



The Effect of Service Outsourcing on Service Quality:

(The Case of Ethiopian Cargo & Logistics Services)

By: Bisrat G. Mariyam

This Thesis is Submitted to Addis Ababa University School of Commerce Partial Fulfilment of the Requirements for a Master of Arts degree in Marketing Management.

Advisor: Belaynesh Tefera (Ph.D.)

July 2022

Addis Ababa, Ethiopia

Addis Ababa University

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The Effect of Service Outsourcing on Service Quality: The Case of Ethiopian Cargo & Logistics Services

BY: Bisrat G. Mariyam

Approved By Board of Examiners

Name	Signature	Date
External Examiner: Yibeltal Nigussie (Asst. Professor)	 _____	_____
Internal Examiner Getie Andualem (Ph.D.)	_____	_____
Thesis Advisor Belaynesh Tefera (Ph.D.)	_____	_____

STATEMENT OF DECLARATION

I, Bisrat G. Mariyam, declare that this thesis entitled “The Effect of Outsourcing service on Service Quality: The case of The Case of Ethiopian Cargo & Logistics Services” is my original work. I further confirm that this paper has never been submitted to any other university for any degree, diploma or fellowship. Finally, I declare that all source materials used in this research has been dully recognized and acknowledged.

Bisrat G. Mariyam (Mr)

Signature  _____

Date July 11, 2022

CERTIFICATION

This is to certify this thesis entitled "The Effect of Service Outsourcing on Service Quality: The Case of Ethiopian Cargo & Logistics Services" is submitted in partial fulfilment of the requirements for Master of Arts degree in Marketing Management to School of Commerce, Addis Ababa University, through the Department of Marketing Management. The research conducted by Mr. Bisrat G. Mariyam, is an authentic work carried out by him under my guidance. The matter embodied in this thesis has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief.

Advisor: Belaynesh Tefera (Ph.D.)

Signature: _____ Date: _____

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ABSTRACT

The research examined the effects of service outsourcing on service quality in Ethiopian Cargo and Logistics Services with the aims to provide companies with sufficient information on the current practice & the areas to be focused on whenever subcontracting services to third parties, provide data-based justification on perceived benefits and downside in service quality. The objective of the study is to measure the effects of service outsourcing on service quality and determine the key benefits gained and challenges faced from service outsourcing. For this study, the entire 120 population under Cargo Traffic handling department of Ethiopian Airlines was targeted and 99 valid responses were collected. The data collection was facilitated through structured questionnaire and the data analysis largely performed by quantitative analysis namely descriptive statistics using SPSS 23.0. The study found out that outsourcing of cargo handling services to external provider has effect on the quality of services provided by the airline and an average of 63 percent of the respondents indicated that considering the time, effort and money Ethiopian Airlines spent on the outsourcing of the cargo handling services, the company didn't be able to improve the improve the quality of the services provided. Even though outsourcing helped Ethiopian Airlines to focus on core business functions that are the bases for the organization to achieve & excel its performance, avoid major investment in HR, and reduce operational costs, the outsourcing practice of the airline encountered several challenges like problem in bringing customer's satisfaction, improving service quality, increasing efficiency and effectiveness of the airline.

Keywords: outsourcing, service quality, descriptive statistics, service providers, external providers.

CHAPTER ONE

INTRODUCTION

This chapter presents an overview of the entire study. It includes the background of the study, the background of the company, statement of the problem, research questions and objectives of the study, scope & delimitations of the study, the significance of the study, and definition of terms.

1.1. BACKGROUND OF THE STUDY

This research investigates the effect of service outsourcing on service quality. The research aims to provide companies with sufficient information on the current practice & the areas to be focused on whenever subcontracting services to third parties, provide data-based justification on perceived benefits and downside of outsourced activities focusing on the case study of Ethiopian Cargo & Logistics Services and can also serve as primary data for the management of Ethiopian Cargo & Logistics Services whenever there is an intention to review subcontracted activities of cargo handling & its effect on the quality of the services provided by the Airline.

Outsourcing is a management strategy in which an organization transfers some of its non-core functionalities to a more specialized, effective, and efficient service provider to focus on its core business activities. (Alexandra Twin and Margaret James, 2000)

Outsourcing activities have existed for centuries. The earliest outsourcing activities were found in the prehistoric Roman Empire (Kakabadse & Kakabadse, 2002) where tax collection was done through outsourcing. In the history of America, it used

to outsource the production of wagon covers to Scotland, and the raw materials for the production process were imported from India, (Kelly,2002). Driven by globalization pressures resulting from an urge to deal with both opportunities and threats brought about by global competition, firms from different corners of the world started looking for more affordable resources available in different offshore locations.

Many organizations that have been around for a long time now consider outsourcing as a major component of their business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves (Oya and Walter, 2006). Outsourcing, or employing an outside company to handle functions normally performed in-house, is a familiar concept to many firms. Functions such as payroll, bookkeeping, logistics, operations, manufacturing, cleaning, security other activities are commonly outsourced to cut costs and increase efficiency (Michael, 2011).

The basis of outsourcing is to focus on the company's core activities. The company's core capabilities or core activities are the basis of its competitive advantage in the market (Prahalad and Hamel 1990). Every company has its core activities that form the basis of its business model. The reason for outsourcing activities outside the scope of our core competencies was to limit the activities that management had to manage.

In Ethiopia, the use of outsourcing is still in its infancy. Many companies now offer limited outsourcing services. This shows the present Outsourcing operations in Ethiopia are limited to the company's non-core activities. Limited to security guards, cleaning services, messengers, drivers, lobby men, file managers, workers, gardeners, and other positions.

Over the past few years, the trends have been trending as many companies have begun outsourcing non-core human resources activities, including banks, insurance

companies, private and government agencies, NGOs, and other organizations that outsource non-administrative employment institutions. It shows a big change. Based on the researchers' observations, the major outsourcing service companies/providers operating in the market are Yetebaberut Human Resources, Commercial Nominees, Agar Security and Cleaning, Truest Security Service, Firework, and Lion Security. However, as the number of outsourced employment organizations grows, this sector is not well addressed in terms of work styles, staff training, skills and abilities, quality of service, and customer satisfaction. This study focuses on the Yetebaberut Human Resources agency and assesses the effect of service outsourcing on the service delivery quality of Ethiopian Cargo & Logistics Services.

Furthermore, this thesis provides important inputs for future researchers who will study outsourcing from Ethiopian contexts and the company perspective; it can be in a better position for understanding the level of its service quality

1.2. BACKGROUND OF THE COMPANY (i.e., ETHIOPIAN CARGO & LOGISTICS SERVICES)

Ethiopian Cargo & Logistics Services is one of the seven strategic business units SBU under Ethiopian Airlines. Currently, Ethiopian is the largest cargo network operator in Africa and one of the major global cargo carriers with a modern warehouse of 1million tons storage capacity. Currently, have an annual cargo uplift of 432,417 tons and uplifted 493,211tons by end of the 2019/2020 fiscal year.



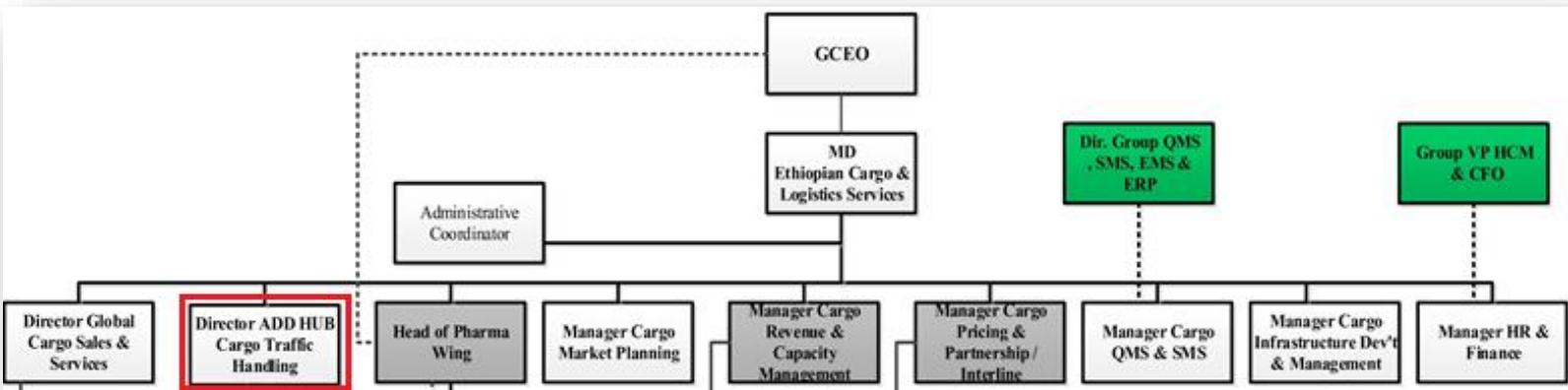
Ethiopian Cargo is providing freight services to global customers in over 57 global destinations in Africa, the Gulf, Middle East, Asia, Europe, & the Americas and have been one of the frontliners of the air cargo logistics service provider by serving customers with 12 dedicated freighters including 10 Boeing B777-200LRF and 2 Boeing B737-800F. Besides, Ethiopian has recently reconfigured its passenger aircraft to boost its cargo capacity and provide essential services at a time when they are desperately needed.

Ethiopian Cargo & Logistics Services operates a state-of-the-art cargo terminal, which is the largest in Africa. The cargo service is fully automated with one of the latest Cargo management IT systems and technologies to provide efficient freight service across the globe. Ethiopian is using the latest technologies for data, information, and market intelligence with 100% e-AWB from its main hub in Addis Ababa.

In the strategic road map of Ethiopian - Vision 2025, Ethiopian Cargo & Logistics Services envisions to be a full-fledged profit Center with annual revenue of US\$ 2 Billion, 19 dedicated aircraft, 62 global freighter destinations, and an annual tonnage

of 820,000 tons. With Vision 2035, Ethiopian planned to increase revenue to \$2.87billion, and destinations to 70 with 24 freighter fleets.

Currently, Ethiopian Cargo & Logistics Services is organized into 9 functional departments and the Cargo Traffic Handling department permanently employs 120 staff who run the entire operation and make a decision on the flow of products throughout the value chain. This department outsourced part of its activities to a third party called Yetebaberut Human Resources and is the focus of this thesis.



1.3. STATEMENT OF THE PROBLEM

Outsourcing is a primitive concept in Ethiopia, especially in the presence of the service industry. For several years, many organizations have considered outsourcing on the assumption that they will source services or products from external providers if the institution cannot provide services or products with the same quality and cost as external agents/providers. Organizations prefer to outsource non-core business capabilities to external third parties to significantly reduce transaction costs, improve the quality-of-service delivery, and focus on their

core competencies. Even if outsourcing offers many benefits to customers, it does not remain unaffected by the service recipients (Meressa Mulat, 2007).

The problem with outsourcing lies in operational difficulties, where a service provider may deny specific technical expertise, capacity, and ability to deliver desired operational performance. Gilmer (1997) points out that when outsourcing, work can shift from service users to service providers performing outsourced functions, which can lead to lower wages or benefits.

Similarly, outsourced employees may be less loyal to customers if they are employed directly by the organization and express frustration with inadequate services that have affected business operations. Likewise, the big problem with outsourcing comes from employees themselves because they suspect they will lose their jobs (Malhotra 1997).

In a similar tradition, managers are required to regularly monitor, establish ongoing communication, and evaluate outsourced functions to ensure that they are beneficial to their organization. As a result, the burden on managers with transactional administrative tasks may increase (Guterl 1996). In addition, negative attitudes, resistance to new changes, and morale problems are the real problems that will make customers ineffective (Siegel 2000; Mobley and Maurer 1998).

