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**Department of Logistics and Supply Chain
Management**

**Assessment of Employees' Perception on Organizational Performance
after Outsourcing A case study on ethio telecom**

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Declaration

I, Dawit Adane Feyissa declare that this thesis is my own work and has not been previously submitted for the award of degree in any university.

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List of key words

IT- Information Technology

ETC- Ethiopian Telecommunications Corporation

ET- Ethio Telecom

IBTE- Imperial Board of Telecommunications of Ethiopia

ETA - Ethiopian Telecommunications Authority

MCIT- Ministry of Communications & Information Technology

VAS- Value Added Services

IBM- International Business Machine

BPO- Business process outsourcing

KPO- Knowledge process outsourcing

ITO- Information technology outsourcing

OEM- Original Equipment Manufacturers

ROI- Returns on Investment

Abstract

The purpose of this research is to assess employee perception on organizational performance of ethio telecom as regards to cost efficiency, productivity, profitability and flexibility performance indicators as supported by different literatures. About 234 questionnaires were administered to 4 selected departments of ethio telecom namely strategic planning, sourcing and facility, marketing and sales (specifically sales) and customer service (specifically back office) to get primary data that treated appropriate research questions. The study found that employees of the company perceived outsourcing so far has positively affected all the four organizational performance indicators of cost efficiency, productivity, profitability and flexibility and the results indicated that the employees perceived that ethio telecom has benefited from outsourcing its business process to reduce cost of operation, to increase its productivity and profitability and improves its flexibility. The study recommends that ethio telecom should sustain business relationships that would assists in transaction negotiation with outsourcing vendors to boost the performance of the company.

CHAPTER ONE

INTRODUCTION

1.1. Back ground of the study

Out sourcing is the handing over of assets, resources, activities, or people to third party management to achieve agreed performance (Wilcocks and Lacity 2006). Until 1989 outsourcing was not formally identified as a business strategy. However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business (Handfield, 2006). In earlier periods, cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing shifting to improve the services delivered by the company (Diskstein and Flast, 2009).

According to Aran and Patel (2005), outsourcing is driven by a number of factors such as costs, focusing on core areas, improve service level and process innovation, of all these cost consideration and the need to focus on core activities seems to be the prominent drivers. Through a time reducing the cost has become a trivial factor rather value addition to the business is the main focus. Handfield (2006) add more on this, the current stage in the evolution of outsourcing is the development of strategic partnerships. In relation to this the focus today is less on ownership and more on developing strategic partnerships to bring about enhanced result. Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. As the result in today's world the drivers are often more strategic, and focus on carrying out core value-adding activities in-house where an organization can best utilize its own core competencies.

In this regard, Tomás F. Espino-Rodríguez and Víctor Padrón-Robaina (2006) defined outsourcing as a strategic decision that entails the external contracting of determined non-strategic activities or business processes necessary for the manufacture of goods or the provision of services by means of agreements or contracts with higher capability firms to undertake those activities or business processes, with the aim of improving competitive advantage (Tomás F. Espino-Rodríguez and Víctor Padrón-Robaina, 2006). According to these writers, this definition entails three important

elements: i) outsourcing has to be a strategic decision that forms part of the firm's strategy and must be aimed at the pursuit and maintenance of competitive advantage; ii) it considers that the firm must be able to identify which activities or business processes are candidates for outsourcing and must be developed by suppliers whose capabilities and skills are superior to those of the firm, i.e. outsourcing decisions are related to the firm's resources and capabilities; and iii) it incorporates the concept of business processes, since resources by themselves cannot be a source of competitive advantage, implying that resources can only be a source competitive advantage if they are exploited through business processes. This argument allows looking at or addressing five major outsourcing issues that should be duly considered by an outsourcing firm. These are the questions that: first, why outsourcing; second, what to outsource; third, which decision process to take; fourth, how to implement the outsourcing decision; and fifth, what is the outcome of the outsourcing decision?

Accordingly, this paper is an attempt to explore the effect of outsourcing on the performance of one of the companies, specifically Ethio telecom, which in recent time widens the practice of outsourcing so as to answer the obvious question that has outsourcing benefited or enhanced its performance?

Originally a division of the Ministry of Post, Telephone and Telegraph, what would become the ETC was established as the Imperial Board of Telecommunications of Ethiopia (IBTE) by proclamation No. 131/52 in 1952. Under the Dergue Regime, the IBTE was reorganized as the Ethiopian Telecommunications Service on October 1975, which was in turn reorganized on January 1981 as the Ethiopian Telecommunications Authority (ETA). On November 1996, the Ethiopian Telecommunications Authority became Ethiopian Telecommunications Corporation (ETC) by Council of Ministers regulation No. 10/1996. The subsequent Proclamation 49/1996 expanded the ETC's duties and responsibilities. The Ethiopian Telecommunications Corporation (ETC) was, until December 2010, the sole telecommunication service provider in Ethiopia. It was replaced by Ethio Telecom on December 2, 2010. Alike to its predecessors the new company is also fully owned by the state, though; its management was given to France Telecom for two and half years. Now, Ethio telecom is managed by Ethiopians.

Ethio telecom is an integrated telecommunications solutions provider operating in Ethiopia. The company offer internet, data, VAS, International and voice services. It currently provide telecom service in the entire country on both voice, internet & data, channels, with comprehensive plans in place to meet the requirements set out by the Ministry of Communications & Information Technology (MCIT) and peoples of Ethiopia (tele Negarit V.3, 2013).

Outsourcing is one of the most prevalent trends in today's world business environment even though it is a new practice in Ethiopia. ethio telecom has different reasons for outsourcing the parts of functions in their operation. In many cases, the aim is to outsource non-core activities in order to gain competitive advantages and performance enhancement. Even though outsourcing results several benefits for the company it has also problems or risks if the process is not managed.

Since ethio telecom has a multitude of customers and variety of services, it is difficult to reach all customers and satisfy their needs. Parallel to its operational activities expansion the complexity to identify which are core and which are support functions so as to exert most of the efforts of the qualified telecom service provision become visibly a burden for the company's management. As the need to emphasize on the value-added (core) functions, ethio telecom has considered outsourcing option to reduce the burdens and so as to get focused attention towards improving quality of service provision on the one hand and introducing new services on the other. To this end, the company has outsourced some of its services located on the table below to external service providers.

Activities outsourced by ethio telecom	The suppliers for which outsourced activities are awarded
Network expansion	Huawei and ZTE
Voucher and SIM card selling	Different mega distributors (GARAD, GETAS) and Hidase Telecom
Garage Service	Hidase Telecom
Manufacturing Service	Hidase Telecom
Telephone fault maintenance service	Small and medium enterprises
Bill collection	Lehulu
Janitorial Service	Different enterprises

Table 1 -1 Outsourced activities by ethio telecom (tele Negarit V.3, 2013)

On the nutshell the activities outsourced are those which are considered as core and non-core functions ranging from network expansion throughout the country to the day to day routines of voucher card, SIM card selling, garage service, manufacturing, telephone fault maintenance service, bill collection and so on. As such activities, for instance, could be performed efficiently by financial service providers than a telecom company which lacks proficiency from purpose of establishment perspective.

1.2. Statement of the problem

A study by International Business Machine (IBM) (2010) posits that outsourcing is a strategic business decision that is likely to boost a company’s performance. The study also sheds new light to the value of well-structured and well executed outsourcing agreement and its impact on an organization. It also emphasizes the potential that large-scale outsourcing strategies boost business performance and bottom-line objectives of companies.

Outsourcing has become one of the buzzwords in managerial practice (Kotabe et al., 2008). Similarly, it has received increasing academic attention (Kotabe et al., 2008; Langfield-Smith & Smith, 2003; Narayanan et al., 2011). Its growing body of literature has shown both the benefits

and the disadvantages of outsourcing for business performance. Consequently, managers doubt whether universally prescribing outsourcing is an appropriate strategy (Doig et al., 2001). The outsourcing strategy literature offers arguments both for and against outsourcing. In this line, empirical research shows a parallel pattern: some papers find a positive link between outsourcing and performance (Dveni avenscraft, 1994; Espino- odr guez Padr n-Robaina, 2004; Murray et al., 1995), whereas others find either a negative relationship or no connection at all (Gilley & Rasheed, 2000; Leiblein et al., 2002). Moreover, Kotabe and Mol (2009) and Rothaermel et al. (2006) find both positive and negative results, depending on uncertainty and vertical integration level, in a negative curvilinear effect.

Thus, with respect to recent empirical evidence on the link between outsourcing and performance, results are mixed. Therefore, evidence on this topic is inconclusive and the influence of the make-or-buy decision on a firm's effectiveness remains unclear (Kotabe & Mol, 2009).

