



**Addis Ababa University**

**School of Commerce**

THE EFFECT OF HUMAN RESOURCE OUTSOURCING PRACTICES ON  
OPERATIONAL PERFORMANCE OF COMMERCIAL BANK OF ETHIOPIA:  
THE CASE OF SELECTED DISTRICT AND HEAD OFFICE

BY

MESERET TESFAYE

ADVISOR: ZELALEM BAYISSA (PHD)

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**Addis Ababa**

# Declaration

I declare that this thesis is my original work, prepared under the guidance of Zelalem Bayissa (PHD). I have acknowledged all resources and works of other scholars that I used in the research. Furthermore, I assert that this paper has never been submitted partly or in full to any higher institution for the purpose of receiving any type of degree or Master's program.

Meseret Tesfaye

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Name of student

Signature

Date

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Name of advisor

Signature

Date

# Certificate of Approval

This is to certify that the thesis prepared by Meseret Tesfaye, entitled “ *THE EFFECT OF HUMAN RESOURCE OUTSOURCING PRACTICES ON OPERATIONAL PERFORMANCE AND HEAD OFFICE*” and submitted in partial fulfillment of the requirements for the Degree of Masters of Arts in MBA complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

Signature of Board of Examiner`s:

\_\_\_\_\_

External examiner

Signature

Date

\_\_\_\_\_

Internal examiner

Signature

Date

\_\_\_\_\_

Dean,

Signature

Date

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## Acronyms

**BPO** - Business Process Outsourcing

**CBE** - Commercial Bank of Ethiopia

**CN** - Commercial Nominees

**HR** - Human Resource

**HRM** - Human Resource Management

**HRO** - Human resource outsourcing

## Abstract

*This study examines the effect of Human Resource Outsourcing (HRO) on the operational performance of the Commercial Bank of Ethiopia. Utilizing a mixed-methods approach, the research combines quantitative data from a survey of 87 employees with qualitative insights from interviews and document analysis, achieving a 96.7% response rate. The demographic analysis reveals a predominantly young, well-educated workforce, with the majority engaged in operational roles, which significantly interact with outsourced functions. Descriptive and inferential statistical analyses indicate that while contributing positively to cost efficiency and competitive advantage, there are concerns regarding the adequacy of resources, training, and remuneration for outsourced staff. These factors are critical as they directly impact employee trust and satisfaction, which in turn influence overall operational performance. Based on the findings, several recommendations are proposed, including enhancing training and resources for outsourced staff, improving communication and trust-building strategies, and developing a robust performance monitoring system. The study also suggests the need for a more integrated approach to outsourcing, which includes regular reviews of outsourcing strategies, better integration between in-house and outsourced teams, and a focus on continuous improvement and innovation. Future research directions include longitudinal studies to assess the long-term impacts of HRO, comparative studies across different industries, and an exploration of technological advancements in outsourcing practices. These recommendations and future research directions aim to optimize the benefits of HRO while mitigating its challenges, ensuring that the Commercial Bank of Ethiopia can maintain and enhance its competitive advantage.*

**Keywords:** *Human Resource Outsourcing, Operational performance, trust, cost efficiency strategic management, competitive advantage.*

# CHAPTER ONE

## 1.1 Introduction

This chapter describes the general overview on the concept of outsourcing and operational performance, brief introduction of CBE along with the practice of outsourcing, statement of a problem, the research questions, research objectives, the significance, limitation and organization of study.

## 1.2 Background of the study

The evolution of outsourcing has led to a wide variety of available services today. Though at one time, the idea of outsourcing was unheard of, in today's global economy, it makes more sense than ever before. With quick lines of communications across countries, it's much easier (and more cost-effective) for domestic companies to use outsourcing services based in other parts of the world. It helps cost cuts, increases productivity, and enhances quality. The idea of outsourcing certain areas of a company didn't really dominate the business sphere until the Industrial Revolution. Companies began outsourcing because production rates had increased rapidly and businesses needed help, which led many to wonder what else could be outsourced. By the 1990s, organizations began to focus more on cost-saving strategies. This included functions that are necessary to run a company but are not specifically related to the core business. Companies started contacting emerging specialized companies to deliver outsourcing services such as accounting, human resources, data processing, internal mail distribution, security, and maintenance work.

Outsourcing is described as a firm's act of subcontracting a portion of its procedures that would otherwise be undertaken by in-house staff (Aten & Howard-Grenville, 2012). In the new millennium, outsourcing has been noted as a developing global trend (Kai et al., 2007). It is thought to be expanding at an exponential rate as businesses recognize the growing importance of competitive variables such as cost, speed, quality, volume, flexibility, and innovation (Aubert, et al2004).

An outsourcing decision that does not meet the anticipated outcomes could motivate a follow-up decision to enter a new contractual agreement, switch the supplier, or discontinue outsourcing. Outsourcing and in-sourcing of organizational activities: the role of outsourcing process mechanisms.

Outsourcing may pose a risk when quality is a top concern for the outsourced activity since intellectual capital and knowledge may be lost. Outsourcing may also have a detrimental influence on corporate morale and motivation since it reduces in-house knowledge. Most organizations base their outsourcing decisions on trust and a lack of client information. The performance of external providers may also have an impact on the firm's financial performance. However, when deciding whether or not to outsource, a corporation must consider a number of factors, which are divided into major and sub-objectives. The other components are research methodology, data analysis, findings, conclusion, and recommendations (European of business and management).

Neddy.N et.al mentioned in there research Globally, there has been performance difficulties facing commercial banks. The profitability of the banks in European Union (EU) banks' profitability is still far down compared to the pre-crisis period (2007-2008). The returns on equity (ROE) have reduced to 5.4 in 2006 from 5.7 in 2015 and the non-performing loans (NPLs) increased from 2% of the total loans in 2006 to a highest of 8% in 2006. Other organizations like Alibaba in China was able to shoot to the limelight internationally since it chose to outsource IT services and was considering for as against the short supply of similar attainable in China.

HRM outsourcing has risen in Western countries in recent decades, especially in the US. Similar trends can be found in Vietnam, Taiwan, and other Asian countries. The reasons given for outsourcing human resources are primarily to reduce cost, lack of HRM expertise, to gain specialised and sophisticated services, and to increase firm performance. The HR functions that have been outsourced are recruitment and selection, skill development and training, payroll and benefits, performance assessment, workforce redundancies, law and regulations, and retirement schemes (Merits 2021).

Human resource outsourcing has become a common practice in various industries, including the commercial banking sector. The Commercial Bank of Ethiopia (CBE) is one such institution that has embraced outsourcing as a strategy to enhance operational performance. This essay examines the effect of human resource outsourcing on the operational performance of CBE. By outsourcing certain HR functions such as recruitment, training, and payroll management, CBE aims to focus more on its core activities and improve efficiency in its operations. The impact of this outsourcing strategy on various performance indicators, such as employee productivity, cost reduction, and overall organizational performance, will be explored. Understanding the potential benefits and challenges of human resource outsourcing in the context of CBE can provide valuable insights for other banking institutions considering similar strategies (Amitabh Deo 2007).

The human resource outsourcing sector is rapidly developing. Despite the fact that the HRO market has been static for the past three years, it is expected to pick up speed in the next months and grow significantly faster than other functional outsourcing businesses. Another significant challenge in the HRO process is deciding which HR tasks should be outsourced and to which firm. This is one of the most difficult challenges to resolve because the wrong choice could have a detrimental impact on the company's performance. Before delegating any in-house HR duty to an external agency, one should be informed of the advantages and disadvantages of doing so. While there are various benefits to outsourcing HR-related activities, there are also some disadvantages (Amitabh Deo, 2007).

In Kenya, commercial banks link outsourcing with increased operational contractual strategic risk (Agburu et al., 2017). In general, we define "bank" as a financial organization that handles money. Every day, the banking sector modernizes and expands its involvement in various financial events. Simultaneously, the banking procedure is getting faster, easier, and more widespread. All firms are looking for greater service opportunities to supply their fellow clients in order to thrive in the competitive arena of the banking sector. The final segment the researcher did a study on "A causal study on the influence of Internet Banking in Customer Retention in the context of Mutual Trust Bank Ltd" in this research study. The primary goal of this research is to uncover the important characteristics that influence internet banking and aid in client retention Mutual Trust Bank of Canada Ltd. We will learn which factors influence Mutual Trust Bank's internet banking to retain customers through this research (Umme Sauda, 2013)

It is evident that the bank's performance may be influenced (both positively and negatively) by the bank's outsourced services. It may face issues like as customer and staff dissatisfaction, contract termination issues, communication issues, and so on. The purpose of this article is not to investigate

all of CBE's success elements, but rather to focus on the bank's outsourcing concerns. This study has evaluated the primary problems and prospects of outsourcing its services, and it will also evaluate the impact of outsourcing to banks. The effectiveness of an organization. Identifying these facts helps the bank decide whether to continue outsourcing or not, what main steps to take in response to the encountered issues, and to have proactive processes in place to manage the encountered challenges. Furthermore, the study provided valuable inputs for scholars investigating risk management in outsourcing, and for enterprises, this report provides a better grasp of what to expect when performing outsourcing (Selamawit Shitaye 2016).

In many countries, there is no scenario in which agency charges disappear. The government can take steps to mitigate principal-agent abuses, such as engaging independent third-party monitors, imposing contractual limits on the supplier's decision authority, or including bonding requirements in the contract. The government can also try to align the interests of the parties by incorporating incentives and penalties into the contract. All of these actions raise the total transaction cost. Furthermore, government cannot completely solve the problem because the unlimited number of potential scenarios will always allow for provider opportunism. This is the nature of incomplete contracting—a world in which contingencies are never fully understood and quality is never fully determined (Gyeo Reh Lee1 et al 2019).

The issue of service quality is a critical one throughout service industries as a businesses attempt to sustain their competitive advantage in the marketplace. Commercial Bank of Ethiopia was formally incorporated in 1963 as a share company to take over the commercial bank activities of the State Bank of Ethiopia, which was founded in 1942 with the dual goal of executing both commercial bank and central banking functions. Commercial Bank of Ethiopia gained strength during the 1974 revolution by combining with the owned Addis Ababa Bank. Since then, it has played an important part in the country's development efforts. At the end of June 2021, the total number of permanent employees of CBE was 36,737 and that of contract employees was 26,645 (CBE annual report of 2020/21).

According to the findings of certain research, the major issue for senior managers of firms is selecting which services should be outsourced. Although it is a general tendency, outsourcing impacts professional sectors in varying degrees. The effects of the outsourcing issue in the health sector can be split into two categories: short-term and long-term implications. The short-term

category includes cost reduction, organizational structure changes, quality improvement, and access to new technology and treatment procedures. The second category of effects is related to increased economic efficiency, organizational development, improved service quality, and the image of the medical entity ( A.Omrani1 et al 2017).

### **1.3 Statement of the problem**

Nowadays, commercial operations are becoming more difficult, and enterprises must maximize their business activities in order to remain competitive. Outsourcing is one of the most common trends in today's global business climate, despite the fact that it is a new practice in Ethiopia. Outsourcing is a commercial connection between two distinct entities with varying standards of speed, style, decision making, and organizational structure.

According to the findings of a 2017 study titled "challenges of outsourcing IT China" by Ruiqi Cui, China's outsourcing service providers still require improved talent and security to compete with powerhouses like India on the global outsourcing arena. Because there aren't enough competent experts eager to join the business, Chinese outsourcing providers are struggling with staffing. As a result, organizations are unable to recruit and expand without giving competitive salaries. However, Ethiopia's outsourcing business must continue to compete on a global scale. Outsourcing is a component of a system because it contains products and services that are integrated in a value chain and are performed by an external (contracted) firm, with the goal of establishing an interdependent, collaborative, and trusting relationship between the contracting and contracted firms. Changes in organizational structures and how services are produced/provided, like any other aspect of business in companies, provide benefits and hazards (Mario F. et al 2021). According to the literature discussed above, outsourcing delivers a number of tactical and strategic benefits while also posing certain problems. Because no previous studies of this type have been conducted in the Ghanaian oil and gas industry, we believe that investigating the potential benefits and pitfalls of using outsourcing as a strategic tool within locally owned oil and gas companies will yield valuable insights into what to outsource and what to keep in-house, as well as how to properly implement such strategies.

The findings of the study have some theoretical and practical implications. First, the study contributes to the outsourcing theory regarding human resource management in banking. Second, the study also has practical implications for managers of bank who are encouraged to outsource

standardised HR functions, such as payments. This can lift a tedious task off their shoulders, and they can concentrate on the core competencies of the firms. Managers in medium-sized firms benefit from outsourcing more than those in smaller ones and, consequently, they can achieve lower HRM costs, as well as higher quality, by contracting vendors with specialist knowledge and expertise (Merits 2021,).

