)

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Assessment of Outsourcing Practices In the Case of Ethiopian Electric Utility (EEU)

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By: Hibework Yimenu

Supervised by: Mohammed Seid (PhD)

June, 2020

Addis Ababa, Ethiopia

DECLARATION

I, Hibework Yimenu, declare that this research project entitled “Assessment of Outsourcing Practices in the Case of Ethiopian Electric Utility”, is my original work and had not been submitted to Addis Ababa University or any other institution of higher learning as a research project, and all sources of information used in this study have been duly acknowledged.

I have carried out the research independently under the supervision of the research advisor Dr. Mohammed Seid.

Hibework Yimenu

June, 2020

Addis Ababa University

Addis Ababa, Ethiopia

CONFIRMATION

This is to confirm the thesis entitled “Assessment of Outsourcing Practices in the Case of Ethiopian Electric Utility” is conducted by Mr. Hibrework Yimenu under my supervision.

The work is original in nature and appropriate for submission for the award of the Masters of Executive Business Management (EMBA) degree.

Mohammed Seid (PhD)

June, 2020

Addis Ababa, Ethiopia

Addis Ababa University
School of Graduate Studies

**Assessment Outsourcing Practices in the Case of
Ethiopian Electric Utility (EEU)**

By
Hibework Yimenu

Approval of Board of Examiners

External Examiner

Name: Temesgen Belayneh (PhD)

Signature:



Date: 26.06.2020

Internal Examiner

Name: Yitbarek Takele (PhD)

Signature: -----

Date: -----

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“To everything there is a season and a time, every purpose under the heaven.”

Table of Contents

DECLARATION.....	2
CONFIRMATION.....	3
ACKNOWLEDGMENT.....	5
LIST OF TABLES.....	9
LIST OF FIGURES.....	10
ACRONYMS.....	11
ABSTRACT.....	12
Chapter one.....	13
1. Introduction.....	13
1.1 Background.....	13
1.2 Statement of the problem.....	14
1.3 Objective of the study.....	16
➤ General Objectives.....	16
➤ Specific objectives are: -.....	16
1.4 Research Questions.....	16
1.5 Significance of the study.....	16
1.5 Scope and limitation of the study.....	17
1.6.1 Scope of the study.....	17
1.6.2 Limitation of the study.....	17
1.6 Organization of the study.....	17
Chapter two.....	18
2. Literature review.....	18
2.1 Introduction.....	18
2.2 History and concept of outsourcing.....	18

2.3	Benefits of outsourcing	20
2.4	Outsourcing strategies and decision process.....	20
2.5	Challenges of outsourcing: -	23
2.6	Outsourcing risks.....	24
2.7	Empirical Review	25
2.7.1	The reasons/motivations of outsourcing	25
2.7.2	The outsourcing process	25
2.7.3	The effect/outcomes of outsourcing	26
2.8	Conceptual framework	28
	Chapter three.....	29
	3. Research methodology.....	29
3.1	Introduction.....	29
3.2	Research design.....	29
3.3	Sampling Method and size.....	29
3.4	Method of data collection	31
3.5	Data Analysis Techniques	31
3.6	Reliability.....	31
3.7	Validity	31
	Chapter four.....	32
	4. Data analysis and interpretation	32
4.1	Background and outsourcing practice of EEU.....	32
4.2	Data collection process and Respondents profile	34
4.3	Reliability and Validity Analysis.....	37
4.4	Outsourcing Motivation.....	39
4.5	Outsourcing Processes.....	40

4.6	Effect of outsourcing/outcomes/	43
4.7	Correlation Analysis	49
4.8	Challenges of implementing effective outsourcing	50
	Chapter Five.....	52
5.	Summary, Conclusion and Recommendations.....	52
5.1	Summary	52
5.2	Conclusion.....	54
5.3	Recommendations	56
6.	References	58
	APPENDIX	61
	Annex 1 – Questionnaire.....	61
	ANNEX -2: - Interview Questions	69

LIST OF TABLES

Table 3.1 Target group and sample size

Table 4.1. Sex of the respondents

Table 4.2. Age of the respondents

Table. 4.3. Experience of the respondent

Table 4.4, Level of Education

Table 4.5. Department vs. Experience of the respondent Cross tabulation

Table 4.6. Cronbach's Alpha

Table 4.7 Descriptive statistics of the data on motivation to outsource

Table 4.8 Summary of the average of major activities during outsourcing process

Table 4.8.1 outsourcing process dimension sub items & respondents' level of agreement

Table 4.9 Summary of mean value of the effects of outsourcing for the five functions

Table 4.9.1 Descriptive statistics to Bill collection function

Table 4.9.2. Descriptive statistics to Management contact

Table 4.9.3. Descriptive statistics to Distribution line construction

Table 4.9.4. Descriptive statistics to Office cleaning Service

Table 4.9.5. Descriptive statistics to Security Service

Table 4.10. Correlation Analysis

LIST OF FIGURES

Figure 2.1 Outsourcing framework

Figure 4.1 Bar chart: - frequency distribution result of experience of respondents

Figure 4.2: - Pie Chart - level of education of respondents shown in

Figure 4.3: - Frequency distribution of respondents on motivations of outsourcing

ACRONYMS

CBV – Competency Based View

EEU – Ethiopian Electric Utility

GTP – Growth & Transformation Plan

RBV – Resource Based View

SPSS – Statistical Package for Social Science

U.S.A – United States of America

ABSTRACT

The purpose of this research project is to assess the outsourcing practices in EEU to enhance deeper understanding on the reasons, process and effects of outsourcing. As companies are increasingly exposed to many challenges in the dynamics of global world, outsourcing has become one of the strategic tools of management in many organizations to address the dynamics of business complexities. These new phenomena needs be systematically explained, and well understood, where the motivation of this research aims at addressing this issue by exploring comprehensive literature study and conceptual framework. The study employed both quantitative and qualitative data collected through standardized questionnaire, interview discussions and referring available secondary data sources, and analyzed using descriptive statistical tools. The findings of the study show that the outcomes of outsourcing have a positive relationship between motivation to outsource, and the outsourcing process, while no correlation shown between motivation and process of outsourcing. The level of effectiveness varies among the functions outsourced. The functions show partial improvement by outsourcing were office cleaning services, security services and distribution line construction work in cost reduction, risk sharing, and focusing on core functions, while some other functions such as Bill collection, and Management Contract were unchanged or no improvements revealed. EEU lacks formal and structured bases of outsourcing decision making that emanates from absence of outsourcing strategy aligned with corporate strategy.

Key words: - outsourcing, outsourcing strategy, effects of outsourcing.

Chapter one

1. Introduction

1.1 Background

Organizations have pursued management strategies to be able to survive and be profitable in current globalization era. Globalizations of practices driven by tough competition among organizations have pushed firms to create value through efficient use of limited resources. Outsourcing is one of the management tools that are gaining popularity in addressing the dynamics of business order. Outsourcing has emerged as a management tool that shifts the organizational structure of companies (Samantha Zambezi, 2011).

Most companies view outsourcing as strategy for cutting costs, accessing new skills and capabilities and achieving greater financial flexibility. But a few companies have successfully implemented an outsourcing strategy to achieve these objectives. Critics of outsourcing claim that it has not consistently delivered on the promised objectives such as high quality, and low-cost service. Particularly in public sector outsourcing is now a well-established mechanism for government service provision (Paul H. Jensen and Robin E. Stonecash, 2004). Despite a great deal of practical experience by governments at all levels, in many countries, there is still relatively little agreement about whether outsourcing is uniformly beneficial or what the magnitude of reductions in government expenditure might be (Pollitt and Bouckaert, 2000).

Particularly, in the public sector, the probability of success in implementing change through outsourcing/contracting/, may be significantly influenced by the political environment, the alleged reason was concern over potentially substantial job losses (Simon, 1998). Ethiopian electric utility has been outsourcing some of the functions such as security, cleaning, sales (bill collection), contracting out part of distribution line constructions, and the management contract. The decision to outsource security, cleaning and sales were to focus on the other strategic and core functions, and improve customer service quality (EEU strategic document from 2008 to 2012 E.C). According to EEU's business case document for outsourcing (2011 E.C), outsourcing distribution line construction partially aims to support the in-house capability for the high demand of customer electricity request and improve performance of new connection set in GTP. EEU were managing the company for two years by contracting out the management to Indian

companies, where the CEO and some functions were placed by foreign companies and Ethiopian managers were also have assigned in parallel to some of the functions aiming at knowledge sharing and managerial skill development purpose. The decision to outsource bill collection and the contract management were directions of board of directors/BOD/, EEU has no formal and structured outsourcing strategy which is important for the decision process of outsourcing.

Effectiveness of outsourcing is affected by many factors. Literatures describe the critical success factors such as, strategy/drivers and alignment/, company culture, availability of suitable supplier, people skill, outsourcing processes, and nature of organization and technology (Alpesh & Hemendra, 2005). Therefore, for the successful implementation of outsourcing initiatives, it is essential for company`s executives to assess its internal capability relative to the suppliers, identify which processes to outsource and properly manage the outsourcing processes and its implementation including other risk factors which could have influence on it. Similarly, in the case of EEU, it needs to be assessed why and how outsourcing is practiced, and its effectiveness in view of the literatures and conceptual framework.

1.2 Statement of the problem

Currently, organizations have increased their focus on outsourcing in an attempt to enhance their performance. Customers are also highly demanding quality services from organizations in order to realize its true benefits and expectations. Companies are increasingly viewing outsourcing strategies as a means of *reducing costs, increasing quality, and enhancing a firm's overall competitive position* (Frayer et al., 2000), but a few companies have successfully implemented an outsourcing strategy as expected.

Realization of outsourcing benefits needs the company to adopt and implement appropriate outsourcing process decision framework which guides executives to make the right outsourcing decisions. Though, academic studies have focused on understanding different success factors for outsourcing, there have been problems to identify and use those factors consistently in alignment with their perspectives (Gilley et al. 2004).

In addition to the global practice, companies in Ethiopia are also increasingly using outsourcing as a new management tool. However, it is not matured in Ethiopian which is limited to noncore functions like security and janitorial service and applied mostly in NGO and PLC (Meresea, 2007). Therefore, even though there is plenty of research studies on outsourcing practices by different researchers as briefly cited above, there has been observed differences in scope, context and focus of the studies that lack generalizability to all type of organizations like EEU's case where a large and public organization operating across the country. There is no also available study conducted previously on outsourcing practice in EEU case, and only few conducted on other businesses organizations in Ethiopia. Therefore, it requires further study with sufficient scope focusing on the reasons of outsourcing, the decision process and its relationship with the outcomes. The probability of success in implementing change through outsourcing may be significantly influenced by the political environment particularly in the public sectors (Simon, 1998).

In addition, though EEU widely implemented outsourcing different functions namely bill collection, electric distribution line construction, management contract, cleaning and security service, there has been observed problems indicating the gaps in expectation and reality. some of the manifestations include customer grievances due to lack of better services and accessibility, employee's resistance to outsourcing initiatives, delays in project management and inefficiencies in proper utilization of resources (EEU strategy document, 2008 -2012 E.C)

Therefore, this developing trends of the management on outsourcing needs be systematically explained, and well understood, where the motivation of this research aims at addressing this issue and to enhance deeper understanding and contributes to solving problems associated with outsourcing based on findings and recommendations. The study thus focuses to assess outsourcing practices of EEU by exploring its outsourcing strategy in view of literatures and conceptual framework so that why and how outsourcing is implemented, and what outcomes are achieved were described, their relationships are tested and challenges while implementing outsourcing were identified.

1.3 Objective of the study

➤ General Objectives

The aim of this research project is to assess the outsourcing practices of EEU and identify the challenges associated with it.