Outsourcing without proper management control could sometimes result in job losses, According to Ghodeswar and Vaidyanathan (2008) a large number of employees whose organizations outsource their business activities may have similar problems to those employees that have undergone downsizing, while organizations claim that the basis for outsourcing is to increase business efficiency. This was apparently observed in an interview made to some ethio telecom staffs years ago when the management was outsourced to France telecom. The then prevailing impression was that "employees who are lucky to remain in the company after outsourcing effects believe that the possibilities of them staying in the company is low, because they could be the next in line to lose their jobs." Moreover, as Hammer (2001) posits that in situations where the outsourcer is not satisfied with the service, it could be difficult to break the contract because outsourcing contracts usually require a stipulated period. It will be costly to reverse the situation and return the services in-house. Nevertheless, extant literatures shown that the positive outcome of outsourcing is higher than that of its negative effects in different sectors.

Thus, this study tends to examine whether outsourcing is beneficiary or otherwise based on the current case of ethio Telecom. What benefits that a company gained so far from the operations outsourced and find out the employees' perception on the performance enhancement of ethio telcom after outsourcing by the company in the fast growing telecom sector?

1.3. Research Questions

This study intended to answer the following research questions to solve the research problem.

- Does outsourcing increase cost efficiency of ethio telecom?
- Does outsourcing improve productivity of ethio telecom?
- Does outsourcing increase profitability of ethio telecom?
- Does outsourcing improve flexibility of ethio telecom?

1.4. Objective of the study

1.4.1. General Objective

The general objective of the study was to study the assessment of employees' perception on organizational performance after outsourcing in ethio telecom.

1.4.2. Specific Objective

The specific objectives of the Study were to:

- To find out if outsourcing increases cost efficiency in ethio telecom;
- To examine if outsourcing improves productivity in ethio telecom;
- To identify if outsourcing increases profitability in ethio telecom;
- To examine if outsourcing improves flexibility in ethio telecom.

1.5. Significance of the Study

The study on the assessment of employees' perception on company performance after outsourcing is important because it will help companies engaged in the practice to assess the effect of outsourcing on their operations. As unemployment rate rises in Ethiopia, it will provide government with more insight to reviewing policies of companies outsourcing their operations since it impacts on job creation which helps in the development of Ethiopia. The research will further educate businesses about outsourcing ensuring that if the goal of an organization is to engage in this mode of operation all options are well analyzed. The study will also help organizations to estimate the relative cost of outsourcing to their companies.

It will again help management to use the appropriate ways to select vendors that are competent and qualified. The study also intends to provide the academic community with information that students studying in the related field could access for reference purposes.

1.6. The Scope of the Study

The scope of this study is showing the effect of outsourcing on organizational performance in the case of ethio telecom. Though, there are wide operations which are outsourced by the company the assessment area is delimited to some operations outsourced by the company and also only cost, productivity, profitability and flexibility organizational performance measurement parameters are used.

Therefore, any conclusion that will be drawn from this research is based on the above circumstances.

1.7. Limitation of the Study

This study is expected to have certain constraints. Obtaining required data that is accurate and consistent was a challenge as it is dependent on the subjective willingness of employees on the selected departments. The study was also limited to data obtained from 4 departments of the company only and the other department aspect as well as experiences has not been included considering the time and resource limit.

Furthermore, shortage of related literature and research works on the topic as well as in adequacy of associated works in Ethiopia context will be another limitation to this study.

1.8. Organization of the Paper

The paper is organized in to five chapters each dealing with different ideas for one common purpose. In chapter two, reviews of theoretical and empirical literatures were included to support the study. In chapter three; research design and methodology was briefly stated including the research type, population of the study, sampling method, sample size, data collection instrument and method of data analysis were included.

In chapter four a brief analyses and interpretation of data were supported by empirical or theoretical literatures. Under chapter five general summary of the paper, final conclusion and possible recommendations were included.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

This chapter is a review of existing literatures by other researchers which are relevant to the area of the research being conducted. It is the identification of existing information associated with the constructs ‘outsourcing’ and ‘companies’ performance’. More specifically, it is a documentation of available knowledge on some issues concerning the dependent and independent variables being discussed in this research. It is made up of: the theoretical framework which includes a review of various theories related to this research, and the conceptual framework which includes definitions, concepts, and terminologies related to the research study.

2.2.Theoretical Review

2.2.1. Concepts of outsourcing

Outsourcing is a process of obtaining goods and services by contract from an outside supplier. It is a management strategy by which an organization delegate’s major non-core functions to the specialized and efficient service provider, thereby saving time and money (Stroh and Treehuboff, 2003). It can also be termed as a contractual agreement between customers and one or more supplier to provide services or processes that the customer is providing in-house (Fan, 2000). It is an arrangement in which one company provides services to another company that could be or usually have been provided in-house (Nag, 2004). So, it is the transfer of business units/ functions to external service providers (Dibbernet *al.*, 2004) whereby, authority is delegated to another party for the provision of services under a business contract that incorporates service level agreements related to cost, quality and timely delivery of product and service.

2.2.2. Types of Outsourcing

There are three basic types of outsourcing as described by Mark et al (2006). The outsourcing forms include the following:

Business process outsourcing (BPO)

Knowledge process outsourcing (KPO)

Information technology outsourcing (ITO)

i. According to Thomas and Rick, (2005) business process outsourcing (BPO) is defined simply as the movement of business processes from inside the organization to an external service provider. With the global telecommunications infrastructure now well established and consistently reliable, BPO initiatives often include shifting work to international providers when organizational needs for outsourcing cannot be met locally. Mark et al (2006) pointed out that business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions (or processes) to a third-party service provider. It has to do with establishing a partnership with a single supplier or service providers.

ii. Knowledge process outsourcing (KPO) has to do outsourcing of core business activities which often are competitively important. Therefore KPO includes processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision-making. The concept of KPO is information driven. It means that it is a continuous process of creation and dissemination of information by bringing together the information industry leaders to create knowledge in an industry whose areas of involvement includes marketing, research and development, advertising and allied services (Agarwal, 2009).

iii. Information technology outsourcing (ITO) has to do with Information technology being perceived as a service or support function. Majorly it aims at reducing IT costs though outsourcing organizations retain strategic control. Multiple suppliers sourcing are not as concerned with partnerships as the aim is to foster innovation and create competition between suppliers, although suppliers will form alliances among themselves for bidding purposes (Whitfield, 2006).

Usually, contracts are short-term and a client then organizes a portfolio of services from various suppliers so that strategic control can be retained. Joint venture deals more with development of new knowledge for the client, also they advocate for shared risk and reward. Some organizations help promote creation of Supplier Company and maintain more control than they would have in a multiple supplier or total management. A more recent type of outsourcing is the ‘Application Service Provider’ model, where organizations purchase software use on an “as and when” basis (Kem, Kreijer, and Willcocks, 2002), as for organizations that see IT as core to their business, they keep the IT department and services in-house.

2.2.3. Reasons for Outsourcing

Looking through past research (Prasad and Prasad, 2007) posited that the drive for greater efficiencies and cost reductions has forced many organizations to increasingly specialize in a limited number of key areas. This has led organizations to outsource activities traditionally carried out in – house. Although the term outsourcing has become popular in recent years, organizations have always made decisions about determining their boundaries (Daniel, 2006). Outsourcing has been a key strategy used by companies in many industries for decades. Automotive companies have been outsourcing manufacturing operations, business services and even entire lines of business since the early 1980s (Prasad and Prasad, 2007).

More recently the contract manufacturing sector has developed with considerable outsourcing by electronic industry original equipment manufacturers (OEMs). Business processes such as information technology, logistics, human resources management, payroll, and certain elements of procurement have been outsourced (Agarwal, 2009).

Across the globe competitive pressures and need for quarter to quarter financial performance improvement are driving an increase in the magnitude of outsourcing across industries worldwide. Companies are establishing and executing outsourcing plans in order to match competitors in their outsourcing endeavors, improve non – competitive cost structures, focus on core competencies and reduce capital investment and overall fixed costs, achieve cost competitive growth in the supply base for goods, services and technologies in a company’s value chain, and establish a future sales footprint in a low – cost country by outsourcing simple goods or business processes. these factors are forcing companies to fully evaluate their outsourcing models to determine their validity in today’s highly competitive world (Kem, Kreijer and Willcocks, 2002).

2.2.4. Benefits of outsourcing

Outsourcing offers many incentives that can contribute to the firm's competitive advantage. With respect to cost, outsourcing may contribute to cost reduction by providing improved economies of scale, access to technologies, shared risk, and greater availability of time to devote to the development of core competencies (Ghodeswar and Vaidyanathan, 2008). These cost savings are likely to be especially in the delivery of administrative and transactional activities. In addition, by allowing the firm to purchase only the amount of consulting support needed, outsourcing can enhance flexibility as well as improve cost efficiency by turning some fixed costs into variable costs (Gill, 2007). Outsourcing also provides an opportunity to acquire specialized expertise and expert knowledge in areas where a firm's internal staff is deficient (Shy and Stenbacka, 2005). In similar manner, outsourcing helps to attain sustained competitive advantage by improving performance as well as freeing up of internal resources for core competencies.