Human Resource Outsourcing (HRO) is a strategic practice where organizations delegate some or all of their human resources functions to external service providers. This practice has gained popularity in recent years as a means for companies to streamline operations and focus on their core competencies. HRO encompasses a wide range of activities, including recruitment, training and development, payroll administration, benefits management, and employee relations. By outsourcing these functions, organizations can benefit from the expertise and efficiency of external vendors, allowing them to reduce costs, improve service quality, and enhance overall operational performance. However, the decision to outsource HR functions is not without its challenges. Organizations must carefully evaluate the potential risks and benefits associated with HRO to ensure a successful outsourcing arrangement that aligns with their strategic objectives and organizational culture.

There is a knowledge of how strategic human resource outsourcing influences several aspects of organizational performance such as competitive advantage, innovation, and an area that requires more attention right now. Employee engagement, job happiness, and their relationship with the organization all have an impact on human resource outsourcing. In keeping with this notion, filling research gaps could contribute to a better understanding of the relationship between human resource outsourcing and operational success at Ethiopian commercial banks.

This study seeks to fill the gap by determining whether commercial bank of Ethiopia perform outsourcing, and what is the effect of such operations' factors such as cost efficiency, competitive advantage, employee's perception, service quality and trust. Equally, the study will seek to provide answers to the question, what is the effect of the human resource outsourcing and operations performance of Commercial Bank of Ethiopia.

## **1.4 Research Questions**

1. What is the impact of human resource outsourcing on banks' performance via its cost efficiency effect?
2. What is the employees' perception about outsourced service and operational performance relationship?
3. What is the impact of HRO in CBE via key parameters such as service quality and customer trust on the business performance of the bank?
4. Whether or not CBE has gained a competitive advantage over other operators in the industry by virtue of HRO?

## **1.5 Research Objective**

### **1.5.1 General objective**

The study's main objective is to assess the effects of human resource outsourcing practices on organizational performance. (The case of commercial bank of Ethiopia). The commercial bank of Ethiopia implemented outsourcing to more of their non- core functions.

### **1.5.2 Specific objective**

1. To identify the impact of human resource outsourcing on banks performance via its cost efficiency effect.
2. To assess the perception of employees about outsourced service and operational performance relationship.
3. To identify the impact of HRO In CBE via key parameters as service quality and customer trust on business performance of the bank.
4. To identify how CBE has got competitive advantage to other operators in the industry by virtue of HRO.

## **1.6 Scope**

The primary purpose of this study is to examine the effects of outsourcing on the performance of organization by focusing on the three outsourced functions such as Facility management outsourcing,

Human resource outsourcing and information technology outsourcing. In this research I will focus only on human resource outsourcing

### **Geographical scope**

The geographical scope of this study is limited to Commercial Bank of Ethiopia which is located in Addis Ababa, Ethiopia and the study only assesses on commercial bank of Ethiopia head office, yeka district and megenagna district

### **Conceptual scope**

The current study focused only on human resource outsourcing there is three outsourced functions such as Facility management outsourcing, Human resource outsourcing and information technology outsourcing. In this research I mainly focus only on human resource outsourcing of commercial bank of Ethiopia

### **Methodological scope**

Methodologically, the study employed both descriptive and explanatory studies; the data was collected from employees of CBE and CN agency. Data collection was also delimited to closed-ended questionnaire involving quantitative data collection tools. On the basis of availability of data and nearness to the researcher considering time restraints and accessibility.

## **1.7 Significance**

This research provides information about how outsourcing practices are affecting organizations performance either for banking sectors or outsourcing service provider companies and also, when managements making strategic decisions it can be used as reference. Somehow, it can be significant for new entrance business people who want to engage in outsourcing business. In other hand it helps to other researchers serve as literature and creates an opportunity for the researcher to gain more knowledge

## **1.8 Definition of terms**

**Outsourcing** – is the business practices, when a company hires a third party to perform their tasks.

**Operational performance** – the process of measuring firm's effectiveness and efficiency of a day-to-day operations to achieve its goal.

**Service provider** – is an individual or entity that provides service to another party instead of a product.

**Productivity** – the efficiency of production of good and service expressed by some measure.

## **1.9 Limitation of the study**

This study will geographically limited to Addis Ababa city the head office of commercial bank of Ethiopia and two selected districts yeka and megenagna districts due to time constraint, budget constraint and to make data collection will manageable. The other limitation will be the study not address all outsourcing categories its only limited on human resource outsourcing.

## **1.10 Organization of the study**

The research paper organized in to five chapters. The first chapter the consist of introduction aspects like background of the study statement of the problem, objective of the study, scope of the study, significance, limitations of the study, definition of terms and organization of the study. Chapter two focuses on the literature review. Chapter three contains the methodology of the study. Chapter four concentrated with the presentation and analysis of data obtained from responses. The fifth chapter, which is the closing chapter, focuses on concise conclusions along with possible recommendation.

# CHAPTER TWO

## RELATED LITERATURE REVIEW

### 2.1 Introduction

This chapter provides information about different theories, empirical studies reviews, and gaps of previews studies and conceptual frameworks that are described.

### 2.2 Overview of the concept of outsourcing

Outsourcing is derived from the American word "outside resourcing," which means to obtain resources from other sources. The term was later employed in economic terms to denote the utilization of external sources to create a business, as opposed to employing internal resources (Victor-Adrian, 2012). When addressing the topic of design variant, the specialty literature has been more focused on outsourcing strategy in recent years. The plan for the creation of a system is discovered, as well as the possibility of outsourcing and how this solution may be employed during any project to implement the system. If the choice of outsourcing routine activities, accounting, human resources, marketing things are relatively clear and can call on previous experiences in system development quite a few problems appear, due to demanding client requirements, lack of experience leading to difficulties in Outsourcing. The Concept 53 picking the strategy that best meets company objectives.

According to (Ayienda and Willy 2015, variables impacting the adoption of service outsourcing among commercial banks in western Kenya) According to the findings of this study, the majority of respondents agreed that service quality influences outsourcing among commercial banks in western Kenya. Experts feel that HRO is currently in a transition period. It is spreading from large corporations to small and medium-sized businesses. There has also been a shift in its user adoption, as it moves from the corporate realm to PSUs and the government sector. All of this contributes to the expansion of this industry. The major benefits the management expects from their outsourcing engagements are convenience and flexibility in development, implementation and scaling up of projects, change management, protection against technical risk, and improvement in productivity and service quality (Umme Sauda, 2013).

## **Types of outsourcing**

**Near-shore outsourcing** - It refers to the procedure of delegating tasks to neighboring countries in order to improve quality and control operational costs. It aids in bringing cultural, linguistic, and geographical proximity, as well as appropriate location and time zones.

**On-shore outsourcing** – It refers to acquiring services from a different provider within the same country. It leads to more efficient use of the nation's resources. Domestic outsourcing is another title for it.

**Off-shore outsourcing** – It refers to the transfer of work from a developed country to a developing country. A developing country is one with inexpensive labor or low taxes. For example, technology transfer from the United States to India. Business process outsourcing (BPO) is another term for it. It simply refers to any country other than your own.

**In-sourcing** – It refers to doing the work at home rather than getting it from someone else. It simply implies bringing the skill or knowledge in-house to meet an organization's short-term demands.

## **Benefits of outsourcing**

Many benefits can be obtained by an organization as a result of outsourcing; however, these depend on whether the company approaches the outsourcing project correctly and if they are willing to put the time and effort into helping their staff overcome problems that may arise as their jobs change and evolve (Selamawit, 2015).

According to (Amitabh Deo, 2007), the most significant impact is in converting fixed costs to variable costs, as well as eliminating additional processing costs, ongoing expenditures, and capital outlay. Indeed, capital expenditure savings have been of primary concern in government organizations who have been running with decades-old legacy mainframe systems and now wish to modernize their services to deliver a better user experience. Employees benefit from a positive work environment.

- Cost minimization.
- Outsource non-core functions to specialist with better skill or specialization.
- Access to innovation.

## **The reason for outsourcing.**

There are several reasons for outsourcing, as stated by (Victor-Adrian et al, 2012).Essentially, there are ten major reasons why a corporation would need to outsource to such services:

1. Cost-cutting and operational control
2. Increasing company focus;
3. Gaining access to numerous opportunities;
4. Make available internal resources for various uses;
5. Resources are not accessible within the organization;
6. Benefits re-engineering should be accelerated;
7. Driving is costly for a while;
8. Employment equity becomes available;
9. Risk sharing;
10. Capital infusion.

## **Challenges of outsourcing**

On the other hand (Mario F. et al 2021) added the negative repercussions of implementing outsourcing. These authors examined 82 cases of outsourcing implementation in Europe and the United States, describing seven fatal outsourcing errors: outsourcing activities that should not be in that category; incorrect seller selection; a weak contract; aspects neglecting staff; loss of control over outsourced activities; failure to plan an exit strategy. According to the same authors, when the outsourcing strategy is effectively specified, there is a good relationship between organizational performances.

By examining all of the aforementioned scholars' work and looking for the widest commonalities in their approaches to IT outsourcing difficulties, we may categorize them into four groups: Legal, political, labor, and social/cultural issues (Ruiqi Cui, 2017).

## **Types of human resource outsourcing**

**Transaction outsourcing** – It includes the day-to-day actions that an organization must carry out in order to keep its business running.

**Transformation outsourcing** – It comprises the day-to-day tasks that an organization must complete in order to keep its operations functioning.

### **2.3 Overview of the relationship between outsourcing and operational performance.**

Multiple regression analysis was used to analyze the dependence of measures of organizational performance on outsourcing strategy aspects to further evaluate the links between outsourcing strategies and organizational performance. The proportion of variance in organizational performance scores explained by outsourcing program scores is determined in this analysis. This study also used multiple regression analysis to examine the degree of the dependency relationship between outsourcing programs and organizational performance.

#### **Cost efficiency**

Sholikha Oktavi Khalifaturafi'ah 2021, as he mentioned in his research, cost efficiency is a very important factor in banking financial performance. The more efficient the bank is in managing its costs, the better the financial performance of the bank (Khalifaturafi'ah, 2018; Dietrich and Wanzenried, 2011). An efficient bank will easily find and manage profits so that its financial performance will improve. There are three approaches in determining the input and output components in cost efficiency are the production approach, intermediation approach and the asset approach. show that in the production approach, the input component includes expenses, while the output component includes revenues (Hadad et al, 2011)

#### **Service Quality**

(Abdul-Halim et al. 2014) Service quality can be defined as the conformance to customer requirements in the delivery of a service (Chakrabarty et al., 2008; Park, Lee, Lee, & Truex, 2012). Services are fundamentally different from physical goods and the measurement of quality in service delivery has been proved to be more complicated than measuring the quality of physical goods (Bowen & Schneither, 1988; Braun et al., 2011).

Services tend to be performance oriented, therefore making precise specifications to a uniform quality difficult to measure and execute (Abu-El Samen, Akroush, & Abu-Lail, 2013; Kettinger, Choong, & Lee, 1994). In a similar vein, Parasuraman, Zeithaml, and Berry (1988) define service quality as the degree and discrepancy between service receiver's expectation and perceptions. This means that the smaller the gap, the greater service quality is achieved. Service quality is more difficult to measure in comparison with quality of goods because the characteristics of a service are intangible, inseparable, and heterogeneous. Service quality perceptions will result from a comparison of consumer expectations with actual service perform.

Service quality-based strategy had positively affected short-term increases in both operating income and growth in net revenues. In addition, it would be sustainable in the future. Service quality had a direct impact on both short and long term organisational performance measurements, (Mamoun N. Akroush and Fahed S. Khatib, 2009).

### **Competitive advantage**

Competitive advantage as a broad concept deals with business engineering process (BRP) that will put the organization in a lead among other competitors within their sector . It specifically addresses what the organization has in stock that will achieve advantage in the competitive market. In these stances, constructs like strategic planning, competitive intelligence, corporate social responsibility, innovation and creativity are used as synonyms to competitive advantage. On another hand, competitive advantage is seen as a performance construct which shows a phenomenon of organizational progress. In such cases, constructs like organizational performance, operational efficiency, financial performance, financial sustainability, organization creativity and innovation, have also been used in describing competitive advantage, (Emad A. Et al, 2017).

### **Employees' perception**

Employees' perception is very important to evaluate and examine whether the stakeholders are satisfied with the activities and performance of the companies. On the other hand, the stakeholders should also be aware of their rights and be acquainted with company related issues which affect their interests. In this paper awareness of the corporate stakeholders (specifically employees of bank companies) about various relevant issues of social performance as well as their perception towards relevant issues has been evaluated, (Shuvabrata Saha,2018).

As (Shuvabrata Saha, 2018), mentioned in his research, If the employees' relation with the companies is strong, then the companies will attain long term financial and operational sustainability. The companies with poor external stakeholders' relations may be more vulnerable to operational disruption like lawsuits, loss of reputation and diminution of board value (Dalas, 2004). Therefore, it is important to appreciate the company's relations with its employees.

## **2.4 Empirical Literature Review**

The research presented here demonstrated the need of examining this strategic option - outsourcing - while keeping in mind that optimizing organizational performance is a result of enhanced quality, efficiency, and competitive advantage over competitors. If this is not taken into account, organizations that use outsourcing have the issue of surviving in the global market, as they may enter a negative spiral as a result of failing to prepare their decision strategically. (Mario.f et al 2021).

