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BENEFITS AND CHALLENGES OF OUTSOURCING PRACTICES AT COMMERCIAL BANK OF ETHIOPIA

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February, 2015

Addis Ababa, Ethiopia

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**St. MARY’S UNIVERSITY SCHOOL OF
GRADUATE STUDIES**

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Declaration

I, hereby assert that this thesis entitled “**BENEFITS AND CHALLENGES OF OUTSOURCING PRACTICES AT COMMERCIAL BANK OF ETHIOPIA**” is my own original work that has not been presented for a degree in any other universities and all sources of materials have dully acknowledged.

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Certification

This is to certify that this study on the topic entitled “**Benefits and Challenges of Outsourcing Practices at Commercial Bank of Ethiopia**” is an original work of Workalemahu Ababu enrolment No: SGS/0240/2005 who carried out under my guidance/supervision and this work is for submission for the award of the degree of masters of business administration.

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Workalemahu Ababu

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List of Abbreviations

CBE - Commercial Bank of Ethiopia

FMP - Facilities Management Process

HRMP - Human Resource Management Process

OMO - Outsourcing Management Office

RFI - Request for Information

RFP - Request for Proposal

RFQ - Request for Quotation

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Abstract

According to Nicholas Beaumont and Amrik Sohal (2004) outsourcing is a fashionable way of solving some business problems and there are numerous reports of its increasing use. However, the use of outsourcing at CBE is very low with the exception of outsourcing some non-core functions like Security service, courier service and Janitorial service. This research attempted to assess the benefits and challenges of current outsourcing practices non-core business functions at Commercial Bank of Ethiopia with reference to security, cleaning, driving and courier services. The data were collected using questionnaires from permanent employees of Commercial Bank of Ethiopia. Moreover, interviews were conducted with the Facility Management Manager. The questionnaire was distributed to the employees on the basis of stratified sampling and the data collected were analyzed using SPSS software and analyzed using descriptive statistical methods. The findings revealed that the pros and cons of outsourcing non-core activities of the Bank. The most serious challenges are lack of internal expertise and the performance of outsourced driving service cause to increase cost, low loyalty and confidentiality to the organization. The Bank has poor monitoring and evaluation of the performance of the security, cleaning, driving and courier services, poor quality of outsourced service provider. Hence, respondents have lost their confidence on the service being provided. Unlike to the regular staffs of the bank the outsourced employees had brought many benefits to the Bank in reducing administrative burden ,increasing flexibility, minimizing fixed costs, decreasing budget wastages and introducing better cleaning equipments. Finally, the researcher has forwarded some recommendations to solve the existing problems of the Bank regarding outsourcing practice. If they done so, they will help the bank to reduce the risks and challenges associated with outsourcing and attain optimal benefits as a result of outsourcing secondary or non-core business functions.

CHAPTER ONE

INTRODUCTION

This chapter is an introductory part for the study which introduces the overall study subject matter. It consists of background of the study and the organization, statement of the study, research questions, objectives, significances, scope, limitation of the study and organization of the research work.

1.1. Background of the Study

Current market's condition dictates a new action plan for market players. Fierce competition, rapidly evolving technology - all require great resources and material costs. Thus, any company aims to increase its efficiency with the lowest cost. Nowadays, economic thought and the technological progress does not stand still, and every organization has an urgent need to keep up with the new ideas and technologies. With the emergence of such business – process like outsourcing became possible to give any kind of work, starting with the newest technologies and project management and ending with cleaning facilities, to outside organizations. Herewith the use of outside labor force turns out to organization more cost and time-effective. This innovative form of business organization – outsourcing – started to appear more often in Ethiopia in recent years.

Outsourcing describes the use of external resources to execute operational tasks (Weiner & Seuring 2009, Grover, 1994). It is also a transfer of various elements of work previously carried out within the company to another third party company. This process allows focusing on top and main functions of the company, adapting to new technologies, improving the reliability and market reputation and significantly reducing production costs. In case of commercial bank of Ethiopia the practice of outsourcing is in its infancy stage. Currently, there are few that are engaged in providing limited outsourcing services.

The current outsourcing practice in Commercial Bank of Ethiopia is mostly motorist service, security service, janitorial/cleaning services and messenger or courier services.

Since more and more institutions recognize the value in freeing themselves from costly, time-consuming, and highly complex administration of the activities, they will hand over the day-to-day management of those non-core business functions to external service providers.

As a result, they can save costs, gain profits and improve efficiencies from the current updated technology, and have time to focus on the strategic practices, leading to the organization's long-term success and competitive advantage (Rothery and Robertson, 1995). Consequences of huge operational activities load have introduced challenges not only of providing but also of improving the quality of their services.

Due to this reason Commercial Bank of Ethiopia to be efficient in its delivery of services to the clients; it has preferred 'outsourcing' since it is an option in its efforts to focus on the core activities and improve efficiency. The focus area of this outsourcing is on some services previously provided and handled by the bank itself. Employees of the banks in the outsourced section either hand over to the contractor and pay the group according to its available standards, or can use its own staff instead of the bank employees. This study will try to make an important contribution to the Bank considering outsourcing, expanding the services to be outsourced in Commercial Bank of Ethiopia by assessing the benefits and challenges of outsourcing non-core business functions.

1.2. Background of the Organization

The history of banking industry in Ethiopia dates back to the establishment of the Bank of Abyssinia in 1905. This Bank was the first bank in the history of Ethiopia, established under the partnership of the Government of Ethiopia and the National Bank of Egypt. The Bank continued to operate until 1931 and was wholly purchased later on by the Government of Ethiopia and renamed "The Bank of Ethiopia." This Bank operated until the Italian invasion of the country in 1936 (<http://www.combanketh.com/> Accessed date 12/05/2013).

1943 - 1963: After the victory over Fascist Italy, the State Bank of Ethiopia was established by a proclamation issued in August 1942. Although the intention was to establish it as a fully fledged commercial bank, a year later, in 1943, it was given additional central banking duties and became fully operational.

Hence, the year is marked as the birth date of today's Commercial Bank of Ethiopia (CBE). Thus, the State Bank of Ethiopia provided central banking and Commercial banking functions until 1963.

With the issuance of the Monetary Proclamation in 1963, the Commercial Bank of Ethiopia and National Bank of Ethiopia were established to handle Commercial banking and national banking functions, respectively. During the command system that lasted for about 17 years, Commercial Bank of Ethiopia had been the sole Commercial Bank in Ethiopia and a mere instrument of the central planning and socialist ownership policy of the government. A new Banking Proclamation enacted in 1994 created several new opportunities for the private sector to be involved in the banking areas. This enabled Commercial Bank of Ethiopia to relinquish /resign its monopoly position in the country's Banking industry.

Currently, the Commercial Bank of Ethiopia is the leading Bank in the country with its capacity, accessibility, deposit mobilization, and others. The Commercial Bank of Ethiopia has been playing a prominent role in economic development of the country for 72 years since its establishment in 1942. Today, more than ever before, the CBE has aggressively expanded its presence in all directions of the country. Despite the flourishing of private Commercial Banks, the Commercial Bank of Ethiopia has remained in the lead in terms of assets, deposits, capital, and customer base and branch network.

By now it has more than 836 branches, spanning the entire breadth and width of the country including subsidiaries in the Republic of Southern Sudan the so called Juba. (<http://www.combanketh.com/> Accessed on 12/06/2014) Commercial Bank of Ethiopia combines a wide capital base with more than 18,000 talented and committed employees as of June, 2014. By now, for the sake of administrative purpose the Commercial Bank of Ethiopia is arranged into fifteen (15) districts and head office.

1.3. Statement of the problem

Globally outsourcing practice becomes more and more sophisticated and complex. The functions that are being outsourced ranges from non-core functions like janitorial service to core or main functions such as production and marketing. Commercial Bank of Ethiopia is one of outsourcing service user in Ethiopia business sectors.

Outsourcing is a newly emerging concept in Ethiopia, particularly, in its existence in the banking sectors. Since the past few years, many organizations considers outsourcing with an assumption that if institution is unable to provide a service or product at less cost than, and of equal quality to, an external agent, then it should purchase the service or product from an external supplier.

Hence, organizations prefer to transfer non-core business functions to be performed by an external third party with the aim of reducing considerable transaction costs, improving quality of service delivery and to concentrate on their core competencies. Even though outsourcing really provide a numerous of benefits to the client, it is not without having any negative impacts to the receivers of the services. Some of the problems that arise due to outsourcing non-core business functions are discussed below.

The problem related to outsourcing is the operational difficulties in that service provider may deny specific technical expertise, capability and capacity for delivering the desired performance (Aron, Clemons, and Reddi, 2005). Gilmer (1997) points out during implementation of outsourcing, jobs can be handover from the service users to service providers performing the outsourced function, which may result in decreased salaries or benefits.