Outsourcing is becoming known as a stimulator for higher levels of innovation throughout business practices and technology; it enables companies to utilize their resources to better promote their competitive advantage. An increasing need for IT solutions have made the investment in outsourced – information management based systems the single biggest cost variable in the corporate budget; thereby, the choice of the outsourcing partner is vital (Brooks, 2006). On the average, executives spend only 20% of their time managing customer relations and promoting their business, the remaining 80% is spent managing the details of their business and business processes. Employing an IT service provider enables executives to gain control over their time, promoting opportunities to explore new revenue streams and customer focus (the Network Connection). "Executives view outsourcing not as an alternative but as a necessity. The ultimate goal of outsourcing is providing superior products and services to customer and client" (Bard, 2004).

The number of companies involved in outsourcing from low ends, high end jobs to offshore destinations has increased to a very large extent so also the number of companies providing outsourcing services causing variety. Since firms increase in their experience and understanding of outsourcing as years go by with more companies outsourcing, it makes things much clearer therefore reducing the various risk that could be involved in outsourcing (Daniel, 2006).

The following are the advantages/benefits of outsourcing:

Increased Productivity- Employment of a large number of skilled manpower at low cost would result to increased productivity and customer satisfaction (Nonaka and Takeuchi, 1995).

Better Focus of Resources on Firm's Core Business- Companies want to spotlight their core competencies; they avoid getting entangled and wasting time performing task disadvantageous to those competencies so therefore back offices are critical for the firm's everyday activities, the operation of the back office requires high maintenance and specialized concentration. By outsourcing back office operations to a specialized third party company, business can focus on their major activities (Viming and Globerman, 1999).

Competitive Advantage- in recent times, for a company to retain its customers, provision of high quality services is of great importance. The company should also provide the services at cheap prices. Outsourcing in this case can help the company maintain lower rates with better service solutions, thereby giving them a better market position and competitive advantage. Organizations "obtain sustained competitive advantage by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses" (Brooks, 2006).

Cheaper World Class Technology- The high risky cost of investing in new technology due to the rapid development of technology has made it a complex thing to keep up with latest innovations and solutions. Thus companies can outsource the technology part to companies that have the resources, expertise and desire to continuously update their technological solutions, to save the cost and reduce the risk itself bears. Outsourcing resolves the problem of an ever-changing technology world and enables the executive to focus on promoting his core competencies (Thomas and Thomas, 2008).

Skilled Manpower- A firm can employ skilled and trained manpower at low rates by outsourcing which ultimately leads to increased productivity and low cost. Outsourcing the company also helps utilize the kind of expertise that could not be produced internally. Internal operations can be reduced by outsourcing if not the company will maintain it internally with higher costs (Farrell and Grant, 2005).

2.2.5. Challenges of outsourcing

Despite the rising popularity of outsourcing organizational activities, the practice is not without challenges. Risk and challenges typical in an outsourcing initiative, the following can be identified:

Displaced Employees

Thomas & Rick (2005) discovered that Outsourcing sometimes results in job losses, especially in cases where reducing head count is the objective. According to research, a large number of employees whose organizations outsource their business activities may have similar problems to those employees that have undergone downsizing, employees who are lucky to remain in the company after outsourcing believe that the possibilities of them staying in the company is low, because they could be the next in line to lose their jobs. Plans for redistribution of jobs should be implemented whenever possible, training and relocation of employees may be needed. Extreme caution must be exercised regarding displaced workers, company morale and public opinion. Contracts should include, whenever possible, the absorption of displaced workers by the vendor. The cost of displaced workers both qualitatively and quantitatively must be figured into the cost and analysis performed when outsourcing is considered as an option. Poor morale and stress are consequences of outsourcing. Organizations that outsource IT often must deal with unexpected cost such as lower productivity, added sick leave, and poor quality work. The cost of displaced workers and the effect on company morale may exceed the benefit of outsourcing project (Thomas & Rick, 2005).

Loss of Control

The contract agreed upon by the vendor and client, should be flexible enough to support contingencies and at the same time rigid enough to ensure that the outsourcing company's interests are protected because the contract is the key to loss of control. Without addressing issues in the service level agreement such as successful job completion rate, 24-hour response time and timely project completion and without clear guidelines, control cannot be maintained. Most control issues are as a result of lack of information. If the vendor and client do not communicate and establish a mutually beneficial partnership promoting each other's success, control problems increase (Thomas & Rick, 2005).

Loss of Business Knowledge

When knowledgeable staff people are eliminated or absorbed by the vendor, the accumulated know how and business knowledge goes with that staff member. Attempts in the future to return the process in-house will not have the benefit of key personnel with the needed knowledge on staff. Because knowledge is non-quantifiable, organizations fail to value this asset. The retention of corporate wisdom should be taken into account when considering the issue of outsourcing (Grossman, and Helpman, 2005).

Risk and Reversibility

Contracts always require a company to commit to services for an extended period of time, if the outsourcer is not satisfied with the service, it could be difficult to break the contract. It will be costly to reverse the situation and return the services in-house (Lumpkin and Dess, 2006).

Communication Problems

Communication failures are the biggest contributor to outsourcing project failures (IT convergence, 2003) language barriers are often present in the case of outsourcing, especially offshore outsourcing. The authors' personal experience contracting support personnel with outsourcers in partnership with various companies has resulted in difficulty understanding instructions due to language barriers (Rodriguez and Robaina, 2005).

Timeliness

When considering timeliness in outsourcing, it is a challenge. Whenever additional levels are added to the infrastructure, time becomes an issue; a third party vendor adds an additional layer. If there is a delay in delivering reports at an appropriate time to the client, it's a big problem (Farrell and Grant, 2005).

2.2.6. Organizational performance

Investorwords (2011) defines performance as the results of activities of an organization or investment over a given period. Lumpkin and Dess (2006) point out that it is essential to recognize the multidimensional nature of the performance construct. Thus, research that only considers a single dimension or a narrow range of the performance construct (for example, multiple indicators of profitability) may result in misleading descriptive and normative theory building. Research

should include multiple performance measures. Such measures could include traditional accounting measures such as sales growth, market share, and profitability. In addition, factors such as overall satisfaction and non-financial goals of the owners are also very important in evaluating performance, especially among privately held firms. This is consistent with the view of Zahra (2009) that both financial and non-financial measures should be used to assess organizational performance.

Chong (2008) declares that there are four main approaches to measure the performance of organizations. These are the goal approach, system resource approach, stakeholder approach and competitive value approach. The goal approach measures the extent an organization attains its goals while the system resource approach assesses the ability of an organization obtaining its resources. For the stakeholder approach and the competitive value approach, these evaluate performance of an organization based on its ability to meet the needs and expectations of the external stakeholders including the customers, suppliers, competitors. Among these, goal approach is most commonly used method due to its simplicity, understandability and internally focused. Information is easily accessible by the owner's managers for the evaluation process (Chong, 2008).

According to Richard et al. (2008), the goal approach directs the owners-managers to focus their attentions on the financial (objective) and non-financial measures (subjective). Financial measures include profits, revenues, returns on investment (ROI), returns on sales and returns on equity, sales growth, and profitability growth. Non-financial measures include overall performance of the firm relative to competitors, employment of additional employees, customer satisfaction, employee satisfaction, customer loyalty, brand awareness and owner's satisfaction with way the business is progressing (Richard et al., 2008).

2.2.7. Outsourcing and organizational Performance

Highly strategic activities are valuable, unique and therefore needs to be performed in house, whereas non-core critical activities are the main component of outsourcing (Rodriguez and Robaina, 2005). Strategic sourcing leads to greater emphasis on sourcing capability and positively impacts organization performance (Su and Gargeya, 2012). Kotabe, (1990) revealed that outsourcing of peripheral activities can increase organizational performance. According to Gilley

and Rasheed, (2000) organizational performance increase due to three reasons. First, reduced peripheral activities allow organizations to focus on other major activities. This heightened focus on core competencies may greatly enhance organization performance by allowing the organization to become more innovative and agile in its core domain. Secondly, outsourcing peripheral activities may greatly improve the quality of activities being outsourced. Specialist organization (service provider), by focusing their attention on a narrow set of functions; perform them much more successfully than the outsourcing organization. Finally, outsourcing peripheral activities to the lowest cost supplier may lead to incremental improvements in an organization's overall cost position. Therefore, by pursuing intense peripheral outsourcing activities, organizations' activities achieve higher levels of performance relative to organizations that do not outsource their peripheral activities (Gilley and Rasheed, 2000). As vendors are expert, have the latest technology, benefits of economies of scale, have lower production cost. So, they are able to provide services at lower cost, which in turn results in better organization performance (Kotabe, 1990). Lopez (2014) and Suraju and Hamed (2013) concluded that outsourcing intensity has a positive effect on productivity. On the other hand Mishra and Mahanty (2014) revealed that there is a drop in the overall team productivity in an outsourcing environment by considering the offshore options. But the project cost can be reduced by employing the offshore team for coding and testing work only with minimal training for imparting business knowledge. The research results show that there is a potential to save project cost by being flexible with project schedule (Mishra and Mahanty, 2014).