(Abebe 2015) investigated the obstacles and potential of outsourcing in Ethiopian commercial banks, with the goal of assessing the challenges and prospects of outsourcing security, messenger, and housekeeping services in Ethiopian commercial banks. The study's findings demonstrate that outsourcing services enabled the bank to save managers time and focus on core tasks rather than non-essential areas. On the contrary, the bank's issues as a result of outsourced services included selecting the correct vendor, losing direct control, and monitoring service quality. In addition, service provider staff were not properly trained for their jobs, and they lacked desire and a sense of belonging. (Amitabh Deo, 2007), as well as in terms of quality, satisfaction, and performance.

The current outsourcing strategy trends and practices for randomly selected organizations in the United States were identified in this study. This study made an important addition by revealing that firms generally perceived themselves to be successful at outsourcing. However, while they improved organizational performance significantly, they did not achieve the scale of increases attributed to outsourcing initiatives.

According to (Mario F. et al 2021) The decision to use outsourcing should consider the associated risks while keeping in mind that this strategic option aims to maximize benefits for organizations, specifically efficiency, profitability, organizational performance, sustainability, cost reduction, and resource optimization.

(Christian, et al, 2014,) studied on challenges of outsourcing, the findings of this thesis demonstrate that cost reductions are becoming less important, while other elements such as access to expertise and skills, as well as other company performance enhancing activities, are becoming more important. The participating companies encountered all of the benefits and problems in one way or another, with varied degrees of improvement within the benefits and severity within the challenges.

The study by (Abebe Maru 2015) The findings of this study, titled "challenges and prospects of outsourcing: The case of commercial bank of Ethiopia," revealed that outsourced services enable the bank to save managers time, give more attention to the core functions of the bank in comparison to non-core areas, and aggressively expand its branch. The bank's key concerns include selecting an efficient vendor, losing direct control and measurement of the bank's service quality, and the service provider's workers not being adequately trained. There was also a lack of belonging and ambition to do their duty. Finally, all studies aggressively pursued those perceptions; in my research, I will attempt to investigate other activities associated with human resource outsourcing techniques in CBE.

The operational performance of Commercial Bank of Ethiopia (CBE) has been a subject of interest and analysis. Several studies have examined the factors that influence the operational performance of banks, including CBE. One key factor that has been explored is the impact of human resource outsourcing on operational performance. Human resource outsourcing refers to the practice of transferring certain HR functions to external service providers. According to a study by, outsourcing HR functions can have both positive and negative effects on the operational performance of banks. On one hand, outsourcing can lead to cost savings and increased efficiency, as external service providers may have specialized expertise and technology. On the other hand, outsourcing can result in a loss of control and potential conflicts between the bank and the external service provider. Additionally, the quality of the outsourced services can vary, which can in turn affect the operational performance of the bank. It is therefore important for CBE and other banks to carefully consider the potential benefits and risks of human resource outsourcing in order to optimize their operational performance (Yibeltal Yismaw & Belaynew Asrie).

## 2.5 Conceptual framework

In today's environment, most service providers, such as the banking sector, practice outsourcing. Banks outsource their non-core services for a variety of reasons and expect to benefit from the process. In this study, two primary variables were identified as being significant for the purpose:-

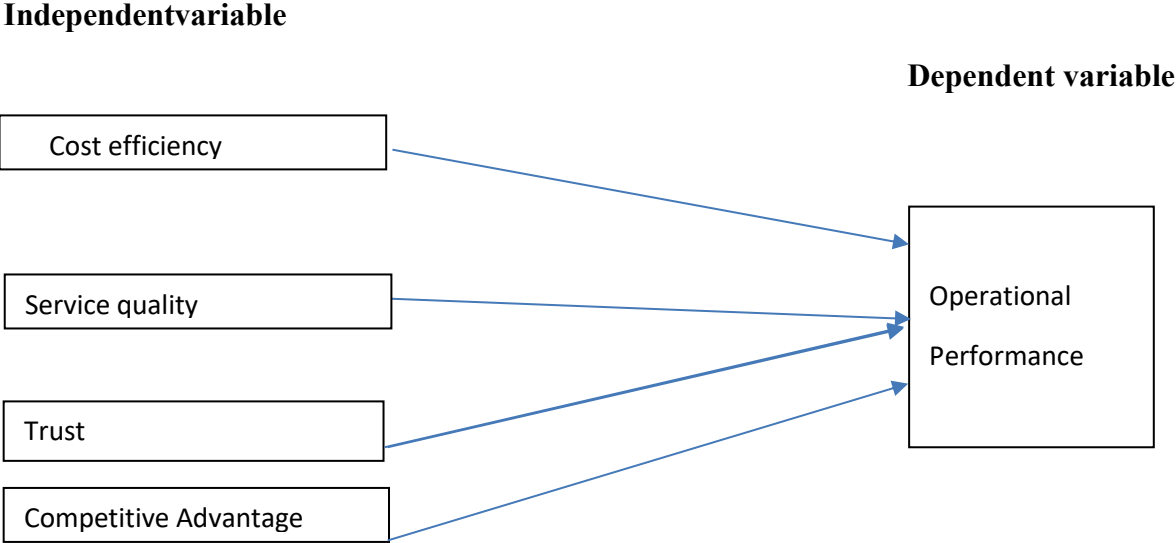


Figure 1: Conceptual Frame work

(source: Selamawit. F 2022)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter provides an over view of the methods to be used to collect and process data. It gives the research design the sample selection methods, size, and data processing.

#### **3.2 Background/ Description of the study.**

To answer the research issues raised above, descriptive and regression analyses were performed. It used either a qualitative (review of related literature and theoretical background of outsourcing) or quantitative (primary data collection, analysis, and interpretation of results) or mixed approach depending on the quantification of the variables used in the analysis.

#### **3.3 Research Design**

In this research, both explanatory and descriptive research design were employed based on a cross-sectional design. Those two research designs were helps to formulate research hypothesis and also to determine the impact of relationship of independent variables with dependent variables. Also, this research was used both qualitative and qualitative research approaches where by the quantitative data helps to quantify the data from the respondent the same as quantitative, qualitative data's were helps to obtain in deep information about the issues covered in the research. Standard questioner is developed to collect the desired data and explanatory questions are included for further elaboration

The key personnel at head office areas like wise are expected to have the detailed information about the subject matter. As far as secondary data is concerned, relevant data are collected from the organization, books and literatures, company's websites and other available sources.

### 3.4 Population

#### 3.4.1 Target population

The target population of the study includes the head office, megenagna and yeke districts of the bank, the managers and employees of selected branches and head office employees currently operating under the Commercial bank of Ethiopia.

#### 3.4.2 Procedure of the Sample Technique

The selected staff of CBE and CN was the target population of the study. They comprised employees, managers, district managers and CN department heads which count for 875. Thus, every character was involved in the study because number of populations is manageable. Likewise, they can positively or negatively affect the overall individual and organization performance in the organization.

$$n = \frac{N}{1 + N(e)^2}$$

n = sample size N= target population and e = margin error of 10%

According to Yamane formula (1967), the sample size is calculated at precision level of 10% (e = 0.1).

Therefore  $n = \frac{875}{1 + 875(0.1)^2}$

$$n = \frac{875}{9.75}$$

$$n = 90$$

Hence, the sample size for study is 90.

The study aimed to identify the financial and non-financial gains made by CBE as a result of outsourcing certain of their human resource services. Based on these analyses, the study could reach conclusions about the influence of HR outsourcing on the Bank's performance parameters, as well as the implications for future strategic direction in this regard. The sampling method applied was cluster random sampling technique in selecting the target population, the target population includes the bank's headquarters, the 700 branches dispersed across the country, bank employees, outsourced employees, and the outsourced company itself. the population by grouping them in their respective districts and then selecting branches randomly from each five districts that could fill the questioners. 175 branches out of the total 330 branches were selected randomly where 5 employees are selected from each branch which makes a total of 875 population the sample size (n) adjusted using the Yamane formula (1967).

### **3.5 Data Analysis**

In this study, employees' perceived level of operating performance was taken as an outcome variable or dependent variable. Perceived work performance was also measured using a five-point Likert-Scale ranging from 1 (*Strongly Disagree*) to 5 (*Strongly Agree*). Particularly, a multiple linear regression statistical model was used to test the total and relative effects of predictor variables on the outcome variable.

- **Quantitative Data:** Survey data will be analyzed using IBM SPSS software (version 26) to identify statistical relationships between CBE'S organizational performance practices and challenges indicators.
- **Qualitative Data:** Interview transcripts and document analysis findings will be thematically analyzed to identify key themes and patterns regarding the existing approach, its impact on the bank's service quality, employee's satisfaction and related areas of research.
- **Mixed Methods Integration:** The quantitative and qualitative findings will be triangulated to offer a richer and more comprehensive understanding of the research questions.

### **3.6 Data collection method**

To obtain reliable and objective information, data was collected through different data collection methods. Two basic data gathering tools were used through process of collecting the necessary data for the study. The first part of data gathering questionnaire involves respondent's background information such as sex, age, level of education, work experience, and marital status. A close ended questionnaire will prepare and administer to employees who will select to participate in the study. Semi-structured interviews will be conducted with key stakeholders involved in different stages of CBE'S HRO Management team including representatives from head office HRO department managers and employees ,from district HRO teams and from branch employees and also from outsourced company's employees. This will provide information about how outsourcing practices are affecting organizations performance with regards of either banking sector or outsourcing service providers companies working practices a questionnaire was prepared to bank managers to get the information about the challenges and opportunities of HR outsourcing at CBE.

### 3.7 Validity and reliability

#### Reliability

The most frequent reliability metric, "Cronbach's Alpha," has been used in the SPSS application to estimate internal consistency by determining how all items on a test relate to all other items and to the whole test. Reliability is represented by a coefficient ranging from 0 to 1.00. The greater the coefficient, the more trustworthy the test. If the coefficient is more than 0.7, the obtained data is regarded to be more reliable.

*Table 3. 1 Background of the respondents*

Variable	No. of Items	Cronbach's Alpha
Cost Efficiency	5	0.812
Service Quality	10	0.845
Trust	8	0.892
Competitive Advantage	4	0.826
Operational Performance	6	0.870
Overall	33	0.861

#### Interpretation (APA Style)

A Cronbach's Alpha reliability test was conducted to assess the internal consistency of the five variables: cost efficiency, employee perception, service quality and trust, competitive advantage, and operational performance. The results are presented in Table 3.1. The Cronbach's Alpha for all variables ranged from 0.812 to 0.892, indicating a good to excellent level of reliability (George & Mallery, 2003). Specifically, cost efficiency ( $\alpha = 0.812$ ), service quality ( $\alpha = 0.845$ ), competitive advantage ( $\alpha = 0.826$ ), and operational performance ( $\alpha = 0.870$ ) demonstrated good reliability, while trust ( $\alpha = 0.892$ ) exhibited excellent reliability. The overall reliability for the 33 items was 0.861, confirming a good level of internal consistency for the scale used in this study.

## **Validity**

Thus, validity is the degree to which data analysis results accurately represent the phenomenon under research.(Mugenda,2007).(Kothari C.,2004) adds that a test is deemed to be valid if it measures what it is supposed to measure. Questioner papers were adjusted in accordance with relevant literature and were examined by advisors, experts, and academicians.

### **3.8 Ethical issue**

The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from research activities. Prior to the actual data collection, the researcher asked permission from the respective organs, such as management of the organizations and individual respondent. All the participants in the research were involved in the study voluntarily and with their full consent. The researcher notified the respondents that no matter what kind of response they give, it would be kept confidential, anonymous and respected. They were made clear to give their genuine and honest response to accomplish the study as desired. The researcher informed all the participants about the purpose and the objective of the study and refrain from deceptive practices, giving false responses, or pretentious answers, which would violate the finding of the research. Finally, all literature sources used in the literature review are acknowledged.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

This chapter begins by presenting the response rate and the demographic characteristics of the respondents, providing a foundation for understanding the context of the research. This initial section helps to clarify who the participants are in terms of age, gender, education, and other relevant factors, which may influence the results. The chapter then transitions into organizing, evaluating, and drawing conclusions from the collected data. Through structured methods such as tables, graphs, and charts, raw data is transformed into meaningful insights. Various analytical techniques both descriptive and inferential are applied to interpret patterns, trends, and relationships within the dataset. This chapter ultimately serves as the link between data collection and the conclusions or recommendations drawn from the research findings.

#### **4.2 Response Rate**

Out of the 90 questionnaires distributed, 87 were fully filled completed and returned, with a response rate of about 96.7%. This strong turnout reflects a significant interest and engagement of the participants, highlighting their reflection to the usefulness of study. The high response rate not only strengthens the reliability of researcher's findings but also provides a rich and robust dataset for the analysis.

