



**THE EFFECT OF OUTSOURCING NONCORE BUSINESS
FUNCTIONS ON COMPANY'S PERFORMANCE:
(The case of Commercial Bank of Ethiopia)**

**A Thesis Submitted to Addis Ababa University School of
Commerce in Partial Fulfillment for the Master of Arts Degree in
Human Resource Management**

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SCHOOL OF COMMERCE**

**DEPARTMENT OF BUSINESS ADMINISTRATION AND
INFORMATION SYSTEMS
HUMAN RESOURCE MANAGEMENT MASTERS PROGRAM**

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DECLARATION

I, Tewodros Tenkir, declare that this thesis entitled “**The Effect of Outsourcing Noncore Business Functions on Company’s Performance:** The case of Commercial Bank of Ethiopia” is my original work. I further confirm that this paper has never been submitted to any other university for any degree, diploma or fellowship. Finally, I declare that all source materials used in this research has been dully recognized and acknowledged.

Tewodros Tenkir
Signature _____

Date _____

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Acronyms

CBE: Commercial Bank of Ethiopia

HSBC: Hongkong Kong and Shanghai Bank of China

OMO: Outsourcing Management Office

FMP: Facilities Management Processes (FMP)

HRMP: Human Resource Management Processes

SPSS: Statistical package for social science

USA: United States of America

SLA: Service Level Agreement

UNESCO: United Nations International Scientific and Cultural Organization

SLS: Service Level Standards

SHRM: Strategic Human Resource Management

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Abstract

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

Key words: *Outsourcing, performance, business function, customers' satisfaction*

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Outsourcing has been defined as work done for a company by people other than the company's full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons (Seth, 2011). It is one of the most popular management strategies to surface in response to calls for more efficient ways to address organizational competitiveness. Organizations have been engaged in a rapid expansion of their businesses leading to increasing shares of rates of profit and/or sales users the market.

Today's business environmental, organizational, and technological factors require business to operate efficiently and effectively in order to be competitive. Toward those goals, managers employ many strategies to improve productivity, including standardization, automation, and business process reengineering. Firms are continuously faced with the decision of whether to expend resources to create an asset, resource, product or service internally or to buy it from an external party. Nowadays, economic thought and the technological progress does not stand still, and every organization has an urgent need to keep up with the new ideas and technologies. With the emergence of such business – process like outsourcing became possible to give any kind of work, starting with the newest technologies and project management and ending with cleaning facilities, to outside organizations. Herewith the use of outside labor force turns out to organization more cost and time-effective.

A survey conducted by Lackow (1999) of 176 US corporations that have or are currently outsourcing their business functions also indicates that, while cost saving has been identified as the primary motive behind outsourcing initiatives, there is more to outsourcing than just cost savings. In this survey, cost saving was identified as the top reason why businesses choose to outsource (59 per cent); however, improvement of services (54 per cent), the ability

to focus on core business (46 per cent) and the ability to access outside expertise (40 per cent) were also identified as important factors. This survey result seems to echo the fundamental changes in today's business environment, as identified by Deavers (1997), and points to the board-based strategic role of outsourcing in improving the long-term competitiveness of a business. When outsourcing goes bad, disgruntled employees leave, customers are frustrated, brand names are damaged, and outsourcing is given a bad name (Mohr et al., 2010). At the extreme, outsourcing disasters provide ready fodder for critics who say that not only are the work of low quality, it does not even reduce costs. Managers at client companies are faced with a daunting choice: if they don't outsource, their companies won't be able to survive the brutally competitive global business environment; if they do outsource, they run a gamut of risks, pitfalls, and criticisms.

Gilmer (1997) argues that the main criticism of outsourcing as being its human resource consequences. Because shifting jobs from the bank to agent, who is performing the outsourced function, may result in benefit cuts, staff redundancy, or retrenchment. Sometimes the service provider could even employ staff on contract. Subsequently, outsourcing critics feel that contract staff may develop less loyalty to the bank than if they were employed directly by the institution. Since the early 1990s, it has been grown in popularity, particularly in the USA and Western Europe, where over 90 per cent of the companies outsource some peripheral or non-core activities to a third party service provider (Cook, 1999).

In 2004, Bel Court and Mc Bey confirmed that, managing the outsourcing well is critical. Outsourcing must be subjected to a cost-benefit analysis. In general, the outsourcing decision must consider various issues which help to make a successful outsourcing strategy. Among this, proper outsourcing and contract management; conduct market and risk assessment; develop technical standards; identify potential source of suppliers, follow up contract, evaluate the performance of service providers and developing an exit strategy when the outsourcing arrangement fails or not be able to deliver the required service. However, unable to assess in detail both internal and external factors have a negative impact on outsourcing practice of any organization. Since few years ago some organizations in Ethiopia tried to outsource some of their non core business functions and commercial bank of Ethiopia (CBE) is one of those organizations started outsourcing. In this regard, the outsourcing practice of Commercial Bank of Ethiopia seems to be ineffective and inefficient for the reasons that

there are a number of conditions which indicate the fact as per the first round observation of the researcher.

1.2 Background of the Organization

The history of the Commercial Bank of Ethiopia (CBE) dates back to the establishment of the State Bank of Ethiopia in 1942. CBE was legally established as a share company in 1963. In 1974, CBE merged with the privately owned Addis Ababa Bank. Since then, it has been playing significant roles in the development of the country. Pioneer to introduce modern banking to the country. It has more than 1140 branches stretched across the country. The leading African bank with assets of 384.6 billion Birr as on June 30th 2016. Plays a catalytic role in the economic progress & development of the country. The first bank in Ethiopia to introduce ATM service for local users. Currently CBE has more than 13.3 million account holders and the number of Mobile and Internet Banking users also reached more than 1,352,000 as of September 30th 2016 (68% active users). Active ATM card holders reached more than 3 million (61% active users). It has strong correspondent relationship with more than 50 renowned foreign banks like Commerz Bank A.G., Royal Bank of Canada, City Bank, HSBC Bank. CBE has a SWIFT bilateral arrangement with more than 700 others banks across the world. CBE combines a wide capital base with more than 29,000 talented and committed employees. Pioneer to introduce Western Union Money Transfer Services in Ethiopia early 1990s and currently working with other 20 money transfer agents. CBE has opened four branches in South Sudan and has been in the business since June 2009. (<http://www.combanketh.com/> Accessed date 01/12/2016). According to CBE (2009 outsourcing option study document), the bank has already envisaged the banking industry is becoming very competitive, especially with the establishment of an increasing number of new private banks. Beyond the local competition the vision of CBE is “to be a world class commercial bank by 2025” .To be a world class bank CBE have to prepare itself for the forthcoming challenges in order to safeguard and improve its position.

1.3. Statement of the Problem

Although outsourcing is a good business concept, it does not come without risks, one main risk that is incurred when outsourcing is that when a firm does outsource, they leave the supply of that product or service in the hands of someone whom they cannot control, contrary to controlling their own supply (Maynard, 2006). Organizations who choose to outsource may not realize their anticipated or promised gains because of the loss of oversight and control of an outsourced project or business functions.

There are many reasons identified for when organizations fail at outsourcing. Cox (2014) affirms that many organizations fails to understand what is needed to outsource successfully and that there is a failure to make changes in the 'home' business to cope with the change. Understanding one's own core competencies can be difficult for many companies, but then finding a high-quality supplier willing to provide the necessary product or service can also prove to be quite daunting. Despite the decision to outsource, many companies are stuck with the capital equipment and long term labor contracts they had in place before the change. Consequently, the outsourced staff may have less loyalty to the client than if they were employed directly by the institution and express disappointment with the resulting inadequate services which affect the business sectors in many regards. Most service providers may not realize the client's culture or personality, and the services delivered by them may not fit in the client's culture due to some of them only produce one set of service delivery system for all their clients in order to reduce the production costs (Siegel, 2000). On the same tradition, managers are required to regularly monitor, establish constant communication, and evaluate outsourced functions to be confident that they are beneficial to their organization. Moreover, negative attitude, resisting to new changes and morale problem are real problems that will cause ineffectiveness to the clients (Siegel 2000; Mobley and Maurer 1998).

According to Barthelemy (2003:87-89), through a survey of nearly a hundred of outsourcing efforts in Europe and United States found that one or more of seven "deadly sins" underlie most failed outsourcing efforts. These are outsourcing activities that should not be outsourced; selecting wrong service providers; writing a poor contract; overlooking personnel issue; losing control over the outsourcing activity; overlooking the hidden costs of outsourcing; and failing to plan an exit strategy. Most of the time, these outsourcing failures are rarely reported because firms are reluctant to publicize them.

In spite of its aggressive application in the international environment, the use of outsourcing in Ethiopia is at its infancy stage. Level of awareness of top level management about the concept of outsourcing, writing a poor contract and lack of competent service provider also have its contributions for poor progress in the area, (Meres 2007). To the extent, it has been dominated by non-core business functions such as maintenance and janitorial services, security services and information technology services. This is mainly due to the organizations fear of loss of confidential information and loss of control low quality of service, lack of competent service provider, low employee belongingness, loss of control over key information resources, continuous increase in price and other challenges. In addition, the organizations suspect that the external service providers are not loyal to them.

A study conducted by Commercial Bank of Ethiopia (2016) “an assessment on challenges, prospects and way forward of the outsourcing initiative” indicates that, even though the main reasons to outsource noncore business functions are to improve service quality and helps to focus on the core functions of the bank, the research finding implied that outsourcing effort doesn’t assist the CBE’s core functions as expected, and also unable to outsource others additional non-core business functions as planned, which are proposed by the Bank to be outsourced.

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

1.4 Basic Research Questions

The study was focus on investigating the effect of outsourcing non core business functions on performance of the bank. The basic research questions are:

1. What are the main reasons for outsourcing courier, security, cleaning & driving services?
2. How communities of the bank (employees and management team) affect outsourcing process?
3. How outsourcing noncore business functions of the bank affect organizational performance (in terms of customer satisfaction, service quality, effectiveness & efficiency).
4. What key benefits or competitive advantages are derived and challenges are faced after outsourcing the services?

1.5. Objectives of the Research

1.5.1 General objective

In scientific research the objective (purpose) statement indicates ‘why you want to do the study and what you intend to accomplish’ (Creswell, 2003).thus, the general objective of this thesis is to identify how outsourcing practice affects company’s performance regarding security, courier/messenger, motorist and janitorial services.

1.5.2 Specific objective

At the present time outsourcing has been emerging as center of attention for most scholars in business and economics area. This phenomenon attracts the attention of the researcher to undertake a research with the following specific objectives:

1. Identifying the reasons for outsourcing parts of its functions
2. Identifying the role of management and internal staff in the proposing outsourcing practice

3. To investigate how outsourcing noncore business functions of the bank affect organizational performance (in terms of customer satisfaction, service quality, effectiveness & efficiency).
4. To determine key benefits or competitive advantages derived and challenges faced from outsourcing non core business functions by the bank

1.6. Significance of the Study

The notion of outsourcing among the society in Ethiopia is somehow unfamiliar and undiscovered. Moreover, no formal research has been carried out to find out the country's potential in outsourcing. Therefore, the researcher believes that this research has great significance in creating awareness, about outsourcing, among the society, business people and scholars. Furthermore, this research can serve as stepping stone for other researchers in similar area. The study also helps to identify the company's performance after outsourcing, and lessons gained for future outsourcing initiatives. In addition, it provides the researcher the opportunity to gain deep knowledge in the practices of outsourcing.

1.7 Scope of the study

Although CBE has many branches, district offices and outlets throughout and outside the country, the scope of the study was limited to outsourced services in the bank particularly found in the Outsourcing Management Office (OMO), Facilities Management (FM), Human Resource Management Processes (HRMP), and four District Offices (east, west, south & north districts) with a special attention for security, messenger, motorist, janitorial services.

1.8. Limitation of the Study

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

1.9. Organization of the Study

The research paper organized into five chapters as follows.

Chapter I: The first chapter provides a general introduction, statement of the problem, the research objective, why the topic is worth to be conducted and scope/delimitation and limitation of the study.

Chapter II: The second chapter dealt with review of theoretical and empirical literature pertinent to the research.

