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# Challenges And Prospects of Outsourcing: The Case of Commercial Bank of Ethiopia Bahir Dar District

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*CHALLENGES AND PROSPECTS OF OUTSOURCING; THE  
CASE OF COMMERCIAL BANK OF ETHIOPIA BAHIR DAR  
DISTRICT*

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**BDU1110465**

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## **Abbreviations**

**CBE:** Commercial Bank of Ethiopia

**BPO:** Business Process Outsourcing

**BTO:** Business transformation outsourcing

**CBE-** Commercial Bank of Ethiopia

**CN-** Commercial Nominees

**HR-** Human Resource

**PLC** -Private limited company

**SLA-** Service Level

Agreement

# Chapter one

## INTRODUCTION

### 1.1 Background of the study

According to Wilcocks and Lacity (2006) Outsourcing is the handing over of assets, resources, activities, or people to third party management to achieve agreed performance. Outsourcing has been defined as work done for a company by people other than the company's full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons (Seth, 2011).

Out sourcing is a recent phenomenon and becomes hot issue after 1989. Outsourcing was not formally identified as a business strategy. However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business (Handfield, 2006). Over a time the reason for outsourcing shifting to improve the services delivered by the company (Diskstein and Flast, 2009).

Outsourcing dates back to the 1970s. Initially it only involved IT-related issues, but gradually more and more enterprises realized that they could not be experts in more than one or two fields. This conclusion made them get rid of various areas of activity and entrust them to specialists. According to a survey by *Fortune* magazine, over 90% of business organizations today take advantage of external service providers, and in the European market alone the 2001 estimate of such services was US\$27 billion, which is growing from year to year. Originally, outsourcing was only used by large corporations, but nowadays it is becoming more and more popular among small-sized enterprises (Koszevska, 2004).

As Brown and Wilson (2005) outsourcing can work for any size company in any industry; there is no correlation between the success of the program and size or type of firm. Rather the success of an outsourcing program depends on planning, execution, selection of the right partner, and flexible service level agreements with the outsourcing provider.

In Ethiopian case the application of outsourcing is in its infancy stage. Currently there are few companies that are engaged in providing limited outsourcing service. The current outsourcing

practice in Ethiopia is limited to a company's non-core activities which are confined to recruitment service, security service and janitorial service.

Outsourcing has emerged as the most powerful tool for companies seeking to stay in today's competitive business environment. Its concept and practice is an infant in the Ethiopia context but a few years ago some organizations in Ethiopia tried to outsource some of their non-core functions, and commercial bank of Ethiopia is one of these organizations.

Commercial bank of Ethiopia (CBE) was established in 1942 and it is pioneer to introduce modern banking to the country. As CBE is the largest bank and development partner of the Ethiopian Government, it is expected to mobilize much amount of deposit. Currently, Commercial Bank of Ethiopia has 30 district offices and more than 1681 branches throughout the country which are serving as market outlets. From 30 districts CBE bahir dar district have 52 branches and 3200 clerical and 300 non clerical permanent employees. in addition the out sourced CN employees are 150 securites, 65 drivers ,200 messengers and 300 janitors, total of 500 employees serving the district . CBE Bahirdar district human resource office &(www.combanketh.et).

However, it is obvious that the bank's performance might be impacted (positively as well as negatively) by the banks outsourced services. It might have challenges on customer and Employee dissatisfaction, contract termination problems, communication problems and the like. The aim of this paper is not to explore all the success factors of CBE; rather focuses on the outsourcing issues of the bank. This study will assess the major challenges and opportunities of outsourcing its services and in the same manner it will assess the impact of outsourcing to the banks' organizational performance. Identifying these facts benefit the bank whether to continue with outsourcing or not, what major actions to take to the faced challenges and to have a proactive mechanisms to tackle the addressed challenges. More over the study will provide important inputs for researchers who are studying on risk management in outsourcing and for organizations this paper gives a better understanding of what would be anticipated when conducting outsourcing. As branches expanded the products and services of the bank are also increasing in a lot variety. Because of this the burden of the management also increased. Commercial bank of Ethiopia started outsourcing since 2010 G.C to reduce day to day administrative burdens as well as to get improved quality service.



The management of the CBE came to the decision to transfer some of the non-core functions to an external service provider. In relation to this the four services namely security service, messenger service, janitorial service have been outsourced to Dejen security and janitorial PLC since 2010. But after three years CBE contractual agreement with Dejen was stopped and from the year 2013 these services have been transferred to another new service provider organization called Commercial Nominees PLC. currently CBE outsourced more than seven activities to different organizations ,but the four major services i.e. security service, messenger service , janitorial service and drivers service which are outsourced to commercial nominees plc. are part of this study.

The recent service level agreement document includes the following points:

- Employees salary, contract price and payment
- Insurance coverage
- Tax and duties
- Condition of Suspension and termination
- Code of conduct and dispute settlement
- Duration of contract
- Commencement of the service

## **1.2 Statement of the problem**

Outsourcing is a very crucial function in an organization because it directly affects the firm's Operational activities. The use of outsourcing in Ethiopia is very low with the exception of Outsourcing some non-core functions like security and janitorial services. CBE has practiced the Outsourcing services for more than 11 years. In today's competitive business environment effective management of human resource is necessary for organizations. Many researches reveal that outsourcing became famous approach for business organizations to become efficient and effective .different aspects of the financial organizations outsourced in banking industry of Ethiopia.

The leading bank which out sourced some part of its human resource to other organizations ,commercial bank of Ethiopia faces different problems in the quality of service it require. The

services provided are below the service quality standards and most of all the bank has not focused on its core activities since there are still hassles to work on. Following the identified problems in CBE, steps have been taken to solve the problem by bringing trusted and better qualified people to provide the services by outsourcing those services to other companies. This brings some opportunities like reducing operational costs, Gained access to talent and many more other that made the bank to focus on its core banking activities.

Since outsourcing is a recent implication in the Ethiopian banks including CBE there is no well documented researches presented regarding out sourcing.

In addition currently there are some controversies between the out sourced employees of the bank and the outsourcing company regarding to benefit and other management issues. So this demands the researcher to know ,whether this phenomena have effect on the service quality of the leading bank and become challenges to the goodwill of the bank.so this study seeks to narrow the gap by assessing the challenges and benefits of outsourcing in commercial bank of Ethiopia.

### **1.3 Research questions**

The following questions will be answered after this study conducted

1. What are the expectations of the bank after outsourcing?
2. What are the critical reasons of outsourcing the services?
3. What are the benefits gain the bank after outsourcing the services?
4. What are the challenges or problems faced after outsourcing the services?
5. What should be done to overcome problems or challenges and to maximize the prospects of outsourcing?

## **Objective of the**

### **1.4 General objective**

The general objective of this study is to critically identify the challenges and benefits of outsourcing at commercial bank of Ethiopia.

### **1.4.1 Specific objectives**

In addressing the general objective, the study concentrates on the following specific objectives:

1. To assess the major expectations of the bank while outsourcing;
2. To know the reason for outsourcing
3. To know the benefits of the bank after outsourcing
4. To examine the challenges encountered in carrying out outsourcing;
5. To identify the measures taken to overcome the identified challenges.

### **1.5 Significance of the study**

Outsourcing as recent practice in commercial bank of Ethiopia it has its own advantage and disadvantages. Commercial bank of Ethiopian has different reasons to outsource some of its services to other companies. So this study helps CBE to identify what are the specific challenges of the outsourced services and to come up with solutions in order to continue with its goodwill by the society, this in turn affects its achievement. The study also has significance to the government of Ethiopia to review policies and procedures for outsourcing companies in relation to reducing unemployment. From this study CBE management learns appropriate ways to select the right vendors that supplies competent and qualified workers, and can estimate the relative cost of outsourcing.

In addition, the study creates an opportunity for the researcher to gain more knowledge in the practices of outsourcing. Moreover the study will serve as a reference for other researchers who conduct further research in related issues. Lastly other similar business organizations will benefit from the findings and recommendations of this research.

## **1.6 Scope of the study**

The scope of this study is limited to commercial bank of Ethiopia branches under Bahirdar district area with special attention to the four outsourced activities, security, messenger, janitor driver services.

## **1.7 Limitation of the study**

Commercial bank of Ethiopia is the largest and oldest bank in Ethiopia; it has 30 districts and more than 1681 branches all over the country. Due to time limitation and to make the data manageable the study will be conducted at branches under Bahirdar district .also this study is limited to the four services, security, messenger, janitor driver service.

## Chapter two

### 2. Literature review

This chapter deals with a review of issues and factors that have been explored and studied in the existing literature on outsourcing.

#### 2.1 The concept of outsourcing

Outsourcing is made up of two words – ‘out’ and ‘sourcing’. Hence, to define outsourcing we must first be clear on the meaning of ‘sourcing’. Sourcing refers to the act of transferring work, responsibilities and decision rights to someone else. As managers, we constantly delegate or source work to our employees. Why do we engage in outsourcing? We must source out work because there are others who can do it cheaper, faster, better and because we have other, more important, demands on our resources. The organization will run at a loss by having a manager conduct the administrative task rather than sourcing it to an individual who is costing the organization less in terms of salary. Hence costs, both real (the salary) and opportunity (the time, attention and effort), are important determinants in the sourcing decision. Besides efficiency, outsourcing also helps get work done more effectively. Moreover, engaging in outsourcing allows an organization access to expertise, knowledge and capabilities found outside its bounds. Outsourcing initiatives have evolved from short-term projects focused on cost savings to executive-level business strategies that enable companies to gain – and sustain – revenues and profits in the competitive global marketplace (John, et.al. 2006).

Having the above brief description of outsourcing, next we will see how different scholars defined the term “outsourcing”.

Outsource magazine (2011), defined it as: Outsourcing is when any operation or process that could be or would usually be performed in-house by an organization’s employees is sub contracted to another organization for a substantial period. The outsourced tasks can be performed onsite or off-site.

Furthermore, Beaumont and Sohal (2004) give the following clarification for in-sourcing and Out-tasking so as to show their difference from outsourcing:

*In-sourcing means applying outsourcing’s discipline to internal suppliers, often having them compete with external suppliers. Out-tasking connotes work being done outside the organization,*

*but the organization retaining full control over the operation; precisely defining the task and how it is to be done. The vendor has no discretion and performs a programmable task. Partnering implies that the client passes discretion for how the task is done to the vendor.*

Outsourcing is a hierarchical sequence of decisions. The fundamental decision is whether or not to outsource a business process or function. Outsourcing decisions can be complex because modern organization's applications tend to be integrated with each other, sensitive (poor task performance may affect the organization's reputation); IT applications permeate the firm touch that most activities performed; it may be difficult to hive-off and outsource a single application.

The criteria used to evaluate outsourcing decisions may be multidimensional and intangible; besides difficult to estimate cost savings, the firm must consider intangible effects such as freeing up managerial time and possible dependence on the vendor (Nicholas Beaumont and Amrik Sohal, 2004).

Although various organizations have tried to look at what the different Authors have written and put it in consideration in their bid to outsource, they have not fully met their intentions like cost reduction, efficient and effective service provision from the service providers to whom they outsource their activities. This is partly due to the ever increasing prices of products which also mean increase in prices of services being outsourced.

## **2.2 Definition and terms of outsourcing**

The term of outsourcing is defined in different ways by different scholars based on the location and type of function outsourced. The following are some of the definitions and terms of outsourcing explained by scholars.

Out sourcing is "the act of obtaining services from an external source" (Brown and Wilson, 2005). Outsourcing is "the strategic use of outside resources to perform activities traditionally handled by internal staff and resources" (Handfield, 2006). Business process outsourcing is "the movement of business processes from inside the organization to an external service provider" (Duening and Click, 2005).