Consequently, the outsourced staff may have less loyalty to the client than if they were employed directly by the institution and express disappointment with the resulting inadequate services which affect the business sectors in many regards. Similarly, big problem with outsourcing emanate from the employees themselves as they are in doubt of loosing of jobs (Malhorta 1997). Most service providers may not realize the client's culture or personality, and the services delivered by them may not fit in the client's culture due to some of them only produce one set of service delivery system for all their clients in order to reduce the production costs(Siegel, 2000). On the same tradition, managers are required to regularly monitor, establish constant communication, and evaluate outsourced functions to be confident that they are beneficial to their organization. Hence, burdens of managers with transactional administrative tasks may increase once again (Guterl 1996). Moreover, negative attitude, resisting to new changes and morale problem are real problems that will cause ineffectiveness to the clients (Siegel 2000; Mobley and Maurer 1998). There is also evidence that outsourcing does not reduce costs as expected in some cases (Beaumont and Sohal, 2004; Gonzalez, 2005).

When such problems pose complex risks, divert the intended desire of the client, and adversely affect the buyer's performance on core competencies. It is obvious that outsourcing may bring many benefits to the organization with imposing some negative impacts. For successful performance of outsourced functions, it need to be carefully bid, contracted, and managed, with performance measures monitored regularly. Therefore, the study focus on problems and benefits outsourcing at Commercial Bank of Ethiopia due to transferring non-core business functions to service providers.

1.4. Basic Research Questions

In spite of its wide application in the international environment, the practice of outsourcing in Commercial Bank of Ethiopia is focused on few activities. More specifically, possible solutions will be provided to the following basic questions:

- ❖ How work outsourcing activities currently at Commercial Bank of Ethiopia?
- ❖ What types of business functions have been successfully outsourced by CBE?
- ❖ What are the benefits and challenges raised from outsourcing non-core business functions?
- ❖ Why Commercial Bank of Ethiopia not outsource more non-core business functions?

1.5. Objectives of the Study

The overall objective of this research is to assess the benefits and challenges of outsourcing non-core business functions in Commercial Bank of Ethiopia. In order to meet the general objective, the study investigates the following specific objectives:

- ❖ To identify the existing practice of outsourcing in Commercial Bank of Ethiopia.
- ❖ To identify activities those are outsourced.
- ❖ To identify the benefits and challenges of outsourcing non-core business functions.
- ❖ To identify the reasons for not outsourced other non-core business functions.
- ❖ To examine and analyze the various opportunities and challenges derived from outsourcing the non-core business functions in Commercial Bank of Ethiopia.

1.6. Significance of the study

The study tried to cover the actual experiences of outsourcing in Commercial Bank of Ethiopia with an intention to examine the problems existing prior to outsourcing, identify the benefits and challenges after outsourcing, and lessons gained for future outsourcing initiatives. It is expected that the findings are beneficial to Commercial Bank of Ethiopia. In addition, it provides the researcher an opportunity to gain deep knowledge in the concepts of outsourcing business functions. Even though different studies have been contributed in Europe and the United States on this field, to the best of my knowledge, there is no deep research conducted on the practices of outsourcing in Commercial Banks of Ethiopia. Furthermore the findings of this study may also serve as a spillover for further research in the area.

1.7 Delimitation / Scope of the study

Although there are few financial institutions and private business organizations which are used outsourcing practices for some of their non-core (peripheral) activities, Similarly, it is somehow impossible to cover all non-core business functions. So, this research focuses only on the following activities: Security service, Cleaning/Janitorial service, Driver/Motorist service, and Messenger /courier services in the case of Commercial Bank of Ethiopia. There were also some external variables that have impacts on the real output of the research work. For instance, the lack of cooperation of the respondents and their commitment to complete filling the questionnaires affect the outcomes of this research To make the study narrow and manageable the scope of the research are delimited to selected branches and districts of Commercial Bank of Ethiopia Addis Ababa only.

1.8 Structure of the study

The paper consists of five chapters. The first chapter provides a general introduction of the study, statements of the problem, basic research questions, and objective of the study, significance of the study, delimitation and limitation of the study and structure of the paper. The second part treats the theoretical aspects of the research and therefore discusses the theoretical frameworks of the research project which had used in showing a direction of the study subject and what was written about outsourcing practices by different scholars' perspective point of view. The third chapter

concerned with research design, methodology. The fourth chapter deals with data presentation, discussion and interpretation of the data. The fifth chapter, which is the closing chapter devoted to summary, conclusion and recommendation based on the results of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

“The further backward you can look the further forward you are likely to see.”

Wiston Churchill

2.1 The concept of outsourcing

Outsourcing practices in financial institutions is totally a new concept in Ethiopia. It is therefore essential to adopt a theory that needs to explain how these institutions make the decision to make or buy the service from a third party service provider. Such theoretical frameworks are devised by two scholars. Jurison (1995) presented the decision theory and the risk theory by Bauer (1967). The decision theory framework, involves the concept of risk-benefit analysis that compares the risks associated and the benefits expected of a decision that is made, in order to achieve an optimal result. When this concept is applied to outsourcing, it means that the decision maker has to assess all the potential risks and benefits that may arise from the outsourcing process prior to deciding whether to outsource or not.

As explained by Bauer (1967), the risk theory analyses the risk a person individually associates with the consequences of a decision and impact of that decision on the intention to complete a transaction.

It is based on the fact that as long as the expected benefits exceed the expected risks, the person in charge will have a positive attitude towards a particular decision. In the field of business management practices, an expected risk inherent in a transaction plays a significant role especially in the adoption of technology. It is obvious that the individual perception towards outsourcing could either be positive or negative. Negative perceptions of outsourcing will be associated with risks of outsourcing, that is, the possibility of outsourcing failure (Aubert, 1998).

In contrast, there are also outsourcing advantages, which can be summarized as outsourcing benefits (Dibbern, 2004).The risk-benefit framework is also applied to analyze outsourcing

decisions since it has similarity with decision theory regarding decisions that involve risk or uncertainty (Tamura (2005). In outsourcing research, the analytical framework of balance between costs versus risks is well documented Jurison (1995, 2002). He suggests the financial administrators need to assess all the perceived risks and potential benefits before making outsourcing decisions.

These factors indicate the final decision to outsource non-core business functions or not. To deliver quality services to their clients, business sectors are forced to give emphasis only on their core competencies and divest secondary functions. In doing so, the main assumption they consider for outsourcing is that if an institution cannot provide a service or product at less cost than and of equal quality to an external provider, then it should purchase the service or product from an external provider. Advocates of outsourcing argue that the private sector provides better service more efficiently and at lower cost than the public sector which is unmotivated by profit. They point out that outsourcing to a contractor can reduce labor costs and increase benefits, provide a single point of accountability, and provide predictable costs; the resulting cost savings permits the institution to focus more resources on its core business functions Jurison (1995, 2002)

Outsourcing, also referred to as contracting out, is the procuring/obtaining of services or products from an outside supplier or manufacturer rather than having them provided by in-house facilities.

The key to any outsourcing endeavor is to ensure that the process helps fulfill the institution's mission and long-term goals and objectives. Financial institutions require a number of support services in order to achieve their primary missions. If these institutions feel that they are not in a position to maintain these support services to the expectations of the community, it is advisable to outsource these services to outside experts who are capable of providing high levels of services (Jefferies, 1996).

Outsourcing for any organization can be a very demanding task and difficult process in both implementation and overall acceptance. The levels of complexity due to years of tradition, ownership stability, management philosophy, and structured norms and cultures creating more resistance to change (Bartem and Sherry, 2001). It is believed that outsourcing is natural processes for business operations, but institutions have significant differences due to the effects of outsourcing in areas of motivation, performance and evaluation (Bartem and Sherry, 2001).

Outsourcing allows for organizations to concentrate on its core competencies. Outsourcing secondary activities allows the institution to focus more on core functions and to worry less about the other non-core business operations. Kennedy (2002) argues that the core reasons for outsourcing include enhanced service, staffing constraints, and budget constraints, to access technology. Similarly, Jefferies (1996) asserts that outsourcing, when properly planned and controlled, is expected to produce several benefits, such as reduced costs, improved service quality, and increased efficiency and innovation.

In other words, outsourcing results in improving the strategic triangle of an organization; quality, cost and time. Proponents of outsourcing recognize that the private sector vendors provide services more efficiently and at lower cost than the public sector (Jefferies, 1996). This can result in two ways: added expertise and economies of scale. Scholars point out institutions can structure the outsourcing contract so that a vendor bears the cost of bringing in new equipment and technology, new levels of expertise and business knowledge.

Services providers are experts in their respective fields of operations and they possess the latest technology and knowledge to complete the assigned job. Organizations do not want to spend resources to do market research or other formalities in acquiring the latest techniques. Contracts may be structured so that vendors bear the cost of acquiring new equipment and technology. Similarly, institutions can take advantage of economies of scale achieved by vendors who specialize in a particular service area, allowing them to acquire inputs at a lower cost.

Vendors are also forced to use the most cost-effective means to provide a service to ensure that a profit is realized and this will be an advantage to the financial institution which has other prime goals and objectives. Kaganoff (1998). Outsourcing decision-making should involve a number of strategic issues as in any other type of decision-making and the management should examine the full array of options and select the operating and management approach, which is best for the institution. Focusing first on understanding how the functional area in question is currently operated and examining all its strengths, weaknesses, opportunities and threats enables the institution to make a fully informed choice. The growing use of outsourcing in business sectors throughout the world reflects a general acceptance by institution authority's that it will reduce costs while continuing to provide essential services effectively and efficiently (Goldstein, 1993).