Chapter III: The third chapter covers the research methodology (research design, source of data, sample, sample size, sampling technique, and data collection instruments and data analysis)

Chapter IV: The fourth chapter deals with data presentation, discussion and interpretation of the data.

Chapter V: The fifth chapter, which is the closing chapter devoted to summary, conclusion and recommendation based on the results of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

2.1 Definition and Types of Outsourcing

Outsourcing is a practice in which an individual or company performs tasks, provides services or manufactures products for an other company functions that could have been or is usually done in house. It is typically used by companies to save costs. With an increasingly unstable business environment, organizations are continuously looking for better ways of gaining competitive advantage. One of the strategies that firms can employ to acquire sustainable competitive advantage is outsourcing. According to (Maku & Iravo, 2013) outsourcing has been utilized for quite a long time, but much of the outsourcing until the late 1990s was focused on informational technology outsourcing. The objective then was often largely restricted to achieving operational efficiencies. Cox (2014) asserts that every firm engages in outsourcing to some extent. The decision regarding what functions to outsource and which ones to keep in-house depends on many factors from company to company such as the need to develop invest in resources, skills, and to stay abreast of to the evolving technology in any areas kept in-house.

Heshmati (2003) in his recent survey points out that there is no general definition or measurement of outsourcing, he broadly describes it as “different kinds of corporate action related to all subcontracting relationships between firms and the hiring of workers in nontraditional jobs” (p. 99). Companies must source out work because there are others who can do it cheaper, faster, and better. Ashley gave the definition of outsourcing as “the allocation of risk and responsibility for performing a function or service to another entity”. In brief, outsourcing can be defined as the process of delegation of operations or jobs to the third party, who can do it better, cheaper and faster. Depending on level of control over performance of outsourced function, outsourcing can be separated into internal and external

types. Internal outsourcing is “reallocation of functions in business system for saving control over its performance” and external outsourcing is “delegation of performance of separate or mutually related functions to external outsourcer”. For example, divisions of joint activities of external outsourcing include centers concept, cooperation, joint servicing, and participation in capital, whereas divisions of joint activities of internal outsourcing include long-term partnership, short-term partnership, and single partnerships. Depending on effective use of resources and reallocation of risk and responsibility outsourcing is divided into partial and full outsourcing types. Partial or selective outsourcing is “the delegation of certain functions or business processes to outsourcer, while set of mutually related functions are performed by company itself” and full outsourcing refers to “the delegation of separate function to outsourcing company with entrusting it with full responsibility for function’s performance”.

2.2 Arguments on Outsourcing

Ender and Mooney (1994) identified that the greatest shortcomings of outsourcing is staff retrenchment and the resulting negative impact on institutional morale. Preferably, they devised a set of guidelines for mitigating these negative impacts of outsourcing. The guidelines are: outsourcing of management personnel only, downsizing the staff by attrition, involving employees in selecting the contractor, and re-bidding the contract often.

On the other hand, the increasing use of outsourcing over the last 20 years has been fuelled by arguments from management gurus and leading academics that an organization’s competitive advantage stems from its ability to identify, concentrate on and develop its core competencies and activities, and outsource anything which is non-core (Handy, 1982; Kanter, 1989; Peters and Waterman, 1982; Prahalad and Hamel, 1990). However, there is some disagreement concerning whether outsourcing should only apply to the non-core activities an organization or if it can also include core activities. For Prahalad and Hamel (1990), core competencies and activities are the secret to an organization’s success and should not be outsourced. Gay and Essinger (2000), take a different stance, they do believe that outsourcing can embrace the contracting-out of both core and noncore activities. However, to complicate the picture, it is sometimes difficult to define what is or is not a core activity (Mitzberg et al., 1998). Nevertheless, regardless of which activities it embrace, or how these are defined, there

is a great deal of evidence to show that outsourcing is increasingly taking over from vertical integration as the preferred approach to organizing the provision of many goods, processes and services (Domberger,1998;Gay and Essinger,2000;Takac,1993).

2.3 Theories Related to Outsourcing

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

a. The resource-based view in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness. According to Perunović and Pedersen, the most prominent use of the resource-based theory in outsourcing process is the preparation phase for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. Organizations will plug gaps in resources and capabilities in the most cost-effective manner to maintain a distinctive product and its competitive advantage.

b. The essence of the core competency theory is that it should be kept in-house, but that other activities that the organization deals with, which are not counted to be core or critical to its function, should be considered for outsourcing. According to Henry “a core competence can be thought of as a cluster of attributes that an organization possesses which in turn allows it to achieve competitive advantage”. If the organization is to focus on its core competencies as the basis of its sustainable competitive advantage, then activities which do not constitute a core competence for the firm can be given to outside firms who can provide these at lower cost.

c. Transaction cost theory has been developed to facilitate an analysis of the comparative costs of planning, adapting, and monitoring task completion under alternative governance structures. The unit of analysis in transaction cost theory is a transaction, which by the words of Williamson “occurs when a goods or service is transferred across a technologically separate interface”. Decision-makers must weigh up the production and transaction costs associated with executing a transaction within their firms – insourcing, versus the production

and transaction costs associated with executing the transaction in the market – outsourcing. Organizations can choose whether to buy from the market or to develop inhouse, the decision is based on the relative cost, which is combined from the costs of production and costs of the transaction.

2.4. Advantages and Disadvantages of Outsourcing

a. Advantages of Outsourcing

The most significant advantages of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility. First, many researchers agree on the fact that by handing over noncore activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning . Second, outsourcing in general is held toward one of the main goals as cost savings. The special necessity arises when a certain resource, either human or equipment resources, is not needed full time, or the efforts to obtain the resource cannot be justified. For example, for a medium-size business keeping technical expertise and maintenance is needed occasionally. Since the cost of hiring and training an engineer who is competent in computer support is too high, it will be beneficial for the organization to outsource this task. Third, by outsourcing companies have the possibility to access to highly qualified personnel, who may not be available to the client organization and fully exploit the suppliers' investments, innovations, and specialist capabilities. Fourth, an important reason for outsourcing consideration is achievement of an improvement in performance that the outsourcer company might offer due to economies of scale. Large scale can provide a variety of functions and opportunities which will help to save the best available worker, who might not want to work in a less stimulating consumer environment. Additionally, with service providers the level of operational experience is expected to be higher, because of the greater concentration of staff on tasks as compared to internal operations. Fifth, flexibility is the key reason for outsourcing for many companies. Outsourcers' contracts and the jobs of their employees depend on the degree of flexibility to reflect changing business environments.

b. Disadvantages of Outsourcing

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

2.5 Types of Outsourcing Strategies

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

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

2.5.1 Selective and full outsourcing

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

2.5.2 Tactical and strategic outsourcing

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

relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers.

2.5.3 Transformational outsourcing

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

2.6. Strategic Assessment for Outsourcing

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

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

2.6.1. Business-Value Assessment

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

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

Executive sponsor team- a core component of conducting a business-value assessment is to have the right team in place to conduct the assessment – the executive sponsor team. It is vital that organizations have a dedicated executive level team that sponsors the outsourcing program. Strategic objectives, such as outsourcing initiatives, must be come from top echelon of a company. Top management must articulate the goals and objectives of outsourcing initiative, and communicate how the process will benefit the company Yenus et al. (2005).Additionally; executive-level teams can make several critical contributions to the strategic assessment process Power et al. (2006). The goal is to get a wide perspective from multiple disciplines and identify critical success factors and problem areas that will be the foundations for compiling a comprehensive business case for outsourcing. As stated by Power et al. (2006) the outsourcing team will be responsible for the following areas: defining and documenting key business objectives and outcomes, identifying the products and services that are candidates for outsourcing, developing an understanding of the external marketplace,

including the vendor's capabilities and how that can be used to help meet the organization's business objectives, clarifying roles and responsibilities, leading and managing change and defining the organizational design and culture that will be required to achieve its outsourcing objectives successfully (Ibid, 2006, p.43-46). This comprehensive accountability means, in effect, that the outsourcing team is responsible for creating the outsourcing business case.

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

2.6.2. Operational Assessment

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

2.6.3. Financial Assessment

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

2.6.4. Risk Assessment

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

2.7. Reasons for outsourcing

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

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

B. Focus on core functions: Successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the

flexibility to redirect and focus their resources on activities critical to their mission (Choi, 2008). Sometimes the company may outsource those functions that are core function at the moment , but which are expected to become less important in the near future due to change in the nature of the business. Brown and Wilson (2005) also support this point; the company would keep only those core functions in house when the staff can do better than the supplier. In addition, a company could even outsource a function that is considered as a key to survival if it can find a supplier that can perform the function better. In sum a company need to keep its functions in house if the functions are core functions as well as there is no supplier that can do it better than the company itself.

C. Avoid major investment: Due to lack of investment some functions in a company are not as efficient as it could be. If the company keeps this function in-house, it is forced to make a large investment for the function in order to modernize it. By outsourcing the function, such function the company permanently avoid having to make this investment (Bragg, 1998). The value of using outside provider is clear: better service for less investment of the capital and management time (Wilson and Brown, 2005).

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

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

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

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

G. Access to skills: Organization may faced with a shortage of skilled and experienced staff brought about by the change in the business operation setting , retirements, resignations, or recruitment problems. Existing staff may not always have the necessary skills to keep pace with rapidly evolving change and technology. When an organization is contemplating providing new services, outsourcing can ease the process of building the skills and resources required to respond to these new initiatives. In some cases, outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. On top of this organizations also benefit from having their staff work with the service provider's specialists (Choi, 2008).

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

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

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

2.8 Drivers of Outsourcing

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments (Bhattacharya, 2003) and also

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

2.8.1 Organizational drivers

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging emerging technologies and achieving higher stakeholder value. Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer. Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries.

2.8.2 Improvement drivers

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with

superior providers. Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement. An institution when realizes that its in-house skill-set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities.

2.8.3 Financial and cost drivers

The objectives of this initiative are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing.

Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

2.9 Summary of Major drivers for outsourcing

Chamberland, D. (2003)

1. Organizational drivers

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

2. Improvement drivers

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

3. Financial and cost drivers

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

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

2.10. Types of Business Functions those can be outsourced

The concept of outsourcing non-core functions of a business has been used in one form or the other by the companies worldwide. Divesting a business process allows a company to focus on the core functions of its enterprise and alleviates the need to build skills in areas tangible to its business goals. Outsourcing enables organizations to consistently perform the outsourced business process more effectively than any of their competitors Ghodeswar and Vaidyanathan, (2008:23-38). Identifying non-core business functions is critical in determining the area that need to be outsourced. This is most often a tough job since most business functions are interconnected very closely. The main task is to identify and separate them, which is typically done by top management Telegenisys Outsourcing Excellence (2008). A set of functions that can be outsourced is different for each company and it is determined by the specificity of its activity Borisova (2011). First of all, it is necessary to identify what processes, forming the strengths of the company, better to keep at home and further develop to increase competitiveness, and what can be done by third parties on a much higher level of quality.

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

2.11 Things to be considered for Successful Outsourcing

2.11.1 Availability of Skills Needed to Manage Outsourcing Efforts

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

2.11.2 Assessing and Selecting Competent service providers

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

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

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

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

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

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

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

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

2.11.3 Availability of Well-Formulated Contract

Outsourcing is required to comply with all federal, state, and local laws and regulations as well as an organization's own policies and procedures. Although it is easy to summarize the restrictions placed on outsourcing in once sentence, it is far more difficult defining such in terms of a contract and without proper contract management; an outsourcing initiative can turn into an ugly legal battle. Although legal action should only be taken as a last resort, it is important for an organization to be aware of the various governmental, environmental and organizational liabilities that exist. Before any outsourcing initiative can begin, contracts are generally drawn up and agreed upon by each side. The main function of the contract is to identify a specific pricing structure and service level agreement (SLA), both of which are critical to any outsourcing initiative. In addition to the SLA, a contract will identify a

governing law for the two parties in addition to establishing what regulatory laws and tax implications apply. In fact, identifying the tax implications of an outsourcing project at an early stage is crucial Thoms (2004). In the same way, Tafti, (2005:549-560) confirmed that one of the most important component of any outsourcing deal is the contract. It describes the services that a vendor is to provide, discusses financial and legal issues, and becomes the blueprint for the life of the agreement.