According to Aran and Patel (2005) Business outsourcing is "the contractual service of transferring one or more businesses process to a third party provider, where the latter takes over the management, ongoing support and infrastructure of the entire application or process" Among

the definitions of the above different authors, it is clearly found that they come to a common background in which they agree that outsourcing could be summarized in the functions of make or buy decisions, transfer the job to a third party, and organizational focus on core business activities while handling non-core activities to others who are specialist in order to increase job efficiency and cost reduction.

#### A. Offshore:

Offshore outsourcing is “the *transfer of the responsibility for delivering service to provide who delivers these services from continent different from where the recipients operate*” (Buelen et al, 2006).

Offshoring is the outsourcing of service activities to a lower cost organization in a foreign country and it allows the outsourcer companies to compete on a global basis for lower costs and better efficiencies .On the contrary offshoring leads to loss of local jobs due to relocation of the business unit, lose of visibility and control over a potentially extended supply chain, difficulty with business operations due to time differences, difficulties in transferring knowledge, and misunderstandings due to language or culture(Alex Bank,2010).

#### B. Nearshore:

As Meresea (2007) cited from <http://www.Value basedmanagement.net> near shoring is defined as “outsourcing *within nearby territory, accessible by short travel or telephone in the same or neighboring time zone.*”

Near shoring is outsourcing activities to other neighboring country having the same time zone and short distance that can be accessible in simple way. Nearer countries are likely to have common cultural values and similar mindset. The time difference and the cost to travel are relatively reduced. As the result his type of outsourcing overcomes some of the difficulties cited in offshoring (Alex Bank, 2010).

On shoring is also called domestic outsourcing. As the name indicates it refers to assigning some services to be provided by some organizations outside a company but within the same country. This type of outsourcing helps organization to achieve lower operation costs and benefits from having local employees which are not obtained from other type of outsourcing (Alex Bank, 2010)

As we see from the above definitions the three type of outsourcing are differ in location of vendor to whom the functions are outsourced and their benefits provide to the outsourcer

organization. Both offshore and near shore outsourcing made in different countries where as onshore is realized in home country with related to the place of the outsourcer organization. In relation to this commercial bank of Ethiopia outsourced its service to local company called commercial nominees PLC. Thus, the study of this research is focus on the third type of outsourcing-on shoring. Nutshell as definitions given by different authors, the concept of all type of outsourcing could be summarized in the functions of make decisions to transfer the job to a third party, and organization focus on core activities by handling over non-core activities to others who are specialist in order to increase job efficiency , cost reduction , service quality, etc.

## **2.3 History of outsourcing**

Since the Industrial Revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20<sup>th</sup> century was a large integrated company that can “own, manage, and directly control” its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures. To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced (Handfield, 2006).

### **2.3.1 Initial Stages of Evolution**

Outsourcing was not formally identified as a business strategy until 1989 (Handfield, 2006). However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. Publishers, for example, have often purchased composition, printing, and fulfillment services. The use of external suppliers for these essential but ancillary services might be termed the baseline stage in the evolution of outsourcing. Outsourcing support services is the next stage. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of “good housekeeping”.



Outsourcing components to affect cost savings in key functions is yet another stage as managers seek to improve their finances (Handfield, 2006).

### **2.3.2 Strategic Partnerships**

The current stage in the evolution of outsourcing is the development of strategic partnerships.

Until recently it had been axiomatic that no organization would outsource core competencies, those functions that give the company a strategic advantage or make it unique. Often a core competency is also defined as any function that gets close to customers.

In the 1990s, outsourcing some core functions may be good strategy, not anathema. For example, some organizations outsource customer service, precisely because it is so important.

Eastman Kodak's decision to outsource the information technology systems that undergird its business was considered revolutionary in 1989, but it was actually the result of rethinking what their business was about. They were quickly followed by dozens of major corporations whose managers had determined it was not necessary to own the technology to get access to information they needed. The focus today is less on ownership and more on developing strategic partnerships to bring about enhanced results. Consequently, organizations are likely to select outsourcing more on the basis of who can deliver more effective results for a specific function than on whether the function is core or commodity (Handfield, 2006).

## **2.4 The Rational for Outsourcing**

Outsourcing has moved from initiatives that were financially motivated to the current stage of being strategically motivated. Power (2006), quoted that financially motivated outsourcing efforts have been around since the early days of commerce. Manufacturing work, such as garment production, has long been outsourced to locations in South East Asia. The goal of these efforts was to get the best financial deal in terms of lowest cost of production. These efforts were mainly one-sided; information and requirements moved from the client to the vendor, who would then construct the product and/or service and deliver this back to the client. Information and knowledge would seldom flow back from the vendor to the client, as the client was assumed to be more knowledgeable than the vendor. In financially driven outsourcing efforts, it was common for a firm to structure a long-term deal with a single vendor so as to get the best possible discounts and secure the most stable relationship. After all, the goal here was to offload work to places where it could be done at lower cost.

Strategically driven outsourcing efforts are capability- and competency- intensive. The focus here is to tap into specialized expertise, knowledge, processes and capabilities found outside the organization, and to use these as inputs to help improve the effectiveness and efficiency of operations. More important, if done properly, strategically driven outsourcing efforts can not only help operations, but can also contribute to the strategic and competitive advantages of the organization.

Strategic outsourcing often involves partnerships between the client organization and multiple vendors. As a prime example consider the case of Dell Computers. Dell does not hold large amounts of computer hardware in its inventory; instead its core competency is its information systems and supply chain management systems. Dell takes in customer orders, and then coordinates the fulfillment process. To be successful in this, Dell must rely on a vast network of suppliers and manufacturers, not only for the products, but also for knowledge. Dell realizes that it does not have the necessary resources to have up-to-date information about each and every component of computer hardware (Power, 2006).

Such knowledge resides in the minds of Dell's business partners and hence Dell must not only send order information to these suppliers, but must also access the knowledge possessed by them. In addition, Dell must ensure that knowledge from one supplier is shared with the others, so that each one benefits from improved knowledge and insights. Strategically driven outsourcing efforts involve such collaboration between the client and multiple vendors, because the client organization is focused on getting the best breed of knowledge and expertise, as these have serious ramifications on its strategic and competitive advantages (Power, 2006).

There are several factors that are influencing firms to consider outsourcing as a business strategy (see Figure 1). We will now enumerate these, recognizing the fact that some firms may be influenced more by some of these factors than others.

*Source: Mark power, The Outsourcing Handbook: How to Implement a Successful Outsourcing Process, 2004*

## **2.5 Factors driving the need to outsource**

- ✓ Rise of global knowledge
- ✓ Workforce Increased sophisticate on of IT Global diffusion of knowledge
- ✓ Cost savings
- ✓ Access to resources and Knowledge Focus on core competencies

### **2.5.1 Access to Resources and Knowledge is Important, not Ownership**

The earlier thinking about the ownership of factors of production for securing competitive advantages is outdated. Today, the more important detail is how an organization can access external resources and knowledge, rather than trying to own the resources. No organization is self-sufficient. Being self-sufficient is not economically viable for a basic reason – opportunity cost, which is the value derived from the best alternative use of a resource. If organizations try to do everything and spend all their resources to create expertise, skills and technology, they are under-utilizing their resources. Other firms in the marketplace may be able to provide them access to necessary resources at lower cost than it would take them to produce these resources. Moreover, sometimes the resources provided by external parties may be of far superior quality than organizations can produce internally.

There are many cases of outsourcing agreements where relationships are forged not just for basic cost saving but to get access to needed expertise, skills and technology. For example, Aon Corporation has outsourced the management of its US data centers, telecommunications networks, desktop support and help-desk services to Computer Sciences Corporation (CSC) (McDougall, 2004a, 2004b). In addition to the cost saving, the main benefits of the outsourcing agreement would include access to the state of the art in security practices and techniques – the core competencies of CSC – to help the organization better plan for business continuity and security management. The bottom line is that innovative knowledge is required in almost all areas of operations for a business, but the cost of creating this knowledge is significant. Hence, rather than expending resources to create such knowledge, organizations are purchasing this knowledge from external sources.

### **2.5.2 Cost Savings**

According to McDougall, 2004a, 2004b the predominant reason given for engaging in outsourcing is the cost savings, which are realized in several ways. First, cost savings can come from the simple move from fixed to variable cost models. In the fixed cost model, you own all the resources and have to pay for their acquisition, upkeep and maintenance. These costs are fixed and occur no matter if you use the resource or not. For example, if you own a car you have certain fixed costs regardless of how much you drive it, such as maintenance or parking. If you drive the vehicle, then your expenses, such as fuel, increase. Under the variable-cost model, you

do not incur the fixed costs associated with maintaining the asset but only pay a fee when you use the assets or access them, such as when renting a car. You are bound to save some costs when moving from fixed to variable cost, especially when the resources you use are not needed on a regular basis.

Second, cost savings can come from the company doing the outsourced work. In the case of software development, most of the current outsourcing is occurring with companies in the so called developing world. Here the wages and costs of labor are quite low compared to those in Western Europe or the United States. The savings in salaries can be significant, as in most IT projects labor costs comprise the greatest proportion of the costs.

Third, other cost savings could result from beneficial tax treaties and other foreign-trade agreements, wherein governments may encourage multinational and international corporations to open up businesses in the developing countries by giving tax concessions and other setup benefits.

### **2.5.3 Focus on Core Competencies**

Outsourcing not only involves the transfer of work, but also the transfer of decision rights (Power, 2006). By transferring decision rights, the organization is reducing its need to focus high levels of resources on the effort of decision making. The vendor takes on the responsibility for decision making and is held accountable for the decision outcomes about achieving project goals. Transferring decision rights and accountability allows the client to pay more attention to its core competencies. Without engaging in outsourcing, the organization will perhaps not focus on areas in which it should invest manager attention and efforts.

An outcome of being able to focus on core competencies is that it allows the organization to re think its organization structure and restructure or realign itself. Think about narrowing down your long to-do list and prioritizing it by items that are urgent and central and those that are peripheral. Doing this will help you to clean up your view of what needs to be done immediately and what can wait. Organizations are too often busy doing things and sometimes they do so at the expense of stopping to think about whether what is being done is indeed the most important or beneficial for the future of the organization. This results in lack of clear goal attainment and success. Organizations may be conducting work in projects that do not contribute to their core mission, or are in conflict with other projects. They may also be spending inordinate resources on tasks that are considered auxiliary, rather than core. Getting focused on what really matters,

i.e. the core competencies, and outsourcing the rest, helps the organization better manage its activities. In some cases, an organization may have too many core competencies to focus on, and may even decide to outsource a handful of them to external vendors who may be able to do the work at lower cost and/or better (McDougall, 2004a, 2004b).

### **2.5.3 Factors Driving Global Outsourcing Efforts**

For McDougall, 2004a, 2004b The business practice of off shoring focuses on the relocation of labor-intensive service industry functions to locations remote to the business center, such as India, Ireland or the Philippines. Two main changes in the business environment have enabled off shoring. First, the improvement in international telecommunications capacity, and the associated reduction in global telecommunications costs, is fundamental to the economics of offshoring. Second and just as important, over the past two decades the PC has enabled the computerization and digitization of most business services. As a result of these two changes, information can now be transmitted over long distances at very low cost and with little or no loss of quality. These changes make organizational boundaries and national borders much less important in deciding the location of service functions.

### **2.5.5 Increased Sophistications of IT**

Another factor that has contributed to the increase in global outsourcing is the sophistication of collaborative technology solutions. Today, we have a wide array of devices that can be used to communicate with our counterparts across the globe. Mobile phones, e-mail, video conferencing, web conferencing and instant messaging are a few of the gamut of collaborative tools available. The costs of such tools have decreased sizably over the years. In some cases, they are even available for free. Microsoft, AOL and other companies offer customers use of their Instant Messaging software, this can be used for text, voice and even image and document sharing, for free (Power, 2006).