➤ Specific objectives are: -

In view of the above general objectives and the problem statement, the following specific objectives are identified: -

- To identify the main reasons/motivations of outsourcing in EEU,
- To assess the outsourcing processes,
- To assess the effects/outcomes of outsourcing, and
- To identify the challenges of implementing outsourcing in EEU.

1.4 Research Questions

Based on the specific objectives described above, the focus of this research is to answer mainly the why, how and what of outsourcing using the following specific questions: -

- Why outsourcing/the main reasons of outsourcing/?
- How the outsourcing processes are being implemented?
- What are the outcomes of outsourcing implementation in EEU?
- What are the challenges facing EEU associated with outsourcing?

1.5 Significance of the study

As outsourcing becomes a tool for strategic management in most organizations, the findings of this study could be a source document for the management of EEU as well as similar firms in context to use as an input to make necessary decisions related to outsourcing initiatives. Furthermore, the study will also assist in providing valuable information for individual researchers, academics, students for further study, and creating better understanding in this area.

1.5 Scope and limitation of the study

1.6.1 Scope of the study

The scope of this study focuses on assessing outsourcing practices in Ethiopian Electric Utility focusing on the motivation, decision process and effect of outsourcing including the five functions outsourced in EEU. Among the 11 regional offices found in EEU, the study covers four districts found in Addis Ababa and head office due to time and cost constraints. Therefore, the conclusion drawn from the study is based on these circumstances.

1.6.2 Limitation of the study

This study is limited in the case of EEEU, which is a giant public company providing electric service to the customers across wide geographical area in Ethiopian. Among the 11 regional offices of EEU, the study takes the four districts found in Addis Ababa region due to time constraints to address other areas and manageability. The data collected did not include external vendors/contractors and customers which thus the study result may not fully represent the outsourcing practices in other situations.

1.6 Organization of the study

This research project is organized in five chapters. Chapter one comprises of background of the study, statement of the problem, objectives, the scope and limitations of the study. And chapter two includes literature review focusing on concept of outsourcing, motivations to outsourcing, the decision processes and its effects based on the conceptual framework. Chapter three comprises mainly the research design, methodology, sampling, data collection, and presentation of data analysis. Chapter four discusses about the analysis result of the study including reliability and validity of the findings. Finally, chapter five includes conclusion and recommendations, where the researcher summarizes the main research findings and suggests recommendations.

Chapter two

2. Literature review

2.1 Introduction

In this section, review of literature on the concept of outsourcing, outsourcing strategies, decision processes and effective outsourcing practices, and the risks associated with outsourcing are comprehensively reviewed. Finally, empirical review of the findings of prior studies on outsourcing practices was made based on the conceptual framework.

2.2 History and concept of outsourcing

The history of outsourcing in organizations goes back to 18th century for the first time, but was not welcomed until 1980s. In the early 1990s, outsourcing became an indispensable part of organizing and managing progressively streamlined in different stages.

The initial stage of outsourcing was not formally identified as a business strategy until 1989. However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. Since the Industrial Revolution, companies have faced with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that can own, manage, and directly control its assets. In the 1950s and 1960s, the focus was the need to diversification to broaden corporate bases and take advantage of economies of scale. Subsequently, organizations attempting to compete globally in the 1970s and 1980, where handicapped by a lack of agility. This has been resulted from bloated management structures. To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced (<https://scm.ncsu.edu/scm-articles/article/a-brief-history-of-outsourcing>). In Ethiopia also outsourcing has become a new management tool to respond the increase demand of customers and competition, though it is not as such matured (Meresea, 2007).

The current stage in the evolution of outsourcing is the development of strategic partnerships. The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results. Consequently, organizations are likely to select outsourcing more on the basis of who can deliver more effective results for a specific function. Michael F. Corbett (2004)

put it more vividly that organizations are moving toward a structure based on some very powerful new principles where doing the right thing is becoming more important than doing everything, and producing results is becoming more important, in most cases, than is the ownership of resources.

The concept of outsourcing has been defined by different books and literatures with various contexts. The following few definitions of outsourcing are among others which are taken to create more understanding relevant to this study: -

Dictionary meaning of outsourcing: - Merriam-Webster Dictionary defines outsourcing as to procure (something, such as some goods or services needed by a business or organization) from outside sources and especially from foreign or nonunion suppliers: to contract for work, jobs, etc., to be done by outside or foreign workers.

According to Power et al (2006), outsourcing refers to “the act of transferring work, responsibilities and decision rights to someone else”. Companies must source out work because there are others who can do it cheaper, faster, and better.

Outsourcing can be viewed as “finding new suppliers and ways to secure the delivery of raw materials, goods, components and services by utilizing knowledge, experience and creativity of outside suppliers not used previously” (Kraker,1995). Similarly, Quinn and Hilmer (1994) define outsourcing as a contract which is the means by which the planning, responsibility, knowledge, and administration of processes is transferred to an external party.

The other comprehensive definition of outsourcing as “a strategic decision that entails the external contracting of determined non-strategic activities or business processes necessary for the manufacture of goods or the provision of services by means of agreements or contracts with higher capability firms to undertake those activities or business processes, with the aim of improving competitive advantage (Espino-Rodriguez and Padron-Robaina, 2006).”

In general, the above definitions have common characteristics is that outsourcing can be viewed as a *management tool* by which strategically selected *activities/functions* are *contracted out to higher capability organizations* relative to in-house, with the *aim of enhancing achievement of organizational objective*.

2.3 Benefits of outsourcing

Using outsourcing as a strategy can offer organizations a number of benefits. In these technological advancement and global competitive era, no company alone possesses the full complement of resource needed to compete effectively in today's increasingly competitive global market place (Jussi, 2008). Many potential benefits of outsourcing have been identified in the literature. The most often discussed benefits of outsourcing is cost reduction, where outsourcing enables the customer to benefit from supplier cost advantages such as economies of scale, experience and location. In addition, by outsourcing companies can improve the levels of performance in certain activities than can't be achieved internally. Outsourcing can also provide an organization with greater flexibility, specialization/focus on core competency/, and access to innovation (McIvor, et.al, 2008). By outsourcing a company can access the state of the art in all of its business activities without having to master each one internally (Bain and company, 2015).

Although many of these attributes accrue to a well-planned, properly managed outsourcing initiative, many organizations are naive about the commitment and discipline it takes to reap these benefits. Studies suggest that here are common errors stated by Mark J. Power (2006, p.19) where recognition of these errors will help identify, evaluate and address them at various stages of the outsourcing life cycle. The common traps of outsourcing include lack of management commitment, minimal knowledge of outsourcing methodologies, lack of an outsourcing communications plan, failure to recognize outsourcing business risks, failure to tap into external sources of knowledge, not dedicating the best and brightest internal resources, rushing through the initiative, not appreciating cultural differences, minimizing what it will take to make the vendor productive, and poor relationship management programs.

2.4 Outsourcing strategies and decision process

The outsourcing decision-making process must be linked with the organization's overall business strategy. Understanding current performance and the degree to which sustainable superior performance can be maintained allows the outsourcing process to be linked with the overall business strategy (Ronan McIvor, 2008). Outsourcing decisions may affect company's cost structures, long-term competitive situation and can also alter the nature of risks that the company must manage (Brannemo, 2006).

Hence, it is crucial for management to understand and have a clear conceptual framework of their outsourcing decision. Studies found that the most important criteria when making outsourcing decisions are (Burtrand Quelin & Francoise Duhamel, 2003) include, to lower operational cost, to focus on core activities, and to gain flexibility. Other motives are to gain access to external competencies and improve quality, lower capital investment, to gain control over internal departments, to transform fixed cost to variable costs. According to (Barry Brewer, et al, 2013) the literature suggests three primary strategic drivers of outsourcing: cost reduction, core competence focus; and growth and flexibility. However, this study lacks to include political maneuvers and interventions that might have to influence the decision of outsourcing by company executives for the context of governmental organizations (Simon, 1998). It is also suggested that, traditionally, outsourcing decisions were focused on questions of “core” versus “non-core” activities, with the latter being candidates for outsourcing. But the issue now becomes focusing on the strategy of becoming effective and competent, not the ownership or the where about or who of performed it.

Potential performance enhancements that may result from a carefully formulated outsourcing strategy are suggested by the *competency based (CBV) and resource based (RBV) perspectives* on strategic management. The competency-based view (CBV) suggests that a firm should continuously invest in those activities that constitute its core competence while outsourcing the rest (Prahalad& Hamel, 1990; Quinn, 1992).

Similarly, the resource-based view (RBV) suggests that sustained competitive advantage is possible only through developing resources and capabilities that are valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991; Grant, 1991). Thus, the resource-based view suggests that inputs that are traded should be procured from the market, because investments in their creation are unlikely to lead to any sustainable competitive advantage.

Other study more clearly confirms that motives of outsourcing decision varies with the type of outsourcing employed by companies, thus categorized into three (Jussi, 2008, p.69) as follows. It indicates that it is not sufficient for companies merely listing of motivations and expectations without aligning it with the type of outsourcing the company intends to implement.

Type	Definition	Examples of motives
Transactional-outsourcing	Outsourcing aimed directly at reducing operational costs.	<ul style="list-style-type: none"> ▪ Reduce costs ▪ Cost discipline/control ▪ Lower operational costs
Resource-seeking outsourcing	Outsourcing primarily aimed at acquiring resources that are unavailable, inadequate or insufficient internally.	<ul style="list-style-type: none"> ▪ Aim to achieve and acquire best practices ▪ Improve service quality ▪ Access to new technology and skills ▪ Lack of expertise in-house
Transformational outsourcing	Outsourcing aimed at transforming the organization into a more dynamic, efficient, and more focused economic unit.	<ul style="list-style-type: none"> ▪ Focus on core competencies /activities ▪ Improve business focus / internal reorganization ▪ Flexibility ▪ Free up internal resources ▪ Accelerate project

Regarding the type of outsourcing, other studies classify mainly two generic types: *peripheral outsourcing and core outsourcing*. Peripheral outsourcing occurs when firms acquire less strategically peripheral activities from external supplier, while core outsourcing type occurs when firms acquire activities that are considered highly important to long term success. What constitutes a core or peripheral activity is essentially a judgment by each individual firm, based on what it considers as its core competency and the strategy it intends to follow.

Another important view by Gilley (2000) is that, outsourcing strategies can be conceptualized as having two fundamental properties, *breadth and depth*. It is proposed here that breadth and depth dimensions combine to form organization`s overall outsourcing strategy. The combined construct is called *outsourcing intensity*. The first dimension of outsourcing, breadth, is defined as the number of activities outsourced as a percentage of the total number of activities in which the form could be engaged. The second dimension of outsourcing strategy is *depth*, where those

firms farming out a higher portion of the value of each outsourced activity are considered to have deeper outsourcing strategies. Thus, given that an activity is outsourced, depth is the extent to which a firm outsources a higher portion of that activity on average. Outsourcing strategies vary greatly in their breadth. Some firms choose to maintain internalization of most of their activities and therefore have relatively narrow outsourcing strategies. Such firms may decide to outsource only a few activities while maintaining tight control over most others. In contrast other firms chose to take a much broader approach to their outsourcing strategies by farming out many peripheral activities, and even some activities much closer to their core activities. It is only when a firm's breadth and depth of outsourcing are combined does an accurate picture of the firm's reliance on outsourcing emerge (Gilley, and Rasheed, 2000).

Therefore, Understanding the breadth and depth of outsourcing approach during outsourcing decision is very important for companies particularly those with resource scarcity to avoid the impact on the performance of outsourced function due to the interdependency between them.