2.11.4 Setting Service Level Agreement (SLA)

As stated by Thoms (2004) a well-defined and constructed SLA will aptly set expectations for both sides of an outsourcing relationship while providing targets for accurately measuring performance to those objectives. There are various steps to establishing an SLA between parties. The first involves negotiation whereby both parties will agree to the terms of service. Once established and agreed upon, the various methods of payment are also identified. Of the important aspects of any SLA are the methods by which a company will evaluate the service of a vendor. In other words, did the vendor perform the service in line with the agreement? Further Thoms (2004) added that when properly chosen and implemented, the SLA metrics: First measure the right performance characteristics to ensure that the client is receiving its required level of service and the service provider is achieving an acceptable level of profitability. Second it can be easily collected with an appropriate level of detail but without costly overhead, and tie all commitments to reasonable, attainable performance levels so that "good" service can be easily differentiated from "bad" service, and finally giving the service provider a fair opportunity to satisfy its client.

2.11.5 Giving Attention to Employee Issues

The efficient management of personnel issues is crucial because employees generally view outsourcing as an underestimation of their skills. This may result in a massive exodus even before an actual outsourcing decision has been made. Secrecy in outsourcing feasibility and decision making is very difficult, and open communication is the key to managing personnel issues in outsourcing. When attempts at secrecy fail, rumors start spreading. As soon as employees know that outsourcing is under consideration, counterproductive anxiety arises and employees begin handing in their notice in anticipation of outsourcing Barthelemy (2003:87-89). Moreover, Barthelemy argues that Firms that contemplate outsourcing must face two interrelated personnel issues. First, key employees must be retained and motivated. For most activities, outsourcing does not mean transferring all the employees to the vendor. When an activity has been performed inhouse for a long period of time, firm-specific knowledge about how to run the activity smoothly has accumulated. Employees who possess this firm-specific knowledge must be identified. To keep them in-house, the management must be prepared to offer them higher salaries and benefits. A second, personnel issue is that the commitment of employees transferred to the vendor must also be secured. As a manager in charge of finance outsourcing contract put it: "Retention of knowledge and skills is a key issue. Irrespective of the profile of the service provider, the actual work is done by individuals harnessing their skills, knowledge, experience, and the technology available to them. If high staff turnover is experienced, then the quality of the work will deteriorate noticeably, particularly in specialist technical areas and analytical work." The outcome of an outsourcing effort is highly dependent on the commitment of employees who have been transferred to the vendor. Employees working in activities that do not belong to the firm's core business are often given low-priority. Once they are transferred to specialist vendors, they may be offered opportunities for better career paths in what is regarded as the vendor's core business. To many employees, vendor employment is more attractive than continued employment in an organization where the outsourced activity is viewed as a mere utility Barthelemy (2003:87-89).

2.12 Importance of Cultural Differences on Outsourcing Arrangement

Culture, as defined by the UNESCO is, “the set of distinctive spiritual, material, intellectual and emotional features of society or a social group, and that it encompasses, in addition to art and literature, lifestyles, ways of living together, value systems, traditions and beliefs”. “Interculturality” refers to the existence and equitable interaction of diverse cultures and the possibility of generating shared cultural expressions (UNESCO, 2001). Each of us has his own “mental programs”. The source of mental programs’ lies within the social environment in which the person grew up and collected his life experiences. It starts with the family, continues with the neighborhood, school, in youth groups, workplace and in the living community. That is the culture - mind’s “mental software” (Hofstede, 2001). Perceptions of customers and providers were different, however, all of them agreed, that these areas are an “issue areas” and have to be improved. Cultural differences make the activities difficult like: communicating effectively, managing performance, generating innovation, identifying, raising and resolving issues, establishing an effective governance structure, managing commitments, creating buy-in with stakeholders, managing scope, making joint decisions (Vantage study, 2009). And actually according to Vantage study, providers and customers jointly agreed, that the outcomes in reality of the differences are: time wasted on conflict and revisiting decisions, service complaints from end users, scope overruns, poor quality, missed innovation, missed deadlines, low staff morale, lost savings. According to recent surveys, cultural differences are one of the biggest reasons why offshore outsourcing deals fail or run into problems. Culture can be defined as an integrated pattern of human knowledge, belief, behavior, values and practices that characterize a country, region, religion or any other institution or group. Cultural differences cause issues in effective communication, performance management, and generation of innovations, identifying, raising and resolving issues, (Goda, K. and Vytutas, B., 2010).

Selecting outsourced teams that have a behavioral alignment with the organization's culture will produce greater success. However, if taken too far, hiring everyone who acts, works and thinks alike can stagnate a company's development efforts. If all developers are from the same background (gender, education, nationality, professional experience, etc.) the team can

miss new perspectives and ideas and fail to challenge flawed assumptions, all of which are key to innovation.

2.13 Empirical Literature Review

Akwansi A. (2012) conducted an empirical study on effect of outsourcing on organizational performance the case of selected financial institutions in Ghana. The study found that in the period of outsourcing the performance of the service providers is not measured for that most of the outsourcers do not have a built-in performance management mechanism. The coordination of in-house tasks and outsourced activities is not customary in most areas. The institutions mostly oversight and control what has been done by service providers or suppliers. In most cases no internal system is established in order to do things in a well coordinated as well as in a professional manner. In outsourcing practice of the institutions, preparation and planning in outsourcing activities is not developed. In addition, no market survey is conducted to assess what the market provides.

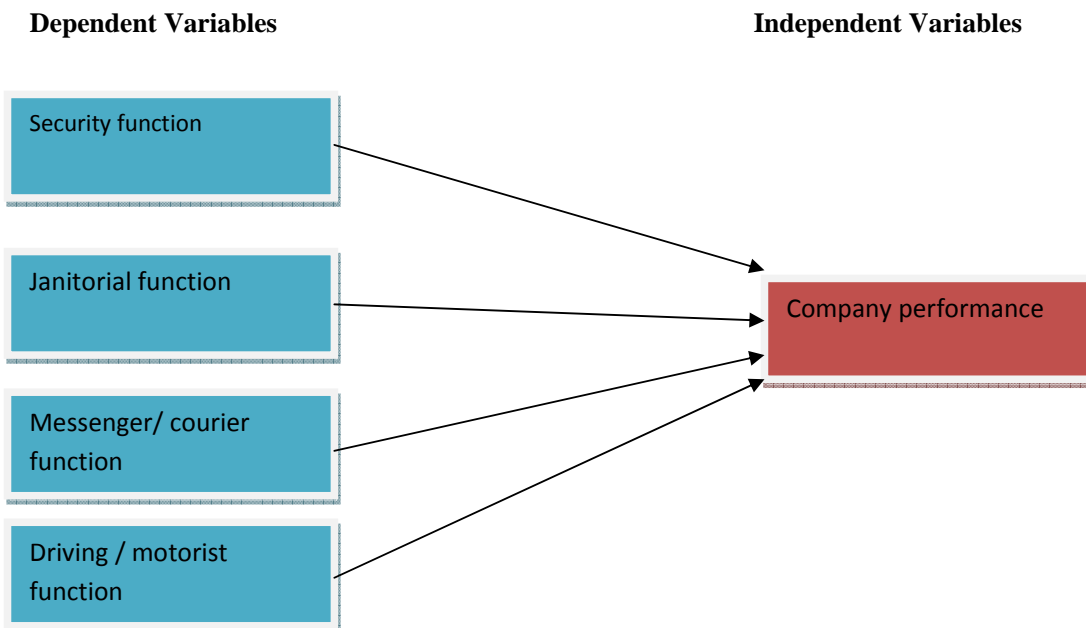
The study conducted by Charity N. (2014) on the effect of strategic outsourcing on organizational performance a case study on Bidco Africa Limited indicated that Even though the implementation process shows partially good results while in part it creates negative image for outsourcing. The achievement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

According to a research conducted by Meresa M. (2007) on outsourcing in Ethiopia revealed that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, Accounting and Administration outsourcing service providers will face great challenges from Ethiopian organization to deliver their services. This is mainly due to the organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

2.14 Conceptual Framework

According to the results of the literature review, a conceptual model for the study was adopted and modified. This model consisted of the following components of dependent and independent variables. In this study, outsourcing noncore business functions will treat as the independent variable while organizational performance, cost reduction, employee competence, innovativeness and focus on core competencies as the dependent variables. This is shown in Figure 2.1.

Figure 2.1: conceptual framework



Source: Adopted and modified from Masinga E, & Kiarie D. (2014)

CHAPTER THREE

RESEARCH METHODOLOGY

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

3.1. Description of the study area

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

3.2 Research Design

The study adopts descriptive research design. It determines and reports the way things are in describing the possible behavior, attitude, values and characteristics of the respondents while using questionnaires as the appropriate tool. Moreover, correlational research design was used in order to examine the relationship between outsourcing noncore business function and organizational performance. Using qualitative data only from few subjects would be inappropriate and may lead to subjective interpretation of the results. Thus, both qualitative and quantitative (mixed) research approaches was used in this research so that relevant and accurate information obtained. The purpose of qualitative approach is to analyze open ended questions and assist in explaining and interpreting the finding of quantitative study.

Dorneyi (2007) and Creswell (2009) indicate that in mixed methods study, it is common and even advisable to use an embedded model of data collection where one form of data (either qualitative or quantitative) predominates. According to these authors, this strategy enables researchers to make their study more focused and manageable. Hence, by employing this design, interview, questionnaires and document reviews are used to elicit the data required for the study. Interview was conducted to get in-depth information from manager-OMO. Questionnaires also distributed to collect information from professional & outsourced employees. On the other hand, it is used to triangulate and crosscheck the results of interview. Moreover, document reviews were made to check whether there are gaps between what is generally stipulated about research and the actual practice of outsourcing in the bank. Since the study draw both on qualitative and quantitative data, the analysis of these data employed qualitative and quantitative procedures. The qualitative data which provide the dominant base for the study and collected from interview, and reviews of some relevant documents of the bank was analyzed thematically after a systematic coding of information. On the other hand, the quantitative information gathered through questionnaires was analyzed using descriptive statistics then presented in the tables.

3.3 Sources of Data and collection procedure

The Researcher employed both primary and secondary data from multiple sources in order to get different outlooks and facts on the outsourcing practice of the Bank.

3.3.1 Primary data

The researcher used both interview and questionnaires. An in-depth interview was conduct to the manager-OMO, who is considered on the basis of his positions in the bank and his ability to provide specific information on the actual performance of outsourcing providers and the respective obstacles involved. In addition to this data was collected by distributing structured questionnaires i.e. open-ended and closed-ended questionnaires to employees who have an exposure to outsourcing functions. The questionnaire a likert scale ranking (5-point likert

scale) where 5 stands for strongly agree 4 stands for agree 3 stands for neutral 2 stands for disagree and 1 stands for strongly disagree.

3.3.2 Secondary data

Secondary data was collected from organization reports, relevant policy documents and manuals, reputable journals, and magazines. When necessary, materials was downloaded from most referred web sites.

3.4 Target Population

According to Zikmund (2010), a population is any complete group that shares some set of characteristic. Target population is the intended group for the study. The target populations of the study were the managers and employees of the selected districts and departments of program offices in the bank. The target population of this research refers to be 1323 employees who were working in three departments and four district offices.

3.5 Sampling frame

Since the study was concerned with Commercial bank of Ethiopia, the participants of the study were employees of this bank. The study focus on the population who are currently working selected departments and districts of Commercial Bank of Ethiopia found in Addis Ababa city. Currently Commercial Bank of Ethiopia has more than 1140 branches throughout the country and has more than 29000 employees (Annual Report of June, 2016). The sample frame is a population list from which the sample will draw. To make the study manageable, the sample was drawn from the three departments and four district offices (FMP, HRMP, OMO and the four district offices i.e. North, South, And East and West districts) because those departments have direct relationship with the study area. Annual report of Commercial Bank of Ethiopia indicates that FMP, HRMP, OMO and the four district offices have a total of 2823 administrative, outsourced staffs and professional employees. From those employees 1500 have less than one year work experience, they are daily engaged in routine transactions and they do not have enough knowledge about the subject of the study so they are excluded

from the study. Therefore, this study had targeted the total target population size of 1323 Administrative, Professional and outsourced employees who have served for one year and above.