## **2.6 Types of Outsourcing**

Outsourcing can be applied to most functions and services within the organization, but what an individual company outsources depends on the core competencies, core activities, and critical functions within the organization. According to O’Riordan (1998), there are two main types of outsourcing. Total outsourcing is where companies outsource all the activities within the selected function or service within the company. The other type is selective outsourcing. This can be done in four separate and distinct levels; individual, functional, process and component levels.

Other types of outsourcing that are used but not as widely as the total outsourcing and selective outsourcing are co-sourcing where the client company keeps responsibility for the management and strategic aspects of the outsourced activity while the outsourced provider supplies consultancy service and often experienced personnel to help keep the business streamlined. In other words, the responsibility of the outsourced service or function is held within the organization. In addition, in sourcing is the outsourcing of your work to other countries but instead of transferring all the responsibility to the outsourcing company your own company sets up, staff and run the business there, except with much lower costs. It can help overcome the problems of skill shortage particularly in the areas of project management and technical work. A major advantage of the In-sourcing option is that because the suppliers are inside the organization, they are living with their client and because they are attending company meetings, they understand the business inside and out. For Chamberland (2003), there are many typologies of outsourcing. At one end he classified outsourcing as “conventional” and “green field” outsourcing. In a conventional outsourcing, the people, the facilities the equipments and technology are transferred to the service provider. In a green field outsourcing the company buys new services from service provider that it would normally have performed in house (this is the make vs. buy decision) At the other end he classified outsourcing as “tactical” and “strategic” outsourcing. Tactical outsourcing is typically driven by problem solving mentality while strategic outsourcing is more ambitious. Here, the outsourcing initiative is not designed just to fix a problem, but is structured so that it is aligned with the company’s long term strategies.

## **2.6 Types of Outsourced Services**

This section deals with the most common types of outsourced services. Outsourcing is contracting with another company or person to do a particular function. Almost every organization outsources in some way (sourcingmag.com). Typically, the function being outsourced is considered non-core to the business. An insurance company, for example, might outsource its janitorial and landscaping operations to firms that specialize in those types of work since they are not related to insurance or strategic to the business. The outside firms that are providing the outsourcing services are third-party providers, or as they are more commonly called, service providers (sourcingmag.com).

Although outsourcing has been around as long as work specialization has existed, in recent history, companies began employing the outsourcing model to carry out narrow functions, such

as payroll, billing and data entry. Those processes could be done more efficiently and therefore more cost-effectively, by other companies with specialized tools and facilities and specially trained personnel (sourcingmag.com). Currently, outsourcing takes many forms. Organizations still hire service providers to handle distinct business processes, such as benefits management. But some organizations outsource whole operations. The most common forms are information technology outsourcing (ITO) and business process outsourcing (BPO) (sourcingmag.com).

BPO is the process of hiring another company to handle business activities for you. BPO is distinct from information technology (IT) outsourcing, which focuses on hiring a third-party company or service provider to do IT-related activities, such as application management and application development, data center operations, or testing and quality assurance. In the early days, BPO usually consisted of outsourcing processes such as payroll. Then it grew to include employee benefits management. Now it encompasses a number of functions that are considered "non-core" to the primary business strategy. Now it is common for organizations to outsource financial and administration (F&A) processes, human resources (HR) functions, call center and customer service activities and accounting and payroll (sourcingmag.com).

Frequently, BPO is also referred to as ITES -- information technology-enabled services. Since most business processes include some form of automation, IT "enables" these services to be performed. An offshoot of BPO is KPO -- knowledge process outsourcing. Considered by some to be a subset of BPO, KPO includes those activities that require greater skill, knowledge, education and expertise to handle. For example, whereas an insurance company might outsource data entry of its claims forms as part of a BPO initiative, it may also choose to use a KPO service provider to evaluate new insurance applications based on a set of criteria or business rules; this work would require the efforts of a more knowledgeable set of workers than the data entry would. The current definition of KPO encompasses R&D, product development and legal e-discovery, as well as a number of other business functions.

According to Bragg (1998) the most common outsourced services are: Accounting Services, Human Resource Function, Maintenance and Janitorial Function, Outsourcing Materials-Management Function, Sales and Marketing Function and Administration Function.

## 2.7 Benefits of Outsourcing

There are many benefits that can be obtained to an organization as a result of outsourcing, however, these depend on whether the company goes about the outsourcing project in the appropriate manner and if they are willing to put the time and effort into helping their staff overcome the problems they may encounter as their jobs change and evolve. Outsourcing has helped to open up the global market as outsourcing organizations take advantage of regional labor markets and reduce operating costs.

According to O'Donnell (1998) the benefits can be separated into two distinct areas obvious benefits and hidden benefits.

The obvious ones are those that hit the bottom line of the company's financial sheet at the end of the month. These can include but are not limited to; lower prices, better quality goods and/or services, and a wider selection of products and services

Hidden benefits may include suppliers providing technical skills and ideas that might not have been able to develop in-house, and extending the scope of customer services. Probably the most important hidden benefit is that because as companies become more profitable and flexible "this protects many existing jobs and allows companies to invest additional money in the next generation technologies and business ideas that will create the jobs of the future" . It can also help to eliminate the barriers that were created between different departments within an organization and allows for the merging of estranged departments.

Specifically Outsourcing is beneficial in the following ways:

### 2.8.1 Minimizing Cost

This is the lowering of the overall cost of the service to the business. This involves the score defining quality levels, repulsing, renegotiations, cost restructuring, access to lower cost economies through off showing cold labor arbitrage Sabiti (2003) says that the organization that outsources is cutting administration cost of maintaining or doing the activity in house. The overriding factor in outsourcing decision is cost cutting, but whereas this may make business sense in the beginning, in some cases it could bring complications and put the whole exercise at a high risk if all concerns are not adequately assessed. This means that the outsourcing organization should not only look at the costs being low but also consider the outcomes of process of outsourcing at the end of everything to the organization.



Manzi (2004), states that the most common economic factor that influences the decision is the need to reduce costs. Where the benefits analysis has been carried out and has been established that it is most economic to outsource rather than continue to operate a given function looks forward to making profits in business.

Kulumba (2005), states that outsourcing is a popular phenomenon with managers because they believe that outsourcing vendors are inherently more efficient due to economies of scale. The outsourcing organization benefit from getting the services from the provider at a reduced cost since it is provided on a large scale and usually for a reasonable time if it is good work.

### **2.8.2 Specialization**

Lysons and Gillingham, say that, Outsourcing allows an organization to concentrate on areas of business that derive competitive advantage and outsource non-core activities to specialist with better skills and expertise.

### **2.8.3 Access to innovation**

There are opportunities to have access to capabilities of suppliers into the products and services of the customer organization rather than attempt to replicate the capabilities of a supply network.

### **2.8.4 Challenges of Outsourcing**

Like any restructuring exercise and management decision making in business, there are risks associated with outsourcing that procurement managers or top management need to consider carefully (Procurement News December, 17th, 23rd 2003) and these may be; The possibility of over depending on or leveraged by suppliers which make switching costs to other suppliers in future prohibitively expensive. Over a long time, a supplier of outsourced service may become complacent or change ownership and also a risk of a fall in employees' morale for fear of being made redundant, confidentiality links of company matters and in some instances loss of intellectual property rights.

Eyaa (2006) says that, high prices being imposed on suppliers due to increasing trends in outsourcing, the demand for suppliers is so high and has pushed the rates being charged by the suppliers to be high. This later increases the costs, yet outsourcing is all about helping firms cut costs. Too much expectancy from suppliers as Company employees tend to expect too much from supplier firms as far as service provision is concerned because they are specialists yet things can go wrong once in awhile. Such issues should not be ignored. Manzi (2005), according

to him, there is a possibility that vital company information may be at a risk of being linked to the company's competitors which is dangerous since some suppliers may be spies to the company.

## **2.9 Empirical Study**

As primary research objective the concept of outsourcing benefits are first introduced. As these benefits can be periled by several undesirable outcomes, the concept of outsourcing risk is subsequently discussed. As this paper addresses the major challenges and benefits in the context of outsourcing, research findings on risk and benefits of outsourcing are outlined. Numerous researches have been conducted to analyze outsourcing benefits. There are many reasons why companies choose to outsource. Academic effort has concentrated on factors that influence the sourcing decision. Theories like transaction cost economics (Wullenweber, 2007) and the resource based view (Wullenweber, 2007) explains the outsourcing decision from theoretical point of view and have been tested thoroughly in empirical studies. Fundamentally, three drivers for outsourcing have been identified: economic, strategic and technological reasons (Wullenweber, 2007). The most important economic driver is anticipated cost reduction, as several researchers report. Companies are eager to reduce their overall expenditures (personnel, hard and software) and discuss any sourcing scenario to find out which is the most cost effective one. On a strategic level the demand for more flexible process and IT systems which support the business in times of rapid change and global reach is often quoted. This desire often results in the concept of focusing on core competencies through divestment of non core areas. In times of tight budget, companies need to allocate capital in the most efficient way and source out those activities which not provide substantial value to their core business. Technologically, companies expect to improve their operations through the access to new technology and skilled people by sourcing to a service provider specialized in the respective area ((Wullenweber, 2007). Thus, quality improvement is often a vital reason to outsource. As this research aims at analyzing the challenges and opportunities (benefits) outsourcing benefits are viewed as potential benefits.

## **2.10 Outsourcing Risk**

Several researchers have addressed the importance of outsourcing risk research. However, a consistent definition of outsourcing risk has not emerged. In rational decision theory, the concept of risk reflects the variation in the distribution of possible outcomes, their likelihood and their

subjective value (Wullenweber, 2007). The theory suggests that decision makers deal with decisions under uncertainty in a rational way, i.e., by computing different alternatives and selecting the option that best suits their personal risk return profile, which is generally risk averse. However, empirical studies indicate that this theoretical view is not consistent with how managers deal with risky choices in reality: several studies have shown that managers follow a less precise calculus, not using accurate probability calculations. Instead managers follow a magnitude of undesired outcome concept neglecting the outcome probability. Therefore, perceived risk theory (Wullenweber, 2007) will be used to analyze managers risk perception. Perceived risk theory analyses the risk a person subjectively associates with the consequences of a decision. By doing this, it is possible to analyze individual risks using only one measure instead of two (loss severity and loss probability) thus overcoming the problem of how to combine these parameters.