There is also some evidence that outsourcing does not reduce costs as expected in some cases (Beaumont, N. and Sohal, A. 2004; Gonzalez, 2005).

Most of the time, outsourced service failures are rarely reported because companies don't want to make them public and are root causes for the quality of service provided by the companies. (J Barthelemy, 2003)

It is obvious that outsourcing may bring many benefits to the organization with imposing some negative impacts. For successful performance of outsourced

services, the organization needs to ensure implementation of the effective selection process of service providers, carefully constructed contract, or service level agreement, seamless supplier's management process, measurable key performance indicators KPI's, effective management review process over outsourced services, robust control over outsourcing activities, implement internal audit and self-inspection, internal policy and procedure for subcontracted activities, and possibly also plan for an exit strategy.

Considering the above issues, this thesis has tried to examine the effect of service outsourcing on service quality by addressing the research questions described below.

1.4. RESEARCH QUESTION

1.4.1. GENERAL RESEARCH QUESTION

- I. How does the outsourcing of services affect the quality of services provided by Ethiopian Cargo & Logistics Services?

1.4.2. SPECIFIC RESEARCH QUESTION

- I. What is the impact of service outsourcing on the service quality provided by Ethiopian Cargo & Logistics Services?
- II. How does outsourcing of services influence the quality of services provided by Ethiopian Cargo & Logistics Services?
- III. What is the relationship between outsourcing of services and service quality provided by Ethiopian Cargo & Logistics Services?

1.5. RESEARCH OBJECTIVES

1.5.1. GENERAL OBJECTIVE

The main purpose of conducting this study was to analyze the effects of services outsourcing on the Quality of service by Ethiopian Cargo & Logistics Services.

1.5.2. SPECIFIC OBJECTIVES

The specific objectives of this research study are:

- a. To find out the extent of the impact of service outsourcing on the service quality provided by Ethiopian Cargo & Logistics Services.
- b. To investigate the relationship between outsourcing of services and service quality provided by Ethiopian Cargo & Logistics Services.
- c. To find out the effects of outsourcing business activities on Quality of service by Ethiopian Cargo & Logistics Services.

1.6. SIGNIFICANCE OF THE STUDY

The results of this study are important to the various partners involved, who have a high degree of responsibility for managing subcontracted/outsourced activities on behalf of their companies. To the knowledge of the researcher, there have not been any published studies conducted in Ethiopia on the effect of outsourcing services on service quality.

Outsourcing practices in Ethiopia and corporate awareness are not well developed and there are few studies related to outsourcing focusing on Ethiopia. Accordingly, this study could serve as a springboard for further studies in the same area.

Considering the main reasons mentioned above for the ineffectiveness of outsourced activities, it provides companies with sufficient information on the current practice and the areas to be focused on whenever subcontracting services to third parties.

The study provides data-based justification on perceived benefits & downside of outsourced activities and their effect on service quality focusing on case study Ethiopian Cargo & Logistics Services.

The study can serve as primary data for the management of Ethiopian Cargo & Logistics Services whenever there is an intention to review subcontract activities of cargo handling and its effect on the quality of the services provided by the Airline.

1.7. SCOPE OF THE STUDY

The scope of the study was limited to a manageable size to investigate the issue systematically. The research is conducted on members of Cargo Operation's Department of Ethiopian Cargo & Logistics Services where the management takes the decision to outsource part of their services to third parties. This department is comprised of 120 permanent staff as of December 2021 and a minimum of 80% of this population is target sample for the research.

1.8. LIMITATIONS OF THE STUDY

As per item 1.2. Background Of the Company provided on this research i.e., the size, the level of operation, operational hours, number of operational staff in different SSBUs number of strategic business units, types of subcontracted activities, and different suppliers with a different purpose, this research only be able to focus on outsourcing activities at Ethiopian Cargo & Logistics Services. The findings, conclusions, and recommendations only represent the realities of these specific strategic business units and the Cargo Operation department.

1.9. DEFINITION OF TERMS

➤ **Business Process Outsourcing**

The delegation of one or more entire business processes to an external service provider (Gewald and Dibbern, 2005).

➤ **Subcontract**

is one form of outsourcing. A report by the French Social and Economic Council distinguishes between subcontracting and outsourcing in terms of the length of the relationship and the transfer of ownership (activity substitution), "It could therefore be said that subcontracting, unlike outsourcing, partially concerns the provision of service in a given time and not necessarily over many years and most importantly does not imply that the activity was previously undertaken internally (Les éditions des journaux officiels), 2005, p.92.

➤ **Third-party**

A person or group besides the two is primarily involved in a situation, especially a dispute, business, transaction.

➤ **Subcontractor**

The operation by which a business entrusts, through a subcontract and under their responsibility, to another person or entity. (Les éditions des journaux officiels), 2005, p.92

➤ **Strategic Business Unit**

Strategic Business Unit, is a profit centre that focuses on product offering and market segment. SBUs typically have a discrete marketing plan, analysis of competition, and marketing campaign, even though they may be part of a larger business entity (Keller, Philip, Kevin 2008).

➤ **e-AWB (e-Airwaybill)**

Electronic Airwaybill, an air waybill or air consignment note is a receipt issued by an international airline for goods and evidence of the contract of carriage. (IATA Resolution 672, 2010)

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This chapter covers the review of related literature. It includes three main parts; theoretical framework, empirical literature review, and the conceptual framework of the study.

2.1. THEORETICAL FRAMEWORK

2.1.1. OVERVIEW OF DEFINITIONS AND CHARACTERISTICS OF OUTSOURCING

"Outsourcing" (from "external" and "source", as well as describing an external source) is a well-known management approach (Lok & Baldry, 2016), which involves the purchase of products or services from external sources to an organization. (Lankford & Parsa, 1999, p.310) Kremic and Tukul (2003, cited in Kurdi et al., 2011) have identified outsourcing as a common practice, both in private and public organizations, and are a key element of commercial strategy.

In recent years, the concept of outsourcing has been studied by many researchers from different scientific backgrounds and disciplines. Many definitions of outsourcing exist in the academic literature, and most are relatively similar while some introduce specific characteristics of outsourcing. Selected definitions of outsourcing are described in Table 1.

The substance or the most common specific of outsourcing as mentioned by all the delineations presented in Table 1, is carrying a product, service, or a process by an outside external service provider. Consequently, outsourcing involves two major parties, i.e., the party who obtains the product, service, or a process-the "Customer" and the outside party who provides it-the "Service Provider" (Olanrele et al., 2013; Kern & Willcocks, 2000 as cited in Bhattacharya et al., 2013, p. 400). As the delineations have

given by Pratap (2014, p. 228) and, Grover and Teng (1993, p. 34 as cited in Bhattacharya et al., 2013, p. 399), a customer may outsource either a part of the entire organizational task to one service provider or several service providers. Best et al. (2003, p. 5) stated that the tasks outsourced by customer organizations can else be performed by a person, unit, or department within the customer organization itself. Hence, outsourcing decision is an interpretation of “make” or “buy” decision, in which an organization decides to carry out an exertion using inhouse staff (make) or contract-avoidance to an external service provider (buy) independently (Ekadashi, et al. (2014).

Outsourcing, as defined by Olanrele et al. (2013, p.33) (see Table 1), involves the transfer of responsibility for the outsourced task to the service provider. The term "responsibility" refers to the planning, operating, or decision-making responsibility of the organization's mission (Chase et al., 2004, cited in Rahim et al., 2010; Neale., 1995, cited in Rahim et al., 2010; Neale., 1995). cited in Embleton et al. Wright, 1998). Another common feature mentioned in most definitions of outsourcing is the concept of “handover”.

According to Olanrele et al (2013, p.33), outsourcing allows customers to focus on their core business by transferring responsibility, which implies that only those business activities are not essential to be outsourced.

Although non-essential company functions are the most commonly outsourced, cases, where core operations were also outsourced, have been documented in the literature (Dominguez, 2006 as cited in Agburu et al., 2017; Bhattacharya et al., 2013; Embleton & Wright, 1998).

The suitability of outsourcing a company's core or principal activity, on the other hand, has been extensively addressed in the literature. According to the majority of researchers (Jennings, 1997 as cited in Mclvor, 2000; Heikkila, 2002; Quinn & Hilmer, 1994 as cited in Ikediashi et al., 2014), core competencies are long-term competitive activities that provide competitive advantages to an organization, and thus must be kept out of the domain of competitors, whereas non-core activities can be outsourced.

In other words, according to the literature, the prevailing idea in the industry is that an organization's core tasks should be carried out in-house, while the remainder should be outsourced (Kakabadse & Kakabadse, 2003).

TABLE 2.1: DEFINITIONS OF OUTSOURCING

Reference	Definition
Neale (1995 as cited in Embleton & Wright, 1998)	“Outsourcing is the practice of handing over the planning, management, and operation of certain functions to an independent third party”
Lankford and Parsa, (1999, p.310)	“Outsourcing is defined as the procurement of products or services from sources that are external to the organization.
Best et al. (2003. p.5)	“Outsourcing refers to any situation where an organization contracts with another organization for the provision of a service that could equally be provided by a person, unit or department within the organization that requires the service”.
Chase et al. (2004, as cited in Rahim et al., 2010, p. 178).	“Outsourcing as “an act of moving some of a firm’s internal activities and decision responsibilities to outside providers”
Olanrele et al. (2013, p.33)	“Outsourcing is the shifting of the responsibility for the provision of service(s) to the service provider (contractor) who organize, plan, control, and supply a support service or range of support services, leaving the client to concentrate on main core business”.
Grover and Teng (1993, p. 34 as cited in Bhattacharya et al., 2013, p.399)	“Outsourcing refers to the practice of turning over part or all of an organization’s functions to single or multiple service providers”.
Kern and Willcocks 2000, as cited in Bhattacharya et al., 2013, p.	“Outsourcing is a special form of contractual-based and results-oriented inter-organizational relationship where one

400)	party that is the service receiver organization employs external provider/s to provide services for traditional in-house functions”
Li and Choi (2009 as cited in Ikediashi et al., 2014)	“Outsourcing is contracting-out of services that were previously performed in-house to an external service provider for a fee as a means of increasing organizational efficiency and effectiveness”.
Pratap (2014, p.228)	“Outsourcing is the external provision of a process, in part or in its entirety, which was earlier being carried out within the firm, by contracting out to one or more suppliers”.

Some definitions of outsourcing (Li & Choi, 2009 as cited in Ikediashi et al., 2014, p. 472; Pratap, 2014, p.228) counsel that outsourcing is contracting-out services that were antecedently performed in-house by using an organization’s own workers. However, as described by Gilley and Rasheed (2000), though this appears to be the foremost normally understood form of outsourcing, outsourcing might arise in two ways in which, either through the substitution of externally procured for internal activities or through abstinence. In substitution, initiation of procured from outside suppliers is happened to get a decent or a service that was antecedently achieved through the in-house technique. On the contrary, through abstinence, outsourcing might also arise once a firm procures products or services from outside organizations even once those products or services haven't been completed in-house within the past.

Anon., 1995 (cited in Embleton & Wright, 1998) distinguishes subcontracting from outsourcing by emphasizing that “outsourcing is not synonymous with subcontracting”. Subcontracting refers to work contracted with a service provider on a job-by-work basis, often including a cost-plus agreement, while outsourcing involves a long-term relationship between supplier and recipient, with a high degree of risk-sharing”. Thus, Kern and Willcocks 2000 (cited in Bhattacharya et al., 2013, p. 400) defined outsourcing as a

specific form of contract-based and results-oriented inter-organizational relationship that provides outsourcing a more holistic view.