3.6 Sample size

The study will apply both quota and stratified sampling random method. To this effect, the OMO, FMPO, HRMP, and four Districts Offices which are under Addis Ababa area were selected as a target area of the study. After excluding the employees which have less than one year work experiences, the populations of these CBE's organs are 1323. The sample size was determined using the **Slovin's formula (Serakan, 2012-52)**:

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

Where:

_ N is the population size

_ n is the sample size

_ e is the margin of error

Applying 7% error margin, the sample size for the study were 177 members of the target Population. Therefore, the study's sample size of 177 is fair enough to represent the target population of the study area.

3.7 Sampling method

The study used both quota and stratified sampling method. The quota sampling was used to determine the percentage taken from each department, and then the participants were selected using stratified sampling method. Stratified sampling used to reduce the personal bias in conducting sampling selections. So, the researcher used both quota and stratified sampling. The quota sampling is used to determine the percentage taken from different organs of the Bank, and then the participants will be selected using stratified sampling method. Stratified

sampling is used to reduce the personal bias in conducting sampling selections. Accordingly, from the sample size of 177 employees, questionnaires were distributed to the randomly selected administrative, professional and outsourced employees of (5) for OMO, (34) for the FMP, (65) for the HRMP and (73) for North, South, East and west district offices. The researcher believes that the reason for division on this ration is based on the departments and district offices interactions with outsourcing process and the main areas that have many outsourced employees that needs adequate representation in the sample. The total number of employees existed in the departments and district offices also another reason for the is allotment. Thus, these staffs are in a position to provide information necessary for measuring outsourcing practices. By applying the following formula:

$$N_h = (N_h/N) * n$$

Where, n_h is the sample size of stratum h , N_h is the population size of stratum h , N is total population size and n is total sample size.

3.8 Data analysis

Data analysis means the categorizing, ordering and summarizing of data to get answers to research questions (Delport, CSL, 2005). As stated by Cramer and Howitt (2004), descriptive data analysis emphasizes on maximizing the gain from the data by making clearer the process of describing and analyzing the data gathered. Thus, after proper editing, the data was coded and entered to the software then it will make ready for analysis. For the purpose of achieving the objectives of the study, the collected data was processed and analyzed with inferential and descriptive statistics using Statistical Package for Social Studies (SPSS) of 20th version. This technique is selected because it helps to summarize the sample, provides and allows describing the characteristics of the data collected and it helps to thoroughly analyze and interpret the questions one by one in order to reach meaningful results. Throughout the analyzing process, percentages and mean are used. In doing so tables was used to present and made easily understandable the findings in order to arrive at meaningful results.

The descriptive statistics analysis of this section is conducted with mean and percentage values of the data collected. Frequency distributions of all respondents provided in the

questionnaires was count and computed. Data collected from interview discussion was organized as per the questionnaires designed and included in the data discussion and interpretation part of the study. Finally, conclusions and recommendations was draw based on the data analysis and interpretation.

3.9 Data Quality Assurance

3.9.1 Validity

The questionnaire was developed with due care containing multiple questions, and discussion questions. Maximum effort was applied to create logical link between the items in the questionnaire and the research questions as well as the objectives of the study. Therefore, in order to ensure validity of the items incorporated in the instrument professionals from Outsourcing Management Office, Facilities Management Process, Human Resource management Process and District Offices examined the instrument before it was distributed. Accordingly, based on their comment the questionnaires were distributed to the sample population.

3.9.2. Reliability

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

Cronbach alpha	Number of items
.882	72

Table 3.1 Reliability statistics of the instrument

As indicated in the Table 3.1, the Cronbach Alpha test implies that the instrument's internal consistency as 88.2% which is above the acceptable percentage.

3.10 Ethical Consideration

Whenever the researcher conduct on/with people, the well-being of research participants must be given top priority. The research question is always of secondary importance. This means that if a choice must be made between doing harm to a participant and doing harm to the research, it is the research that is sacrificed. The interview was conducted and questionnaires were distributed with full knowledge of the management. Ethical issues in this research concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using secured data for academic purpose only and ensuring that the respondents personality will not exploited.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

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

4.2. Response Rate

As shown in Table 4.1. Below, out of 177 questionnaires distributed to the two sampled strata, 152 responses were returned. From the total returned responses, 9 of them were incomplete. Thus, only the 143 complete responses are employed in the analysis, which represents the response rate of 81% ($143/177=.8079$).

Table 4.1. Response Rate of Respondents

No.	Strata	Sample size	Response			Response rate
			Returned	Completed	Incomplete	
1	Outsourcing management office	5	5	5	-	100
2	Human resource management office	62	57	55	2	88.7
3	Facility management office	26	16	12	4	61.5
4	District offices	84	74	71	3	84.5
Total		177	152	143	9	80.79

Source: survey data, 2017

4.3. Demographic Characteristics of Respondents

The first part of the questionnaire consists of the demographic information of the participants. This part of the questionnaire requested a limited amount of information related to personal

and professional characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in Table 4.2. These variables include age, gender, educational level, current position and work experience of respondents.

Table 4.2 demographic characteristics of the respondents

Respondent profile	Choice	Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	74	51.7	51.7	51.7
	Female	69	48.3	48.3	100.0
	Total	143	100.0	100.0	
Age	18-30	46	32.2	32.2	32.2
	31-40	44	30.8	30.8	62.9
	41-50	33	23.0	23.0	86.0
	above 50	20	14.0	14.0	100.0
	Total	143	100.0	100.0	
Educational status	< diploma	1	.7	.7	.7
	Diploma	15	10.5	10.5	11.2
	first degree	113	79.0	79.0	90.2
	> first degree	14	9.8	9.8	100.0
	Total	143	100.0	100.0	
Service year	<= 5 years	45	31.5	31.5	31.5
	6-10 years	6	4.2	4.2	35.7
	11-15 years	47	32.9	32.9	68.5
	>= 16 years	45	31.5	31.5	100.0
	Total	143	100.0	100.0	
	Total	143	100.0	100.0	
Current professional status	Managerial	13	9.1	9.1	9.1
	Professional	44	30.8	30.8	39.9
	Clerical	80	55.9	55.9	95.8
	Other	6	4.2	4.2	100.0
	Total	143	100.0	100.0	

Source: survey data, 2017

Out of 143 (100%) respondents, 74 (51.7%) were males where as the rest 69(48.3%) were females. This implies that sex ratio of male and female fairly similar. Regard to the age structure 46 (32.2%) of respondents were the age group of 18-30 years. 44 (30.8%) of respondents were between the age group of 31-40 years. 33 (23.1%) of respondents were aged between 41-50. The rest 20 (14%) were above 51 years. This implies that about 90 (63%) of the respondents are below 41 years of age. The Bank is said to be relatively filled by youngsters. The Table also demonstrates academic qualification of the respondents. As indicated in the Table, 113 (79%) of the total respondents are of first degree holder followed by diploma holders 15 (10.5%). The remaining 14 (9.8%) of the respondents and 1(0.7%) of the respondent are graduated by masters and has less than diploma respectively. This implies that the Bank has fairly educated employees. As to years of service in the CBE, 45(31.5%) of the total respondents have service year of less than or equal to 5 years, 6(4.2%) and 47(32.9%) have service years of 6-10 and 11-15 service years respectively. The remaining 45(31.5%) of the respondents have greater than 15 years of service. This implies that 98(68.6%) of the respondents have served less than 10 years.

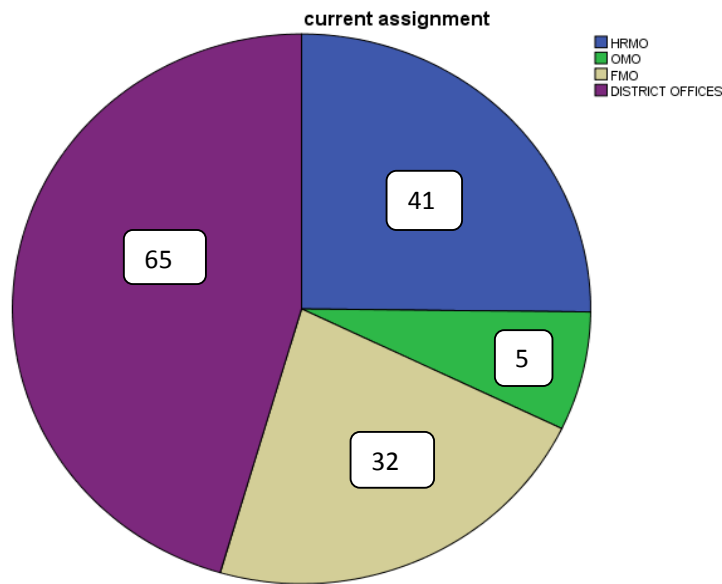


Figure 4.1 current place of assignment of respondents

Generally, respondents' current place of assignment is categorized in to four namely, HRM Process, Outsourcing Management Office, Facilities Management process and Districts offices. As revealed in the figure 4.1above, respondents under district offices constituted about 65(45.5%) of the total respondents. The next highest group is found in Human Resource Management Processes, Facilities Management office and outsourcing management office which constituted, 41(28.7%), 32 (22.4%) and 5(3.5%) of the respondents respectively. This indicates that the respondents fairly represented the CBE's organs in the Addis Ababa area, those have direct relationship with the outsourcing arrangement.

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

No	Reasons for outsourcing noncore business functions	N=143	Response in %					Mean
			Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
1	To reduce cost	N=143	11	7	22	55	48	3.85
2	To improve service quality and customer satisfaction	N=143	4	5	31	61	43	3.92
3	To spent more time on strategic issues	N=143	2	21	40	52	28	3.58
4	To focus on core functions	N=143	3	10	14	68	48	4.03
5	To improve flexibility	N=143	0	17	35	54	37	3.78
6	To assist growth	N=143	13	29	54	35	12	3.03
7	To access to new skills	N=143	21	49	49	22	2	2.55

Source:survey data,2017

The study sought to first ascertain the main forces driving the company to incorporate outsourcing in its corporate strategy. The respondents were asked to, on a scale of 1 to 5; rank the reasons why their company outsources. The responses were analyzed using descriptive statistics and classified into seven categories. Table 4.3 above summarizes the findings with regards to the stated reasons as driving forces for outsourcing strategy. From Table 4.3 on average, the respondents agreed that to focus on core functions was a major driver for

outsourcing non core business functions in the company (mean = 4.03). The respondents also stated that the company uses outsourcing as a strategic tool to improve service quality and customer satisfaction (mean = 3.92). According to the respondent, the third main reason to outsource non core business functions of the bank was to reduce cost (mean = 3.85). Therefore, the respondents placed focus on core functions at the top of the drivers for outsourcing strategy. To improve flexibility, to spent more time on strategic issues, to assist economic growth and access to new skills takes the next reasons with a mean of (3.78,3.58,3.03 & 2.55) respectively to outsource non core business functions of the bank.

Table 4.4 Summary of How Employees and Top Management affects Outsourcing Non core Business functions of the Bank

Item		Frequency and percentage n (%)					Mean
		Total					
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Top management has develop skills how to manage outsourcing efforts	N=143	16	38	23	38	28	3.17
	%	11.2	26.6	16.1	26.6	19.6	
Management and staffs involved in indentifying activities for outsourcing arrangement	N=143	12	24	31	41	35	3.44
	%	8.4	16.8	21.7	28.7	24.5	
Internal stakeholder give support in the outsourcing process	N= 143	22	23	37	45	16	3.07
	%	15.4	16.1	25.9	31.5	11.2	
All activities clearly identified by top management	N=143	23	13	12	60	31	3.34
	%	16.1	9.1	8.4	42	21.7	
Top management identify and access to suitable vendor	N=143	22	44	26	38	13	3.01
	%	15.4	30.8	18.2	26.6	9.1	
Top management are keen to anticipate the end of an outsourcing contract	N=143	18	55	22	28	20	3.43
	%	12.6	10.5	16.1	43.4	17.5	
Top management develops strategy of the outsourced activity	N=143	15	53	7	54	14	2.99
	%	10.5	37.1	4.8	37.8	9.8	

Top management able to set well formulated contract and service level agreement	N=143	14	89	15	18	7	2.41
	%	9.8	62.2	10.5	12.6	4.9	
Activities those are outsourced currently are best performed by the service provides internally performed	N=143	29	62	22	10	18	2.48
	%	20.3	43.4	15.4	7	12.6	

Source:survey data,2017

About 49.2% of the respondents confirmed that when items are proposed for outsourcing arrangement top management has develop skills how to manage outsourcing efforts. Specifically, 26.6% agreed and 19.6% even strongly agreed on this aspect. While, 26.6% disagreed and 11.2% strongly disagreed. The remaining 16.1% were neutral. Moreover, the mean of the distribution of response was found to be 3.17, which was close to the value of 'Neutral'. Therefore, it can be concluded that during activities are identified for outsourcing arrangement top management's skills how to manage outsourcing efforts is not at the required level.