2.5 Challenges of outsourcing: -

The main challenges of outsourcing mostly mentioned in literatures are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams (Gulzhanat Tayauova, 2012). Others also include: - loss of overall market performance, declining innovation by the outsourcer, service level agreements, human resource issues, and management philosophy and tradition. The key management challenges lie in recognizing the important competitive areas, finding suppliers to provide the values to the rest of the operations, and managing the resulting global network of suppliers and partners.

The study by Barthelemy (2003) found that seven "deadly sins" in the course of outsourcing implementation which challenges most failed outsourcing efforts include the followings:- outsourcing activities that should not be outsourced, selecting the wrong vendor, writing a poor contract, overlooking personnel issues, losing control over the outsourced activity, overlooking the hidden costs of outsourcing and failing to plan an exit strategy (i.e., vendor switch or reintegration of an outsourced activity).

2.6 Outsourcing risks

For effective implementation of outsourcing, it is important that company should know the risks of outsourcing with appropriate analysis and develop risk minimization strategy. If it could not be properly managed, there is a possibility of an adverse consequence causing loss, damage, or injury (Simon Domberger, 1998). According to literature study (Ronan McIvor, et.al, 2008), outsourcing has the following risks.

Cost increase: - There is evidence to suggest that when organizations outsource to achieve cost reductions, costs do not decrease as expected and in some cases can increase. Many organizations fail to account for future costs and in particular that of managing the outsourcing process – sometimes referred to as the hidden costs of outsourcing.

Supply market risk: - Organizations can encounter significant risks when they use service providers for processes that they have performed internally in the past. Over dependency on a particular service provider can lead to significant risks in terms of cost, quality and service provider failure. Therefore, an organization may decide to keep a process in-house in order to guarantee quality and reliability of supply.

Loss of skill: - Outsourcing can lead to the loss of critical skills and the potential for innovation in the future. Innovation requires slack resources, organic and fluid organizational processes and experimental competencies – all attributes that outside supply does not guarantee.

Organizational Change implications: - The social implications of outsourcing are often ignored in favor of the need to reduce costs. Outsourcing can lead to the redeployment of staff within the outsourcing organization or the transfer of staff to the service provider. The demands associated with outsourcing transcend organizational boundaries, and therefore, the approach to managing the change process must ensure that complementary processes and behaviors are exhibited within and between organizations, thus companies need to develop appropriate risk mitigation strategies while outsourcing.

2.7 Empirical Review

In this section an overview of findings of different studies focusing on outsourcing practices based on the conceptual framework focusing on motivation of outsourcing, outsourcing decision process and its effects on the expected outcomes.

2.7.1 The reasons/motivations of outsourcing

Previous research findings suggest different combination of the motives of outsourcing with little common ones. Studies found that the most important criteria when making outsourcing decisions are to lower operational cost, to focus on core activities and to gain flexibility (Burtrand & Francoise, 2003). Similarly, other literatures emphasize (Barry Brewer, et al, 2013) the three primary strategic drivers of outsourcing are cost reduction, core competence focus; and flexibility.

In addition, study by Samantha Zambezi (2011) on the key motives of outsourcing decision shows that the top motives of outsourcing are cost reduction, access to world class capabilities, and focus on core competencies. Similarly cost efficiency, focusing on core competency and enhanced reliability and quality are key motivation for outsourcing (Ronan McIvor, et.al, 2008).

In another view by Jussi, (2008) put it more vividly confirms that the motives of outsourcing vary with the type of outsourcing employed by companies. Thus, it is essential for decision makers to consider and align the type of outsourcing with the respective motives.

2.7.2 The outsourcing process

For successful performance of outsourcing endeavors, it is important to understand the process of outsourcing decisions. Outsourcing decisions may affect company's cost structures, long-term competitive situation and can also alter the nature of risks that the company must manage (Noradiva et al, 2010). Hence, it is crucial for companies to understand and have a clear conceptual framework of their outsourcing decision processes. The process of outsourcing has a clear evolutionary path and a specific process. According to the study by Samantha (2011), the outsourcing process has four phases: - (1) Decision-Making Phase, (2) Selection and Negotiation, (3) Transition phases, and (4) Performance Management Phase. These major phases have its own sub items to be performed for the effective implantation of outsourcing.

Alignment of the outsourcing strategy with the respective business strategy of companies is an essential part of successful outsourcing decision process. The study by Ronan McIvor (2008) examined how performance measurement considerations could be better integrated into the outsourcing process. The study concluded that the outsourcing decision-making process must be linked with the organizations overall business strategy, and adding organizations need to understand clearly the relationship and interdependencies between business processes prior to outsourcing. Similarly, studies by Deloitte consulting (2008) also emphasize the importance of strategy alignment that confirms only few companies have implemented it properly. Outsourcing initiatives are often designed in isolation without articulating a clear outsourcing strategy and linking it to the broader business strategies and goals. Indeed, only 6% of the vendor executives surveyed said that clients had a clear outsourcing strategy that was tied to their business strategy.

2.7.3 The effect/outcomes of outsourcing

Organizations are implementing outsourcing just to achieve some pre-specified objectives. When deciding what activities to outsource, it is necessary to analyze the importance and outcomes of these decisions on the overall organizations and business performances. It is therefore important to find out what outcomes and benefits could be obtained from outsourcing.

Regarding the performance measures, Kotabe (2004) identified three types of 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 (Kotabe, 2010).

Though, a combination of cost reduction, productivity growth, and profitability improvement approaches are mostly proposed effect of outsourcing, an empirical study by Bin Jiang (2006) provide evidence variably to support the argument of cost savings while not supporting claims of positive short-term gains in productivity and profitability.

Performance effect of outsourcing also at organizational level and functional level consequences has become the concern of researchers. For example, the study conducted by Gilley and Rasheed (2000) indicate that individual functional areas may experience performance improvement or decline as a result of outsourcing, though do not experience significant direct performance

impacts at firm level. Similarly, an investigation by Jiang and Qureshi (2005) showed the existence of connection between outsourcing, and the measures of cost efficiency and market value, while no precise relationship between the outsourcing process and the business organization performance at large.

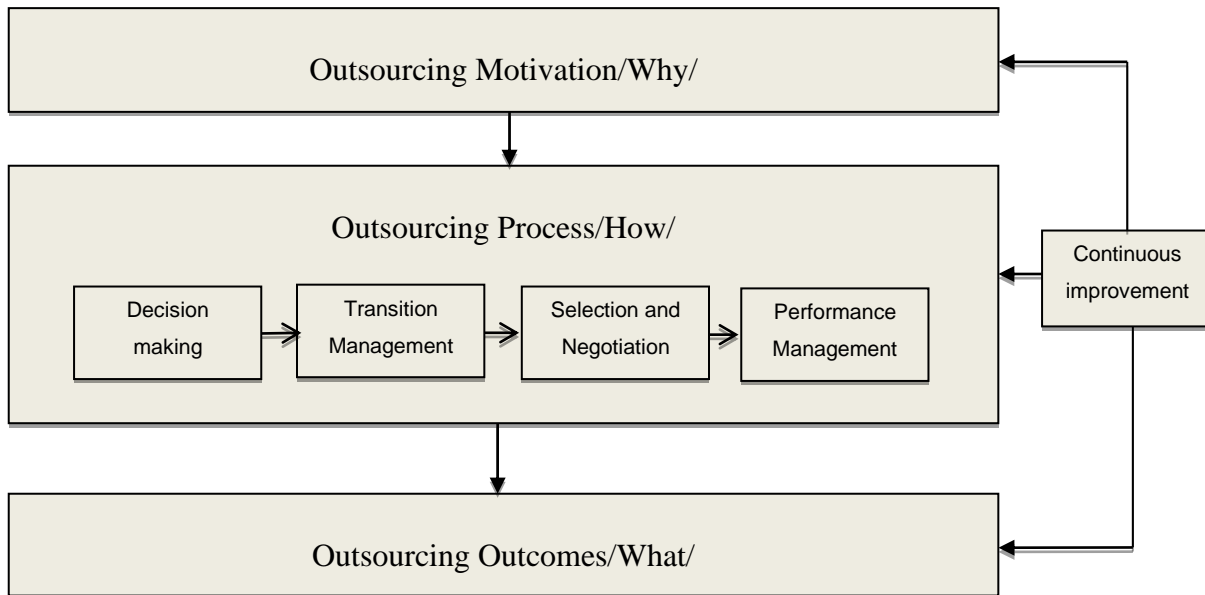
These findings also indicate existence of gaps between outsourcing expectations and the reality. Deloitte consulting study on the effectiveness of companies in outsourcing implementation shows that 64% of respondents indicated outsourced activities were brought back in-house and 44% did not realize cost savings, study found that 20% - 25% of outsourcing relationships fail within two years and half after within five years, often lacking a well-developed strategy. In Ethiopia Electric Utility also terminated one of the outsourced functions/Bill collections/ operated for about three years and brought back to perform by in-house capability and searching for other reliable options.

To summarize, various previous research studies show that outsourcing is vital issues that has been used as a management tool. The effect of outsourcing at firm and functional level is influenced by different factors as firm's strategy, intensity of outsourcing, decision process, type and size of the organization. Thus, this study will focus addressing these issues with EEU context as service providing, public monopoly company based on conceptual framework developed.

2.8 Conceptual framework

The following conceptual framework is adapted from reliable source, and slightly customized to fit the context of this study taken as relevant to create clear understanding on the elements of the outsourcing process in detail.

Figure 2.1 Outsourcing Framework



Source: - adapted from, "Development of a framework for a successful outsourcing process, Samantha Zambezi (2011)", with own slightly customized design to fit with the research situation

Thus, the questionnaire prepared to collect the required data, the analysis made in this study were designed to fit or aligned with the above conceptual framework as clearly depicted in the research methodology presented in the next chapter.

Chapter three

3. Research methodology

3.1 Introduction

This section presents the research methodology used to gather and analyze information. It includes research design, target population, sampling techniques and size, method of data collection and analysis techniques, reliability and validity.

3.2 Research design

The study uses both descriptive and analytical methods to undertake investigation of the concepts in various theoretical aspects of outsourcing and examine its effects in actual practices to answer the research question. To analyze the data, a mixture of qualitative and quantitative techniques will be used and the descriptive analysis method to summaries key findings and present conclusions.

The study will employ quantitative methods for data collected through structured questionnaire from selected professional employees and managers to assess their perception towards outsourcing practices in EEU based on the conceptual framework. And descriptive statistics and cross-tabulations will also be used to identify patterns of responses.

3.3 Sampling Method and size

Sampling is the statistical process of selecting a subject (called a “sample” of a population of interest for purpose of making observations and statistical inferences about the population (Anol Bhattacharjee, 2012). Considering expertise and understanding level of the respondents about the subject/ outsourcing practices/and the questions included in the study, the researcher purposely selected departments in this context and then randomly select employees at managerial and professional position having diploma and above educational level.

EEU has geographically distributed 11 regional offices across Ethiopia. Outsourcing has been implemented widely in Addis Ababa region and progressively phased towards the rest of regions. Thus, sampling is done within Addis Ababa region and Head office due to their prior practices and complexity as well as to represent their role of decision making in the management of outsourcing implementation.

Therefore, to determine the sample size, the study takes confidence level of 90% and margin of error 5%, the sample size will be calculated to be 177 taken from the sampling frame of 508 using the following formula.

$$\text{Sample size, } n = N * \frac{\frac{z^2 * p * (1 - p)}{e^2}}{[N - 1 + \frac{z^2 * p * (1 - p)}{e^2}]}$$

Source: - <https://www.wallstreetmojo.com/sample-size-formula/>

N = population size (=508, managerial & professional employees in Addis Ababa & Head office),
 z = z-score = 1.96, from z table for confidence level of 95% with normal distribution
 e= margin of error 5%.
 p= sample proportion (p=0.5), q=1-p(q=0.5)
 n= is the sample size for a finite population

The above calculated sample size was distributed proportionally to each target group as shown in the table 3.1 below.

