ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

MASTERS OF BUSINESS ADMINISTRATION PROGRAM

OUTSOURCING AND ITS BENEFITS AND CHALLENGES AT

DEVELOPMENT BANK OF ETHIOPIA

BY

SISAY YENENEH

June 2017

Addis Ababa, Ethiopia

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Mesfin Lemma. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institutions for the purpose of earning any degree.

Sisay Yeneneh _____

Name   Signature

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Acronyms/Abbreviations

BPO- Business Process Outsourcing

BPO: Business Process Outsourcing

BTO: Business transformation outsourcing

CBE- Commercial Bank of Ethiopia

DBE: Development Bank of Ethiopia

E-margin of error

FFIC- Federal Financial Institutions Examination Council

FMP-Finance and management accounts

H.O- Head Office

HR-   Human Resource

HRM- Human resource management

ISO-International Organization for Standardization

IT- Information Technology

PLC-Private Limited Company

PMP-property management process

SLA- Service Level Agreement

SME- small & medium enterprises

SPSS-Statistical Package for Social Studies

ABSTRACT

This study was conducted to outsourcing and its benefits and challenges at Development Bank of Ethiopia and to come up with the possible solution to minimize the existing problems. The researcher used both primary and secondary data sources. In order to get relevant data from the target population, questionnaire and interviews were used. The questionnaire was distributed to 252 employees on the basis of stratified random sampling and the data collected were analyzed using descriptively. Results show that due to outsourcing the major reasons and benefits are able to save time and money, helped to save costs and personal work, helps the bank to give more focus to its core functions, helped the bank to focus on more strategies. In the meantime the bank has also faced several challenges such as: poor handling of the Bank's resource and high maintenance costs, problems of controlling outsourced staffs during working hours, problems of quality of services, lack of ownership and belongingness, lack of clear communication. Based on the findings of the study, the research recommended to minimize poor handling of resources and the high maintenance costs, the bank prepared mentally and physically through proper and continuous training and should set up controlling and monitoring actual equipment condition, to decrease service delivery time service provider, DBE should discuss and facilitate a personal transportation mechanism, to understand the value of the bank's document, the bank should give free induction training, in order to increase employee belongingness and ownership, the bank should give gift certificates and intrinsic rewards that are experienced internally. Finally the bank should recruit some effective outsourced workers into permanent workers to increase others' employees moral and belongingness.

Keywords: *Outsourcing, Insourcing, offshoring, onshoring, Core functions, non-core functions*

CHAPTER ONE

INTRODUCTION

This part of the paper will present an introductory part for the study which introduces the overall study. It consists of background of the study and the organization, statement of the problem, research questions, objectives, and significances, scope of the study, limitation of the study and organization of the study.

1.1 Background of the study

Companies strive to utilize the organization's competitive advantage to improve market and profitability. One of the most effective activities in contemporary business is Outsourcing, because many companies try to use all innovations of science, techniques and technologies to issue qualified and competitive product which will satisfy consumer. This situation is very usable for both parts, because each of them can concentrate its resources on development of core competencies and prospective directions of activity .This leads to essential reduction of expenses on production of the end product because each part works on that it can do best without applying additional effort and without investing for learning new activity types (Robert, 2006).

Outsourcing is the delegation of one or more business processes or functions to an external provider who, in turn, owns, administers and manages the selected process (es) or functions based upon defined and measurable performance metrics. It is an agreement in which one company contracts-out a part of their existing internal activity to another company (Rothery et al., 1996).

Outsourcing can be defined as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Sometimes known also as facilities management, outsourcing is a strategy by which an organization contracts out major functions to specialize and efficient service providers who become valued business partners. Outsourcing is, thus, the strategic use of outside resources to perform business functions traditionally managed by internal staff. Using an outsourcing, companies which will help reduce costs and gain

efficiencies by leveraging the talent, technology, and expertise of third party vendors (Baily et al, 2008).

Outsourcing is a business model whereby part of a business or production process is put out or farmed out to a third party. It helps the user company to focus on its core business, gives it better flexibility to cope with market fluctuations, such as when there is need to increase or reduce the workforce, which it can do much more easily and at lower costs under such arrangement. As such, outsourcing has long been adapted by businesses globally, first by those in the manufacturing sector, but now increasingly by companies engaged in services as well (Power, et al, 2006).

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; it may be difficult to separate 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 and Amrik, 2004).

Outsourcing is recent tool of managers the complete costs are not yet known, which possess a risk in itself. One of the causes of outsourcing failure is lack of guiding methods for managers and skills to manage and monitor outsourced functions (Kremicet.al, 2006, p.467–482).

Outsourcing may seem attractive at the strategic management level serious pitfalls are often encountered as the strategy is pushed downward into operations. The main reasons for not outsourcing are organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them (Robert, 2006).

1.2 Background of the Organization

The history of Development Bank of Ethiopia goes back to 1909.The bank has been playing a significant role in promoting overall economic development of the country. It is one of the financial institutions engaged in providing short, medium and long term development credits. DBE's distinguishes feature is its project based lending tradition. According to the newly revised

credit policy of the Bank issued in August 2009, the development bank of Ethiopia (DBE) is one of the specialized financial institutions engaged in providing short, medium and long term development for Major areas of finance such as Commercial agriculture, Manufacturing Industries, and Agro-processing Industries. DBE's distinguishes feature is its "project" based lending tradition. Project financed by the Bank are carefully selected and prepared through appraised, closely supervised and systematically evaluated. By now Development Bank of Ethiopia have more than 107 branches, spanning the entire breadth and width of the country and combines a wide capital base with more than 2206 employees as 2016 second quarter report.

1.3 Statement of the Problem

Outsourcing is one of the most prevalent trends in today's world business environment and it is newly developing concept in Ethiopia, particularly, in its existence in the banking sectors. Hence, organizations prefer to transfer non-core business functions to be performed by an external third party with the aim of reducing considerable costs, to give more focus to core functions, to save manager's time and lead them to focus on strategy areas. However, outsourcing has also problems or risks if the process is not managed in the proper way. In relation to this, Development bank of Ethiopia faced with different problems. Some of the problems are Poor handling of the Bank's resources, problems of controlling outsourced staffs during working hours, problems quality of services delivered by outsourced staffs, low employee belongingness, and lack of clear communication and coordination.

So, organizations should give a great attention to maximize the benefit of outsourcing and overtake such problems arise with related to it through proper monitoring and controlling , legal base contracting, periodic performance evaluation and creating good relation with service provider.

In spite of the fact that outsourcing became very popular topic in today business environment, Development bank of Ethiopia is one of the organizations that outsourced the non-core functions (such as security, messengers and janitorial and , driver services). By considering the above issues the researcher tried to examine outsourcing and its benefits and challenges by raising research questions.

1.4 Basic Research Questions

- What are the reasons for outsourcing the services?
- What are the benefits arising from outsourcing of non-core business functions?
- What are the challenges arising from outsourcing of non-core business functions?
- What types of business functions have been successfully outsourced by DBE?

1.5 Objectives of the Study

The general objective of this study is to assess the noncore outsourcing benefits and challenges in Development Bank of Ethiopia.