## **2.11 Outsourcing process**

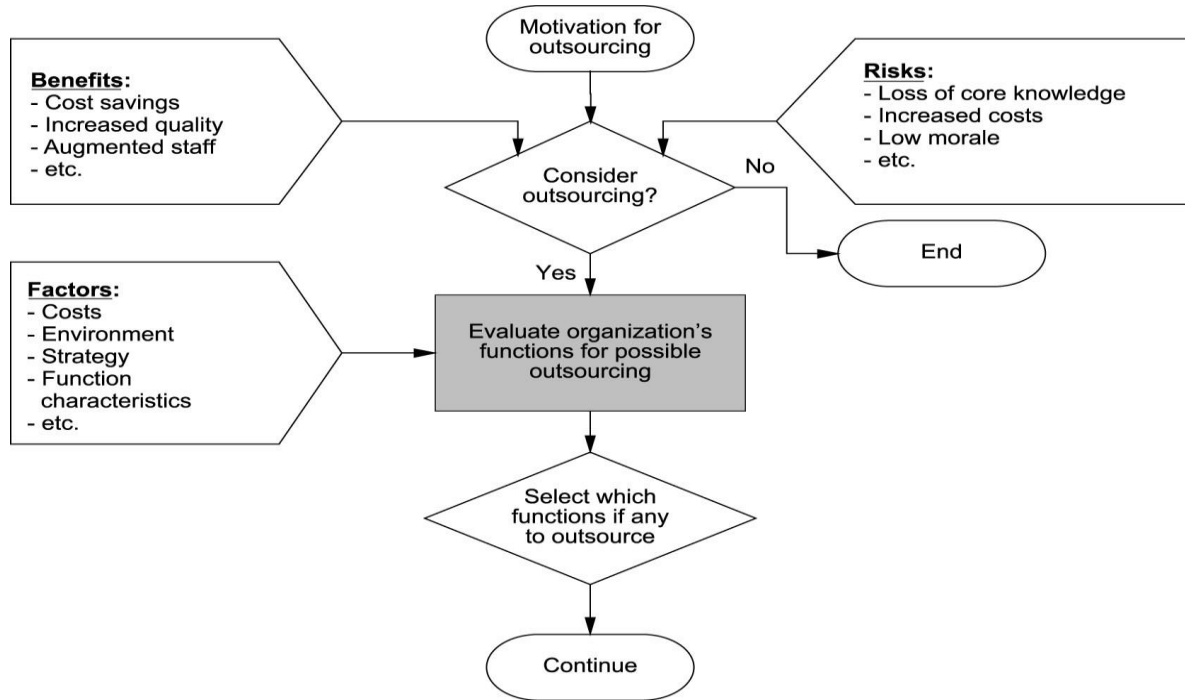
According to Handfield's (2006) there are four main aspects to a typical outsourcing program:

- |                           |                    |
|---------------------------|--------------------|
| a. Program Initiation     | c. Final Agreement |
| b. Service Implementation | d. Program closure |

### **A. Program initiation**

At the start of any outsourcing program, there are a variety of ideas and opinions about the purpose and scope of the program, what the final result of the program will be, and how the program will be carried out. The program initiation stage is concerned with taking these ideas and intentions and documenting them to form the basis of a draft contract Handfield's (2006). The first point in the initiation stage is identifying and making a decision which function should be outsourced. The person within a company who makes the decision to outsource is highly depending on the type of functions. Some functions can be outsourced by the decision of lower level managers, but for major outsourcing decisions that involve very large layoff or cost saving, it is even possible a company's board of director give a vote on the issue. In short all the decision of outsourcing functions should be made by top management except the most insignificant functions (Bragg, 1998)

Figure 2.2: Outsourcing Decision Framework



Source: Kremoc T, Rom W. and Tukul O. (2006) Vol.11 Number 6, p. 268

## B. Service Implementation

Service implementation covers the activities required to take these ideas and develop them into a formal planned outsourcing program and to make the transition to the outsourced service. Particularly Handfield's (2006) mentioned these activities include:

- Defining the transition project
- Transferring staff
- Defining the Service Level Agreement (SLA)
- Defining service reporting
- Implementing and handing over the service
- Implementing service management procedures

Service level agreements are formal documents that outline the institution's predetermined requirements for the service and establish incentives to meet, or penalties for failure to meet the requirements. As federal financial institutions examination council (2004), financial organization should link SLAs to provisions in the contract regarding incentives, penalties, and contract cancellation in order to protect themselves against service provider performance failures. Management should develop SLAs by first identifying the significant elements of the service. Once it has identified the elements, management should devise ways to measure the performance of those elements objectively. Finally, institutions should determine the frequency of the measurements and an acceptable range of results to determine when a service provider violates the SLA benchmarks. Although the specific performance standards may vary with the nature of the service delivered, management should consider SLAs to address issues such as availability and timeliness of services, confidentiality and integrity, change control, security standard compliance and business continuity compliance (FFIC, 2004).

According to Brown and Wilson (2005), effective service level agreements (SLA) identify the expected result and the measures by which both parties can assess performance. Because of its complexity and scope outsourcing, effective service level agreement (SLA) frequently requires sophisticated legal and technical expertise. Most of the time outsourcing agreement failure occurs due to both outsourcer and service provider did not express how to evaluate the progress made against a specific target. To minimize such problems a practical outsourcing service level

agreement need to begins by describing standard requirements such as start and end dates for the service, the schedule for reviewing performance and documentation to be used in measuring the service. Duening and Click (2005) suggest, service level must be intimately tied to price in order to properly align the financial interest of the vender and the business goal of the buyer. These two authors also conclude as quality is generally a better service level measure than quantity especially in fixed price scenarios.

During the hand-over phase it is imperative that continuity of service is maintained at all times, that there is no reduction in the quality of the delivery and that timescales and deadlines are not compromised (Handfield's, 2006).

#### **A. Final Agreement**

The draft contract produced at the initiation stage is generally amended during negotiations and the final Contract is produced on completion of the negotiation cycle.

#### **B. Program Closure**

In order to gain maximum benefit, the program should go through a formal close down (Handfield's, 2006). According to Bragg (1998) there are a variety of reasons why an outsourcing relationship must be stopped. The first reason is the outsourcer only has a short term need for the service being provided, and the service provider offered the service in the right quality and cost as expected as in service level of agreement (SLA). This is the friendly situation where the outsourcer takes the service away from a supplier. The second reason is subject to more disputes when management does not feel a supplier providing the level of service that was promised as the start of the relationship. In such case, if there is no clear set of performance that both parties have agreed upon in advance, then the termination of the relationship may be rancorous in the extreme, and may involve litigation. Instead, this decision should be made based on performance measurement that have been verified and approved by the outsourcer and supplier. The third reason is that senior management may have to make decision to cancel an outsourcing contract based on the allegation that the cost of the agreement is higher than expected. However, management should establish a baseline cost for the outsourced servic

before it was give to a supplier and compare this baseline cost to the current cost of using supplier.

As Bragg (1998), once the decision has made to cancel an outsourcing contract, the decision should be made to either give the service to another supplier or to bring the function back in- house. One strong reason for bringing a function in- house is the experience of outsourcer with supplier was so bad in terms of excessive cost, poor service or relationship. But if the management feels that there are other suppliers already they knows and can able to do better job, then the function is more likely to be moved to another supplier. Domberger (1998) also notice that outsourcer can directly negotiate with potential providers without requiring the formal bid or tender when the purchaser believes that it has adequate market information with which to negotiate an efficient contractual solution. Handfield's (2006), staff and companies alike need to accept the new situation and move forward. However, there will be a lot of information generated during the life of the contract, and this will have been stored with varying degrees of formality by the team members. The information needs to be formally filed away for future reference.

## **2.11 Conclusion**

To sum up issues discussed in this chapter the researcher tries to summarize the main points by adding his own view as stated bellow.

Outsourcing is a transfer of core or none core activities to other organization that can able to perform the function better than the outsourcer. Based on the location of the service provider the type of outsourcing can be classified in to three: offshore, nearshore and onshore. Offshore outsourcing is transfer of functions to an organization found in different continent relative to the outsourcer. Nearshore is outsourcing of activities to an organization found in the same region with the service receiver where as onshore outsourcing is a type of outsourcing both the outsourcer and the service provider found in the same country like CBE and CN. Organizations have their own reason to make a decision for some of the functions to be delivered by external bodies. The main reasons are to focus on core functions, improve service quality minimize cost, and to assist the fast growth situation of an organization. Outsourcing helps to realize these benefits for the outsourcer after the responsibility of managing the day-to-day operations and administrative activities is transferred to the service provider. Despite these advantages, outsourcing may result risks such as loss of direct control, cost escalation, and quality deterioration. But in my opinion the disadvantage of outsourcing is not as such strong in the case of local (onshore) outsourcing like that of nearshore and offshore type of outsourcing. This is because of, in onshore outsourcing both the service provider and the service receiver are found in the same country which have similar culture, environment and working hours that help to minimize problems emanate from organizations exist in different countries. On top of this the outsourcer can able to control the quality of the service delivered by the service provider and take a corrective measure on time if there is a deviation of supplier

performance with related to the prior service level agreement made between the two parties.

As outsourcing is a business made between two parties having different goals, the benefit or drawback is depends on both the service provider and the outsourcer. The goal of the service provider is to maximize its profit were as the outsourcer need quality service with a minimum cost. This may create conflict of interest between them. However, organizations can minimize such conflict by selecting the right service provider through proper bidding, legal based contract and having a friendly relationship with the service provider. Thus, outsourcing is not a onetime activity rather it is a continuous process which needs a regular close monitoring and evaluation of the performance of the service provider from the initiation stage to program closure.

Generally, although outsourcing is a new practice in Ethiopia, from the experience of foreign countries and some local organizations, if it is implemented and managed in the right way the benefit of outsourcing is outweigh over its problem. As the result, the researcher believed that governmental organizations as well as private organizations need to take outsourcing as one of their management tool and outsource their non-core functions to those organizations specialize in particular activities in order to achieve the desired goal and objectives. But outsourcing by itself is not good or bad what matter is the willingness and commitment of the two parties to exert their maximum effort as a partner to realize the result that stated in the service level agreement.

## **Chapter three**

### **3. Research design and methodology**

#### **3.1 Research type**

This study aims to describe the existing situation about outsourcing activities in commercial bank of Ethiopia.so in order to achieve this objective the researcher will use descriptive type of research. The researcher prefers to conduct this descriptive type of research is because no control the variables rather he only report what is happened in the area where the research is conducted. According to Kothari (1990) the major purpose of descriptive research is to describe the state of affairs as it exists at present.



### **3.2 Population of the study**

The population of the study includes CBE staffs, and manager of commercial nominees at Bahirdar branch, employees of CN working in CBE (i.e. security guards, janitors, drivers and messengers) who found in 55 branches under Bahirdar district. The total population of the study is 2138. Among these 1337 are CBE staffs (1281 employees and 56 managers), 1 manager of service provider, 800 outsourced service employees (552 security guards, 131 janitors 10 drivers and the remaining 110 are messengers).

### **3.3 Sampling method**

The researcher will apply both probability sampling (simple random sampling) and non-probability sampling (purposive or judgmental sampling) techniques by stratifying the population into three groups: CBE employees, managers and non-staff/outsourced/ employees (security guards, janitors, drivers and messengers). From this groups manager of the outsourcing company at Bahirdar branch will be selected **by** judgmental sampling technique but sample for other groups will be selected by using simple random sampling (lottery method).

### **3.4 Sample size**

To get viable information 10% of the population which is 128 from CBE Staff, 87 from employees of the service provider ( i.e. 13 janitors, 12 messengers 7 drivers and 55 security guards ) working in CBE found in 55 branches under Bahirdar district will be taken as a sample for the study according to their proportion. But the researcher will select HR manager of the service provider purposively. This is because the researcher believes that the managers provide valuable information which cannot be obtained from other respondents.

### **3.5 Data collection instrument**

The researcher will use both primary and secondary data. The primary data will be collected by open ended and close ended questionnaires, and interview which with structured and unstructured type (semi-structured). The purpose of questionnaires is to assess the challenges and opportunities of outsourcing in CBE. Questionnaires will be used as the main instruments to collect data from CBE employees and outsourced service employees. Closed ended questions will include to shape the information in the way that researcher needs, but if all be open ended the researcher may deviate his idea towards the response of the respondents without touching the objectives. On the other hand the researcher will collect secondary data related to expected service user's satisfaction level, performance evolution and mode of payment from review of CBE service level agreement. Questionnaires will be assessed by using a five point Likert scale. Each question of the questionnaire will assigned a number indicating strongly disagree measure as 1, disagree measure as 2, no opinion measure as 3, agree measure as 4, and strongly agree measure as 5.

### **3.6 Method of data analysis**

Both qualitative and quantitative data analysis techniques will be applied. For quantitative data the researcher will use graphs, tables, frequencies and percentages to show the highest number of group responses or the most common opinions from the group responses. In addition the researcher will examine qualitative responses through narrative analysis for the data that show perceptions and opinions. Moreover, in order to ensure logical competence and consistency of responses, data editing will be carried out each day by the researcher. Identified mistakes and data gaps will be rectified as soon as possible. Once editing has done, data will be analyzed. The data analysis will be done by the use of version 19-SPSS software.