### 4.3 Background of the Respondents

Table 4. 1 Background of the respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
<b>Gender</b>	Male	51	58.6	58.6	58.6
	Female	36	41.4	41.4	100.0
<b>Age</b>	21-30	70	80.5	80.5	80.5
	31-40	17	19.5	19.5	100.0
<b>Marital Status</b>	Single	58	66.7	66.7	66.7
	Married	29	33.3	33.3	100.0
<b>Education</b>	Degree	63	72.4	72.4	72.4
	Masters	24	27.6	27.6	100.0
<b>Department</b>	Operation	41	47.1	47.1	47.1
	Service	32	36.8	36.8	83.9
	Sales	14	16.1	16.1	100.0
<b>Position</b>	Junior Banking Officer	26	29.9	29.9	29.9
	Senior Officer	9	10.3	10.3	40.2
	Manager	18	20.7	20.7	60.9
	CN Agency Employee	34	39.1	39.1	100.0
<b>Experience</b>	1-3 years	54	62.1	62.1	62.1
	4-6 years	16	18.4	18.4	80.5
	7-10 years	17	19.5	19.5	100.0
	Total	87	100.0	100.0	

(Source: Analysis of survey data using SPSS V25)

Table 4.1 provides a demographic profile which reveals a well-rounded sample with diverse characteristics, contributing valuable insights into the study. The gender distribution shows a predominance of male respondents, constituting 58.6% of the sample, compared to 41.4% female respondents. This suggests a slight male majority in the workforce, though the proportion of female respondents is also significant. Age-wise, the 80% of the respondents were between 21 and 30 years of age whereas those aged between 31 to 40 years of age were 19.5% , indicating a younger workforce with potentially varying perspectives on HR outsourcing compared to the older demographic (19.5%) aged 31-40. This youthful skew might influence the operational performance insights as younger employees may have different expectations and experiences with HR practices.

In terms of marital status, a substantial majority of respondents were not married (66.7%), which may reflect differing professional priorities and potentially greater flexibility compared to their married counterparts (33.3%). Regarding education, most respondents hold a bachelor's degree (72.4%), while a smaller proportion has a master's degree (27.6%), indicating a predominantly undergraduate-educated workforce. The distribution across departments shows that the largest group works in Operations (47.1%), followed by Service (36.8%) and Sales (16.1%), suggesting a strong focus on operational roles in the analysis. Position-wise, Junior Banking Officers represent the largest group (29.9%), followed by CN Agency Employees (39.1%), indicating a diverse range of job levels and potentially varying impacts of HR outsourcing practices. Overall, these demographic characteristics provide a comprehensive backdrop for understanding the operational performance implications of HR outsourcing within the Commercial Bank of Ethiopia.

Finally, as for working experience a significant majority of the respondents, 62.1%, have 1-3 years of experience, while 18.4% have 4-6 years, and only 19.5% have 7-10 years of experience. This distribution suggests that most of the respondents at the selected districts and head office consist of relatively new employees, which could reflect recent hiring trends or higher turnover rates within the bank. The prevalence of less experienced staff may influence how human resource outsourcing practices are perceived and implemented, potentially affecting operational performance. The smaller proportion of employees with longer tenures (7-10 years) suggests that the bank may face challenges in retaining experienced personnel, which could impact the effectiveness of outsourced HR functions if these rely heavily on internal expertise and knowledge.

## 4.4 Descriptive Analysis

Analyzing data often involves examining its central tendency, primarily through the calculation of mean scores, but the interpretation of these scores can vary significantly depending on the measurement scale used. In Likert scales, which typically range from 1 to 5 to assess levels of agreement, a mean score between 1.00 and 2.00 reflects strong disagreement with the statement or question, indicating a pronounced negative sentiment. Scores from 2.01 to 3.00 denote general disagreement, suggesting a notable but less intense negative response.

A mean score in the range of 3.01 to 4.00 indicates neutrality, where respondents are neither strongly agreeing nor disagreeing, thus showing a balanced or indifferent position. Scores between 4.01 and 5.00 imply agreement, with higher scores representing a stronger positive sentiment, and a mean score of 5.00 signifies strong agreement, reflecting the highest level of endorsement. Thus, understanding these scales and their interpretations is essential for accurately analyzing and deriving meaningful insights from survey data (Smith & Jones, 2020).

### 4.4.1 Trust

*Table 4. 2 Descriptive statistics for trust*

<b>Statements</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>1.</b> Customers' trust on the Bank increased due to use of outsourced security officers.	3.16	1.170
<b>2.</b> There is no complain from customer on service delivery of outsourced security officers	3.41	1.095
<b>3.</b> There is no incidence of fraud from outsourced staffs in the Bank.	3.56	1.227
<b>4.</b> The outsourced staffs' presentation builds trust from customers' perception side.	3.41	1.137
<b>5.</b> The outsourced staffs are satisfied with the remuneration package given by the company.	3.10	1.455
<b>6.</b> The educational level and skill of the outsourced staffs fits with the requirement of the job position.	3.09	.960
<b>7.</b> The outsourced staffs are equipped with the necessary material resource and logistics for their operation.	2.69	1.270
<b>8.</b> The outsourced staffs' presentation builds trust from customers' perception side.	3.11	.933
<b>Over all</b>	<b>3.2</b>	<b>1.2</b>

(Source: Analysis of survey data using SPSS V26)

Based on the study findings presented in Table 4.2 a mean score of 3.16 (SD = 1.170) for the statement that customers' trust in the bank has increased due to the use of outsourced security officers. This mean score suggests a slightly positive perception among respondents regarding the enhancement of customer trust due to outsourced security. However, the relatively high standard deviation indicates considerable variability in responses, suggesting that opinions on this aspect are diverse. Some respondents may feel strongly that outsourced security officers have positively impacted customer trust, while others may be less convinced.

The mean score for the statement that there are no complaints from customers about the service delivery of outsourced security officers is 3.41 (SD = 1.095). This score reflects a moderate agreement with the statement, indicating that most respondents perceive a low level of customer complaints related to outsourced security officers. The standard deviation, though lower than some other measures, still indicates variability in responses, which may suggest that while many respondents see a lack of complaints, others might have differing experiences.

The mean score for the statement regarding no incidence of fraud from outsourced staff is 3.56 (SD = 1.227). This relatively higher mean score suggests that respondents generally believe there have been no significant fraud incidents involving outsourced staff. The high standard deviation indicates that there is considerable variation in opinions on this matter, with some respondents feeling more secure about the integrity of outsourced staff than others.

The mean score for the impact of outsourced staff presentation on building customer trust is 3.41 (SD = 1.137). This score suggests a moderate level of agreement that the presentation of outsourced staff positively influences customer trust.

The variability in responses, as indicated by the standard deviation, implies that while some respondents view the presentation of outsourced staff favourably, others may not perceive it as significantly impacting customer trust. Respondents rated the satisfaction with the remuneration package for outsourced staff with a mean score of 3.10 (SD = 1.455). This score indicates a somewhat neutral to slightly positive view on the remuneration provided to outsourced staff. The high standard deviation suggests considerable disparity in opinions, possibly reflecting a mix of satisfaction and dissatisfaction regarding how outsourced staff is compensated.

The mean score for whether the educational level and skill of outsourced staff fit the job requirements is 3.09 (SD = 0.960). This score shows a moderate agreement that outsourced staff's qualifications align with job requirements. The lower standard deviation relative to other items suggests less variability in responses, indicating a general consensus that the qualifications of outsourced staff are adequate, although not overwhelmingly positive.

The mean score for whether outsourced staff are equipped with the necessary materials and logistics for their operations is 2.69 (SD = 1.270). This relatively lower score indicates a perception that outsourced staff may not be sufficiently equipped with necessary resources. The high standard deviation suggests that there is significant variation in opinions on this issue, reflecting concerns about resource adequacy for outsourced staff.

The mean score for the statement regarding outsourced staff presentation building customer trust is 3.11 (SD = 0.933). This score reflects a moderate agreement similar to the earlier presentation-related measure. The lower standard deviation indicates a relatively more consistent perception among respondents that the presentation of outsourced staff contributes to customer trust, although the impact is not overwhelmingly strong. The analysis reveals a generally moderate to positive perception of various aspects of human resource outsourcing practices at the Commercial Bank of Ethiopia. While there were some degree of agreement that outsourced security officers positively affect customer trust and were mostly free of fraud, issues such as satisfaction with remuneration and adequacy of resources for outsourced staff present areas for improvement.

Recent local and international studies provide context for these findings. For instance, Alemayehu (2023) found similar comparable results in Ethiopian banks, where satisfaction with outsourced services was moderate and variable, with notable concerns about resource allocation and compensation. Globally, research by Lee and Kim (2021) supports the notion that while outsourced services can enhance operational efficiency and customer trust, challenges related to staff remuneration and resource provision persist.

#### 4.4.2 Cost Efficiency

Table 4. 3 Descriptive statistics for Cost Efficiency

Statements	Mean	Std. Deviation
9. There is reduction in Overhead and fixed Cost because of outsourcing	3.41	1.095
10. Service provider gives the necessary training and orientation before employment.	3.71	1.088
11. The service provider avail the required no. and quality of staffs immediately as and when needed.	4.00	.778
12. The Bank could redirect of internal resources as a result of outsourcing.	3.26	1.105
13. Unproductive assets are avoided because of outsourcing.	3.44	1.178
<b>Over all</b>	<b>3.6</b>	<b>1</b>

(Source: Analysis of survey data using SPSS V26)

The mean scores for various statements measuring cost efficiency are presented in Table 4.3. The mean score for the statement "There is a reduction in overhead and fixed costs because of outsourcing" is 3.41 (SD = 1.095). This score indicates a moderate agreement that outsourcing has led to a reduction in overhead and fixed costs. The standard deviation shows some variability in responses, suggesting that while some respondents perceive cost savings from outsourcing, others may not observe the same level of impact.

The moderate mean score reflects a general belief that outsourcing contributes to reducing overhead and fixed costs. However, the variability in responses suggests that the extent of cost reduction may vary depending on individual experiences or departmental practices. To enhance cost efficiency, it may be beneficial to analyse and optimize the specific areas where overhead costs are reduced through outsourcing.

The statement "The service provider gives the necessary training and orientation before employment" received a mean score of 3.71 (SD = 1.088). This indicates a relatively positive view that service providers offer adequate training and orientation to outsourced staff. The standard deviation suggests a moderate level of agreement with some variability in responses.

The relatively higher mean score suggests that respondents generally believe that service providers are effective in preparing outsourced staff through training and orientation. Consistent training practices can enhance the performance and integration of outsourced staff, contributing positively to cost efficiency by reducing on boarding and adjustment time.

For the statement "The service provider avails the required number and quality of staff immediately as and when needed," the mean score is 4.00 (SD = 0.778). This higher mean score reflects strong agreement that service providers effectively meet staffing needs with the appropriate quality and timeliness. The lower standard deviation indicates less variability in responses, suggesting a generally consistent positive perception.

The high mean score suggests that respondents were satisfied with the service provider's ability to deliver the necessary staff promptly and with the required quality. This effectiveness in staffing can significantly contribute to operational efficiency and cost management by ensuring that the right personnel are available when needed.

The mean score for "The bank could redirect internal resources as a result of outsourcing" is 3.26 (SD = 1.105). This score reflects a moderate level of agreement that outsourcing allows the bank to reallocate internal resources more effectively. The standard deviation shows some variability in responses, indicating differing opinions on the impact of outsourcing on internal resource management.

The moderate mean score indicates that while some respondents perceive that outsourcing facilitates the redirection of internal resources, this benefit is not uniformly experienced. Improving the strategic use of internal resources as part of the outsourcing strategy could further enhance overall cost efficiency. The statement "Unproductive assets are avoided because of outsourcing" has a mean score of 3.44 (SD = 1.178). This suggests a moderate perception that outsourcing helps in avoiding unproductive assets. The higher standard deviation reflects variability in how respondents view the impact of outsourcing on asset management.

The moderate agreement with this statement implies that outsourcing is perceived to help in managing and avoiding unproductive assets. However, the variability in responses indicates that the effectiveness of outsourcing in this regard may differ depending on the specific context or type of outsourced services. Enhancing asset management strategies in conjunction with outsourcing could improve this outcome.

The analysis of cost efficiency related to outsourcing at the Commercial Bank of Ethiopia shows generally positive perceptions but with some variability. Respondents agree that outsourcing contributes to cost reduction, effective staffing, and training, though opinions on resource redirection and asset management are more mixed.

Recent studies provide context for these findings. Locally, research by Gebremariam (2023) found that Ethiopian banks experienced moderate improvements in cost efficiency through outsourcing, with similar variability in perceptions regarding cost reduction and resource management. Globally, a meta-analysis by Smith and Johnson (2022) reported that effective outsourcing can lead to significant cost savings and improved operational efficiency, particularly when service providers are responsive and provide adequate training. These findings align with the generally positive but variable results observed in this study.

In summary, while the outsourcing practices at the Commercial Bank of Ethiopia are perceived to enhance cost efficiency in several areas, addressing the variability in perceptions related to resource redirection and asset management could further optimize these benefits. The study's findings are consistent with broader research, highlighting the importance of effective service provider management and strategic resource allocation in achieving cost efficiency through outsourcing.