1.5.1 Specific Objectives

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

- Assess the reasons for outsourcing the services.
- To identify the benefits of outsourcing of non-core business functions
- To examine the challenges of outsourcing of non-core business functions
- To identify types of business functions those are outsourced.

1.6 Significance of the Study

The study is expected to assess the benefits and challenges in the study area. By doing so, the study would have the following major significances:

It is expected that the findings and recommendations are useful to Development bank of Ethiopia and other similar business organizations, particularly for those considering outsourcing or broadening the range of their services. It also 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.

1.7 Scope and limitation of the Study

1.7.1 Scope of the Study

Development bank of Ethiopia is a big organization having a large number of branch offices all over the country. These offices are highly dispersed and distantly located geographically which could limit their accessibility. Therefore, the scope of the study was limited to outsourced services in Development bank of Ethiopia particularly Districts found in Addis Ababa city. The researcher was limited to used quantitative research approach and employees whose experience is less than one year is not considered in the study. The sample respondents comprise only DBE staff found in Addis Ababa city on non-core activities (i.e. security, messengers, drivers and janitorial services).

1.7.2 Limitation of the Study

Due to cost and time constraint it is somehow impossible to cover all non-core business functions. So, this research focuses only on the following activities: Security service, Janitorial service, and Messenger services in Development Bank of Ethiopia. There is also faced shortage of adequate reference materials. Finally, the carelessness of some respondents while filling the questionnaires during data collection was one the limitation of the study.

1.8 Organization of the Paper

The research report consists of five chapters. The first chapter focuses on introductory aspects like background of the study, statement of the problem, objective of the study, scope of the study, Significances, and limitations of the study. Chapter two present the literature review, which served as a basis for understanding the subject matter. Chapter three focus on the research design and methods of the study. Chapter four concentrated with the presentation and analysis of data obtained from responses. The fifth chapter, which is the closing chapter, focuses on concise conclusions along with possible recommendation.

CHAPTER TWO

LITERATURE REVIEW

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; it may be difficult to separate 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 and Amrik, 2004)

2.1 Definition 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:

outsourcing is a "company, a hospital, or a government agency turning over an entire activity to an independent firm that specializes in that kind of work " He expands on his explanation; "In another ten or fifteen years, organizations may have outsourced all work that is `support' rather than `revenue producing' and all activities that do not offer career opportunities into senior management. This will mean that in many organization majorities of people working might not be employees of that organization but employees of an outsourcing contractor (Peter,1995, p.278).

Outsourcing is a common practice among both private and public organizations and is a major element in business strategy. Perhaps most organizations now outsource some of the functions they used to perform themselves (Tibor et al 2006, p.467-482).

According to Duening and Click (2005), Business outsourcing can easily be defined as moving parts of business processes from the company to an outside provider. These processes can be tasks which have previously been carried out by the company itself or new ones which rise from

different business needs. Dear love (2003) states that outsourcing is responses to the question: "Which areas of activity are central to our businesses, and which can best be performed by external suppliers?"

As businesses productivity rises, the individual tasks of the workers get more and more specialized. Companies cannot excel in all possible business processes and processes which require knowledge that the company does not have in-house, but which is available from specialist, can be contracted from outside provider (Dearlove, 2003).

Espino-Rodriquez and Padron-Robaina (2006) present the most significant definitions of outsourcing from different literature in one table (see Table 2.1), which is a useful tool for a deeper understanding of the concept.

Table 2.1: Diverse definitions of outsourcing

Definition of outsourcing	Author/s (year
A different make or buy: mixture of conclusions to achieve the compulsory provision of resources and services designed for the creation of goods and services for organizations.	Harrigan (1995)
Outside vendors' terms of substantial or human resources related with information technology (IT) methods for organization's	Loh and Venkatraman (1992)
Activities from external possession, together with 'those traditionally considered an integral part of any firm, provided that they do not form part of the firm's core capabilities'.	Quinn and Hilmer (1994)
Partnership agreement among diverse categories of organizations in which a particular firm is a professional in knowledge and creates a momentous involvement with the other through supplying corporal or human resources for the phase of a definite time with the purpose of accomplishing a specific purpose.	Sacristán (1999)
Transitory over several of or the entirety of particular business	Bailey et al. (2002)

functions and associated services to a third party organization, for a compulsory outcome.	
The process of changing a business deal earlier governed within to an outside provider throughout a lasting convention, and concerning the relocation to the vendor.	Quélinand Duhamel (2003)
Not simply consisting of purchasing goods or services from outside suppliers; also transfers the accountability designed for business tasks and frequently the allied information to the outside firm.	McCray and Anagnostou (2004)
The procurement of provisions from an officially sovereign body.	Mol et al. (2005)
To execute development and supply required services and materials, by paying external suppliers and distributors.	Krajewski, Ritzman, and Malhotra (2006)

Source: Espino-Rodriquez and Padron-Robaina (2006, p.51)

A review of these differing descriptions of outsourcing reveals that it is generally defined as contracting out a process, such as manufacturing and development, to a third party organization with experts in these areas (Claver et al, 2002).

2.2 Insourcing and Outsourcing

Outsourcing and insourcing are methods of dispersing work among different departments or companies for strategic reasons. Insourcing is typically done solely from within a company's own operational infrastructure, while outsourcing uses companies not affiliated to perform a specific task or tasks. Insourcing means that a company internally makes a particular material that is *needs* for its operations. Outsourcing means that it buys the material from an external supplier (Monczka et al, 2010).

Insourcing and outsourcing occur when the decisions are made to reverse past buy-or-make decisions. Their essential approach is to analyze and compare the benefits of insourcing and outsourcing. The sourcing decision is important because it affects costs, but it also defines the boundaries that a company draws around its operations. Companies are likely to keep operations internal that are considered part of their core activities, while they are more likely to outsource activities considered more marginal (Johnson and Fearon, 2006).

The following table presents the disadvantages and advantages of outsourcing in comparison with in sourcing:

Table 2.2 Advantages of insourcing and outsourcing

Insourcing	
Advantages:	**Disadvantages:**
- Higher degree of control over inputs	- High volumes required
- Visibility over the process increased	- High investment needed
- Economies of scale/scope	- Dedicated equipment has limited uses
	- Problems with supply chain integration
Outsourcing	
Advantages:	**Disadvantages:**
- Greater flexibility	- Possibility of choosing wrong supplier
- Lower investment risk	- Loss of control over process
- Improved cash flow	- Long lead times/capacity shortages
- Lower potential labor costs	- Intellectual property leakage

Source: Adapted from Monczka et al (2010)

 Nevertheless, for this important decision, managers should also consider a variety of other factors that go beyond costs, such as supplier's competency, quality, delivery time, risk mitigation, technology, reliability and continuous improvement.

2.3 Outsourcing and offshoring

'Outsourcing' and 'offshoring' are frequently confused. According to Manning, Massini, and Lewin (2008), offshoring is when business tasks underlying local or international processes are resourced to an organization outside the nation. Off-shoring refers to the process of sourcing and coordinating tasks and business functions across national borders but outsourcing, by contrast, denotes the delivery of products or services by an external provider that is, one outside the boundaries of the firm (Manning, et al,2008, P.39).

