

Addis Ababa University
School of Commerce
Department of Marketing



**Business Process Outsourcing and Competitive Advantage:
The case of Ethiopian Postal Service Enterprise**

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Degree in Marketing Management.

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LIST OF ACRONYMS

BPR	-	Business Process Reengineering
BPO	-	Business Process Outsourcing
ITO	-	Information Technology Outsourcing
EPSE	-	Ethiopian Postal Service Enterprise
3PL	-	Third Party Logistics
SPM	-	Strategic Planning Management
UPU	-	Universal Postal Union
PAPU	-	Pan Africa Postal Union
C.O.D.	-	Cash on Delivery
E.M.S	-	Express Mail Service
BSC	-	Balanced Score Card
GTP	-	Growth and Transformation Plan
GNP	-	Gross National Product
ADLI	-	Agricultural Lead Industrialization
SPSS	-	Statistical Package for Social Science

ABSTRACT

The main objective of the study is to assess competitive advantage that EPSE achieve from Business Process Outsourcing (BPO) market strategy and its effect on organizational performance. To achieve this objective, the primary data was collected by questionnaires survey, interviews, focus group discussion and personal observation Secondary data was collected from customer satisfaction index, mail circulation index, Annual Reports and Strategic Plan (2011-2015). The collected data were analyzed by descriptive statistics (frequencies, percentage, mean and slandered deviation).The population for this study was 20 top managements, 14 SPM string committee members and 10 SPM technical committee members. The top management consists of a General Manager, a Chief Executive and 18 Process Managers. SPM string committee consists of 14 mangers, 3 of them from lower, 8 of them from middle and 3 of them from top. SPM technical committee consist of 10 experts who are from different departments. The total population number of the study is 41. The findings reveal that BPO in EPSE has been very low and highly dominated by non core business function such as Janitorial service, Security services, Consultancy services, Maintenance services and Training services. The motivation for BPO in ascending order is; realizing key internal resource, obtaining a better organizational form, advancement in technology and expertise, lowering ongoing investment in internal infrastructure and lack of internal expertise. The finding also shows that BPO has a benefit to create competitive advantage, increase customer satisfaction, increase profitability, increase sales turn over, increase service expansion. It was recommended that the key determinant of success of BPO activities such as poor organization communication, poor choice of sourcing partner, inadequate planning and trainings needed to manage outsourcing activities should be consider before outsourcing activity.

KeyWords: *Business Process Outsourcing strategy, competitive advantage and core competence.*

CHAPTER ONE

Introduction

1.1 Background of the study

In recent years, because of competition in the global market, many firms have been increasingly outsource part of their business processes in order to improve their competitiveness (Tijun, Leif, Jiehong, & Dandan, 2009). Outsourcing is most commonly defined as the transfer of activities and processes previously conducted internally to an external party. However, researchers like Parker & Russell (2004) define outsourcing broadly as *“an arrangement of cooperative inter-firm relation-ships based on mutual trust between partner organizations, for improving performance of the inter-firm transactions.”*

The fundamental basis for outsourcing is the focus on core activities of a company. Core competence or core activities of the company are the basis of its competitive advantage in the marketplace (Prahalad and Hamel 1990). All businesses have their own core activities that form the basis of their business models. The rationale for outsourcing those activities that are outside of the core competencies has been to limit the activities management has to manage. The attention and focus of managers is a scarce resource that is seen as best utilized for the company's core activities. After identification of core activities, the organization can develop to support their management and utilization (Lauri, 2009).

According to Dann, outsourcing can be distinguished in three different categories: Business Process Outsourcing (BPO), Knowledge Process Outsourcing, and Information Technology Outsourcing (ITO). In Business Process Outsourcing, a particular process task is outsourced. This kind of outsourcing work could be either front office or back office. Typical front office work is customer related work like marketing and technical support like Human Resource, finance, etc. In Knowledge Process Outsourcing (KPO), work is performed which needs higher levels of involvement from the worker. More advanced levels of research, analytical and

technical skills are needed. Last but not least is Information Technology Outsourcing (ITO). ITO is outsourcing of computer or Internet related work, such as programming.

BPO may be perceived in various ways, depending on what the company outsourcing is hoping to achieve. In order to gain flexibility, meaning they need to be able to offload various tasks to different locations to balance the workload between the employees, companies may outsource their process. Others may outsource in the hope of saving production costs. This mainly applies to industrial companies. Different issues influencing outsourcing may be like the needs to free internal resources to enable them concentrate on core operations improve company capabilities and also give them time to work on core process improvements (Kutvonen, Jennifer 2010).

This research focuses on Ethiopian Postal Service (EPSE) to investigate and assess the competitive advantage that gain through Business Process Outsourcing (BPO) market strategy. Since 2009, EPSE is implementing business process reengineering as a reform programme in order to improve quality of service, increase customers' satisfaction, reduction of cost and cycle time as well as behavioural and attitudinal change of employees. In addition to this, the reform program comes up with some postal packages and project to expand the services, to increase new products, to assure the postal service accessibility and to strengthen organizational capability to enhance its competitiveness in third party logistics (3PL) industries. 3PL involves the use of external companies to perform logistics functions that have traditionally been performed within the organization. The functions performed by the third party can en-compass the entire logistics process or selected activities within that process (Lieb, 1992; cited in Daniel and Stavros, 2012)

1.2 Statement of the Problem

Since the days of Adam Smith, capitalist economists have touted the benefits of specialization as a key to productive exchange among economic agents. The idea of focusing on core competence, if pursued logically, leads to the idea that a business organization should operate as few non-revenue producing units as possible. In the early days of a business, when the firm is small and everyone pitches in to do whatever is necessary for the business to succeed, it is easy to call everything core. However, as a business grows, and as administration and overhead grows with

it, there are many things a business does that are expensive but not directly involved in revenue generation. Accounting, legal counsel, payroll administration, human resources, and other processes are all necessary for the business to operate but not tied directly to the top line of the income statement. If a business truly focused only on its core competence, it would not operate those units that are not tied directly to meeting customer needs and generating revenue(Rick , 2005).

Moreover, globalization, economic volatility and uncertainty have impacted global business markets. This has also had an effect on the logistics and supply chain sector. The third party logistics (3PL) industry is constantly changing due to global industry consolidation, technology integration, industry specialization, and industry alliance networks. The most significant changes have been in areas such as 3PL industry size and make-up, services offered, geographical reach, and the information technology (IT) support provided. Companies can survive in a highly competitive environment by creating competitive advantage (Daniel and Stavros, 2012).

Organizations' decision on business process outsourcing is usually analysed as a "make or buy" dilemma. The "make" option is favoured, in the case of services that hinder the comparability of output and prices and reduces market transparency. On the other hand, there are other arguments that favour the "buy" option. Among them are cost cut, increased capacity, improve quality, increase profitability and productivity, improve financial performance, lower innovation costs, risks, and improved organizational competitiveness, are very commonly considered as the main reasons to justify outsourcing strategies. These arguments necessitate the need for this study.

Ethiopian Postal Service Enterprise is undergoing business process reengineering, as a management approach aiming at improvements by means of elevating efficiency and effectiveness of the processes that exist within organizations since 2009. Business Process Reengineering helps a company to stay on top or transform an organization on the verge of bankruptcy into an effective competitor.

Business Process Reengineering implementation in EPSE enhances the service delivery in terms of delivering quality service, flexibility and responsiveness and delivering customer satisfaction and reduction of cycle time. However, in order to get competitive advantage, EPSE have to be

concentrated on its core competences to hold the service expansion, to increase new services and to meet companies' high 3PL demand. This research argues that Business process outsourcing has become an essential business strategic alternative for EPSE to face competitive business environment as a result of increasing demands for customer satisfactions and substitutes services in tandem with the rapid changes in technology and globalization. Therefore, the research problem formulated based on the premise that there is a lack of research on BPO decision making in the EPSE.

1.3 Research question

Based on the statement of the problem, the research tries to address the following questions.

1. What are the motivational factors and problems to implement BPO in EPSE?
2. What is competitive analysis of EPSE?
3. What competitive advantage EPSE achieve from BPO?

1.4 Objective of the study

General objective

The main objective of the study is to assess competitive advantage that EPSE achieve from Business Process Outsourcing (BPO) market strategy and its effect on organizational performance.

Specific Objective

This research seeks to address the following objectives:-

1. Identify motivational factors and problems to implement BPO in EPSE.
2. Assess competitiveness of EPSE.
3. To investigate competitive advantage EPSE achieve from BPO.

1.5 Importance of the study

The world has been changing rapidly in the past decade. BPO has become an important business phenomenon. Companies have been focusing more and more on their core business and

outsourced other function to be performed by external service providers. There for this research has important for organization in different ways.

- The research result helps the organization to identify its strength, weakness, opportunity and treat and to take remedies on the problems.
- The research has great significance in creating awareness, about BPO, among the managers and drives them to focus on their competences.
- The research can serve as stepping stone for other researchers in similar area.

1.6 Scope of the study

Due to time and resource constraints this research will focus on Ethiopian Postal Services Enterprise (EPSE) Head office in Addis Ababa. Beside to this, EPSE has 19 zones throughout the country which is excluded in this research except Addis Ababa Zone, but not its branch offices. Thus, this thesis is focusing to what extent BPO has impacted positively on competitive advantage in EPSE.

1.7 Limitation of the study

The data, used in this study are from top management, SPM technical and string committee. Thus, the result may not necessarily reflect the current situation of EPSE.

1.8 Organization of the study

This research investigates and assess competitive advantage that gain from Business BPO market strategy and its effect on organizational performance of EPSE within five chapters. The first chapter contains the problem and its approach which includes background of the study, statement of the problem, research questions, and objectives of the study, importance of the study, scope of the study and organization of the paper. The second chapter reviews related literatures and try to identify the gaps from previous research and attempts to extract the lessons to be learnt. The third chapter provides research methodology which contains research design, Target population, data source and method of data analysis. The fourth chapter analyze EPSE internal and external

situations. The fifth chapter provides data analysis, presentation and interpretations. Finally, the sixth chapter contains conclusion and recommendation of the research.

CHAPTER TWO

Review of Related literature

2.1 Introduction

The chapter deals with the theoretical review of literature with respect to BPO and competitive advantage. In order to meet the purpose related literature is focus on concept, theories, motivational factors, life cycle, advantage and disadvantage and areas of BPO.

2.2 Origin, Definition and Concept of Business Process Outsourcing (BPO)

Today's escalating, competitive and demanding environment has forced players in the marketplace to be more efficient and to emphasize on a leaner organization. Organization must adapt with increasing speed to market pressure and competitors' innovations. To survive in the 21st century, organizations are increasingly turning to search globally for opportunities and resources, focus on core competencies and mutually beneficial longer term relationships and outsource those activities that can be performed more quickly and at a lower cost by subcontractors (Tagliapietra, Platan,Seaw Li,Schneirder,1999).

Outsourcing has nowadays become increasingly important, especially in the service sector. The roots of outsourcing can be found in outsourcing that took place in the manufacturing sector of Japan during the 1940s to the 1970s. In the following decade, outsourcing also took place in the high-tech manufacturing sector, with destinations such as Taiwan becoming the favourite offshore destination for manufacturing. With the progress of computer and information technology in the 1990s, outsourcing became increasingly important in the services sector as well, with both off-shore and on-shore outsourcing of services becoming prevalent. Today, companies are outsourcing a whole range of services, including for example Information Technology (IT), customer services, telemarketing, human resources, finance and administration, market research, and even research and development (Vasquez, 2008).

In 1990, C.K. Prahalad & Gary Hamel have written an article entitled “The core competences of the corporation”. It was the first time that the term “outsourcing” is being used in the research and considered as a shortcut to a more competitive product. A most important background for companies to survive and be successful in the long run is to “improve their competitive advantage by implementing different concepts, of which outsourcing is one” (XU.Y. 2009). Outsourcing can be defined as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organisation contracts out major functions to specialised and efficient service providers, who become valued business partners (Griffiths, 2001). Some companies treated outsourcing as a cost reduction concept and tried to externalize their non-core activities to outside partners in order to focus on their core competences.

One of the most familiar forms of outsourcing is business process outsourcing (BPO). BPO has emerged as one of the leading business and economic issues of our time. BPO has evolved over the years, beginning with time-sharing data processing in the 1960s, according to technology research and consulting firms. Over these years, like outsourcing, BPO has moved from being transactional (task oriented) to being strategic (process oriented) (Vasquez,2008).When a company outsources operations to a service provider, whose core competence is centred on those processes, the company is likely to experience service improvements that can be turned into competitive advantages over rivals. BPO is defined working across the organization to deliver value to customers or as the movement of business processes from inside the organization to external service providers (Click and Duening, 2004).

BPO is transferring the operational ownership of one or more of the firm’s business processes to an external supplier that, in turn, administers the processes according to some predefined metrics. BPO thus refers to the rearrangement of entire business functions to some other service providers, primarily in low cost locations. The service provider may be either self-owned or a third party. Business Process Outsourcing is also defined as outsourcing of tasks that are normally done by white collar employees to gain benefits such as lower costs, better quality and the possibility for themselves to focus on their own core competence (Vasquez,2008).