2.2 The Nature of Outsourcing

In recent years the practice of outsourcing non-core and core business functions became really widespread in the world. The term "**outsourcing**" is borrowed from the English language and literally translates as the use of "**foreign resources**". The table below presents the various definitions of the term "**outsourcing**" given by various scholars and authors.

Table 2-1 Summary of outsourcing definition

Sources	The definition of "outsourcing"
1. Mikhailov 2006, 12	The transfer of conventional and organically inherent functions of the subjects to third-party-companies.
2. Rummyantseva 2006, 31 - 32.	Way to optimize the company through the transfer of non-core functions to outside specialized companies.
3. Raizberg et al., 2005, 29	The transfer of traditional non-core functions of the organization to outside subcontractors, which are highly qualified third-party companies, with the rejection of its own business process, considering it as a way of co-operation.
4. Kalendzhyan 2003, 270	The tool that allows effectively allocates the internal and external resources and funding to reach the goals and challenges facing by modern business in conditions of dynamic insuperability.
5. Mol 2007	Dependence on the external resources.
6. Lonsdale & Cox 2005	The process of transferring the existing within the company functions to a third party company.
To sum up, it can be concluded that outsourcing is an effective business model, which is the usage of external resources to achieve own goals.	

2.3 Merits and Demerits of outsourcing

Outsourcing is used because it supposedly advantages the organization. The advantages and disadvantages can be categorized as strategic or tactical/calculated, long-term or short-term, and tangible or intangible. Advantages and disadvantages of outsourcing are described briefly bellow.

2.3.1 Merits of outsourcing

Before to go deeper to analyze what advantages outsourcing could bring to the company, it is also important to mention the cases where outsourcing process is the most efficient one (Business Relations Management company, 2008).

- ❖ The company makes a strategic decision to focus resources on core business
- ❖ The company has just started to operate, and yet cannot afford to have its own staff
- ❖ The company is reducing staff, but a number of marketing functions is still needed
- ❖ The company is not satisfied with the level of service that internal services provided

This list can be continued with following cases: The Company has a period of internal changes (restructuring, reorganization, the process of mergers and acquisitions) and therefore the transfer of the internal functions at this time is the most painless way to solve problems facing the organization. Business is growing up and the pressures on the individual functions are increasing in proportion with it, by using outsourcing there is no need to hire additional staff and equip jobs the outsourcing partners could make any volume of work accurately and on time.

Large companies are often faced with the fact that the cost of non-core business processes is disproportionately high. In this case uses of outsourced services can give a tangible economic benefit to the company (Dumnaya N.N & Cheremishin 2010).

Outsourcing also gives company an opportunity to cut costs and significantly reduce the complexity and expenses of information systems operation and applications, to focus on core business processes of the company, not to waste sources that is focused on supporting. Outsourcing can bring valuable and various advantages to the company. According to scholars, the followings are some of the benefits. (Business Relations Management Company, Dumnaya N.N & Cheremishin, 2010):

- ❖ Increasing profitability of company as outsourcing cuts expenses of maintaining business-processes
- ❖ Focusing on core activity one of the benefits of outsourcing is that the organization will be free to concentrate on the core business.
- ❖ By outsourcing all non-core functions of the company, employees can be put to better use and the company will be able to see a huge growth in the core business. (Flatworld Solutions Pvt. 2011)
- ❖ Improvement in firm's cost efficiency by reducing the commitment to fixed-cost, full – time human resource expenses and other overhead costs.

- ❖ Employee compensation costs, office space expenses, and other costs associated with providing a work space or manufacturing setup are eliminated and free up resources for other purposes. (The Thriving Small Business 2011)
- ❖ The use of highly skilled professionals with extensive experience, the hiring of whom would be too expensive or not rational.
- ❖ Introduction of advanced technologies through specialized outsourcing company
- ❖ Increasing the competitiveness of the company, as outsourcing firm is better able to reinvest released resources in the growth of their core business
- ❖ No dependence on the disease or dismissal of employees improved customer satisfaction

In addition, Outsourcing increases the efficiency of the company. The non-core business functions will be performed efficiently by outsourcing partner, while the core functions of the company can be efficiently carried out in-house. Thereby the managers of the company can achieve overall efficiency and see an increase in their profits. (Flatworld Solutions) .

Outsourcing is providing great flexibility for the company in case of sudden changes in market conditions or consumer preferences: it is easier and cheaper to find new suppliers with the necessary capabilities and resources than to rebuild the internal management of the company, eliminating some power and resources and creating new ones. (Strickland III 2004).By outsourcing non-core business functions, the company can save on every aspect of its business and increase the profits. It is possible to save on time, effort, infrastructure and manpower. Since company doesn't have to invest in infrastructure, it can also save on making unnecessary fixed investments. Outsourcing removes the burden of changing or maintaining infrastructure. Company's managers can also save on capital expenditure. Outsourcing can help to save on training costs, because due to outsourcing no need to invest in manpower. These savings will help bring about an increase in the company's revenue as a whole.

2.3.2 Demerits of outsourcing

As a real process, outsourcing has not only positive sides that can help to make the business of the company more profitable and get rid of some headache; unfortunately it has its minuses as well. Therefore, before deciding to outsource the company's business processes, it is necessary to keep in mind the demerits of outsourcing

Several activities require instant reaction to their failures which makes it more appropriate to keep on hand a staff specialist. Unlike outsourcing vendor, staff specialist can be involved in a number of works which are not directly related to his professional activities, such as in one-off procedure staff specialist may replace the secretary who was away, take the purchase of equipment, make correspondence, and more other businesses. Outsourcing vendor, of course, makes only what is defined by the contract. The strategic aspect of outsourcing is often associated with a loss of jobs, as large companies in developed countries prefer to give time-consuming activities to outsourcing to other countries (Open Systems, 2011).

The lack of an employment contract between the direct employer and employee, and labor warranty makes the labor rights of workers more vulnerable/helpless. Also with outsourcing there are risks of damaging property's safety, security and leakage of confidential information, through the provision of unregulated access to documents, records and property of the company. As well outsourcing vendors have the lack of knowledge of national and local cultural features and slight acquaintance with the psychology of company's customers, (Open Systems 2011). According to scholars, outsourcing carries the following major pitfalls:

- ❖ The lack of standards and methodology entails the difficulty of measuring results and quality of performance.
- ❖ Possible reduction in productivity of own staff (the loss of motivation, evaluation of the changes as negative).
- ❖ Outsourcing contract is usually for a long period, and this means that there is a risk of future costs and expenses
- ❖ Reorganization of service and business processes of the enterprise made by outsourcing vendor can encourage the leadership of a company - customer to complete the contract early and resubmit these functions to the internal departments, but in accordance with the new processes and changes.
- ❖ Change in the creditworthiness of the customer at the planned resources and unsalable unique

Transfer of some functions to outsourcing is not practical for large organizations, because it can lead to loss of their privacy, reduction of the speed of provision of the necessary information for

the management of the organization. Leaking confidential information can lead to loss of competitiveness of the company. As well the transfer of some functions to outsourcing can lead to loss of some kinds of activities that are providing the success for the company in the market. Moreover transferring to outsourcing a big amount of Functions Company can increase its costs. It is important to notice that enormous usage of outsourcing can lead the company to be fully dependent on outside outsourcing vendors.

The risk of losses is big because of poor quality of service. In addition, the company-outsourcer can become a bankrupt, consequently the contracting authority will have to find a new outsourcer and this is an additional moral and material costs. (BKR-Intercom- Audit 2007). One of the biggest disadvantages of outsourcing is the lack of control over the activities of organizations or professionals who provide services. The problem with a lack of communication also should be considered. It can be very frustrating for a consumer who is calling in with a customer service issue. When this individual cannot understand the customer service representative they are speaking with, it just causes more frustration and does little to solve the problem (Articles Base 2011).

Therefore, outsourcing implications on business sectors need to be viewed from a different perspective. Throughout this paper outsourcing has been addressed in relation to outsourcing functions within the Commercial Bank of Ethiopia. What it boils down is that business sectors need to become more flexible, entrepreneurial, responsive and efficient and proper evaluations of outsourcing opportunities and threats can help a business to reach their goals by trying new things, competitively price services, strengthen capabilities use other people's capital and, most importantly, to concentrate on what they do best (Bartem and Sherry, 2001).

2.4 Strategic Assessment for Outsourcing

The majority of outsourcing failures can be traced back to organizations that short-change or eliminate the following critical strategic assessment, thereby failing to lay a solid foundation to make objective, data-driven outsourcing decisions. As stated by Power (2006) the goals of conducting a strategic assessment are: To develop a clear vision of outsourcing, setting tangible goals and objectives, to determine how outsourcing fits into the overall business strategy, to select and engage executive sponsors for the outsourcing endeavor, to identify the key functions and

processes suitable for outsourcing, to determine whether the engagement should be onshore, near shore or offshore and also the goal of the strategic assessment is to examine the current and the future strategic position of the organization and to understand where outsourcing as a strategy fits in. It is during this stage that the organization needs to understand both the pros and cons of using outsourcing as a strategy. An analysis of the pros and cons, and the fit –does outsourcing as a strategy fit the business needs? – will form the foundation of the outsourcing plan. Failure to lay this solid foundation in place will result in questionable outcomes in the future stages of the outsourcing life cycle.