The researcher prefers to use descriptive statistics because descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures

## CHAPTER FOUR

### 4.1 DATA PRESENTATION, INTERPRETATION AND ANALYSIS

This chapter deals with data presentation, interpretation and analysis of the study. It has two main parts: the first part is the general information of the respondents, the second part consist of data collected from employees and managers through questionnaires and interview respectively.

For the purpose of this research 205 questionnaires were prepared, and 127 distributed to CBE staff and the remaining 78 were distributed to employees of the commercial nominees working in CBE (janitors, messengers, driver and security guards). Out of these questionnaires 184 were filled and returned. The rest 21 questionnaire were unreturned. Among these unreturned questionnaires 14 for CBE staffs and the remaining 7 for outsourced employees particularly the security guards. In addition to questionnaires the researcher also conducted key informant interview with manager of the outsourcing administrative office in CBE and human resource manager of the service provider (Commercial Nominees PLC). The data collected from CBE employees and employees of outsourced services through questionnaires were presented separately by integrating with data obtained from the two managers through interview as shown the in next section.

Based on Likert-type scale the level of agreement or disagreement is different but for the sake of data interpretation and to draw visible conclusion the researcher added the value of strongly agree with agree and strongly disagree with disagree. Thus, throughout this chapter the data interpretation was made in three scales i.e. agree neutral and disagree.

### 4.2 Background Information of the Respondents

As shown below in table 4.1, among the respondents 125(67.93%) were male and the remaining 59(32.07%) were female. This shows that the majority of the respondents were male. With regard to age category 40(21.73%) were blow 25years, 85(46.19%) were between 25 and 35 years, 44(23.91%) of them 36 to 45 years and rest 15(8.15%) of the respondent were above 36 years old.

Table 4.1 Background Information of the Respondents

<b>Variables</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percentage</b>
Sex	Male	125	67.93
	Female	59	32.07
	<b>Total</b>	<b>184</b>	<b>100</b>
Age	Less than 25 years	40	21.73
	25-35 years	85	46.19
	36-45	44	23.91
	Greater than 46 years	15	8.15
	<b>Total</b>	<b>184</b>	<b>100</b>
Education	Grade 8	25	13.57
	Grade 10/12	40	21.74
	Certificate	8	4.35
	Diploma	24	13.04
	First Degree	87	47.28
	Above first degree	0	0
	<b>Total</b>	<b>184</b>	<b>100</b>

Source: survey data

### 4.3 The Reason for Outsourcing

Table 4.2 Reasons of outsourcing the janitorial, messenger, Security services and driving. (i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

NO	Reasons for outsourcing	5	4	3	2	1	Total
1	To reduce cost.	33 (28.83%)	42 (36.04%)	10 (9.91%)	14 (11.71%)	13 (13.51%)	112 (100%)
2	To improve service quality.	37 (35.14%)	39 (33.33%)	13 (12.61%)	14 (10.81)	9 (8.11%)	112 (100%)
3	To give more focus to core functions of the bank.	52 (45.95%)	31 (28.83%)	17 (16.22%)	6 (3.60%)	6 (5.41%)	112 (100%)
4	To improve flexibility of the service by the service provider.	10 (8.11%)	4 (4.50%)	21 (19.82%)	44 (41.44%)	33 (26.13%)	112 (100%)
5	To save manager's time and lead them to focus on strategies of the bank.	41 (36.04%)	38 (35.14%)	16 (15.32%)	9 (7.21%)	8 (6.31%)	112 (100%)
6	To assist the current fast growth situation of CBE.	36 31.53%	31 (27.03%)	20 (18.92%)	11 (9.01%)	14 (13.51%)	112 (100%)
7	To access skills not available in CBE.	17 (14.41%)	19 (16.22%)	8 (6.31%)	21 (19.82)	47 (43.24%)	112 (100%)

Source: Survey data

As table 4.2 shows the majority (64.88%) the respondents replied that the cost reduction is the reason for commercial bank of Ethiopia to make a decision on janitorial, messenger and security services to be delivered by the service providers whereas 23.43% of them said cost reduction was not the motive for CBE and the rest 9.92% of the sample did not justify it. As Brown and Wilson (2005) outsourcing is not all about reducing cost. However, a company may emphasize cost saving of a variety of reason, such as being a poor financial position, plan to increase profit. With

regarding to service quality 67.47% of informants replied that service improvement was another reason, same 18.91%, 12.62% were reject the majorities idea and in between respectively. The response of the mass was parallel with Aran and Patel (2005) suggestion, functions noncore for the outsourcer is core for the vendors. Since it is a core activity for the vendor, it would strive to bring about improvements in the outsourced process and deliver superior quality standard than the company itself.

To give more focus for core functions of the bank was another alternative presented for respondents. Similar to the above two alternatives as table 4.2 illustrates most of the respondents (74.79%) suggest that it was one of the reason for outsourced services in CBE, while 16.23% were neutral and least (9%) replied as it was not the factor to make a decision on outsourcing. In connection with improving service flexibility, 12.63% said CBE did not consider this as reason for outsourced services and 19.82 % remain silent, to the opposite great number of respondents (68.47%) conclude that flexibility was not desired as a reason to decide the current outsourced services to be delivered by third party.

According to Bragg (1998) a company manager typically spent the bulk of each day handling the detailed operation their functional areas. By outsourcing this function a company can give the tactical part of each manager's job to supplier which allows the management team to spend more time on strategic issues as market positioning and product development. Similarly 71.18 % of respondents agreed with what Bragg said, whereas 14.52% of them against his proposition and the others (15.31%) were neutral. In addition to this, as per the majority (58.57%) of the informants of the questionnaire, supporting the current fast growth situation of the bank was the reason for outsourcing in CBE but 25.53 % of them void this reason and least (18.92%) have no idea. This also align with Bragg (1998) comment, if the company is rapidly acquiring market share, the management team will be stretched to its limit building the company up and to handle the volume of the business. In such situation the management team will desperately need additional help in running the company by focusing on a small number of core activities.

Another writer Choi (2008), notify that organization may face with a shortage of skilled and experienced staff brought about by the change in the business operation setting , retirements, resignations, or recruitment problems. As the result outsourcing to an external service provider may be the only practical way to access the skills necessary to properly deliver services. To the contrary 30.59% of the sample confirm that accessing new skill was not the rationale for

outsourcing the janitorial messenger and security service of CBE even though 30.63% of the respondents were support what choi thought and the least (6.32%) were not taking any side.

To conclude the result of the above data cost reduction, to focus on the core function and strategies of the bank , to save managers time and supporting the current branch expansion of the bank were the rationale of CBE making decision the service to be delivered by the service provider. However accessing new skill and service flexibility were not considers as reason for outsourced services. On top of this manager of outsourcing administrative office also confirm that focusing on core function and saving managers time to concentrate on the strategies of the bank rather than wasting their time on none core activities were the primary drivers for the outsourced services. As he said in addition to these two reasons other benefits like improving service quality and cost reduction also considered at the time of outsourcing initiation stage. More over the data shown in table 4.2 also supported by different theoretical and empirical evidences. As Diskstein and Flast (2009), in earlier periods cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing is shifting to improve the services quality. Aran and Patel (2005) also suggested that outsourcing is driven by a number of factors such as cost, focusing on core areas, improves service level and process innovation, of all these cost consideration and the need to focus on core activities seems to be the prominent drivers. Through a time reducing the cost has become a trivial factor rather value addition to the business is the main focus. More over the research result conducted by Meresa (2007) shows that cost saving, to improve service level and to focus on core function were the reason for outsourcing the janitorial and security service. Among these focusing on core function was the primary reason.

#### 4.4 Benefit Gained After outsourcing the services

Table 4.3 Advantage/benefits of outsourcing janitorial, messenger and Security services  
(i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

NO	Advantage/Benefits after outsourcing the services	5	4	3	2	1	Total
1	After outsourcing janitorial, messenger, security service quality has been improved.	20 17.13%	13 12.62%	4 2.75%	41 38.84%	35 29.74%	112 100%
2	Outsourcing helps the bank to give more focus to its core functions/activities.	41 36.04%	39 F.14%	16 14.41%	6 5.41%	10 9.01%	112 100%
3	After outsourcing flexibility of the service is improved.	11 9.92%	19 17.13%	8 7.22%	45 40.55%	28 25.24%	112 100%
4	Outsourcing helped the bank to focus on more strategic areas rather than none core activities.	30 28.83%	44 37.84%	22 18.92%	6 6.31%	10 8.11%	112 100%
5	Outsourcing of the janitorial, messenger and security services assisted the current fast growth situation of CBE.	34 32.53%	42 36.95%	23 21.63%	4 2.71%	9 7.22%	112 100%
6	Outsourcing helps for CBE to access new skills not available internally.	5 3.59%	18 17.13%	13 10.82%	44 40.55%	33 27.94%	112 100
7	Outsourcing saves management time and money through reduced the need to control day to day operations of the noncore function or activities(Janitorial, messenger and security) of the bank.	35 30.63%	44 40.54%	13 12.61%	17 5.41%	13 10.81%	112 100%
8	The service provider manages janitorial, messenger and security service better than CBE manage it before outsourcing.	12 9.92%	41 36.05%	38 33.32%	11 11.72%	10 9.02%	112 100%

Source: survey data



From table 4.3, 29.89% of the respondent said there was service quality improvement after CBE outsourced the janitorial, messenger and security services. On the contrary most of the respondent 67.55% said the service provider did not improve the service it delivered to CBE and others (2.71%) did not say anything about the outsourced service quality.

Referring to the benefit of outsourcing helps to focused on core functions, in sum 71.19% of the respondent revealed that CBE gained more time and focused on its core functions as the result of outsourced the non core functions, another 14.43% of the respondent confirm that the bank did not get such benefit from the outsourced services. Whereas 14.42% of them had no an information whether the bank benefited or not.

According to Choi (2008), flexibility maintaining the level of equipment and staff necessary to cover peak loads can leave organizations with under-utilized resources during off-peak periods. On the contrary, organizations may only be able to maintain resources at a level just sufficient to meet normal demand, which is lead to poorer customer service at peak periods. In such situation outsourcing of functions that are subject to peaks and troughs in usage can provide organization with the flexibility to respond rapidly to changing demands. With regarding to this 66.77% of the respondents confirm that the flexibility of outsourced service was not improved, on the opposite side 27.04% of the respondents respond as the service provider improved the flexibility of the service and the few (7.22%) of them were neutral on this issue. Which means the majority conclude that, the service provider did not realize the benefit of outsourcing supposed by the above author.

As observed in the above table 4.3, although 14.43% of the respondents disagreed, 66.68% of them assert that outsourcing helped the bank to focus on more strategic areas rather than none core activities, and last 18.93% of the respondent had no idea about such benefits in the bank. This point is strengthen by Choic(2008), outsourcing of some non-core functions provides organizations to focus their resources on activities critical to their mission and leads the organization concentrates on carrying out its priorities by using financial, human and management resources more effectively and efficiently. In addition to this 67.47% of the respondents agreed with the service provider support the current fast growth of situation of CBE by providing the out sourced services, while 9.92% of the respondents did not accept it, the reaming 21.61% had no suggestion on one of the two extreme propositions.

With respect to whether or not outsourcing helps for CBE to access new skills not available internally, only 20.73% of the respondents said it enabled the bank to access new skills, 10.82% were neutral but the majority 68.48% of them approved that the current outsourced services in CBE did not have any connection with accessing new skill.