Prahalad and Hamel (1990); Kotabe (1990) indicated that outsourcing of core activities lowers the organization performance, whereas Gilley and Rasheed, (2000) revealed that peripheral outsourcing will have the positive effect on organization performance. Jiang *et al.*, (2006) found that outsourcing is positively related to organization's profitability. Hence it can be concluded from above discussion that outsourcing significantly affects organizational performance. Further, outsourcing of non-core critical activities and non-core non-critical activities positively affects organizational performance but outsourcing of core-critical activities negatively affect organizational performance (Jiang *et al.*, 2006).

2.2.8. Outsourcing and cost efficiency

Cost Reduction

Some authors support the argument that the main motivation for outsourcing is found to be cost reduction (Altinkemer et al. 1994, Gilley & Rasheed 2000). This is because paying for outsourcing generally costs less than maintaining equivalent services in-house. According to Malhotra (1995), factors that affect outsourcing decisions are reduction in operating costs, cost predictability due to fixed contract, sharing risk on technology investments, access to specialized expertise, and perception of efficiency (Malhotra, 1995).

Successful implementation of an outsourcing strategy has been credited with helping to cut cost (Bowersox 1990; Gupta and Zeheuder 1994; Greer, Youngblood and Gray 1999). The literature articulates numerous reasons for outsourcing: reduced costs, higher quality, increased capacity, etc... (Kotabe, 1989; Bettis, Bradley, and Hamel, 1992; D'Aveni and Ravenscraft, 1994; LaLonde, 2004; Linder, 2004; Bardhan, Whitaker, and Mithas, 2006; Jiang, Frazier and Prater, 2006; Deloitte Consulting, 2008; Kumar and Arbi, 2008). Elliot (2006) states that, “in most cases the objective of outsourcing is a targeted 20% cost reduction, with actual savings coming from direct labor and variable costs”.

Converting fixed costs into variable costs

Kotabe (1989) argued that cost-cutting may not be the only reason to outsource, but it is certainly a major factor. Outsourcing converts fixed costs into variable costs, releases capital for investment elsewhere in your business, and allows you to avoid large expenditures in the early stages of your business. Outsourcing can also make your firm more attractive to investors, since you are able to pump more capital directly into revenue-producing activities.

Focusing human resources

According to Bettis, Bradley, and Hamel (1992), hiring and training staff for short-term or peripheral projects can be very expensive, and temporary employees don't always live up to your expectations. Outsourcing lets you focus your human resources where you need them most. Linder (2004) argued that most small firms simply can't afford to match the in-house support services that larger companies maintain. Outsourcing can help small firms act "big" by giving them access to the same economies of scale, efficiency, and expertise that large companies enjoy.

Cost-effective

Why do senior managers sometimes prefer to entrust outside firms with critical tasks? The fact is, senior management often finds outside firms to be more cost-effective. While middle managers often claim, they can hire a person to do it cheaper, upper management looks at things differently. They know they will typically pay at least less per hour to outsource, but they also know the job will be done on time and in a predictable fashion. If it is not, they can get somebody else without going through the hassles of hiring and firing employees. The vision, function, and economics drive the need for outsourcing (O'Connor, 2001).

Making or buying intermediate inputs

Essentially outsourcing addresses the issue as to whether a firm should make or buy intermediate inputs; an issue that has a long tradition in economics, dating back to the seminal work by Coase (1937) on the boundaries of a firm. Since then, a large body of literature has been concerned with analyzing the determinants of this "make-or-buy decision", focusing on the role of incomplete contracts, specific assets and transactions costs (Bolton & Whinston, 1993). Concisely, firms would prefer to "buy" as opposed to "make" as long as the cost of outsourcing is lower than in-house production. Hence, outsourcing can be used to economize on production cost, in particular labor cost (Abraham & Taylor, 1996) by substituting in-house production with the buying-in of components. The cost of outsourcing is not only determined by the price of the bought-in components, but also by transaction costs due to transport and incomplete contracting costs, and the possible implications of asset specificity for supplier and/or customer (Abraham & Taylor, 1996).

Cost efficiency

Firms should consider outsourcing when it is believed that certain support functions can be completed faster, cheaper, or better by an outside organization (Barthelemy & Adsit, 2003). Tasks that are not core competencies of the organization are candidates for being contracted out. However, any skill or knowledge that allows an organization to serve its customer base better, that deals directly with the product or service it is trying to put out of the door, is one that must remain in-house. Cost efficiency remains the primary explanation for the development of outsourcing. Firms evaluate outsourcing to determine if current operation costs can be reduced and if saved resources can be reinvested in processes that are more competitive. Some researchers contend that an important source of cost reductions is the outsourcing firm's access to economies of scale and the unique expertise that a large outsourcing vendor can deliver, all of which in turn will serve to boost the Organizational performance (Bin, 2004).

2.2.9. Outsourcing and productivity

Enhancing productivity

Outsourcing is viewed as a means to provide enhanced productivity. However, many organizations never realize the full benefits of an outsourcing relationship. Outsourcing relationships fail when they are viewed as short-term or tactical solutions, rather than part of long-term strategic plans. The process of considering and/or implementing an outsourcing solution must be systematic and fully documented to achieve the desired results. A multi-step approach, including Planning, Analysis, Design, Implementation, and Operations phases, along with a contingency exit strategy, is required to achieve a successful outsourcing implementation (Abraham & Taylor, 1996).

Returns to production

Discussions about the extent of outsourcing have raised questions about its possible impact on productivity measures. In a recent survey, 56 percent of IT specialists claimed that outsourced work was at least inferior to that produced in-house. More worryingly, 11 percent reported that the outsourced work actually induced a setback to the firm's production (Software Development Magazine, January 2004 issue). Accordingly, in the popular press one appears to have arrived at a

point where experts begin to question the validity of outsourcing as a long-term strategy or even short-term as a cost reduction exercise. Görzig and Stephan (2002) used German data for a sample of large companies to examine the benefits of outsourcing. They found that firms that engage in outsourcing experience benefits, in terms of increased returns per employee (Görzig and Stephan, 2002).

Capacity/quality

Contrary to the above authors, it has established that successful implementation of an outsourcing strategy has been credited with helping to increase capacity, improve capacity, and improve quality (Lau and Hurley 1997; Kotabe, Murray and Javalugi 1998). According to D'Aveni and Ravenscraft (1994), every business has limited resources, and every manager has limited time and attention. Outsourcing can help your business to shift its focus from peripheral activities toward work that serves the customer, and it can help managers set their priorities more clearly. According to Elmuti (2003), personnel expenses were the primary reason behind outsourcing; however, it also improves operating efficiency.

2.2.10. Outsourcing and profitability

Value enhancing

A fundamental question to ask is whether outsourcing is value enhancing and, in particular, whether the firm that undertakes outsourcing shows higher profitability as a result. Essentially this question renders down to the transactions cost question regularly posed: should a firm manufacture its own inputs by some form of vertical merger or should it seek to obtain possibly more competitively priced inputs on the open market? To the best of some researchers' knowledge, there are only a very limited number of more rigorous statistical or econometric studies looking at this issue. The evidence that has been produced in such papers, however, suggests that the value-enhancing link between outsourcing and profitability is not clearly established. Specifically, Kimura (2002) did not find any evidence that outsourcing led to higher profits in Japanese manufacturing firms. Differentiating between outsourcing of services and non-services inputs, Görzig and Stephan (2002) found that outsourcing of materials is positively correlated with profits,

while there is a negative relationship between profitability and outsourced services for a sample of German manufacturing firms. The evidence that has been produced in such papers, however, suggests that the value-enhancing link between outsourcing and profitability is not clearly established. Specifically, Kimura (2002) does not find any evidence that subcontracting leads to higher profits in Japanese manufacturing firms. Differentiating between outsourcing of services and non-services inputs, Görzig and Stephan (2002) find that outsourcing of materials is positively correlated with profits, while there is a negative relationship between profitability and outsourced services for a sample of German manufacturing firms.

Increasing competition

In today's world of ever increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets (Bender, 1999; Quinn, 2000).