The second question that respondents were asked was Management and staffs involved in indentifying activities for outsourcing arrangement and about half of the respondents, 53.2% responded positively with a mean score of 3.44 which approaches to the value of 'Neutral'. More specifically, 28.7% of the respondents agreed and 24.5% even strongly agreed with this aspect. On the other hand, 24% and 12% of the respondents disagreed and strongly disagreed on this aspect respectively. The remaining 31% had preferred reservation. In this regard, it can be concluded that the outsourcing effort of the Bank has slight support from top management and internal staff.

Related to the next item that is about the role of internal stakeholder in giving support in the outsourcing process, about 42.7 % of the respondent felt that internal stakeholder gives support in the outsourcing process while 25.9% of the respondents prefer to reserve on it. On the other hand 16.1% disagree and 15.4% strongly disagree. The mean score which is (3.07) with value of near to 'Neutral' confirms that internal stakeholder do not support outsourcing practice of the bank as expected.

Table 4.4 indicated that 66.4% of the respondents confirmed that activities are clearly identified by top management those can be best performed by service provider. Specifically, 44.7% of the respondents agreed and 21.7% even strongly agreed. On the other hand 9.1% and 16.1% of the respondents disagreed and strongly disagreed with this aspect respectively.

The remaining 8.4% were neutral. Therefore, in some extent, activities are clearly identified by the Bank when proposed for outsourcing.

Concerning top management's role in identifying and access to suitable vendor, most of the respondents 46.2% were in disagreement level (30.8% disagree & 15.4% strongly disagree). On the other hand 35.7% (26.6% agree 9.1% strongly agree) that plays a great role in identifying suitable vendors. The rest 18.2% of them were remain undecided. From this it can be inferred that the management is unable to identify and access to suitable vendor that can help the organization to deliver quality service, increase customers' satisfaction, improve its competitiveness and efficiency.

As shown in the same table above, 60.9% of the respondents agreed that top management are eager to anticipate the end of an outsourcing contract with specific indication of (43.4% agree & 17.5 strongly agree). On the other hand 23.1% of respondents (10.5 disagree & 12.6% strongly disagree) felt that top management is not eager to predict the final result of outsourcing contract. The remaining 16.1% responded that they were undecided whether top management keen to anticipate the end of outsourcing.

In sum, 47.6% of the respondent disagreed with regard to top management develops strategy of the outsourced activities. The remaining 47.6% were in agreement level and 4.8% of them remain undecided. This indicates that majority of employees were confident that the bank has well formulated strategy on outsourcing practice.

Regards to availability of well formulated contract, majority of the respondent about 72% disagreed that top management is able to formulate well formulated contract specifically, (9.8% strongly disagree & 62.2% disagree), while 17.5% of the respondent believes that there is good contract. The remaining 10.5% of the respondent preferred to be neutral. Moreover, the mean score value of 2.41 which is closed to 'Disagree' confirms that there is no strong binding contract between the bank and service providers.

Table 4.5 Summary of How Outsourcing Functions Affect Organizational Performance

Item	Frequency and percentage n (%)					Mean	
	Total						
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Customer satisfaction increased after outsourcing non core business functions of the bank	N=143	38	36	26	34	9	2.58
	%	26.6	25.2	18.2	23.8	6.3	
The bank has able to reduce its operating cost related to non core business functions	N=143	24	21	21	54	23	3.22
	%	16.8	14.7	14.7	37.8	16.1	
Outsourced staffs are less committed to carry out responsibility	N=143	38	37	23	32	13	2.62
	%	26.6	25.9	16.1	22.4	9.1	
After outsourcing well being of the customers, staff and property of CBE well secured	N=143	25	20	43	34	21	3.04
	%	17.5	14	30.1	23.8	14.7	
The existing outsourced services helped the bank and its customer to feel confident about its quality	N=143	17	81	25	13	7	2.38
	%	11.9	56.6	17.5	9.1	4.9	
Outsourcing non core business functions increase competitiveness of the bank	N=143	17	70	33	14	9	2.50
	%	11.9	49	23.1	9.8	6.3	
Better committed and loyal staffs are provided	N=143	9	91	8	21	14	2.58
	%	6.3	63.6	5.6	14.7	9.8	
Resolving ability for customers problem increased	N=143	38	60	25	14	6	2.23
	%	26.6	42.0	17.5	9.8	4.2	
Organizational performance increased after outsourcing noncore business functions	N=143	62	30	6	1	17	2.01
	%	43.4	21.0	4.2	.7	11.9	

Source:survey data,2017

This section has 8 questions that try to determine how outsourcing noncore business functions affect organizational performance in terms of (customer satisfaction, service quality, effectiveness & efficiency).

According to the data presented on Table 4.5, 51.8% of the respondents disagreed and strongly disagreed on the issues, 'Customer satisfaction increased after outsourcing non core business functions of the bank'. 30.1% of the respondents were agreed and strongly agreed on that outsourcing of non core business functions of the bank helped to improve its customer satisfaction. On the other hand, the remaining 18.2% of the respondent were undecided to the raised question. Moreover, the mean score value of 2.58 implied that outsourcing of non core business functions of the bank did not help to improve customer satisfaction.

About 53.9% with (37.8% strongly agree and 16.1% agree) of the respondent believes that the bank has able to reduce its operating cost related to non core business functions and 31.5% with (16.8% strongly disagree & 14.7% disagree) of the respondent were on disagreement level related to the role of outsourcing non core business functions on reducing operating cost. While the remaining 14.7% of the respondent were neutral whether it has impacted the operating cost.

Regard to outsourced staff commitment to carry out their responsibilities, 52.5% of the respondent refutes that question stating 'Outsourced staffs are less committed to carry out their responsibilities'. On the other hand, 32.5% of the respondent thought that outsourcing staffs are not committed to perform their responsibilities and the remaining 16.1% of respondents were neutral. The mean score value of 2.62 implies that still the bank is unable to obtain committed staffs to perform their responsibilities.

Respondents who believes that after outsourcing, well being of the customers, staff and property of CBE were well secured were about 38.5% and contrary to this 31.5% of the respondents were in disagreement level. The remaining 30.1% of the respondents were undecided on this issue.

About 68.5% with (11.9% strongly disagree & 56.7% disagree) of the respondents were disagreed that the issue of the existing outsourced services helped the bank and its customer to feel confident about its quality. While 14% specifically, (9.1% agree & 4.9% strongly agree) of the respondents were agreed that service quality has increased after outsourcing non core business functions and the remaining 17.5% of the respondent were neutral on this issue.

The mean score value of 2.38 which is closer to 'Disagree' indicates that outsourcing noncore business function did not bring the expected service quality.

Generally, 16.1% of the respondents agreed on outsourcing non core business functions increase competitiveness of the bank while majority of the respondents (60.6%) were in disagreement with this issue. The Remaining 23.1% was undecided on this issue. The mean score value of 2.50 indicates that outsourcing non core business functions of the bank did not increase its competitiveness.

Majority of the respondents confirmed that outsourcing non core business functions did not helped the bank to get loyal and committed staffs. About 63.6% of the respondents disagreed with obtaining loyal and committed staffs and 6.3% even strongly disagreed. This constituted 69.6% of the respondents were disagreed. The remaining 5.6% of the respondents were neutral while only 14.7% agreed and 9.8% strongly agreed on this issue. The mean score of the distribution was also found to be 2.58, (See Table 4-5). From this, it can be concluded that the service provider has no additional capability to supply loyal and committed employee that can help the bank to increase its performance.

Respondents were asked about problem resolving ability for customers' hitch after outsourcing of non core business functions. Accordingly, the researcher has found from the study that a mean score of 2.23. This implies that outsourced staffs are not experienced in understanding customers' interest. The percentage result revealed that 26.6% strongly disagreed, 42% disagreed, 17.5% neutral 9.8% agreed and 4.2% strongly agreed. Moreover, officials of both the Bank and its service providers confirmed that the service provider lacks capability to provide experienced staffs.

Table 4.6 Summary of Benefits Gained After Outsourcing Messenger Service

Item	Frequency and percentage n (%)					Mean	
	Total						
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Outsourcing messenger save time and cost	N=143	11	13	5	108	6	3.59
	%	7.7	9.1	3.5	75.5	4.2	
Outsourcing messenger allow to focus on core function	N=143	8	13	2	118	2	3.65
	%	5.6	9.1	1.4	82.5	1.4	
Outsourcing messenger reduce risk	N=143	18	20	23	69	13	3.27
	%	12.6	14.0	16.1	48.3	9.1	
Outsourcing messenger reduce budget allocation	N=143	11	7	5	119	1	3.64
	%	7.7	4.9	3.5	83.2	0.7	
Outsourcing messenger increase flexibility	N=143	18	29	23	59	14	3.15
	%	12.6	20.3	16.1	41.3	9.8	
Outsourcing messenger help to reduce service delivery time	N=143	21	26	17	68	11	3.38
	%	14.7	18.2	11.9	47.6	7.7	
Outsourcing messengers improve customers satisfaction	N=143	22	23	21	63	14	3.17
	%	15.4	16.1	14.7	44.1	9.8	
Outsourcing courier service help to improve organization's performance	N=143	24	10	23	53	33	3.43
	%	16.8	7.0	16.1	37.1	23.1	

Source:survey data,2017

Table 4-6 above shows that benefits achieved from outsourcing messenger. As it is indicated, the respondents agreed on the three successes from the seven lists of the benefits or successes stated in the Table. These are: Outsourcing messengers allow focusing on core function, reducing budget allocation and save time and cost. Accordingly, the mean score of 3.65, 3.64 and 3.59 were registered respectively. On the other hand respondents were neutral regarding on the issue of Outsourcing messenger reduce risk, increase flexibility, help to reduce service delivery time, improve customer satisfaction and Outsourcing courier service improve

organization's performance. The study result revealed that with the mean score of 3.27, 3.15, 3.38, 3.17 and 3.43 were registered respectively. Therefore, it can be concluded that by outsourcing messengers majority of the benefits are achieved.

Table 4.7 Summary of Benefits Gained After Outsourcing Driving Service

Item	Frequency and percentage n (%)					Mean	
	Total						
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Outsourcing driving service save time and cost	N=143	7	8	8	120		3.80
	%	4.9	5.6	5.6	83.9		
Outsourcing driving service allow to focus on core function	N=143	8	5	2	123		3.78
	%	5.6	3.5	1.4	86		
Outsourcing driving service improve service quality	N=143	13	67	16	32	15	2.78
	%	9.1	46.9	11.2	22.4	10.5	
Outsourcing driving service reduce risk	N=143	24	87	12	16	4	2.22
	%	16.8	60.8	8.4	11.2	2.8	
Outsourcing driving service increase flexibility	N=143	24	57	20	26	16	2.67
	%	16.8	39.9	14.0	18.2	11.2	
Outsourcing driving service help to reduce service delivery time	N=143	11	21	17	71	23	3.52
	%	7.7	14.7	11.9	49.7	16.1	
Outsourcing driving service improve customers satisfaction	N=143	22	47	25	28	21	2.85
	%	15.4	32.9	17.5	19.6	14.7	
Outsourcing driving service help to improve organization's performance	N=143	32	29	22	39	21	2.92
	%	22.4	20.3	15.4	27.3	14.7	

Source: survey data, 2017

In assessing the successes that are achieved by outsourcing the driving functions of the Bank, employees were asked about various benefits that are product of successful outsourcing arrangement. Accordingly, the mean result of the study 3.80, 3.78 and 3.52 revealed that

respondents agreed that outsourcing enables the Bank to save time and cost, allow focusing on core function, and help to reduce service delivery time respectively. However, outsourcing the driving service unable to reduce risk, increase flexibility, improve service quality, Outsourcing driving service improve organization’s performance and improve customer satisfaction. The mean score of the respondents revealed that 2.22, 2.67, 2.78, 2.29 and 2.85 were registered respectively. This shows that the above benefits of outsourcing or positive outcome are not achieved in the Bank.