As it is displayed in table 4.3, greater number (71.18%) of the respondents disclosed that outsourcing helped CBE to saves management time and money through reduced the need to control day to day operations of the janitorial, messenger and security services, on the other side 16.23% of them disagreed with such benefits of the bank supported by the majority, and the remaining 12.62% had no any ideas like others. Bragg (1998) mentioned that one of the benefit of outsourcing is a company has no longer to deal with the hiring, firing, personnel related paper work because of the supplier take care of all these administration details which need more time. The other issue raised with related to the benefit of CBE after outsourced the services was about the performance of service provider managing the outsourced services as compared the bank managed by itself. Among the respondents 45.96% replied that the service provider managed it better than CBE, 20.73% of them said the service provider did not managed it better than the bank and the last 33.34% but not least were neutral.

To sum up the above data, majority of the respondent confirms that after the bank outsourced the janitorial, messenger and security services it enjoyed two basic benefits. The first one was outsourcing helped the bank to focus on more strategic areas and core functions to realize the current fast expansion of banking service throughout the country. Secondly, outsourcing allowed for the bank management to save their time and money by reducing the need to control the day to day operations of the janitorial, messenger and security services after the responsibility for managing the operations and administrative activities were transferred to the service provider. However, the service provider can't able to excel outsourced services quality due to its poor management and lack of continuous follow up in commercial bank of Ethiopia.

## 4.5 Employees Attitude towards the Outsourced Services

Table 4.4 CBE employee's attitude towards the outsourced services.  
(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

No	Items	5	4	3	2	1	Total
1	After CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents are delivered and received on time as compared to the service before outsourced.	5 3.61%	16 15.33%	29 25.24%	36 33.34%	26 22.55 %	112 100%
2	Theft decreased in CBE after security service is outsourced as compared to before it was Outsourced	10 8.12%	12 11.72%	13 10.80%	44 40.55%	33 28.84%	112 100%
3	CBE customers feel more secured and comfortable with the security services delivered by the bank after outsourcing.	31 27.04%	35 32.44%	9 7.22%	16 15.33	21 18.03%	112 100%
4	Janitors, security guards and messengers are committed to their duties and responsibilities.	15 12.62%	22 20.73%	13 10.82%	43 39.65%	20 16.23%	112 100%
5	Cleaning service is delivered on time without affecting office hours.	28 26.14%	52 45.97%	19 16.23%	11 9.02%	4 2.71%	112 100%
6	Janitors are skilled and use appropriate cleaning materials.	35 32.44%	40 35.15%	16 13.52%	8 6.33%	16 12.60%	112 100%
7	Messengers and security guards of the bank are well trained and know their jobs as well as they perform tasks according to CBE expectations.	10 9.90%	14 11.72%	28 24.33%	17 16.21%	43 37.85%	112 100%
8	CBE should outsource other non core functions or activities of the bank in addition to the services outsourced currently.	17 14.42%	12 11.72%	18 15.30%	35 32.42%	31 26.14%	112 100%
9	Janitors are available at anytime in the office if their service is needed.	33 28.84%	42 38.75%	6 4.51%	25 21.63%	8 6.32%	112 100%

10	Messengers have good understanding about the value of bank documents they received or delivered to others on behalf of the bank.	21 18.03%	15 14.42%	9 7.20%	43 39.65%	24 20.73%	112 100%
11	You and CBE customers are satisfied with the current janitorial, messenger, and security services offered by the service provider.	13 10.82%	20 18.93%	11 9.02%	36 33.34	32 27.94%	112 100%

Source: survey data

Table 4.4 shows that the majority of respondents (55.86%) replied as after CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents were not delivered and received on time as compared to the service before outsourced, whereas 18.93% of the respondent refused this and the rest 25.24% were neutral. With regarding to security 19.81% answered theft is decreased in CBE after security service was delivered by the service providers, while 10.82% of the respondents did not perceive whether the level of theft increase or decrease, despite the fact most of them (69.38%) argued that the theft did not decrease in their organization. As the result, 59.45% of the respondents said CBE customers did not feel more secured and comfortable with the current security services delivered by the service provider, to the opposite 33.35% of them supported that their customers were feel safe and comfort with the security service of CBE after it was outsourced and the remaining 7.22% nothing said.

As we observe from the above table, about 55.86% of informants of the questionnaire indicated that outsourced employees (janitors, messengers and security guards) were not committed to their duties and responsibilities although 33.35% of them tried to falsify it. On the other said majority (72.1%) of the respondents assured that janitors provide cleaning service without affecting their office hours, even if 11.72% rejected this ideas. On top that 67.56% of the respondents replied as janitors are skilled and they used appropriate cleaning materials, whereas 18.93%, 13.52% of them were opposed and in between respectively towards the statement rated by the majority respondents.

In connection with skill and performance of outsourced employees, 54.07% said messengers and security guards of the bank were not well trained and know their jobs as well as they did not

perform tasks as per their expectation. Some (21.63%) of them argued in the opposite side of the majority and the rest 24.31% did not give an emphasis for this issue. Thus, most of the respondents (58.57%) recommend that in the future commercial bank of Ethiopia should not outsource other non-core functions rather it is better to keep in house. But 26.13% suggest that the bank should outsource more non-core functions and the remaining (15.33%) preferred silent. In addition to data collected through questionnaires an interview made with the manager of CBE outsourced administrative office strengthens the idea of CBE employees stated above. As he said the major problem that they faced with related to outsourced services were the service provider hire unskilled employees especially in security guards and messengers. He also mentioned that according to the service level agreement that they made at the time of contract, the service provider should provide skilled full employees as the job required and it should give the necessary training that helps for performers to perform their duties and responsibilities in the bank. Next to this, he notified that as financial organization commercial bank of Ethiopia need strong and equipped security guards, but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it. This is complied with Bragg (1998) suggestion; supplier sometimes gets around the high price problem by paying a very low rate to its security employees, which results in outsourcers being given a very junior security force who didn't have enough skill and experience about the work. Domberger (1998) also said that the ultimate goal of service provider is to make profit whereas the client seeks to obtain the best value for money from the contract. Thus, the interest of these two parties obviously diverges and the service provider stands to benefit from shrinking resources which results in an incentive to reduce efforts. Moreover, the manager stated that even though the current service provider has performed below the standard stated in SLA, still the bank get benefit from outsourcing in different aspects. As the result CBE already identified and planned to outsource additional non-core functions such as human resource recruitment and selection, mail service, acquired asset management to other service providers for those specialized in the area.

According to the survey result in table 4.4 most of the respondents (67.58%) reported that janitors were available in the office at any time when they need their service, whereas 27.92%

of them said janitors were not found around their office if they demand the service and the remaining (4.5%) of the sample were neutral. In addition to this, with regarding to knowledge of messengers about the bank document they received or delivered to others, 32.44% respond as they have good awareness about it, while 7.22% did not said anything and many of them (60.37%) assured that messengers did not know the value of bank document in connection with their job. For open ended questions the majority also proposed that not only messengers' security guards also need training in order to improve the service they provide. Finally, greater number (61.27%) of the respondents concludes that they and their customers did not satisfy with the outsourced services currently delivered by the service provider (commercial Nominees PLC) even if 29.74% of them noticed that they are satisfied. On the contrary as I observed in CBE service level agreement document, the service provider expected to provide security and cleaning service with 100% and 75% user satisfaction rate respectively. This implies that there is a great gap between the standard and reality in the ground.

Generally, the response of informant's show that the service provider offered good cleaning services which is manifested by the janitors were available at any time without affecting office hours and they also used proper cleaning materials. With regarding to security service as most of the respondents indicated that the quality of the service delivered by the service provider was not good as the result the number of theft actions not vanished in the bank especially in the lobby area and their customers did not feel they are more secured. Similarly, bank documents were not collected and delivered on time and messenger lack knowledge about the bank documents they received or delivered to others in behalf of CBE. More over employees of the service provider also lack commitment and belongingness towards their duties and responsibilities.

Table 4.5 The attitude of employees of the outsourced services.

(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

NO	Items	5	4	3	2	1	Total
1	Your employer created a conducive working environment and provides the necessary material on time that helps to perform your job.	21 27.04%	9 10.82%	3 2.71%	31 43.25%	11 16.23%	75 100%
2	The service provider (employer) regularly monitors your performance.	32 41.88%	21 29.74%	-	15 21.63%	7 6.75%	75 100%
3	You have good skill and experience to perform your current duties and responsibilities in the bank.	40 52.71%	17 24.33%	3 2.71%	15 20.28%	-	75 100%
4	The amount of commission your employers collect from your monthly salary is fair.	5 5.42%	9 13.52%	4 4.06%	31 43.22%	26 33.77%	75 100%
5	Your current salary is proportional to the duties and responsibilities that you perform in the CBE.	7 8.12%	9 10.82%	-	20 28.37%	39 52.71%	75 100%
6	You have a good social relationship with CBE employees.	47 64.87%	12 14.85%	10 12.15%	6 8.12%	-	75 100%
7	You have a formal regular meeting with your employer to discuss problems faced in your job.	5 5.42%	11 13.50%	6 9.45%	29 39.18%	24 32.44%	75 100%
8	CBE staffs and customers satisfied with the service you provide.	21 29.72%	18 22.96%	13 16.21%	21 27.04%	2 4.06%	75 100%
9	Your job security is ensured.	15 18.93%	8 12.15%	4 4.06%	17 24.31%	31 40.55%	75 100%
10	There is a good relationship between Commercial Bank of Ethiopia and your employer	13 16.21%	33 45.96%	17 21.63%	4 6.75%	8 9.45%	75 100%

Source: survey data

The above table 4.5 shows that 37.85% of the respondent replied as the service provider supply working materials on time and it create conducive working environment, whereas the majority (59.45%) rejected what the first respondent said and the remaining (2.6%) were neutral. With

related to this problem interviewee of human resource manager of the service provider explained that in the service level agreement some input material like checking machine not clearly mentioned who provide it. As the result there is still a problem of supplying such materials which are critical to deliver quality security service. In relation to performance most of the informants (71.61%) said that the service provider regularly control their performance, however 28.37% of them did not accept it.

With respect to skill 77.03% of the respondents assure that they have good skill and experience to perform their duties and responsibilities, others 20.28% informed as they lack work experience and skill to perform their tasks and the last 2.71% of them were in between the two groups. To the contrary as the time of interview both the manager of the service provider and service receiver explained that one of their basic problem is lack of skilled man power in security, messenger and janitorial services in the market. According to the manager of the service provider most of their employees have negative attitude towards their job and they think that to perform their duties formal training is not as such crucial. As his explanation this is the reason for employees assume themselves skilled enough.

As we observe from the above table most of the respondents (77.03 %) confirm that the amount of commission that the service provider collect from their monthly salary was not fair, while 18.93% of them said it was fair and the rest 4.06% did not have any idea about it. On top of this 81.07% of the informants argued that their current salary is not proportional to their duties and responsibilities, to the opposite 18.94% of them agreed that their salary is mach with what they did in the bank. In this issue human resource manager of the service provider mentioned that CN did not provide other benefit to the outsourced service employees (messenger, janitors and security guards) like that of permanent employees and this may create employees dissatisfaction .In addition to this manager of the service receiver said that even though janitors, messengers and security guards played its own role to achieve goal of the bank they were not benefited from bonus that the bank allowed for its employees at the end of the fiscal year and this affect employee motivation. Moreover with regarding to social interaction,79.71% of the sample replied as they have good social relationship with the employees of the service provider, even if 8.12%, 12.17% of them were opposed the majority response and in between respectively.