BPO are broadly defined into two areas: back office and front office processes. Front office includes activities such as customer services via a call centre, help desk activities and outbound sales or telemarketing. Back office includes human resources management, accounting services, other support functions (Purcel & Mathews, 2004, cited in Ramin and Ahmad). Moreover, BPO services can generally be categorized into horizontal and vertical services. In this categorization, horizontal BPO involves function centric outsourcing. This means that the vendor specializes in carrying out certain functions across different industry domains. Examples for the category of horizontal BPO are outsourcing in HR, facilities management, payroll processing, procurement and similar functions. Vertical BPO means that a variety of functional services are provided in just a small number of industry domains. Examples for some vertical BPO domains can be manufacturing and retail, financial services and healthcare (Vasquez ,2008).

According to Jaakko Soiva, 2007, there are three types of BPO: offshore, onshore, and near shore. The names refer to the physical distance between buyer and vendor. Offshore BPO means business process outsourcing where the service provider is in another part of the world, which began with the factory jobs moving overseas. Onshore means close to the physical location of the company, in the same city for example. Near shore means business process outsourcing taking place in a neighbouring country or close by, which allows companies to test BPO without the level of risk associated with going offshore.

In related to these types of BPO, there are strategies to implement the outsourcing approach. Outsourcing strategies (issues) mainly focus on the outsourcing modes and the length of outsourcing contracts. Based on PDCA (Plan, Do, Check and Analysis) model from quality management three modes of outsourcing are identified: purchasing outsourcing, selective outsourcing and total outsourcing. 'Purchasing outsourcing' refers to that organizations may choose simply to outsource 'Do', while retaining the remaining activities in-house. 'Selective outsourcing' is to outsource 'Do' and 'Check' activities. 'Total outsourcing' is to outsource all activities, including 'Plan', 'Do', 'Check' and 'Analysis'. Outsourcing contract features are the contractual length of the outsourcing arrangement. It is the time dimension associated with outsourcing contracts and is typically discussed in terms of short-term, mid-term and long-term (Fan, Sandal, Kong, Li, 2009).

Here it is vital to note that BPO may comprise both IT management and business operations. Business operations include relocating or transferring functions such as payroll, accounting, billing or even real estate management to a third party. Invariably, all these business processes depend on IT but they are unlike hard-core IT operations such as data centre activities or network administration. An imperative facet of business process outsourcing is its capacity to free corporate executives from some of their day-to-day process management responsibilities and duties. BPO involves business process management and outsourcing. Business process management utilizes technology aimed at revamping the process, trimming down unnecessary steps, and eliminating redundancies.

Generally, BPO Shifts the focus of traditional outsourcing and the way the relationships with outside specialists are defined towards more process centric, end-to-end view of the business activities (Corbett 2004b).

2.3 Theories in the Research of the Business Outsourcing Process

The study of the outsourcing phenomenon has been grounded in many theories. Some of them are complementary; the others are contradictory. This creates confusion among the researchers of the outsourcing phenomenon (Perunvic, 2007). Some researchers, mostly from a manufacturing and supply chain management background, would arguably see it as nothing more than an evolution of older research on “make-or-buy”. Others, most commonly from a service operations management background, would see it as a revolutionary trend started few years ago (Busi and McIvor 2008).

The theoretical literature on the firm’s decision to produce in-house or outsource through market contracts is extensive and dates back to Coase (1937) theories, most often referred to in relation to outsourcing is Transaction Cost Theory and his theory of the firm (Olsen, 2006). This implies that the knowledge roots of outsourcing stretch back to almost 70 years ago.

During these 70 years, several theories have been developed in various disciplines, which are frequently, if not constantly referred to, summarised and discussed in today’s published research

on outsourcing. Busi and McIvor (2008) simply identifies a “top-10” list of the ten theories which are come across most frequently: Transaction cost theory, Resource-based view, Principal agent theory, Vertical integration theory, Strategic management , Evolutionary economics, Relationship market/view, Industrial economics, Strategic alignment theory, Core competence theory. In the same way, According to Loukis, most of this theoretical discussion has focused on three approaches that are partly overlapping, partly complementary to each other: the transaction cost theory , the principal-agent theory and the property rights theory .

There would be point to add here one more summary and list of theories for rationalization business process outsourcing to focus on core competences by outsourcing relatively inefficient activities.

2.3.1 Transaction cost theory

The most prominent theory about the boundaries of the firm is the transaction cost economics theory. Until the beginning of the 20th century, economists believed in the ‘invisible hand’ described by Adam Smith. According to him, the market is regulated by the price mechanism, which means that demand and supply determine equilibrium prices and quantities. However, Coase (1937) set the starting point for an open discussion about the structure of market and its intermediaries. He highlighted the difference between market transactions and the structure of organization, which does not rely on the price mechanism. The main argumentation was that market transactions are not free of costs. In order for the price mechanism to work, one needs to know the respective price of a good (Rau, 2007).

Transaction-based viewpoint focuses on the actual transactions occurring in the outsourcing process, and how companies outsource to minimize transaction costs. According to transaction cost economics, the client companies use the cost reduction on production and transactions to make the decision concerning outsourcing. Transaction cost viewpoint also specifies the conditions where the client company should manage the economic exchange internally within its boundaries and where the conditions are more suitable for managing an external economic exchange, i.e. outsourcing from the marketplace (Rantakari, 2010). Generally, according to this theory, outsourcing is only desirable as long as the costs of related asset specific investments,

contractual incompleteness and search efforts are lower than the expected cost advantage. In the case of outsourcing it is often linked to specialization, *i.e.* to management theories focusing on the firm's core competences (Olsen, 2006).

2.3.2 Resource-based view

The theoretic foundation was set by Wemerfelt (1984), who tries to analyze the firm's resources and links them, to the variable strategic options. Thus, in contrast to prior strategic management research, he shifted the focus from the product market to the organization and its resources (Rau, 2007). According to the resourced-based view of the firm, the organization's ultimate objective is to achieve above average profitability (Competitive advantage) by obtaining resources and defending competitive positions which are important to production, service and distribution (Wernerfelt,1984; Barney,1986; Conner, 1991 cited in Ridrugyez and Robaina, 2004). Accordingly, long-term benefit from a resource can be achieved when the firm itself owns the resource, while competitors are not able to obtain it (Rau, 2007).

Resource-based viewpoint is based on the theory that companies utilize outsourcing to get resources not available internally. The outsourcing decision in resource-based viewpoint is based in the client company's abilities to invest in internal capabilities and thus sustain competitive advantage. Those processes where internal resources or capabilities cannot be utilized can be outsourced (McIvor, 2008).

2.3.3 Core competence theory

The concept of core competences has been developed on the basis of the resource-based theory (perunovic,2007). According to Prahalad and Hamel core competence is defined as "*the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams technologies (page 81).*" In 1990, Prahalad and Hamel released "The core competence of the Corporation". The article depict that the core competence is the root of sustainable competitive advantage and new business development of firm, which should be the strategic focus of firm. Only the core competence and core products could allow firm to achieve the lasting leading position in the global competition (Prahalad and Hamel 1990).

Cao(2011), identify the main points of the theory:

1. The competence of firm comes from the ability that the firm can establish core competence in the lower cost and faster speed than the competitor.
2. Core competence is the compound of many elements; it is the combination of technology, management structure and collective learning. The core competence of enterprise is an ability to have a resource which is scarce, difficult to imitate, valuable and extensible. The standards of inspecting the core competence are: Firstly, if it provides potential access which can lead to various market; secondly, if it brings obvious value for customers; thirdly, if it is difficult to be imitated by competitors.
3. Diversified firm is the combination of core competence, not the combination of products and career from Porter school.
4. Construct core competence and roadmap for the future of relevant technology. Keep the consistency of interior resource of firm through constructing strategy.

The applications concept of core competences in outsourcing becomes very popular among researchers. However, which kinds of activities in the firms could be outsourced are still surrounded in controversy. Most of the researchers hold the opinion that the firm's core activities are not proper to be outsourced (Quinn and Hilmer, 1994). Arnold, 2000 developed a general outsourcing model to separate the firm's activities. According to the model, the decision makers prefer to maintain the core activities and outsource the "disposable and core-distinct activities". Moreover, in recent years the focus of outsourcing has been changed, not only for cost economics but also a strategic decision looking for "business partner who can contribute to the strategic efforts of the company by providing it with expertise and competencies that are not found in-house" (Xu.Y 2009).

Generally, the outstanding feature of this theory is to regard starting a new career as the focus of firm strategy, core competence as the sustainable competitive advantage of firm and source of developing a new career. From the basis of the theory, core competence is a concept of competition dominance based on resources, regards the firm as the combination of a series of unique resource (Cao, 2011).

2.3.4 Competitive Strategy Theory

The founder and representative of competitive strategy theory is Michael Porter.

According to him, competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favourable competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Therefore, firms should choose attractive industry if it wants to obtain the competitive advantage. Surrounding this proposition, he presented the competition model of explaining and analyzing competitive condition and profitability which are based on five elements including supplier, purchaser, current competitor, substitute products and potential incomer. This five faces determine industry profitability because they influence the prices, costs and required investment of firms in an industry (Porter, 1985).

More over Porter presented concept of value chain in his book "Competitive advantage".

According to Porter's (1985) concept of value chain, enterprise is a composite of design, manufacturing, sales, transport, management etc. Its process of creating value can be resolved into a series of different but correlative value-added activities which form the value chain of enterprise. Value chain is a framework that helps to analyse specific activity through which firms can create value and competitive advantage. The firm can divide the value activities into primary and support activities. Primary activities are those involved in the physical creation, delivery, sale of the product, or services, as well as after the scale assistance. Primary activities are further clustered into upstream and downstream activities. Support activities support the primary activities and each other by providing needed resources. Value chain of enterprise is not isolated, it reflected in more extensive value system. Achieving and keeping the competitive advantage are decided by the value of firms, and the value system which firms belongs to (Porter, 1985).

Generally, Porter's competitive strategy implies that, firms should choose and enter into attractive industry to improve its profitability. In additional, firms should work out correct

strategy to strengthen its competitive advantage in its own cost or differentiation based on the analysis of five elements which can influence the competitive position, deep analysis and value chain analysis of interior competitive strengths and weakness and exterior opportunity and threaten.

2.3.5 Agency theory

The focus of the agency theory originally was on the relationship between managers and stakeholders (Jensen and Meckling, 1976 cited in Pedersen, 2007). But through time it become more and explaining the relationship between two inter-firm subjects. According to this theory bounded rationality and self-serving behaviour or opportunism of a firm's employees can imply productivity losses. As such, conflicting goals and interests between the firm and its employees may pose a problem to the firm. To reduce inefficiencies stemming from this source the firm can outsource its activities to an external provider and control the output or effort of the provider through an outcome based contract (Olsen 2006).

In this context the agency theory is associated with the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection should be resolved by monitoring and bonding.

2.3.6 Relationship market/view

The relational view of resources-based theory argues that an individual firm is often unable to cope with the challenges from global competition by its own resources and capabilities. Therefore, except for enhancing their own core competencies, enterprises also have to seek out cooperation with other firms to establish relational networks for mobilizing external resources. Especially in the process of internationalization, developing relational networks in the international market to obtain resources and access market is the key issue for internationalization operations (Wong, 2011).

The main concept of the Relational View theory is the concept of relational rents. According to Dyer and Singh (1998), relational rent define as “a supernormal profit jointly generated in an

exchange relationship that cannot be generated by either firm in isolation and can only be created through the joint idiosyncratic contributions of the specific alliance partners.” Relational rents are possible when the alliance partners combine, exchange, or invest in idiosyncratic assets, knowledge, and resources/capabilities. The relational view argues that the firm can develop valuable resources by carefully managing relationships with external entities including suppliers, customers, government agencies, and universities. Therefore, a firm can gain and sustain competitive advantage by accessing its key resources in a way that spans the boundaries of the firm. Competitive advantage can be embedded in a set of relationships across the boundaries of the firms, rather than residing inside an individual firm (Bharadwaj and Saxena 2010).

Relational theories are important for the study of BPO, as the clients and the service providers that make relation- specific investments and are able to combine resources in unique ways to generate relational rents, can gain competitive advantage over the BPO clients and service providers that are unable to do so (Bharadwaj and Saxena, 2010).

2.3.7 Knowledge-Based view

The knowledge-based theory of the firm considers knowledge as the most strategically significant resource of the firm. Its proponents argue that because knowledge-based resources are usually difficult to imitate and socially complex, heterogeneous knowledge bases and capabilities among firms are the major determinants of sustained competitive advantage and superior corporate performance. This knowledge is embedded and carried through multiple entities including organizational culture and identity, policies, routines, documents, systems, and employees. Originating from the strategic management literature, this perspective builds upon and extends the resource-based view of the firm initially promoted by Penrose (1959) and later expanded by others Wernerfelt, 1984; Barney, 1991; Conner 1991.

The knowledge-based view provides insight in understanding how individuals co-operate to produce goods and services. The knowledge-based view distinguishes two ways how knowledge is shared among partners. They are knowledge generation and knowledge application. The knowledge-based view has been used in utilized in the outsourcing research to prove that

knowledge sharing in the Managing relationship phase is positively related to the success of an outsourcing arrangement (Perunovic, 2007)

2.3.8 Economy of Information

It has been admitted that the information is not perfect and new economical models emerged to explain situations where two parties possess unequal or none quantity of information. One of the first works in the area was development of the search theory (Stiger, 1961). The identification of sellers and the discovery of their prices are only one sample of the vast role of the search of information in economics. Application of the economy of information in outsourcing is associated to activities of searching, selecting and contracting the vendor.