Table 4.8 Summary of Benefits Gained After Outsourcing Cleaning Service

Item		Frequency and percentage n (%)					Mean
		Total					
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Outsourcing cleaning service save time and cost	N=143	9	12	10	98	14	3.67
	%	6.3	8.4	7.0	68.5	9.8	
Outsourcing cleaning service allow to focus on core function	N=143	10	8	11	97	17	3.72
	%	7.8	5.6	7.7	67.8	11.9	
Outsourcing cleaning service improve service quality	N=143	12	4	12	101	14	3.71
	%	8.4	2.8	8.4	70.6	9.8	
Outsourcing cleaning service reduce risk	N=143	23	30	21	51	18	3.08
	%	16.1	21.0	14.7	35.7	12.6	
Outsourcing cleaning service increase flexibility	N=143	18	32	28	37	28	3.17
	%	12.6	22.4	19.6	25.9	19.6	
Outsourcing cleaning service improve customer satisfaction (internal customer)	N=143	24	44	31	33	11	2.74
	%	16.8	30.8	21.7	23.1	7.7	
Outsourcing cleaning service help to improve organization’s performance	N=143	19	5	19	67	33	3.63
	%	13.3	3.5	13.3	46.9	23.1	

Source: survey data, 2017

As indicated in the above Table 4-8 respondents were asked about successes that are achieved by outsourcing cleaning service of the Bank. Accordingly, majority of the respondents agreed

that the outsourcing cleaning service helped the Bank to focus on its core business functions, improve service quality and save time & cost and help to improve organization's performance. Consequently, mean score of 3.72, 3.71, 3.67 and 3.63 were registered respectively. On the other hand, as indicated in the above Table, respondents replied for the cleaning service improve customer satisfaction, reduce risk and increase flexibility of cleaning services were neutral. With the mean score of 2.74, 3.08 and 3.17 were registered respectively. From this, it is possible to infer that the cleaning service provider has been providing the desired quality of cleaning services for the bank. Further, administrative burdens of the top decision makers of the bank were reduced. Hence, it has facilitated the way for the bank to concentrate on its core businesses.

Table 4.9 Summary of Benefits Gained After Outsourcing Security services

Item		Frequency and percentage n (%)					Mean
		Total					
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Outsourcing security service save time and cost	N=143	4	11	11	107	10	3.76
	%	2.8	7.7	7.7	74.8	7.0	
Outsourcing security service allow to focus on core function	N=143	8	12	7	113	3	3.64
	%	5.6	8.4	4.9	79.0	2.1	
Outsourcing security service improve service quality	N=143	15	71	21	28	8	2.60
	%	10.5	49.7	14.7	19.6	5.6	
Outsourcing security service reduce risk	N=143	14	102	1	21	5	2.31
	%	9.8	71.3	0.7	14.7	3.5	
Outsourcing security service increase flexibility	N=143	13	44	36	33	17	2.98
	%	9.1	30.8	25.2	23.1	11.9	
Outsourcing security service help to improve organization's performance	N=143	34	28	20	41	20	2.90
	%	23.8	19.6	14.0	28.6	14.0	

Source: survey data, 2017

As exhibited in Table 4-9 above respondents were asked about successes that are achieved by outsourcing security function (guard) of the Bank. Accordingly, majority of the respondents agreed that the outsourcing strategy of the bank helps to save time and cost and helps to focus on its core business functions of the bank with a mean score of 3.76 and, 3.64 were registered respectively. On the other hand, majority of the respondents confirmed that the existing security service was incapable to reduce risk, improve service quality and increase flexibility and improve organization's performance, with a mean score of 2.31, 2.60, 2.98 and 2.90 respectively. From this someone can understand that the Bank is unable to acquire both trained and experienced security staffs and unable to get better committed and loyal security staffs.

As indicated in Table 4-10 below, to assess the challenges that are faced due to outsourcing the messenger's service of the Bank, five items were incorporated. These problems are the messengers lack organizational commitment and citizenship, has ethical problem, handle materials poorly, problem of controlling messengers during working hours and are not confidential. Accordingly, the mean score of 3.15, 3.03, 3.03, 3.10 and 3.20 were registered respectively (See the Table 4-10 below). Thus, the results of those respondents were neutral in this regard. On the other hand the interview conducted with the manager of the OMO of the Bank revealed that there is no as such serious challenges are observed due to outsourcing the messenger service of the Bank. Similarly, the discussion part of the questionnaire confirmed the manager's view. Therefore, we can infer that due to the outsourcing of messenger service of the Bank the under listed problems were yet not materialized.

Table 4.10 Summary of Challenges Faced after Outsourcing Messengers

Item	Frequency and percentage n (%)					Mean	
	Total						
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Messengers lack organizational commitment and citizenship	N=143	12	46	15	49	21	3.15
	%	8.4	32.2	10.5	34.3	14.7	
Messengers has ethical problem	N=143	19	45	13	45	21	3.03
	%	13.3	31.5	9.1	31.5	14.3	
Messengers handle materials poorly	N=143	15	51	9	50	18	3.03
	%	10.5	35.7	6.3	35.0	12.6	
There is problem of controlling messengers during working hours	N=143	18	43	10	51	21	3.10
	%	12.6	30.1	7.0	35.7	14.7	
Messengers are not confidential	N=143	16	42	7	54	24	3.20
	%	11.2	29.4	4.9	37.8	16.8	

Source: survey data, 2017

Table 4-11 below describes 72.7% of the respondents disagreed that the issue of outsourcing driving staffs lack organizational commitment and citizenship. This indicates that outsourcing driving services staffs are committed to their responsibilities. Only 9.8% of the respondents were felt that those staffs are not committed and the remaining 17.5% of the respondents prefer neutral. On the other hand, 45.8%, 47.6%, 50.4% and 54.6% of the respondents agreed that outsourcing driving staffs has ethical problems; handle materials poorly, unable to control them during working hours, responsible for theft of vehicles parts and inexperienced & incompetent respectively. From this we can infer that there are challenges and problems regarding those above issues raised due to outsourcing driving /motorist services and it indicates driving services are not effective in the bank.

Table 4.11 Summary of Challenges Faced after Outsourcing Driving Services

Item	Frequency and percentage n (%)					Mean	
	Total						
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Outsourcing driving staffs lack organizational commitment and citizenship	N=143	26	78	25	14	-	2.19
	%	18.2	54.5	17.5	9.8	-	
Outsourcing driving staffs has ethical problem	N=143	7	35	8	93	-	3.31
	%	4.9	24.5	5.6	65.0	-	
Outsourcing driving staffs handle materials poorly	N=143	13	43	7	80	-	3.08
	%	9.1	30.1	4.9	55.9	-	
There is problem of controlling drivers during working hours	N=143	19	33	15	64	12	3.12
	%	13.3	23.1	10.5	44.8	8.4	
Theft of vehicles parts has increased	N=143	17	51	12	61	2	2.86
	%	11.9	35.7	8.4	42.7	1.4	
Inexperienced and incompetent drivers are provided	N=143	12	46	18	67	-	2.98
	%	8.4	32.2	12.6	46.9	-	

Source: survey data, 2017

As shown in Table 4-12 below to examine the challenges that are faced due to outsourcing the janitorial service of the Bank also five items were prepared. These are poor quality of janitorial service, has ethical problem, handle materials poorly misalignment between CBE's requirement and provided staffs and problem of controlling cleaners on working hour. Accordingly, mean score of 2.59, 2.57, 2.61, 2.54 and 2.64 were registered respectively. This implies that respondents neither observed the existence of any challenges nor heard such problems in the Bank that are associated with outsourcing janitorial functions. (See the Table 4-12 below).

Table 4.12 Summary of Challenges Faced after Outsourcing Cleaning services

Item		Frequency and percentage n (%)					Mean
		Total					
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Cleaners has poor quality of janitorial service	N=143	13	47	69	13	1	2.59
	%	9.1	32.9	48.3	9.1	0.7	
Outsourced cleaning staffs has ethical problem	N=143	14	51	62	14	2	2.57
	%	9.8	35.7	43.4	9.8	1.4	
Outsourcing cleaning staffs handle materials poorly	N=143	15	48	63	12	5	2.61
	%	10.5	33.6	44.1	8.4	3.5	
theft has increased	N=143	19	46	62	14	2	2.54
	%	13.3	32.2	43.4	9.8	1.4	
There is a problem of controlling cleaning staffs during working hour	N=143	12	48	63	20	-	2.64
	%	8.4	33.6	44.1	14.0	-	

Source: survey data, 2017

Table 4.13 Summary of Challenges Faced after Outsourcing Security Services

Item		Frequency and percentage n (%)					Mean
		Total					
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree	
Theft has been increased after outsourcing security staffs	N=143	4	37	16	78	8	3.34
	%	2.8	25.9	11.2	54.5	5.6	
Outsourced security staffs are negligent	N=143	2	24	21	79	17	3.59
	%	1.4	16.8	14.7	55.2	11.9	
Outsourced security staffs lack organizational commitment and citizenship	N=143	5	31	23	64	20	3.44
	%	3.5	21.7	16.1	44.8	14	
Outsourced security staffs has ethical problem	N=143	8	35	18	65	16	3.61
	%	5.6	24.5	12.6	45.5	11.2	
Outsourced security staffs handle materials poorly	N=143	8	43	26	58	8	3.10
	%	5.6	30.1	18.2	40.6	5.6	
There is problem of controlling security staffs during working hours	N=143	18	38	26	56	5	2.94
	%	12.6	26.6	18.2	39.2	3.5	

Source: survey data, 2017

Table 4-13, depicts summary of frequency, percentage and means of respondents view on the problems of outsourcing the above function. Respondents' mean score of 3.34, 3.59, 3.44, 3.61, 3.10 and 2.94 show that the level of agreement on the existence of the stated challenges. For theft has been increased, customer satisfaction improved, the supplied security staffs lack organizational citizenship and commitment, has ethical problems, handle materials poorly and problem of controlling staffs during working hour were registered respectively. These are the challenges that CBE encountered due to outsourcing its security functions. In general,

from the above discussion we can infer that CBE has faced a number of challenges or problems as a result of outsourcing its security function.

4.12 Analysis of Interview Questions

The second part of the questioning was centered on the opinions from the manager of outsourcing management office of the bank. Responses on varying subjects with reference to outsourcing were taken from manager.

The aim was to consider opinions apart from employees that management actually sought in outsourcing. There were therefore questions on factors that management considered in selecting an outsourcing vendor, whether management incurred cost or saved in the process of outsourcing and which general activities that management outsourced. The manager was also questioned on the key reasons why management outsourced and the qualities to which management looked for in an outsourcing vendor. He confirmed that focusing on core functions, cost reduction and quality service as prime factors that influenced their choice of an outsourcing practice. Currently, there are more than 13,000 outsourced employees who require a vast administrative system and this practice helped the bank to focus on its core business function.

The interview also confirmed that, there are well defined criteria for janitorial and security services. The evaluation criteria consist of work experience in the related area, financial capacity, administrative structure, service providers' benefit package, its training facilities, its cost structure, service quality and should have clear recruitment and selection practice are the well-known one. Also the manager added that, even though the Bank has clear evaluation criteria for the above two non-core business functions most of the existing service providers unable to qualify this criteria. The manager also added that, outsourcing non core business functions helped the bank to focus on core function, reduce administrative burden and reduce cost. On the other hand, still there is a problem in bringing customer's satisfaction, improving quality service, reducing risk, increasing efficiency and effectiveness of the bank.

4.13 Correlation Analysis

The Pearson's Product Moment Correlation Coefficient (r) is used to measure the degree of association between the independent variables outsourcing of (security, cleaning, messenger and driving) and the dependent variable (organizational performance).