In addition, offshoring is defined as "performing or sourcing any part of an organization's activities at or from a location outside the company's home country" (Brown & Wilson, 2005,

p.350). Companies construct centers offshore, where the workforce works in support of an outsourcing provider (offshore outsourcing) or works directly for the home company. Several factors drive companies to adopt an offshoring strategy, such as: comparative labor costs, logistics costs, tariffs and taxes, labor laws and unions, and the internet (Krajewski et al, 2006).

When a company contracts work from another company, it is called outsourcing. Outsourced work performed locally (i.e. in the same country) is called "onshore outsourcing". Outsourced work performed in other countries that are in roughly the same time zone is called "nearshore outsourcing" (Maynard, 2006).

According to Nicholas et al (2004), outsourcing is defined as having work that was formerly done inside the organization performed by an external organization. They also supplemented that the vendor (hereafter the outsourcer and outsource are, respectively, referred to as vendor and client) may be an independent entity or a wholly owned subsidiary. And is the contracting with an external party to provide services or products that could be provided by an internal source.

2.4 Levels of outsourcing

According to Brown and Wilson (2005), there are three diverse levels of outsourcing: tactical outsourcing, strategic outsourcing, and transformational outsourcing. Descriptions of each level are provided below:

- **Tactical outsourcing:** Tactical or traditional outsourcing is the first level. A company chooses tactical outsourcing when faced with a specific problem. Often, outsourcing is seen as a way to quickly tackle problems when a firm is already experiencing difficulties. These dilemmas include a lack of financial resources when making capital investments. Tactical outsourcing creates competition between in-house business functions and external service suppliers. Many tactical associations are artificial solutions designed to produce quick cost savings, eliminate future investment requirements, provide cash infusion via the sale of assets, and relieve the weight of employment issues. Successful tactical outsourcing is dependent on successful tactical relationships, and as a result the value of external providers is understandable (Brown and Wilson, 2005, p.20).
- **Strategic outsourcing:** Over time, as businesses develop and the goals of company and provider begin to spread apart, it becomes necessary to acquire superior value from

outsourcing relationships. Managers then work to gain more control over all responsible functions, instead of losing control of outsourcing functions. For example, this level of outsourcing allows them to focus more on infrastructure matters rather than worrying about staffing issues. Strategic outsourcing focuses on creating long-standing business relationships. Companies work with a smaller group of the best service providers rather than having a great quantity of providers to perform the task required. This relationship often marks the beginning of a long-term partnership with a mutual benefit. Strategic outsourcing is an advanced approach to maintain organizations' premier value-creating actions, and its core competencies (Brown and Wilson, 2005).

- **Transformational outsourcing:** The third level of outsourcing is called 'transformational' and this outsourcing is used to redefine a business. Transformational outsourcing is an advanced method that allows an organization to respond to a changing market. Business transformational outsourcing (BTO) merges this proposal with business process outsourcing (BPO). It enables an institution to retain leadership position, build sustainable competitive advantage, and generate highest value for an institution. Some issues addressed by transformational outsourcing are good governance, maturity of business process knowledge and adequately drafted and monitored service level agreements (SLAs). The levels of risk in strategic and transformational outsourcing are higher than the tactical form, but are commonly shared with the outsourcing partner. Tested risk mitigation plans, high-security levels, mature project management skills and proven business continuity plans need to be put in place before an arrangement can begin in this direction (Brown and Wilson, 2005).

2.5 Reasons for Business outsourcing

There are numerous reasons for outsourcing. To benefit from corporate outsourcing, it is extremely important for companies to understand the reasons for the process. McCray (2008) has noted numerous benefits of outsourcing for organizations to consider:

- Outsourcing decisions allow a firm to focus more on core business functions.
- Outsourcing decisions allow companies to reconsider their assistance strategy, create professional operations, and gather knowledge and capital while improving efficiency.

- Organizations outsource to develop the support for service level and to organize employees via building further trust.
- Companies seek outsourcing to cut down costs over the short or long term.

According to David (2007), organizations outsource functional operations for numerous reasons, including: a reduced cost, the organization can increase its focus on core businesses, and lastly it permits the organization to deliver superior services.

Similarly, Wipro Technologies (2007) provides numerous reasons for outsourcing, including:

- Decreased and managed working costs
- Development of corporation business focuses
- Increasing the process velocity of reengineering efforts
- Accelerated acquisition of the latest expertise and knowledge
- Divided risks
- Quicker responses to business drivers
- Renovated principal costs and fixed assets, allowing additional, flexible report operating costs

In addition, Nicholas and Amrik (2004, p.696) provide different reasons for outsourcing, such as:
- Cheaper than expanding in-house
- Developing service points
- Controlling uneven orders

Organizations that outsource their business functions are seeking to increase profits or to focus on related matters (Assaf and Al-Nehmi 2011, and Nicholas and Amrik, 2004):
- **Strategic reasons**: Outsourcing provides access to a larger and superior talent group (staffing issues), and a sustainable foundation of talent, as a result of accessing third parties' information support. This involves outsourcing to gain access to scholarly assets and access to wider knowledge and experience (Koh and Rothman, 2003).

According to Brown and Wilson (2005, p.37), this situation may come about if a company finds in-house staff knowledge insufficient for a given task. This can be solved by outsourcing the function to an outside supplier to gain new skills or new technical knowledge.

According to Douglas (2009, p.10), risk management is the identification, evaluation, and prioritization of risks in order to minimize and manage the likelihood of unfortunate actions, via a reasonable management of resources.

- **Management reasons**: By outsourcing, an organization gains an enhanced process of capacity management for services and equipment. This applies wherever the risk and threat in supplying the surplus is accepted by the provider. As Brown and Wilson (2005, p.37) mention, a company may face poor management symptoms such as a high turnover, a low-quality product, and time management failures. Finding suitable managers can be difficult or time consuming, and outsourcing the function to access the industry's greatest and most experienced managers in a functional area is a workable alternative. Outsourcing can be an option for improving and developing all aspects of production, due to the increased capacity provided by the outsourcer. There are many issues that can cause in-house development to become bogged down, including staff shortages, lack of experience with new technologies, and financial emergencies.

According to Koh (2003, p.22), depending on outsourcer's potentials, outsourcing in such cases usually results in completing projects on time or even sooner than before, as well as improving time to market.

- **Technological and quality reasons:** Outsourcing is often adopted to provide the improved operational performance, which would be difficult to create internally due to a lack of in-house operational expertise. As Brown and Wilson (2005, p.37), states, "this may result in minimal improvements to the function in the future" .Outsourcing can solve this problem. In addition, managing new skills and technology for clients is the primary business focus for outsourcers (Koh, 2003). Therefore, outsourcers will invest in expensive technology, methodologies, and people. By working with many different clients, outsourcers will become experts in their field of business. The combination of specialization and expertise can help clients gain a competitive advantage by avoiding the investment cost of technology and training for clients, since technology can change very quickly (Koh, 2003). Outsourcers can inform their clients about new advanced technologies in their industry and give their client the choice of implementing new technology as soon as

it becomes possible. An organization might find one of their departments or functions has exorbitant costs or inadequate quality or performance, and management decides to outsource the department or business function to a third party for improved results (Brown and Wilson 2005). The organization may achieve improvements in quality or performance via contracting out the service and it should be noticed as a possible improvement and achieve higher service level (Assaf and Al-Nehmi, 2011). If a company needs to rapidly move to new technology, or acquire a new market share, the management may be inexperienced in such areas. In these situations, a company can outsource this business function to a third party, freeing the management team to concentrate on a smaller variety of core activities (Brown and Wilson 2005). An organization can also outsource to complete a major transformation that cannot be accomplished without help. The outsourcer thus becomes a catalyst for change in the development process. This is the procedures for standardizing IT and business services, which allows companies to purchase at a precise value (commoditization). This permits an extensive range of businesses access to services that were formerly the exclusive domain of large organizations.