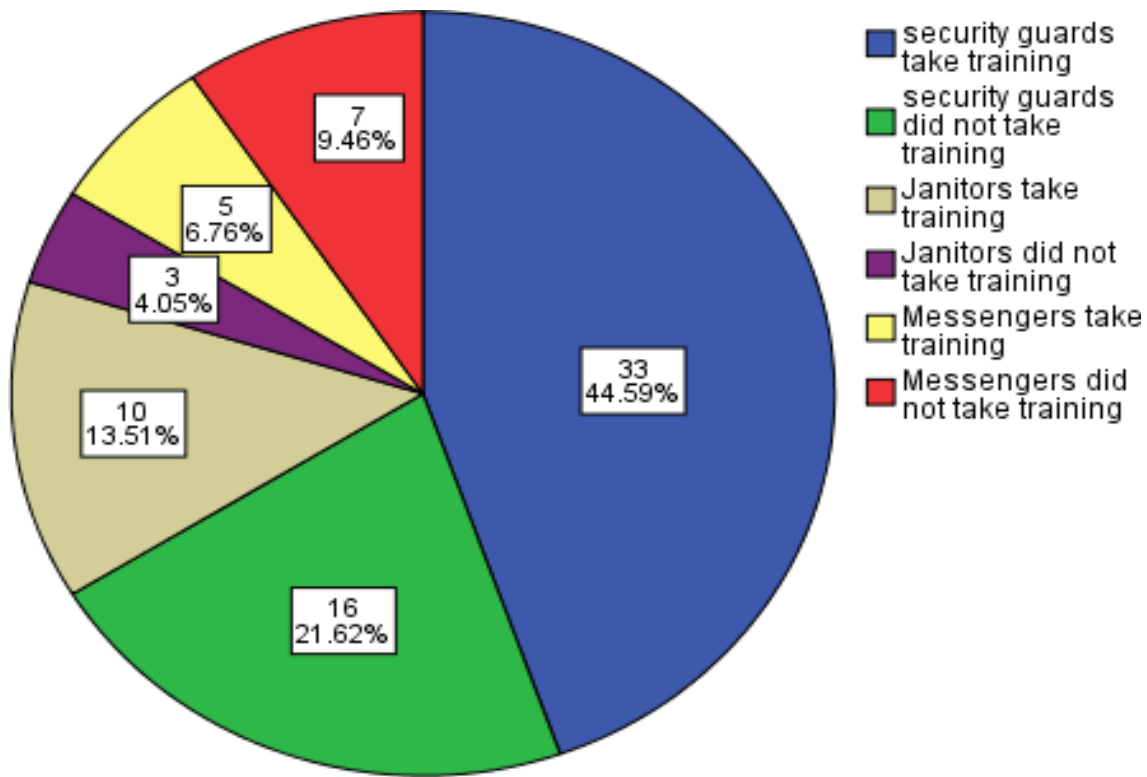
From Table 4.5, 71.61% of the respondents assured that there was no a regular discussion program with their employer (commercial Nominees PLC) about the service they provide to CBE, while 18.93% of them answered against the majority and the remaining 9.45% remain silent. Human resource manager of the service provider also confirm the majorities idea at the time of interview. However, as the manager mentioned there is a quarterly meeting with CBE authorized bodies to discuss about the three outsourced services.

According to the survey result in table 4.5 most of employees of the outsourced services (64.87%) said that they did not have a job security, 31.07% of them were disagreed with the majority and the rest 4.06% have no idea about this issue. In connection with this human resource manager of the service provider stated that employees had a fear of job loss because of the service provider hired them temporarily and this results a negative impact on their performance as well as organizational performance.

In addition to having good relationship between employees of the service provider and service receiver as stated in the above data, the majority (62.18%) again approved that there is also good interaction between the two organizations and others 21.63% ,16.23% were neutral and against with most of the respondents correspondingly.

According to Brown and Wilson (2005) establishing good relationship is one of the challenges of outsourcing. In this respect as the data shows there is a good relationship between the service provider and service receiver as well as between their employees. And also the service provider tried to control the performance of outsourced employees by making discussion with CBE authorized bodies even though there was no a formal channel of communication for messengers, janitors and security guards to inform problems they faced in their work. The above data also indicates that employees of the outsourced services did not gain additional benefits from the service provider or the service receivers like other permanent employees working with them. In addition, as the janitors, messengers and security guards mentioned that the service provider collects much money from their monthly salary in the form of commission and they have a fear of job loss.

Figure 4.1 Employees of the outsourced services Vs Training



Source: Survey data

As the above figure 4.1, shows that among employees of the outsourced services 44.59%, 13.51% and 6.76% of security guards, janitors and messengers asserts that they were take training with related to their job respectively. Which means only 64.86% of the employees of the service provider working in CBE were take training. On the other hand from those employees who did not take training 21.62% were security guards, 9.46% were messengers and the remaining 4.05% of them were janitors.

Generally, 35.13% of outsourced employees working in CBE (janitors, security guards and messengers) did not take training about their job that helps to perform better. This data supports the ideas of CBE employees forward for questions in table 4.4 i.e. outsourced employees were not properly trained, they lack knowledge and skill about their job.

## 4.6 Challenges of Outsourcing

Table 4.6 Challenges observed after outsourcing the service.  
(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

NO	Challenges/problems of outsourcing	5	4	3	2	1	Total
1	CBE losses direct controlling of the day to day activities and performance of the outsourced services (i.e. janitorial, messenger and security services).	31 (27.04%)	40 (36.95%)	16 (13.50%)	5 (5.4%)	20 (17.13%)	112 (100%)
2	Difficult to measure the service quality.	25 (23.41%)	55 (48.66%)	8 (6.30%)	20 (18.91%)	4 (2.71%)	112 (100%)
3	Inconsistent service quality.	38 (35.13%)	36 (31.54%)	21 (18.03%)	4 (4.56%)	13 (10.82%)	112 (100%)
4	Unethical behavior of janitors, messengers and security guards.	11 (9.02%)	5 (3.61%)	17 (16.23%)	44 (38.75%)	35 (32.44%)	112 (100%)
5	The cost of the outsourced service increased through a time more than expected.	15 (12.62%)	24 (22.51%)	31 (28.84%)	23 (19.83%)	19 (16.23%)	112 100%

Source: survey data

From the above table 4.6 the majority (63.98%) claim that CBE losses direct controlling the day to day activities and performance of the outsourced services, others 22.54% of them against with the majority and the remaining 13.52% did not state their stand. This is in line with what Domberger (1998) said, outsourcing involves the perceived loss of control. Many managers adhere to the view that ownership means control. In outsourcing if complementary assets are independently owned, cost will higher and efficiency lower than if they are held under single ownership. Thus, this indicates loss of control through fragmented ownership implies higher cost or inefficiency. In addition Alex Bank (2010) also stated that, due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further. Similarly, 72.08%, 66.68% of the respondents replied as difficulty of measuring service quality and inconsistency of the service quality also problems faced in their organizations respectively. This

response assert by most of the informants also agreed with Dickstein and Flast (2009), the first problem related to outsourcing is the supplier ability to supply the service may change through a time and unable to provide a quality service expected by the client due to financial difficulties, knowledge and skill gap, and technological backwardness. and the second one is outsourcing intangible products like security service, courier service and janitorial service are not as such transparent, and it difficult to measure the service like that of tangible products.

Table 4.6 depicts, small number (12.62%) of the sample said unethical behavior of the outsourced employees were the problem in CBE, most of them (71.18%) rejected the statement related to ethical problem and the rest were neutral.

As Dickstein and Flast (2009) in outsourcing the service provider or outsourcer may have a lack of management experience, due to this start-up, transition and management cost will increase. Domberger,(1998)also notify implicit costs are exist because of not possible to foresee all future contingencies. But in relation to this even though there was no a significance difference between the two extreme ideas, majority (36.05%) of the respondents said cost escalation was not the problem of their organization, other 35.14% argued as due to outsourcing the cost was increased through a time and the rest (28.84%) did not perceive the effect of cost in CBE.

In addition to the above problems, according to the manager of outsourced service administrative office, vendor selection was another challenge they faced in relation to outsourcing. As he mentioned this problem was face due to lack of competent service provider in the market and even after selection the current service provider not performed as per the service level agreement. In this regard Brown and Wilson (2005) confirm that, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing challenges for outsourcing. Moreover, the human resource manager of the service provider disclosed that as the concept of outsourcing is new for the service providers as well as the service receiver, defining the service level agreement and measuring its cost were another problem. Therefore the above data implied that at the beginning of outsourcing process commercial bank of Ethiopia encounter a difficulty of defining SLA and selecting the right vendor in connection with lack of competent service provider in the market.

In addition to this even after the three services transferred to third party the bank also faced with loss of control, difficulty of measuring the service quality and inconsistency of service quality delivered by the service provider.

## CHAPTER FIVE

### 5.1 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This part of the study summarizes and concludes the main findings obtained from the collected data and provide some recommendations to be implemented by concerned bodies in order to alleviate existing challenges and problems.

#### 1. Summary of Findings

The following points are the major findings of the study:

- ❖ The study shows that Commercial bank of Ethiopia has its own reasons to make outsourcing decisions. In this regard supporting the current banking service expansion, cost reduction , improve service quality, focusing on core function and strategies of the bank, and saving managers time that allotted for controlling the day to day activities of none core functions were the reason for outsource janitorial messenger and security service in CBE. Among these according to the manager of CBE outsourced service administrative office and the majority respondents, focusing on the core functions and strategies of the bank, and saving manager's time were the primary drivers to decide the three services to be delivered by an external service provider.
- ❖ Majority of the respondents confirm that after the bank outsourced the janitorial, messenger and security services it enjoyed two basic benefits. The first one was outsourcing helped the bank to focus on more strategic areas and core functions to realize the current fast expansion of banking service throughout the country. Secondly, outsourcing allowed for the bank management to save their time and money by reducing the need to control the day to day operations of the janitorial, messenger and security services after the responsibility for managing the operations and administrative activities were transferred to the service provider. However, the service provider can't excel messenger and security services quality due to its poor management and a lack of continuous follow up in commercial bank of Ethiopia.

- ❖ As the response of the majority (67.58%) indicates that the service providers offered good cleaning service as compared with messenger and security services. Janitors were available around the office at any time to provide the service without affecting office hours and they also used proper cleaning materials.
- ❖ Even though security service is very critical for financial institutions as most of the respondents (69.38%) indicated that the quality of security service delivered by the service provider was not good. As the result the number of theft actions was not vanished in the bank particularly in the lobby area. On top of this according to manager of CBE outsourced service administrative office, as financial organization commercial bank of Ethiopia need strong and equipped security guards, but in practice most of the security guards lack physical fitness and even they did not use a checking machine that helps to detect dangerous materials at the gate when entrants come with it. Similarly, incoming and outgoing letters, cheques, memos, and other documents were not delivered and received on time as compared to the service before outsourced. Messengers lack knowledge about bank documents that they received and delivered to others. In addition to this employees of the service provider also lack commitment and belongingness towards their job. Due to this fact employees of CBE has a negative attitude towards outsourcing and they (58.56%) recommend that in the future the bank should not outsource other none core activities rather it is better to keep in-house.
- ❖ Outsourced service employees (messengers, janitors and security guards) dissatisfied with salaries and benefits received from their employer and as they are temporary employee they have a fear of job loss. On top of this majority of them (71.63%) assured that there was no a regular discussion program with their employer (CN) about their own problems as well as the service provides to the bank. Thus, employees of the service provider working in CBE lack commitment and belongingness towards their job.

- ❖ At the beginning of outsourcing process commercial bank of Ethiopia encounter a difficulty of defining SLA and selecting the right vendor in connection with lack of competent service provider in the market .In addition to this even after the three services transferred to third party the bank also faced with loss of direct control out sourced services, difficulty of measuring the service quality as per SLA, underqualifid employees and inconsistency of service quality delivered by the service provider.
- ❖ For open ended question most of the outsourced employees reveals that their major problem was less salary and unable to gain other benefit .As they expressed even though the bank allocate good salary per individual and make payment for the service provider, the employer collect high amount of commission from their monthly salary and their dispoasable income became less.