Table 3.1 Target group and sample size

Target group/ Departments	Sampling frame.	Sample size
Distribution	192	67
Human resource	76	26
Procurement	37	13
Finance	46	16
Marketing & customer service	78	27
Change management	8	3
Internal Audit	15	5
Facility & G/service	22	9
Automation	24	8
Outsourcing & contract Administration	10	3
Total	508	177

Source: - HR data base/2012 E.C/ – managerial and professional employees working in the selected departments in Addis Ababa and Head office.

3.4 Method of data collection

Both qualitative and quantitative data collection method were employed for the study. Primary data which gives numeric information were collected using closed ended questionnaire while text data by semi structured interview with managers related to outsourcing, and referring EEU strategic documents and annual reports.

3.5 Data Analysis Techniques

The data collected through questionnaire were analyzed using SPSS/Statistical Package for Social Science version 20/. This study also uses descriptive statistics to analyze the data collected by questionnaire using means, standard deviation and percentages.

3.6 Reliability

Reliability and validity are the main concepts in quantitative analysis to enhance the quality and consistency of the research results. Reliability is the degree to which the measure construct is consistent or dependable - that means measures of the same construct shows the same result multiple times, assuming the underlying phenomena is not changing.

Cronbach's Alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. Thus, reliability of the Likert scale employed was tested using Cronbach's Alpha. The closer Cronbach's Alpha is to 1, the higher the internal consistency reliability (Uma Sekaran, 2003). Scales with a coefficient of Alpha value of greater than 0.7 is considered adequately reliable (Zikmund et al., 2010), and thus employed in this study.

3.7 Validity

Validity refers to them the extent to which a measure adequately represents the underlying construct that is supposed to measure (Anol Bhattacharjee, 2012). The validity of the data is determined by the strength of the final conclusions drawn and inferences made (Cook and Campbell, 1979). To ensure the validity of the instruments used in this study (the questionnaire and conceptual framework) were adopted from reliable sources with extensive review of previous research literatures, and customized to fit the research context. In addition, the questionnaire was pretested and necessary adjustments were made to prepare the final correct questionnaire based on the comments given. Interviews and discussions were made with different staffs that have direct experience in outsourcing decision and implementation.

Chapter four

4. Data analysis and interpretation

This chapter presents analysis of the results obtained from descriptive statistics scores based on the research objectives. The background of EEU and its outsourcing practices are also discussed shortly. Discussions on the reliability and validity of the data collection process, descriptive analysis of the respondents' data on each dimensions of outsourcing practices - reasons of outsourcing, the processes of outsourcing and its effects are examined in detail.

4.1 Background and outsourcing practice of EEU

The background information and outsourcing practice of EEU presented here base on my discussions with the outsourcing & contract management department during interview, and referring different documents such as BOD reform strategic document, EEU strategic plan, annual performance evaluation reports and proclamations.

Ethiopian Electric Utility previously called the Ethiopian Electric Light and Power Authority (EELPA), which was established in 1956, after having undergone restructuring had been reorganized as Ethiopian Electric Power Corporation (EEPCo). The Ethiopian Electric Power Corporation (EEPCo) as public electric utility enterprise is named in 1997.

Now again as per the new restructuring of Ethiopian Electric Power Corporation, the corporation is split in to two companies namely Ethiopian Electric Utility (EEU) and Ethiopian Electric Power (EEP) in 2013. The Ethiopian Electric Utility is established as a public enterprise by the Council of Ministers with Regulation No. 303 /12013. The purpose of the utility is to construct maintain and administer electric distribution networks, to purchase bulk electric power and sell electric energy to customers, and undertake rural electrification program in accordance with economic and social development policies and priorities of the government, and to carry out any other related activities that would enable it achieve its purpose.

EEU is currently operating in eleven administrative regions, currently which comprises a total of 3.1 million customers, 17,004 employees, in 26 districts and 569 Customer service centers with electric grid connection coverage reaching to 44%. EEU currently has a total of 17,004 employees with occupational level proportions of 50% workers, 26% supervisors and 24%

professionals. The gender proportion of EEU's total employees currently are 79% male and 21% female, where projected to reach 30% of females in the next five years.

EEU is undertaking tremendous stretched plan under Growth Transformation Plan (GTP II) with target of 7million customers, 90 % network access coverage, reduce significantly the durations & frequency of power interruptions, and reduction of loss to 11% within the next five years.

To achieve its strategic objectives EEU develops a strategy comprise of three pillars namely *Modernization, Decentralization and, Outsourcing, which are BOD directions*. EEU applies partially outsourcing some part of activities in a process or function, namely distribution line construction works and bill collection, while security and cleaning services are fully outsourced.

The management contract made for two years by Indian electric companies ends with unsuccessful to achieve the desired goals and thus switched to in-house management by the Board of Directors (BOD) decisions. And also, the energy bill collection in Addis was also outsourced partially to KIFIYA local Company, but there were significant collection efficiency differences between in house and outsourced ones as it were observed from monthly and annual collection efficiency reports. Relatively, outsourcing cleaning and security service shows no significant problems faced due to outsourcing indicating the outsourcing decision and management were better in these functions.

The main reasons to outsource these functions were to focus on core functions, improving customer service quality, increase sales revenue, improve performance, and knowledge sharing. Its implementation approach is in phases starting from Addis Ababa region to other widely geographically distributed regional offices.

Regarding the strategy of outsourcing, though EEU has many years' practice in outsourcing different functions, there is no formal outsourcing strategy documented which could enable to identify the reasons to outsource, what functions should be outsourced, the approaches and the measurement tools for the outcomes of outsourcing implementation. The decision process to outsource in EEU was mostly base on BOD or government directions, particularly bill collection and contract management.

4.2 Data collection process and Respondents profile

A total of 177 questionnaires were distributed to employees from professional and managerial positions working in Head office and Addis Ababa region at selected ten departments which have direct and better exposure in outsourcing practices so as to strengthen the sample representativeness and generalizability of the findings. Among 177 questionnaires distributed, 168 were returned with 95% response rate. Questions include general employees' profile, and basic research questions on motivations of outsourcing, the processes and outcomes of outsourcing based on the research objective and conceptual framework. The employees profile includes sex, age, experience, education and the department in which they are working currently.

Result of Descriptive analysis of the respondents and Cross tabulation of the Department vs. Experience of the respondent including pie charts and bar graphs are presents below.

4.2.1 Descriptive analysis of the respondents and Cross tabulation

Table 4.1. Sex of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	140	83.3	83.3	83.3
	Female	28	16.7	16.7	100
	Total	168	100	100	

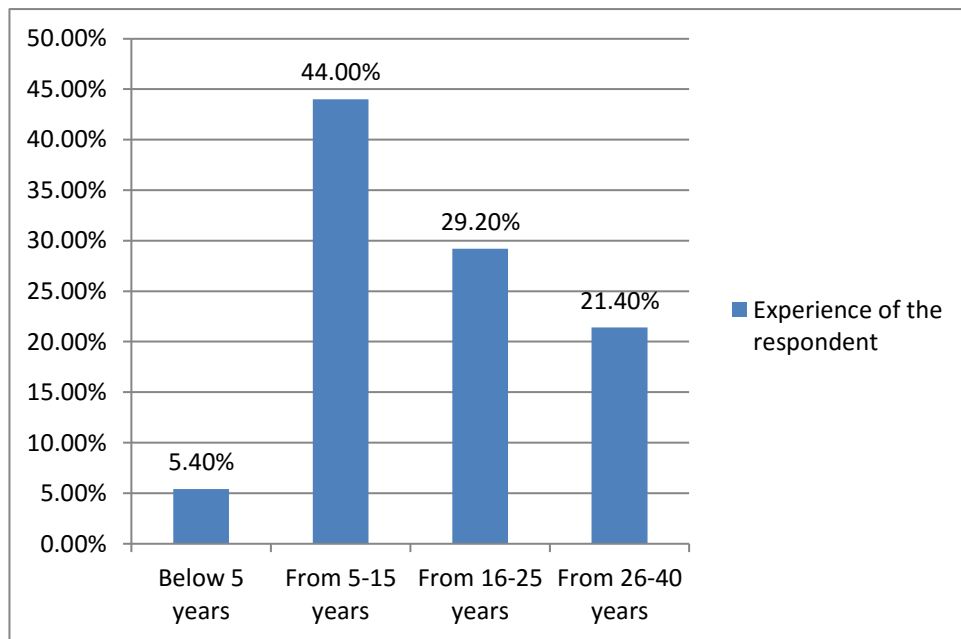
The above table 4.1 shows among 168 respondents, 83.3% of them are male, and 16.7% are females. Compared to the proportion of EEU total population of employees' data taken from HR data base in 2012, males are 80% and 20% females, the respondents sampled in this study have also closely related sex frequency percentages as shown above.

Table 4.2. Age of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30	20	11.9	11.9	11.9
	31-40	72	42.9	42.9	54.8
	41-50	56	33.3	33.3	88.1
	51-60	20	11.9	11.9	100
	Total	168	100	100	

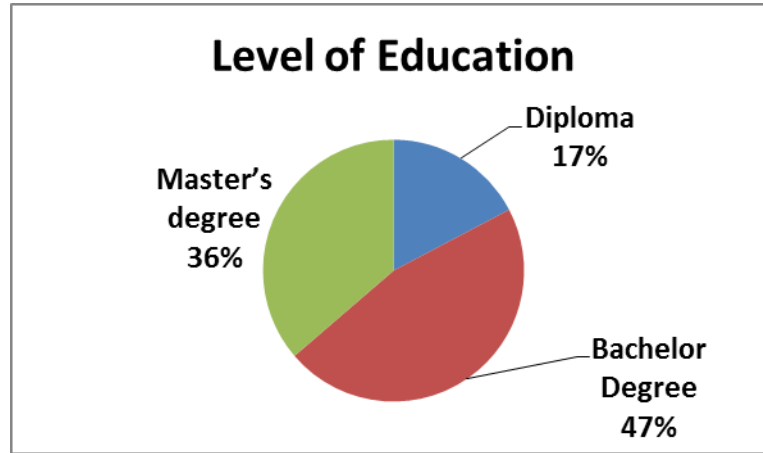
The tables above 4.2 shows frequency distribution of age of respondents where majority (42.9%) of them are between 31-40, year of experience and from 41-50 years were 33.3%. The rest are 11.9% from 18-30 years, and 11.9% between 51-60 years. This data shows the respondents are included in all age indicating its representativeness.

Figure 4.1 frequency distribution result of experience of respondents in Bar chart



The table 4.3 and the bar chart above show the experiences of respondents including starting from 5 years to 40 years of experience. Majority of respondents have sufficient experience which are 44% and 49.2% from 5-15 and 16-25 years of experience respectively.

Figure 4.2: - Level of education of respondents shown in Pie Chart



The level of education also in the above Figure 4.2 shows, respondents have necessary educational background from Diploma to Master’s degree with 17.3% and 36.6% respectively among which Bachelor degree holders are the majority (46.4), which is sufficient level of educational readiness to understand and provide necessary information.

Table 4.5. Department vs. Experience of the respondent Cross tabulation

		Experience of the respondent				Total	Proportion of Dep` t (%)
		Below 5 years	From 5-15 years	From 16-25 years	From 26-40 years		
Department of the respondent	Distribution	5	35	17	9	66	39%
	Human resource	2	11	8	4	25	15%
	Procurement	0	4	8	0	12	7%
	Finance	0	4	9	2	15	9%
	Marketing & customer service	0	8	2	15	25	15%
	Change management	0	0	2	1	3	2%
	Internal Audit	0	4	0	0	4	2%
	Facility & G/service	0	4	3	1	8	5%
	Automation	2	1	0	4	7	4%
	Outsourcing & contract Administration	0	3	0	0	3	2%
Total		9	74	49	36	168	100%
Proportion (%) of service years		5%	44%	29%	21%		

Source: - SPSS V.20 descriptive data analysis.