It takes a value between -1 and 1 . A value of r near to 1 indicates strong positive association whereas a value of r near to -1 indicates a strong negative linear association, When $r = \pm 1$ this indicates that the two variables are perfectly correlated, i.e., all the points are on a straight line, (Coetzee, 2003). When the correlation is 1 or -1 , a perfectly linear positive or negative relationship exists; when the correlation is 0 , there is no relationship between the two sets of data. The standard correlation coefficient is (Pearson's r) which applies primarily to variables distributed more or less along interval or ratio scales of measurement.

The general guidelines correlations, $.01$ to $.30$ are considered small, correlations of $.31$ to $.70$ are considered moderate, correlations of $.71$ to $.90$ are considered large, and correlations of $.91$ to 1.00 are considered very large.

Depending on the above assumption, all basic constructs were included into the correlation analysis. Table 4.14 presents the inter-correlations among the variables being explored. In other words Table 4.14 represents the correlation matrix between the independent variables (security, cleaning, messenger & driving services) and the dependent variables (organizational performance). All relationships between the dependent and independent variables are positively and weakly correlated. From the analysis, it can be observed that organization's performance has weak correlation with each of the independent variables ranging from $.145$ correlated between outsourcing cleaning service and organizational performance to $.276$ between outsourcing security service and organizational performance significant at $p < 0.01$ level.

Table 4.14 Correlation analysis

Correlations

		courier service	driving service	cleaning service	Security service	Organizational performance
courier service	Pearson Correlation	1	.685**	.874**	.633	.188**
	Sig. (2-tailed)		.000	.000	.000	.025
	N	143	143	143	143	143
driving service	Pearson Correlation	.685**	1	.595**	.515**	.261
	Sig. (2-tailed)	.000		.000	.000	.002
	N	143	143	143	143	143
cleaning service	Pearson Correlation	.874**	.595**	1	.550**	.145**
	Sig. (2-tailed)	.000	.000		.000	.085
	N	143	143	143	143	143
security service	Pearson Correlation	.633**	.515**	.550**	1**	.276**
	Sig. (2-tailed)	.000	.000	.000		.001
	N	143	143	143	143	143
Organizational performance	Pearson Correlation	.188*	.261**	.145	.276*	1**
	Sig. (2-tailed)	.025	.002	.085	.001	
	N	143	143	143	143	143

Source: survey data, 2017

4.14 Regression Analysis

Regression is a measure of association between two quantitative variables. This form of statistical test is only possible with interval or ratio data (www.SPSS for Psychologists, accessed on May 19, 2017). It allows us to make statements about how well one or more independent variables will predict the value of a dependent variable. Table 4.15 below shows

the regression analysis of the effect of outsourcing noncore business functions on company's performance. Table 4.15 below clearly shows the value of R and R². In this analysis the value of R is 0.723 which is a measure of the correlation between the observed value and the predicted value of the dependent variable (organization's performance). Whereas R Square (R²) is the square of this measure of correlation and indicates the proportion of the variance of organizational performance with the outsourcing noncore business functions variables. Hence, R Square = 0.522 implies that 52.2% of organization's performance is explained by factors of outsourcing noncore business functions (cleaning, courier, messenger and security). In essence, this is a measure of how good a prediction of the dependent variable we can make by knowing independent variables. This implies that 52.2% of the variance in the dependent variable is explained by the independent variables in the model. The model also indicates that, the remaining 47.8% of the variance can be explained by other variables out of this model and indicates that further research might be needed for this.

The beta value is a measure of how strongly predictor variable influences the criterion variable. Likewise, the beta value of this study is as indicated in the table below. If we take one as a demonstration, driving service has 0.213 value which indicates that a change of one standard deviation in the predictor variable i.e. noncore business function factors resulted in a change of 21.3 standard deviations in the criterion variable i.e. organization's performance. Thus, this indicates that noncore business functions have its impact on company's performance. Since the higher the beta value the greater the impact of the predictor variable on the criterion variable. Moreover, when you have only one predictor variable in your model, then beta is equivalent to the correlation coefficient between the predictor and the criterion variable (www.SPSS for Psychologists). Similarly, the factor that has the greatest effect on the organization's performance is security service with a coefficient ($\beta=0.233$ & driving service with ($\beta=0.213$), then comes courier service ($\beta=-0.040$) and finally cleaning service ($\beta= -0.076$), The regression estimates how the value of one dependent variable (Y) can be predicted based on the value of one independent variable (X). The linear equation for simple regression is as follows:

Table 4.15 Regression analysis

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.484	.221		6.727	.000
1 Outsourcing courier service	-.025	.122	-.040	-.209	.835
Outsourcing driving service	.132	.115	.213	1.906	.059
Outsourcing cleaning service	-.052	.185	-.076	-.455	.028
Outsourcing security service	.143	.065	.233	2.217	.143

a. Dependent Variable: Organization’s performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.723	.522	.526	.458

a. Predictors: (Constant), Outsourcing courier service, driving service, cleaning service and security service.

4.15 Linearity Test

Linearity refers to a mathematical relationship or function that can be graphically represented as a straight line, as in two quantities that are directly proportional to each other. It is the ability (within a given range) to obtain test results which are directly proportional to the concentration (amount) of analyte in the sample. The characteristic of data such that a straight line provides as good a fit (using the least-squares criterion) as any other mathematical

function, as a description of the relationship between the method response and the concentration of the analyte, (Coetzee, 2003). Multi col-linearity is a problem that occurs with regression analysis when there is a high correlation of at least one independent variable with a combination of the other independent variables. As variables are highly correlated in a multiple regression analysis, it is difficult to identify the unique contribution of each variable in predicting the dependent variable because the highly correlated variables are predicting the same variance in the dependent variable. In this situation, the “overall” p-value may significant but the p-value for each predictor may not be significant. Multi col-linearity exists when Tolerance is below .1; and VIF is greater than 10 or an average much greater than 1. Another statistic sometimes used for multicol-linearity is the Variance Inflation Factor, which is just the reciprocal of the tolerance statistics. A VIF of greater than 5 is generally considered evidence of multicol-linearity. MarczykDematteo and Festinger, (2005). Accordingly, as we can see from Table 4.16 below there is no multi col-linearity in this case.

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.484	.221		6.727	.000		
1 Outsourcing courier service	-.025	.122	-.040	-.209	.835	.330	3.030
Outsourcing driving service	.132	.115	.213	1.906	.059	.413	2.424
Outsourcing cleaning service	-.052	.185	-.076	-.455	.028	.377	2.651
Outsourcing security service	.143	.065	.233	2.217	.143	2.87	3.484

a. Dependent Variable: Organization’s performance

CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents summary of major findings, conclusion part of the study and recommendations stems or emanates from the research results and review of relevant literature as well as internal document of the Bank on the subject matter of the study.

5.1. Summary of Major Findings

The purpose of this study aimed at finding the effect of outsourcing noncore business functions on company's performance. In this regard an attempt has been made to investigate how the performance affected by the key variables which are outsourcing messengers, drivers, cleaners and security services. The questionnaire was developed in such a way that all this factors were included by also incorporating questions that asked about employee observation. Out of the 177 questionnaires that were distributed, 143 fully completed questionnaires were collected which gave 80.79% response rate.

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

- From the total sample of the respondent 51.7% are male and 48.3% are female
- A majority number of 63% are above aged of 41
- A majority of respondents 79% are first degree holders
- A majority of the respondents 64.4% have been in service years of between 5 & 15 years

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

The Main Reasons for Outsourcing Noncore Business Functions of the Bank

77% of the respondent confirmed that major driver for outsourcing non core business functions in the company is to focus on core functions with mean score value of 4.03. And also respondents relatively ranked the stated seven main reasons to outsource non-core business functions. Accordingly, to improve service quality and customer satisfaction, reduce cost, improve flexibility, spent more time on strategic issues, assist growth and to access to new skills with the mean score of 3.92, 3.85, 3.78, 3.58, 3.03 and 2.55 which depicted the highest to the lowest reasons for outsourcing of noncore business functions by the bank respectively.

Employees and Top Management Role on the Effectiveness of Outsourcing Noncore Business Functions

Result on the participation of concerned parties revealed that activities are clearly identified by top management those can be best performed by service providers. About 63.7% of the respondents stated that the outsourcing effort of the Bank hasn't enough support from internal stakeholders as expected. On the other hand, respondents confirm that top management's role in identifying and access to suitable vendor is lower. In addition, 72% of the respondents claimed that all the outsourced activities are not well performed by the service provider than internally done and the data collected also shows that there is no strong binding contract between the bank and service providers. On the other hand respondents were neutral on the role of internal stakeholder in giving support of outsourcing process attempt of the Bank. Moreover, as per the information obtained by interview there is no as such supportive roles that played by senior management.

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

Examination of perception of respondents on outsourcing noncore business functions on customers' satisfaction revealed that 51.8% of the respondent disagreed that customer satisfaction increased after outsourcing non core business functions of the bank. Besides to this, 53.9% of the respondents agreed that outsourcing noncore business functions help to reduce its operating cost related to non core business functions. In addition to this, 68.5% of the respondents disagreed that quality of service has been improved after outsourcing. The

data collected also reveals that still there is a problem of obtaining committed outsourced staffs.

Benefits that are gained from Outsourcing Driving, Cleaning, Security and Messenger

Services

The respondents agreed that outsourcing driving services enables the bank to save time and cost (83.9%), allow focusing on core functions (86%), and help to reduce service delivery time (65.8%) respectively. However, the respondents argue that outsourcing the driving service unable to reduce risk (77.6%), increase flexibility (56.7%), improve service quality (56%) and improve customer satisfaction (48.3%).

Results on the successes that are derived from outsourcing cleaning service of the Bank revealed that outsourcing of such service helped the Bank to save time and cost, allow focusing on core function and improving service quality. Accordingly, the percentages of agreed respondents were 78.3%, 79.7%, and 80.4% respectively. However, respondents were neutral on whether or not Outsourcing cleaning service reduce risk, increase flexibility and improve customer satisfaction (internal customer).

Majority of the respondents (81.8%) have agreed that the Bank has able to save time and cost by outsourcing its security services. Also 81.1% of the respondents confirmed that outsourcing security services of the bank allow focusing on core functions. Besides, 60.2% of the respondents claimed that outsourcing security service did not improve service quality. In addition to this, outsourcing of the driving service of the Bank viewed by respondents that it is unable to help the Bank to reduce risk and increase flexibility.

As per the information obtained from the respondents, 83.9% of the respondents agreed that outsourcing of the messenger service helped the Bank to focus on its core business. About 79.7% confirmed that outsourcing messenger service helped the bank to save time and cost. Beside to this, 83.9% of them agreed that outsourcing messenger service helped the bank to reduce budget allocation. In addition to this, 67.1% of the respondents agreed that outsourcing the messenger service improve the overall performance of the Bank and also reduce operating costs. On the other hand, respondents were neutral on whether or not Outsourcing messenger reduce risk, increase flexibility, reduce service delivery time and

improve customers' satisfaction. Accordingly, the percentages of agreed respondents were, 57.4%, 51.1%, 55.3% and 53.9% respectively.

Challenges that are faced from Outsourcing Driving, Cleaning, Security and Messenger

Services

Result on the challenges that derived from outsourcing the driving functions of the Bank, revealed that the existence of problems; 45.8%, 47.6%, 50.4% and 54.6% of the respondents agreed that outsourcing driving staffs has ethical problem, handle materials poorly, unable to control them during working hours, responsible for theft of vehicles parts and inexperienced & incompetent respectively. From this we can infer that there are challenges and problems regarding those above issues raised due to outsourcing driving /motorist services and it indicates driving services are not effective in the bank.

As per the information obtained from the respondents and interview results there was no serious problem that the Bank encountered due to outsourcing the janitorial service of the Bank.

About 60.1% of the respondents agreed that due to outsourcing the security function of the Bank theft of property has been increased. 67.1% of the respondents agreed that the supplied security staffs are negligent on their job. Similarly, 58.8% of them confirmed that outsourced security staffs lack organizational commitment and citizenship. On the other hand, the respondent's perception on outsourced security staffs related to handling materials and controlling the staffs during working hours is neutral with percentage response rate of 46.2% and 42.7% respectively.

Regarding, the challenges that are associated with outsourcing the messenger service of the Bank respondents are neutral, moreover, the OMO manager also confirmed that there is no big challenge reported related to outsourcing messengers.