Thus, summing up the key characteristics identified through the definitions above, outsourcing can be defined as "relationships between organizations that are contract-based and result-focused with regards to outcomes. the transfer of operational and/or decision-making responsibility for the internal operations/operations of an organization (product/s, service, or process) or a certain extent of it/them to the external service provider(s), which the organization has or may obtain".

2.1.2. DIFFERENT FORMS OF OUTSOURCING

Over the last 20 years, organizations have tried completely different kinds of outsourcing counting on what they felt would work best for his or her scenario (Gandhi et al., 2012). per Gandhi et al. (2012), outsourcing comes often classified supported the geographical location of the outsourced project as Onshore and Offshore. Onshore is often known as Domestic Outsourcing whereas Offshore is additionally known as international Sourcing or International Outsourcing. In associate degree Onshore arrangement, the shopper organization outsources work to a seller organization situated within the same country whereas, in offshore outsourcing, the shopper organization outsources work to a seller organization situated in an exceedingly completely different country (Chakrabarty et al., 2007). As mentioned by Chakrabarty (2006 as cited in Chakrabarty et al., 2007), offshoring will once more be classified into Offshore-outsourcing and Offshore-insourcing, wherever offshore insourcing involves the putting in place of a captive centre or subsidiary within the different country from wherever work is then insourced. In straightforward terms, work is "outsourced to vendors" and "offshored to a different country".

Gilley and Rasheed (2000) planned two generic varieties of outsourcing as Peripheral Outsourcing and Core Outsourcing, supporting the character of activities outsourced.

Peripheral outsourcing happens once companies acquire less strategically relevant, peripheral activities from external suppliers whereas core outsourcing happens once companies acquire activities that square measure thought-about extremely necessary to long success. because the researchers represented, though similarities could exist, the peripheral and core activities are often completely different from one organization to a different. this is often is a result of, the identification of activity as core or peripheral essentially depends on the judgments created by every individual firm, supported by what it considers as its core competence and also the strategy it intends to pursue.

Besides the above two classifications, outsourcing is also classified as traditional, strategic, and future outsourcing (Franceschini et al., 2003, cited in Gandhi et al., 2012). According to the researchers, there is no established supplier-customer relationship in traditional outsourcing and it is done only to save costs and has no other main goal than to overall cost reduction. The traditional focus of outsourcing based on tactical benefits such as cost reduction has since been replaced by productivity, flexibility, speed, and innovation in developing business applications as well. such as access to new technologies and skills (Elmuti, 2003). Therefore, with this development, the discipline of outsourcing has become strategically important (Zelga, 2018). As Franceschini et al., 2003 (cited in Gandhi et al., 2012) pointed out, in the outsourcing strategy, the main goal is participation in value creation and this relationship is a relational partner. Just like strategic outsourcing, future outsourcing is also a form of cooperation, but its main goal is to create a better future position in the market. This is usually a long-term partnership in which there may be a common vision of the business (Franceschini et al., 2003, quoted in Gandhi et al., 2012).

Magableh (2018) also discusses two types of outsourcing, total outsourcing, and selective outsourcing. According to the researcher, selective outsourcing is limited to a specific function rather than an entire project, while a total outsourcing approach involves the acquisition of all products and services. required for a project from external vendors.

Another form of outsourcing reported in the outsourcing literature is Out-tasking, which is considered the oldest form of outsourcing (Tuomela & Puhto, 2001). Out-tasking is a management process in which specific tasks, as opposed to a full set of support functions in the case of outsourcing, are performed by a service provider (Kleeman, 1994)., cited in Hui & Tsang, 2004). Pure outsourcing is understood as a situation in which the human and financial responsibilities of the outsourced entity are delegated to an external service provider. However, as pointed out by Tuomela and Puhto (2001), outsourcing includes the transfer of certain business processes to an external supplier without responsibility for human resources and other assets.

2.1.3. FACTORS AFFECTING IMPLEMENTATION OF OUTSOURCING

The outsourcing implementation is once “the rubber meets the road.” it's the crucial juncture within the outsourcing relationship where: needed coming up with ought to already be outlined to initiate the modification. Secondly, the long-run groundwork is set for the enterprise-wide relationship between the consumer and repair supplier. Lambert (2009) noted that outsourcing implementation comes with many challenges. supported his interviews and analysis, the amount one drawback in outsourcing implementations could be a lack of understanding of post-contract processes and call rights. The results are that services merely aren't performed, implementation activities get stalled, consumer stakeholders and repair supplier employees are each annoyed, and therefore the entire schedule for achieving expected business edges is delayed.

The first follows that pulls a universal accord among outsourcing advisors is clarity of goals and objectives on the client-side, Mutual (2012). There are several reasons why companies plan to partner with external suppliers, however, every state of affairs is completely different. corporations ought to perceive their own drivers and priorities and may rank and rate their criteria. This determination must be a comprehensive method, with much neutral communication and participation (Hawawini and Auriparus flaviceps 2003). even as lack of neutral involvement is commonly cited by project consultants as a

key reason for project failure, lack of inclusion creates unacceptable risks for outsourcing programs.

Transitioning to outsourced operations is tough Kihanya (2013). once done well, the transition brings edges to fruition faster; once done poorly, a transition will impede operations. There are 2 elements to making sure a swish transition: initial, these operations should proceed uninterrupted; Second, there should be a parallel initiative to transition seamlessly to outsourced operations.

Sang (2010) ascertained that to confirm a powerful transition, corporations should analyze the necessities for the outsourced operation, and design, build, test, and deploy every stage of the project, with formal approval at every stage.

According to Baily et al. (1998), the outsourcing relationship has started, the background work doesn't cease—it needs current coordination to sustain operational excellence. each corporate and outsourcing partner should develop processes, and adopt project and advancement management tools.

Richard et al, (2009) conjointly ascertained that it's conjointly vital to form thorough documentation, as well as method maps, procedures manuals, and operations plans. These documents ought to embrace commonplace operative procedures for modification requests and issue chase and backbone. corporations want correct documentation to know the method and several responsibilities, and to assist bring new team members on board.

Socializing and marketing the decision to outsource is another important best practice and is particularly important because of the impact that outsourcing can have on Kwong employees' livelihoods and daily working lives (2012). Companies are more likely to succeed when they market and communicate the rationale for outsourcing, using the opportunity to generate excitement rather than fear and discontent with the decision to outsource. Schmidt (2010) notes that in-house marketing efforts are more likely to succeed when top managers demonstrate their trust and commitment to outsourced

efforts. Many outsourcing service providers go so far as to require an internal executive leader to make it clear to the stakeholder community that the decision is strategic.

2.1.4. THEORIES RELATED TO OUTSOURCING

Outsourcing comprises various exercises and every peculiarity can be portrayed by a few structures that are installed in different hypothetical methodologies. A significant part of the investigations on outsourcing has been impacted by three methodologies: Resource-Based View, Core Competency Approach, and Transaction Cost Theory.

a. **The Resource-Based View** - the resource-based view (RBV) is an economic theory, which discusses the strategic resources available to a firm. The main principle of the RBV is that the basis of a sustained competitive advantage lies in the application of valuable resources, which are at the firm's disposal (Wernerfelt, 1984; Rodríguez and Robaina, 2006). The RBV considers that the firm must possess unique resources that enable it to achieve a competitive advantage. Resources need to be valuable, rare, non-substitutable, and non-imitable. Resources, therefore, requires to display each of the above four characteristics to be a possible source of a sustainable competitive advantage (Barney, 1991). This advantage can be attained if the strategy being implemented is value-creating, and not being implemented by present or future possible competitors. He also stated that sustainable competitive advantage is a result of possessing immobile resources that permit clear product or service differentiation. However, not all resources have the potential to be a source of sustainable competitive advantage for the firm. The resource-based view considers that resources can be exploited using contracts (Barney 1999), and so this perspective forms a theoretical framework that assists in the decision-making about which activities to perform in-house and which to outsource. Resource-Based View (RBV) has been employed for outsourcing decisions, shifting attention from transaction costs and opportunism to competitive advantage. The key principle in RBV is that unique organizational resources are the real source of competitive advantage and have become a useful framework for outsourcing some of the organization's functions.

Within RBV, the core competencies approach is one of the most powerful frameworks to explain why companies turn to outsource and it suggests that the organization should invest in those activities constituting core competencies and outsource the rest. The resource-based view also points out that improved performance in a firm can be achieved through focusing on those resources that provide the core competencies.

B. Competence-Based View - A Competence-Based view is based on the company's resources and capabilities that will give the organization a competitive advantage. The bottom line is that these core competencies should be kept in-house while other organizational activities not considered essential to the organization's mission or function should be considered for outsourcing, without compromising future professional needs. In order to maintain a sustainable competitive advantage, the organization's competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the business processes. Therefore, vendors' competencies are assumed to be one of the most important factors that influence the success of an outsourcing arrangement (Rodríguez and Robaina, 2006). The core competency perspective is useful in prompting serious consideration about the functions which are truly cost-effectively done in-house, and those which could be outsourced. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in the house. However, the meaning of the term core competence is not clearly understood since terms such as resource, capability, and competence are used interchangeably by researchers (Ozbag, 2013). A firm's resources can be defined as any production factors that are available to the firm and they are classified into five categories; financial, physical, human, technological, and reputation. The first two are tangible resources of the enterprise, easy to assess and identify, while the other is intangible resources, which are assets with sufficient potential to gain competitive advantage. Thus, resources and capabilities complement each other to maintain a competitive advantage.

C. Transaction Cost-View - The transaction-cost view is where the decision to outsource is determined by the relative transaction and production costs associated with the process or service. Transactional costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers. The goal of any organization is to reduce cost and to achieve cost efficiency (Zack and Singh, 2010).

According to Dhar and Balakrishnan (2006), production costs and coordination costs are the only costs involved for any service or to produce any product. Production cost is the cost incurred to make the product or to provide the service and it includes the cost of labor, material, and capital. Coordination costs include monitoring, controlling, and managing the work internally. For the outsourced process, the coordination costs are called transaction costs. Manhnke et al, (2005) stated that the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process. The decision to outsource is to reduce transaction costs as much as possible and thus the transaction cost theory (TCT) perspective is useful in examining the contributions to transaction costs, and how these might be reduced.

2.1.5. REASONS & EXPECTED OUTCOMES OF OUTSOURCING

A client organization may choose to outsource with certain business aims in mind (Agburu et al., 2017) which can be either strategic or tactical (Kroes & Ghosh, 2010). However, as Tuomela and Puhto (2001) pointed out, the motivations for outsourcing are most often strategic decisions to focus on core business. While economic concerns frequently dominate the outsourcing motivation debate (Rhodes et al., 2016), other motivations drive firms to initiate outsourcing. The reasons for outsourcing, or why people make the effort to outsource, are based on the benefits or positive results of doing so. As a result, the motivations for outsourcing are the anticipated benefits that can be obtained through outsourcing. Various researchers have extensively studied the motivations and benefits of outsourcing independently, particularly in comparison to the in-house

procurement technique, over the years. The following sections outline the outsourcing motivations discovered in the literature.