The frequency distribution of department of respondents in the above table 4.5 shows, majority of them (39%) are from distribution followed by Human resource (15%) and Marketing (15%) department. This indicates the sample were proportional to EEU's business nature where it was established to distribute electric energy to customers (Regulation No.303/2012), and most of employees are working in these departments. Other departments are also included in the sample which could help to get necessary information from the departments' perspective with respect to exposures concerning outsourcing practices.

The experiences of respondents are mostly between 5-15 years (44%) and between 16-25 years (29%) working in different departments' majority of them in distribution and human resources. In general, the background data of respondents shown from the above analysis indicates that there were stufiest level of education and experiences working in different departments to understand questions prepared for the study related to the outsourcing practices in EEU.

4.3 Reliability and Validity Analysis

❖ Reliability

Reliability and validity are the main concepts in quantitative analysis to enhance the quality and consistency of the research results. Reliability is the degree to which the measure a construct is consistent or dependable (Anol Bhattacharjee, 2012). That means measures of the same construct shows the same result multiple times, assuming the underlying phenomena is not changing. The reliability of the measures in this study were tested by Cronbach's Alpha values between 0 and 1, where the higher the value, the more reliable the measures are (Uma Sekaran, 2003). In this study there are 117 questions adopted, which contain three dimensions and sub items related to the outsourcing practices. The Cronbach's Alpha Statistics were computed using SPSS as shown on the table 4.6 below.

❖ Validity

To ensure the validity, the research project instruments used (the questionnaire and conceptual framework) were adopted with thorough review of research literatures, and customized to fit the research context. In addition, the questionnaire was pretested and necessary adjustments were made to prepare the final correct questionnaire based on the comments given. Interviews and discussions were made with different managers that have direct experience in outsourcing decision and implementation.

Table 4.6. Cronbach's Alpha

S. N	Variables	Cronbach Alpha	Number of Items
	The Three Dimensions		
1	Motivation to outsource	0.762	10
2	Outsourcing process	0.956	57
3	Effects of outsourcing	0.911	50
4	All Variables	0.949	117
	Individual Variables		
1	Motivation to outsource	0.762	10
2	Outsourcing process dimensions		
2.1	Establishing Strategy: - goals and objective	0.794	8
2.2	Core competencies/internal capability/analysis	0.758	10
2.3	Risk Management	0.782	6
2.4	Vender Selection & contract	0.847	10
2.5	Supplier Relationship	0.908	10
2.6	Transition Management	0.889	9
2.7	Performance Management	0.842	4
3	Effects of outsourcing for each function		
3.1	Bill collection	0.815	10
3.2	Management contract	0.879	10
3.3	Distribution line constructions	0.888	10
3.4	Office cleaning service	0.845	10
3.5	Security service	0.873	10

Source: - SPSS/2020 Reliability analysis output of the data collected.

As shown below on the table 4.6, the Cronbach's Alpha values of individual variable and for all 117 items of the questionnaire are greater than minimum acceptable value of Alpha 0.7. Therefore, it can conclude that all the items of the questionnaire are internally reliable or consistent.

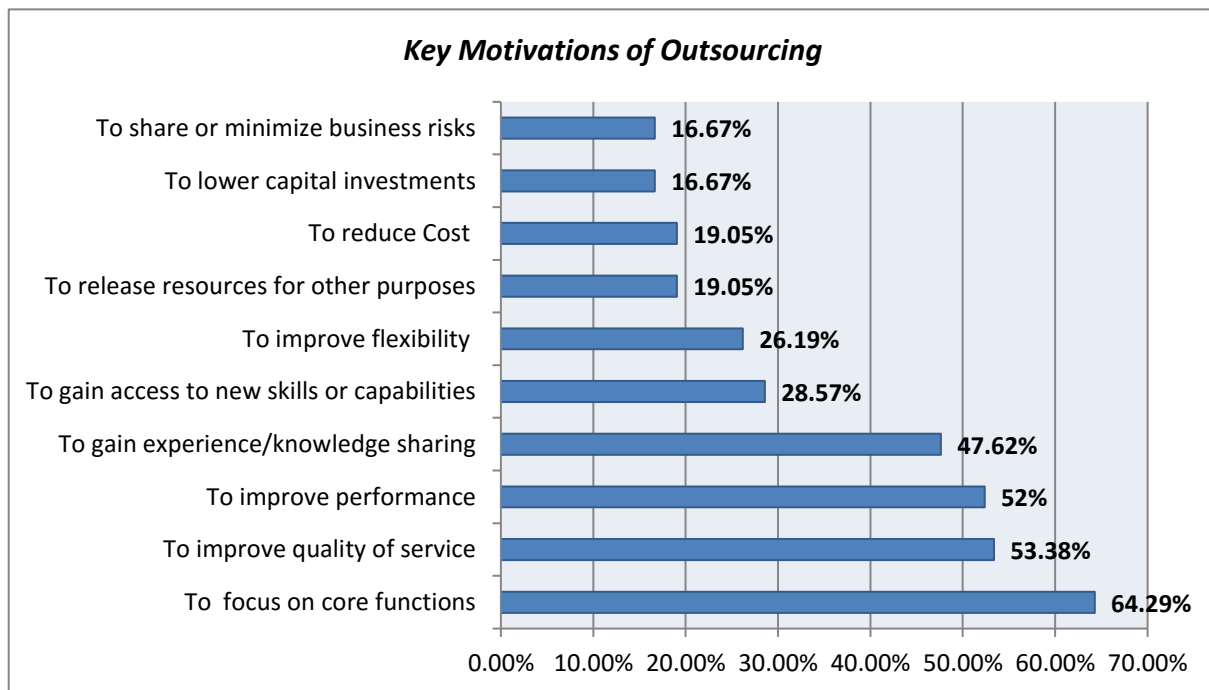
4.4 Outsourcing Motivation

One of the specific objectives of the study is to identify the reasons or motivations of outsourcing in Ethiopian Electric Utility. The data collected through questionnaire was analyzed using descriptive statistics for each element and the results are summarized below in the table 4.7.

Table 4.7 Descriptive statistics of the data on motivation to outsource

Motivation to Outsource	No.	Very Low (%)	L%	M%	H%	VH%	Mean	Std. Deviation
To reduce Cost	168	16.67	9.52	30.95	23.81	19.05	3.19	1.318
To focus on core functions	168	2.38	7.14	2.38	23.81	64.29	4.40	1.004
To improve quality of service	168	2.38	2.38	23.81	19.05	53.38	4.17	1.025
To improve flexibility	168		9.52	30.95	33.33	26.19	3.76	.949
To gain access to new skills or capabilities	168		16.67	14.29	40.48	28.57	3.81	1.032
To gain experience/knowledge sharing	168	4.76	4.76	11.90	30.95	47.62	4.12	1.099
To lower capital investments	168	14.29	19.05	30.95	19.05	16.67	3.05	1.275
To improve performance	168		4.76	14.29	28.57	52	4.29	.883
To share or minimize business risks	168	7.14	19.05	33.33	23.81	16.67	3.24	1.154
To release resources for other purposes	168	11.90	16.67	26.19	26.19	19.05	3.24	1.273
Average Mean							3.73	

➤ **Figure 4.3: - Frequency distribution of respondents on motivations of outsourcing**



The frequency distribution result in the above Figure/4.3/ confirms that to focus on core functions is the primary factor motivating EEU`s outsourcing decision followed by to improve service quality and to improve performance of the functions outsourced, with 64.29%, 53.38% and 52% rated very high by respondents respectively. In contrast, other, as shown above, were rated lower, particularly, though cost reduction was theoretically supported as a primary reason of most companies to outsourcing, only 19% of respondents said it the main reason for EEU which narrows the potential benefit that could be extended. These result also supported by secondary data sources obtained from EEU`s five-year strategy document (2008), EEU`s business case document, and discussion points during interview with outsourcing & contract administration head, indicates that the main motivations to outsourcing decisions was to focus on core function, improve customer service quality and improve performance. Similarly, in the table 4.7 above the mean score result of respondents in the Likert scale shows the same.

4.5 Outsourcing Processes

The tables below (table 4.8) shows summary of the average mean of the respondents` data on the major items outsourcing process. In addition, the descriptive statistics result (frequency distribution, mean and standard deviation) of each sub activity under the major items are computed and shown below on the table 4.8.

Table 4.8 Summary of Descriptive statistics result for major activities in the outsourcing process

S. N	Outsourcing Process Dimensions/Items	Descriptive statistics of respondents` result						
		SD%	DA%	UD%	A%	SA%	No. of items	Aggregated Mean
1	Establishing Strategy goals and objective	2.91%	13.10%	35.12%	35.45%	13.42%	8	3.43
2	Core competencies/internal capability analysis	10.54%	25.50%	20.27%	33.57%	10.12%	10	3.13
3	Risk Management	13.49%	32.94%	26.76%	20.50%	6.31%	6	2.71
4	Vender Selection & contract administration	10.36%	28.45%	24.70%	26.73%	9.76%	10	2.97
5	Supplier Relationship	10.94%	30.70%	27.23%	25.60%	5.54%	10	2.70
6	Transition Management	11.38%	38.62%	23.81%	19.58%	6.61%	9	2.71
7	Performance Management	16.96%	39.88%	19.05%	19.94%	4.17%	4	2.54
	Average (%)	10.94%	29.88%	25.28%	25.91%	7.99%	57	2.89

Table 4.8 above shows the summary of the frequency distribution and aggregated mean value of the responses on the major activities that should be performed during outsourcing process using the Likert scale from 1 to 5 representing Strongly Disagree(SD), Disagree (DA), Undecided(UD), Agree(A) and Strongly Agree(SA).

The overall aggregated mean score result of the entire outsourcing process is 2.89 which shows no agreements or nearly undecided. And for each sub items only establishing goals is 3.43, while the rest elements are below 3. Similarly, the frequency distribution result shows only 7.99% strongly agree, and 25.91% agree, which sum up 33.9% agreed to the outsourcing decision process measures in EEU. The rest majority 66.1% respondents were not agreed for the proper implementation of the major activities during outsourcing process.

Therefore, the low rate result indicates that EEU lacks strong management of the outsourcing process including the seven items mentioned in the above table.

Table 4.8.1 outsourcing process dimension sub items & respondents’ level of agreement

Description	Mean value in the range of 3.5 to 3.79	Mean value in the range of 3.00 to 3.45	Mean value in the range of 2.30 to 2.98	Total
Number of items	5	24	28	57
Percentage	8.77%	42.11%	49.12%	100.00%
Level of Agreement	Agreed	Undecided	Disagreed	

The summarized data for all items included in the outsourcing process dimension shows that, among the 57 items used to measure outsourcing process management of EEU only five items (8.77%) were agreed by respondents, while the remaining majority, twenty four(42%) and twenty eight(49%) were undecided and disagreed respectively by respondents.

The following activities were identified & summarized from the analysis made on each items of the outsourcing process above showing weak points of EEU in proper management and implementation of the outsourcing process, which were also supported by qualitative data collected by interview & secondary data obtained from reports and strategy documents: -

Core competency analysis: - The company did not undertake capability analysis before outsourcing decision, and it also outsources non-core functions including outsourcing of

management contract & distribution line construction works which are put clearly in its establishment regulation as the major proposes of EEU (regulation no, 3.3/2013).