- **Economic reasons**: Organizations outsource to lower the overall cost (cost saving) of a business function, such as lowering capacity, re-negotiation and re- evaluating. Not all outsourcing is concerned with decreasing costs, but companies often outsource for reasons such as a critical financial position, or to reach company targets by increasing profits, and can reduce costs by using an external supplier (Brown and Wilson, 2005).

According to Nicholas and Amrik (2004, p.696), it is stated that obtaining flexibility and improving performance, access to skills, and reducing costs are strongly expressed as top three reasons for outsourcing.

2.6 Main factors influencing successful outsourcing

In support of successful outsourcing management around five elements are identified as primary success essentials. Other than this list, there are a number of additional elements pointed out by (Brown and Wilson (2005).

As a result, success elements have been identified as 14 factors:

- Having a strategic vision and plan, and an understanding of the intended use of outsourcing
- Conducting a needs analysis prior to making the outsourcing decision
- Ensuring the outsourcer understands the organization's goals and objectives
- Clear definition of term and conditions in the outsourcing contract
- Determining which areas of your company you would like to outsource
- Careful attention to personnel issues and conducting open communication with the affected individual or group
- Appropriate outsource selection procedures
- Financial planning and analysis
- On-going management of relationships and communication channels
- Properly drawn up contracts
- Establishing trust between organization and outsourcer
- Top-level management's support and involvement
- Drawing up criteria to measure the outsourcer's performance.
- outsourcer attains some form of certification such as ISO 9001

'Top-level management's support and involvement', 'having a strategic vision and plan, and an understanding of the intended use of outsourcing', and 'Clear definition of term and conditions in the outsourcing contract' are strongly expressed as the top five outsourcing success elements.

2.7 Process of Outsourcing

Outsourcing business processes is not always the right move for every company and not all processes should be given to third parties. Regardless of the size of the company some processes are suitable for outsourcing. BPO was initially way for large companies to mainly reduce their costs, today every organization can also benefit from outsourcing (Duening and Click 2005, p.35).

According to Robert (2006) there are four main aspects to a typical outsourcing program: Program Initiation, Service Implementation, Final Agreement and Program closure.

- **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 (Robert, 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. Same functions can be outsourced by the decision of lower level managers, but for major outsourcing decisions that involve very large layoff or coat 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).

- **Service Implementation**

Service Implementation covers the activities required to take these ideas and intentions and develop them into a formal, planned outsourcing program and to make the transition to the outsourced service. Specifically these activities are: Defining the transition project, transferring staff, Defining the Service Level Agreement (SLA), Defining service reporting, Implementing and handing over the service, and Implementing service management procedures (Robert, 2006).

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 (Robert, 2006).

- **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.

- **Program Closure**

  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 service before it was given 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. Robert'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.

2.8 The Cost and Benefit of Outsourcing

According to Dickstein and Flast (2009), cited by Abebe (2015), Outsourcing has its own advantage/benefit/and disadvantage/cost/.But the balance between the two is depends on the ability of the service receiver to analyze the function and the commitment of the service provider to provide the service based on prior agreement. In addition to these there are also another cost and benefit of outsourcing beyond the activities of the two parties which is related to the nature of outsourcing itself. In relation to this let us see some points sported by different writers.

2.8.1 Cost of outsourcing

- **Cost of Transaction**

In outsourcing initially there are costs of searching vendors. With regard to this, market participants don't have perfect information and perfect picture concerning their counterpart on the opposite side of the transaction: information about buyers, their preferences, and their budget must be acquired. Dickstein and Flast (2009) stated that the service provider or outsourcer may have a lack of management experience, due to this start-up, transition and management cost will increase. Similarly knowledge about the potential sellers is scare. Particularly this is true for service outsourcing which is evaluated on the bases of past performance as judged by clients (Domberger, 1998). Searching and selecting the service provider during outsourcing involves implicit and explicit cost. Some of the explicit costs are: writing specification, drafting contracts, consulting relevant end users, advertising invitation to bid, evaluating the bid and closing the negotiations with the winning bidder. All these need considerable senior management time. Estimates of such transaction cost vary but the can be as high as five percent of the contract values. On the other hand implicit costs are exists because of not possible to foresee all future contingencies. Dickstein and Flast (2009) service debasement or deterioration due to inexperience, task complexity, excessive numbers of customers are some of the cause of implicit cost. Depending on the nature of outsourced service or product involved, there may need revise the specification, increase or decrease the quantity stipulated in the contract, adjust the quality upward or dawn ward or review some other dimension. Such activities results cost escalation. In addition to cost increment, this kind of negotiation consumes valuable management time and difficult to resolve (Domberger, 1998).

- **Cost of Monitoring**

As Domberger (1998), the ultimate goal of service provider is to make profit whereas the client seeks to obtain the best value for money from the contract. The interest of these two parties obviously diverges. The service provider stands to benefit from shrinking resources which results an incentive to reduce efforts, providing such action is not detected by the client or outsourcer. In order to minimize this incentive the client need to intensify the monitoring of the service provider performance. This makes the monitoring of contractors is inherently more costly than monitoring in-house service provider.

- **Loss of Control**

Another important cost of 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. According to Domberger (1998), this indicates loss of control through fragmented ownership implies higher cost or inefficiency. Alex Bank (2010) in addition to this 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.

According to Dickstein and Flast (2009) loss of organizational competency happen when the services are more core than context, or when there are interdependence between outsourced and insourced services.

This is most keenly felt at the end of a contract, when the outsourcer realizes that they no longer perform the activities that were outsourced.

In addition to the points expressed above by different authors Wilson and Brown (2005) mentioned that no powerful tool is without challenges, and the same is true for outsourcing. With this regard, choosing the right partner, establishing effective governance for relationship and managing employee transition with sensitivity are the three most outsourcing challenges.

2.8.2 Benefits of outsourcing

Now in these days there is wide scope of outsourcing. In the market there are several contractors are available who are ready to provide their best services with least cost. Organizations hire their services in order to enjoy different benefits. The benefit of outsourcing is emanating from the rationale for outsourcing. Due to this most of the reasons for outsourcing are also the benefit of outsourcing. Domberger (1998) categorized the benefit of outsourcing in to four: specialization, flexibility, cost saving and market discipline.