To reduce cost and improve financial ratios: The literature on outsourcing often cites cost benefits as one of the primary reasons a firm contemplates outsourcing (Kakabadse & Kakabadse, 2000; Liou & Chuang, 2010, Sreedevi & Tanwar, 2018). According to Barthelemy and Dominique (2004 as cited in Burdon & Bhalla, 2005), external service providers are regarded as specialists who can provide a similar or better level of service at a lower cost than available in-house. Further, in cases where institutions outsource human resources from the provider's organization, insurances, gratuities, and other employee-related expenses, etc. are passed to the service provider, reducing the client organization's financial obligation to staff (Amos & Gadzekpo, 2016). Hence, outsourcing is cost-efficient and thus, tends to improve financial standing. Further, cash position will be improved as a result of capital reinjection.

To concentrate on core business: Since the responsibility of performing a certain task is transferred to a specialized service provider in outsourcing, client organizations would have more time to focus on their core business and develop their core competencies (Burdon & Bhalla, 2005; Amos & Gadzekpo, 2016). Furthermore, outsourcing enables an organization to transfer non-core tasks and use the freed resources to enhance the organization's main business activities (Boguslauskas & Kvedaraviciene, 2009 as cited in Pratap, 2014). Therefore, strengthening core business is another factor that motivates client organizations to select outsourcing procurement.

To make use of the vendor's capabilities and facilities: According to Sandhu et al. (2018)'s literature review, another key motive for outsourcing is to obtain the service provider's skills, knowledge, and experience. Client businesses choose to outsource when they identify their unavailability or lack of in-house capabilities for the outsourced competence and when the outsourced competence is too costly for them to attain (Bolumole et al., 2014; Amos & Gadzekpo, 2016; Sandhu et al., 2018). Outsourced service providers are professionals in their fields of service delivery, and so there is a

direct advantage from the service provider's expertise and competence to the client business (Amos & Gadzekpo, 2016).

To improve quality, productivity, and operational efficiencies: Outsourced service providers will provide quality services than when kept in-house by implementing their tried and tested models and methods of service delivery (Amos & Gadzekpo, 2016). Further, meeting the clients' requirements is the service provider's utmost priority and therefore, they are always keen to deliver services leading to improved operational efficiency and productivity (Kakabadse & Kakabadse, 2003; Amos & Gadzekpo, 2016).

For increased flexibility: Flexibility in outsourcing as discussed by Kremic et al. (2006) includes demand flexibility, operational flexibility, resource flexibility, or the flexibility of several other strategic elements.

According to Amos and Gadzekpo (2016), the degree of flexibility with in-house procurement is limited due to the delayed response time to changes. However, in the case of outsourcing, there is the possibility of instructing adjustments in scope, scale, location, and quality to account for changing business needs or demands, offering the client more flexibility (Usher, 2003). As a result, according to the research, organizations may explore outsourcing as a means of increasing flexibility (Liou & Chuang, 2010; Kremic et al., 2006).

For increased innovation: With significant core business knowledge and experience of the service partner, together with input from a host of other client accounts, the outsourced service provider is capable of providing swift responses to new changes in technology and services. Accordingly, as Sreedevi & Tanwar (2018) mentioned, the need for product and process innovation favors engaging in outsourcing (Usher, 2003; Amos & Gadzekpo, 2016).

To transfer risk: Transferring risks to another party has also been considered as a motive for outsourcing by several researchers (Elmuti, 2003; Vaxevanou & Konstantopoulos, 2015). As discussed by Usher (2003), through outsourcing, all contingent liabilities will be

transferred to the service partner while maintaining the right to modify the scope and scale.

To achieve right-sized employees and reduced space: According to Amos and Gadzekpo (2016), outsourcing leads to core competencies staff being employed, thereby resulting in right-sizing. Further, some vendor services are delivered as a package and there is no need for vendors to permanently occupy space, thereby reducing space and cost of the rent.

For improved customer orientation and service: Usher (2003) stated that understanding and responding to the customer, and the training, management, and resources to support and reinforce the value set consistently across all service lines can be effectively done by the service providers in outsourcing contracts. Hence, the aim of achieving customer-related benefits also acts as a motive to initiate outsourcing in an organization (Pratap, 2014; Sandhu, Shamsuzzoha & Helo, 2018).

As a solution for lack of initial and major capital investments for service provision: Unlike in-house provision which requires funds to be set for service provision, outsourcing tends to shift the initial capital outlay required to the service provider (Amos & Gadzekpo, 2016). In order to retain the contract, the service provider will facilitate investments for improved service delivery and in turn greater client satisfaction. Hence, outsourcing provides the client with the benefit of full utilization of external suppliers' investments, and therefore, as a solution for the lack of initial major investments required for service provisions, client organizations tend to outsource certain services (Kakabadse & Kakabadse, 2006).

To achieve competitive advantage: Liou and Chuang (2010) mentioned that the purpose of outsourcing is to create value from outside, rather than within, the organization. As products and services are effectively provided by service providers in outsourcing, and a client is released from outsourced activities, enabling the client to focus on more fundamental operations can bring a competitive advantage to the client organization (Liou & Chuang, 2010; Vaxevanou & Konstantopoulos, 2015).

2.1.6. SERVICE QUALITY

The definition of quality may vary from person to person and from situation to situation, only in wording but typically involve determining whether perceived service delivery meets, exceeds, or fails to meet customer expectations (Zeithaml, Berry and Parasuraman, 1993).

Czepiel, (1990) has defined service quality as customer perception of how well a service meets or exceeds their expectations service quality is commonly noted as a critical prerequisite and determinant of competitiveness for establishing and sustaining satisfying relationships with customers.

The previous studies suggest that service quality is an important indicator of customer satisfaction according to Spreng and Machoy, (1996). Service quality is one of the important attributes of service providers as they regard measuring the service quality from the consumer's perspective as a top priority construct.

Service quality is a crucial factor for customer satisfaction, cost reduction, customer loyalty, customer relationship and retention, profitability, and so on. Many have suggested that quality results from a comparison of perceived performance with expected performance based on the so-called Disconfirmation theory. Certainly, this notion was the basis for the SERVQUAL model, which views service quality as the gap between the expected level of service and customer perceptions of the level received (Zeithaml et al, 1993)

Based on Parasuraman, Zeithaml, and Berry, (1990) projection service quality identified perceived service quality into five dimensions (tangibility, reliability, responsiveness, assurance, and empathy). Iwaarden, (2003) highlighted that the SERVQUAL instrument has been the predominant method used to measure consumers' expectations & perceptions of service quality, it has five generic dimensions or factors:

- ❖ **Tangibles** - Physical facilities, equipment, and appearance of personnel
- ❖ **Reliability** - Ability to perform the promised service dependably and accurately.

- ❖ **Responsiveness** - Willingness to help customers and provide prompt service.
- ❖ **Assurance** - (including competence, courtesy, credibility, and security) knowledge and courtesy of employees and their ability to inspire trust and confidence.
- ❖ **Empathy** - (including access, communication, understanding the customer) caring and individualized attention that the firm provides to its customers.

2.1.7. EFFECT OF OUTSOURCING ON SERVICE DELIVERY

Businesses are beginning to feel the full impacts of outsourcing while trying to create or maintain a sustained performance and competitive advantage. The impact of outsourcing on the competitive advantage of a company is experiencing a surge. and sophistication. Van weele, et al (1997), suggests that as a result of newly unruly forces coming on them, companies need to rethink their position. Doing so effectively requires a clear idea of their core versus non-core activities. To improve their performance and competitive advantage, companies need to focus their core activities on the needs and requirements of their customers. Non-core activities are increasingly outsourced to specialist suppliers, which explains why suppliers' management is becoming a core issue in corporate strategies.

Related to the above, D' Avenin. et al (2004); In relation to the foregoing, recognized the valuable benefits of outsourcing as follows: Low Risk: As the corporate world expands exponentially over time, an increasing number of firms are seeking to outsource both low-end and high-end work to expert suppliers. Furthermore, the number of organizations offering outsourcing services is growing, resulting in a wider range. As a result, as more organizations outsource, the risks become lower as businesses gain experience and clearer objectives. Outsourcing can result in significant cost reductions. According to a survey of 7500 public enterprises in Australia, outsourcing cleaning services saved an average of 46 percent more than in-house performance. (Damberger and Fernandez 1999).

According to Julie Casteel (2006), in today's world, outsourcing is viewed as a strategic management choice rather than a cost-cutting activity. It assists businesses in achieving their business objectives through operational excellence, improved market position, and increased competitive effectiveness in the global economy. Because the outsourced specialist suppliers will establish demand for the company's items, the product price will be reduced as well. This means minimizing the overall cost of the service to the firm, which leads to the establishment of quality levels. re-pricing. Re-negotiation and cost-cutting measures, Operating leverage is a cost restructuring metric that compares fixed costs to variable costs. Outsourcing alters the balance of this ratio by allowing a shift from variable to fixed costs as well as making variable expenses changeable.

According to Predicta Rozerneij er (2005), emphasizes that the decision to outsource is made to improve the outsourced function with the focus of improving the services offered by the organization through lowering of firm's costs through redirecting or Conserving energy directed at a particular business or to make more efficient use of labor in most cases, organizations find not having the proper internal skills required to effectively manage various operations, for instance, selection of suppliers, contracting. In other scenarios, the organization may decide to have all its staff concentrate on core activities and outsource Labour to do other activities as a way of improving its performance. This also helps to enhance new technology in the company which would be used as manpower which bring in new ideas which will better work done in production and prompt service delivery.

Petersen et al (2000) argued that in every outsourcing arrangement several key contractual issues must be addressed, such as service description and measurement. legal and regulatory requirements, transfer employees, flexibility term and termination, and intellectual property rights. He further suggested strategic objectives, such as outsourcing initiatives. must come from a company's upper echelons Top management must clarify the outsourcing initiative's aims and objectives, as well as describe how the process will benefit the organization. The relationship between top management support

and Outsourcing performance is quite strong. This is exemplified by the strategic level in many organizations and the outsourcing strategies which are increasingly viewed as a potential source of competitive advantage.

Arjan J Van Weele, (2005), argued that as expertise manpower skills are very much available in an organization, the level of decision making within that organization becomes very high and very effective at the same time. Out of good decisions, better work and fewer accidents. the organization tends to be more productive. However, among others, competitive and economic advantages. Co-modification and cost reduction are other positive effects of outsourcing hence improving the services provided by the organization.

On the negative side, Edgardo et al (2006), the loss of a job opportunity, as well as the loss of control of an organization with many ideas from many people, causes the degree of decision making to be delayed, and control can be lost inside the business. Not only that, outsourcing for the purpose of saving cost can often have a negative influence on the real productivity of a company, stressed the fact that rather than investing in technology to improve productivity, companies gain non-real productivity by hiring fewer people locally and outsourcing work to less productive facilities that appear to be more productive simply because the workers are paid less.

2.1.8. ADVANTAGES AND DISADVANTAGES OF OUTSOURCING

A. ADVANTAGES OF OUTSOURCING

Focus on core activities, cost savings, access to experience, improved performance, and flexibility are the most major benefits of outsourcing.

First, many researchers believe that outsourcing non-core operations to a trustworthy third party allow a company to focus on activities that are key to its value proposition and improve its competitive position.

Second, outsourcing is generally aimed at cost savings as one of the primary objectives. When a particular resource, such as human or equipment resources, is not required full-time or when the cost of obtaining the resource cannot be justified, a special need arises. For example, a medium-sized business will occasionally require technical knowledge and upkeep. Since the cost of hiring and training an engineer who is competent in computer support is too high, it was beneficial for the organization to outsource this task.

Third, Outsourcing organizations can gain access to highly qualified employees who may not be available to the client company and fully leverage the suppliers' investments, innovations, and specialized competencies.