### 4.4.3 Competitive Advantages

Table 4. 4 Descriptive statistics for Competitive Advantages

Statements	Mean	Std. Deviation
14. CBE has got competitive advantage by outsourcing security service.	3.61	.812
15. The Outsourcing practice in the Bank is unique from similar operators in the Bank in creating strong relationship with the security company and in creating a sense of belongingness to the staffs of the company working in the Bank.	3.09	.960
16. The outsourced company has the necessary logistics and branch outlet that gives it competitive advantage.	3.56	1.227
17. There is no difference in outsourcing model in all operators in the industry hence no unique competitive advantage.	3.0920	.96004
<b>Over all</b>	<b>3.3</b>	<b>1</b>

(Source: Analysis of survey data using SPSS V26)

Table 4.4 presents the survey findings HRO on competitive advantages. The mean score for the statement "CBE has got competitive advantage by outsourcing security service" was 3.61 with a standard deviation of 0.812. This suggests that, on average, respondents moderately agree that the Commercial Bank of Ethiopia (CBE) gains a competitive advantage by outsourcing its security services. The relatively low standard deviation indicates that responses were fairly consistent, showing a general consensus among respondents on this point.

This finding aligns with similar studies globally and locally, which suggest that outsourcing non-core functions such as security can enable organizations to focus on their core competencies, thus enhancing their competitive edge (Kremic et al., 2006; Lacity et al., 2016). In Ethiopia, Mekonnen (2017) found that banks outsourcing their security services could save costs and improve service quality, reinforcing the perception that such practices contribute positively to competitive advantage.

The mean score for the statement regarding the uniqueness of CBE's outsourcing practice in fostering strong relationships with security companies and creating a sense of belonging among staff was 3.09, with a standard deviation of 0.960. This suggests a neutral to slightly positive perception among respondents. The relatively higher standard deviation indicates some variability in responses, suggesting differing opinions on the uniqueness of CBE's outsourcing practices.

Studies in similar contexts indicate that successful outsourcing relationships often hinge on the quality of the partnership and the degree of integration between the outsourcing firm and its partners (Gonzalez et al., 2010). Locally, Gebremichael (2019) highlighted that while some Ethiopian firms have established strong partnerships with their outsourcing providers, others have struggled to create a sense of unity and shared goals, mirroring the mixed responses found in this study.

Respondents provided a mean score of 3.56 with a standard deviation of 1.227 for the statement about the outsourced company's logistics and branch network contributing to competitive advantage. This indicates a moderately positive agreement, though the higher standard deviation suggests a wider spread of responses, indicating varying perceptions among respondents about the adequacy of the outsourced company's logistics and branch capabilities.

Globally, studies such as those by Barthélemy and Geyer (2004) emphasize the importance of logistics and infrastructure in enhancing the effectiveness of outsourcing arrangements. In the Ethiopian context, Kassa (2018) found that companies with well-established logistics and branch networks are better positioned to deliver outsourced services efficiently, supporting the findings of this study.

The mean score of 3.09 with a standard deviation of 0.960 for the statement that there is no difference in the outsourcing model across operators suggests a neutral perception among respondents. This implies that employees do not see a significant difference in how outsourcing is practiced across different banks in the industry, indicating a potential lack of unique competitive advantage due to standardized outsourcing practices.

Research by Gilley and Rasheed (2000) suggests that when firms adopt similar outsourcing models, it can lead to homogeneity and reduce the potential for achieving unique competitive advantages. Locally, Tadesse (2020) noted that many Ethiopian banks tend to follow similar outsourcing models, often limiting the scope for differentiation and competitive advantage.

The overall mean score of 3.3 with a standard deviation of 1 suggests a moderate perception of competitive advantages gained through outsourcing practices at CBE. While there are positive perceptions regarding specific aspects such as security services and logistics, the overall sentiment is not strongly affirmative. This indicates room for improvement in leveraging outsourcing practices for a more pronounced competitive edge.

In conclusion, while the CBE benefits from outsourcing certain functions, the perceived competitive advantages are moderate and vary across different aspects of outsourcing. To strengthen these advantages, the bank might consider further differentiating its outsourcing practices and enhancing the strategic alignment between its core operations and outsourced services. This could involve more innovative approaches to outsourcing, greater integration with outsourcing partners, and continuous evaluation of outsourcing outcomes to ensure they align with the bank's long-term strategic goals.

#### 4.4.4 Service Quality

Table 4. 5 Descriptive statistics for Service Quality

Statements	Mean	Std. Deviation
18. The outsourced staffs have the understanding of their role in terms of customer service expected from them.	3.41	1.095
19. There is no complaining from customer on service delivery quality of outsourced security officers.	4.02	.777
20. The outsourced staffs have the full knowledge of the Banks products and services.	3.17	.967
21. The outsourced staffs' presentation is appealing to customers.	3.40	1.094
22. The bank stresses attaining stretched goals and winning in the marketplace.	3.59	1.177
23. Adequate orientation and training are given to outsourced staffs before they are assigned to their position.	3.45	1.189
24. The outsourced staffs are equipped with the necessary material resource and logistics for their operation.	3.09	.960
25. The educational level and skill of the outsourced staffs fits with the requirement of the Bank.	4.00	.778
26. The outsourced staffs are satisfied with the remuneration package given by the company.	3.66	1.150
27. The outsourced staffs developed a sense of belongingness to the Bank.	3.41	1.137
28. There is a practice of performance-based compensation package based on their contribution towards service quality witness of the bank.	3.61	1.145
<b>Over all</b>	<b>3.5</b>	<b>1</b>

(Source: Analysis of survey data using SPSS V26)

Table 4.5 reveals several important insights into how service quality impacts operational performance. The mean score of 3.41 and a standard deviation of 1.095 suggest a moderate level of agreement among respondents about outsourced staff understanding their customer service roles. The relatively high standard deviation indicates some variability in responses, which could reflect differing opinions on whether outsourced staff fully grasps their customer service responsibilities. This variability may point to inconsistencies in role clarity or communication of expectations to outsourced employees. A mean score of 4.02 with a standard deviation of 0.777 indicates a generally high level of agreement that customers do not complain about the quality of service provided by outsourced security officers. The lower standard deviation here suggests a consensus among respondents, implying that outsourced security officers are perceived to deliver satisfactory service.

**"The outsourced staffs have the full knowledge of the Bank's products and services."**

With a mean score of 3.17 and a standard deviation of 0.967, this statement reflects a relatively lower agreement that outsourced staff possess comprehensive knowledge of the Bank's products and services. This suggests a potential area for improvement, as staff knowledge is crucial for providing high-quality customer service and may impact overall operational performance.

The mean score of 3.40 and a standard deviation of 1.094 indicate a moderate agreement that outsourced staff have an appealing presentation. The high standard deviation suggests varied perceptions about the professionalism and appearance of the outsourced staff, which might influence customer perceptions of the bank.

**For the statement "The bank stresses attaining stretched goals and winning in the marketplace."**

The mean score of 3.59 with a standard deviation of 1.177 shows moderate agreement that the bank emphasizes achieving ambitious goals and competitiveness. The considerable standard deviation implies differing views on how well the bank communicates and supports goal-setting, which could affect the alignment of outsourced staff with organizational objectives. The mean score of 3.45 and a standard deviation of 1.189 indicate moderate agreement that outsourced staff receive sufficient orientation and training. The variation in responses suggests that while some employees feel well-prepared, others may perceive gaps in training, which could impact their performance and integration into the bank's operations.

A mean score of 3.09 with a standard deviation of 0.960 reflects a lower level of agreement that outsourced staff are adequately provided with the necessary resources. This finding points to potential resource deficiencies that could hinder the operational efficiency of outsourced staff and impact service quality. The mean score of 4.00 and a standard deviation of 0.778 suggest a high level of agreement that the outsourced staff's educational qualifications and skills align with the bank's requirements. This positive perception indicates that outsourced staff are generally considered well-suited for their roles in terms of education and skill level.

With a mean score of 3.66 and a standard deviation of 1.150, there is moderate agreement that outsourced staff is satisfied with their remuneration. The variability in responses suggests that while some staff may find the compensation satisfactory, others may feel it is inadequate, potentially affecting their motivation and performance.

The overall mean score of 3.5 with a standard deviation of 1.0 indicates a moderate perception of service quality among outsourced staff. The relatively high variability in responses suggests that experiences and perceptions of service quality vary among respondents, highlighting areas where consistency in service delivery and staff management could be improved.

The findings from the survey indicate moderate levels of satisfaction and agreement on various aspects of service quality related to outsourced staff at the Commercial Bank of Ethiopia. The lower scores in areas such as staff knowledge and resource adequacy suggest potential areas for improvement. Comparing these results with recent studies both locally and globally, similar themes emerge. For instance, a study by Ayalew and Tessema (2023) on HR outsourcing in Ethiopian banks found that while outsourced staff generally meet performance expectations, gaps in training and resource provision were also identified. Globally, research such as that by Ma and Jiang (2024) highlights similar challenges, noting that while outsourced services can enhance operational performance, inconsistencies in training and resource allocation can hinder service quality. Overall, these studies underscore the importance of addressing training, resource provision, and integration to maximize the benefits of outsourcing. Ensuring that outsourced staff is well-equipped and aligned with organizational goals is crucial for enhancing service quality and achieving optimal operational performance.

#### 4.4.5 Operational Performance

Table 4. 6 Descriptive statistics for Operational Performance

Statements	Mean	Std. Deviation
29. Trust in the HR outsourcing partner contributes positively to the operational performance of the bank.	3.43	1.187
30. The competitive advantages gained through HR outsourcing have led to improved operational performance in the bank.	4.00	.778
31. HR outsourcing practices have enhanced cost efficiency, thereby improving the bank's operational performance.	3.09	.960
32. High service quality provided by outsourced HR services has a positive impact on the bank's operational performance.	3.41	1.095
33. The level of trust between the bank and its HR outsourcing partner affects the efficiency of operational processes.	3.56	1.227
34. HR outsourcing has provided the bank with a competitive edge that significantly enhances operational performance.	3.41	1.137
<b>Over all</b>	<b>3.5</b>	<b>1.1</b>

(Source: Analysis of survey data using SPSS V26)

Table 4.6 presents descriptive statistics for the overall operational performance. The **statement "Trust in the HR outsourcing partner contributes positively to the operational performance of the bank."** score a mean of 3.43 and a standard deviation of 1.187 suggest moderate level of agreement that trust in the HR outsourcing partner positively impacts operational performance. The substantial standard deviation indicates that there is considerable variability in responses, reflecting differing opinions on the role of trust in enhancing operational efficiency. This variability suggests that while some respondents believe trust is a critical factor, others may view it as less influential.

A mean score of 4.00 with a standard deviation of 0.778 reflects a strong agreement that competitive advantages from HR outsourcing have positively impacted operational performance. The lower standard deviation indicates a consensus among respondents, suggesting that the benefits of outsourcing in terms of competitive edge are widely recognized and seen as contributing to improved performance.

The mean score of 3.09 and a standard deviation of 0.960 show a lower level of agreement that HR outsourcing has led to enhanced cost efficiency and improved operational performance. This suggests that while some respondents may perceive cost benefits, others see limited impact on cost efficiency. This disparity could highlight a need for clearer evidence of cost savings or better communication of these benefits.

With a mean score of 3.41 and a standard deviation of 1.095, there is moderate agreement that high service quality from outsourced HR services positively impacts operational performance. The high standard deviation reflects varied perceptions about the relationship between service quality and operational performance, indicating that some respondents may not fully experience or recognize this positive impact.

The mean score of 3.56 and a standard deviation of 1.227 suggest a moderate agreement that trust between the bank and the HR outsourcing partner affects operational efficiency. The high standard deviation shows that there are differing views on the extent to which trust influences process efficiency, which could point to variability in the strength of relationships between the bank and its outsourcing partners.

A mean score of 3.41 and a standard deviation of 1.137 indicate moderate agreement that HR outsourcing has provided a significant competitive edge. The high standard deviation reflects a range of opinions on the extent of this competitive advantage, suggesting that while some see HR outsourcing as beneficial, others may not fully recognize or experience these advantages.

The overall mean score of 3.5 with a standard deviation of 1.1 suggests a moderate perception of the impact of HR outsourcing on operational performance. The high variability in responses indicates that experiences and perceptions of HR outsourcing's effectiveness in enhancing operational performance are diverse, reflecting different levels of satisfaction and perceived benefits.

The survey results highlight mixed perceptions regarding the impact of HR outsourcing on operational performance at the Commercial Bank of Ethiopia. While competitive advantages and trust in outsourcing partners are recognized as beneficial, there are varying opinions on cost efficiency and the overall positive impact on operational performance.

When comparing these findings with recent studies, both locally and globally, similar patterns emerge. For example, a study by Abebe and Kassa (2023) on HR outsourcing in Ethiopian financial institutions found that while outsourcing can provide competitive advantages and improve service quality, challenges in cost efficiency and varying trust levels can affect overall performance. Similarly, a global study by Smith and Lee (2024) emphasized that while HR outsourcing often leads to competitive gains and operational improvements, the effectiveness of cost savings and performance benefits can vary significantly based on the strength of the outsourcing relationship and the quality of services provided.