2.4 Motivational factors for Process Outsourcing: synthesis of previous studies

Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves. Numerous deriving factors are identified by different researchers. The main drivers at the heart of the BPO revolution are: Business Specialization, Educational Attainment, Internet Security, Online analytic processing, Inexpensive data storage and Broadband internet (Click and Duening 2005). According to Ramin and Ahmad based on their survey, on Malaysian Government Linked companies; BPO driving factors are economics of scale, reduction operation cost, improvement in technology and expertise. Cardenio Vasquez, 2008 also identifies the factors that are initiate for BPO are: Focus on core competencies, Cost savings, Quality, Flexibility, Time-to-market, Access to diverse technologies.

According Power, Desouza and Bonifazi, 2006, the most prominently BPO driving factors are: Access to resources and knowledge, Cost Saving, Focus on core competencies and (Factors driving global outsourcing efforts?) .

- **Access to resources and knowledge:** - No organization is self-sufficient. Being self-sufficient is not economically viable for a basic reason – opportunity cost, which is the value derived from the best alternative use of a resource. If organizations try to do

everything and spend all their resources to create expertise, skills and technology, they are under-utilizing their resources. Other firms in the marketplace may be able to provide them access to necessary resources at lower cost than it would take them to produce these resources.

- **Cost Saving:** - The predominant reason given for engaging in outsourcing is the cost savings, which are realized in several ways. First, cost savings can come from the simple move from fixed to variable cost models. In the fixed cost model, you own all the resources and have to pay for their acquisition, upkeep and maintenance. These costs are fixed and occur no matter if you use the resource or not. Under the variable-cost model, you do not incur the fixed costs associated with maintaining the asset but only pay a fee when you use the assets or access them.
- **Focus on core competencies:** - Outsourcing not only involves the transfer of work, but also the transfer of decision rights. By transferring decision rights, the organization is reducing its need to focus high levels of resources on the effort of decision making. The vendor takes on the responsibility for decision making and is held accountable for the decision outcomes about achieving project goals. Transferring decision rights and accountability allows the client to pay more attention to its core competencies. Without engaging in outsourcing, the organization will perhaps not focus on areas in which it should invest manager attention and efforts.
- **Factors driving global outsourcing efforts:** - business practice of offshoring focuses on the relocation of labour intensive service industry functions to locations remote to the business centre. Two main changes in the business environment have enabled offshoring. First, the improvement in international telecommunications capacity, and the associated reduction in global telecommunications costs, is fundamental to the economics of offshoring. Second and just as important, over the past two decades the PC has enabled the computerization and digitization of most business services. As a result of these two changes, information can now be transmitted over long distances at very low cost and

with little or no loss of quality. These changes make organizational boundaries and national borders much less important in deciding the location of service functions.

Although BPO driving factors are various, there are three major categories of motivations for BPO: cost, strategy, and politics. The first two commonly drive private industries for outsourcing. Political agenda often drive public organizations for outsourcing (Kakabadse and Kakabadse, 2000a cited in Kremic, 2006). Cost driven BPO: outsourcing for cost reasons can occur when suppliers' costs are low enough that even with added overhead, profit, and transaction costs suppliers can still deliver a service for a lower price. Strategy-driven outsourcing: BPO as a strategy, which may offer improved business performance on numerous dimensions. The most often cited strategic reason for BPO is to allow the organization to better focus on its core competencies. Politically-driven outsourcing: public organizations are sometimes perceived as inefficient and bureaucratic, political candidates may promote outsourcing ideas, particularly at election time, to demonstrate their willingness to make positive changes in the district. Another reason for public sector outsourcing may be better accountability (Kremic, 2006).

2.5 The Business Process Outsourcing Life Cycle

Business Process Outsourcing as a process is usually defined as a multistage process. Different researchers describe outsourcing process similarly. According to Zeng 2003 cited in Rantakari, 2010, outsourcing process include Outsourcing Strategy(Core analysis, Sourcing strategy, Analysis of competitive environment), Vendor Evaluation (Evaluation Criteria, Selection Criteria, Economic and operation benefits), Supplier Selection(Due dalliance, Implementing schedule), Implementation (Team, plan and Schedule, Measurement of performance and progress reporting) and Measurement and Continuous Improvement (Supplier performance monitoring ,Relationship management and continuous improvement). Another typical way of defining outsourcing as a process is to divide into four different main steps: internal benchmarking analysis, external benchmarking analysis, contract negotiation and outsourcing management (Franceschini, Galetto, Pignatelli, Varetto , 2003). Another outsourcing process explained by Perunovic (2007) is consists of the preparation, vendor selection, transition, management of relationship, and reconsideration phases. These three definitions describe the

same phenomenon, and are fairly similar when the second and third steps in the five-step process are combined.

Power, Desouza and Bonifazi, 2006 examine the phenomenon of the whole outsourcing process as life cycle. The outsourcing life cycle is made up of the following stages: (1) strategic assessment; (2) needs analysis; (3) vendor assessment; (4) negotiation and contract management; (5) project initiation and transition; (6) relationship management; (7) continuance, modification or exit strategies. Each of the stages of outsourcing has Sub-components and sub-processes that need attention.

- **Strategic Assessment:** - Every organization is unique in its value proposition, asset composition, processes, people and products. Hence, each organization needs to evaluate any new strategy seriously, in its own context, before investing in it. In this stage the organization develop a clear vision of outsourcing, setting tangible goals and objectives, determine how outsourcing fits into the overall business strategy, select and engage executive sponsors for the outsourcing endeavour, identify the key functions and processes suitable for outsourcing and determine whether the engagement should be onshore, near shore or offshore. While conducting a strategic assessment, the organization also needs to determine its organizational challenges, develop a mission and vision to make outsourcing work, identify risks and mitigations, identify strategies and tactics to maximize outsourcing value and communicate the results of the strategic assessment phase to key stakeholders.
- **Needs Analysis:** - Defining the needs of an outsourcing project represents a seminal step in the outsourcing life cycle, as it is the statement of needs that gets transferred to the vendor, decides the outcomes of the efforts and sets the stage for evaluation of the outsourcing project. Without appropriate care in defining the needs of the effort, only one outcome is assured – a disaster. Critical questions of needs analysis are to outsource or not? What to outsource? Does it make business sense to outsource the process? Can you outsource the process? Can you measure the process?
- **Vendor Assessment:** - The outsourcing process as similar to how people make friends or find lifelong partners. Without an adequate sense of his or her needs, it will be very difficult for an individual to enter and sustain a successful relationship. Vender

assessment signifies how to go about choosing the right vendor to meet your needs. Once an origination decides that there is a justified need for a relationship, the next step is to seek out the right type of relationship and partner.

- **Negotiation and Contract Management:-** Negotiations are a normal aspect of doing business, as organizations are all hoping to secure the best deal possible. The essentials of good outsourcing negotiation are Know yourself, know your vendor, know your market, prioritize your requirements, know your time frame, start from your position then move towards the vendor's, have the right negotiation team, appreciate cultural differences – organizational and national document and negotiate towards a relationship not a contract. Once negotiations end in an agreement the next logical step is to document the agreement – produce the contract. Outsourcing contracts can range in depth, detail, form and duration. However, good contracts are clear, concise, and complete and have well-defined statements on how the client and vendor organizations will meet each other's business outcomes and expectations.
- **Project initiation and transition: -** After signing the contract, an organization studies the outsourcing relationship in three stages. First, the client has to initiate or start the project, which can be considered the immediate period following the signing of the contract. Next, begins the transition of the project, where the client organization begins to relinquish control and the vendor begins to take control of the project. The third stage is managing the ongoing relationship to ensure that it meets with the original expectations and to improve the relationship as needed.

Project initiation is where a client organization puts the foot to the pedal and begins outsourcing the work. This stage can be best described as one of chaos and chaotic issues. Even in the best outsourcing deals, things are bound to get a bit rough during this initial phase. Relinquishing control to the vendor occurs during the transition stage. The focus of this stage is to transition work, decision rights and knowledge to the vendor organization, so that it can conduct the work effectively and, for the most part, independently from organization. The critical issues that must contend with and pay attention to are Developing a transition plan ,Standards and integration issues, Training and knowledge transfer, Communication protocols, Issue resolution, Intellectual property protection and security provisions and Contingency processes.

- **Relationship Management:** - After the transition stage, the outsourcing relationship will reach a stage of normality. During this normality stage you need to focus on managing the outsourcing relationship. However, managing the relationship during the stage of normality is not the same as when it is going through the stages of project initiation or transition. The initiation and transition stages require constant and diligent human intervention. This is because the project is in its formative period and requires a great deal of care and attention. Once the outsourcing project reaches a state of normality, the focus should be on moving from direct human intervention or supervision towards a more routine and automated governance process.
- **Continuance, Modification or Exit strategies:** - It is final stage in the outsourcing life cycle. Getting the relationship management in order is only the start of the relationship, not the end. As organization continue with the relationship there will be times when you must pause and evaluate the performance of the outsourcing vendor, the net gains from the relationship and how these fit with your current business needs and the realities of the marketplace. Modifications and terminations of current outsourcing agreements require executives to restart the life-cycle process. This will need to reassess the organization in terms of its readiness for outsourcing. The organization may need to dispense with outsourcing and move the work in-house only because, since the start of the outsourcing engagements, there have been significant changes in the business that demand such a decision. If organization decides that still want to outsource the activity but have terminated the existing agreement, it will need to conduct a new search for a vendor, renegotiate a favourable contract and start the governance process again.

2.6 Advantage and Disadvantage of Business Process Outsourcing

2.6.1 Advantage of Business Process Outsourcing

The rapid growth of Business Process Outsourcing suggests that both public and private organizations gain advantage from BPO (Kremic, 2006). Although back at its beginning, BPO was mainly considered a means to diminish costs, BPO today is seen not only as a simple means for cost-cutting but also as a strategic initiative which is expected to shape and ready the organization for future business dynamics. Still, besides diminishing costs, BPO can save

precious management time and resources as it makes it possible for companies to concentrate on their core competencies. BPO providers always show a high process expertise and can increase their experience by offering the same services to different clients and thus responding to different challenges (Vasquez, 2008).

The advantage that a company could gain through BPO can be seen both from the operational and the strategic point of view. Too often companies look at outsourcing as a mean to lower only short-term direct costs; operational impact. However, through strategic outsourcing, companies can lower also their long-term capital investments and leverage their key competencies significantly; strategic impact .Operational impact includes Cost reduction Improved quality of service, Reduced inventory costs, Capital investment reduction Upgrade systems, Accommodated seasonal peaks. Strategic impact are: Access to expertise, Easier access to foreign markets, Concentrate on core competencies, Economies of scale Tagliapietra, Plantan, Li and Schneider,1999)

According to Tayauova 2012, the most significant advantages of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility which is summarized the advantages that are mentioned by researchers.

A summary of advantages are as follows:-

- **Focus on core activities:** - 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.
- **Cost savings:** - 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.
- **Access to experience:** - 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.
- **Improving performance:** - 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.

- **Flexibility:** - 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.

2.6.2 Disadvantage of Business Process Outsourcing

Despite the many advantage it offers, BPO will lead to several problems and risks at the same time. According to Fan, Sandal, Kong, and Li, 2009 empirical study, majority of firms believe that outsourcing a certain business function will also face risks, such as the legal disputes, increasing dependence with vendors, disclosure of commercial secrets, and interest conflicts with outsourcing partners.

In addition, some argue that reliance on outside suppliers is likely to lead to a loss of overall market performance (Bettis et al., 1992; Kotabe, 1992, cited in Gilly and Rasheed, 2000). One of the most serious threats resulting from a reliance on outsourcing is declining innovation by the outsourcer. Outsourcing can lead to a loss of long-run research and development (R&D) competitiveness (Teece, 1987, cited in Gilly and Rasheed, 2000) because it is often used as a substitute for innovation. As a result, firms that outsource are likely to lose touch with new technological breakthroughs that offer opportunities for product and process innovations (Kotabe, 1992, cited in Gilly and Rasheed, 2000). The other main disadvantages that mentioned by Tagliapietra, Plantan, Li and Schneider,1999 are: Loss of critical skills, Loss of cross-functional skills, Loss of control over the supply chain, Human resource issues and Lack of global logistics providers.

Tayauova, 2012, point out main disadvantages of Business process outsourcing. They are:

- **Loss of managerial control over outsourced operations:-**disadvantage related to the loss of control over the outsourced operations stems from the reason that managing external resources requires special skills which is a combination of the skills of people and process management, contract management, and power negotiation.

- **Threat to security and confidentiality:** - 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.
- **Quality problems:** - 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
- **Hidden costs:**-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
- **Reallocation of existing teams:**-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.

2.7 Areas of Business Process Outsourcing Services

BPO can be applied to a whole range of different areas and functions. According to Vasquez, 2008, the most common outsourced services are: Administration, Customer Relationship Management , Document Process, Finance and Accounting , Human Resources and Training, Intellectual property Research and Documentation, Legal services, Payroll maintenance and other transaction processing, Product development, Publishing, Research and analysis, Sales and marketing, Security and Supply chain management.