Fourth, an essential incentive to consider outsourcing is the attainment of a performance increase that the outsourcer company may give due to economies of scale. Large scale can provide a range of functions and changes, which will aid in retaining the best available worker, who may not want to work in a less stimulating customer environment. Furthermore, service providers are expected to have a better level of operational knowledge due to the greater concentration of workers on tasks compared to internal operations.

Fifth, for many businesses, flexibility is the primary motivation for outsourcing. The contracts of outsourcers and the jobs of their employees are dependent on their ability to adapt to changing business circumstances.

B. DISADVANTAGES OF OUTSOURCING

Outsourcing has several downsides, including a loss of managerial control over outsourced processes, a threat to security and confidentiality, quality issues, hidden expenses, and the reallocation of existing teams.

First, the disadvantage of losing control over outsourced operations arises from the fact that managing external resources necessitates a unique set of abilities that include people and process management, contract management, and power negotiation.

Second, practically every outsourcing contract specifies security and confidentiality obligations, but implementation and auditing are always problematic. In the financial services industry, requirements keep information known to investment bankers separate from traders, brokers, and others who might misuse such insider information.

Third, one motive to outsource is the expectation that the outsourcer would provide better service than internal workers. The outsourcer must be chosen in this manner to ensure that there is no negative impact on the quality of goods and services produced. Otherwise, the company may lose its market position.

Fourth, the corporation will sign a contract with the outsourcing provider outlining the specifics of the service that they will be providing. Anything not covered in the contract was the foundation for the company having to pay extra fees. For example, an analyst may purposefully remove costs to favor one conclusion, such as picking one supplier over another, preferring in-sourcing over outsourcing, or deciding whether to stay in a specific business or not.

Fifth, in the views of employees, outsourcing is frequently associated with dismissal. It is also difficult for the organization's top management team to determine how to reallocate existing staff. Often, following outsourcing, a portion of the original staff moves from the outsourcing party to the outsourced party, resulting in significant changes. According to Bragg, advocating such a significant change and seeing it fail can result in the dismissal of one or more of a company's management personnel.

2.2. EMPIRICAL LITERATURE REVIEW

This section reviews and summarizes former related studies within the area of service outsourcing. More specifically, it looks into what researchers have found out about the service outsourcing activity and the effect on service quality and other related areas.

Umaru, 2013 conducted a study on the benefits and challenges of outsourcing on service quality on the case of Nigerian public organizations indicated that there is a tendency for service to be defective due to operations-related issues, such as opportunism, information asymmetry with the client organization, and service provider's poor communication, lack of supplier's capabilities, or poor service level agreement contract enforceability. Also, the quality of service is usually not proportionate with the cost, because the degree of Service Level Agent (SLA) is a strong measure of the quality of service in human resource outsourcing, SLA may be lacking in poorly defined contract terms, poorly executed objectives, etc.

A. kwansi A. (2012) conducted an empirical study on the impact of outsourcing on organizational performance in the context of a sample of Ghanaian financial institutions. The study discovered that during the outsourcing phase, the performance of service providers is not measured because the majority of outsourcers lack a built-in performance management mechanism. Coordination of in-house responsibilities with outsourced operations is uncommon in most industries. The institutions primarily supervise and manage what service providers or suppliers do. In most situations, no internal mechanism is in place to ensure that things are done in a well-coordinated and professional manner. Preparation and planning in outsourcing activities are not developed in the institutions' outsourcing practice. In addition, no market survey is conducted to assess what the market provides.

The study conducted by Charity N. (2014) on the effect of strategic outsourcing on organizational performance a case study on Bid co Africa Limited indicated that even though the implementation process shows partially good results while in part it creates a negative image for outsourcing. The achievement registered is cost-saving in cleaning

and security and ease of administrative burden. The complaint is high in terms of completion time, quality, customer satisfaction, integrity, and deriving service assets utilization related to poor service level agreement, contracts administration, and ethical problems of providers.

Umaru, 2013 conducted a study on the benefits and challenges of outsourcing on service quality on the case of Nigerian public organizations indicated possible loss of morale, commitment, loyalty, and decline in productivity may severely decline among employees because they tend to see the loss of fixed employment opportunities, earning less pay without health or welfare insurance, life, and retirement benefits as a result of outsourcing.

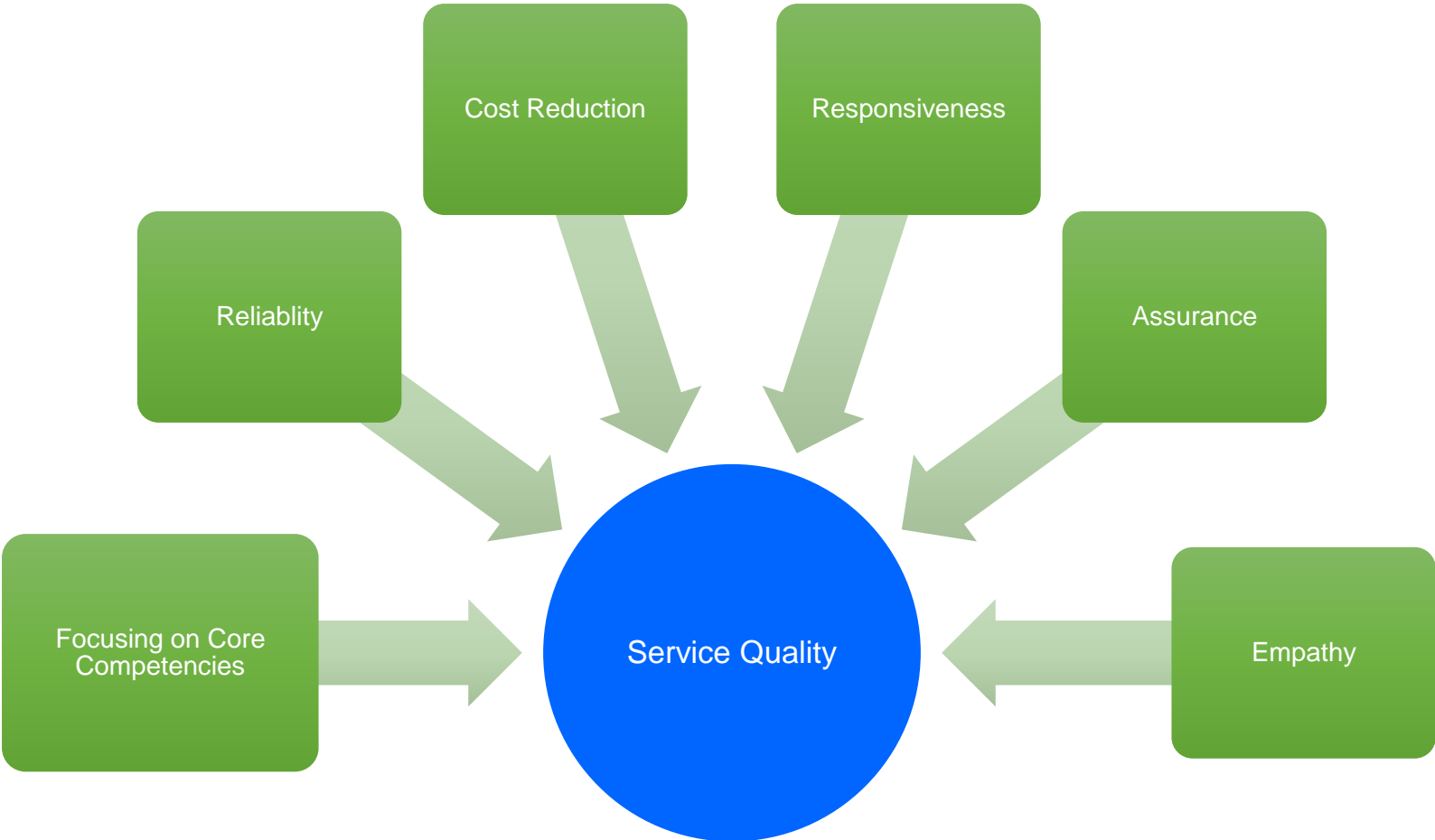
Sang (2010) examined outsourcing practices in Kenyan public universities to investigate the challenges and opportunities presented by outsourcing activities in the universities. The finding was that the universities involved in outsourcing had some general policy statements on outsourcing but without a known regulatory framework. He also identified Security and Cleaning as the major activities currently outsourced in public universities while the least outsourced activity was catering.

According to the report, outsourcing lowers costs and increases productivity. The key obstacles of outsourcing at public universities included a negative attitude among employees, insufficient monitoring and evaluation, student non-cooperation with the outsourced, and community interference. The study confirmed that appropriate evaluation and planning are required for a university to successfully outsource its services. Though Sang (2010) identified obstacles in business process outsourcing at public universities, the findings cannot be generalized to other enterprises due to the unique character of each. In addition, the study was focused on a learning institution rather than a production firm.

2.3. CONCEPTUAL FRAMEWORK

A conceptual model for the study was established and changed based on the findings of the literature review. This model was made up of the dependent and independent variables listed below.

FIGURE 2.3: CONCEPTUAL FRAMEWORK



Source: Adopted and modified from Solomon Haile, AAU thesis, 2018.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This chapter discusses the method of the study. It describes the study area and deals with the research approach, research design, population & sampling, data sources & types, data collection procedures, and ethical considerations as well as approach to the data analysis.

3.1. DESCRIPTION OF THE STUDY AREA

Outsourcing is a management strategy in which an organization transfers some of its non-core functionalities to a more specialized, efficacious, and efficient service provider so that the organization can fixate on its core business activities. Or Outsourcing is a business practice in which a business hires a third party to perform tasks, manage operations, or provide services to the business (Alexandra Twin, 2012).

Companies often outsource to reduce costs, improve efficiency, and increase speed. Companies that decide to outsource rely on the expertise of third-party vendors in performing outsourced tasks to achieve such benefits. The basic premise is that because the third-party vendor is focused on that particular task, they can do it better, faster, and at a lower cost than the recruiting company can. (Ben Lutkevich, 2009)

Although there are other organizations that started outsourcing some part of their functions, this study mainly focuses on outsourcing activities at Ethiopian Cargo & Logistics Services. Moreover, this research focuses only on the Cargo Handling Activities of the subcontractor Yetebaberut Human Resources.

3.2. RESEARCH APPROACH

Quantitative research designs is used to collect and analyze data. Using a hybrid approach to analyze the effect of service outsourcing on service quality allows the researcher to consider different perspectives and contextual practices from the participants' perspectives. This method is chosen with the assumption that the data can exist as they are and collect information relevant to the problem under study.

3.3. RESEARCH DESIGN

Research design is the plan and structure of research so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. It includes an outline of what the researcher do from writing hypotheses and their operational implications to the final analysis of data.

The objective of this research is to examine the effect of service outsourcing on service quality in the case of Ethiopian Cargo & Logistics Services. Taking the research objective and nature of the study into consideration, the design of the research used is explanatory and meets the objective of the study.

3.4. POPULATION AND SAMPLE

According to William G. Zikmund, 2010, a population is any complete group that shares some set of characteristics. Target population is the intended group for the study. The study to be undertaken is to examine the effect of service outsourcing on service quality in the case of Ethiopian Cargo & Logistics Services by outsourcing service provider Yetebaberut Human Resources. The company currently provides outsourced employment service to 4 strategic business units under Ethiopian Airlines. The target population of the study is the Cargo Operation Department at Ethiopian

Cargo & Logistics Services with a permanent staff of 120 employees as of December 2021.

The primary data is planned to be collected through structured questionnaires. The Cargo Operation department is the main user of the subcontracted activity provided by the Yetebaberut Human Resources and be able to provide accurate information through the data collection means prepared by the researcher.