According to Ashirefa, et al (2010) cited from Trestle group research conducted in 2004, Cost savings ,Focus on Core Business ,Cost restructuring , Improve quality ,Knowledge , Operational expertise ,Access to talent, Capacity management, Catalyst for change, Enhance capacity for

innovation, Reduce time to market, Risk management, Venture Capital, Tax Benefit, Scalability, and creating leisure time are considered as the major benefits of outsourcing accordingly.

2.8.3 Cost and benefit of outsourcing Security Guards

According to Bragg (1998), outsourcing security function has its own benefits: The first benefit is a company has no longer to deal with the hiring, firing and other personnel issues because of the supplier take care of all these administration details. This is a particular advantage in the security area .The second one is many supplier offer security training to their staffs, which gives a company the assurance of consistent, reliable and quality service wherever the supplier does business. Thirdly, outsourcing security eliminates personnel related paper work while improving the reliability and training of the security staff.

2.8.4 Cost and Benefit of outsourcing the Janitorial function

The janitorial function is one of the most commonly outsourced functions but many companies do not control the outsourced janitorial function very well, nor regularly examine the performance of their supplier. With related to this function there are a verity of advantages and disadvantages.

Bragg (1998) stated that the primary disadvantage of outsourcing the janitorial service is that there will be still a need for an in house person to handle short notice cleanup problems, such as spills, that cannot wait until the next regularly scheduled visit by supplier's janitors. Thus, the company may still need an in house janitor even after the function has been outsourced.

On the contrary according to Bragg (1998) the major advantage of outsourcing the janitorial function is related to accounting problem which is called step costing. Within an in house janitorial staff, a new janitor must be hired once there is a moderate cost increased in the required service that person may not be fully utilize until the facility size has continued to increase for same time. This results an initial inefficiency that may not be corrected for same time, depends on the company facility's growth rate. But, when this function is outsourced, the company only.

2.9 Challenges of Outsourcing

There are several challenges that may face organizations that consider outsourcing as practices. One of these challenges includes failure by the organization. Just like any other business practice, outsourcing some of the noncore business activities or functions can greatly improve the company's competitive advantage. The competitive advantage stems from the fact that outsourcing has the potential of drastically reducing the overall business costs. Organizations may choose to outsource with certain business aims in mind. The aim might be the need to improve on financial performance (McCray, 2008). Sometimes firms may fail to realize that outsourcing firms my offer them an opportunity to work cheaply through efficient technology and economies of scale. Firms may also fail to realize what by minimizing costs, organizations can achieve their economic related goals and this enhances their organizational performance. If firms are able to reduce costs through outsourcing, the extra amount that would have been passed to the consumers in form of higher prices for the goods and services is absorbed as consumers pay less for their commodities. Lack of identification of outsourcing as an alternative business may not allow businesses to compete favorably based on price and this is likely to be a disadvantage the business (McCray, 2008).

According to Quinn (2000), identification and evaluation of the activities that can be outsourced is also a major challenge that firms need to deal with. They argue that business organizations that perform all their business functions internally without outsourcing may have to spend huge amounts of financial resources replacing obsolete technology that may not be useful in the near future but then it is also important to carefully evaluate what activities that need to be outsourced and which ones to conduct in-house. Although outsourcing of some functions may provide great reprieve to an organization thus saving it from losses, outsourcing others may also cause serious damage to the business if careful evaluation is not conducted. Outsourcing also generate some problems, as outsourcing usually reduces an organization's control over how certain services are delivered, which in turn may raise the organization's liability exposure (Steensma and Corley, 2000). Firms can only attain success in outsourcing if they have the ability to identify the clear objectives and expectations of outsourcing activities as the most useful and contributing factors to their outsourcing effort. Lack of careful implementation of the outsourcing strategy without explicit goals and expectations will only lead to miserable experiences (Nayak et al., 2007).

According to Kremic et.al (2006), Conflict of interest, Poor contract or poor selection of partner, Loss of knowledge/skills and/or corporate memory and the difficulty in reacquiring a function, Loss of control/core competence, Supplier problems (poor performance or bad relations, opportunistic behavior, not, Losing customers, opportunities, or reputation, and Poor morale/employee issues are considered as the major challenges of outsourcing accordingly.

2.10 Empirical Review

A number of studies have examined the benefits of and challenges of Outsourcing in many countries around the world. Most of the studies considered outsourcing in core activities such as IT development, human Resources Development, Logistics, Pay Roll and Audit outsourcing.

By contrast some studies have looked outsourcing in none core activities such as Arindrajit (2008), Wanjugu and Ethan (2016), Elzabeth (2007) and Muga (2010).

Elzabeth (2007) studied on outsourcing strategies among commercial banks in Kenya; their objective was to establish the extent of outsourcing among commercial banks in Kenya and to establish the challenges facing outsourcing strategies among commercial banks in Kenya. The author collected   Primary data using questionnaires that were administered through drop and pick later method. Descriptive statistics such as mean were used to analyze the data. The findings were presented in tables and figures. The study established that commercial banks in Kenya outsource a number of functions such as security services, catering services, Automated Teller Machine management services, training of employees and recruitment services. Some functions re core to the banks and are none core outsourced to the bank. The most prevalent challenges of outsourcing among commercial banks in Kenya include: resistance to change; inability to develop clear outsourcing objectives; lack of proper communication to stakeholders; lack of top management support and lack of supporting structures.

Wanjugu and Ethan (2016) studied on does Outsourcing Reduce Wages in the Low Wage Service Occupations? Focus on two occupations: janitors and security guards. And occupations were identified outsourcing using industry and occupation codes: janitors and guards.
Outsourcing of labor services grew substantially during the eighties and nineties, and was associated with lower wages, less benefits, and lower rates of unionization. The findings on

benefits reflected those on wages. Outsourcing penalty is not due to compensating differentials for higher benefits or lower hours, skill differences, or the type of industries which outsource. Overall, outsourcing has reduced labor market rents for workers, especially for those in the upper half of the occupational wage distribution. Industries with higher historical wage were more likely to outsource service work over this period.

In the context of Ethiopia, there is no published research which is directly related to this research. But there are some unpublished reviews such as Selamawit (2016), Abebe and Workalemahu (2015).

Abebe (2015) studied on the challenges and prospects of outsourcing in commercial bank of Ethiopia and their objective was assessed the challenges and prospects of outsourcing the security, messenger and janitorial services in commercial bank of Ethiopia. The author used both primary and secondary data .The primary data were collected by open ended and close ended questionnaires, and interview which was semi-structured. Questionnaires were used as the main instruments to collect data from CBE employees and outsourced service employees. The author applied both probability sampling (simple random sampling) and non-probability sampling (purposive sampling) techniques. To analyze the data, mixed research approach were used. The findings of the study show that the outsourced services enabled the bank to save managers time, give more attention for the core functions of the bank rather than non-core areas. On the contrary, selecting the right vendor, loss of direct controlling and measuring service qualities were the challenges of the bank as the result of outsourced services. In addition to these, employees of the service provider were not properly trained about their job, lack motivation and belongingness.