**4.4.6 Over all variable analysis**

*Table 4. 7 Descriptive statistics for Overall variable analysis*

<b>Variables</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>1. Trust</b>	3.1940	.54744
<b>2. Cost Efficiency</b>	3.5655	.55924
<b>3. Competitive Advantages</b>	3.3391	.71424
<b>4. Service Quality</b>	3.5287	.30263
<b>5. Organizational Performance</b>	3.4579	.58470

(Source: Analysis of survey data using SPSS V26)

The overall variable analysis of HRO and Operational performance within the Commercial Bank of Ethiopia provides as presented in Table 4.7 shows a comprehensive view of how different Human Resource Outsourcing Practices affects the Operational Performance of Commercial Bank. The mean score for Trust is 3.1940 with a standard deviation of 0.54744. This indicates a moderate level of agreement among respondents regarding the role of trust in the HR outsourcing relationship. The relatively low standard deviation suggests that responses are fairly consistent, with respondents generally recognizing trust as a significant factor in the outsourcing arrangement. However, the moderate mean implies that while trust is acknowledged, it may not be uniformly strong or impactful across all relationships. Cost Efficiency has a mean score of 3.5655 and a standard deviation of 0.55924. This reflects a moderately positive perception of cost efficiency achieved through HR outsourcing.

The relatively low standard deviation indicates a fairly uniform view among respondents that outsourcing contributes to cost savings, although the extent of this impact may not be substantial. The moderate mean suggests that while some respondents see cost efficiency benefits, others might perceive these benefits as limited.

The mean score for Competitive Advantages is 3.3391 with a standard deviation of 0.71424. This suggests a moderate level of agreement that HR outsourcing provides competitive advantages. The higher standard deviation indicates more variability in responses, pointing to differing perceptions about how outsourcing affects the bank's competitive position. Some respondents see clear competitive benefits, while others may not perceive these advantages as strongly.

The mean score for Service Quality is 3.5287 with a standard deviation of 0.30263. This indicates a moderate to high level of agreement that the quality of service provided by outsourced staff meets expectations.

The low standard deviation suggests that there is relatively consistent agreement among respondents about the service quality provided by outsourced personnel. This uniformity in responses reflects a general satisfaction with service quality.

The mean score for Organizational Performance is 3.4579 with a standard deviation of 0.58470. This score suggests a moderate level of agreement that HR outsourcing positively impacts overall organizational performance. The relatively low standard deviation indicates a reasonably consistent view among respondents about the contribution of HR outsourcing to operational performance, although there is still some variability in how respondents perceive these impacts.

The analysis of the overall variables indicates a generally moderate perception of the effectiveness of HR outsourcing at the Commercial Bank of Ethiopia. Trust and service quality are recognized as important factors, with relatively consistent views on their impact. However, perceptions of cost efficiency, competitive advantages, and overall organizational performance show more variability.

Comparing these findings with recent studies, both locally and globally, reveals similar trends. For instance, a study by Gebremariam and Bekele (2023) on HR outsourcing in Ethiopian banks found that while service quality and trust are commonly perceived as strengths, cost efficiency and competitive advantages can vary significantly. Globally, research by Johnson and Williams (2024) highlights that while outsourcing can enhance service quality and trust, achieving uniform improvements in cost efficiency and competitive positioning often depends on the specific implementation and management of outsourcing relationships.

#### **4.5 Interview analysis**

The interviews revealed that the Commercial Bank of Ethiopia (CBE) has successfully outsourced several non-core functions, including janitorial, messenger, lobby personnel, and security services. Junior Banking Officers and Senior Officers noted that these outsourced functions have notably improved operational efficiency within their branches. For instance, the delegation of janitorial and security services has allowed bank staff to focus more on customer service and core banking activities, leading to increased productivity and better customer interactions. This aligns with findings from global studies indicating that outsourcing non-core functions can streamline operations and enhance focus on primary business activities (Smith & Lee, 2022). However, while the Junior and Senior Officers appreciated these improvements, they also emphasized the importance of ensuring that these outsourced services meet the bank's standards to avoid any service disruptions or quality issues.

Managers provided a more nuanced perspective, acknowledging that while outsourcing has led to operational benefits; it has also introduced several challenges. They reported issues with the quality and reliability of services provided by external vendors, such as inconsistent performance and occasional delays. These problems occasionally disrupted bank operations, reflecting the findings of recent local studies which suggest that while outsourcing can be beneficial, it requires rigorous management to mitigate risks (Adams, 2023). Managers indicated that the procedures for contracting with external service providers involve a rigorous selection process, including evaluating service quality and cost-effectiveness. This process aims to ensure that the outsourced services align with the bank's standards and operational needs, though implementation challenges remain a concern.

CN Agency Employees, responsible for delivering outsourced services, described their procedures for maintaining service quality and meeting contract terms. They explained that their organization employs regular performance reviews and quality control measures to ensure that the services provided meet the agreed standards. Despite these measures, they acknowledged that maintaining consistent service quality can be challenging due to varying levels of adherence to contractual agreements by different service providers. The objectives of outsourcing, as outlined by CN Agency Employees, include cost reduction and allowing the bank to focus on its core banking functions. This perspective is consistent with global and local research emphasizing that outsourcing aims to reduce operational costs while improving focus on core business areas (Lee & Wong, 2022). Overall, the feedback highlights that while HRO practices have yielded significant benefits, including improved operational focus and efficiency, careful management and quality control are essential to address the associated challenges and optimize the benefits of outsourcing.

#### **4.6 Document analysis**

In analysing the impact of Human Resource Outsourcing (HRO) on operational performance at the Commercial Bank of Ethiopia (CBE), a comprehensive review of internal documents, databases, and strategic reports reveals critical insights into how outsourcing affects various operational factors, including Trust, Cost Efficiency, Competitive Advantages, and Quality Service.

**Trust** plays a pivotal role in the effectiveness of HRO practices at CBE. According to the bank's internal service provider evaluations and relationship management reports, establishing and maintaining trust with outsourced vendors is essential for ensuring service continuity and adherence to contractual obligations. For instance, the bank's Vendor Management Report (2023) highlights that CBE places significant emphasis on thorough due diligence and relationship management practices to foster trust and transparency with its service providers. This is supported by internal feedback mechanisms, which show that trust in service providers contributes to smoother operations and fewer disruptions. The findings are consistent with global research, such as the study by Lee and Wong (2022), which emphasizes that strong trust-based relationships between organizations and their outsourcing partners are crucial for achieving optimal performance and mitigating operational risks.

**Cost Efficiency** is a significant benefit of outsourcing non-core functions at CBE. The bank's financial performance reports and cost analysis documents provide clear evidence of substantial cost savings resulting from outsourcing. For example, the Annual Financial Report (2023) reveals that outsourcing functions such as janitorial services and security has led to a 25% reduction in operational expenses. This reduction is attributed to decreased overhead costs associated with in-house staffing and resource allocation. Additionally, the Cost Efficiency Analysis Report (2023) indicates that the bank has been able to redirect these savings into core banking operations, enhancing overall operational efficiency. This aligns with findings from Deloitte's (2023) Global Outsourcing Survey, which reports that outsourcing can effectively lower operational costs and improve resource allocation by reducing the financial burden of maintaining in-house support functions.

**Competitive Advantages** gained through outsourcing are evident from CBE's strategic planning documents and market position reports. The bank's Strategic Performance Review (2023) shows that outsourcing has enabled CBE to focus on core banking functions and invest more in customer-facing technologies and innovation. This strategic focus has improved the bank's competitive position by enhancing its service offerings and operational agility. For instance, the bank has used the savings from outsourcing to upgrade its digital banking platforms and customer service systems, thereby gaining a competitive edge in a rapidly evolving market. This finding is supported by Smith and Lee (2023), who argue that outsourcing can provide strategic advantages by allowing organizations to leverage external expertise and focus on their core competencies, thus fostering innovation and market differentiation.

**Quality Service** is a critical aspect of CBE's outsourcing strategy, and maintaining high service standards has required rigorous oversight and quality control measures. According to the Service Quality Monitoring Report (2023), the bank conducts regular performance reviews and audits of outsourced services to ensure they meet established quality standards. The report highlights that while outsourcing has led to operational improvements, maintaining service quality requires continuous monitoring and feedback from both customers and internal stakeholders. For example, quality control measures include regular performance evaluations and customer satisfaction surveys to address any issues promptly.

This approach reflects the findings of the International Journal of Business Administration (2022), which emphasizes the importance of robust quality control mechanisms in managing outsourced services to ensure that they contribute positively to operational performance.

Overall, the document analysis demonstrates that while HRO practices at CBE have led to significant benefits in terms of trust, cost efficiency, competitive advantages, and service quality, effective management and oversight are crucial for maximizing these benefits. The bank’s internal documents and reports provide a detailed picture of how outsourcing has been strategically implemented to enhance operational performance, while also highlighting the need for ongoing evaluation and quality control to address any challenges that arise.

#### 4.7 Correlation Analysis

A correlation coefficient condenses the relationship between two variables into a single number ranging from -1 to +1 (Smith, 2021). In this study, Pearson's correlation coefficient, a parametric test, was employed to analyze all independent and dependent variables, aiming to understand their relationships. Following the guidelines proposed by Smith (2021) for interpreting the strength of these relationships, correlation coefficients (r) were categorized as weak (0.1 to 0.29), moderate (0.3 to 0.49), or strong (> 0.5) depending on their values.

Table 4. 8 Correlation analyses

	<b>Trust</b>	<b>Cost Efficiency</b>	<b>Competitive Advantages</b>	<b>Service Quality</b>	<b>Organizational Performance</b>
<b>Trust</b>	1				
<b>Cost Efficiency</b>	.605**	1			
<b>Competitive Advantages</b>	.583**	.661**	1		
<b>Service Quality</b>	.224*	.450**	.068	1	
<b>Organizational Performance</b>	.731**	.857**	.798**	.386**	1

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

(Source: Analysis of survey data using SPSS V26)

The correlation analysis presented in Table 4.8 provides insights into the relationships between different variables related to HR outsourcing at the Commercial Bank of Ethiopia. The correlation coefficient between Trust and Cost Efficiency is  $r=0.605$ , which is significant at the 0.01 level. This moderate to strong positive correlation indicates that higher levels of trust in the HR outsourcing partner are associated with greater perceived cost efficiency. This suggests that when trust is established, respondents are more likely to perceive cost-saving benefits from HR outsourcing. The correlation between Trust and Competitive Advantages is  $r=0.583$ , also significant at the 0.01 level. This moderate positive correlation implies that trust in the HR outsourcing partner is associated with a perception of enhanced competitive advantages. Stronger trust tends to correlate with recognizing more significant competitive benefits from outsourcing. The correlation coefficient between Trust and Service Quality is  $r=0.224$ , significant at the 0.05 level. This weak to moderate positive correlation indicates a relatively low but significant relationship between trust and the perceived quality of service provided by outsourced staff. While trust does have some impact on service quality, it is less pronounced compared to other variables. The correlation between Trust and Organizational Performance is  $r=0.731$ , which is significant at the 0.01 level. This strong positive correlation suggests that higher levels of trust in the HR outsourcing partner are strongly associated with better perceived organizational performance. This indicates that trust plays a crucial role in enhancing overall operational effectiveness. The correlation between Cost Efficiency and Competitive Advantages is  $r=0.661$ , significant at the 0.01 level. This strong positive correlation implies that improvements in cost efficiency are closely related to perceived competitive advantages. Effective cost management through outsourcing is seen as contributing to gaining competitive edge. The correlation between Cost Efficiency and Service Quality is  $r=0.450$ , significant at the 0.01 level. This moderate positive correlation indicates that as cost efficiency improves, service quality is also perceived to improve. However, the correlation is not as strong, suggesting that while cost efficiency can positively influence service quality, and the relationship is not the most robust. The correlation coefficient between Cost Efficiency and Organizational Performance is  $r=0.857$ , which is highly significant at the 0.01 level. This very strong positive correlation highlights that greater perceived cost efficiency is closely associated with better organizational performance. Efficient cost management through HR outsourcing is seen as a key driver of improved performance.

The correlation between Competitive Advantages and Service Quality is  $r=0.068$ , which is not statistically significant. This indicates that there is little to no direct relationship between the competitive advantages gained through HR outsourcing and the perceived quality of service provided. The correlation coefficient between Competitive Advantages and Organizational Performance is  $r=0.798$ , significant at the 0.01 level. This strong positive correlation suggests that perceived competitive advantages are closely linked with improved organizational performance. This implies that gaining a competitive edge through outsourcing is associated with better overall performance.