As a simple example, consider what would happen if you incorrectly analyze a particular function of your organization as being a candidate for outsourcing? Using this incorrect information, you move through the needs analysis, vendor selection, negotiating and contracting phases and then eventually turn this misinformation over to the vendor. You have just wasted enormous effort owing to an incorrect up-front assessment for which you will have to pay heavily. Eventually, you will have to bring this work back in-house and pay substantial costs for the error. The four major elements of the strategic assessment phase include: business-value assessment, operational assessment, financial assessment and risk assessment.

2.4.1 Business Value Assessment

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

1. Core competencies- are the combinations of special skills, proprietary technologies, knowledge, information and unique operating processes and procedures that are integrated into the organization's products and services and are unique differentiators for the organization's customers (Power, 2006, p. 41).

2. Executive sponsor team- a core component of conducting a business-value assessment is to have the right team in place to conduct the assessment – the executive sponsor team. It is vital that organizations have a dedicated executive level team that sponsors the outsourcing program.

Strategic objectives, such as outsourcing initiatives, must be come from top level of a company. Top management must articulate the goals and objectives of outsourcing initiative, and communicate how the process will benefit the company Yenus (2005). The goal is to get a wide perspective from multiple disciplines and identify critical success factors and problem areas that will be the foundations for compiling a comprehensive business case for outsourcing.

As stated by Power (2006) the outsourcing team will be responsible for the following areas: defining and documenting key business objectives and outcomes, identifying the products and services that are candidates for outsourcing, developing an understanding of the external marketplace, including the vendor's capabilities and how that can be used to help meet the organization's business objectives, clarifying roles and responsibilities, leading and managing change and defining the organizational design and culture that will be required to achieve its outsourcing objectives successful Power (2006, p. 43-46).

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

2.4.2 Operational Assessment

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

external vendor. It is hence important to know the nature of the processes before they are outsourced Power (2006).

2.4.3 Financial Assessment

According to Power (2006) probably the most talked about reason for outsourcing is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of a variable cost model. The objectives are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

2.4.4 Risk Assessment

If there were no risks, there would be no need for managers. Risks and uncertainty is what management is all about. If everything were certain, and hence predictable, there would be nothing to manage. Risk is always a factor of every project. Risk assessment takes an aggregate view of the organization and the proposed outsourcing initiative and identifies risk and associated risk mitigation strategies. When you consider that risk is associated with any project, you must segment the risk into different categories: strategic risks, operational risks, technology risks and financial risks Power (2006, p. 61-65)

2.5 Types of Outsourcing

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

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

2.5.1 Selective and full outsourcing

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

2.5.2 Tactical and strategic outsourcing

Tactical outsourcing is used by institutions to resolve specific problems being experienced by an institution, viz. a lack of financial resources to make capital investments, inadequate in-house managerial competence, or a desire to downsize, etc. Tactical outsourcing is a form of traditional outsourcing and is based on cost comparison and the make-or-buy decision. It is resulted in visible benefits in the form of enhanced cost savings, minimizing the need for future investments and resolving staffing issues. It also involves execution of a business process following the existing rules.

Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor (Hussey and Jenster, 2003). This is a common method used by large mature corporations for handling high-volume repetitive tasks and used for processes such as payroll transactions, HR administration, and procurement. Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers.

2.5.3 Transformational outsourcing

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

2.6 Outsourcing Process

The typical process and phases of outsourcing ranging from decisions to continuous management and performance evaluation along with the life cycle of the relationship between the host institution and the business process vendor, Brown and Wilson(2005), Gonalgo (2005). The strategy phase is often the take-off point for an outsourcing initiative. The host institution determines the objectives, scope, and feasibility of the outsourcing concept before furtherance in this initiative. In addition, the total time, budget and necessary resources are estimated. A request for information (RFI) may be drafted, floated and responses from interested service vendors may be obtained at this stage. This enables the host institution to gain more insight into various particulars of the outsourcing engagement. In the next phase on scoping, the baselines and service levels expected from the vendors are established.

Further clear delineation is agreed on the functions that are to be outsourced and the functions that will remain in-house. A request for proposal (RFP) is drafted at this stage by the host institution. Only vendors who have qualified on the basis of merit of the RFI response are eligible for responding to the RFP. Responses of the RFP are analyzed and vendors are qualified. The next phase involves negotiation. Here, the host institution can develop a request for quotation (RFQ) wherein the host institution attempts to understand the pricing model of the qualified vendor. The most common pricing models used are cost per full time equivalent, time and material, price per

unit, volume-based pricing, managed service fee, no cure – no pay, fixed price, etc. (Bartell, 1998).

Negotiations culminate in a contract signed between the host institution and the chosen vendor. Vendors may also be asked to demonstrate capabilities indicated in the response to the RFP/RFQ by executing a pilot project. The host institution then examines the services provided by the vendor during the pilot phase to assess the competence of the vendor to execute the proposed service. As discussed above, the nature of the outsourced work may involve only a single time engagement for non-continuous services indicating a one-time contract. For business processes its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005). Initiation and implementation of change management is one of the key elements of this phase for a successful outcome. This marks the end of the contractual phase and marks the beginning of the post-contractual phase.

Management of end-of-life arrangements is executed in the completion phase. Contracts that come up for renewal are assessed in this phase. Buyer makes vital decisions on extension of the contract, amicable/friendly separation with the vendor to consider engagement with another vendor or executing the function in-house. Renewal of a contract indicates the cyclical nature of the activity. The decision to outsource has associated risk that can be mitigated by adequate planning (Aron, 2005). While some of the risks are strategic in nature often caused by the vendor's action, others are operational in nature caused by the complexity of the activity itself that are continuous in nature a multi-year renewable contract is signed.

The implementation phase marks the transition of the in-house process to the outsourced vendor. This often involves a requirements assessment sub-phase where the process is studied in detail by the vendor. The vendor can re-engineer the process to optimize the operations. After successful transition the phase of continuous monitoring and management is carried out in the management phase, the client now has external organizations performing the functions and it has to seamlessly integrate its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005). Initiation and implementation of change management is one of the key elements of this phase for a successful outcome. This marks the end of the contractual phase and the beginning of the post-contractual phase.

2.7 Arguments on Outsourcing

Gilmer (1997) argues that the main criticism of outsourcing is being its human resource consequences. Because of shifting jobs from the financial institution to the agent, who is performing the outsourced function, may result in salary cuts, staff redundancy, or retrenchment/reduction. Sometimes the service provider could even employ staff on contract. Subsequently, outsourcing critics feel that contract staff may develop less loyalty to the institution than if they were employed directly by the institution. Therefore, they express disappointment with the resulting inadequate service by contractors.

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

On the other hand, the increasing use of outsourcing over the last 20 years has been fuelled by arguments from management gurus/expert and leading academics that an organization's competitive advantage stems from its ability to identify, concentrate on and develop its core competencies and activities, and outsource anything which is non-core (Handy, 1982; Kanter, 1989; Peters and Waterman, 1982; Prahalad and Hamel, 1990). However, there is some disagreement concerning whether outsourcing should only apply to the non-core activities an organization or if it can also include core activities.

For Prahalad and Hamel (1990), core competencies and activities are the secret to an organization's success and should not be outsourced. But Gay and Essinger (2000) take a different stance, they do believe that outsourcing can embrace the contracting-out of both core and non-core activities. However, to complicate the picture, it is sometimes difficult to define what is or is not a core activity (Mitzberg, 1998). Nevertheless, regardless of which activities it embrace, or how these are defined, there is a great deal of evidence to show that outsourcing is increasingly taking over from vertical integration as the preferred approach to organizing the provision of many goods, processes and services(Domberger,1998;Gay and Essinger,2000;Takac,1993).

2.8 Drivers of Outsourcing

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

2.8.1 Organizational drivers

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging/pulling emerging technologies and achieving higher stakeholder value. Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer.

Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries.

2.8.2 Improvement drivers

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

Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement.

An institution when realizes that its in-house skill-set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities.

2.8.3 Financial and cost drivers

The objectives of this initiative are to reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

2.9 Summary of Major drivers for outsourcing

Chamberland, D. (2003)

1. Organizational drivers

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

2. Improvement drivers

- ❖ To improve operating performance, quality, timeliness, and productivity
- ❖ To obtain expertise, skills, and innovative ideas

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

3. Financial and cost drivers

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

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

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

Introduction

This section of the research presents the elements of research design and methodology that was applied in the study. It covers research design, source of data, sampling frame, sample size determination and data analysis; it ends with ethical issues. Descriptive research method used in the design, the sample size, and types of data collected as well as how to analyze the data gathered. Hence in the chapter all these sub-topics are discussed one by one.

3.1 Research Design

The study is designed to see the benefits and challenges of outsourcing practices at Commercial bank of Ethiopia. The study is descriptive study that sets out to describe the existing outsourcing practices of the bank and to evaluate its benefits and challenges. It would be based on the data collected through questionnaires, interview with the employees of the bank and from framed literature review. This is due to the absence of sufficient earlier studies to which the researcher can refer to information about the outsourcing practice of non-core business functions in the case study area. The study organization, Commercial Bank of Ethiopia, is selected due to their convenience to the researcher. This convenience is related to data availability and familiarity of this organization for the researcher.