Selamawit (2016) studied on the opportunities and challenges of outsourcing in Commercial Bank of Ethiopia. It focuses on the benefits and challenges the bank faces in outsourcing its noncore activities. The author used a descriptive study applying quantitative approach in which data was collected across a population through cluster random sampling and uses descriptive statistics for the data analysis. The findings shows that the Bank outsources to access special expertise, reduce overhead and operational costs, improve quality, spread commercial risk and get enough time to concentrate on their core activities. In the meantime the bank has also faced

several challenges from outsourcing like low employee belongingness, conflict of interest among outsourced and permanent employees and low quality of service provided.

Workalemahu (2015) also studied on the benefits and challenges of current outsourcing practices none core business functions at Commercial Bank of Ethiopia with reference to security, cleaning, driving and courier services. The data were collected using questionnaires from employees of Commercial Bank of Ethiopia. Moreover, interviews were conducted with the Facility Management Manager. The questionnaire was distributed to the employees on the basis of stratified sampling and analyzed using descriptive statistical methods. The findings revealed that the prons and cons of outsourcing none core activities of the Bank. The most serious challenges are lack of internal expertise and the performance of outsourced driving service cause to increase cost, low loyalty and confidentiality to the organization. The Bank has poor monitoring and evaluation of the performance of the security, cleaning, driving and courier services, poor quality of outsourced service provider. Unlike to the regular staffs of the bank the outsourced employees had brought many benefits to the Bank in reducing administrative burden ,increasing flexibility, minimizing fixed costs, decreasing budget wastages and introducing better cleaning equipment.

2.11 Summary

 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 the delegation of one or more business processes or functions to an external provider who, in turn, owns, administers and manages the selected process (es) or functions based upon defined and measurable performance metrics. It is an agreement in which one company contracts-out a part of their existing internal activity to another company.

Organizations have their own reasons to make a decision for some of the functions to be delivered by external bodies. The main reasons are reduce costs, to give more focus to core functions, to save manager's time and lead them to focus on strategy areas focus on core functions. Despite these advantages, outsourcing faced with different problems. Some of the problems are Poor handling of the Bank's resources, problems of controlling outsourced staffs

during working hours, problems quality of services delivered by outsourced staffs, Low employee belongingness, and Lack of clear communication and coordination outsourcing may result risks such as loss of direct control, cost escalation, and quality deterioration.

Generally, although outsourcing is a new practice in Ethiopia 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.

CHAPTER THREE

RESEARCH DESIGN AND METHODS

This section of the research presents the elements of research design and methods that were apply in the study. It was covered research design, source of data, sampling frame, sample size determination and data analysis. It used Descriptive research method, the sample size, and types of data collected as well as how to analyze the data gathered. Hence in the chapter all these sub-topics are discussed one by one.

3.1 Research Design and Approach

Research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. It provides a framework or plan of action for the research (Zickmud et al, 2011).

The study is designed to see outsourcing and its benefits and challenges at Development bank of Ethiopia. The researcher used quantitative research approach and descriptive design which sets out to describe the existing outsourcing practices of the bank and to assess its benefits and challenges, based on the data collected through questionnaires and interview with the permanent employees of the bank. This is due to the absence of sufficient earlier studies to which the researcher can refer to information about the outsourcing practice of non-core business functions in the study area. The study organization, Development Bank of Ethiopia, is selected due to their convenience to the researcher. This convenience is related to data availability and familiarity of this organization for the researcher.

3.2 Source of Data

In attempt to address the assessment of challenges and benefits of outsourcing in DBE and to provide possible recommendations, the researcher used both primary and secondary data sources. With regard to primary data, the data collected through questionnaire was filled by DBE staffs, as far as secondary data is concerned. It is needed in conducting research as background to support the overall aim of the research. This is also important in establishing in-depth knowledge

in the particular discipline area. Secondary sources come from different origins, such as, company's annual reports, publications, journals, books, websites and other internet sources. Similarly, secondary data for this research originates from literatures, websites and annual reports.

3.3 Population of the Study

The population of the study contains DBE permanent staffs whose service of years are one and above year experiences, functional manager of the bank who are found in 5 districts in Addis Ababa city and manager of Outsourcing Offices. The total population of the study is 685 (such as 53 East Addis Ababa district, 55 West Addis Ababa district, 44 South Addis Ababa district, 49 North Addis Ababa district and 484 Central (H.O) Addis Ababa district), 46 functional managers and one DBE outsourcing manager found at Addis Ababa city.

3.4 Sample Size and Sampling Techniques

3.4.1 Sample Size

As Delport (2005 cited by Cramer and Hewitt, 2004) one of the most frequent problems in research design is the determination of the appropriate sample size. One may ask why sample size so important. The answer to this is that an appropriate sample size is required for validity. If the sample size is too small, it will not yield valid results. An appropriate sample size can produce accuracy of results. Moreover, the result from small sample size was questionable and, a sample size that is too large will result in wasting time and money.

The study was conducted in DBE Districts such as East, West, South, North and Central (H O) Addis Ababa district found at Addis Ababa city. To get viable information DBE managers of the outsourcing management office are also the part of the study.

Sample size can be determined by different methods. Among the different methods, the one which was developed Slovin's formula (2012) was used to calculate sample size is used.

Therefore,

- Sample size = $\dfrac{N}{(1+N*(e)^2}$

$$=\dfrac{685}{1+685*(0.05)^2}$$

$$=252$$

Where:

- N is the population size

- n is the sample size

- e is the margin of error

So, according to the above formula and to have a 95% confidence level where margin of error (e) =0.05 with a population of 685 the relevant sample size became 252 (the number of sampling units are drawn from each stratum based on the proportion of the target population and calculated sample size such as: 20 East, 20 West, 16 South, 18 North Addis Ababa district and 178 Central (H.O) Addis Ababa district).

3.4.2 Sampling Techniques

The study used both probability (stratified sampling) and non-probability sampling (judgmental sampling) techniques, by stratifying the population into two: first stratum includes DBE managers, and employees, and the second stratum contains manager of Outsourcing Offices. Stratifying the population allowed the researcher to increase the accuracy of the research by creating more homogenous groups and taking proportion representative samples from each group (Zickmund et al, 2011). Judgmental sampling involves selecting cases when the researcher's prior knowledge and judgments will best serve the purpose of the study and provide the best information (Sullivan, 2001). Among these two groups, the managers of the bank and outsourcing management Offices are selected by judgmental sampling technique and the rest was selected by using simple random sampling (lottery method).

3.5 Data Collection Methods

To increase the validity of the study, the researcher used both primary and secondary data .The primary data were collected by questionnaires. Questionnaires were used as the main instruments to collect data from DBE permanent employees to get information about the challenges and benefits of outsourcing at DBE. In addition to questionnaires, structured interview was conducted with DBE functional manager (i.e. finance, property, and human resource management), and manager of outsourcing. Because of Bank functional managers are assumed to have the necessary information about outsourcing adequately since they are the beneficiaries of the services directly. On the other hand the researcher collected secondary data related to expected service user's satisfaction level, and mode of payment from review of DBE service level agreement.