Risk Management: - Evaluation of the impact the risk will have on customers and preparing a mitigation strategy for each risk established were not identified.

Vendor Selection & contract administration: - A systematic approach to identifying as well as selecting the right vendor for the project was not established no project team establishment for vendor selection and contractual issues, and lack of determining all customer service requirements.

Supplier Relationship: - in establishing long-term commitment to the relationship, and involvement of the suppliers & stakeholders in the strategic planning process were limited,

Transition: - Whether the project had full support from the employees affected, were not agreed by majority of respondents, similarly a transition check list that included all items in the transition plan were not developed. In addition, the way of communicating employees affected were not appropriately tailored to be aligned with the level of understanding and attitudes towards the outsourcing decision and approach followed particularly for Distribution construction function.

Performance Management; - there was a problem in review of pre and post outsourcing effectiveness and efficiency measurement, including evaluation of supplier performance and establishment of performance measurement techniques to measure the impact of the outsourcing decision.

Generally, regarding the challenges of EEU associated with outsourcing practice, EEU has faced the challenges to manage the transition particularly in getting support from the employees affected, managing contracts, and limitations observed in establishing performance measurement techniques of the impact of the outsourcing decision. Even though the BOD and management of EEU uses outsourcing as one of the strategic management tool and puts encouraging efforts to include outsourcing department in the corporate structure, EEU still facing challenges in managing the supply chain - scarcity of necessary materials required for outsourced works, problem of choosing appropriate outsourcing approach - concerning choice of the level of activities to be outsourced, and resistance from employees and the labor union.

4.6 Effect of outsourcing/outcomes/

The table below shows Summary of mean value of the effects of outsourcing for the five functions outsourced using The Likert scale ranging from 1 to 5 where “5” denotes great improvement(GI), “4” partial improvement(PI) “3” unchanged(UC), “2” partial negative improvement(PNI), “1” great negative improvement(GNI).

➤ *Table 4.9 Summary of mean value of the effects of outsourcing for the five functions*

Effects of outsourcing (for identified expected outcomes)	Functions outsourced					Mean (for each outcomes)
	Bill collection	Management. contract	Distn. construction	Office cleaning service	security service	
	GNI(1)	PNI (2)	UC (3)	PI (4)	GI (5)	
Cost reduction	2.27	2.43	3.52	3.88	3.68	3.16
Focus on core functions	2.95	2.9	3.7	4.05	3.87	3.50
Quality improvement	2.95	2.69	3.52	3.85	3.75	3.35
Flexibility to adjust options	2.63	2.91	3.51	3.77	3.41	3.25
Access to new skills or capabilities	2.85	3.52	3.7	3.40	3.37	3.37
Experience/knowledge sharing	2.92	3.1	3.54	3.62	3.47	3.33
Lower capital investments	2.81	2.14	3.19	3.64	3.43	3.04
Performance improvement	2.55	2.6	3.38	3.43	3.52	3.1
Risks are shared/minimized	2.7	2.67	3.36	3.82	3.77	3.26
Freed up resources for other purposes	3.13	2.7	3.6	3.43	3.65	3.3
Mean (for each functions)	2.78	2.76	3.50	3.69	3.59	3.26

The tables 4.9 above generally shows, the aggregate mean score result of outsourcing effects for the whole five functions were 3.26, which indicate nearly unchanged.

Among the five functions, *office cleaning service, security service and distribution line construction work* show partial improvements in EEU with average mean score of 3.69, 3.59 and 3.5 respectively (rounded to 4=” partial improvement”). While Bill collection and management contract rated low with mean score result of 2.78 and 2.76 respectively, and the effects for all outcomes are less than 3 indicating no or unchanged improvements due to outsourcing these functions.

Regarding the effect of outsourcing on the specific outcomes, focusing on *core functions* shows partial improvements for *office cleaning service function* with mean score of 4.05, and aggregate mean score of 3.50, where the effects of all other outcomes are rated below this value. For office cleaning service function, cost reduction, service quality improvement and risk sharing show partial improvements with mean score of 3.88, 3.85, and 3.82 respectively. In addition, for security services function, the specific outcomes nearly showed partial improvements were risk sharing, quality improvement and cost reduction with mean score of 3.77, 3.75, and 3.68 respectively. Therefore, EEU`s strategy to outsource office service and security services were in support of achieving improvements in these listed outcomes relative to in-house. Similarly, outsourcing distribution line construction is in the middle with average mean score of 3.5. The outcomes which could be achieved nearly partial improvements from outsourcing this function were focus on core function, access to new skills and freed up resources for other purposes with mean score of 3.7., 3.70, and 3.60 respectively.

But Effects of outsourcing bill collection and management contract functions generally shows no change relative to in-house, with average mean score of 2.78 and 2.76 (both rounded to 3 = “unchanged”). The result also indicates that the mean score of the specific outcomes expected to achieve from outsourcing bill collection and management contract were all less than 3, which means outsourcing these functions has no importance.

The tables below from 4.9.1 to 4.9.7 shows the descriptive statistics result of the effects of outsourcing for each functions outsourced in EEU measured using Likert scale where, GNI = Great Negative Improvement (1); PNI= Partial Negative Improvement (2); UC=Unchanged (3); PI= Partial Improvement (4), and GI = Great Improvement (5).

Table 4.9.1 Descriptive statistics to Bill collection function

Effects of outsourcing	No.	GNI%	PNI%	UC%	PI%	GI%	Mean	Std. Deviation
Cost reduction	168	32.74	31.55	16.07	14.88	4.76	2.27	1.202
Focus on core functions	168	14.88	19.05	27.38	33.33	5.36	2.95	1.157
Quality improvement	168	22.02	16.67	16.07	34.52	10.71	2.95	1.353
Flexibility to adjust options	168	19.05	29.17	29.17	15.48	7.14	2.63	1.167
Access to new skills or capabilities	168	13.69	18.45	41.67	21.43	4.76	2.85	1.059
Experience/knowledge sharing	168	11.31	26.19	26.79	30.95	4.76	2.92	1.102
Lower capital investments	168	19.05	20.83	32.74	14.88	12.50	2.81	1.262
Better performed than own force ones	168	23.81	27.98	29.17	7.14	11.90	2.55	1.261
Risks are shared/minimized	168	26.79	14.88	32.14	14.29	11.90	2.70	1.326
Freed up resources for other purposes	168	13.69	19.64	26.19	21.43	19.05	3.13	1.310
Average Mean							2.78	

Bill collection is one of the functions outsourced by EEU included in this study as shown on the table 4.9.1 shown above indicating the average means score result of the effects of outsourcing bill collection in general is 2.78, and for all of the specific expected outcomes listed above, the mean score values are less than 3.00. Similarly, the sum of the frequency of respondents with Likert scale of PI and GI results less than 50% for all outcomes.

Therefore, the above result shows, the outcome of outsourcing bill collection are nearly unchanged (mean 2.78), or no improvement effects were perceived in each specific outcome measures shown above. Qualitative data supporting this result were also forwarded from respondents that *“outsourcing Bill collection, management contract distribution construction work was costly, had negative impact to the company performance, it was better to invest to develop and improve own force capacity”*. It is also added about the approach of EEU outsourcing that *“when billing was outsourced, the meter reading in Billing process and the material supply in Distribution construction works, should also be fully outsourced, and the controlling and supervision should be continuously done by the client/EEU/*.

➤ **Table 4.9.2. Descriptive statistics to Management contact**

Effects of outsourcing	No.	GNI%	PNI%	UC%	PI%	GI%	Mean	Std. Deviation
Cost reduction	168	28.6	26.2	19.0	26.2		2.43	1.161
Focus on core functions	168	19.6	16.1	31.0	21.4	11.9	2.90	1.279
Quality improvement	168	19.0	21.4	38.1	14.3	7.1	2.69	1.148
Flexibility to adjust options	168	18.5	10.1	35.7	33.3	2.4	2.91	1.126
Access to new skills or capabilities	168	9.5	7.1	21.4	45.2	16.7	3.52	1.142
Experience/knowledge sharing	168	16.1	11.9	26.2	38.1	7.7	3.10	1.205
Lower capital investments	168	38.1	19.0	35.7	4.8	2.4	2.14	1.063
Better performed than own force ones	168	19.6	22.6	39.3	15.5	3.0	2.60	1.062
Risks are shared/minimized	168	19.0	19.0	42.9	14.3	4.8	2.67	1.087
Freed up resources for other purposes	168	9.5	31.0	42.9	13.7	3.0	2.70	.927
Average Mean							2.76	

Management of EEU was contracted out to Indian company during the period of two years from 2006 to 2008 G.C. The table 4.9.2 above shows the descriptive statistics result of the effects in contracting out/outsourcing/ management of EEU. The average means score result of the effects of the management contract in general is 2.76, and for all of the specific expected outcomes listed above, the mean score values are less than 3.00, except access to new skill and experience/knowledge sharing with mean score vale of 3.52 and 3.21 respectively.

Similarly, the sum of the percentage of respondents with PI and GI results less than 50% for all outcomes, except for access to new skill with 61.9% summed up result.

Therefore, according to the respondents' response measured in Likert scale above and the mean score values, by contracting out the management, no improvement effects were perceived from each outcome measures, specifically cost reduction and lowering capital investment ware not effective by contracting out the management. From the analysis above, only access to new skills had partial improvements (45.2%) and great improvements 16.2% with mean score value of 3.52, where EEU was better at this respect.

➤ *Table 4.9.3. Descriptive statistics to Distribution line construction*

Effects of outsourcing	No.	GNI%	PNI%	UC%	PI%	GI%	Mean	Std. Deviation
Cost reduction	168	7.1	14.3	21.4	33.3	23.81	3.52	1.204
Focus on core functions	168	4.8	12.5	16.7	39.9	26.2	3.70	1.130
Quality improvement	168	4.8	14.3	21.4	42.9	16.7	3.52	1.078
Flexibility to adjust options	168		14.9	28.6	47.0	9.5	3.51	.862
Access to new skills or capabilities	168		6.5	33.9	42.9	16.7	3.70	.824
Experience/knowledge sharing	168	2.4	10.1	31.0	44.6	11.9	3.54	.915
Lower capital investments	168	2.4	28.6	31.0	23.8	14.3	3.19	1.078
Better performed than own force ones	168	3.0	18.5	26.2	42.9	9.5	3.38	.989
Risks are shared/minimized	168		21.4	31.0	38.1	9.5	3.36	.924
Freed up resources for other purposes	168	4.8	7.1	28.6	42.9	16.7	3.60	1.004
Average Mean							3.50	

Distribution function is the main role of EEU set out in its establishment proclamation (regulation No. 303/2013). One of the outsourced activities in EEU is Distribution line construction/partially/. The table 4.9.3 above shows the descriptive statistics result of the effects in outsourcing distribution line construction. The average means score result of the effects of the Distribution line construction in general is 3.50, indicating close to partial improvement scale.

Similarly, the sum of the percentage of respondents with PI and GI results greater than 50% are and indicating partial improvements are all specific outcomes listed above except Lowering capital investments, risk sharing and performed improvement with mean values of 3.19, 3.36, and 3.38 respectively indicating nearly unchanged effect by outsourcing Distribution line construction works. The reasons behind the absence of major improvement effects in distribution line construction outsourcing provided by respondents regarding were due to lack of resources and problem of outsourcing approach which lacks consideration of internal capacity of EEU to avail resources, manage risks, managing contracts and future impacts.