3.2 Sources of Data

The study is undertaken based on the data that is collected from both primary and secondary sources of data that enable the researcher to meet the objectives of the study outlined at the beginning. In addition structured interview was conducted with manager of Outsourcing Management Offices (OMO).

In an attempt to obtain first-hand information, the data was collected from samples through questionnaires and interview. Closed-ended questionnaires were prepared and administered to gather primary data from the sample of the study. This instrument was preferred because it enables to secure information at a time. The questionnaires were prepared in English because the

target area population is professional employees to understand the subject matter. The rest of the data for this research obtained from a body of secondary sources. To get secondary data relevant documents related to the study subject, the researcher used annual reports, websites of the bank and research papers to get information on theoretical frame work of the study.

3.3 Data Collection Procedures

As discussed above under the sources data section, questionnaires were distributed to 172 selected branches and districts of employees of Commercial Bank of Ethiopia. From those 146 (84.9%) of the questionnaires are fully completed and returned on time. Data from interview made with Outsourcing Management Office of CBE was collected by the researcher by using tape recorder and taking notes of the proceedings of the discussion based on the interview discussion questions designed. In order to maximize the rate of return, attempts are made to distribute the questionnaires at convenient time for respondents and a close follow-up is made to obtain reliable data return.

3.4 Target of sampling frame

Since the study is concerned with Commercial bank of Ethiopia, the participants of the study would employees of this bank. The study focus on the population who are currently working selected branches and districts of Commercial Bank of Ethiopia found in Addis Ababa city. Currently Commercial Bank of Ethiopia has more than 836 branches throughout the country and has more than 18000 employees (Annual Report of June, 2014).

The sample frame is a population list from which the sample was drawn. To make the study manageable, the sample was drawn from the three departments and four district offices (FMP, HRMP, OMO and the four district offices i.e. North, South, East and West districts) because those departments have direct relationship with the study area. Annual report of Commercial Bank of Ethiopia indicates that FMP, HRMP, OMO and the four district offices have a total of 3007 administrative and professional employees. From those employees 1905 have less than one year work experience, they are daily engaged in routine transactions and they do not have enough knowledge about the subject of the study so they were excluded from the study. Therefore, this study had targeted the total target population size of 1102 Administrative and Professional employees who have served for one and above years.

3.5 Sample Size Determination

The study applied both quota and stratified sampling method. To this effect, the OMO, FMPO, HRMP, and four Districts Offices which are under Addis Ababa area were selected as a target area of the study. After excluding the employees which have less than one year work experiences, the total target populations' size of those above department is 1102. The sample size was determined by using the **Slovin's formula (Serakan, 1992) cited in Unam (2012 pp.52):**

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

Where:

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

Applying 7% error margin, the sample size for the study are 172 members of the target population. Therefore, the study's sample size of 172 is fair enough to represent the target population of the study area.

As stated by Cohen, Manion and Morrison (2000) a stratified random sample is a useful blend /combine/ of randomization and categorization and thereby enabling a quantitative piece of research to be undertaken. Both quantitative and qualitative approaches of research were used. The qualitative information was gathered through interviews and quantitative information was obtained through questionnaires. The respondents are stratified on the basis of their locations and Departments.

The target population of this research refers to be 1102 employees who are currently working in three departments and four district offices. Accordingly, from the sample size of 172 employees, questionnaires were distributed to the randomly selected administrative and professional employees of 30% (52) for OMO, 25% (43) for the FMP, 25% (43) for the HRMP and 20% (34) for North, South, East and West district offices.

3.6 Techniques of Data Analysis

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

The descriptive statistics analysis of this section is conducted with mean and percentage values of the data collected. Frequency distributions of all respondents provided in the questionnaires were counted and computed. Data collected from interview discussion was organized as per the questionnaires designed are included in the data discussion and interpretation part of the study. Finally, conclusions and recommendations were drawn based on the data analysis and interpretation.

3.7 Validity and Reliability of the study

3.7.1 Validity

Items in the questionnaire were prepared using a five point-Likert scale multiple questions and interview questions. In order to ensure validity of the items incorporated outsourcing department examined the instrument before it was distributed.

3.7.2 Reliability

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

Table 3-1 Reliability statistics of the instrument

Cronbach Alpha	Number of items
.961	48

As indicated in the Table 3-1 above, the Cronbach Alpha test implies that the instrument's internal Consistency as 96.1%.

3.8 Ethical Consideration

The researcher has received permission from Commercial Bank of Ethiopia to undertake this research, thus the interview was conducted and questionnaires were distributed with full knowledge of the management. Ethical issues in this research concerned with maintaining confidentiality about the information that the researcher gathered from respondents, using secured data for academic purpose only and ensuring that the respondents personality would not exploited.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

Introduction

This chapter deals with the analysis and interpretation of the data collected from the employees of commercial Bank of Ethiopia through the distribution of questionnaires and interviews sessions arranged with the concerned official of Commercial Bank of Ethiopia. The data collected through different data collection techniques. “Questionnaire” is used as a primary data collection method to collect the required information. In addition, in order to across validate the results obtained from the questionnaires, interviews are made with the OMO Managers and secondary data are used. Based on the information gathered, the benefits and challenges of outsourcing practices in Commercial Bank of Ethiopia with reference to FMP (Security, Cleaning, messenger and motorist) services were examined. Out of 172 questionnaires distributed to administration and professional employees of the target study areas, 146(84.9%) were completed properly and returned on time. The rest 26 (15.1%) were failed to be completed and returned back on time. All completed questionnaires are considered for the analyzing and interpreted using Statistical Package for Social Studies (SPSS) of 20th version.

4.1 Respondents' General Profile

This section respondent's general profiles which include age category, gender, academic qualification, and years of service are discussed and their relationship with the study is explained.

Table 4-1 Summary of Respondents' Gender, Age and Academic Qualification

Profile	Choice	Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	105	71.90	71.90	71.90
	Female	41	28.10	28.10	100.0
	Total	146	100.0	100.0	
Age	18-30	72	49.30	49.30	49.30
	31-45	60	41.10	41.10	90.40
	46-55	13	8.90	8.90	99.30
	56 years and above	1	0.70	0.70	100.0
	Total	146	100.0	100.0	
Academic qualification	Diploma	12	8.20	8.20	8.20
	First degree	118	80.80	80.80	89.00
	Masters and above	16	11.00	11.00	100.0
	Total	146	100.0	100.0	

Source: Survey, 2014

As depicted above in the Table 4-1, 71.9% of the respondents are male and the rest 28.1% are female. This shows that the major respondent was dominated by male. With regard to the age category of the respondents, 90.4% of the respondent's age was found to be within the range of 18-45 age groups, which is believed to be highly committed and found to be workable age group, while the rest of the participants (9.6%) are found to be above 46 years. And the table above revealed that the majority of the respondent's educational status (80.8 %) have first degree level of educational background whereas only 11% and 8.2% of the respondents had second degree and diploma levels respectively. This shows that the employees are fairly educated and they can also understand and gave reasonable responses to the questionnaire distributed to them.

Table 4-2 Summary of Respondents' by Years of Services

Profile	Choice	Frequency	Percent	Valid Percent	Cumulative Percent
Years of service in the CBE	1-3 years	54	37.0	37.00	37.00
	4-6 years	24	16.40	16.40	53.40
	7-10 years	36	24.70	24.70	78.10
	10 years and above	32	21.90	21.90	100.0
	Total	146	100.0	100.0	

Source: Survey, 2014

4.2 Service years of the respondents

From the Table 4-2 above we can deduce that 54(37%) of the respondents have 1 to 3 service years, the rest 24(16.4%) and 36(24.7%) have 4 to 6 and 7 to 10 service years respectively.

The remaining 32(21.9%) of the respondents have greater than 11 years of service. This indicates that 60(41.1%) of the respondents have 4 to 10 service years. From this we can say that they give quality and credible information for the subject matter.

4.3 Types of the Outsourced Non-Core Business Functions

The interviews and internal documents shows that outsourcing cleaning and security non-core business functions are started in May 2008 with the criteria of service level standards and experience of the service delivering trust and Dejen Company. By now security (guard), janitorial (cleaning), driving service (drivers), messengers or courier and maintenance services have been fully or partially outsourced. All of these services are delivered by Commercial Nominees for which Commercial bank of Ethiopia has ownership. The service delivered this company is advantageous to Commercial bank of Ethiopia because it is easy to manage and control over the services. In addition to the above non-core business functions there are other business functions which the bank outsourced such as daily laborer, car washer, gardener, welder, carpenter, health care service, maintenance service and file operator are outsourced fully or partially. Even if CBE has strategies to outsource other non-core business functions (postal, electrician, building design, procurement, and promotion).

The responses obtained through interview reveals that unavailability and incapability of the outsourcing agents in the country hinder the implementation. The goals /objectives of outsourcing non-core business functions are to focus on core business functions and to minimize costs over those businesses functions.