Profitability margin

Lau and Hurley (1997) find a significant relationship between outsourcing and profitability margin where they found that Chrysler's profit margin is four times as high as that of General Motors (GM) due to effective outsourcing through strategic alliances. Kimura (2002) discovers that poorly performing firms (low surplus to sales and low value added to sales) are more likely to use subcontractors, in an analysis of the Japanese machinery manufacturing industry. He concludes that profits are highest for those firms that do not get involved in any type of subcontracting, whether as a supplier or as an outsourcer. These results, accordingly, are in line with the findings for Germany by Görzigand (2002). Holger, G. & Aoife, H. (2004) analyzed empirically the relationship between outsourcing and profitability at the level of the plant, using data for the electronics sector in the Republic of Ireland. Their results suggested that the profit/outsourcing relationship depends on characteristics of the plant, in particular its size. They found that plants that were substantially larger than the mean employment size benefited from outsourcing materials inputs, while this did not appear to be the case for small plants. Within their empirical analysis they were not able to explain this size disadvantage, although they could speculate on the basis of the theoretical work by Grossman and Helpman (2002) that this reflected higher transaction costs

for small plants. In particular, they may face lower bargaining power vis-à-vis suppliers and/or higher costs in searching for adequate suppliers. The benefits from services outsourcing are less clear-cut, however. When interpreting these results one needs to keep in mind that their empirical methodology implied that they were essentially analyzing short run effects. Due to the relatively short period of data covered, they were unable to examine the long run effects of outsourcing on profitability. Motivated by the benefits to outsourcing claimed by some practitioners and the corresponding lack of any direct evidence as to the truth behind these assertions, this study aims to establish whether outsourcing does indeed raise profitability (Grossman and Helpman, 2002).

2.2.11. Outsourcing and flexibility

The term flexibility has been given a variety of meanings (Atkinson, 2007; Brunhes, 2009) although an often used typology breaks the concept into three forms (Harrison and Kelley, 2003). Functional flexibility refers to the ability of the enterprise to re-deploy labor to cover new work tasks or new production methods. The second form is wage flexibility, in which the enterprise attempts to link wage payments to productivity and product demand. Finally, numerical flexibility is the ability to adjust labor inputs to product demand. Outsourcing contributes to all forms of flexibility; wage, functional and numerical. Outsourcing involves 'the purchase of goods or services that was previously provided internally' (Lacity and Hirschheim, 2003).

Thus, management by outsourcing can achieve considerable flexibility as payment is made only for work undertaken and completed, the tasks undertaken are contract-related and not craft-related, and worker numbers can be adjusted to the requirements of the plant. This last issue is particularly relevant to those firms that experience fluctuations in demand for their major product or service. By outsourcing enterprises are free to direct the released physical, managerial and financial resources to producing a quality product or service at a competitive price. Outsourcing can thus be a form of strategic flexibility where the firm adopts a different form of workplace organization in an endeavor to improve enterprise performance (Grossman and Helpman, 2002).

2.3. Conceptual framework

The preceding discussion provides a basis to the research framework. It identifies an outsourcing variable and dependent variables including cost, profitability, productivity and flexibility of organizational performance indicators. The casual linkages among these variables are assumed to

influence organizational performance. The research model views these variables as important elements of effective outsourcing strategy and linked to organizational performance as shown in Figure 1.

Independent Variables

Dependent Variable

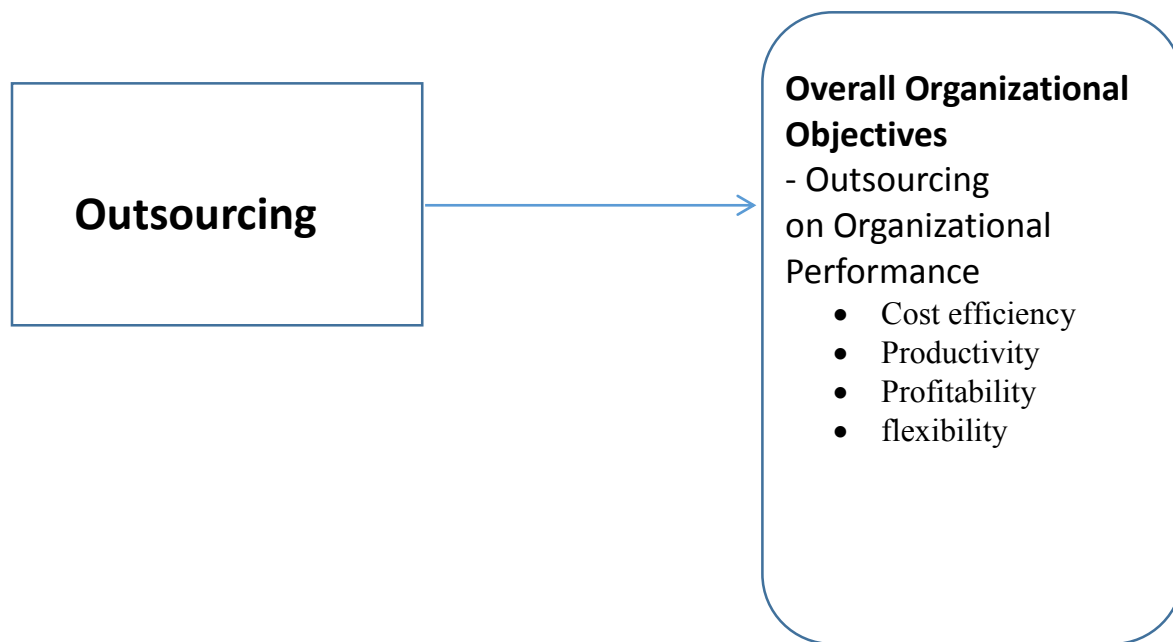


Figure 2-1. Conceptual framework of the study

Source: Modified from Narasimhan & Jayaram, 1998; Kennedy, et al., 2002; Judge & Dooley, 2005; Geyskens, et al., 2006; Kumar & Eickhoff, 2006; Bolumole, et al., 2007.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1.Introduction

The aim of this chapter was to identify and explain the procedures involved in sourcing and analyzing data relevant to this study. This includes the research design, target population, data collection tools to be used and data collection technique, and data analysis method and presentation.

3.2.Research design

Research Design is an arrangement of conditions for collecting and analyzing data which will be relevant to the researcher in the most economical manner. It is the program that guides the researcher in the process of collecting, analyzing and interpreting an observation. It also defines the domain of generalization; that is, it indicates whether the obtained interpretation can be generalized to different situation or not (Amoani, 2005). The research design used in the study was descriptive survey. According to Avoke (2005), descriptive surveys are designed to portray accurately the characteristics of particular individuals, situations, or groups.

Surveys sample population in order to discover the incidence of, and the interrelations among sociological, psychological and educational variables. Its purposes were to identify present conditions and to point to current needs. It is used as needs assessment tool to provide information on which to base sound decisions and to prepare the background for more constructive program of educational research. It also serves as foundation for more vigorous and precise investigation. The data gathered in a survey are usually responses to predetermine questions that are asked of respondents (Alhassan, 2006). Burns (1999) also notes that descriptive design involves collecting data in order to answer questions concerning the current status of the subject of study.

3.3.Target population

A population refers to all people or items with the characteristic one wishes to understand which may be tangible or intangible. Trochim (2006) puts in a simpler way form by defining population as the group in which a researcher wants to pick a sample from in order to make generalizations.

For the purpose of this research, the study population refers to the entire number of employees in the 4 selected departments of ethio telecom namely: strategic planning, marketing (specifically sales), sourcing and facility, and customer service (specifically back office). The study population include employees of both genders, various age groups and educational qualifications, and employees at various levels of management.

3.4. Sample Size Determination

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. The sampling frame for any probability sample is a complete list of all the cases in the population from which a sample is drawn (Saunders et al., 2007). A sample is a smaller and more accessible sub set of the population that adequately represents the overall group, thus enabling one to give an accurate (within acceptable limits) picture of the population as a whole, with respect to the particular aspects of interests of the study.

There are several sample size determination techniques, however, for this study, it is determined using Yamane formula (1973). This formula is concerned with applying a normal approximation with a confidence level of 95% and a limit of tolerance level (error level) of 5%.

To this extent the sample size is determined by $[n]$

Where: n = the sample size

N = population

e = Precision level

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

$$= \frac{767}{1 + 767(.05)^2}$$

= 263 respondents

A sample size of two hundred sixty three (263) employees out of the seven hundred sixty seven (767) employee population of the selected departments (strategic planning (15), marketing and sales (specifically sales) (200), sourcing and facility (300) and customer service (specifically Back office) (252)) as calculated above. All members of the population had equal chances to be chosen as part

of the sample because two hundred sixty three (263) questionnaires were administered randomly to the entire employee population of the 4 departments.

3.5.Sampling technique

According to Osuala (1982), sampling techniques makes possible the conduct of otherwise impossible studies by selecting representative units from the population, so results can be used to draw inferences about the total population. Sampling techniques used in data collection from respondents include;

For this study, the purposive sampling technique was adopted for selecting the four departments as the sample frame to represent the entire departments of the company. Sample respondents were drawn from the four departments and the survey questionnaires were administered through a simple random sampling based on proportional probability sampling techniques.

3.6.Source and Tools/Instruments of Data Collection

The data used for this study were obtained from primary sources of ethio telecom 4 department (strategic planning, marketing and sales (specifically sales), sourcing and facility and customer service (specifically Back office)) employees where their all or part of operation is outsourced to external firms. The primary data was gathered using questionnaire for staffs of selected departments which were presented to respondents to express their views, opinions, and observations on the basis of the research questions.