Similarly, Bragg (1998), grouped common outsourced functions in to six, these are: Administration Function, Sales and Marketing Function, Materials-Management Function, Finance and accounting Function, Human Resources Function, Computer Services Function and Maintenance and Janitorial Function.

2.7.1 Customer Service Function

One of the newest and fastest growing services in the outsourcing arena is customer service. Customer service outsourcing can include outsourcing of functions such as customer support, order taking, customer service, product support, technical help desk, collections and market research. With this service, a company allows all inbound customer calls to be routed to a supplier owned call centre that answers customer questions, routes field-service personnel to customer locations for repairs, enters service or product orders from customers and courteously tries to persuade customers not to return products or call service (Bragg,1998).

2.7.2 Computer Service Function

According to Bragg (1998), over the last two decades, computer service outsourcing has been seen the largest volume of outsourcing of all functional areas, in terms of the total dollars volume of contracts signed. There are number of functional areas within the computer service umbrella that can be outsourced. One of these functions is data centre management, in which the supplier frequently transfers all of the company's mainframe-based applications to a large centralized facility that it operates for a number of companies, and processes all of the company's software applications from that location. Another function is management of company's voice and data networks, which requires that the supplier have a staff on-site to fix and upgrade these networks, while also maintaining online diagnostics from a remote location to determine how to fix network problems. Another area is the help desk, in which a supplier maintains an off-site staff that answers the queries of company employees regarding problems with their software. The other function is maintenance of desktop computers, which requires a skilled team of on-site technicians. Yet another function is legacy system maintenance, in which supplier is brought in to ensure that a long-term, custom-developed software application that the company depends on continues to operate properly. Finally, there is the applications-development function in which suppliers have a team of systems analysts and programmers develop new software for a company. Moreover information technology is one of the most popular areas of outsourcing. It can, however, involve a range of issues. For example, equipment, premises, people, third party agreements and so on (IT outsourcing: outsourcing Magazine Zone, cited in Meresea, 2007).

2.7.3 Finance and accounting Function

Finance and accounting outsourcing can include services such as internal auditing, time and expense management, travel expenses, credit and debt analysis, collections, invoicing, accounts payable, accounts receivable and billing-dispute resolution (Vasquez, 2008). Finance and accounting is among the most commonly outsourced functions, though it is usually limited to only a few tasks within the function (Bragg, 1998). There are opportunities to outsource a wide array of services in the area, if company is willing to work with multiple suppliers to achieve this goal. Some examples are: virtual payroll can be fully outsourced through internet, collection of accounts receivable can be outsourced from hundreds of supplier, cash management is also another part that can be outsourced by banks taxation, financial reporting and internal auditing series are also outsourced, accounts payable check printing can be outsourced to more technologically progressive banks, there are also suppliers who specialize in taking in cash receipts on behalf of the company's bank account along with a collection register detailing who paid the money and etc (Bragge, 1998)

2.7.4 Human resources and training Functions

Human resources normally constitutes one of the most critical fields of a company in which it needs to carry out various tasks such as recruitment, training, attrition/retention, database management, contract-worker management, etc., for their employees. It is very costly and takes away the attention of the management from its core business issues if they have to carry out these tasks through an internal human resources department. This is why nowadays, many companies resort to human resources outsourcing (Vasquez ,2008).

There are many aspects of services provided in human resource function which are clerical and not clerical. Such clerical functions can be handed over to the supplier who is better equipped through better technology or economics of scale to administer them. Many human resources services are fall into not clerical category, such as medical, life and workers' compensation insurance. The other not clerical services such as recruiting, training, outplacement and relocation are better left to specialist. Some tasks are highly unsuitable for outsourcing, such as

succession planning and the design of training classes, since the areas require in depth knowledge of the company and its employees (Bragg, 1998).

2.7.5 Sales and marketing Functions

Sales and marketing outsourcing can involve delegating parts of sales and marketing functions such as cold calling, email pitches, telephone surveys, lead generation, lead qualifying, appointment setting, sales team management, etc (Vasquez ,2008).

According to Bragg, 1998, outsourcing has been common for many years in the areas of public relations, advertising, and distribution and outside sales, and two of the newer areas that are increasingly being outsourced are telemarketing and direct mail.

Product development:-In order to stay competitive, companies need to innovate all the time. As product development requires an increasing specialization of expertise, companies decide to outsource their product development to vendors with a certain expertise in a given field. Over the past few years, numerous companies have initiated off-shoring product development to other countries including India which is becoming more and more important in this field (Vasquez,2008).

2.7.6 Administration Functions

There are number of service areas within the administration function, and all of them can be outsourced to suppliers. Outsourcing of administrative support functions can include data entry, document conversion, forms processing, document scanning, indexing, secretarial tasks support, etc (Vasquez ,2008). According to Vasquez, 2008 the following bulleted points note the available services:

- **Security Functions:**-To keep their data safe from being copied and theft, companies have to search for new technologies and also employ qualified security professionals. It is a difficult task to maintain these resources and implement a fool-proof security policy. This means that it can be handled better by experienced third party security agencies. Security outsourcing can involve management of investigative services, physical security, electronic security systems, computer and network security, etc.

- **Intellectual property research and documentation Function:-**Outsourcing in intellectual property research and documentation can include filing and drafting of patent applications, prior art research, licensing support, and patent portfolio analysis.
- **Publishing Functions:** - Publishing outsourcing can involve outsourcing of publishing functions such as book design, book digitization, publishing, drawings and graphics, indexing, journal administration, etc.

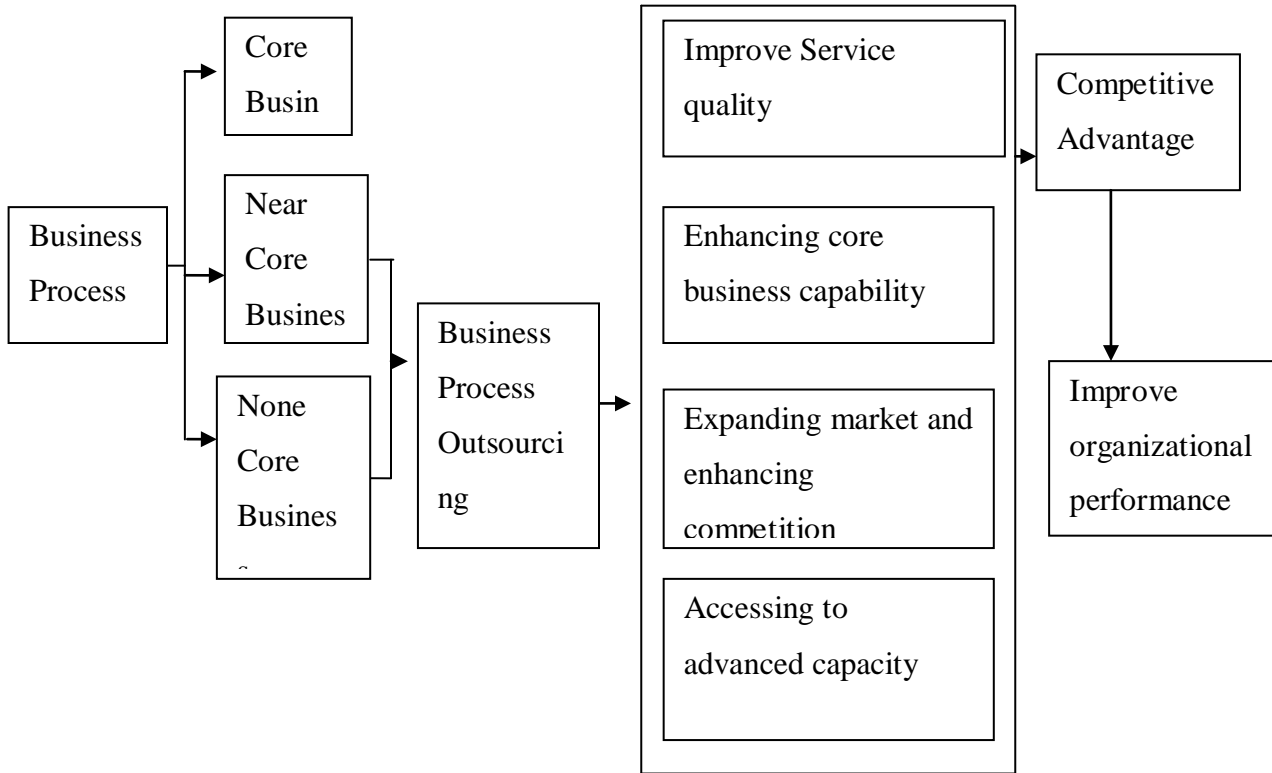
2.7.7 Other Outsourced Functions

According to Vasquez, 2008 the following areas also can be outsourced:

- **Legal services Function:-**Legal process outsourcing (LPO) can involve consulting, research, transcription, documents management, billing, translation and other administrative and secretarial support services that a company needs for various legal functions such as commercial litigation, arbitration and mediation, appeals, government contracts, legal risk evaluation, etc.
- **Supply chain management Functions:-** Outsourcing in supply chain management can involve logistics, procurement, warehouse management, contract management, supply chain relationship management, etc.
- **Research and analysis Functions:-**In order to make informed strategic decisions, companies require data and its analysis. Hence, companies have begun outsourcing their research and analysis requirements to vendors specializing in typical research and analysis work such as data analytics, financial analytics, market research, secondary research, primary research, industry overview, competitive intelligence, etc.

2.8 Diagrammatic Representation of the Framework

Figure 1. Conceptual framework



Arnold U, (2000), Fan.T, Sandal L.k, Kong.J, Sandan Li .S (2009), Akewushola, (2013).

The firms activity generally separated in to three: Core activities (All activities which are necessary connected with a company’s existence), Near core activities (directly linked with core activities) and Noncore activities (Support and general activities).The Outsourcing decision are preferred to make on near core and non core activities and activities which are consider to be core competencies are maintain by the firm itself. Common benefits of outsourcing business process are reducing operation cost, enhancing core business capability, improve service quality, accessing to advanced capability and expanding market and enhancing competitions. This benefits are leads to a business to meet its competitive advantage and improve its’ organizational performance.

CHAPTER THREE

Research Methodology

3.1 Introduction

The purpose of this chapter is to describe the research methodology and techniques that were used to conduct the study. In order to meet the purpose of this study, it is necessary that the researcher discussed the methodology of the study where by the research design, target population, data collection instrument, data collection procedures and the method of data analysis.

3.2 Research Design

A research design, which is a function of the research objectives, is defined as “a set of advance decisions that makes up the master plan specifying the methods and procedures for collecting and analyzing the needed information” (Burns and Bush, 2002).

In order to describe and analyze business process outsourcing business strategy for EPSE to face competitive business environment, the researcher followed descriptive and analytical type of research design. Descriptive research is a type of research that is mainly concerned with describing the nature or condition and the degree in detail of the present situation (Belaynew, 2012). Qualitative and quantitative research methods were employed in the research in order to develop the study.

3.3 Target population and Sampling technique.

The population for this study was defined as top management, SPM string committee and technical committee in EPSE. The top management consists of a General Manager, a Chief Executive and 18 Process Managers. SPM string committee consists of 14 managers, 3 of them from lower, 8 of them from middle and 3 of them from top. SPM technical committee consist of 10 experts who are from different departments.

The total population for this study is 20 top managements, 14 SPM string committee members and 10 SPM technical committee members. I have considered 20 top managers in my questionnaire and 24 SPM string and technical committees in my focus group discussion. Totally I contacted 41 personnel who are work in EPSE.

Census is practiced to appropriate information for the Study for questioner and focused group discussion. Purposive sampling is used for interview.

3.4 Research Instrument and Source data

The study uses both secondary and primary data. The primary data was collected by questionnaires survey, interviews, focus group discussion and personal observation. The structured close ended questionnaire was designed for General Manager, Support Chief Executive and Process Managers with the objective of to gather data about BPO and its competitive advantage in EPSE. Semi structured interview was held with General Manager and Marketing and Business Development Manager to gather information about organizational overview of EPSE, service quality, brand quality, customer analysis and competitor analysis. Focus group discussion was held with SPM string committee and technical committee to assess internal and external situational analysis. Secondary data was collected from customer satisfaction index, mail circulation index, Annual Reports and Strategic Plan (2011-2015).

3.5 Method of Data Analysis

Selecting the appropriate statistical analysis technique is very important to achieve the intended objectives of the research. To this, data collected from Top manager were tabulated and analyzed using statistical tools such as descriptive statistics (frequencies, percentage mean and slandered deviation). To assess the awareness level of top managers about the concept of BPO respondents are asked to show their level ranging from very high to never heard of it.

A five point Likert scale are used to assess Top Manager level of awareness ranging from 1=very high to 5=very low. In related to their agreement ranging from 5=Strongly agree to 1=Strongly disagree and also level their satisfaction ranging from 5=very satisfied to 1=very unsatisfied.

On the other hand, data collected from General Manager and Marketing and Business Development Manager through interview and focus group discussion with SPM string and technical committee is analyzed qualitatively.

The data for the entire study was feed in to the statistical packages for social sciences (SPSS), version 19 to process the data.