Table 4-3 Summary of Employees level of awareness about outsourcing concepts

Evaluation	Frequency	Percent	Valid Percent	Cumulative Percent
Very low	3	2.10	2.10	2.10
Low	15	10.30	10.30	12.30
Medium	56	38.40	38.40	50.70
High	61	41.80	41.80	92.50
Very High	11	7.50	7.50	100.0
Total	146	100.0	100.0	

Source: Survey, 2014

4.4 Employees' Knowledge about outsourcing

As it can be seen from Table 4-3 above, the largest groups of respondents 61 (41.8%) have high knowledge about the concept of outsourcing and 56(38.4%) of them know the concept of outsourcing in medium state. From this we can conclude that 80.2% of the respondents have knowledge about the concept of outsourcing. This helps the researcher to get reasonable responses from them since they have knowledge about the study subject. Moreover, 7.5% of respondents have very high level of knowledge about the concept of outsourcing. However, about 2% of them were unfamiliar to the concept. Generally, from the above survey results the responses obtained for the questionnaires are reasonably good.

Table 4-4 Summaries of employees' satisfaction with outsourced services

Evaluation	Frequency	Percent	Valid Percent	Cumulative Percent
Very Dissatisfied	5	3.42	3.42	3.42
Dissatisfied	20	13.70	13.70	17.12
Indifferent	5	3.42	3.42	20.54
Satisfied	112	76.70	76.70	97.24
Very Satisfied	4	2.76	2.76	100.0
Total	146	100.0	100.0	

Source: Survey, 2014

4.5 Employees levels of satisfaction with outsourcing services

As depicted in Table 4-4 above shows that 112(76.7%) of the respondents are satisfied with the services outsourced. 20(13.7%), 5 (3.42%), and 5(3.42%) of them said that they are dissatisfied, very dissatisfied and neutral respectively. The remaining, 4(2.76%) of the respondent affirmed that they are very satisfied. This indicates that 17.12% of the total respondents are not satisfied by the services delivered by outsourcing agents. Therefore, it can be concluded that relatively the overall outsourcing services

Table 4-5 Summaries of employees ‘evaluation the way of outsourcing the services

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
CBE has standards to measure the results and quality of performance of outsourced workers	10 (6.9)	4 (2.7)	23 (15.8)	79 (54.00)	30 (20.6)	146 (100)	2.21
Due to applying outsourcing strategy the competitiveness of CBE increased	21 (14.4)	14 (9.6)	18 (12.3)	30 (20.5)	63 (43.2)	146 (100)	2.37
Commercial bank of Ethiopia has formal rules and procedures to communicate the cultures of the bank	17 (11.6)	26 (17.8)	17 (11.6)	37 (25.4)	49 (33.6)	146 (100)	2.48
Outsourced workers effectively know their duties and responsibilities	17 (11.6)	7 (4.8)	25 (17.2)	58 (39.7)	39 (26.7)	146 (100)	2.35
Outsourced workers respect the cultures and norms of the bank	12 (8.2)	9 (6.1)	21 (14.4)	49 (33.6)	55 (37.7)	146 (100)	2.13

Source: Survey, 2014

4.6 Employees evaluation about the process of outsourcing the services

The Tables 4-5 above shows that 54% and 39.7% the respondents disagree with the service quality and knowledge of the service providers about their duties and responsibilities. Thus, it is sign for the weakness of the service providers. In addition the study shows that 43.2%, 33.6% and 37.7% of the respondents strongly disagree in the questions of apply outsourcing strategy increase CBE’s competitiveness, CBE has formal rules and procedures to communicate the cultures of the bank and Outsourced workers effectively know their duties and responsibilities.

This indicate that the services delivered by the agent are not good quality performance, they do not know their duties and responsibilities very well and the CBE has no formal rules and procedures to communicate the norms and cultures of Commercial bank of Ethiopia. The interview also assured that CBE does not have risk assessment strategy and way of communication organizational cultures. This reply shows that Commercial Bank of Ethiopia has to do a lot to improve such weaknesses.

Table 4-6 Summary of evaluating the overall outsourcing practices

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
Motor vehicle (car) accidents has been increased due to inexperienced outsourced staffs	51 (34.9)	63 (43.2)	11 (7.5)	13 (8.9)	8 (5.5)	146 (100)	3.93
There are ethical problems of those of supplied staffs	69 (47.3)	55 (37.6)	3 (2.1)	10 (6.8)	9 (6.2)	146 (100)	4.13
Poor handling of the Bank's resource and high maintenance costs are occurred	64 (43.8)	53 (36.3)	15 (10.3)	9 (6.2)	5 (3.4)	146 (100)	4.11
Theft of vehicles' parts has increased due to outsourcing workers	59 (40.4)	56 (38.4)	3 (2.1)	21 (14.3)	7 (4.8)	146 (100)	3.95
Organizational citizenship and commitment decreased	60 (41.1)	63 (43.2)	11 (7.5)	4 (2.7)	8 (5.5)	146 (100)	4.12
There are high problem of respecting professional employees of the bank	59 (40.4)	61 (41.9)	10 (6.8)	11 (7.5)	5 (3.4)	146 (100)	4.08
Inexperienced and incompetent workers are provided	62 (42.5)	49 (33.6)	14 (9.6)	10 (6.8)	11 (7.5)	146 (100)	3.97
High misalignment between the bank service requirement and capacity of service provider	64 (43.8)	51 (34.9)	19 (13.0)	9 (6.2)	3 (2.1)	146 (100)	4.12
There are problem of controlling outsourced staffs during working hours	69 (47.3)	39 (26.7)	18 (12.3)	12 (8.2)	8 (5.5)	146 (100)	4.10
Consistency and quality of services delivered by outsourced staffs are poor	61 (41.8)	45 (30.8)	21 (14.4)	14 (9.6)	5 (3.4)	146 (100)	4.29

Source: Survey, 2014

4.7 Evaluation of the overall outsourcing practices

The Table 4-6 above illustrates that majority of the respondents agrees with the increment of Motor vehicle (car) accidents, there are ethical problem in outsourced employees, costs of maintenance increases due to Poor handling of resources, theft of vehicles' parts increased.

There are also problems of respecting professional employees, less consistency and quality of services delivering, organizational citizenship and commitment decreased and there is high misalignment between the bank service requirement and capacity of service provider. From this we can conclude that there are big challenges with respect to those issues.

Table 4-7 Summary of employees' evaluation about Security service

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
Outsourcing Security Service save time and cost	83 (56.8)	34 (23.30)	21 (14.4)	4 (2.7)	4 (2.7)	146 (100)	4.29
Outsourcing Security Service allow to focus on core business function	77 (52.7)	33 (22.6)	18 (12.3)	14 (9.6)	4 (2.7)	146 (100)	4.13
Outsourcing Security Service improves service quality	41 (28.1)	34 (23.3)	38 (26.0)	26 (17.8)	7 (4.8)	146 (100)	3.52
Outsourcing Security Service reduce risk	17 (11.6)	39 (26.7)	31 (21.2)	52 (35.6)	7 (4.8)	146 (100)	3.77
Outsourcing Security Service reduce budget allocation	59 (40.4)	49 (33.6)	27 (18.5)	9 (6.2)	2 (1.4)	146 (100)	4.05
Outsourcing Security Service lower investment requirement	52 (35.6)	35 (24.0)	47 (32.2)	10 (6.8)	2 (1.4)	146 (100)	3.86
Outsourcing Security Service brings lack of internal expertise	58 (39.7)	35 (24.0)	27 (18.5)	19 (13.0)	7 (4.8)	146 (100)	3.81
Outsourcing Security Service increase flexibility	63 (43.2)	40 (27.4)	29 (19.9)	12 (8.2)	2 (1.4)	146 (100)	4.03
Outsourcing Security Service acquire innovative ideas/new technology	60 (41.1)	37 (25.3)	28 (19.2)	13 (8.9)	8 (5.5)	146 (100)	3.88
Outsourcing Security Service change fixed cost into variable costs	55 (37.7)	44 (30.1)	30 (20.5)	13 (8.9)	4 (2.7)	146 (100)	3.91

Source: Survey, 2014

4.8 Outsourcing Security services

In Table 4-7 above, about nearly half (50%) of the respondents are satisfied that security services save time and cost, allow to focus on core business function, improves service quality, reduce budget allocation, lower investment requirement, increase flexibility, changes fixed cost into variable costs. This implies that outsourcing these above non-core business functions are in good position or advantageous. However, 40.4% of the respondents are disagree with outsourcing security service reduce risk and 63.7% of the respondents agree that it brings lack of internal expertise. From this we can infer that outsourcing security services are less important in reducing risk and bringing internal expertise.

According to Bhattacharya, (2003), Financial and cost drivers reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. According to Bhattacharya, other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology. Security service outsourcing reduces budget costs which are allocated to HRP, recruitment, training and development costs and the like. We can say that outsourcing security services are advantageous to the profitability of the bank.

Table 4-8 Summary of employees' evaluation about outsourced cleaning services.