➤ **Table 4.9.4. Descriptive statistics to Office cleaning Service**

Effects of outsourcing	No.	GNI%	PNI%	UC%	PI%	GI%	Mean	Std. Deviation
Cost reduction	168	2.4	2.4	19.0	57.7	18.5	3.88	0.820
Focus on core functions	168		4.8	16.1	48.2	31.0	4.05	0.814
Quality improvement	168		7.7	19.6	53.0	19.6	3.85	0.826
Flexibility to adjust options	168	2.4	7.1	17.9	56.0	16.7	3.77	0.894
Access to new skills or capabilities	168	2.4	11.9	41.1	32.1	12.5	3.40	0.937
Experience/knowledge sharing	168	2.4	4.8	29.2	56.0	7.7	3.62	0.795
Lower capital investments	168	2.4	15.5	23.8	32.1	26.2	3.64	1.101
Better performed than own force ones	168	9.5	10.1	25.0	38.7	16.7	3.43	1.166
Risks are shared/minimized	168	2.4	4.8	26.2	42.3	24.4	3.82	.939
Freed up resources for other purposes	168	2.4	16.1	33.9	31.0	16.7	3.43	1.024
Average Mean							3.69	

The table 4.9.4 above shows descriptive statistics results of responses to questions on the effects of Office Cleaning Service outsourcing. The average means score value of the effect of office cleaning outsourcing is 3.69, indicating close to partial improvements. Similarly, the specific outcomes/effects listed above shows partial improvements that their mean values are nearly close to 4, at the same time the Likert scale measure for these outcomes are greater than 50% which is the majority responded to PI. These outcomes were EEU becomes effective in outsourcing office cleaning service that enables the company to reduce, focus on core functions, improve service quality, obtain flexibility, experience/knowledge sharing, lower capital investments, and minimize or share Risks. But it there is no change in the remaining outcome measures which are access to new skills or capabilities (mean 3.40), performance improvement (3.43), and Freed up resources for other purposes (3.43), indicating that EEU should work on these outcomes for better improvements.

➤ **Table 4.9.5. Descriptive statistics to Security Service**

Effects of outsourcing	No.	GNI%	PNI%	UC%	PI%	GI%	Mean	Std. Deviation
Cost reduction	168		16.7	19.0	43.5	20.8	3.68	0.986
Focus on core functions	168	1.2	12.5	16.7	37.5	32.1	3.87	1.041
Quality improvement	168	0.6	12.5	19.0	47.0	20.8	3.75	0.946
Flexibility to adjust options	168	2.4	20.2	25.6	37.5	14.3	3.41	1.040
Access to new skills or capabilities	168	1.2	13.1	40.5	38.1	7.1	3.37	0.845
Experience/knowledge sharing	168	5.4	6.5	33.3	45.2	9.5	3.47	0.947
Lower capital investments	168	4.8	16.7	23.8	40.5	14.3	3.43	1.075
Better performed than own force ones	168	3.6	10.7	29.2	42.9	13.7	3.52	0.979
Risks are shared/minimized	168	2.4	5.4	29.2	39.3	23.8	3.77	0.954
Freed up resources for other purposes	168	2.4	6.5	31.0	43.5	16.7	3.65	0.916
Average Mean							3.59	

Descriptive statistics result on the effects of outsourcing security services are shown on the table 4.9.5 above. The average mean score of the security service outsourcing is 3.59, and the specific effects listed above also have mean score greater than 3 for all of them. Similarly, the Likert scale measure for PI & GI combined were greater than 50% indicating there were improvements in the listed outcome measures, except access to new skills with 45% proportion to improve and 55 % unchanged below, with mean score of 3.37.

Therefore, EEU has been benefited in obtaining improvements of the aforementioned outcomes above by outsourcing Security services, with one outcome, which is access to new skill that needs attention to make effective.

4.7 Correlation Analysis

A correlation analysis was made to know whether there is a relationship between the dimensions of motivation to outsource, outsourcing process and effects of outsourcing. The table 4.10 below shows the result of Pearson correlation analysis indicating the outcomes of outsourcing has a correlation between the other two dimensions of motivation to outsource and the outsourcing process. Research findings indicate that individual functional areas may experience performance

improvement or decline as a result of outsourcing, though do not experience significant direct performance impacts at firm level. K. Matthew Gilley (2000).

Table 4.10. Correlation Analysis

Dimensions		Motivation	Process	Outcomes
Motivation	Pearson Correlation	1	.008	.401**
	Sig. (2-tailed)		.920	.000
	N	168	168	168
Process	Pearson Correlation	.008	1	.349**
	Sig. (2-tailed)	.920		.000
	N	168	168	168
Outcomes	Pearson Correlation	.401**	.349**	1
	Sig. (2-tailed)	.000	.000	
	N	168	168	168

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

Therefore, the correlation result shows existence of positive relationship between the dimensions that indicates the importance of giving necessary focus to each activity performed under the three dimensions to influence the achievement of outsourcing outcomes successfully. But the result shows no significant correlation between motivation/reasons and process of outsourcing. It should also be noted that the associations are not strong which indicates existence of other factors that affect the result.

4.8 Challenges of implementing effective outsourcing

The challenges in outsourcing practices were identified during discussions with EEU personnel based on interview questions, the additional written comments collected from respondents in the questionnaire and from the descriptive statistics data analysis. Thus, the main challenges/problems are discussed below: -

- Outsourcing strategy problem: -the level of outsourcing which is the scope or extent of activities to be outsourced from one full process or function is not contextually defined. The problem is observed mainly in bill collection and distribution line construction processes. In EEU, only selling bills to customers were outsourced, and the rest activities

were performed in-house. The decision process lacks strategic analysis which was influenced by BOD directions, and also the contract terminated similarly by Government decision. EEU losses control of the whole process and falls short of achieving the bill collection target. Similarly, during outsourcing distribution construction works, only the physical work is outsourced and supply of distribution material is expected to be supplied by EEU to contractors.

- *Scarcity of necessary materials and budget:* - According to EEU`s annual reports and the discussions with outsourcing & contract administration department head, the main and recurring problem of the company which affects the outsourcing effectiveness were lack of sufficient budget and material problem.
- There is no approved outsourcing manual or procedure, and the decision process was not participative with all stakeholders.
- *Objections from labor union and employees` resistance:* -There is strong objection from labor union about the outsourcing initiative of EEU for distribution line construction work. Employees are also resisting this due to lack of understanding the business case and fear of job security.
- *The outsourcing contract administration office* is not supported by adequate skilled human and other necessary resources which limit its capacity to lead successfully implement the outsourcing initiative.

Chapter Five

5. Summary, Conclusion and Recommendations

5.1 Summary

Outsourcing has been practiced as one of the strategic management tools of the Ethiopian Electric corporation/EEU/ to achieve its objectives. The study tries to investigate the outsourcing practices of EEU focusing on three main dimensions based on the conceptual framework including *the reasons/motivation of outsourcing*, the *outsourcing processes*, and the *outcomes of outsourcing* which helps to answer the questions of the why, how and what of outsourcing, respectively.

The practice of outsourcing in EEU has been analyzed using the data collected through questionnaire and interviews based on the conceptual framework to answer the research questions. The summary of the research findings is presented below based on the detail analysis made in chapter four and the conceptual framework: -

- The motivation EEU to outsource were identified using primary & secondary data where to focus on core functions is the primary factor motivating EEU`s outsourcing decision followed by to improve service quality and to improve performance of the functions outsourced, with 64.29%, 53.38% and 52% of respondents rated respectively, while others listed are below 50%. Similar ideas supporting this data were obtained from interview questions and EEU`s annual reports and strategy documents.
- Outsourcing process dimensions were analyzed using the seven major items with corresponding 57 sub activities or specific questions employing Likert scale and summarized by the mean score result. The overall result for outsourcing process was (mean = 2.88), and specifically among the seven major activities, only establishing goals and objectives was greater than three (3.43) and core competencies analysis (3.13) respectively, the remaining`s were lower than the average point of three. These are risk management (2.71) vender selection & contract administration (2.97), supplier relationship (2.70), transition management (2.71), and performance management (2.54).

- The analysis result for specific items in the outsourcing process dimension shows, among the 57 items used to measure outsourcing process management of EEU only five items (8.77%) were agreed by respondents, while the remaining majority, twenty-four (42%) and twenty-eight (49%) were undecided and disagreed respectively by respondents.
- The effects of outsourcing in the five functions that has been outsourced by EEU were investigated by level of improvements in expected outcome measures using 5 scales Likert measures. The result of the study indicates that the overall effects of outsourcing were nearly unchanged (mean = 3.26) relative to in-house. However, there is observed differences among the five functions, where Office cleaning Service (3.69) Security/Guardian Services (3.59) and distribution line construction (3.5) were showing nearly partial improvements, while bill collection (2.78) and management contract (2.76) were unchanged or no improvements.
- The correlation result for process and outcome of outsourcing were 3.49, and between the motivation and effect of outsourcing were 0.401. But no correlation result showed between motivation and process of outsourcing.
- The main challenges identified include transition management problems in getting support from employees & labor union, lack of formal outsourcing strategy and its consequences on the performance of outsourced functions due to EEU's lack of capability to fulfill the necessary materials.

5.2 Conclusion

The conclusions made in the study were based on the analysis & research findings, the comments given by respondents, and including the additional information obtained from discussions made during interview with senior executives working in related departments, and referring strategic documents & reports of EEU.

The study confirms that the outcomes of outsourcing have a positive relationship between the other two dimensions namely, motivation to outsource and the outsourcing process, while no correlation shown between motivation/reasons to outsource and the process of outsourcing. The primary reasons identified to outsource the functions and activities were to focus on core functions, improve customer service quality, to improve performance, and knowledge sharing. Though the other reasons for outsourcing, particularly cost reductions were theoretically supported, they are not considered significant in EEU.

The research findings also show that EEU did not follow formal and structured framework for outsourcing decision process. The main drivers of EEU for outsourcing decisions were mainly due to limited material resources, and increasing demand of customers, including BOD directions as pushing factor. The decisions to outsource were not supported by proper analysis of the internal and external capabilities, including identification of the risk associated with it and developing tools to measures its efficiency and effectiveness.

As clearly indicated in the conceptual framework, the process dimensions are the key element in successful implementation of outsourcing initiatives. However, the study result confirms that the company lacks effectively managing and implementing the outsourcing process as clearly indicated by the specific measures of sub items, where it was rated low. It is also confirmed that among the seven important dimensions of outsourcing process, establishing goals and objectives were relatively better, while other items were not properly managed and implemented during outsourcing process. These items include, risk management, vender selection & contract administration, supplier relationship, transition management, and establishment of pre- and post-performance management tools. Thus, it needs to clearly understand its impotence and gave the necessary attention in due course of outsourcing practices.

Regarding the outcome of outsourcing, the study confirms that there is existence of gaps between outsourcing expectations and the reality. Though outsourcing enables to reduce cost, focus on core function and share risks, the level of effectiveness varies among the functions outsourced. That is, some of the functions outsourced show partial improvements namely office cleaning service, security services and distribution line construction, while some other functions such as Bill collection, and Management Contract were unchanged or no improvements revealed. Thus, identifying what activities to be outsourced or otherwise performed in-house is the key element of decision makers for effective implementation of outsourcing endeavors.

It is also clear and evident that the performance limitations revealed in the specific functions outsourced could have its consequences on the organizational level performance effect of outsourcing in general. In spite of the potential benefit of outsourcing proposed by researchers, bringing it to reality rests up on each company`s readiness and perspectives in implementing the outsourcing initiatives based on consciously developed outsourcing strategy.

Regarding the challenges of EEU associated with outsourcing practice, EEU has faced the challenges to manage the transition particularly in getting support from the employees affected, managing contracts, and limitations observed in establishing performance measurement techniques of the impact of the outsourcing decision.