The questionnaire includes two parts; the first category is made up of personal data of respondents. Their; sex, age group, educational qualification, position occupied in the company and years of work experience. The second category is the body of the questionnaire that includes all questions relevant to this research. The Likert-scale was used to measure opinions, where for positive questions (Strongly Agree = 5, Agree = 4, Neutral = 3, Disagree = 2, Strongly Disagree = 1), and for negative questions (Strongly Agree = 1, Agree = 2, Neutral = 3, Disagree = 4, Strongly Disagree = 5).

3.7.Validity of the Instruments

Validity indicates the degree to which instruments measure what they are supposed to measure (Kothari, 2004). Content validity was most relevant for our present study. This was because it was concerned with how well the content of the instrument samples the kinds of things about which conclusions were to be drawn. Joppe (2000) further argues that content validity refers to the extent to

which a measure represents all facets of a given social construct. To establish content Validity of the instruments, two experts from strategic planning departments of ethio telecom examined the content of the instruments and advised the researcher on the content validity. Their feedback was used to revise the instruments.

3.8.Procedures of Data Collection

The researcher required permission from different departments of ethio telecom for filling the questionnaire and, the permission for the survey was granted by the respective managers. After the permission is granted, the questionnaires were distributed to the respondents through hard copy. The survey pack included a copy of the cover letter, and the questionnaire. The Collection of responded questionnaire were started after a week from date of paperwork and continued for a month.

3.9.Methods of Data Analysis

Quantitative data was analyzed using descriptive analysis in form of percentages and frequencies. Data analyzed descriptively was presented in tables because they gave a systematic record of analysis in an easy to understand format. Quantitative data was analyzed using descriptive analysis in form of percentages, mean and frequencies and the Social Package for Statistical science (SPSS) software aided in data analysis.

3.10. Ethical Consideration

Respondents are assured that the information they provide is confidential and used for academic purpose only, moreover a statement conforming the prohibition of including any identity details or personal references in the questionnaire. This was to avoid any biased response or unauthentic data provided by respondents and to make participants certain that he/she cannot be traced; this would offer them enough room to express their ideas and point their responses freely and safely.

The data gathered in process of the study was kept confidential and would not be used for any personal interest and the whole process of the study. The study was controlled to be within acceptable professional ethics.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1. Analysis and Discussion - Questionnaire Result

As it is stated in the previous chapter, questionnaires were developed and distributed for respondents who are employees of ethio telecom specifically 4 departments of the company: strategic planning, marketing and sales (specifically sales), sourcing and facility, and customer service (specifically back office). Among the 263 questionnaires distributed to respondents, 234 were filled and returned.

A response rate of 91.7% was arrived at using the following formula provided by Welman (2007:74):

$$\text{Response Rate} = \frac{\text{Number of Complete Surveys}}{\text{Number of Participants Contacted}} = \frac{234}{263} = 0.889$$

Thus, out of the 100% questionnaires distributed, 89% were filled and returned. Therefore, the rest of this Chapter presents the results of the analysis of the data obtained from the questionnaire. The results of the questionnaire are split into two groups, namely (1) Profiles/Characteristics of the respondents; (2) Descriptive Analysis of Variables. The completed questionnaires were coded and the responses captured in Excel and then exported into SPSS 20 version (a statistical software program) by the researcher. The results of the data are provided below.

4.1.1. Characteristics of Respondents/ Profile of the Respondents

The respondents have been selected to ensure that they are from different departments in ethio telecom. Selecting people from different departments of the different divisions provided more comprehensive information.

The results pertaining to the general information on respondents as obtained from section 1 of the questionnaire (Appendix), are outlined below.

I. Gender of respondents

		gender			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	126	53.8	53.8	53.8
	Female	108	46.2	46.2	100.0
	Total	234	100.0	100.0	

Table 4 -1 Gender of respondents

As shown above in table 4.1, among the respondents 126(53.8%) were male and the remaining 108(46.2%) were female. This shows that the majority of the respondents were male. This is basically done to incorporate the views of both genders in the study in proportion to their number in the selected departments.

II. Age of respondents

		age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	84	35.9	35.9	35.9
	31-40	130	55.6	55.6	91.5
	41-50	20	8.5	8.5	100.0
	Total	234	100.0	100.0	

Table 4 -2 Age of respondents

With regard to age category 84(35.9%) were between 20 and 30, 130(55.6%) were between 31 and 40 years, 20(8.5%) of them 41 to 50 years old. The age factor is considered in the study due

to the fact that it has mostly direct relation with service year in the company with which the understanding of the company’s culture and work ethics accumulated.

III. Educational level

educational level					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	Diploma	34	14.5	14.5	14.5
	Degree	182	77.8	77.8	92.3
	Masters	18	7.7	7.7	100.0
	Total	234	100.0	100.0	

Table 4 -3 Educational level

As shown above in table 4.3, among the respondents 34(14.5%) were diploma holders, 182(77.8%) were first degree holders and the rest 18(7.7%) were Masters Holders. This factor is considered as with analytical power increases with education level and hence to gain advantage of it.

IV. Years of experience in ethio telecom

years of experience in ethio telecom					
	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	below 5	48	20.5	20.5	20.5
	5-10 years	87	37.2	37.2	57.7
	11-15 years	64	27.4	27.4	85.0
	Above 15 years	35	15.0	15.0	100.0
	Total	234	100.0	100.0	

Table 4 -4 Years of experience in ethio telecom

As we can see from the above table, 48(20.5%) of respondents had below 5 years of experience, 87(37.2%) had between 5 to 10 years of experience, 64(27.4%) had between 11 to 15 years of experience and the rest 35(15%) the respondents had above 15 years of experience. This factor is directly associated with the age factor and has similar justification.

4.1.2. Descriptive Analysis

4.1.2.1. Reliability Test

Reliability analysis refers to the test for consistency of respondents' answers to all the items in a measure, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subject. In short, it reflects the degree that items are independent measures of the same concept; they will be correlated with one another. The appropriate test for reliability is inter-item consistency reliability which is popularly known as the Cronbach's coefficient alpha which is used for multi-point-scaled items. As Bryman (2003) explained reliability is "the consistency of a measure of a concept". It is concerned with the extent to which any measuring procedure yields the same results on repeated trials (Carmines and Zeller, 1979). Reliability is essential to ensure that the research findings are dependable and reliable. Therefore it is important to ensure that if another researcher does this case, he or she will come to the same conclusion.

Internal consistency testing measures the agreement between the results of different questions measuring the same construct (Stevens, 2002). Many internal consistency measures can be applied; Cronbach's alpha is a common technique used to measure internal reliability of a set of two or more construct indicators or multiple item measures (Bryman, 2003).

A researcher has devised a questionnaire to assess employee perception on ethio telecom's performance after outsourcing. Each question was a 5-point Likert scale item from "strongly disagree" to "strongly agree".

To purify and test the internal reliability of the data obtained from the questionnaire, Cronbach's alpha test was used as suggested by Stevens (2002) on a sample size of 234 observations.

No.	Variable	No. of item	Cronbach's alpha
1	Cost efficiency	5	0.661
2	Productivity	5	0.714
3	Profitability	5	0.737
4	Flexibility	4	0.830

Table 4 -5 Cronbach's alpha scores for variables

The alpha coefficient for effects of outsourcing on cost efficiency, on productivity, on profitability and flexibility are 0.661, 0.714, 0.737 and 0.830 respectively suggesting that the variables have relatively high internal consistency on productivity, profitability and flexibility items and relatively low on cost efficiency item. The internal consistency can also be considered to be satisfactory for all factors (Cronbach Alpha; $\alpha > .7$) (Sekaran, 2003). Note that a reliability coefficient of .70 or higher is considered as "acceptable" in most social science research situations. The Cronbach's (α) values were used to measure the reliability of the instrument which approximately exceeded the recommended critical point of 0.70 (Hair, 2008), indicating good internal- consistency reliability.

4.1.2.2. Descriptive Statistics of Variables

The researcher has used the following notations for level of agreements; 1 -Strongly Disagree, 2 - Disagree, 3 -Neutral, 4 -Agree and 5 - Strongly Agree.