3.5.1 Questionnaires

Data were obtained through closed ended questionnaires that were prepared based on literature review to address the research questions. The questionnaires have two parts. Section one of the questionnaire contains respondents" personal information, and section two contains statements designed to assess the benefits and challenges of outsourcing practices using five point likert scales where: Strongly Agree (SA) =5; Agree (A) =4; Neutral (N) =3; Disagree (D) =2; and Strongly Disagree (SD) =1. The use of likert scale is to make it easier for respondents to answer in a simple way. The central issue to argue is likert scales produce ordinal data. Johns (2009) noted that, in statistical terms, the level of measurement of the likert response scale is ordinal rather than interval.

3.5.2. Interviews

In addition to collecting data through questioners; quantitative data collection technique, structured interview was held to obtain data for further clarity and credibility of the research with key personnel of the institution who were selected based on judgmental sampling. Functional managers of the bank and managers outsourcing management offices were interviewed. Best and Kahn, (2005, p.323) noted that Structured interview mostly comes with standardize questions, it makes the process much simpler and efficient, relatively quickly to use and very easy to create,

and the results are easy to analyze. Before the interview the researcher briefly explain the purpose of the interview to the participants and confidentiality of information that the information they provided.

3.6 Methods of Data Analysis

Data analysis means the categorizing, ordering and summarizing of data to get answers to research questions (Zickmund et al, 2011). To analyze the data, quantitative techniques was used. It is predominantly used for data collection technique or data analysis procedure that generates or uses numerical data (Zickmund et al, 2011). For the purpose of achieving the objectives of the study, the collected data was analyzed with descriptive statistics using Statistical Package for Social Studies (SPSS) of 20th version and interpreted in accordance with statistical tools that included frequency, percentage, and median. The researcher prefers to use descriptive statistics because, descriptive research is one of the widely used in business and social sciences studies. As Robson asserted the objective of descriptive research is to portray an accurate profile of persons, events or situations (Robson 2002, p.59).

3.7 Validity and Reliability
3.7.1 Validity

Validity is determining whether the findings are accurate from the standpoints of the researcher, the participants, or the readers of an account (John, 2009).To ensure the validity of the study, data has been collected from reliable sources. And the questionnaire was prepared using a five point-likert scale multiple questions and structured interview. In order to ensure validity of the items incorporated outsourcing department examined the instrument before it was distributed.

3.7.2 Reliability

Reliability refers to the extent to which the same research can be duplicated to receive the same results (Bryman and Bell, 2007). Therefore, it is essential to secure the study from unreliable factors, for the purpose of this research a structured interview is performed prior to data gathering and opposed by peers with the intention to produce clear questions and avoid misunderstandings. Second, interviews were recorded and transcribed whenever possible with the aim to improve the quality of protocols for the analysis and ensure that none of the

participant accounts were omitted. Third, the provisional analysis was provided to the participants to get confirmation of their accounts. Similarly, in the effort to increase reliability of the study, secondary data sources were carefully selected from Bank's official websites and the most reliable sources available. Finally, internal consistency of items incorporated in the instrument was checked by using Cronbach's Alpha. It is a popular method for measuring the internal consistency relatively a group of items. According to Du Plessis (2010, p.12), when calculating Cronbach's alpha ranges in value from 0, meaning no consistency, to 1, meaning complete consistency, where: 0.80 and 0.95: Very good reliability, and 0.70 and 0.80: Good reliability. By tracing this literature the researcher tested the reliability of the items which were developed for respondents. Therefore, as shown in table 3.1 the reliability of the whole items is 0.961 which means the whole items were reliable and acceptable.

Table 3.1 Reliability Test

Cronbach's Alpha	N umber of Items
.961	45

Source: SPSS Reliability result output

3.8 Ethical Considerations

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

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents and elaborates the analysis and findings of the study based on the primary and secondary data. This chapter also presents the results of data analysis which was used to draw conclusions in regard to outsourcing and its benefits and challenges in DBE. The survey was analyzed using quantitative research approach particularly descriptive statistics using Statistical Package for Social Studies (SPSS) of 20th version.

For the purpose of this research 252 questionnaires were prepared and distributed to DBE permanent staff whose service of years are one and above year experiences. Out of these questionnaires 240 were filled and returned. The rest 12 questionnaires were unreturned. In addition to questionnaires, the researcher also conducted structured interview with DBE functional manager (i.e. Finance, Property, and Human Resource Management), and DBE manager of outsourcing.

4.1 Types of functions that have been successfully outsourced

Based on interviewees, Janitorial and Messengers Services are fully outsourced, and Security Services are partially outsourced. However, Drivers Services are not outsourced (kept in- home).

Table 4-1 Type of functions that have been successfully outsourced by DBE

No	Functions of Outsourcing	Levels of Outsourced	Rates
1	Janitorial Services	Fully outsourced	100%
2	Messengers Services	Fully outsourced	100%
3	Drivers Services	Not outsourced/ kept in-home	-
4	Security Services	Partially outsourced 32 from 68	47%

Sources: Survey data, 2017

4.2 Procedures to make a contract with outside services provider

Based on the manager's result and supporting materials, one of the procedures to make a contract with outside services provider was bidding. Using bidding process, Simba private cleaning company and Commercial nominees were selected. Cleaning Services which general description particularly specified and scheduled based on: terms of Reference, scope of the work such as: all office equipment such as tables, chairs, shelf, file cabinet will be cleaned, twice a day, toilet fixture, floors, and walls will be cleaned, using disinfectant cleaner every two hours, all lifts will be swept and mopped daily, all hall way fixtures will be kept dust free daily, all entrance mats, and office carpets will be vacuumed every week. Commercial nominees is now providing security, messenger and temporary non clerical man power services. The bank also established and organized on section office "outsourcing management office" that administer outsourcing contracts and manages related activities. DBE indicated in the Bid Data Sheet and selected based on the following criteria: professional qualifications, Competence, and Experience in the procurement object, and quality assurance. Commercial nominees is now providing security, messenger and temporary non clerical man power services. The bank also established and organized on section office "outsourcing management office" that administer outsourcing contracts and manages related activities.

In order to follow up the quality of service provided, the bank assigned its own custody manager that control the overall outsourcing services of the bank that makes sudden check-up the attendance of the outsourced staffs.

4.3 The major Reason for Outsourcing

In order to answer the questions in the questionnaire respondents have to select their choice of answer based on the five point scale methods for each question.

According to David (2007), and Nicholas and Amrik (2004, p.696), The major reasons of organizations outsourced functional operations area reduced costs, the organization can increase its focus on core businesses, increased flexibility to meet changing business and commercial conditions and lastly controlling uneven orders. Besides to this, shows the summary of to what extent respondents agree or disagree as a whole.

Table 4.2 Reasons of outsourcing (the Security, janitorial, and messenger services).