CHAPTER FOUR

Overview of Organizational Background and Competitiveness for Ethiopian Postal Service Enterprise

4.1 Establishment and Organizational Evolution

The first proclamation for the institutionalization of postal- communications in Ethiopia dates back to 1894, during the reign of Minelik II, when services were rendered with the help of mules, horses, camels and postmen throughout the period up until 1936 due mainly to the limited expansion of Multi-modal transportation (2011 – 2015, strategic plan).

Ethiopian Postal Service Enterprise (EPS) was founded as a separate office in 1907 with the official denomination in “The ministry of post telegraph and telephone”, in the case of which such ministry used to provide a combination of postal and telecommunication services in 1945, the telecommunication service was restructured as a separate office, whereas the postal service has remained under the auspices of the ministry as one of the latter’s departments in the meantime. However, the 1966 proclamation for the institutionalization of postal services resulted in the establishment of postal services as a separate intuitional organ with a separate legal entity /personality under the ministry, to the effect that the postal office regained momentum for the improvement and promotion of its services (EPSE strategic plan, 2011 – 2015).

After 15 years from the enactment of the first proclamation for the institutionalization of postal services, Ethiopia was acceded to the Universal Postal Union (UPU) and the Pan African Postal Union (PAPU) in 1980, ever since which Ethiopia, as one of the latter’s founding member states, has kept extending substantial contributions. Ethiopian Postal Service Enterprise performs its routine operations in compliance with the respective rules and regulations issued by such unions in addition to its legally mandated institutional powers, duties and responsibilities (EPSE strategic plan, 2011 – 2015).

In addition to that the enterprise should review its legally mandated institutional and customary functions, duties and responsibilities in order to make its public services accessible; leverage its market competitiveness as well as to optimize its local and international market shares and

opportunities. Based on this, therefore, the Proclamation no. 240/66 for the Institutionalization of Postal Services and the Council of Ministers-Regulations No. 165/2009 for the Institutionalization of Postal Service are hereby reviewed.

As defined and determined so under Article 7 of the Proclamation No 240/1966 and under Article 5 of the Regulations No.: 165/2009, Ethiopian Postal Service Enterprise is exclusively mandated to perform its institutional functions pertaining to the provision of the following public services.

1. To provide domestic and international letter post, parcel post, express mail, money transfer, direct mail, postal bank and other financial services, electronic mail service and agency services.
2. The acceptance and remittance of limited sums of money by means of postal money orders.
3. The management and control of a Post Office Saving Service.
4. The management and control of a cash- on delivery (C.O.D) service of postal packets and parcel.
5. To rent private post boxes and install collection boxes at all places deemed necessary.
6. Issue and sell philatelic stamps, first day covers and philatelic products.
7. To provide training service for postal personnel
8. To perform any other similar activities to achieve its objectives.

Currently, the Enterprise is providing the following services, in addition to its exclusive institutional mandates to solely provide the services of postal collection and delivery, for which it was institutionalized, ever since its very inception, with the view of maximize diversity its sources of revenue;

- Outsourcing – services (including pension, revenue stamps; stock-sales SIM Card and Voucher Card sales pocket money payment for Non- café students and so on):
- Own transportation services
- Electronic – money transfer
- Door – to Door Collection and Delivery Services.

Nonetheless, given the fact that growth, changes and operational reforms are ceaseless and constant by their very nature, the enterprise is required to keep reviewing and revising its business /operational processes with the view to provide the public with efficient, modern and accessible services as well as to leverage its market competitiveness. To this end, the pertinent accounts reveal that the enterprise has evolved into its current status by continuously developing the relevant strategic – plans; adopting conducive structural – adjustments as well as designing and applying operational systems and processes that help the efficient and effective realization of its institutionally mandated objectives. As such, the recently studied and applied Business Process Reengineering (BPR); in 2010 revised overall Strategic Plan of the Enterprise; in 2008 implement Balanced Scorecard (BSC) performance measurement system; in 2009 prepare Postal Reform Package as well as the structural adjustment, salary scale and Human resources Planning are studied and applied.

Ethiopian Postal Service Enterprise, which functions under the auspices or supervision of the Ministry of Communications and Information Technology as well as reporting to the Board of Directors, is currently managed by a General Manager and consists of one Support Chief Executive, 18 work processes and 19 Zones. In 2013 the Enterprise is reported to have been staffed with 1128 permanent, 570 contract and 121 temporary employees with varying fields of specialization and profiles of work-experience. Moreover, the enterprise has 597 permanently stationed postal offices, 4 regular postal agency offices as well as 492 postal agency offices throughout all the respective regional states thereby providing its services. On the top of this, the status of its revenues has been elevated from the lowest level at the time of establishment to that of Birr 198, 733, 536 at the end of 2013 (Annual Report, 2013).

Generally speaking, the enterprise has hosted 119 years of service, during which invaluable contributions have been extended by the Enterprise to the postal services. Despite the Enterprise's monopoly of or predominance in the postal sector for the past several years, international private companies have become aggressively engaged in the EMS as of recent time with the advent or introduction of the Free Market Economic Policy (in the country). Hence, apart from complying with the laws of the state, Ethiopian Postal Service Enterprise still renders its services by enduring the challenging competition from such highly experienced; well-established and renowned transnational courier service companies.

- **Mission :**

To connect the citizens and Institutions among themselves and to the world by providing quality and economical postal service.

- **Vision:**

In the year 2015, Ethiopia Post to be known for Excellency in the country and exemplary in the world.

- **Values**

1. Due respect to customers
2. Delivery quality of services
3. Team – work
4. Integrity

4.2 Internal Analysis

Internal analysis will help the companies identify if the existing strategy is suitable, or if there is any need to adjust it. Certainly internal analysis address companies performance, such as brand association, and products quality (Aaker, 2001).

4.2.1 Organizational Structure

SPM technical committee following the completion of BPR studies and their subsequent implementation, the enterprise's Organizational structure has shifted from Functional-Based to Process-Based structure. According to which, thus, the enterprise, reporting to the Board of Directors, has been restructured with one General Manager, one Support Division Execution Officer, 18 Work Processes and 19 Zones. The Work Processes consist of 7 core processes and 11 support processes. Such restructuring has not only helped the achievement of improved performance but also clearly defined the individual duties and responsibilities of the respective work processes, thereby consequently specifying and identifying ownership for each and every function, duty and responsibility of or under the enterprise.

Yet, such restructuring can hardly be exception to certain limitations or gaps which, among others, include: the failure to accommodate the Enterprise's newly adopted functions; prevalence of duplication of efforts among some work units and the resultant wastage of resources; numerical enlargement of the work units reporting to the General Manager as well as absence of sufficient Power-Separation (Restructuring document, 2014).

4.2.2 Human Resources

According to the General Manager, the majority of the enterprise's employees are characterized by sense of belonging and concern as well as by the commitment determining responsiveness adaptability to changes. As a result they are striving for their adaptation to the enterprise's newly introduced functions to ultimately realize the Enterprise's vision. Furthermore, work related technical expenses and skills of employees are ever improving as the result of their exposure to the regularly organized "In-House" and "External" Training Programs. On top of that, the enterprise, which retained senior staff members and recruited new employees, is well – staffed with a large number of highly – skilled, qualified, well – trained and experienced workforce,

Despite the above specified strengths, certain staffing – related weaknesses have been observed such as the minimal number of staff members with the relevant qualification required by the job-positions of professional qualification and technical skills as well as a marked resistance on some part of employees to the application of the available IT Equipments under official service or application.

4.2.3 Service Quality (Speed and Safety)

According to the General Manager, in the contemporary world of highly advanced and sophisticated information technologies combined with the engagement of multiple private couriers in the postal service sector and with the abundance of diversified customer choices; helping the Enterprise's clients access information on the safety – status of their postal – messages and subsequently put undisputable sense of confidence or trust in the enterprise always remains an expeditious task of paramount – importance through the synchronic application of state of the art information technologies more than ever before to that effect.

Furthermore help the speedy and safe delivery of postal – messages, the enterprise has commenced the provision of own – transportation services across certain routes, thereby striving for the importation and distribution of extra auto buses among the major postal (Delivery) offices. In line with such efforts, it is in the process of fostering its business transactions with the concerned transporters at the same time launching door to door delivery services, which are widely practiced among the advanced countries, in the form of urban based residential and corporate mail deliveries, the studies of which have recently been subsequent implementation.

In order to keep existing or surviving and even keep existing or surviving and even outperforming in this tight market – competition, it is highly required to devise and implement efficient and cost – effective operational or business processes technologies, SPM technical committee mentioned that, the enterprise has already launched the application of such service components as Counter Automation and Mail Processing System, Internet Based inquiry System, Global Monitoring System, Quality Control System, Track and Trace System, SMS notification System as well as CCTV Camera system. Moreover, the head office and the respective Zonal postal offices have been interconnected through the wide area network, combined with the interconnection of 19 Zone postal offices under the head office through the Local Area Network.

4.2.4 Service Expansion

According to the 2013 annual report, Ethiopian Postal Services Enterprise has been increasing the number of its permanently – stationed postal offices, thereby currently owning a total number of 597 offices, along with a total number of 1095 stations. As for the tasks of Expansion the existing postal services, the enterprise has established 100 new postal offices and launched the provision of EMS under 50 permanently stationed postal offices by the year 2012, thereby managing to acquire 5 new door to door deliver and collection mailing and packaging services as well as 11 EMS credit clients (2012, Annual Report).

4.2.5 Image Building

According to Marketing and Development Manager, currently the enterprise is dealing with image –building interventions which, to that effect, are principally manifested by the enterprise’s

practical engagement in the construction of both urban and rural based standard postal – office facilities.

Additionally, a number of promotion and image-changing /building activities accomplished by the Enterprise have won positive attitudes of the public towards the Enterprise, including the fact that the interest on part of corporate – clients in using the Enterprise’s services is ever raising from time to time. Moreover, it is essential to further build the enterprise’s corporate-image by accomplish promotion works in accordance with promotion mix approach and undertake branding works, standardizing postal service equipments, facilities and office items furniture as well as by providing counter – attendants and any other departmental staff with standard uniforms.

4.3 External Analysis

According to Aaker (2001), a successful external analysis should be directed and purposeful. External analysis affects strategy through providing optional strategic alternatives, and even influencing final decision making among them.

An external analysis can contribute to strategy indirectly by identifying: threat and opportunities: strategic uncertainties that could affect strategy outcomes. External analysis should consist of Environmental analysis (Political, Economical, Social, and Technological), Customer analysis, and Competitor analysis (Aaker, 2001).

4.3.1 Environmental Analysis

4.3.1.1 Political Environment

With the advent of political changes in the country starting from 1991 decentralization has been introduced to the country nationwide. This change is availing fertile environment and enabling opportunities for the promotion of the scope of services; the extension of invaluable contributions by the economic growth of respective regional states to the maximization of revenues for the postal sector as well as for the increment in the market – share of philately business. In this connection, the enterprise has also been tribute with significant contributions

from the respective foreign policy, free press policy and civil service reform programs (Annual plan, 2013).

In addition to this, SPM technical committee mentioned that, GTP is expected to highly transform the national economy from agricultural led economy to the industrial – led economy, thereby doubling the country’s gross national product (GNP), the postal – based transactions and interactions have demonstrated dramatic rise. On top of this GTP’s prospects for raising both local and international demands to saving activities and money-transfer opportunities as well as for elevating Ethiopia’s market share will facilitate conditions for the growth and advancement of postal services.

4.3.1.2. Economic Environment

As the country pursues ADLI and free market Economic policy, the market – transactions are ever increasing substantially to the effect that favourable conditions have been created for engagement in and expansion of diversified businesses. This opportunity creates new markets and further promoting the existing markets accompanied by the generation of huge business choices and opportunities at the wake of the country’s ongoing rapid and constant economic growth. Such new developments have therefore provided the enterprise with opportunities for its growth and advancement in the forms of Direct Mail, E-commerce, B-to-C mails, parcels and logistic services etc, combined with the fact that technological and knowledge transfer as well as the adoption of best operational practices have proven possible (Annual plan, 2013).

However, transnational postal countries have penetrated the market. As such, subordination of market regulation to the concomitant absolute laicize faire has resulted in unfair competition for market-prices. Moreover, such trends are highly affecting the ongoing mission for outreaching rural areas with postal services (Annual plan, 2013).

4.3.1.3 Social Environment

Marked rise in public literacy rate as well as the development of societal cultures, belief, values and life –styles are attributable to the occurrence of huge demands to correspondences as well as of instant information exchange. According to SPM technical committee, the fact that the awareness of the general public, the business community and corporate – bodies towards postal

services is substantially minimal has still given rise to the preservation of the longstanding tradition of informal postal communication, which in turn resulted in the creation of illicit postal delivery entities.

4.3.1.4 Technological Environment

According to General Manager, the promotion of telecommunications have helped the improvement of service efficiency and quality, at the same time developing the confidence of clients in postal services as well as helping the enlargement of E- Commerce and of multiple Financial outsourcing services. As a result, the enterprise has managed to access enormous business opportunities; revise internal business processes accordingly as well as to come up with and apply modern and improved operational systems for the cost –effective and quality service delivery. But, such technological factor has become responsible for the decrement of mailing – services in the form of availing multiple choices for accessing diversified media of communications.