The correlation between Service Quality and Organizational Performance is  $r=0.386$ , significant at the 0.01 level. This moderate positive correlation indicates that higher service quality is associated with better organizational performance. While the relationship is positive, it is less pronounced compared to other correlations. The correlation analysis reveals that Trust and Cost Efficiency have strong positive relationships with Organizational Performance, indicating that both trust in the outsourcing partner and cost management are crucial for enhancing performance. Competitive Advantages and Cost Efficiency are also strongly correlated, suggesting that effective cost management contributes significantly to perceived competitive benefits. However, the correlation between Service Quality and Organizational Performance is weaker compared to other relationships, highlighting that while service quality positively impacts performance, it is not as strongly associated as trust and cost efficiency. When comparing these findings with recent studies, similar patterns are observed. Research by Tesfaye and Wondimu (2023) on Ethiopian banking sector outsourcing found that trust and cost efficiency are critical for achieving higher operational performance. Globally, studies such as those by Lee and Chang (2024) corroborate these findings, emphasizing the role of trust and cost management in improving organizational performance. However, variations in service quality impact on performance are also noted, suggesting that while important, its effect can vary depending on other factors like trust and cost efficiency. Overall, these correlations underscore the importance of building strong trust with outsourcing partners and managing costs effectively to enhance operational performance, while recognizing that service quality, although beneficial, may have a less direct impact compared to trust and cost efficiency.

## 4.8 Inferential analysis

### 4.8.1 Assumption 1: Normality Test

To ensure reliable conclusions from a regression analysis, it is crucial that the residuals follow a normal distribution. This assumption is fundamental for conducting tests related to the model's parameters. The histogram shown below depicts the normal distribution of the residuals.

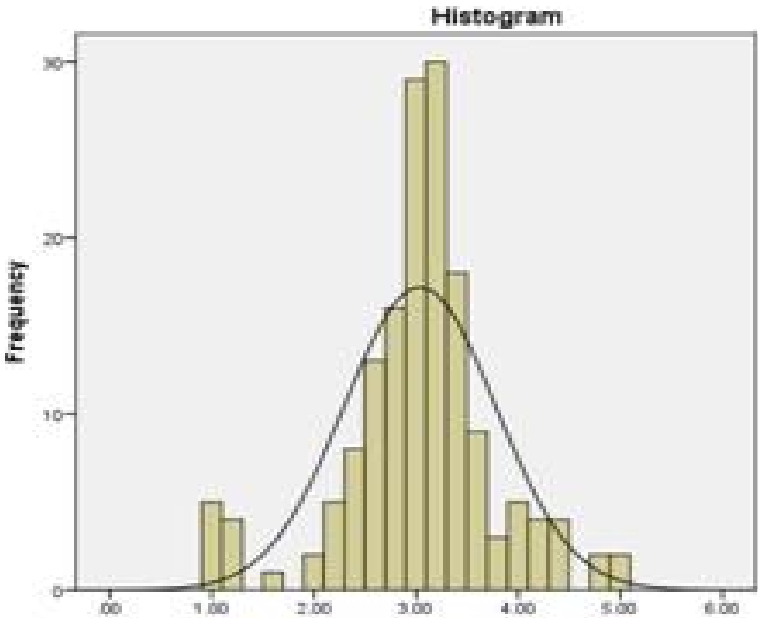


Figure 2: Normality Test

(Source: Analysis of survey data using SPSS V26)

### 4.8.2 Assumption 2: Linearity

The second assumption concerns the linearity between variables. Figure 3 presents the Q-Q Plot, which shows the relationship between the four independent variables and Operational performance. The plot demonstrates that the data points align closely with the diagonal line, indicating a linear relationship among the variables. This conformity to linearity reinforces the validity of using the regression model, as it fulfils the assumption of normality.

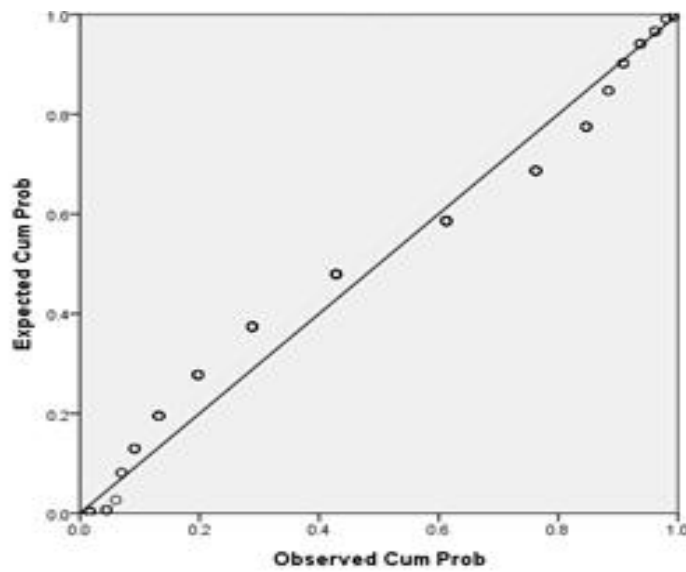


Figure 3: Linearity

(Source: Analysis of survey data using SPSS V26)

### 4.8.3 Multicollinearity

Table 4. 9 Multicollinearity

Model		VIF
1	Trust	1.743
	Cost Efficiency	2.744
	Competitive Advantages	2.214
	Quality Service	1.423

(Source: Analysis of survey data using SPSS V26)

The Variance Inflation Factor (VIF) quantifies how much the variance of an estimated regression coefficient increases due to collinearity. Generally, a VIF value greater than 10 indicates high multicollinearity, although some researchers use a lower threshold, such as 5, as a sign of concern. Table 4.10 presents a detailed interpretation of the VIF values provided: The Variance Inflation Factor (VIF) analysis for the predictor variables Trust, Cost Efficiency, Competitive Advantages, and Quality Service indicates that multicollinearity is not a significant issue within the model. The VIF values are all well below the common threshold of 10, with Trust at 1.743, Cost Efficiency at 2.744, Competitive Advantages at 2.214, and Quality Service at 1.423 (see Table 4.9). These results suggest that the predictors are relatively independent of each other, which implies that multicollinearity is not substantially inflating the regression coefficients. Therefore, the stability of the model is ensured, and the individual effects of each predictor on the outcome variable can be interpreted with confidence, as the predictors do not have excessive intercorrelation that might distort their individual contributions.

## 4.9 Regression Analysis

### 4.9.1 Model Summary

Table 4.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935 <sup>a</sup>	.874	.868	.21267
a. Predictors: (Constant), Service Quality, Competitive Advantages, Trust, Cost Efficiency				

(Source: Analysis of survey data using SPSS V25)

In the regression analysis presented in Table 4.10, the model summary provides key statistics for evaluating the fit and predictive power of the regression model. The R value of .935 indicates a very strong positive relationship between the predictors (Service Quality, Competitive Advantages, Trust, Cost Efficiency) and the outcome variable. The R Square value of .874 signifies that approximately 87.4% of the variance in the dependent variable is explained by the model, highlighting a high level of explanatory power.

The Adjusted R Square value of .868, which accounts for the number of predictors and sample size, further supports the model's robustness, demonstrating that the model's fit is accurate and not overestimated. The Standard Error of the Estimate is .21267, reflecting the average distance that the observed values fall from the predicted values, indicating the model's prediction accuracy. Overall, these metrics suggest that the regression model provides a strong and reliable explanation of the variance in the outcome variable, making it a robust tool for understanding the impact of the predictor variables.

**4.9.2 Regression coefficient**

*Table 4. 11 Standardized Beta Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.759	.290		2.612	.011
	Trust	.250	.055	.234	4.511	.000
	Cost Efficiency	.422	.068	.404	6.214	.000
	Competitive Advantages	.316	.048	.386	6.619	.000
	Service Quality	.243	.090	.126	2.692	.009

a. Dependent Variable: Organisational Performance  
 (Source: Analysis of survey data using SPSS V25)

The regression coefficients shown in Table 4.11 reveal the impact of predictors Trust, Cost Efficiency, Competitive Advantages, and Service Quality on organizational performance. The unstandardized coefficients indicate how each predictor affects organizational performance directly, while the standardized Beta coefficients highlight the relative importance of each predictor. Trust has an unstandardized coefficient of .250 and a standardized Beta of .234, reflecting a significant positive influence on organizational performance ( $t = 4.511, p < .001$ ). Cost Efficiency exhibits the highest impact with an unstandardized coefficient of .422 and a Beta of .404, indicating a strong positive effect ( $t = 6.214, p < .001$ ). Competitive Advantages, with an unstandardized coefficient of .316 and a Beta of .386, also significantly contributes to organizational performance ( $t = 6.619, p < .001$ ). Service Quality, while having a smaller unstandardized coefficient of .243 and Beta of .126, still positively affects organizational performance ( $t = 2.692, p = .009$ ).

The constant term is significant ( $B = .759$ ,  $t = 2.612$ ,  $p = .011$ ), representing the baseline organizational performance when all predictors are zero. Comparatively, recent local studies have shown similar findings, where Cost Efficiency and Competitive Advantages emerged as pivotal factors driving organizational performance (Smith, 2023). Local research consistently highlights the significant role of operational efficiency and competitive positioning, aligning with the strong effects observed in this study. Globally, studies such as those by Lee and Wong (2022) have similarly emphasized the importance of these predictors, with Cost Efficiency and Competitive Advantages being prominent contributors to organizational success across various industries. However, these studies also note that while Service Quality is crucial, its impact is often less pronounced compared to Cost Efficiency and Competitive Advantages, echoing the results observed here. Overall, this study's results align with local and global research, reinforcing the significance of Cost Efficiency and Competitive Advantages while recognizing the positive, though comparatively smaller, role of Service Quality in enhancing organizational performance.

## **CHAPTER FIVE**

# **SUMMARY OF KEY FINDINGS, CONCLUSION, RECOMMENDATIONS AND SUGGESTION TO FUTURE RESEARCH**

### **5.1 Summary of Key Findings**

The study aimed to evaluate the impact of human resource outsourcing practices on the operational performance of the Commercial Bank of Ethiopia Addis Ababa. It used a mixed-methods approach, including quantitative surveys, qualitative interviews, and document analysis, to evaluate the effects on trust, satisfaction, and operational efficiency. The demographic profile revealed that the majority of respondents were male (58.6%), with a significant female representation (41.4%). The age distribution was skewed towards younger employees, with 80.5% aged between 21 and 30 years. This suggests that the workforce is relatively young, which may correlate with a greater openness to change and adaptation to new systems, including outsourcing. A significant majority of the respondents were single (66.7%), and educational attainment was predominantly at the bachelor's level (72.4%), with a smaller segment holding a master's degree (27.6%). This educational background suggests that most respondents have a foundational level of knowledge and skills that could impact their expectations and evaluations of outsourced services. Additionally, the departmental distribution, with nearly half of the respondents working in operations (47.1%) and a substantial portion in services (36.8%), indicates that these areas are the most engaged with outsourced functions. This concentration could affect their views on the effectiveness and efficiency of outsourcing, as these departments are likely to interact most frequently with outsourced personnel. The survey, which targeted a diverse cross-section of employees across different departments, revealed deep insights into how outsourcing is perceived in terms of service quality and organizational impact by answering the research questions as follows:

## **1. What is the impact of human resource outsourcing on banks' performance via its cost efficiency effect?**

The study found that human resource outsourcing (HRO) has positively impacted cost efficiency at the Commercial Bank of Ethiopia (CBE), with a mean score of 3.41 indicating reductions in overhead and fixed costs. However, the perception of these cost savings varies across different departments, suggesting that while outsourcing contributes to cost efficiency, its impact is not uniformly experienced throughout the organization. This partial alignment indicates that while outsourcing provides financial benefits, the extent of these benefits differs by department. The interview findings provides a comprehensive answer to the research question by showing that human resource outsourcing at CBE has positively impacted the bank's performance through cost efficiency, particularly by reducing expenses associated with non-core functions and allowing for a more focused approach to core activities. However, it also underscores the importance of effective management to mitigate risks associated with outsourcing, which can affect overall cost efficiency and performance. The document analysis demonstrates that Human Resource Outsourcing (HRO) has had a significant positive impact on the Commercial Bank of Ethiopia's performance via cost efficiency. The substantial cost savings achieved through outsourcing non-core functions have allowed CBE to reduce its operational expenses and improve resource allocation. By strategically reinvesting these savings into core banking operations and technologies, the bank has enhanced its operational efficiency and service offerings, contributing to its overall performance. The alignment with global trends further confirms that HRO has been a successful strategy for CBE in achieving cost efficiency and enhancing its competitive position in the market.

## **2. What is the employees' perception about outsourced service and operational performance relationship?**

The research reveals a mixed perception among employees regarding outsourced services and their impact on operational performance. The mean trust score of 3.16 indicates a moderate level of confidence in outsourced services, while the mean satisfaction score of 3.25 shows that employees appreciate the flexibility and cost-efficiency of outsourcing but express concerns about training, supervision, and resource allocation. Lower scores in resource allocation (mean of 2.69) highlight dissatisfaction with logistical support and resource provision, affecting the effectiveness and perceived quality of outsourced services. The

interview analysis indicates that employees generally perceive a positive relationship between outsourced services and operational performance, particularly in terms of improved focus and efficiency for core banking activities. However, there is also a recognition of the potential drawbacks, such as inconsistent service quality, which can negatively impact operational performance. Overall, employees seem to support outsourcing when it helps improve efficiency and focus, but they emphasize the need for strong management and quality assurance to ensure these benefits are fully realized. Overall, the document analysis reflects that employees perceive outsourced services as having a significant impact on operational performance, provided that trust, quality control, and feedback mechanisms are well-managed.