Correlation coefficient was computed for the purpose of determining the relationship between company's performance and outsourcing noncore business functions. Accordingly, courier service ($r=0.188$, $p<0.01$) driving service ($r= 0.261$, $p<0.01$) cleaning ($r= 0.145$, $p<0.01$) and security service ($r=0.276$, $p<0.01$) were the results achieved that showed weak correlation. Ranging from cleaning service ($r= 0.145$, $p<0.01$) to security service ($r=0.276$, $p<0.01$) weakly correlated.

Simple linear Regression analysis was used which resulted in $R= 0.319$ and R square is 0.102 implies that only 10% of the company's performance is explained by factors of outsourcing noncore functions (courier, driving, cleaning and security services). The factor that has the greatest effect on the company's performance is outsourcing security services with a coefficient ($\beta=0.233$) next is driving services ($\beta=0.213$), then comes courier service ($\beta=-0.040$) and finally cleaning services ($\beta=-0.076$).

5.2. Conclusions

Based on the data presented and analyzed in the previous chapter of the study, the following conclusions are drawn by the researcher with respect to the outsourcing practice of the security, janitorial, driving and messengers functions of the Bank. Most of the time outsourcing strategy is linked with the corporate strategy of an organization. In the same way, Commercial Bank of Ethiopia engaged in the outsourcing arrangements to focus on its core business functions. Following its strategic directions, the Bank has already outsourced some of its non-core business functions. Outsourcing as strategic option assisted Commercial Bank of Ethiopia in a various way. Conclusions are drawn as follows:

- The reasons as driving forces for outsourcing strategy is to focus on core functions. The data also stated that the company uses outsourcing as a strategic tool to improve service quality and customer satisfaction. The other main reason to outsource non core business functions of the bank was to reduce cost. To improve flexibility, to spent more time on strategic issues, to assist economic growth and access to new skills takes the next reasons to outsource non core business functions of the bank.
- Outsourcing helped the Bank to focus on core business functions that is the base for the organization to achieve its performance, avoid major investment in HR, and reduce operating cost. However, the outsourcing practice of the Bank encountered several challenges like problem in bringing customer's satisfaction, improving quality service, reducing risk, increasing efficiency and effectiveness of the bank.
- Analysis of the open ended questions and majority of the participants argue that least benefit is achieved as a result of contracting out security service to an external vendor, but few of the respondents identified some benefits like reduction of costs and helped

to focus on core function. Serious problems due to outsourcing the security service to an external supplier has been increased including repeated robbing of the bank's vault.

- One of the most significant internal challenges in outsourcing effort of the Bank is unable to identify and access to suitable vendor, hasn't enough support from internal stakeholders & top management as expected in a way of seeking proper attention and support that would enable the successful execution of the mandates entrusted to it. The top management is also very frail as far as its effort in continuously promoting the roles of outsourcing that has been playing in the bank. On the other hand, although the respondents, overall, agreed that there is fairly good implementation of cleaning and messenger services, there are still some works to be done in order to be more effective as compared to good practices. For example, Respondents have also indicated relatively there are problems of confidentiality, material handling, controlling of staffs during working hour and ethical problem to some extent in both messengers and janitorial. On the other hand, the Bank has faced some serious problems due to outsourcing the driving service to an external supplier. The respondents agreed that outsourcing driving staffs has ethical problem, handle materials poorly, unable to control them during working hours, responsible for theft of vehicles parts and the staffs are inexperienced & incompetent.
- Finally, based on the examinations of mean differences, still the bank is unable to obtain committed staffs to perform their responsibilities, staffs are not experienced to understand customers' interest and stakeholders are not confident on the quality of services provided by outsourcing service providers. The development of Service Level Standards (SLSs) is the first cornerstone activity that would have been accomplished before handing over services to external service providers because of the obvious reason that it is through these SLSs that the CBE would spell-out its requirements and subsequently monitor and measure the performance of service providers.

5.3. Recommendations

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

- ❖ Participating all concerned parties when the activities are proposed for outsourcing arrangement are critical. It helps to gain the support of internal stakeholders, facilitate the identification of activities that can be best performed by the service providers, setting of well formulated contract and service level agreement, identification of competent service providers and also help for the creation of awareness regarding the objectives of outsourcing strategy. Therefore it is better to invite all the concerned parties when activities are proposed for outsourcing arrangement.
- ❖ As much as possible, the Bank's senior management and internal staffs should play a leading role for the success of the outsourcing efforts.
- ❖ The Bank should select competent service providers in order to obtain committed & responsible staffs and need to consider some financial savings from economies of scale achieved by the vendors in the long term besides quality of services and reduction of administrative burdens that enable to save financial resources to its core businesses.
- ❖ Commercial Bank of Ethiopia need to be equipped mentally and physically through proper and continuous training that makes the service providers active and loyal to the bank. Setting well formulated SLA in which a company helps to evaluate the service of a vendor and good service can be easily differentiated from bad service, which initiates the service provider a fair opportunity to satisfy its client. Service level agreements are clearly defined and communicated to the service provider at the initial stage of their agreement; any troubles are resolved according to the agreed standards. Therefore, the Bank should set service provider evaluation criteria or service level agreement for all outsourced non-core business functions and all the contracts should have an exit valve.
- ❖ The Bank should adopt periodic meeting with the service providers to solve challenges when occur and to create better way of doing business and developing good partnership relation.
- ❖ To overcome the contractual problems that occur in the implementation and practices of outsourcing the bank should have to be flexible to consider changing environment

rather than insisting to enforce rigid agreements on the contract and setting well formulated contract that considers laws, norms and culture of the country.

- ❖ To harvest the fruit of the successful outsourcing strategy and to overcome the mentioned challenges the Bank should conduct due diligence on the service provider's related work experience, quality of services provided, ethical considerations, technical capabilities, the resource possessed, the rate of employee turnover, the recruitment and selection criteria, and the reward packages provided.
- ❖ Managing more than 13,000 employees has its impact on the organization's performance specifically to the middle level management. Thus, all responsible organs should play its role in identifying suitable vendor, forming binding contract, supporting to the outsourcing management office and applying continuous follow up on their performance.
- ❖ As indicated in the data presentation, the Bank should work hard in order to reverse the adverse impact of outsourcing strategy that affects company's performance in delivering quality services, increasing customers' satisfaction and improving competitiveness & efficiency.

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

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APPENDICES

Appendix I

Addis Ababa University School of Commerce

The main purpose of this questionnaire is to gather data for Master's Thesis for partial fulfillment of master's degree in Human Resource Management, which is entitled as effect of outsourcing noncore business functions on company's performance the case of CBE. Dear respondents, you are expected to provide accurate and relevant information with respect to the overall outsourcing practice of the Bank. You are not required to write your name thus, the researcher is very much grateful for the sacrifice you pay to this end and the information gathered will be highly confidential and will be used only for the purpose of this research. If you have any enquiry please don't hesitate to contact the researcher on phone number: 0912140090 and e-mail tewtens@gmail.com

General guidelines

- There is no need of writing your name
- In all cases where answer options are available please tick (✓) in the appropriate box.
- For questions that demands your opinion, please try to honestly describe as per the questions on the space provided
- Please participate in response if you have one year or above experience

Thank you, for your cooperation and timely response in advance

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

Part I: Respondent Demography

1. Gender: a) Male b) Female

2. Age: a) 18-30 b) 31-40 c) 41-50 d) 51 and above

3. Educational background:

a) < Diploma b) Diploma c) First Degree d) > first degree

4. Years of service in the Commercial bank of Ethiopia

- a) ≤ 5 years b) 6-10 Years c) -15 years d) ≥ 16 years

5. Location of your current place of assignment?

- a) Human Resource Management Process c) District Office
 b) Outsourcing Management Office d) Facilities Management

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

- a) Managerial b) Professional c) Clerical d) other, specify _____

Part II

Questions designed to collect information about the effect of outsourcing noncore business functions in company’s performance in case of commercial bank of Ethiopia. Indicate how important you feel each item in making decision of outsourcing the business functions using the following rating scale:

5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

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

Please read the statement and put “(√)” mark in the corresponding column (i.e. 5=strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly Disagree)

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

What is the main reason to outsource noncore business functions of the bank?

No.	Justifications for making the decision	Strongly Agree(5)	Agree	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	To reduce cost					
2	To improve service quality and customer satisfaction					
3	To spent more time on strategic issues					
4	To focus on core functions					
5	To improve flexibility					
6	To assist growth					
7	To access to new skills					

8. Questions related to how employees and top management of the bank influence the effectiveness of outsourcing noncore business functions

No.	Justifications for making the decision	Strongly Agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly disagree(1)
1	Top management involves in careful contracting, managing and monitoring regularly the outsourcing					
2	Top management has develop skills how to manage outsourcing effort					
3	All top management and staff involved in the identification of activities when they are proposed for outsourcing arrangement					
4	Top management able to set well formulated contract and service level agreement					
5	Internal stakeholder give support in the outsourcing process					
6	All activities are clearly identified by top management of the Bank that can be best performed by service provider					
7	The management identify and assess suitable vendors					
8	Management are keen to anticipate the end of an outsourcing contract					
9	The management develop the strategy of the outsourced activity and keep it in alignment with the overall corporate strategy					

9. Questions related to how outsourcing functions affect organizational performance

How do you evaluate how outsourcing noncore business functions affect organizational performance in terms of (customer satisfaction, service quality, effectiveness & efficiency) based on five points rating scale stipulated here below?

No.	Justification for making the decision	Strongly agree	agree	neutral	disagree	Strongly disagree
1	customer satisfaction increased after outsourcing non core business functions of the bank					
2	The bank has able to reduce its operating costs related to noncore business function					
3	outsourced staffs are less committed to carry out their responsibilities					
4	After outsourcing, well being of the customer ,staffs and property of the CBE better secured					
5	The existing outsourced services helped the Bank and its customer to feel confident about its quality					
6	it has had a negative outcome in the bank					
7	Increase competitiveness of the company					
8	Better committed and loyal staffs are provided					
9	resolving ability for customers' problem increased					
10	Organizational performance increased after outsourcing noncore business functions					

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

a. Please rate the table to evaluate benefits gained after outsourcing of messenger/courier service

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

b. Please rate the table to evaluate benefits gained after outsourcing of driving/motorist service

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

c. Please rate the table to evaluate benefits gained after outsourcing of cleaning Service

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

d. Please rate the table to evaluate benefits gained after outsourcing of Security Service

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

e. Please rate the table to evaluate challenges faced after outsourcing of messenger/courier service

No.	Justification for making the decision	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	The messengers lack organizational commitment and citizenship					
2	The messengers has ethical problems					
3	The messengers handle materials poorly					
4	There is problem of controlling messengers during working hours					
5	The messengers are not confidential					

f. Please rate the table to evaluate challenges faced after outsourcing of driving/motorist service

No.	Justification for making the decision	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1	Outsourced driving staffs lack organizational commitment and citizenship					
2	Outsourced driving staffs has ethical problems					
3	Outsourced driving staffs handle materials poorly					
4	There are problem of controlling motorist during working hours					
5	Theft of vehicles' parts has increased					
6	Inexperienced and incompetent drivers are provided					

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

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

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

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

Part III

If you have additional comments, please write it.

11.

: _____

Appendix-II

Interview Questions to be administered with the Manager of the Outsourcing Management office of the Commercial Bank of Ethiopia.

This interview will conduct to gather data for MA-HRM Thesis entitled “EFFECT OF OUTSOURCING NONCORE BUSINESS FUNCTIONS ON COMPANY’S PERFORMANCE: THE CASE OF COMMERCIAL BANK OF ETHIOPIA”. I assure you that your responses will be used only for academic purpose.

1. What are the drivers/reasons that encourage your organization to outsource its noncore business functions?
2. What benefits the bank has achieved by outsourcing these non core functions?
3. What are the major challenges or problems facing CBE in relation to outsourcing?
4. What type of measure did your organization take to solve problems that faced during? Or after outsourcing? (If any)
5. How your organization monitors or controls the quality of the outsourced services and evaluates the performance of service provider?
6. Do you think that the service quality and performance of the service provider result in Service level Agreement? If not what is/are the reason/s?
7. Is your organization planning to outsource any other activities in the future?
8. Would you like to add anything related to the topic that I didn’t cover in my questions?