Item no.	Cost efficiency and outsourcing	1	2	3	4	5	Total
1.	Outsourcing enables the company to obtain economy of scale in terms of achieving a return on equipment related fixed costs, as distribution costs over many customers.	1 (0.4%)	7 (3%)	106 (45.3%)	107 (45.7%)	13 (5.6%)	234 (100%)
2.	Outsourcing enables our company to transfer its fixed cost to variable cost.	0 (0%)	9 (3.8%)	71 (30.3%)	133 (56.8%)	21 (9%)	234 (100%)
3.	Outsourcing enables our company to reduce the need to make capital investments in new technologies.	0 (0%)	7 (3%)	108 (46.2%)	82 (35%)	37 (15.8%)	234 (100%)
4.	Outsourcing enables our company to obtain skilled labor at a lower cost.	2 (0.9%)	8 (3.4%)	81 (34.6%)	102 (43.6%)	41 (17.5%)	234 (100%)
5.	Outsourcing has helped this organization to be more efficient.	1 (0.4%)	7 (3%)	102 (43.6%)	100 (42.7%)	24 (10.3%)	234 (100%)

Table 4 -6 Findings about cost efficiency and outsourcing

As it is shown in the above table, it is evidently clear that majority at 51.3% agreed that outsourcing enables the company to obtain economy of scale in terms of achieving a return on equipment related fixed costs, as distribution costs over many customers. Only 3.4% disagreed and 45.3% were neutral. This implies that outsourcing enables ethio telecom to obtain economy of scale in terms of achieving a return on equipment.

Fewer respondents 3.8% opposed the statement that outsourcing enables our company to transfer its fixed cost to variable cost as compared to those who concurred 65.8% while 71% were neutral. This implies that in most cases, outsourcing enables ethio telecom to transfer its fixed cost to variable cost.

Fewer respondents 7% opposed the statement that outsourcing enables our company to reduce the need to make capital investments in new technologies as compared to those who concurred 50.8% while only 46.2% were neutral. This implies that in most cases, outsourcing enables ethio telecom to reduce the need to make capital investments in new technologies.

The respondents were asked outsourcing enables our company to obtain skilled labor at a lower cost. On this, 61.10% agreed, 4.3% disagreed and only 34.6% were neutral. This implies that outsourcing enables ethio telecom to obtain skilled labor at a lower cost.

The respondents were asked outsourcing has helped this organization to be more efficient. On this, 53% agreed, 3.4% disagreed and only 43.6% were neutral. This implies that outsourcing has helped ethio telecom to be more efficient.

	Productivity and outsourcing	1	2	3	4	5	Total
1.	Outsourcing has helped this organization has increased productivity.	1 (0.4%)	7 (3%)	102 (43.6%)	100 (42.7%)	24 (10.3%)	234 (100%)
2.	Performance per employee in this organization has increased due to outsourcing.	4 (1.7%)	7 (3%)	98 (41.9%)	101 (43.2%)	24 (10.3)	234 (100%)
3.	Outsourcing has helped this organization to improve capacity.	0 (0%)	7 (3%)	112 (47.9%)	79 (33.8%)	36 (15.4%)	234 (100%)
4.	Outsourcing has helped this organization to improve quality of its products/services	0 (0%)	3 (1.3%)	95 (40.6%)	110 (47%)	26 (11.1%)	234 (100%)
5.	Outsourcing has helped this organization help employees set their priorities more clearly	0 (0%)	8 (3.4%)	82 (35%)	103 (44%)	41 (17.5%)	234 (100%)

Table 4 -7 Findings about productivity and outsourcing

As it is shown in the above table, 0.4%, 3%, 43.6%, 42.7% and 10.3% of the respondents replied strongly disagree, disagree, neutral, agree, and strongly agree respectively on outsourcing has helped ethio telecom has increased productivity. This implies that outsourcing has helped ethio telecom to increase its productivity.

For the second category of question, 1.7% of the respondents strongly disagree, 3% disagreed, 41.9% neutral, 43.2% agreed and 10.3% are strongly agreed that Performance per employee in this organization has increased due to outsourcing. This means most of the respondents averagely satisfied with performance per employee in ethio telecom has increased due to outsourcing.

Among the respondents, 3 % disagreed, 47.9% neutral, 33.8% agreed, and 15.4% strongly agreed on the topic of outsourcing has helped this organization to improve capacity. Which shows most of the respondents are in between about on outsourcing has helped ethio telecom to improve capacity.

On the question of outsourcing has helped this organization to improve quality of its products/services, 1.3% disagreed, 40.6 % neutral, 47% agreed, and 11.1% strongly agreed. This shows that outsourcing has helped ethio telecom to improve quality of its products/services.

Regarding the question outsourcing has helped this organization help employees set their priorities more clearly, 3.4% disagreed, 35% neutral, 44% agreed, and 17.5% strongly agreed. This implies that outsourcing has helped ethio telecom help employees set their priorities more clearly.

	Profitability and outsourcing	1	2	3	4	5	Total
1.	Outsourcing has helped this organization to increase value of its products/services.	1 (0.4%)	21 (9%)	76 (32.5%)	93 (39.7%)	43 (18.4%)	234 (100%)
2.	Outsourcing has helped this organization to increase its profits.	3 (1.3%)	14 (6%)	79 (33.8%)	93 (39.7%)	45 (19.2%)	234 (100%)
3.	Outsourcing has helped this organization to expand into other markets.	1 (0.4%)	14 (6%)	93 (39.7%)	91 (38.9%)	35 (15%)	234 (100%)
4	Outsourcing has helped this organization to become more competitive in the market.	1 (0.4%)	10 (4.3%)	80 (34.2%)	110 (47%)	33 (14.1%)	234 (100%)
5.	Outsourcing has helped this organization to increase its sales.	0 (0%)	17 (7.3%)	58 (24.8%)	98 (41.9%)	61 (26.1%)	234 (100%)

Table 4 -8 Findings about profitability and outsourcing

From Table 4.8, it is clear that majority at 58.1% agreed, 9.4% agreed and 32.5% were neutral for the question outsourcing has helped this organization to increase value of its products/services. This implies that outsourcing has helped ethio telecom to increase value of its products/services.

When asked outsourcing has helped this organization to increase its profits, 7.3% disagreed, 58.9% agreed and 33.8% were neutral. This implies that majority of workers were agreed on outsourcing has helped ethio telecom to increase its profits.

The respondents were then asked outsourcing has helped this organization to expand into other markets. On this, 53.9% of respondents agreed, 6.4% disagreed and 39.7% were neutral. This is a positive indication that outsourcing has helped ethio telecom to expand into other markets.

When asked outsourcing has helped this organization to become more competitive in the market, 61.1% agreed, 4.7% disagreed, and 34.2% were neutral. This implies that outsourcing has helped ethio telecom to become more competitive in the market.

The respondents were asked outsourcing has helped this organization to increase its sales. The result shows that 68% agreed, 7.3% disagreed and 24.8% were neutral. This implies that outsourcing has helped ethio telecom to increase its sales.

	Flexibility and outsourcing	1	2	3	4	5	Total
1.	Outsourcing allows operational changes exceeding projected capacity on existing service delivery, i.e., service volume fluctuation, urgent or special case processing.	0 (0%)	17 (7.3%)	70 (29.9%)	105 (44.9%)	42 (17.9%)	234 (100%)
2.	Outsourcing allows alternation of attributes of its existing services in addressing changing business requirements, e.g., alternation of processing workflow or business rule.	2 (0.9%)	19 (8.1%)	80 (34.2%)	96 (41%)	37 (15.8%)	234 (100%)
3.	Outsourcing allows the addition of entirely new services to address radical changes or shifts in business patterns e.g., new government regulations, technological revamps, and process innovations.	1 (0.4%)	9 (3.8%)	77 (32.9%)	103 (44%)	44 (18.8%)	234 (100%)
4.	Outsourcing allow transfer of services to other vendors, or to be brought in-house, e.g., premature termination, vendor instability, or pricing disagreement or dispute.	1 (0.4%)	8 (3.4%)	61 (26.1%)	96 (41%)	68 (29.1%)	234 (100%)

Table 4 -9 Findings about flexibility and outsourcing

As it is shown in the above table, it is evidently clear that majority at 62.8% agreed that outsourcing allows operational changes exceeding projected capacity on existing service delivery, i.e., service volume fluctuation, urgent or special case processing. Only 7.3% disagreed and 29.9% were neutral. This implies that outsourcing allows ethio telecom on operational changes exceeding projected capacity on existing service delivery, i.e., service volume fluctuation, urgent or special case processing.

Fewer respondents 9% opposed the statement that outsourcing allows alternation of attributes of its existing services in addressing changing business requirements, e.g., alternation of processing workflow or business rule as compared to those who concurred 56.8% while 34.2% were neutral. This implies that in most cases, outsourcing allows ethio telecom on alternation of attributes of its

existing services in addressing changing business requirements, e.g., alternation of processing workflow or business rule.

Fewer respondents 4.2% opposed the statement that outsourcing allows the addition of entirely new services to address radical changes or shifts in business patterns e.g., new government regulations, technological revamps, and process innovations as compared to those who concurred 62.2% while only 32.9% were neutral. This implies that in most cases, outsourcing allows ethio telecom the addition of entirely new services to address radical changes or shifts in business patterns e.g., new government regulations, technological revamps, and process innovations.