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
Outsourcing cleaning Service save time and cost	77 (52.7)	42 (28.8)	18 (12.3)	6 (4.1)	3 (2.1)	146 (100)	4.26
Outsourcing cleaning Service allow to focus on core business function	67 (45.9)	50 (34.2)	18 (12.3)	7 (4.8)	4 (2.7)	146 (100)	4.16
Outsourcing cleaning Service improves service quality	39 (26.7)	37 (25.3)	41 (28.1)	21 (14.4)	8 (5.5)	146 (100)	3.53
Outsourcing cleaning Service reduce risk	47 (32.2)	46 (31.5)	35 (24.0)	10 (6.8)	8 (5.5)	146 (100)	3.78
Outsourcing cleaning Service reduce budget allocation	68 (46.6)	49 (33.6)	17 (11.6)	10 (6.8)	2 (1.4)	146 (100)	4.17
Outsourcing cleaning Service lower investment requirement	62 (42.5)	36 (24.7)	33 (22.6)	11 (7.5)	4 (2.7)	146 (100)	3.97
Outsourcing cleaning Service brings lack of internal expertise	54 (37.0)	34 (23.3)	32 (21.9)	12 (8.20)	14 (9.6)	146 (100)	3.7
Outsourcing cleaning Service increase flexibility	63 (43.2)	42 (28.8)	26 (17.8)	12 (8.2)	3 (2.1)	146 (100)	4.03
Outsourcing cleaning Service acquire innovative ideas/new technology	56 (38.4)	40 (27.4)	27 (18.5)	15 (10.3)	8 (5.5)	146 (100)	3.83
Outsourcing cleaning Service change fixed cost into variable costs	55 (37.7)	46 (31.5)	25 (17.1)	15 (10.3)	5 (3.4)	146 (100)	3.90

Source: Survey, 2014

4.9 Outsourcing cleaning services

The Table 4-8 above shows that outsourced cleaning services are advantageous in saving time and cost, allowing the professional employees to focus on core business function, improving service quality, reducing risks and budget allocations, lowering investment requirement, increasing flexibility, acquiring innovative ideas/new technology and changing fixed costs into variable costs. However, the majorities of s respondents (60.3%) agree with outsourcing cleaning service brings lack of internal expertise. This indicates that outsourcing brings lack of internal expertise because all employees are from outside the organization. From this we can conclude that outsourcing cleaning service benefits are greater than its challenges.

Table 4-9 Summary of employees' evaluation about outsourced driving services.

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
Outsourcing driving Service save time and cost	14 (9.6)	9 (6.2)	3 (2.1)	35 (24)	58 (58.2)	146 (100)	4.30
Outsourcing driving Service allow to focus on core business function	67 (45.9)	44 (30.1)	22 (15.1)	10 (6.8)	3 (2.1)	146 (100)	4.11
Outsourcing driving Service improves service quality	9 (6.2)	30 (20.5)	23 (15.8)	42 (28.8)	42 (28.8)	146 (100)	3.50
Outsourcing driving Service reduce risk	5 (3.4)	37 (25.3)	15 (10.3)	35 (24.0)	54 (37.0)	146 (100)	3.82
Outsourcing driving Service reduce budget allocation	65 (44.5)	44 (30.1)	20 (13.7)	13 (7.9)	4 (2.7)	146 (100)	4.05
Outsourcing driving Service lower investment requirement	56 (38.4)	42 (28.8)	32 (21.9)	11 (7.5)	5 (3.4)	146 (100)	3.91
Outsourcing driving Service brings lack of internal expertise	62 (42.5)	36 (24.7)	23 (15.8)	14 (9.6)	11 (7.5)	146 (100)	3.85
Outsourcing driving Service increase flexibility	64 (43.8)	39 (26.7)	29 (19.9)	12 (8.2)	2 (1.4)	146 (100)	4.03
Outsourcing driving Service acquire innovative ideas/new technology	69 (47.3)	32 (21.9)	25 (17.10)	15 (10.3)	5 (3.4)	146 (100)	3.99
Outsourcing driving Service change fixed cost into variable costs	56 (38.4)	45 (30.8)	26 (17.8)	14 (9.6)	5 (3.4)	146 (100)	3.91

Source: Survey, 2014

4.10 Outsourcing Driving services

Table 4-9 above describes 62% of the respondents noticed that outsourced driving services do good to focus on core business function, reduce budget allocation, lower investment requirement, increase flexibility, change fixed cost into variable costs. This indicates that outsourcing driving services are useful to improve the profitability of Commercial bank of Ethiopia. On the contrary, 82.2%, 57.6%, 61% and 67.2% of the respondents replied that outsourcing driving services do not save time and cost, improve quality, reduce risk, and improve internal expertise respective. From this we can infer that there are challenges and problems regarding those above issues raised due to outsourcing driving /motorist services and it indicates driving services are not effective in Commercial bank of Ethiopia.

Table 4-10 Summary of employees' evaluation regarding outsourced messenger services.

Items	Frequency and Percentage (%)					Total	Mean
	5	4	3	2	1		
Outsourcing messenger Service save time and cost	7 (4.8)	17 (11.6)	3 (2.1)	87 (59.6)	32 (21.9)	146 (100)	4.32
Outsourcing messenger Service allow to focus on core business function	73 (50.0)	42 (28.8)	23 (15.8)	6 (4.1)	2 (1.4)	146 (100)	4.22
Outsourcing messenger Service improves service quality	40 (27.4)	46 (31.5)	39 (26.7)	13 (8.9)	8 (5.5)	146 (100)	3.66
Outsourcing messenger Service reduce risk	51 (34.9)	43 (29.5)	35 (24.0)	15 (10.3)	2 (1.4)	146 (100)	3.86
Outsourcing messenger Service reduce budget allocation	65 (44.5)	47 (32.2)	21 (14.4)	11 (7.5)	2 (1.4)	146 (100)	4.11
Outsourcing messenger Service lower investment requirement	60 (41.1)	36 (24.7)	34 (23.3)	12 (8.2)	4 (2.7)	146 (100)	3.93
Outsourcing messenger Service brings lack of internal expertise	64 (43.8)	23 (15.8)	37 (25.3)	12 (8.2)	10 (6.8)	146 (100)	3.82
Outsourcing messenger Service increase flexibility	65 (44.5)	37 (25.3)	31 (21.2)	11 (7.5)	2 (1.4)	146 (100)	4.04
Outsourcing messenger Service acquire innovative ideas/new technology	67 (45.9)	20 (13.7)	40 (27.4)	12 (8.2)	7 (4.8)	146 (100)	3.88
Outsourcing messenger Service change fixed cost into variable costs	60 (41.1)	42 (28.8)	25 (17.1)	13 (8.9)	6 (4.1)	146 (100)	3.94

Source: Survey, 2014

4.11 Outsourcing messenger services

The summary of Table 4-10 above shows that the majority the respondents agree with outsourcing messenger services cost minimized and time saved, allow to focus on core business function, improves service quality, reduce risks and budget allocations and investment requirements, increase flexibility and acquire innovative ideas/new technology. On the other hand (59.6%) of the respondents rated as outsourcing messenger services brings lack of internal expertise. This shows that the benefit obtained from outsourcing messenger service is greater than the challenges arise because of outsourcing this service. From this we can infer that outsourcing courier service is good strategy to the Commercial Bank of Ethiopia.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

Introduction

The study has explored the benefits and challenges of outsourcing practices at Commercial Bank of Ethiopia with reference to Security, cleaning, driving and courier Services in order to answer whether outsourcing has facilitated or hampered the core business functions and to identify possible problems and benefits that occur after the implementation of outsourcing strategy. This chapter concerned with the highlights of the study conclusions that are derived from the data analysis and discussions, limitations of the study are presented and finally recommendations are forwarded at the end based on the findings and conclusions drawn from the study of the research.

5.1 Conclusions

Outsourcing is a fashionable management technique. Unlike other management fads, such as quality control or participation, there are good theoretical reasons such as access to economies of scale and expertise for its use (Nicholas Beaumont and Amrik Sohal, 2004). The purpose of this research is to assess the benefits and challenges of outsourcing non-core business functions at Commercial Bank of Ethiopia. It has explored the practices of outsourcing in Commercial Bank of Ethiopia to Security, cleaning, driving and messenger Services. On the basis of the findings the following conclusions are presented.

The findings confirm above 80% of the respondents have first degree and 11% of them have second holder. From this we inferred that they can understand the questionnaires and respond fairly .In addition, above 87% of the respondents have good understanding about the concept of outsourcing. This indicates that although outsourcing is in infancy stage in Ethiopia, permanent workers have good understanding about the concept of outsourcing non-core business functions.

Majority of the respondents, above 79% of them are satisfied with the service received from the outsourced employees and only 17% are unsatisfied with the service. This indicates that the service received from outsourced agent is somewhat satisfactory. Unlikely, the result also shows that the respondents are agree with Commercial Bank of Ethiopia does not have standards to measure the results and quality of performance of outsourced workers and outsourced workers do not know all their duties and responsibilities, and they do not respect the cultures and norms of the bank,

Above 50% of the respondents agree that outsourcing security services save time and cost improves service quality, reduce budget allocation, lower investment requirement, increase flexibility, changes fixed cost into variable costs. This implies that outsourcing those above non-core business functions are in good position or advantageous. However,the Bank has faced some serious problems due to outsourcing the driving service to an external supplier including repeated thefts of vehicle parts. According to the respondents, outsourced staffs were not committed towards their responsibility. This is due to the inflexibility of the contract to consider this changing condition.

Majority of informants claimed that outsourced workers were not both committed and loyal to the Commercial bank Ethiopia and the bank is unable to regularly monitor and evaluate the performance of the outsourced service provider and does not have risk assessment strategies due to outsourced workers.

On the other hand, the finding revealed that majority of respondents appreciate benefited from the cleaning service because of availability of the service on full working hours, providing cleaning service on non-working days and use of better cleaning equipments. The interview with OMO indicates although the bank increases its accessibility it does not fully utilize its resource by removing non-core business functions to outsourcing agents due to unavailability and incapability the service providers.