4.3.2 Customer Analysis

According to Marketing and Business Development Manager, as for the quality of services, they are significantly improving from time to time in terms of efficiency and safety as the result of the operational or business process reforms ventured by the enterprise as well as of the latter's improved status for utilization of technologies. Even if the problems related to loss of items were by and large addressed, the speed element is still diagnosed with light–delays. It has caused a rise in customer complaints. However, since the enterprise possesses grievance handling procedures, the complaints of customers are immediately handled with no delays. In related to this, despite the proficiency, competence and commitment of the enterprise's employee for achieving customer satisfaction, certain employees are still characterized by poor customer handling and non-punctuality.

Regarding the enterprise's service charge rates, rates are reasonably fair in comparison to those of competitors. However, it is widely complained by clients that rates for international “outbound” parcel service and EMS. They said that, ‘it did not somewhat consider the existing public affordability factors, especially given that EPSE is a public enterprise’.

Furthermore, clients declare at different occasions of “Customers day”, that they are fairly satisfied with such new services as (Transportation, door – to- door collection and delivery services, etc) recently commenced by the enterprise. Particularly, corporate- clients reckon their satisfaction on with such door to door services because they have been received from the previous delays, apart from enjoying the smooth conduct of their courier handling operations.

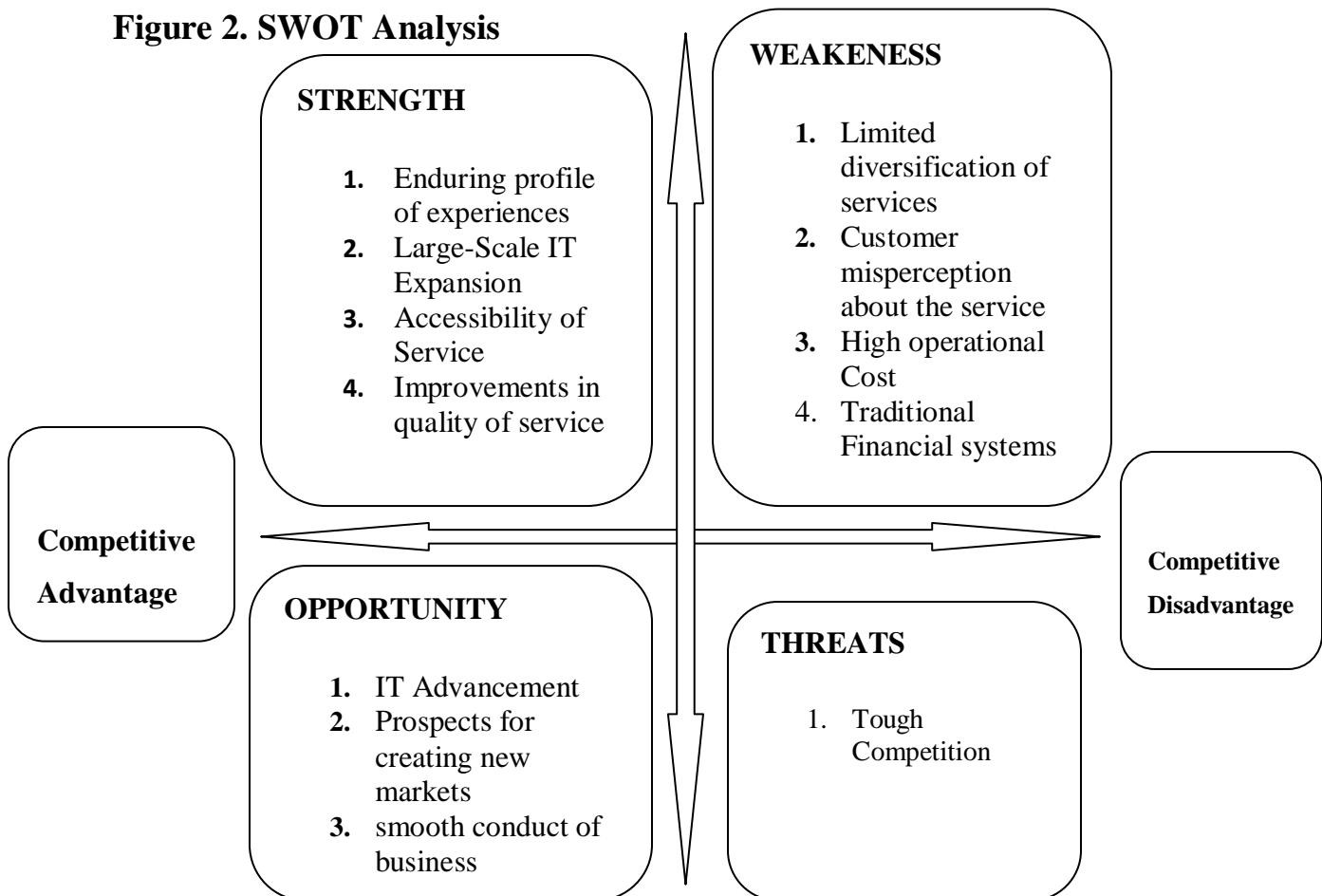
Generally, (according to the 2013 customer – satisfaction assessment index) the fact that the customer satisfaction index for EPSE is 77% by the year 2013.It implies that the customer satisfaction optimizing intervention considered by the enterprise are promising; nonetheless, it is still required to further optimize such figure.

4.3.3 Competitor Analysis

According General Manager, despite the active functioning of EPSE as per the 1966 proclamation, a large number or countless of transnational EMS couriers (such as DHL, Fedex, UPS, TNT, ARAMEX, etc) have been locally engaged in the postal- sector following the subsequent enactment of the Ethiopian investment proclamation. Under this circumstances the operational systems, service delivery and application of pertinent technologies surrounding EPSE in comparison to those of transnational EMS courier service providers, are highly poor and outdated. Therefore, given that the aggressive and large – scale engagement of such service providers in the subject- sector still leaves their respective market–shares undefined and unidentified. The Enterprise is expeditiously required to reverse such pattern, which is highly threatening EMS, and prove counter – competitor.

4.4 SWOT Analysis for EPSE

Figure 2. SWOT Analysis



- **Strength**

- Well established and longstanding profile of experiences as well as manpower with ever rising productivity;
- Ongoing large-scale IT expansion programs aiming at equipping the enterprise's services and information exchange with IT to ultimately satisfy the needs of clients /stakeholders.
- Availability and public –wise accessibility of nationwide postal networking as well as acquisition of own service delivery stations based in a number of sites;
- Achievement of improvements in quality service delivery as per internationally established standards as well as winning a series of outstanding performance awards from the UPU.

- **Weakness**

- None diversified or highly pronounced diversification of services such as absence of Post – Banking and electronic –services.
- Customer misperception in underestimating the enterprise’s services.
- Financial constraints as well as high operational costs
- Traditional Financial systems as well as poor leverage for implementing cost-effective business processes

- **Opportunity**

- Prospects for overall IT advancement initiatives and the maximization of the enterprise’s corporate interests for ongoing IT investment.
- Prospects for creating new markets and promoting the new ones as well as thus availing opportunities for the enterprise’s advancement
- Presence of several public agencies, institutions and enterprises that can host the creation and smooth conduct of business transactions with the enterprise, thereby entailing opportunities for consolidate the markets.

- **Threats**

- Aggressive penetration and expansion of private postal couriers into the postal sector.

4.5 Ethiopian Postal Service Enterprise Strategic Themes

At the time of group discussions’ with SPM string committee, the following teams are mentioned.

- As for the quality of services , the accomplishment of such other interventions of service quality improving operational or business process as postal –coding; the regular and constant improvement of mail exchange and circulation services; providing immediate responses to customer grievances or complaints; collectively working with various companies, agencies or enterprises engaged in the provision of similar services; reinforcement of the service delivery of the respective postal agent offices maintenance

of IT based operational systems as well as the fulfilment and standardization of service office buildings facilities and office equipments still requires substantial attention.

- As for the tasks of new postal services, it is highly required to commence the provision of such pending postal services as cash on delivery service, postal logistic, post banking, perishable – items dispatch, L/C documents – Handling or circulation, post shopping services, etc... as well as the provision of such financial business outsourcing services as university students registration, billing, Air top up services, and so on. Despite the enterprise’s current success stories in the form of commencing the provision of new postal services, it must remain of high attention the enterprise is required to further penetrate the market and hence maximize its revenues in its subsequent operations.
- Towards expanding the existing services, citizens are constitutionally entitled to access basic postal services. Being so, even if the enterprise is providing its services through the establishment of postal offices at varying levels with the view to outreach or make such services accessible, it can hardly be argued that such services meet the needs and demands of clients hence, as the task of establishing postal offices throughout the “Outlying” areas or areas of non-service-coverage for the subsequent satisfactory or sufficient delivery of basic postal services as well as of further expanding the existing services is the enterprise’s institutional mandates, and so is it one of the strategic issues that require due attention, with the ultimate view to pursue and protect the said ‘Civic – Rights’ to basic postal services.

CHAPTER FIVE

Data presentation, Analysis and Interpretation

5.1 Introduction

In this chapter the result of the statistical analysis were presented. The Statistical analysis has been entered in to data analysis software SPSS (statistical package for social science) version 19 and analyzed using both descriptive and inferential statistical techniques.

5.2 Level of awareness about the concept of BPO

20 questionnaires were distributed to collect the data from top manager of EPS where 15 of them were returned and used for the analysis. The following table shows the awareness level of the top managers.

Table 1. Awareness level of the top managers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very high	3	20.0	20.0	20.0
	high	9	60.0	60.0	80.0
	medium	3	20.0	20.0	100.0
	Total	15	100.0	100.0	

Source: Researcher questionnaire survey, 2014

To assess the awareness level of top managers about the concept of BPO respondents are asked to show their level ranging from very high to never heard of it. According to Table 1, non of respondents have lower than medium level of awareness and 80% of the respondents have more than medium level of awareness about the concept of BPO thus the result shows that respondents have reasonable level of awareness about the concept of BPO.

5.3 Business functions currently outsourced by EPSE

To assess the current outsourcing practice of EPS respondents are asked to answer whether of EPS have outsourced any business function or not as the result 100% of the respondents replied “yes” the result is shown on Table 3. Moreover respondents are asked to select the business

function that EPSE ever outsourced. To assist their effort the measurement question is presented in the form of checklist with thirteen business functions and additional spaces is provided to let them reveal these business functions that EPSE have outsourced but not included in the checklist.

Table 2. Current and past BPO particle of EPSE.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	13	86.7	86.7	86.7
	no	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Source: Researcher questionnaire survey, 2014

Table 3. Business functions outsourced by EPSE

SN	Business Function	Outsourced	Never outsourced
1	Customer service		√
2	Information technology		√
3	Finance and accounting		√
4	Human Resources and training service	√	
5	Procurement and supplies management		√
6	Janitorial service	√	
7	Consultancy service	√	
8	R & D service		√
9	Maintenance service	√	
10	Legal service		√
11	Engineering service		√
12	Sales and Marketing		√
13	Security service	√	

Source: Researcher questionnaire survey, 2014

According to the Table 3, the outsourced business function is Janitorial service, Security services, Consultancy services, Maintenance services and Training services. The result indicate EPSE have never outsourced customers service, information technology, finance and accounting, procurement and supplies management, R&D service, legal services, engineering services and sales and marketing. In addition Table 2 confirms that the outsourcing practice in EPS is highly

dominated by non-core business functions such as janitorial services, security service, training and maintenances service. However, the BPO experience in EPSE is very low.

Finally, to evaluate the satisfaction of EPSE regarding the outsourced services, respondents are asked to select their level of satisfaction from an option box that contains satisfaction levels ranging from very satisfied to very unsatisfied. The result is summarized in Table 4.

Table 4. Level of satisfaction regarding the outsourced services

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	very satisfied	2	13.3	13.3	13.3
	satisfied	8	53.3	53.3	66.7
	indifferent	3	20.0	20.0	86.7
	Unsatisfied	2	13.3	13.3	100.0
	Total	15	100.0	100.0	

Source: Researcher questionnaire survey,2014

As Table 4 indicates, there is high variation in the satisfaction level of top managers regarding the outsourced services. This might be due to the variation in the quality of service provided by different outsourcing providers.

5.4 Competitive advantage that gains from BPO

Table 5 shows that there is a positive overall view regarding the benefits of BPO. Enhancing core business capability, improving service quality, Accessing to advanced capacity and expanding market and enhancing competitions are score 73.3%, 86.7%, 66.7% and 86.7% respectively. This implies, the major reason that the top manager are outsources organizational activity in ascending order is to improve service quality and expanding marker and enhancing competition , enhancing core business capacity and accessing to advanced capacity. Results of this questionnaire also supports the existing theory, which the company who makes strategic use of BPO can become ‘focalized, streamlined and agile’ by Pagnocelli (1994), , and ‘outsourcing noncore activates can allow the organization to concentrate on its core business, thereby enabling the organization to maximize their returns on internal resources’ by Quinn and Hilmer (1994).