3.5. DATA SOURCES AND TYPES

The study uses both primary and secondary data. Primary data was collected through a survey method using structured questionnaires and personal interviews. In addition, appropriate secondary data were reviewed from the airline's publications and reports, books, documents, websites (Internet), and other sources available to conduct this study.

3.6. DATA COLLECTION PROCEDURES

In order to gather the necessary data, a group of respondents from management & non-management are involved in the study, and different data collection instruments are used by the researcher based on the review of related literature.

3.7. SAMPLE SIZE

The study will apply simple sampling random method. To this effect, the cargo handling department of Ethiopian Cargo & Logistics Services is selected as a target area of the study. After excluding the remaining departments on the basis of no part of their activities are subcontracted or outsourced, the sample size was determined using the Slovin's formula (Serakan, 2012-52):

Therefore, $n = N/(1+Ne^2)$,

Where:

- **N** is the population size
- **n** is the sample size
- **e** is the margin of error

Applying 7% error margin, the sample size for the study were 120 members of the target Population. Therefore, the study's sample size of 120 is fair enough to represent the target population of the study area.

3.8. ETHICAL CONSIDERATION

The management is fully informed about the interview and questionnaires that are delivered/distributed to the target population i.e., Cargo Operation's Department of Ethiopian Cargo & Logistics Services. In this study, ethical problems include the safeguarding of the anonymity of the information acquired from respondents, using the data gathered for academic purposes only, and ensuring that the respondent's identity would not be misused.

3.9. DATA ANALYSIS

The acquired data is processed and analyzed using Statistical Package for Social Studies (SPSS) to meet the study's objectives. This technique was chosen because it aids in the summarization of the sample, allows for the description of the characteristics of the data collected, and aids in the complete analysis and interpretation of the questions one by one to arrive at relevant conclusions.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with the analysis and interpretation of the data obtained from the questionnaires and interviews.

4.1 RESPONSE RATE

As shown in Table 4.1. Below, out of 120 questionnaires distributed 106 responses were returned. From the total returned responses, 7 of them were incomplete. Thus, only the 99 complete responses are employed in the analysis, which represents the response rate of 83% ($99/120 = 0.825$).

TABEL 4.1: RESPONSE RATE OF RESPONDENTS

No	Strata	Sample Size	Response			Response Rate
			Returned	Completed	Incomplete	
1	Cargo Operation's	120	106	99	7	82.5%
	Total	120	106	99	7	82.5

Source: Survey Data, 2022

4.2 RELIABILITY STATISTICS OF THE INSTRUMENT

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

TABLE 4.2: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.987	.987	27

As indicated in the Table 4.2, the Cronbach's Alpha test implies that the instrument's internal consistency as 98.7% which is above the acceptable percentage. A maximum effort was applied to create logical link between the items in the questionnaire and the research questions as well as the objectives of the study.

4.3 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The first part of the questionnaire consists of the demographic information of the participants. This part of the questionnaire requested a limited amount of information related to personal and professional characteristics of respondents. Accordingly, the following variables about the respondents were summarized and described in Table 4.2. These variables include gender, age, educational level and current position of respondents.

TABEL 4.3: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Demographic Characteristics of the Respondents				
No	Respondents Profile	Choice	Frequency	Percent %
1	Gender	Male	75	75.8
		Female	24	24.2
2	Age	18 - 30 Years	45	45.5
		31 - 40 Years	33	33.3
		41 - 50 Years	14	14.1
		51 and Above Years	7	7.1
3	Educational Background	< Diploma	0	0.0
		Diploma	17	17.2
		First Degree	65	65.7
		Second Degree	17	17.2
		Above Second Degree	0	0.0
4	Current Position	Management	14	14.1
		Non-Management	85	85.9

Source: Survey Data, 2022

Out of 99 (100%) respondents, 75 (75.8%) were males whereas the rest 24 (24.2%) were females. This implies that sex ratio of male and female highly dissimilar. Regarding to the age structure 45 (45.5%) of respondents were between the age group of 18-30 years, 33 (33.3%) of respondents were between the age group of 31-40 years, 14 (14.1%) of respondents were between aged between 41-50 years and the rest 7 (7.1%) are above 51 years old. This implies that about 92 (92.9%) of the respondents are between the age of 18 – 50 years old. Ethiopian Cargo & Logistics

Services is said to be relatively filled by adults. The Table also demonstrates academic qualification of the respondents. As indicated in the Table, 17 (17.2%) of the total respondents are diploma holders, 65 (65.7%) first degree holders followed by 17 (17.2%) second degree holders. This implies that the company has highly educated employees.

4.4 ANALYSIS OF QUESTIONNAIRE

TABEL 4.4: SERVICE QUALITY ON RELIABILITY DIMENSION

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Reliability								
1	Yetebaberut provides service at the time they promise to do so.	N = 99	23	45	6	14	11	3.56
		%	23%	45%	6%	14%	11%	
2	Yetebaberut shows sincere interest in solving a problem you face.	N = 99	20	35	8	27	9	3.30
		%	20%	35%	8%	27%	9%	
3	Yetebaberut performs service right the first time (error-free service).	N = 99	4	25	3	38	29	2.36
		%	4%	25%	3%	38%	29%	
4	There is a problem of controlling cargo handling service staff during working hours.	N = 99	29	44	5	8	13	3.69
		%	29%	44%	5%	8%	13%	
Grand Mean								3.17

Source: Survey Data, 2022

The study first sought to assess reliability of outsourcing to external service providers as reliability is one of the measures of SERVQUAL, a predominant instrument used to measure customers expectation and perceptions of service quality. According to Tabel 4.4 the respondents were asked on the scale 1 to 5 rank 4 main concerns in relation to reliability of service providers. On the 1st question 68% of the respondents strongly agreed & agreed the service provider delivers service at the time they promise to do. 25% of respondents strongly disagree and disagree the subcontractor provides service at the time they promise to do and the remaining 6% remain neutral from responding to the question. Moreover, the mean value 3.56 implies the service provider delivers a service at the time they promise to do so.

The 2nd question, 55% of the respondents strongly agree and agree subcontractor staffs shows sincere interest in solving a problem you face. 36% strongly disagree and disagree and the remaining 8% remain neutral to the question raised. The mean score value 3.30 implies the service provider shows real interest in solving a problem occur during provision of service that affect quality.

The 3rd question, 67% of respondents feel the service provider doesn't provide the right service for the first time. The 29% respondents believe otherwise and the remaining 3% decide to stay neutral. The mean score value 2.36 implies the subcontractor performs poorly at the beginning of new activities.

About question number of 4, 73% of the respondents strongly agree and agree there is a problem of controlling cargo handling service staff during working hours the affect service quality and on-time performance of the business unit. 21% of the respondent's strongly disagree & disagree with the question and the remaining 5% undecided to the raised question.

TABEL 4.5: SERVICE QUALITY ON EMPATHY DIMENSION

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Empathy								
1	The outsourced staff gives you individual attention and commitment.	N = 99	3	14	2	65	15	2.24
		Percentage	3%	14%	2%	66%	15%	
2	The employees assist customers with the best interests and willingness at heart.	N = 99	12	33	1	44	9	2.95
		Percentage	12%	33%	1%	44%	9%	
3	The outsourced staff understand your specific service needs & deliver the quality of service.	N = 99	8	12	6	65	8	2.46
		Percentage	8%	12%	6%	66%	8%	
4	Demonstrate professional etiquette and manners while handling customer inquiries.	N = 99	12	25	8	45	9	2.86
		Percentage	12%	25%	8%	45%	9%	
Grand Mean								2.63

Source: Survey Data, 2022

The empathy dimension represents the provision of caring and individualized attention to customers including access or approachability and ease of contact, effective communication, and understanding the customers.

As clearly seen from the above table, the highest mean for this dimension come from the second indicator that signifies the employees assist customers with the best interests and willingness at heart with a mean score of 2.95 followed by the staffs demonstrate professional etiquette and manners while handling customer inquiries with a mean score of 2.86.

However, the least mean comes from the first item which is outsourced staff gives you individual attention and commitment with a mean score of 2.24. As a conclusion, the grand mean score of this construct based on customers view is 2.6 this shows that the services provided by the contractor is not satisfactory with this dimension.

TABEL 4.6: SERVICE QUALITY ON ASSURANCE DIMENSION

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Assurance								
1	Outsourced staffs provide poor quality cargo handling service.	N = 99	25	45	3	18	8	3.62
		Percentage	25%	45%	3%	18%	8%	
2	The outsourced staff has ethical problems.	N = 100	28	51	1	11	8	3.81
		Percentage	28%	52%	1%	11%	8%	
3	The outsourced staff handles shipments poorly.	N = 101	48	33	0	9	9	4.03
		Percentage	48%	33%	0%	9%	9%	

4	There is a problem of controlling outsourced staff during working hours.	N = 102	33	58	1	4	3	4.15
		Percentage	33%	59%	1%	4%	3%	
5	Yetebaberut consistently provides adequate support for cargo operation staff.	N = 103	12	18	8	55	6	2.75
		Percentage	12%	18%	8%	56%	6%	
Grand Mean							3.67	

Source: Survey Data, 2022

Assurance dimension refers to the knowledge and courtesy of employees and their ability to inspire trust and confidence including competence, credibility and security. The above table portrays items that measures assurance. The highest perception mean score was 4.15 which is assigned to item number four that, there is a problem of controlling outsourced staff during working hours.

Whereas, the least perception mean was scored for the last item which questions consistency of services provided by the supplier adequate enough to support for cargo operation staff.

As shown in above table the grand mean for assurance is 3.67 which indicate regarding to assurance of the service provider perceived by operational staffs that the quality of service being offered by the contractor is low.

TABEL 4.6: SERVICE QUALITY ON RESPONSIVENESS DIMENSION

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Responsiveness								
1	There are always an adequate number of employees available during working hours.	N = 99	7	48	6	36	2	3.22
		Percentage	7%	48%	6%	36%	2%	
2	The staffs perform assigned activities quickly and tirelessly.	N = 99	8	33	5	49	4	2.92
		Percentage	8%	33%	5%	49%	4%	
3	The employees give customers personal attention.	N = 99	8	28	6	55	2	2.85
		Percentage	8%	28%	6%	56%	2%	
4	The employees are never busy and willing to respond to your enquires.	N = 99	13	21	4	56	5	2.81
		Percentage	13%	21%	4%	57%	5%	
							Grand Mean	2.95

Source: Survey Data, 2022

The responsiveness dimension involves willingness to help customers and provide prompt services. As shown in the above table the grand mean for responsiveness dimension is 2.95.

The highest mean perception of responsiveness attribute of service quality is There are always an adequate number of employees available during working hours with a mean score of 3.22. The second highest mean scored is item two which refers to the staffs perform assigned activities quickly and tirelessly with a mean score of 2.95.

The least mean score is item four which is employees are never busy and willing to respond to customers enquires with a mean score 2.81. To conclude the grand mean of responsiveness dimension of the service quality provided by the supplier shows that it is moderate.