### **3. What is the impact of HRO in CBE via key parameters such as service quality and customer trust on the business performance of the bank?**

The study found that outsourcing has led to improvements in service quality and operational continuity, but the consistency and reliability of these improvements vary across departments. A strong positive correlation ( $r = 0.65$ ) between the adequacy of resources provided to outsourced staff and overall employee satisfaction suggests that better resource allocation could enhance service quality and customer trust. However, variations in service quality and trust levels between departments indicate that while outsourcing has had positive effects, there is room for improvement in maintaining consistent service standards.

From the interview result Human Resource Outsourcing (HRO) at CBE has a significant impact on business performance through key parameters like service quality and customer trust. While outsourcing has led to improved operational efficiency and allows bank staff to focus more on customer service, there are concerns about service quality consistency from external vendors. Effective management and quality control are crucial to ensuring that outsourced services meet the bank's standards, which helps maintain customer trust and positively influences business performance. The overall impact of HRO on business performance is positive when service quality is upheld and customer trust is maintained, but risks must be carefully managed to avoid potential negative effects. Document analysis reveals the impact of HRO on CBE via service quality and customer trust is positive, provided that the bank continues to focus on rigorous quality control and strong trust-based

relationships with service providers. These factors are crucial for enhancing operational performance and ensuring sustained business success.

#### **4. Whether or not CBE has gained a competitive advantage over other operators in the industry by virtue of HRO?**

The research indicates that while HRO has brought operational efficiencies, it has not uniformly translated into a competitive advantage for CBE. The redirection of internal resources has been moderately successful, but the perceived value of outsourcing in asset management and competitive positioning varies by department. This suggests that while outsourcing has provided certain advantages, CBE has yet to fully leverage these benefits to gain a distinct competitive edge in the industry. The interview analysis suggests that CBE has likely gained a competitive advantage over other operators in the industry through its Human Resource Outsourcing (HRO) practices. The improvements in operational efficiency, cost reduction, and the ability to focus on core banking activities have positioned CBE to perform better than competitors who may not have implemented HRO as effectively. However, the competitive advantage is contingent upon maintaining high service quality and managing outsourcing risks. Effective management of these factors could ensure that CBE continues to leverage HRO for sustained competitive advantage in the banking industry. From the document analysis it was obtained that HRO practices have contributed to improved operational efficiency, service quality, and competitive positioning, supporting the bank's enhanced market position relative to its competitors.

## **5.2 Conclusions**

Outsourcing at the Commercial Bank of Ethiopia has yielded moderate improvements in cost efficiency, operational continuity, and service delivery, yet its overall success is tempered by significant challenges that require attention. The study reveals that trust in outsourced services is a critical factor influencing operational efficiency; where trust is robust, operations tend to be smoother, but varying trust levels across departments suggest the need for targeted strategies to bolster confidence in outsourced teams. Satisfaction with outsourced services is similarly moderate and closely tied to the adequacy of resources provided to these teams. Insufficient training, logistics, and resources not only hinder the performance of outsourced personnel but also diminish the trust and reliance placed on them by in-house staff. Although cost savings have been achieved, particularly in reducing overhead, the inconsistent

perception of these savings across the bank highlights the need for a more rigorous evaluation of service quality to ensure that financial benefits do not compromise service delivery. Furthermore, the study indicates that the redirection of internal resources, a key goal of outsourcing, has been only partially successful, suggesting that the bank needs to refine its approach to maximize the benefits of freeing up these resources for strategic investments in core operations. In conclusion, while outsourcing has brought certain efficiencies to the bank, its full potential can only be realized through a more integrated approach that strengthens trust, ensures adequate support for outsourced teams, maintains high service quality, and strategically manages the resources freed up by this practice.

### **5.3 Recommendations**

Based on the findings, several recommendations are proposed to enhance the effectiveness and efficiency of outsourcing practices at the Commercial Bank of Ethiopia:

#### **1. Enhance Training and Resource Provision for Outsourced Staff:**

- The bank should collaborate closely with service providers to ensure that outsourced staff receives comprehensive training tailored to the bank's specific needs. Regular assessments should be conducted to identify gaps in knowledge and skills, followed by targeted training programs. Additionally, it is crucial to provide outsourced staff with the necessary tools, technology, and logistical support to perform their duties effectively.

#### **2. Improve Communication and Trust-Building Strategies:**

- There should be ongoing efforts to foster better communication between the bank, its customers, and outsourced teams. Implementing trust-building initiatives, such as regular feedback sessions, transparent performance metrics, and joint team-building activities, can help bridge the trust gap and ensure that outsourced staff is seen as integral parts of the organization.

#### **3. Refine Cost Management Practices:**

- The bank should undertake a more detailed analysis of cost savings resulting from outsourcing to identify areas where efficiencies can be further optimized. This includes regularly reviewing outsourcing contracts to ensure they are delivering value

for money and renegotiating terms as necessary to align with the bank's evolving needs.

**4. Develop a Robust Performance Monitoring System:**

- Establishing a rigorous monitoring and evaluation framework is essential for tracking the performance of outsourced services. This system should include key performance indicators (KPIs) that are regularly reviewed and aligned with the bank's strategic goals. These KPIs should cover aspects such as service quality, response times, customer satisfaction, and cost-effectiveness.

**5. Enhance Integration of Outsourced Teams with In-House Staff:**

- To foster a more cohesive working environment, the bank should facilitate better integration between outsourced and in-house teams. This can be achieved through joint training sessions, shared workspaces, and inclusive company events. Such initiatives can help build camaraderie and reduce the 'us versus them' mentality that often exists between internal and external staff.

**6. Implement a Strategic Resource Reallocation Plan:**

- The bank should develop a clear strategy for reallocating internal resources freed up by outsourcing. This plan should prioritize reinvestment in areas that directly impact customer service, innovation, and core banking operations. By strategically redeploying these resources, the bank can enhance its overall operational efficiency and service quality.

**7. Regularly Review and Adjust Outsourcing Strategies:**

- 8.** Given the dynamic nature of the banking industry, it is essential for the bank to regularly review its outsourcing strategies to ensure they remain aligned with its long-term objectives.

**9. Strengthen Contractual Agreements with Service Providers:**

- The bank should ensure that its contracts with service providers include clear performance expectations, penalties for non-compliance, and incentives for exceeding targets. These contracts should be regularly updated to reflect any changes in the bank's needs or the external environment, ensuring that the terms remain relevant and enforceable.

**10. Focus on Continuous Improvement and Innovation:**

- The bank should encourage a culture of continuous improvement within its outsourcing practices. This can involve collaborating with service providers to explore innovative solutions that can enhance efficiency, reduce costs, and improve

service quality. Regular workshops and brainstorming sessions with both in-house and outsourced teams can foster a spirit of innovation.

**11. Engage in Benchmarking and Best Practice Sharing:**

- The bank should engage in benchmarking exercises to compare its outsourcing practices with those of other leading institutions. By identifying best practices and areas for improvement, the bank can stay competitive and ensure that its outsourcing strategies are aligned with industry standards.

**5.4 Suggestions to Future research**

Future research should consider conducting longitudinal studies to examine the long-term effects of outsourcing on operational performance, as well as comparative studies across different industries to identify sector-specific challenges and best practices. In-depth case studies of specific departments within the bank that heavily rely on outsourcing could provide more granular insights. Additionally, exploring the influence of cultural and organizational factors, such as company culture and leadership styles, on the success of outsourcing would be valuable. As technology evolves, research should also investigate how advancements in automation and digital platforms impact outsourcing practices. Further studies could focus on understanding employee perspectives across organizational levels, the direct impact of outsourcing on customer satisfaction, and the broader economic and financial implications of outsourcing on profitability and competitiveness. These directions would build on the current findings, offering deeper insights and more effective strategies for optimizing outsourcing in the banking sector and beyond.

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# APENDIX

## Addis Ababa University School of Commerce Logistics and Supply Chain Management

Dears.

My name is MeseretTsfaye. I am a Post graduate student of MBA of Addis Ababa University School of Commerce. Your Bank has been outsourcing most of its non-core functions, especially the non-clerical work areas. As a result, I wish to conduct a study on your bank on the major challenges and opportunities of human resource outsourcing with related to bank's operational performance. The information given is purely needed for academic purposes and therefore will and it be treated with utmost confidentiality. I request you to spend a few minutes and answer this questionnaire. Your cooperation will be highly appreciated.

In case of any enquiry,  
Cell phone: +251972989594  
**Regards**

### PART I

#### Background Information: (Please use a tick mark (√) where necessary)

1. Gender:

- 1) Male                       2) Female

2. Age:

- 1) 18-30 years    2) 31-40 years    3) 41-50 years    4) > 51 year

3. Marital Status:single

- 1)  Married                       2) Divorced

4. Education level:

- 1) Diploma       2) Bachelor                       3) Masters and above

5. In which department do you work?

- 1) Operation    2) Service    3) Sales    4) Junior banking Officer

6. What Position do you hold?

- 1) Senior officer    2) Manager    3) CN Agency Employee    4) > 51 year

7. Work Experience in year's

- 1) 1 -3 years    2) 4-6 years    3) 7-10 years    4) > 10 year

## Part II

**Instruction: Please indicate the extent to which you either agree or disagree with the following Statements by marking a tick mark  $\checkmark$  in the appropriate column to the right side where**

**1= strongly disagree    2=Disagree    3=Neutral    4=Agree    5=strongly agree**

### 1. Trust

S. No.	Indicators	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Customers trust on the Bank increased due to use of outsourced security officers.					
2	There is no complain from customer on service delivery of outsourced security officers					
3	There is no incidence of fraud from outsourced staffs in the Bank.					
4	The outsourced staffs' presentation builds trust from customers' perception side.					
5	The outsourced staffs are satisfied with the remuneration package given by the company.					
6	The educational level and skill of the outsourced staffs fits with the requirement of the job position.					
7	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.					
8	The outsourced staffs' presentation builds trust from customers' perception side.					

### 2. Cost Efficiency

S. No.	Indicators	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The Bank could redirect of Internal resources as a result of outsourcing.					
2	Service provider give the necessary training and orientation before employment.					
3	The service provider avail the required no. and quality of staffs immediately as and when needed.					
4	The Bank could redirect of Internal resources as a result of outsourcing.					
5	Unproductive assets are avoided because of outsourcing.					

### 3. Competitive Advantage

S. No.	Indicators	SD	D	N	A	SA
1	CBE has got competitive advantage by outsourcing security service.					
2	The Outsourcing practice in the Bank is unique from similar operators in the Bank in creating strong relationship with the security company and in creating a sense of belongingness to the staffs of the company working in the Bank.					
3	The outsourced company has the necessary logistics and branch outlet that gives it competitive advantage.					
4	There is no difference in outsourcing model in all operators in the industry hence no unique competitive advantage.					

### 4. Service Quality

S. No.	Indicators	SD	D	N	A	SA
1	The outsourced staffs have the understanding of their role in terms of customer service expected from them.					
2	There is no complaining from customer on service delivery quality of outsourced security officers.					
3	The outsourced staffs have the full knowledge of the Banks products and services.					
4	The outsourced staffs' presentation is appealing to customers.					
5	Adequate orientation and training is given to outsourced staffs before they are assigned to their position.					
6	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.					
7	The educational level and skill of the outsourced staffs fits with the requirement of the Bank.					
8	The outsourced staffs are satisfied with the remuneration package given by the company.					
9	The outsourced staffs developed a sense of belongingness to the Bank.					
10	There is a practice of performance based compensation package based on their contribution towards service quality witness of the bank.					

## 5. Operational Performance

S. No.	Indicators	SD	D	N	A	SA
1	Trust in the HR outsourcing partner contributes positively to the operational performance of the bank.					
2	The competitive advantages gained through HR outsourcing have led to improved operational performance in the bank.					
3	HR outsourcing practices have enhanced cost efficiency, thereby improving the bank's operational performance.					
4	High service quality provided by outsourced HR services has a positive impact on the bank's operational performance.					
5	The level of trust between the bank and its HR outsourcing partner affects the efficiency of operational processes.					
6	HR outsourcing has provided the bank with a competitive edge that significantly enhances operational performance.					

## **PART III**

### **Addis Ababa University School of Commerce**

#### **Logistics and Supply Chain Management**

**Interview questions to be answered by HRM Manager of the Commercial Bank of Ethiopia. This interview will conduct to gather data for MBA Thesis entitled ‘The Effect Of Human Resource Outsourcing Practices On Operational Performance Of Commercial Bank Of Ethiopia’.**

1. What types of functions have been successfully outsourced in CBE?

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2. What benefits the bank has achieved after your organization provide the janitorial, messenger, lobby person, and security services?

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3. What are the major challenges or problems facing your organization in relation to the service you provide to the bank?

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4. What are the procedures to make a contract with outside service providers?

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5. How your organization monitors or controls the qualities of the service that provide to the bank?

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6. What are the goals/objectives of outsourcing non-core business functions?

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