Table 5: Competitive advantage gains from BPO

		Reducing operation cost	Enhancing core business capability	Improving service quality	Accessing to advanced capacity	Decrease and sharing risk	High capacity for gaining information	Expanding market and enhancing competitions	Releasing key internal resources
N	Valid	15	15	15	15	15	15	15	15
	Missing	0	0	0	0	0	0	0	0
Mean		2.47	1.93	1.73	2.27	2.60	3.07	1.80	2.73
Std. Deviation		.834	.961	1.100	.961	.737	1.100	1.082	.961
Variance		.695	.924	1.210	.924	.543	1.210	1.171	.924
Range		3	3	4	3	3	4	4	4
Minimum		1	1	1	1	1	1	1	1
Maximum		4	4	5	4	4	5	5	5
Cumulative Percent		60.0	73.3	86.7	66.7	40.0	26.3	86.7	40.0

Source: Researcher questionnaire survey,2014

In some responses the standard deviation of Improving service quality ,High capacity for gaining information and Expanding market and enhancing competitions are high (more than 1) indicating variation among respondents in evaluating the indicates of competitive advantage gains from BPO.

5.5 Motivational factors for BPO

Based on the literature, the questionnaire synthesizes 13 common motivation factor of BPO. Respondents are instructed to indicate the rank each motivational factor is important in making BPO decision using the rating scale from ‘strongly agree to strongly disagree’.

Table 6 shows that, the mean value of all the variables is greater than 1; it indicates that the top managers have a positive attitude towards these motivations of BPO. Among them realizing key internal resource, obtaining a better organizational form, advancement in technology and expertise, lowering ongoing investment in internal infrastructure and lack of internal expertise have a scored a mean value above average mean of 2.29, which reveals that they are accepted as the most significant motivation of outsourcing, while the others also shows a high degree of importance. This finding also fully supports the studies of outsourcing focused primarily on the

motivations for outsourcing. Such as, Pagnocelli (1994) has explored the main reasons for the outsourcing, such as changing one business function to make it more "centralized" in pursuit of improved efficiency (Pagnocelli, 1994). W. Bailey, R. Masson and R. Raeside (2002, cited in Fan, Sandal, Kong & Li, 2009) researched the outsourcing in Edinburgh and Lothian's and suggested that improving the quality of service, focusing on the core business functions, reducing operation costs and accessing advanced technology and management experience were some of the major motivations for outsourcing. Relatively speaking, the motivations such as sharing risks and formatting strategic alliance were not as important as the formers

Table 6 Motivation factors for BPO

		Reducing operation costs	Increase flexibility to meet changing in business condition	Improving quality of service	Concentrating on core business function	Sharing and reducing risk	Establishing strategic partnership	Acquire specialised experts and knowledge
N	Valid	15	15	15	15	15	15	15
	Missing	0	0	0	0	0	0	0
Mean		1.67	1.87	1.67	1.73	2.40	2.13	2.13
Std. Deviation		1.047	.516	1.047	.884	.632	.640	.834
Variance		1.095	.267	1.095	.781	.400	.410	.695
Range		4	2	3	3	2	2	3
Minimum		1	1	1	1	1	1	1
Maximum		5	3	4	4	3	3	4
		Accessing professional resources and capacities	Realizing key internal resource	Obtaining a better organizational form	Advancement in technology and expertise	Lowering ongoing Investment in internal infrastructure	Lack of internal expertise	
N	Valid	15	15	15	15	15	15	
	Missing	0	0	0	0	0	0	
Mean		2.13	2.87	2.93	2.67	3.00	2.60	
Std. Deviation		.640	1.125	1.033	1.047	1.254	1.056	
Variance		.410	1.267	1.067	1.095	1.571	1.114	
Range		2	4	3	4	4	4	
Minimum		1	1	2	1	1	1	
Maximum		3	5	5	5	5	5	

Source: Researcher questionnaire survey, 2014

The above table also shows that the standard deviation of reducing operation costs, improving quality of service, realizing key internal resource, obtaining a better organizational form, advancement in technology and expertise, lowering ongoing investment in internal infrastructure and lack of internal expertise are high (more than 1) this shows that outsourcing found to be varying among different business functions based on their simplicities, risk , capabilities...etc. For example acquiring innovative ideas is rated as very important for new product development outsourcing whereas acquiring innovative ideas is rated less important for outsourcing decision of janitorial service.

5.6 Barriers of BPO

The Table 7 summarize primary barriers in implementing BPO. As a result, cultural resistance to change and vested interests within the company trying to protect jobs, budget and power, which are score 80% and 66.7% and ranked 1 and 2 respectively, are rated as a major barriers of BPO in EPSE. On the contrary, Time constraint on researching, negotiating and structuring satisfactory are scored 20% deals with providers is considered as the least barrier of BPO.

This cultural resistance to change might be come from two reasons: - one is manager assumes that the external services providers are not loyal to them in providing such business function. The other reason might be from employees who are worked in outsourcing business function area because of fear of losing their job. On the other hand vested interests within the company tying to protect jobs, budget and power might be due to the fact that top managers fear of risk of loss on confidential information and loss of control in outsourcing these business functions.

Table 7. Barriers of BPO

		Cultural resistance to change	Difficult of quantifying risk of an unsatisfactory outcome	Political sensitivity surrounding outsourcing	Vested interests within the company trying to protect jobs budget and power	Difficulty of managing risk of unsatisfactory outcome	Time constraint on researching, negotiating and structuring satisfactory deals with providers	Highly specialized process and products within the company that against outsourcing	Set up costs of outsourcing arrangement
N	Valid	15	15	15	15	15	15	15	15
	Missing	0	0	0	0	0	0	0	0
Mean		1.80	2.67	2.73	2.40	2.80	3.53	3.40	2.80
Std. Deviation		.941	.617	1.033	.828	1.014	1.302	.910	.862
Variance		.886	.381	1.067	.686	1.029	1.695	.829	.743
Range		3	2	4	3	4	4	3	3
Minimum		1	1	1	1	1	1	2	1
Maximum		4	3	5	4	5	5	5	4
Cumulative Percent		80.0	26.7	46.7	66.7	40.0	20.0	46.7	33.3

Source: Researcher questionnaire survey,2014

5.7. Selection of BPO providers

There are several criteria that play important roles when firms select BPO providers, such as high quality of services, high degree of mutual trust with vendors, previously cooperated and excellent reputation in the industry, which all get a mean value more than 1, and score 80.0%,80.0%,93.3%86.0% respectively. Relatively speaking, the responds valued less on similar culture. Provider location can be explained in additional analysis that EPSE is more inclined to choose local providers considering the cost. Farther more, quality of service and mutual trust with vendors are score the same percentage which implies top managers want to form a long-term strategic partnership with providers usually take mutual rest as the same as quality of services.

In addition, the criteria varies due to different activities at BPO, for instance, the technical capacity and superior management will become significant when faced with the BPO of high value added business function, such as information system and R&D areas.

Table 8 Criteria of selecting providers

		Previously cooperated	Lower cost	Good reputation	High quality of service	Advanced technology and management expertise	Similar culture	Location advantages	High mutual trust
N	Valid	15	15	15	15	15	15	15	15
	Missing	0	0	0	0	0	0	0	0
Mean		1.47	2.80	1.73	1.87	2.27	2.60	2.53	1.73
Std. Deviation		.640	1.207	1.033	1.407	1.335	.986	.834	.799
Variance		.410	1.457	1.067	1.981	1.781	.971	.695	.638
Range		2	4	3	4	4	3	3	2
Minimum		1	1	1	1	1	1	1	1
Maximum		3	5	4	5	5	4	4	3
Cumulative Percent		93.3	53.3	86.7	80.0	66.7	46.7	53.3	80.0

Source: Researcher questionnaire survey,2014

5.8 Problem of BPO

Despite outsourcing has many potential advantages, it will lead to several problems and risks at the same time. When we see problems of BPO, majority of organization believe that outsourcing a certain business function will also face risks, such as the legal disputes, increasing dependence with vendors, disclosure of commercial secrets, and interest conflicts with outsourcing partners. The same is true in EPSE.

As it clearly shown in table 9, losing control of certain business with the mean of 3.07 and legal disputes scored a mean value 3.6 above average mean which is 3.07 are the major problem in EPSE. Top managers believe that facing legal disputes and enhanced disclosure of commercial secrets are greater risk, and also experience more loss of control of the outsourced business which will reduce the sense of responsibility, the extension of new product development and a series of other issues. Moreover, all these variables distributed in the stranded deviation between 0.816 and 1.404, which indicates that the considerations of responds are not obvious among these difficulties.

Table 9. Problem of BPO

		Losing control of certain business	Legal disputes	Weakening culture	Decreasing compatibility of innovation	Increasing dependency with outsourcer	Disclosure of commercial secrets	Increase conflicts with outsourcing partners	Difficult to bring in source after conflict
N	Valid	15	15	15	15	15	15	15	15
	Missing	0	0	0	0	0	0	0	0
Mean		3.07	3.60	3.00	2.47	2.60	3.20	3.27	3.33
Std. Deviation		1.335	1.404	1.195	.990	1.121	1.014	1.033	.816
Variance		1.781	1.971	1.429	.981	1.257	1.029	1.067	.667
Range		4	4	4	4	3	3	3	3
Minimum		1	1	1	1	1	2	2	2
Maximum		5	5	5	5	4	5	5	5

Source: Researcher questionnaire survey

5.9 Performance Improvements

As it is clearly shown in the table 10, all the question is scored a mean value greater than 1, which indicate outsourcing strategy by the EPSE has positively influenced the customer satisfaction with the mean value of 2.74, profitability with the mean value 3.2, sales turn over with mean value of 2.47, Increase service expansion with the mean value 2.6 and organizational 3PL demand with the mean value of 2.47.

The variable which reference to “increase profitability” scored the highest mean value which is 3.2. Whereas the variable “increase customer satisfaction” is scored the lowest mean score which is 2.4. This indicate that outsourcing strategy has highly influence on organizational profitability because production process, constant innovation and concentration on core competence are the activities in which the organizations make use of in order to increase their output and perform better competitively. The variable “increase customer satisfaction” is relatively to others low mean value. This might occur organization is not integrate the voice of the environment into their BPO decision-making structure and focus only on its’ short run economic gains.

Table 10. Performance improvements.

	Increase customer satisfaction		Increase profitability	Increase sales turn over	Increase service expansion	Meet organization's 3PL demand
N	Valid	15	15	15	15	15
	Missing	0	0	0	0	0
Mean	2.40		3.20	2.47	2.60	2.47
Std. Deviation	.986		1.014	.990	1.121	.990
Variance	.971		1.029	.981	1.257	.981
Range	3		3	4	3	4
Minimum	1		2	1	1	1
Maximum	4		5	5	4	5

Source: Researcher questionnaire survey, 2014

CHAPTER SIX

CONCLUSION AND RECOMENDAIONS

6.1. CONCLUSION

Outsourcing strategy is at the centre of the process of organizational changes and business structure. In this respect, these processes may be preceded by radical changes which lay the ground work for process re-engineering. The trend towards virtual corporations based on the relationship of cooperation among several firms starts with the identification and exploitation of the concept of core competences, in such a way that new advantages are obtained from specialization and that the customer receives added value superior to the levels previously offered. The contemporary relationship of firms to their business surroundings are conditioned by the changes in technology and the economic environment. Firms face these alterations to their surroundings by making qualitative change in the way that they perform their activities and structure their organization (Akewushola, 2013).

Based on the theoretical framework and through the analysis and interpretation of the data obtained from different sources, the researcher has come up with the following findings.

- Even though EPSE predominance in the postal sector for the past several years, international private companies have become aggressively engaged in the EMS service in recent time. Hence, the enterprise still renders its services by enduring the challenging competition from transnational courier service companies.
- After implementation of BPR, the enterprise's Organizational structure has shifted from Functional-Based to Process-Based structure, according to which, the enterprise, reporting to the Board of Directors, has been restructured with a General Manager, a Support Division Execution Officer, 18 Work Process and 19 Zones.
- The majority of the enterprises employees are characterized by sense of belonging and responsiveness, certain employees are still characterized by poor customer handling, on-punctuality and de-motivation.
- Helping the Enterprise's clients access information on the safety status of their postal mail and subsequently put undisputable sense of trust, the enterprise committed on information technologies investment and lunched IT based operation systems such as Counter Automation and Mail Processing System, Internet Based inquiry System, Global Monitoring System, Quality Control System, Track and Trace System, SMS

notification System and CCTV Ethiopian Postal Services Enterprise has been increasing the number of its permanently stationed postal offices, thereby currently owning a total number of 597 offices, along with a total number of 1095 stations. Nonetheless, such figure can hardly berate as satisfactory, especially of in light of the pursuit and protection to access basic postal services.