TABEL 4.6: FOCUS ON CORE COMPETENCIES & COST REDUCTION

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Focus on Core Competencies & Cost Reduction								
1	Outsourcing cargo handling service saves time and cost.	N = 99	55	21	0	13	10	3.99
		Percentage	56%	21%	0%	13%	10%	
2	Outsourcing cargo handling service allows focusing on core business functions.	N = 100	59	28	0	8	4	4.31
		Percentage	60%	28%	0%	8%	4%	
3	Outsourcing cargo handling service reduce budget allocation.	N = 101	45	39	0	6	9	
		Percentage	45%	39%	0%	6%	9%	4.06
4	Outsourcing has reduced costs such as overheads and other fixed costs in the airlines.	N = 102	56	33	0	4	6	
		Percentage	57%	33%	0%	4%	6%	4.3
5	Misalignment between the	N = 103	33	59	1	4	2	

airline's service requirement and service provider's capability.	Percentage	33%	60%	1%	4%	2%	4.18
Grand Mean							4.17

Source: Survey Data, 2022

The mean, for all the five items stated as reasons for outsourcing of cargo handling services 's to Yetebaberut Human Resources, was above the average (acceptable) mean. It can be seen as a gentle hint that business focus, cost reduction, operational flexibility, service quality, efficient utilization of company's asset, saving in capital and time.

From all the rationales the highest rankings are the need to focusing on core business functions, reducing costs such as overheads & other fixed costs in the airline and outsourcing cargo handling service saves time & cost respectively.

TABEL 4.6: SERVICE QUALITY

No.	Item		Strongly Agree 5	Agree 4	Neutral 3	Disagree 2	Strongly Disagree 1	Mean
Service Quality								
1	Outsourcing of the Cargo handling service decreased delivery time of activities.	N = 99	9	23	2	60	5	2.71
		Percentage	9%	23%	2%	61%	5%	
2	Outsourcing of the Cargo handling service increased on time performance of cargo operation.	N = 99	3	18	4	59	15	2.34
		Percentage	3%	18%	4%	60%	15%	

3	The supplier provides prompt service for your requests at the right time.	N = 99	8	22	3	63	3	2.69
		Percentage	8%	22%	3%	64%	3%	
4	Customer complaints and claims are decreased after outsourcing of the handling service.	N = 99	2	18	3	67	9	2.36
		Percentage	2%	18%	3%	68%	9%	
5	Considering the time, effort and money Ethiopian Airlines spent on the outsourcing, it can be concluded the company is benefited.	N = 99	14	22	11	45	7	2.91
		Percentage	14%	22%	11%	45%	7%	
							Grand Mean	2.60

Source: Survey Data, 2022

The mean, for all the five items stated as expected outcome/benefits of outsourcing, measured as decreasing delivery lead time, increase on time performance OTP, prompt response and decreasing customer complaints after the cargo handling service is outsourced to service provider. The grand mean score of this construct based on customers view is 2.6 this shows that the services provided by the contractor is not satisfactory and couldn't be able to meet the expected benefits of service outsourcing.

4.5 CORRELATION ANALYSIS

The Pearson's Product Moment Correlation Coefficient (r) is used to measure the degree of association between the independent variables outsourcing of (Reliability, Empathy, Assurance, Responsiveness and Competencies) and the dependent variable (Service Quality).

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

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

Depending on the above assumption, all basic constructs were included into the correlation analysis. Table 4.7 presents the inter-correlations among the variables being explored. In other words, Table 4.7 represents the correlation matrix between the independent variables (Reliability, Empathy, Assurance, Responsiveness and Competencies) and the dependent variable (Service Quality). All relationships between the dependent and independent variables are positively and strongly correlated. From the analysis, it can be observed that service quality of the organization has strong correlation with each of the independent variables ranging from $.777$ correlated between competencies & cost reduction and service quality to $.936$ between reliability and service quality.

TABEL 4.7: CORRELATION ANALYSIS

		Service Quality	Reliability	Empathy	Assurance	Responsiveness	Competencies
Service Quality	Pearson Correlation	1.000	.860	.936	.850	.914	.777
	Sig. (1-tailed)		.000	.000	.000	.000	.000
	N	99	99	99	99	99	99
Reliability	Pearson Correlation	.860	1.000	.925	.960	.882	.933
	Sig. (1-tailed)	.000		.000	.000	.000	.000
	N	99	99	99	99	99	99
Empathy	Pearson Correlation	.936	.925	1.000	.920	.906	.872
	Sig. (1-tailed)	.000	.000		.000	.000	.000
	N	99	99	99	99	99	99
Assurance	Pearson Correlation	.850	.960	.920	1.000	.862	.972
	Sig. (1-tailed)	.000	.000	.000		.000	.000
	N	99	99	99	99	99	99
Responsiveness	Pearson Correlation	.914	.882	.906	.862	1.000	.823
	Sig. (1-tailed)	.000	.000	.000	.000		.000
	N	99	99	99	99	99	99
Competencies	Pearson Correlation	.777	.933	.872	.972	.823	1.000
	Sig. (1-tailed)	.000	.000	.000	.000	.000	
	N	99	99	99	99	99	99

Source: Survey Data, 2022

4.6 REGRESSION ANALYSIS

Regression analysis is a statistical technique that can test the hypothesis that a variable is dependent upon one or more other variables. Further, regression analysis can provide an estimate of the magnitude of the impact of a change in one variable on another. (SPSS for Psychologists, accessed on May 19, 2017). Table 4.8 below shows the regression analysis of the effect of service outsourcing on service quality. Table 4.8 below clearly shows the value of R and R square R^2 . In this analysis the value of R is 0.958 which is a measure of the correlation between the observed value and the predicted value of the dependent variable (service quality). Whereas R Square (R^2) is the square of this measure of correlation and indicates the proportion of the variance of service quality with the service outsourcing variables.

Hence, R Square = 0.918 implies that 91.8% of service quality is explained by factors of service outsourcing.

Basically, this is a measure of how good a prediction of the dependent variable we can make by knowing independent variables. This implies that 91.8% of the variance in the dependent variable is explained by the independent variables in the model. The model also indicates that, the remaining 8.2% of the variance can be explained by other variables out of this model and indicates that further research might be needed for this.

The beta value b is a measure of how strongly predictor variable influences the criterion variable. Likewise, the beta value of this study as indicated in the table below. If we take one as a demonstration, assurance has 0.479 value which indicates that a change of one standard deviation in the predictor variable i.e., service outsourcing resulted in a change of 47.9 standard deviations in the criterion variable i.e., service quality.

Thus, this indicates that service outsourcing has effect on the quality of service provided by the airline. Since the higher the beta value the greater the impact of the predictor variable on the criterion variable. Moreover, when you have only one predictor variable in your model, then beta is equivalent to the correlation coefficient between the predictor and the criterion variable (SPSS for Psychologists). Similarly, the factor that has the greatest effect on the service quality is empathy with a coefficient ($\beta=0.642$), assurance with ($\beta=0.479$), responsiveness ($\beta=-0.406$), then comes reliability ($\beta=-0.058$) and finally Competencies with ($\beta= -0.528$). The regression estimates how the value of one dependent variable (Y) can be predicted based on the value of one independent variable (X).

TABEL 4.8: REGRESSION ANALYSIS

Model Summary ^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.958 ^a	.918	.913	.278

a. Predictors: (Constant), Competencies, Responsiveness, Empathy, Reliability, Assurance

b. Dependent Variable: Service Quality

Coefficients ^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	.518	.123		4.214	.000	.274	.762
Reliability	-.045	.091	-.058	-.495	.622	-.225	.135
Empathy	.590	.089	.642	6.623	.000	.413	.767
Assurance	.415	.154	.479	2.700	.008	.110	.721
Responsiveness	.358	.064	.406	5.575	.000	.231	.486
Competencies	-.454	.113	-.528	-4.012	.000	-.679	-.229

a. Dependent Variable: Service Quality

4.7 LINEARITY TEST

Linearity refers to a mathematical relationship or function that can be graphically represented as a straight line, as in two quantities that are directly proportional to each other. It is the ability (within a given range) to obtain test results which are directly proportional to the concentration (amount) of analyte in the sample. The characteristic of data such that a straight line provides as good a fit (using the least-squares criterion) as any other mathematical function, as a description of the relationship between the method response and the concentration of the analyte, (Coetzee, 2003).

Multicollinearity is a problem that occurs with regression analysis when there is a high correlation of at least one independent variable with a combination of the other independent variables. As variables are highly correlated in a multiple regression analysis, it is difficult to identify the unique contribution of each variable in predicting

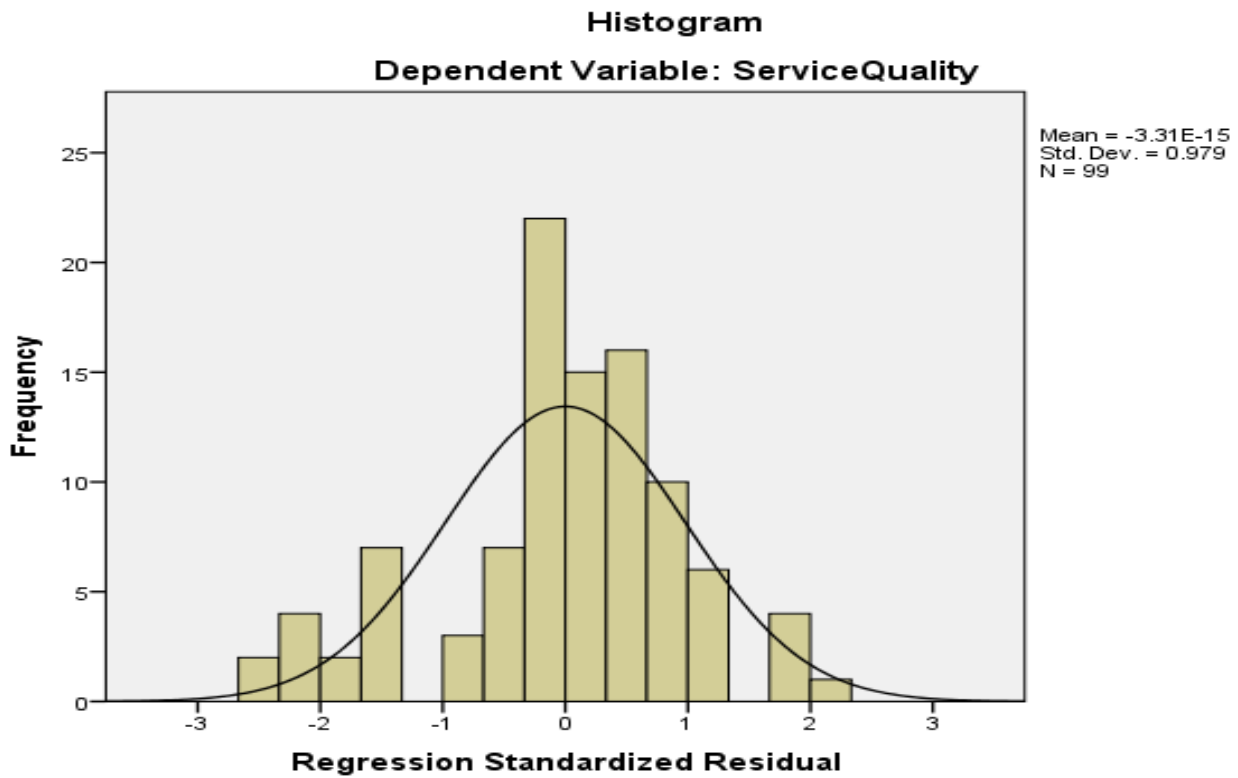
the dependent variable because the highly correlated variables are predicting the same variance in the dependent variable. In this situation, the “overall” p-value may significant but the p-value for each predictor may not be significant. Multicollinearity exists when Tolerance is below 1 and VIF is greater than 10 or an average much greater than 1. Another statistic sometimes used for multicollinearity is the Variance Inflation Factor VIF, which is just the reciprocal of the tolerance statistics. A VIF of greater than 5 is generally considered evidence of multicollinearity. Marczyk DeMatteo and Festinger, (2005). Accordingly, as we can see from Table 4.9 below multicollinearity doesn’t exists in this case. So, since the VIF value is lower than 10 (mostly), it is be considered to have a correlation with other independent variables. However, the acceptance range is subject to requirements and constraints.