Even though the BOD and management of EEU uses outsourcing as one of the strategic management tool and puts encouraging efforts to include outsourcing department in the corporate structure, EEU still facing challenges in managing the supply chain - scarcity of necessary materials required for outsourced works, problem of choosing appropriate outsourcing approach - concerning choice of the level of activities to be outsourced, and resistance from employees and the labor union.

5.3 Recommendations

Though EEU were mainly outsourcing to focus on core functions, to improve service quality and to gain experience/knowledge sharing, EEU needs also to focus on other factors specially to reduce its cost, and other purposes to maximize the benefits from outsourcing. It could help to relieve its financial burden, and insure outsourcing of the right activities for the right reason.

Since the processes of outsourcing and the outcomes have relationships, working well in the outsourcing dimension sub items could be important to influence the level of EEU's effectiveness in achieving expected outcomes from outsourcing. EEU mainly should focus to have formal outsourcing decision process that emanates from having outsourcing strategy aligned with corporate strategy, and structured bases for evaluating the outsourcing decisions. The main decision points that EEU needs to strategically resolve were identification of which activities to be outsourced, deciding to outsource versus working in-house and its approach on the level/intensity of outsourcing that includes partial outsourcing versus full process outsourcing,

The specific activities in the outsourcing process that need further improvement actions are establishing performance measurement techniques for the impact of the outsourcing decision, conducting post-outsourcing review, developing risk mitigation strategy, preparing transition check list, systematic approach to identifying as well as selecting the right vendor, and determining customer service requirements with SLA.

As clearly observed in the strategy documents, reports and interview discussions, EEU does not include separate performance evaluation report for outsourced functions, so it needs to develop outsourcing performance measurement tools and conducting periodic review according to the targets set in the contract. This could enable to achieve continuous improvements by taking necessary corrective measures based on the feedbacks from monitoring and evaluation undertakings.

EEU needs to enhance participation of staffs and stakeholders to create better understanding and minimize the resistance for outsourcing. Thus, it is important to review the business case prepared to outsource distribution line construction works, where employees and labor union has been resisting in sharing the initiative due to the approach it followed, lack of adequate focus on developing and implementation of appropriate communication strategy.

The communication strategy may include proper participation of employees during the outsourcing process, using professional consultants, best practices, preparing convincing business case clearly showing the feasible options, the need of the change, its importance and the consequences of not implementing or keeping the status quo.

In addition, EEU also need to look for ways to solve the main challenge of supplying the required materials needed to perform outsourced functions. The researcher recommends that EEU need to review its outsourcing strategy in general to make alignment with its corporate strategy, and the specific approaches regarding the level of activities to be outsourced.

It is therefore necessary to make internal capability analysis first, and then distribution construction works may be handled either fully outsourcing the function including supply of necessary materials to other relatively capable vender/contractors, or reviewing its customer service procedure and allowing customers to supply the materials required to provide the electric energy connection.

Finally, wise use of outsourcing as a management tool is essentially important to address the increasing demand of customers, particularly, it is highly recommended and more appropriate for companies like EEU established as public monopoly company providing electric energy that significantly contributes to fuel and back the economy and affect the day to day life of the people in the increasing of growth of technology utilizations.

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APPENDIX

Annex 1 – Questionnaire

Addis Ababa University College of Business and Economics Graduate studies (EMBA program)

This questionnaire is prepared by a graduate student of Addis Ababa University with the objective of gathering data on a research topic “outsourcing Practice in EEU” as a partial fulfillment of the requirements for the degree of Executive Masters of Business Administration in Management (EMBA) at Addis Ababa University. Knowing that you have adequate information and knowledge about the research`s topic, I have selected you as one of the respondents of this survey questionnaire. The researcher would like to thank you in advance for your kind response by allotting your precious time in filling the questionnaire. As your responses have a great impact on the study findings, you are kindly requested to provide your genuine responses freely without mentioning your name. The information provided is to be used only for the sake of this study and will be kept strictly confidential.

Part I. Demographic information

Instruction: - Please circle the letter in the choices to indicate your response.

1. Sex:

- A) Male B) Female

2. Age:

- A) 18-30 B) 31-40 C) 41-50 D) 51-60 E) >60 years

3. Work experience(years):

- A) <5 years B) 5-15 C) 16-25 D) 26-40 E) >40 years

4. Level of education:

- A) Diploma B) Bachelor Degree C) Master`s degree D) PhD

5. Department: -

PART II - Motivation to Outsource

6. Which factor is the main reason for your decision/EEU/ to outsource? Give weight according to the importance (5 = very high, 4= high, 3 Medium, 2= Low, 1 = Very low).

S. N	Motivation to outsource	Weight				
		5	4	3	2	1
1	To reduce Cost					
2	To focus on core functions					
3	To improve quality of service					
4	To improve flexibility					
5	To gain access to new skills or capabilities					
6	To gain management experience/knowledge sharing/					
7	To lower capital investments					
8	To improve performance					
9	To share or minimize business risks					
10	To release resources for other purposes					

➤ If you have any issue you want to raise on motivation of EEU to outsource, please explain here -----

Part III. Outsourcing Process

7. Indicate the level of compliance of the outsourcing practices of EEU with respect to the following statements using the Likert scale ranging from 1 to 5 which indicate your level of agreement: - “5” denotes that you strongly agree, “4” you agree, “3” you are Undecided, “2” you disagree and “1” strongly disagree. Read all the items thoroughly and put a tick (√) mark in the space provided under the scale of your choice.

S. N	Outsourcing process elements	5	4	3	2	1
1	Strategy: - establishing goals and objective					
1.1	The current approach to outsourcing is strategic					
1.2	There is a structured process for identifying outsourcing opportunities					
1.3	Objectives and goals were determined to drive the strategy					
1.4	Care was taken to ensure that the strategy was in line with corporate objectives					
1.5	The strategy was developed around the core competency					
1.6	Techniques on how to measure the achievement of these goals were established					
1.7	Benchmarks/models were used to establish goals					
1.8	Present and future requirements of customer needs were understood					
2	Core competencies/internal capability/ analysis					
2.1	All core activities were identified					
2.2	All non-core activities were identified					
2.3	All core competences were assessed for potential improvement of performance					

S. N	Outsourcing process elements	5	4	3	2	1
2.4	The company understood the internal capabilities to perform compared with other suppliers					
2.5	Care was taken to consider capabilities that might be important in the future					
2.6	The functions outsourced are not considered critical to the success of the business					
2.7	The company only outsources non-core functions					
2.8	The company assess the impact of intensity of outsourcing strategy/outsource activities <i>partially</i> /					
2.9	Care was taken to ensure that the outsourcing decision was consistent to the overall corporation's operations strategy.					
2.10	The extent to which the outsourcing decision will impact the future strategic options and or alternatives was fully evaluated					
3	Risk Management					
3.1	There is a structured risk management process					
3.2	All risk of outsourcing was identified					
3.3	The impact the risk will have on our customers was evaluated					
3.4	The potential negative consequence of losing our internally capabilities to perform was considered					
3.5	The risk of external supplier shrinking in their responsibilities was considered					
3.6	A mitigation strategy for each risk established					
4	Vender Selection & contract administration					

S. N	Outsourcing process elements	5	4	3	2	1
4.1	A systematic approach to identifying the right vendor for the project was conducted					
4.2	A systematic approach to selecting the right vendor for the project was conducted					
4.3	A vendor selection and contractual team were established					
4.4	All customer service requirements were determined					
4.5	The long-term strategic interest of the buyer was taken under consideration					
4.6	The long-term strategic interest of the vendor was taken under consideration					
4.7	Service and performance levels/SLA/ were clearly stated in the contact					
4.8	The contract contains a well-defined penalty clause and performance rewards and benefits					
4.9	The contract included clauses intended to make switching or re-internalizing the activity easier should the relationship fail.					
4.10	The contract clearly defined a dispute resolution process					
5	Supplier Relationship					
5.1	EEU have a long-term commitment to the relationship					
5.2	The supplier provides superior performance and cannot be replaced					
5.3	The relationship with our supplier is viewed as a partnership					
5.4	Senior management seeks to develop a relationship with the provider and their management team					
5.5	There is a sharing of risk and benefits					

S. N	Outsourcing process elements	5	4	3	2	1
5.6	EEU makes investments that are unique to our relationship with the provider					
5.7	There is frequent communication and share detailed and valued information					
5.8	Joint continuous and collaborative improvement efforts are conducted					
5.9	EEU involve the supplier in the strategic planning process					
5.10	Dispute resolution is open and constructive					
6	Transition Management					
6.1	Employees and personnel were informed about the outsourcing decision in advance					
6.2	The project had full support from the employees affected					
6.3	A transition team was established to conduct the process					
6.4	A timeline for all outsourcing activities was developed (meetings, deadlines, employee transition)					
6.5	The timeline was distributed to all employees involved					
6.6	A detailed transition plan & procedure with details of all functions that must be performed to accomplish successful transition was constructed					
6.7	Employees transition and separation plan was taken into consideration					
6.8	The impact on non-outsourced functions was taken into consideration					
6.9	A transition check list was developed that included all items in the transition plan					
7	PERFORMANCE MANAGEMENT					
7.1	A post-outsourcing review was constructed					

S. N	Outsourcing process elements	5	4	3	2	1
7.2	A review of pre and post outsourcing cost was measured					
7.3	An evaluation of supplier performance was conducted					
7.4	Performance measurement techniques of the impact of the outsourcing decision were established					

- If you have any issue you want to raise on the outsourcing decision process of EEU, please explain here -----

Part IV. Outcomes/Effects of outsourcing

8. Below are some of the outcomes of outsourcing that are used to measure the effects of outsourcing. State the extent of improvement due to outsourcing relative to in-house using the Likert scale ranging from 1 to 5 where “5” denotes great improvement, “4” partial improvement, “3” unchanged, “2” partial negative improvement, “1” great negative improvement, based on your experience on the practice of outsourcing and its effect in EEU.

S. N	Dimensions of Measurement	Functions/Activities/ Outsourced				
		Bill collection	Management Contract	Distribution line constructions	Office cleaning service	security service
		<i>Likert Scale on Level of agreement</i>				
		5	4	3	2	1
1	Cost reduction					
2	Focus on core functions					
3	Quality improvement					
4	Flexibility to adjust options					
5	Access to new skills or capabilities					
6	Management Experience/knowledge sharing					
7	Lower capital investments					
8	Performance improvement					
9	Risks are shared/minimized					
10	Freed up resources for other purposes					

If you have any issue you want to raise on the effect of outsourcing in EEU, please explain here -

Thank You For Your Kind Cooperation

ANNEX -2: - Interview Questions

1. How could you say about the practice of EEU in general?
2. What do you observe in general about EEU outsourcing practices?
 - ✓ What are the main reasons for EEU that motivates outsourcing?
 - ✓ What are the goals and objectives of outsourcing?
 - ✓ How is the performance of outsourcing measured?
 - ✓ How could you say on the factors affecting outsourcing effectiveness?
 - ✓ have you observed performance differences between in-house and outsourced activities?
3. Could you explain the processes of outsourcing in EEU?
 - ✓ Outsourcing strategy of the company and its level of outsourcing?
 - ✓ How EEU identify core and none core activities before outsourcing?
 - ✓ Which functions or activities have already been outsourced currently?
 - ✓ What is the technique or tool on how to measure the achievement of these goals?
 - ✓ How vendors, service providers, and contractors are selected?
 - ✓ Does EEU have structured process for identifying outsourcing opportunities and managing it, policy and procedures established for outsourcing?
4. What can you say on the benefits obtained from outsourcing?
5. Do you thing outsourcing achieved the expected outcomes?
6. What are the main challenges EEU have faced while outsourcing?
7. Do you have any comment and suggestions related to EEU outsourcing practice?