- A number of promotion and image building activities accomplished by the Enterprise have won positive attitudes of the public towards the Enterprise. Nonetheless, the absence of viable marketing systems on part of the head office and of the respective Zone postal offices have resulted limiting the extent and scope of client awareness of the Enterprise's actual status.
- The current political environment create an opportunities for the promotion of the scope of services; the extension of invaluable contributions by the economic growth of respective regional states to the maximization of revenues for the postal sector and for the increment in the market share of philately business.
- Free market Economic policy of the country is create favourable conditions for engagement in and expansion of diversified businesses, creating new markets and further promoting the existing markets. The promotion of ICT have helped the improvement of service efficiency and quality, developing the confidence of clients in postal services and helping the enlargement of E- Commerce and of multiple Financial outsourcing services. But, such technological factor has become responsible for the decrement of mailing services in the form of availing multiple choices for accessing diversified media of communications.
- Despite the reasonable level of awareness of top level managers about the concept of awareness of top level managers about the concept of business process outsourcing, the use of EPSE has been low and highly dominated by non-core business functions such as Janitorial service, Security services, Consultancy services, Maintenance services and Training services.
- The satisfaction level of top managers varies in regarding to the outsourced services may be due to either variation of service level provide by different service providers or the variation of expectation level of the top managers.
- EPSE often outsource certain activities for some motivations such as realizing key internal resource, obtaining a better organizational form, advancement in technology and expertise, lowering ongoing investment in internal infrastructure and lack of

internal expertise: they are the largest five motivational factors which accepted as the most significant motivation of outsourcing

- Even though, there are some significant motivational factors of outsourcing, there are some barriers such as cultural resistance to change and vested interests within the company trying to protect jobs budget and power and also problems such as such as losing control of certain business and legal disputes are the most influential among others.
- The selection criteria of outsourcing provider is varying among different business function. But among other criteria quality of services, high degree of mutual trust with vendors, previously cooperated and excellent reputation in the industry are the most important criteria.
- The level of importance given to the motivational factors found to be varying among different business functions. For example, acquiring innovative ideas is rated as very important for information technology outsourcing whereas acquiring innovation ideas is rated as less important reason for the outsourcing decision of maintenance and janitorial services, and security service. The same is true for problem of outsourcing. For example, Disclosure of commercial secrets is rated as very important problem for sales and marketing function, whereas the same problem is rated as unimportant for the decision of not outsourcing for Training services.

Finally, the finding also shows that BPO has a benefit to create competitive advantage, increase customer satisfaction, increase profitability, increase sales turn over, increase service expansion. This findings are fully supported the advantage that a company could gain through BPO can be seen both from the operational and the strategic point of view by Tagliapietra, Plantan, Li and Schneider, (1999). From a strategic standpoint, outsourcing allows the firm to concentrate its efforts on consolidating and expanding its core competences. On the other hand, among the operational advantages, an increase in efficiency as a result of activities being carried out by specialized firms and reductions in permanent staff, which then become variable costs related to the level of activity.

6.2 RECOMMENDATION

In this thesis, the researcher presents the analytical information of EPSE. SWOT analysis is used of analyzing external and internal factors of EPSE. The strength and opportunity are regarded as the organization's competitive advantage; on the other hand, weakness and threats are discussed as competitive disadvantages. The researcher recommended the following to change competitive disadvantages to competitive advantages through BPO to improve organization performance.

- BPO decision must be made on the bases of in-depth understanding of the organization core competencies, and intended to build or enhance the organization competitive advantage. The non-critical, or non-core activities, are main candidates for outsourcing. Such activities are like branding, engineering, new product development, trainings.
- To identify types of performance measures as necessary components in any BPO performance measurement system; such as financial measure, strategic measure, quality measure, market performance (costs saving, cycle time, customer satisfaction, productivity...) are very important to measure the performance of outsourcing.
- The key determinant of success of BPO activities such as poor organization communication, poor choice of sourcing partner, inadequate planning and trainings needed to manage outsourcing activities should be consider before outsourcing activity.
- Different effects on various types of outsourcing activities outsourced should be considered. For instance, many factors such as pay level, promotional opportunities and demand uncertainty should be consider when deciding to outsource functions or activities.
- EPSE managers agree that successful outsourcing strategy requires a shift in their mindset, which means that they must manage their outsourcing provider and employee in order to improve on efficient service delivery
- Employees' participation in BPO strategy is very crucial. The reason to this is outsourcing strategy should come from employees themselves and employees should hold the strategy before implementation so as to ally the fear of loss of jobs.
- To build reliable and stable financial capacity, it is essential to reliable resources and execute marketing strategies on enterprise's major core business process and

upgrading operational mechanisms or business processes by creating partnership with competitors and through cooperation with stakeholders.

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Appendix 1.

Addis Ababa University School of Commerce Masters of Marketing Management

I am student of Addis Ababa University, School of Commerce in department of Marketing Management. First of all I would like to forward my heartfelt gratitude and respect to you for administering this questionnaire honestly and responsibly. The questionnaire is designed to collect the necessary information to undertake a research on the topic “Business Process Outsourcing and Competitive Advantage: The case of Ethiopian Postal Service Enterprise” for the partial fulfilment of the requirement of the degree of Masters of Marketing Management.

Business Process Outsourcing is most commonly defined as the transfer of activities and processes previously conducted internally to an external party. However, researchers like Parker & Russel (2004) define outsourcing broadly as “*an arrangement of cooperative inter-firm relation-ships based on mutual trust between partner organizations, for improving performance of the inter-firm transactions.*”

The information that you provide will remain confidential and will be used for the purpose of this research only.

For more information, you can contact me through:-

Rediet Melesse, redietmelese2006@yahoo.com Or Mobile Phone +251912129050

Current status of BPO in EPS

1. What is your level of awareness about the concept of BPO?

Very High

Low

High

Very Low

Medium

Never heard of it

2. Have your Organization ever Outsourced any Business Function?

Yes

No

3. If your answer for question three is yes, please specify the type of business function that your organization ever outsourced. (*Multiple answers are possible*).

Customers Service

R& D Service

Information Technology

Maintenance Service

Finance and accounting

Service Legal Services

Human Resources and training service Engineering Services

Procurement and supplies management Sales and Marketing
 Janitorial services service Security Service
 Consultancy service Other _____

4. If your answer for question three is yes, are you satisfied with the BPO Service?

Very satisfied Unsatisfied
 Satisfied Very Unsatisfied
 Indifferent

Competitive Advantage through BPO

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Reducing operation cost					
2	Enhancing core business capability					
3	Improving services quality					
4	Accessing to advanced capacity					
5	Decreasing and sharing risks					
6	High capacity for gaining information					
7	Expanding market and enhancing competitions					
8	Releasing key internal resources					

Motivating factors of BPO

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Reducing operation costs					
2	Increasing flexibility to meet changing in business condition.					
3	Improving quality of service					
4	Concentrating on core business functions					
5	Sharing and reducing risks					
6	Establishing strategic partnership					
7	Acquire specialized expertise and knowledge					
8	Accessing to professional resource and					

	capacities					
9	Releasing key internal resources					
10	Obtaining a better organizational form					
11	Advancement in technology and expertise					
12	Lower ongoing investment in internal infrastructure					
13	Lack of internal expertise (To access skill that we do not have)					

Barriers of BPO

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Cultural resistance to change					
2	Difficulty of managing risk of an satisfactory outcome					
3	Political sensitivities surrounding outsourcing.					
4	Vested interests within the company trying to protect jobs, budgets and power.					
5	Difficulty of quantifying risk of an unsatisfactory Outcome.					
6	Time constraints on researching, negotiating and structuring satisfactory deals with providers.					
7	Highly specialized processes and products within the company that against outsourcing.					
8	Set-Up costs of outsourcing arrangement					

Criteria for selecting BPO provider

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Previously cooperated					
2	Lower costs					
3	Good reputation					
4	High quality of services					
5	Advanced technology and					

	management experience					
6	Similar culture					
7	Location advantages(local outsourcer)					
8	High mutual trust					

Problem of BPO

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Losing control of the certain business					
2	Legal disputes					
3	Weakening culture					
4	Decreasing compatibility of innovations					
5	Increasing dependence with outsourcers					
6	Disclosure of commercial secrets					
7	Interest conflicts with outsourcing partners					
8	Difficult to bring in-source after conflicts					

Performance Improvement

No		Agree Strongly	Agree	Neutral	Disagree	Strongly Disagree
1	Increase customer satisfaction					
2	Increase profitability					
3	Increase sales turn over					
4	Increase service expansion					
5	Meet organization's 3PL demand					

Thank You!

Appendix 2

Interview questions for EPSE General Manager and, Marketing and Business Development Manager

Introduction

Short description of EPS

What kind of business is EPS doing?

Explain how EPS has developed in recent years shortly

Customer analysis

How many customers does EPS have throughout the whole Country?

How does EPS measure customer satisfaction? (By feedback from customer? Make customer satisfaction research? Or other ways?)

How does EPS have long term relationship with its customers?

What benefits or profits will EPS obtain from long term relationship with customers?

Competitor analysis

What current and potential competitor does EPS have to face?

Is EPS aware of its competitors (competitor's core competency, weakness, size, strategy and so on)?

Does EPS make any comparison with its competitors?

Is the EPS's service easy to substitute? Is it easy or difficult for another company to imitate your service?

Quality of service

How does EPS make sure the safety of goods during transportation?

Are there any protection strategies existing to prevent the damage of goods?

How often does problem occur which lead to reduce customer satisfaction?

Brand association

How does EPS identify the image of company?

What is company's position in market?

Focus group discussion initial set of questions for EPSE 2016-2020 Strategic Planning Management (SPM) string and technical committee.

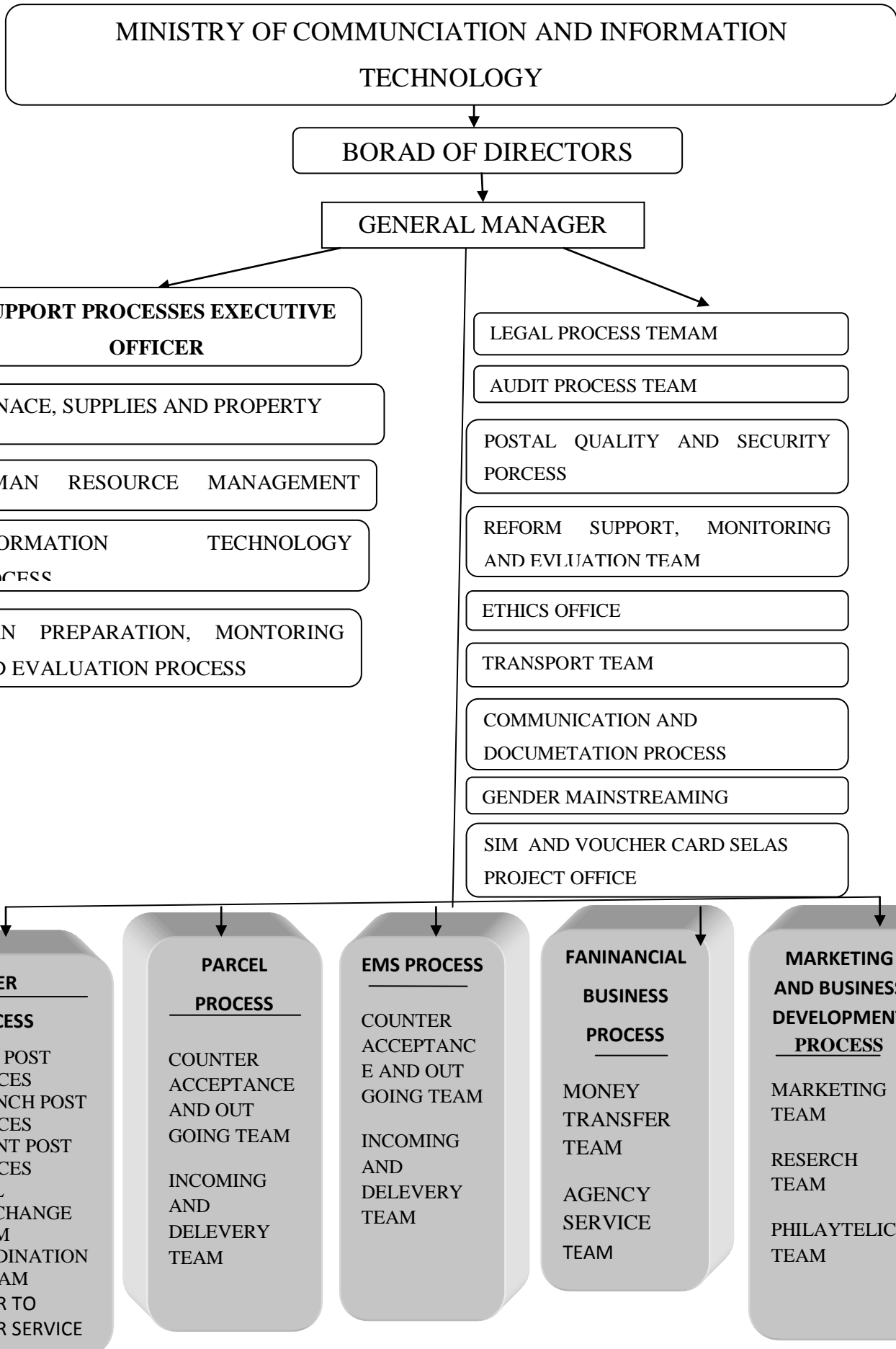
Is there any possibility that the company's core competency or knowledge spill over outside the company?

What strength, opportunity does EPS have?

What weakness, threat does EPS have?

Appendix 3

Ethiopian Postal Service Enterprise Organizational structure



DECLARATION

I, Rediet Melesse hereby declare that this study entitled, Business Process Outsourcing and Competitive Advantage: The case of Ethiopian Postal Service Enterprise is my own work. All information in this document has been obtained and presented in accordance with academic rules and ethical conduct.

Researcher: Rediet Melesse

Date: _____

Research Advisor: Abebe Ejigu (PhD)

Date: _____