TABLE 4.9: LINEARITY TEST

Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.518	.123		4.214	.000		
	Reliability	-.045	.091	-.058	-.495	.622	.163	6.814
	Empathy	.590	.089	.642	6.623	.000	.194	4.633
	Assurance	.415	.154	.479	2.700	.008	.128	7.606
	Responsiveness	.358	.064	.406	5.575	.000	.166	2.016
	Competencies	-.454	.113	-.528	-4.012	.000	.151	5.643

a. Dependent Variable: Service Quality



CHAPTER FIVE

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents a summary of major findings, the conclusion part of the study, conclusion part of the study and recommendations stem or emanates from the research results and review of relevant literature.

5.1 SUMMARY OF MAJOR FINDINGS

The purpose of this study aimed at finding the effect of outsourcing on service quality of Ethiopian Airlines strategic business unit Ethiopian Cargo & Logistics Services. In this regard an attempt has been made to investigate how the quality of service provided by the airline is affected by the outsourcing of Cargo handling service to subcontractor and SERVQUAL instrument was adopted as it is predominant method used to measure consumers' expectations & perceptions of service quality from different dimensions. The questionnaire was developed in such a way that all these factors were included. Out of 120 questionnaires distributed 106 responses were returned. From the total returned responses, 7 of them were incomplete. Thus, only the 99 complete responses are employed in the analysis, which represents the response rate of 83%.

The following are the major findings with regards to the demographic and general profile of the respondents:

- Out of 99 (100%) respondents, 75 (75.8%) were males whereas the rest 24 (24.2%) were females.

- Regarding to the age structure 45 (45.5%) of respondents were between the age group of 18-30 years, 33 (33.3%) of respondents were between the age group of 31-40 years, 14 (14.1%) of respondents were between aged between 41-50 years and the rest 7 (7.1%) are above 51 years old.
- Academic qualification of the respondents, 17 (17.2%) of the total respondents are diploma holders, 65 (65.7%) first degree holders followed by 17 (17.2%) second degree holders.
- From the total respondents 14.1% are from management group of the business unit and the remaining 85.9% from the non-management.
- The results of the descriptive statistical analysis indicated that, customers (respondents from user section) were highly satisfied with the responsiveness, assurance and reliability dimensions of service quality. However, the result indicates that, customers were not satisfied with the empathy dimension.
- Regarding focusing on core competencies & cost reduction aspect of the outsourcing, the respondents highly agree the airline be able to reduce operational, overhead & other fixed costs in the airlines and focus on core business functions.
- About the ability of the subcontractor (Yetebaberut Human Resources) to provide quality of service at the designed and promised time, respondents from user section expressed their dissatisfaction over poor service. There is a lot of complaints from customer about the poor performance and prolonged service delivery lead-time, on time performance of the business unit service offering decreased and most of the respondents believe Ethiopian Airlines in general is not benefited from outsourcing of the cargo handling service to external service provider in terms of a quality of services.

- The correlation result shows that there is positive and significant relationship between reliability, responsiveness, assurance, empathy, competencies and service quality. The finding also indicates that the highest relationship was found between empathy and service quality, while the lowest relationship was found between service quality and focusing on core competencies.

5.2 CONCLUSIONS

The objective of this study is to examine the effect of outsourcing on service quality. On the bases of the analysis given in the previous chapter, the following conclusion is drawn.

The reasons as driving forces for outsourcing is to focus on core functions of Ethiopian Airlines. The data also stated that the company uses outsourcing as a strategic tool to improve service quality and customer satisfaction while reducing operational cost that exist in the system.

The outsourcing of cargo handling services to external provider has effect on the quality of services provided by the airline. The study found that an average of 63 percent of the respondents indicated that considering the time, effort and money Ethiopian Airlines spent on the outsourcing of the cargo handling services, the company didn't be able to improve the improve the quality of the services provided. Accordingly, we can infer from these responses that the outsourcing service in Ethiopia is still in its infancy stage.

In general, outsourcing helped Ethiopian Airlines to focus on core business functions that are the bases for the organization to achieve & excel its performance, avoid major investment in HR, and reduce operating cost. However, the outsourcing practice of the airline encountered several challenges like problem in bringing

customer's satisfaction, improving service quality, increasing efficiency and effectiveness of the airline.

5.3 RECOMMENDATION

On the basis of the findings and conclusions reached, the following recommendations are forwarded in order to improve the quality of service's provided by the airline:

- The choice of contractor or service provider must be based on a series of criteria or effective selection process and not to be decided on the sole basis of the best price tendered. First and foremost, the airline should seek reliability and the guarantee of a job well done.
- The airline should adopt periodic management review meetings with the service providers to solve challenges when occur and to create better way of doing business and developing good relationship.
- In order to avoid the misalignment between the airlines service requirement and the service provider capability, it is highly recommended to carefully construct contract, or service level agreement (SLA) with measurable key performance indicators KPI's.
- After implementing written service level agreement (SLA), the airline should implement periodic effective management review process and internal audit also self-inspection over the outsourced services. In addition, the results from these activities shall be a part of management meetings and be able to trigger SLA revisions.
- Finally, the airline should acknowledge the capability limitations of the service providers to provide essential periodic trainings for the outsourced staff's and provide the training by itself in its own aviation academy.

5.4 SUGGESTION

It is important to consider factors such as the lack of systematic research experience by researchers and the poor social attitude of filling out questionnaires and returning them in a timely manner in due diligence. This can affect some of the results of the study. Therefore, researchers suggest that other scholars also work in the field of outsourcing. This is a challenging and exciting part of logistics and supply chains that are deeply rooted in a developed society.

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Ethiopian Airlines 2019 Performance Report.

Ethiopian Airlines 2020 Performance Report.

APPENDIX I

CHOOSING THE CORRECT STATISTICAL TEST

Number of Dependent Variables	Number of Independent Variables	Type of Dependent Variables	Type of Independent	Measures	Test(S)
ONE	0 (1 Population)	Continuous Normal	Not Applicable (none)	Mean	One-Sample T-Test
		Continuous Non-Normal		Median	One-Sample Median
		Categorical		Proportions	CM Square Goodness-Of-Fit: Binomial Test
	1 (2 Independent Populations)	Normal	2 Categories	Mean	2 Independent Sample T-Test
		Non-Normal		Medians	Mann Whitney: Wilcoxon rank sum test
		Categorical		Proportions	CM square test Fisher's Exact test
	0 (1 Population Measured Twice) or 1 (2 Matched Populations)	Normal	Not Applicable / Categorical	Means	Paired t-test
		Non-Normal		Medians	Wilcoxon signed ranks test
		Categorical		Proportions	McNemar: CM-square Test
	1 (3 or More Populations)	Normal	Categorical	Mean	One-way ANOVA

		Non-Normal		Medians	Kruskal Wallis
		Categorical		Proportions	CM square test
	2 or More (e.g.: 2-way ANOVA)	Normal	Categorical	Means	Factorial ANOVA
		Non-Normal		Medians	Friedman Test
		Categorical		Proportions	Log-Linear: Logistic Regression
	0 (1 Population Measured 3 or More Times)	Normal	Not Applicable	Means	Repeated Measures ANOVA
	1	Normal	Continuous		Correlation Simple Linear Regression
		Non-Normal	Continuous		Non-Parametric correlation
		Categorical	Categorical or Continuous		Logistic Regression
			Continuous		Discriminant Analysis
	2 or More	Normal	Continuous		Multiple Linear Regression
		Non-Normal	Continuous		
Categorical		Continuous		Logistic Regression	

		Normal	Mixed Categorical and Continuous	Analysis Of Covariance General Linear Models (Regression)
		Non-Normal		
		Categorical		Logistic Regression
2	2 or More	Normal	Categorical	MANOVA
2 or More	2 or More	Normal	Continuous	Multivariate Multiple Linear Regression
2 Sets of 2 or more	0	Normal	Not Applicable	Canonical Correlation
2 or More	0	Normal	Not Applicable	Factor Analysis

Source: James D. Leeper. Ph. D (University of Alabama)

<https://statranalysis.wordpress.com/2015/07/27/choosing-the-correct-statistical-test/>

APPENDIX II
QUESTIONNAIRE
ADDIS ABABA UNIVERSITY

This questionnaire is prepared only for the aim of assessing the effect of outsourcing on service quality at Ethiopian Cargo and Logistics Services. Your honest response helps the researcher to find out the real and critical problems. So, I need you to give me your true response to the questions in this questionnaire. The study does not have any other purpose rather than assessing the current outsourcing activity and helping the concerning body to set the appropriate solution for the problems to be found. If you have any inquiries, please don't hesitate to contact the researcher on phone number: +251922872631 and eMail: BisratG@ethiopianairlines.com or asefa.bisrat8@gmail.com

Dear Respondents

- ❖ You don't need to write your name on the question paper
- ❖ Please answer all questions
- ❖ Please do not discuss with other respondents to give your answer
- ❖ Put (√) sign in the box provided to give your answer

Part I: Respondent Demography

1. Gender:

Male

Female

2. Age:

18-30 years

31-40 years

41-50 years

51 years & above

3. Educational background:

< Diploma Diploma First Degree > First Degree

4. Your current position?

Non-management Management

Part II

Questions were designed to collect information about the effect of subcontracting/outsourcing of service-on-service quality at Ethiopian Cargo and Logistics Services. Indicate how important you feel each item in making the decision of outsourcing cargo handling services using the following rating scale:

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

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

No.	Item	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
Reliability						
1	Yetebaberut provides service at the time they promise to do so.					
2	Yetebaberut shows sincere interest in solving a problem you face.					
3	Yetebaberut performs service right the first time (error-free service).					
4	There is a problem of controlling cargo handling service staff during working hours.					

No.	Item	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
Empathy						
1	The outsourced staff gives you individual attention and commitment.					
2	The service hours are convenient to you and are respected by the outsourced staff.					
3	The employees assist customers with the best interests and willingness at heart.					
4	The outsourced staff understand your specific service needs & deliver the quality of service.					
5	Demonstrate professional etiquette and manners while handling customer inquiries.					
Assurance						
1	Outsourced staffs provide poor quality cargo handling service.					
2	The outsourced staff has ethical problems.					
3	The outsourced staff handles shipments poorly.					
4	There is a problem of controlling outsourced staff during working hours.					
5	Yetebaberut consistently provides adequate support for cargo operation staff.					

No.	Item	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
Responsiveness						
1	There are always an adequate number of employees available during working hours.					
2	The staffs perform assigned activities quickly and tirelessly.					
3	The employees give customers personal attention.					
4	The employees are never busy and willing to respond to your enquires.					
Focus on Core Competencies & Cost Reduction						
1	Outsourcing cargo handling service saves time and cost.					
2	Outsourcing cargo handling service allows focusing on core business functions.					
3	Outsourcing cargo handling service reduce budget allocation					
4	Outsourcing has reduced costs such as overheads and other fixed costs in the airlines					
5	Misalignment between the airline's service requirement and service provider's capability.					

No .	Item	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
Service Quality						
1	Outsourcing of the Cargo handling service decreased delivery time of activities.					
2	Outsourcing of the Cargo handling service increased on time performance of cargo operation.					
3	The supplier provides prompt service for your requests at the right time.					
4	Customer complaints and claims are decreased after outsourcing of the handling service.					
5	Considering the time, effort and money Ethiopian Airlines spent on the outsourcing, it can be concluded the company is benefited.					