The respondents were asked outsourcing allow transfer of services to other vendors, or to be brought in-house, e.g., premature termination, vendor instability, or pricing disagreement or dispute. On this, 70.1% agreed, 3.8% disagreed and only 26.1% were neutral. This implies that outsourcing allows ethio telecom on transfer of services to other vendors, or to be brought in-house, e.g., premature termination, vendor instability, or pricing disagreement or dispute.

4.1.2.3. Descriptive Analysis of the Organizational Performance after outsourcing items

Descriptive Statistics					
Performance indicators	N	Minimum	Maximum	Mean	Std. Deviation
cost	234	3	5	3.71	.547
productivity	234	2	5	3.59	.574
profitability	234	2	5	3.71	.598
flexibility	234	2	5	3.77	.688
Valid N (listwise)	234				

Table 4 -10 Mean and Standard Deviation of Variables

A descriptive analysis (means) of relations between Outsourcing and ethio telecom's Performance. The average distribution of scores was slanted toward agreement. Participants in the survey rated that the outsourcing had the most influence on flexibility performance indicator of ethio telecom.

As it is shown in Table 4.11., the mean of cost, productivity, profitability, and flexibility are more than average this shows that these literature reviewed supports the factors previously mentioned.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This part of the study summarizes and concludes the main findings obtained from the collected data and provide some recommendations to be implemented by concerned bodies in order to make sound outsourcing decisions.

5.1. Summary of findings

The following points are the major findings of the study:

The findings revealed that outsourcing at ethio telecom positively contributed to cost efficiency. As majority of respondents agrees that outsourcing enables the company to obtain economy of scale in terms of achieving a return on equipment and also helps ethio telecom to transfer those fixed costs like employee salary to other variable costs due to outsourcing of some business functions. The other important finding of the study is that outsourcing helps ethio telecom to minimize the cost for capital equipment and gain advantage of cheap labor cost.

Findings of this study concur with academicians who emphasized that outsourcing is viewed as a means to provide enhanced productivity. The findings support Evans and Lindsay (2001) who asserted that the decision to outsource can lead to increased productivity for businesses. The findings of this study support academicians who established that successful implementation of an outsourcing strategy has been credited with helping to increase capacity and improve quality (Lau and Hurley 1997; Kotabe, Murray and Javalugi 1998).

It was established that outsourcing at ethio telecom positively contributed to profitability. This was because as majority of respondents agreed with the questions outsourcing helped ethio telecom to increase value of its products/services, outsourcing helped to increase ethio telecom's profits, outsourcing helped ethio telecom to expand into other markets, outsourcing helped ethio telecom to become more competitive in the market and also has helped to increase on its volume of sales. The findings of the study support the view that a fundamental question to ask is whether outsourcing is value enhancing and, in particular, whether the firm that undertakes outsourcing shows higher profitability as a result. The findings of this study are contrary to Kimura (2002) who

did not find any evidence that outsourcing led to higher profits in Japanese manufacturing firms. They are also contrary to Kimura (2002) who did not find any evidence that subcontracting leads to higher profits. The findings of the study are similar to Lau and Hurley (1997) who found a significant relationship between outsourcing and profitability margin.

Majority of the respondents agreed with outsourcing helped ethio telecom to cope with the demand and volume fluctuation of its service and products. And also helped the company to address the dynamic nature of technology development on telecom environment with outsourcing. Besides, outsourcing allows transfer of services to other vendors, or to be brought in-house, e.g., premature termination, vendor instability, or pricing disagreement or dispute.

In general majority of the respondents agreed with the cost efficiency, productivity, profitability and flexibility helped the ethio telecom to have better performance.

5.2.Conclusions

The main objective of this study was to assess and analyze employees' perception on ethio telecom's performance after outsourcing. Based on the literature review it can be stated that cost efficiency, productivity, profitability and flexibility were taken as the performance indicators of an organization. The results indicate that:

Outsourcing has a significantly increases the cost efficiency performance of ethio telecom, it significantly improves the productivity performance of ethio telecom, it significantly increases profitability of ethio telecom and also it significantly improves flexibility performance of ethio telecom. Hence it is possible to say outsourcing has improves the overall performance of etio telecom. So it is important that smooth operations of outsourcing should be taken care of.

5.3.Recommendations

Based on the conclusions drawn above, some recommendations are proposed as a means of alleviating the problems founded.

Based on the first objective outsourcing increases cost efficiency, ethio telecom should employ strategic and well thought out outsourcing to further reduce operating and overhead costs for further firm growth.

Based on the second objective improves productivity, ethio telecom should employ skilled and trained manpower at low rates of outsourcing which ultimately leads to increased productivity.

Based on the third objective increases profitability, ethio telecom should outsource only necessary aspects of business to avoid reduction in profit levels. The finding in the study has shown that the adoption of appropriate outsourcing strategies affects corporate profitability.

Based on the fourth objective improves flexibility, ethio telecom should implement outsourcing strategy in order to address the service volume fluctuation and technology changes since it can utilize the expertise of world class operators.

5.4.Suggestions for Future Researches

The study provided a detailed assessment on employee perception on organizational performance after outsourcing. The findings highlight significant organization's performance improvement after outsourcing. In future effect of outsourcing on employee attitudes needs to be explored. And a longitudinal study needs to be conducted.

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APPENDIX

Addis Ababa University School of commerce

Post Graduate Studies

Department of logistics and supply chain management

Dear respondents,

My name is Dawit Adane Feyissa. I am a graduate student at Addis Ababa University School of Commerce in Department of Logistics and Supply Chain Management. In partial fulfillment of my study, I am now in conducting a research on topic of “Assessment of employee perception on organizational performance after outsourcing: on the case of ethio telecom”. To this end, I have developed this questionnaire so as to gather data that will enable me to have a thorough understanding of the practice as used by the company and finally give conclusion that tends to shade light on the subject from academic point of view.

Hence, this is to kindly request your cooperation to fill the questioners. As the purpose is purely academic, I assure you that all information you will provide will be kept strictly confidential and shall be used for this and only this purpose. Of course, the findings of the research may help the company to assess its outsourcing activities and take proper action; even so the anonymity of the questioners’ respondent will not be violated.

Finally, I in advance highly appreciate and very much thank you for giving me your precious time to fill the questionnaire.

For any Information and unclear situation please contact me by the below mentioned address

+251911 50 86 71

Email- dawitadane74@gmail.com

Part One: Demographic data

Instruction: Tick where appropriate [√]

1. Gender?

- a) Male b) Female

2. Age?

- a) 20 – 30 b) 31 – 40 c) 41 – 50 d) Above 50

3. Education level?

- a) Diploma b) Degree c) Masters d) PHD

e) Any other specify _____

4. Years of experience in ethio telecom?

- a) Below 5 b) 5 – 10 c) 10 – 15 d) Above 15

**Part II. Questions designed to assess the current status of Outsourcing and it's
Performance implications in ethio telecom**

1. Different dimensions of outsourcing on organizational performance are given below. Following each dimension, the features that are related to each dimension are provided. After reading each factor under each dimension (group), Please rate each of the following statements by putting (√) Mark on the appropriate number with respect to your level of agreement/disagreement against each question. (Where; 1= “strongly disagree”, 2=”disagree”, 3=”neutral”, 4=”agree”, 5=”strongly agree”).

Item no.	Cost efficiency and outsourcing	1	2	3	4	5
1.	Outsourcing enables the company to obtain economy of scale in terms of achieving a return on equipment related fixed costs, as distribution costs over many customers.					
2.	Outsourcing enables our company to transfer its fixed cost to variable cost.					
3.	Outsourcing enables our company to reduce the need to make capital investments in new technologies.					
4.	Outsourcing enables our company to obtain skilled labor at a lower cost.					
5.	Outsourcing has helped this organization to be more efficient.					
	Productivity and outsourcing					
6.	Outsourcing has helped this organization has increased productivity.					
7.	Performance per employee in this organization has increased due to outsourcing.					
8.	Outsourcing has helped this organization to improve capacity.					
9.	Outsourcing has helped this organization to improve quality of its products/services					
10.	Outsourcing has helped this organization help employees set their priorities more clearly					
	Profitability and outsourcing					
11.	Outsourcing has helped this organization to increase value of its products/services.					

12.	Outsourcing has helped this organization to increase its profits.					
13.	Outsourcing has helped this organization to expand into other markets.					
14.	Outsourcing has helped this organization to become more competitive in the market.					
15.	Outsourcing has helped this organization to increase its sales.					
	Flexibility and outsourcing					
16.	Outsourcing allows operational changes exceeding projected capacity on existing service delivery, i.e., service volume fluctuation, urgent or special case processing.					
17.	Outsourcing allows alternation of attributes of its existing services in addressing changing business requirements, e.g., alternation of processing workflow or business rule.					
18.	Outsourcing allows the addition of entirely new services to address radical changes or shifts in business patterns e.g., new government regulations, technological revamps, and process innovations.					
19.	Outsourcing allow transfer of services to other vendors, or to be brought in-house, e.g., premature termination, vendor instability, or pricing disagreement or dispute.					

Thank you!!