5.2 Limitation of the study

Everything has its own limitations. The major limitation of this research is inability to incorporate all CBE's organs which are found through the country. Furthermore, this study is conducted on a single company, so the results will be hard to generalization and also lack of access to the right data and up-to-date literature in the study areas are the major limitation of the study. All the problems stated above, would have some impact on the result of the study that will call up for other researchers to study further.

5.3 Recommendations

On the basis of the findings and conclusions reached, the researcher would like to make the following recommendations in view of what has been concluded by the data collected and analyzed.

1. To overcome the contractual problems that occur in the implementation and practices of outsourcing the Bank should have to be flexible to consider changing environment rather than insisting to enforce rigid agreements on the contract.
2. The Bank select competent service providers need to consider some financial savings from economies of scale achieved by the vendors in the long term besides quality of services and reduction of administrative burdens that enable to save financial resources to its core businesses.
3. In order to avoid the thefts of vehicle parts, and ensure the reliability and the quality of services, the Bank should initiate best control mechanisms.
4. Commercial Bank of Ethiopia need to be equipped mentally and physically through proper and continuous training that makes the service providers active and loyal to the bank.
5. In order to make committed and loyal service provider, the management of the bank should conduct discussions with the service provider agents.
6. To minimize the lack of internal expertise the commercial bank of Ethiopia should develop a mechanism to solve the problem.
7. Commercial Bank of Ethiopia should have its own rules and procedures to measure and control outsourced employees' activity.
8. Commercial Bank of Ethiopia should inform the new comer outsourced staffs about the norms and cultures of the bank and their duties and responsibilities of them.
9. Commercial Bank of Ethiopia should have regular risk assessment strategies which is raised due to unethical outsourced workers
10. Commercial Bank of Ethiopia should use time table to control the time wasted by outsourced staff.
11. Commercial Bank of Ethiopia should bring some effective outsourced workers into permanent workers to increase others effectiveness and efficiency.

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Appendices

Appendices I

St. Mary University School of Graduate Studies Faculty of Business Masters of Business Administration (MBA) Program

First of all I would like to forward my heartfelt gratitude and respect to you for administering this questionnaire honestly and responsibly. The questionnaire is designed to collect the necessary information to undertake a research on the topic “Outsourcing benefits and challenges at Commercial Bank of Ethiopia” for the partial fulfillment of the requirements of the degree of Masters of Business Administration. Outsourcing is simply acquiring a product or service from outside supplier rather than producing in the organization or it is transfer or delegation of the operation and day-today management of the business process to an external service provider.

Globally many organizations outsource one or more of their business function from outside vendors. Moreover, as various researches indicate the trend of outsourcing throughout the world has been increasing from time to time. Outsourcing is a strategic issue which should be handled by top management of an organization.

However, the practice of outsourcing at Commercial Bank of Ethiopia is at its infancy stage, thus the objective of this research is to identify the major challenges and benefits of outsourcing at Commercial Bank of Ethiopia. Finally, I would like to confirm you that all the information you provide in this questionnaire will be confidential and will exclusively be used for research purpose only.

Note:

- ❖ **The respondents must be one and above year experiences.**
- ❖ **The respondents need not write their name**

Thank You for your co-operation, I remain

Workalemahu Ababu

Part I

Instruction: Put “circle” on the appropriate letter to signify the importance level of each item.

1. Demographic information

Sex: A. Male

B. Female

Age: A.18-30

B.31-45

C. 46-55

D. Above 55

2. Educational level

A. Certificate

B. Diploma

C. Degree

D. Above degree

3. How many years have you stayed in CBE?

A. 1-3 years

B. 4-6 years

C. 7-10 years

D. Above 10 years

4. What is your level of awareness about the concept of outsourcing?

A. Very low

D. High

B. Low

E. Very high

C. Medium

5. How do you feel the service those are delivered by the outsourcing service provider?

A. Very dissatisfied

D. Satisfied

B. Dissatisfied

E. Very satisfied

C. Neutral

Part II

Questions designed to collect information about the benefits and demerits of outsourcing in commercial bank of Ethiopia

Indicate how important you feel each item in making decision of outsourcing the business functions using the following rating scale: 5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = Strongly Disagree

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

6. Regarding standards, competitiveness, cultural aspects, duties and responsibilities, and norms.

Table I

#	Justification for making the decision	5	4	3	2	1
1	CBE has standards to measure the results and quality of performance of outsourced workers					
2	Due to applying outsourcing strategy the competitiveness of CBE increased					
3	Commercial bank of Ethiopia formal rules and procedures to communicate the cultures of the bank					
4	Outsourced workers effectively know their duties and responsibilities					
5	Outsourced workers respect the cultures and norms of the bank					

7. Summary of Evaluating the challenges or problems arise due to outsourcing of non-core business functions

Table II

#	Justification for making the decision	5	4	3	2	1
1	There are ethical problems of those of supplied staffs					
2	Poor handling of the Bank's resource and high maintenance costs are occurred					
3	Theft of vehicles' parts has increased due to outsourcing workers					
4	Organizational citizenship and commitment decreased					
5	There are high problem of respecting professional employees of the bank					
6	Inexperienced and incompetent workers are provided					
7	High misalignment between the bank service requirement and capability of service provider					
8	There are problem of controlling outsourced staffs during working hours					
9	Consistency and quality of services are delivered by outsourced staffs					
10	Motor vehicle (car) accidents has been increased due to inexperienced staffs					

8. Rate the table to evaluate outsources of Security Service delivered by outsourcing agent.

Table III

#	Justification for making the decision	5	4	3	2	1
1	Outsourcing of Security Service save time and cost					
2	Outsourcing Security Service allow to focus on core business function					
3	Outsourcing Security Service improves service quality					
4	Outsourcing Security Service reduce risk					
5	Outsourcing Security Service reduce budget allocation					
6	Outsourcing Security Service lower investment requirement					
7	Outsourcing Security Service brings lack of internal expertise					
8	Outsourcing Security Service increase flexibility					
9	Outsourcing Security Service acquire innovative ideas/new technology					
10	Outsourcing Security Service change fixed cost into variable costs					

9. Rate the table to evaluate outsources of cleaning Service delivered by agent.

Table IV

#	Justification for making the decision	5	4	3	2	1
1	Outsourcing cleaning Service save time and cost					
2	Outsourcing cleaning Service allow to focus on core business function					
3	Outsourcing cleaning Service improves service quality					
4	Outsourcing cleaning Service reduce risk					
5	Outsourcing cleaning Service reduce budget allocation					
6	Outsourcing cleaning Service lower investment requirement					
7	Outsourcing cleaning Service brings lack of internal expertise					
8	Outsourcing cleaning Service increase flexibility					
9	Outsourcing cleaning Service acquire innovative ideas/new technology					
10	Outsourcing cleaning Service change fixed cost into variable costs					

10. Rate the table to evaluate outsources of driving/motorist service

Table V

#	Justification for making the decision	5	4	3	2	1
1	Outsourcing driving Service save time and cost					
2	Outsourcing driving Service allow to focus on core business function					
3	Outsourcing driving Service improves service quality					
4	Outsourcing driving Service reduce risk					
5	Outsourcing driving Service reduce budget allocation					
6	Outsourcing driving Service lower investment requirement					
7	Outsourcing driving Service brings lack of internal expertise					
8	Outsourcing driving Service increase flexibility					
9	Outsourcing driving Service acquire innovative ideas/new technology					
10	Outsourcing driving Service change fixed cost into variable costs					

11. Rate the table to evaluate outsources of messenger/courier service

Table VI

#	Justification for making the decision	5	4	3	2	1
1	Outsourcing courier Service save time and cost					
2	Outsourcing courier Service allow to focus on core business function					
3	Outsourcing courier Service improves service quality					
4	Outsourcing courier Service reduce risk					
5	Outsourcing courier Service reduce budget allocation					
6	Outsourcing courier Service lower investment requirement					
7	Outsourcing courier Service brings lack of internal expertise					
8	Outsourcing courier Service increase flexibility					
9	Outsourcing courier Service acquire innovative ideas/new technology					
10	Outsourcing courier Service change fixed cost into variable costs					

Appendices II

St. Mary's University School of Graduate Studies Faculty of Business

Interview Questions

This interview will conduct to gather data for MBA Thesis entitled '*Benefits and Challenges of the Outsourcing Practices: at CBE*'. I assure you that your responses will be used only for academic purpose.

1. When did bank start outsourcing non-core business functions?
2. How to explain outsourcing non-core business functions in CBE? Is it effective?
3. With how many agents the bank agreed in outsourcing non-core business functions?
4. What are the procedures to make a contract with outside service providers?
5. How to ensure the performance of the selected service provider?
6. What business functions are allowed for outside service providers now and why about others?
7. What are the goals/objectives of outsourcing non-core business functions?
8. How do you compare the challenges and benefits before and after outsourcing?
9. Due to outsourcing security services, is theft increased? Commitment decreased?
10. What are risk assessment strategies on outsourced employees?
11. How to communicate the cultures of CBE to the outsourced employees?
12. Do the bank have a plan to outsource other non-core business activities in future?
13. If you have any comments and suggestions?