## 5.2 Conclusions

The aim of this research is to assess the challenge and prospects of outsourcing in commercial bank of Ethiopia. In this regard the researcher tried to address the research theme by identifying the reasons for outsourcing the services, benefits gained after outsourcing, employee's attitude towards the level of outsourced services and problems faced due to outsourced the services. Finally based on the findings the researcher offered the possible solutions that help to overcome the existing problems and maximize the prospects of outsourcing.

Outsourcing has emerged as the most powerful tool for companies seeking to stay in today's competitive business environment. Its successful adoption involves different concerned parties in making important decisions about the business they are in and the best mechanism for delivering their services to the customers. The initial step of outsourcing is to determine the primary reasons for outsourcing a particular service (Choi, 2008). Buelen, et al (2006 ) claim that whether in a specific organization situation to be outsourced or not depends on a number of internal and external factors: the extent which the activity belong to the core of the organization ,the existing market for the service to be produced, the capacity of outsider provider ,the increasing of transaction cost etc. In earlier period cost or headcount reduction was the most common reasons to outsource. Over a time the reason for outsourcing shifted to improve the services delivered by the company, focus on core function, to create business strategy with other company etc. Similarly, focusing on the core functions and strategies of the bank, and saving manager's time were the main reasons for commercial bank of Ethiopia to decide the outsourced service to be delivered by another party.

As the findings indicates in connection with the outsourced services commercial bank of Ethiopia able to save management time that they allocate to manage non core functions before the services were outsourced. As the result CBE management get more time to focus on core activities and able to increase the accessibility of banking service by opening new branches in different part of the country. However the bank also faced with different problems or challenges such as poor messenger and security service, loss of direct controlling the outsourced services, difficult to measure the eservice quality, lack competent service provider in the market, difficulty of defining the service level agreement, less skilled and motivated employees hired by the service provider. Thus, CBE employees have a negative attitude towards outsourced service



delivered by the service provider and they recommend that in future commercial bank of Ethiopia should not outsource other functions rather it is better to provide the service by itself.

In order to keep the prospects of out sourcing and to solve the existing problems a great effort expected from CBE out sourced service administrative office by taking corrective actions as per SLA and need to properly define who is responsible for supplying input materials like checking machine for security guards. Nutshell, although the outsourcing practice in commercial bank of Ethiopia has some positive achievements the overall result is below the service level agreement (SLA) made between the two parties.

### **5.3 Recommendation**

Commercial bank of Ethiopia encountered drawbacks in connection with outsourced services. So, as to alleviate this drawback, the following recommendations are forwarded.

- ⇒ The banks need to revise the service level agreement and properly define who is responsible for supplying input materials related to security service. In connection with this bank should provide the necessary materials like checking machine for security guards by itself or making the payment for the service provider to supply these materials.
- ⇒ In order to supply skilled employees as per the job specification the service provider need to establish its own training center or deal with other organizations which have training centers. For example in connection with security guards the service provider can get training support from regional or national police training centers by communicating with the concerned government bodies.
- ⇒ To receive or deliver incoming and outgoing bank documents from other branches or other bank on time, means of transportation has a great impact on the service quality of the bank delivered to its customers. Thus, to decrease service delivery time service provider and CBE should discuss and facilitate a personal transportation mechanism such as a motorbike for messengers work out of the office.
- ⇒ In order to avoid theft and increase the quality of security service the service provider should discuss with the bank and need to install security cameras especially in the main gate, lobby and cash vault areas.
- ⇒ It is difficult to control and improve the service quality by reviewing reports coming from the immediate supervisor. So, CBE outsourced service administrative office should

regularly monitor the quality of outsourced services by visiting and asking the service receiver in the particular area.

⇒ As most of the messengers, janitors and security guards reveals that even though the bank allocate good salary per individual and make payment for the service provider, the service provider collect high amount of commission from their monthly salary. This affects employee's motivation towards to their job. So in order to solve such problem the bank need to discuss with the service provider to allocate appropriate salary and other benefits that Mach with their duties.

**Bahirdar University College of business and economics**  
**Department of marketing management**  
**Research questionnaires to be filled by CBE employees**

**Dear Respondents:**

This questionnaire is designed to conduct a research on the topic ‘**Challenges and prospects of outsourcing the case of commercial Bank of Ethiopia bahirdar district**’. The purpose of the study is for the partial fulfillment of the requirement of MA degree in marketing Management .For the successful accomplishment of the study, your response have key role by being used as valuable input for the study. The information that you provide is strictly confidential and will be used only for academic purpose. Thus, you are kindly requested to genuinely fill the questionnaire.

**Thank you in advance for your cooperation.**

Instructions:-

❖ Writing your name is not necessary.

For close ended questions put

“x” mark and for open ended questions write a brief answer in the space provided.

**Part One: Respondent Profile**

1. Sex     Male     Female

2. Age (Years)     below 25     25-35     36-45     above 46

3. Educational Level     Diploma     First Degree     Above first Degree

**Part Two: Questions Related with the topic**

**Dear Respondents for question no. 4 to 7 please read the statement and put**

**“x”mark in the corresponding column (i.e. 5=strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly Disagree)**

**4. Questions related to the reasons of outsourcing the janitorial, messenger and Securityservices.**

<b>NO</b>	<b>Reasons for outsourcing</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	To reduce cost.					
2	To improve service quality.					
3	To give more focus to core functions of the bank.					
4	To improve flexibility of the service by the service provider.					
5	To save manager’s time and lead them to focus on strategies of the bank.					
6	To assist the current fast growth situation of CBE.					
7	To access skills not available in CBE.					

**5. Questions related to advantage/benefits of outsourcing janitorial, messenger and Security Services.**

**( i.e. 5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)**

<b>NO</b>	<b>Advantage/Benefits after outsourcing the services</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	After outsourcing janitorial, messenger, security service quality has been improved.					
2	Outsourcing helps the bank to give more focus to its core functions/activities.					
3	After outsourcing flexibility of the service is improved.					
4	Outsourcing helped the bank to focus on more strategic areas rather than non core activities.					
5	Outsourcing of the janitorial, messenger and security services assisted the current fastgrowth situation of CBE.					
6	Outsourcing helpsforCBE to access new skills not availableinternally.					
7	Outsourcing saves management time and money through reduced the need to control day to day operations of the noncore function or activities (janitorial, messenger and security) of the bank.					
8	The service provider manages janitorial, messenger and security service better than CBE manage it before outsourcing.					



**6. Questions related to employees attitude towards the out sourced services.  
(i.e. 5=Strongly Agree, 4=Agreed, 3=Neutral, 2=Disagree, 1=Strongly Disagree)**

No	Items	5	4	3	2	1
1	After CBE outsourced messenger service incoming and outgoing letters, cheques, memos, and other documents are delivered and received on time as compared to the service before outsourced.					
2	Theft decreased in CBE after security service is outsourced as compared to before it was outsourced					
3	CBE customers feel more secured and comfortable with the security services delivered by the bank after outsourcing.					
4	Janitors, security guards and messengers are committed to their duties and responsibilities.					
5	Cleaning service is delivered on time without affecting office hours.					
6	Janitors are skilled and use appropriate cleaning materials.					
7	Messengers and security guards of the bank are well trained and know their jobs as well as they perform tasks according to CBE expectations.					
8	CBE should outsource other non core functions or activities of the bank in addition to the services outsourced currently.					
9	Janitors are available at anytime in the office if their service is needed.					
10	Messengers have good understanding about the value of bank documents they received or delivered to others on behalf of the bank.					
11	You and CBE customers are satisfied with the current janitorial, messenger, and security services offered by the service provider.					

**7. Challenges observed after outsourcing the service.**

(i.e. 5=Strongly Agree, 4=Agreed , 3=Neutral, 2=Disagree, 1=Strongly Disagree)

NO	Challenges/problems of outsourcing	5	4	3	2	1
1	CBE losses direct controlling of the day to day activities and performance of the outsourced services (i.e. janitorial, messenger and security services).					
2	Difficult to measure the service quality.					
3	Inconsistent service quality.					
4	Unethical behavior of janitors, messengers and security guards.					
5	The cost of the outsourced service increased through a time more than expected.					

**If you have additional comments on the following problems please write it.**

8. What problems did you observe in?

Janitorial service: .....

.....

.....

Messenger service:.....

.....

.....

Security service:.....

.....

.....

9. What measures should be taken to solve the problem you observed and mentioned above?

.....

.....





**Part Two: Questions Related with the topic**

**Dear Respondents for question no “5” please read the statement and put “x” mark in the corresponding column (i.e. 5=strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=strongly Disagree)**

**5. Questions related to the attitude of employees of the outsourced services.**

<b>NO</b>	<b>Items</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
1	Your employer created a conducive working environment and provides the necessary material on time that helps to perform your job.					
2	The service provider (employer) regularly monitors your performance.					
3	You have good skill and experience to perform your current duties and responsibilities in the bank.					
4	The amount of commission your employers collect from your monthly salary is fair.					
5	Your current salary is proportional to the duties and responsibilities that you perform in the CBE.					
6	You have a good social relationship with CBE employees.					
7	You have a formal regular meeting with your employer to discuss problems faced in your job.					
8	CBE staffs and customers satisfied with the service you provide.					
9	Your job security is ensured.					
10	There is a good relationship between Commercial Bank of Ethiopia and your employer					

6. How many years do you work in the current job?.....

7. Did you take any training related to your job that helps you perform better?

Yes                       No

8. If your answer is NO for question no. "7" do you need a training that related to your current job?

Yes                       No

If you say NO, why?.....

9. What problems did you observe in your job?

From your employer side:

.....  
.....  
.....

From CBE side:

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.....

10. What measures should be taken to solve the problem you mentioned above?

.....  
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**Bahirdar University College of business and economics**  
**Department of marketing management**

**Interview question to be answered by HR Manager of the service provider**

1. What benefits the bank has achieved after your organization provide the janitorial, messenger and security services?
2. Do you think that the janitorial, messenger and security service qualities of CBE are improved after your organization provides the service?, How?
3. What are the major challenges or problems facing your organization in relation to the service you provide to the bank?  
-From CBE side            - From your side    - From Employees side
4. What are the causes of the problem encountered in your organization with related to the service provide to CBE?
5. What solutions were taken to solve the problems?
6. Do your organizations has good relationship with CBE and manage the interaction in the Wright way?
7. How your organization monitors or controls the qualities of the service that provide to the bank?
8. Do your organization providing the service as per service level agreement made with CBE? If not what is/ are the reason/s?
9. Is there any formal channel of communication with CBE to discuss the performance, service quality and problem you faced?
10. Did your organization give an induction or training for employee that helps to perform their job better?
11. Do you think that your employees are skilled and perform their job as CBE expectation?
12. Is your organization providing a better salary and benefit for employees than were provided by the Bank?

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**Bahirdar University College of business and economics**  
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**Interview question to be answered by Manager of the outsourcing Administration**

**Office**

1. What are the drivers/reasons that encourage your organization to outsource?
2. What benefits the bank has achieved by outsourcing the three non-core functions?
3. Do you think that the janitorial, messenger, and security service qualities are improved after outsourcing? , how?
4. What are the major challenges or problems facing CBE in relation to outsourcing?

Such as:

- Deciding what to outsource
  - Change management
  - Defining SLA
  - Service provider not perform as per SLA
  - cost increment more than your expectation
  - Vender selection
  - Managing the process/Relation ship,or
  - Any other
5. What new problems emerged due to outsourcing?
  6. What are the causes of the problems encountered in your organization?
  7. What type of measure did your organization take to solve problems that faced during? or after outsourcing? (If any)
  8. How your organization monitors or controls the quality of the outsourced services and evaluates the performance of service provider?
  9. How do you rate the service quality of outsourced functions as compared with the previous one?
  10. Do you think that the service quality and performance of the service provider result in Service level Agreement? If not what is/are the reason/s?

11. Is there any formal channel of communication with the service provider to discuss? the performance and service quality? How often?

Is your organization planning to outsource any other activities in the future?



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