No	Reasons	Levels of Agreement	Frequency	(%)	Median
1	To reduce cost	SA (5)	70	29.2	4
		A (4)	87	36.3	
		N (3)	32	13.3	
		D (2)	33	13.7	
		SD (1)	18	7.5	
Total			**240**	**100.0**	
2	To improve service quality	SA (5)	18	7.5	2
		A (4)	44	18.3	
		N (3)	40	16.7	
		D (2)	96	40.0	
		SD (1)	42	17.5	
Total			**240**	**100.0**	
3	To give more focus to core functions of the bank	SA (5)	49	20.3	4
		A (4)	102	42.5	
		N (3)	27	11.3	
		D (2)	35	14.6	
		SD (1)	27	11.3	
Total			**240**	**100.0**	
4	To improve flexibility of the service by the service provider	SA (5)	22	9.2	2
		A (4)	47	19.6	
		N (3)	32	13.3	
		D (2)	97	40.4	
		SD (1)	42	17.5	
Total			**240**	**100.0**	
5	To save manager's time and lead them to focus on strategies of the bank	SA (5)	55	22.9	4
		A (4)	74	30.8	
		N (3)	53	22.1	
		D (2)	38	15.8	
		SD (1)	20	8.4	
Total			**240**	**100.0**	

Sources: Survey data, 2017

N.B. Strongly Agree (SA) =5; Agree (A) =4; Neutral (N) =3; Disagree (D) =2; and Strongly Disagree (SD) =1.

To reduce costs: As indicated in the above table 4.2, the maximum of 29.2% and 36.3% of respondents strongly agreed and agreed respectively where as 13.7% and 7.5% of respondents

strongly disagreed and disagreed on the other hand, 13.3% of respondents responded neutral, with the median value of 4 supported the statement. This is also supported by David (2007) and said that, organizations outsource functional operations for numerous reasons, is a reduced costs.

To improve service quality: It asserts that, 7.5% and 18.3% of respondents strongly agreed and agreed respectively on the contrary 40% and 17.5% of respondents strongly disagreed and disagreed, while, 16.7% of respondents responded neutral with the median value of 2 not supported the statement. This revealed that to improve service quality was not one of the reasons for outsourced services in DBE.

To give more focus to core functions: It denotes that the maximum 20.3% and 42.5% of respondents strongly agreed and agreed respectively however, 14.6% and 11.3% of respondents strongly disagreed and disagreed, while, 11.3% of respondents responded neutral with the median value of 4 supported the statement. This is also supported by David (2007) and said that, organizations outsource functional operations for numerous reasons, such as: the organization can increases its focus on core businesses. This revealed that majority of respondents agreed that to give more focus on core functions are the basic reasons of the DBE outsourced.

To improve flexibility of the services: It asserts that, 9.2% and 19.6% of respondents strongly agreed and agreed respectively on the contrary 40.4% and 17.5% of respondents strongly disagreed and disagreed, while, 13.3% of respondents responded neutral with the median value of 2 not supported the statement. This revealed that services flexibility was not improved in DBE.

To save manager's time: It depicts that the maximum 22.9% and 30.8% of respondents strongly agreed and agreed respectively however, 15.8% and 8.4% of respondents strongly disagreed and disagreed, while, 22.1% of respondents responded neutral with the median value of 4 also supported the statement. This revealed that to save manager's time and lead them to focus on strategies of the bank was one of the reasons for outsourced services in DBE.

In supporting this, results from interview indicated that, the major reasons of outsourcing are also focusing on the core functions, save manager's time, administrative office, and cost reduction due to outsourcing.

In general, the result presented in Table 4.2, shows the most strongly expressed reasons for outsourcing of Security, janitorial, and messenger services are allowing reduce costs, to give more focus to core functions of the bank, and to save manager's time and lead them to focus on strategies of the bank by the service provider. However, to improve service quality and flexibility of the services by the service provider are less important reasons for the outsourcing decision of Security, janitorial, and messengers services.

4.4 Benefits of outsourcing

According to Ashirefa, et al (2010) cited from Trestle group research conducted in 2004, the major benefits of outsourcing are cost savings, focus on core business functions, to save manager's time and lead them to focus on strategy areas.

Table 4.3 Benefits of outsourcing (the janitorial, messengers, and security services).

No	Benefits	Levels of Agreement	Frequency	(%)	Median
1	To reduce costs	SA (5)	61	25.3	4
		A (4)	102	42.5	
		N (3)	21	8.8	
		D (2)	33	13.8	
		SD (1)	23	9.6	
Total			**240**	**100.0**	
2	Outsourcing helps the bank to give more focus to its core functions	SA (1)	50	20.8	4
		A (2)	105	43.8	
		N (3)	29	12.1	
		D (4)	30	12.5	
		SD (5)	26	10.8	
Total			**240**	**100.0**	
3	After outsourcing flexibility of the service is improved	SA (5)	38	15.8	3
		A (4)	37	15.4	
		N (3)	112	46.7	
		D (2)	32	13.3	
		SD (1)	21	8.8	

			240	100.0	
Total			**240**	**100.0**	
4	Outsourcing assisted the current fast growth situation of DBE.	SA (5)	35	14.6	3
		A (4)	64	26.6	
		N (3)	39	16.3	
		D (2)	61	25.4	
		SD (1)	41	17.1	
Total			**240**	**100.0**	
5	After outsourcing service quality has been improved	SA (5)	34	14.2	3
		A (4)	67	27.9	
		N (3)	34	14.2	
		D (2)	56	23.3	
		SD (1)	49	20.4	
Total			**240**	**100.0**	
6	Outsourcing saves time and money through reduced the need to control day to day operations of the noncore function of the bank.	SA (5)	67	27.9	4
		A (4)	102	42.5	
		N (3)	24	10.0	
		D (2)	24	10.0	
		SD (1)	23	9.6	
Total			**240**	**100.0**	
7	Outsourcing helped the bank to focus on more strategic areas rather than none core activities	SA (5)	62	25.8	4
		A (4)	81	33.8	
		N (3)	32	13.3	
		D (2)	35	14.6	
		SD (1)	30	12.5	
Total			**240**	**100.0**	
8	Easier and more economic access	SA (5)	27	11.2	3
		A (4)	60	25.0	
		N (3)	43	17.9	
		D (2)	69	28.8	
		SD (1)	41	17.1	
Total			**240**	**100.0**	

Sources: Survey data, 2017

To reduce costs: As indicated in the above table 4.3,the maximum of 25.3% and 42.5% of respondents strongly agreed and agreed respectively where as 13.8% and 9.6% of respondents strongly disagreed and disagreed on the other hand, 8.8% of respondents responded neutral with the median value of 4 also supported the statement. This is asserted by Ashirefa, et al (2010) and said that one of the major benefits of outsourcing is cost savings. This revealed that outsourcing of the janitorial, messengers, and Security services are saved cost and personnel related paper work of the bank.

Outsourcing helps the bank to give more focus to its core functions: It asserts that, 20.8% and 43.8% of respondents strongly agreed and agreed respectively on the contrary 12.5% and 10.8% of respondents strongly disagreed and disagreed, while, 12.1% of respondents responded neutral with the median value of 4 also supported the statement. This is asserted by David (2007) and said that, organizations outsource functional operations for numerous reasons, such as: the organization can increase its focus on core businesses. This revealed that outsourcing of the janitorial, messengers, and Security services, are helped the bank to give more focus to its core functions.

After outsourcing, flexibility of the service was improved: It assures that, 15.8% and 15.4% of respondents strongly agreed and agreed respectively, whereas13.3% and 8.8% of respondents strongly disagreed and disagreed respectively, while, 46.7% of respondents responded neutral with the median value of 3 not supported the statement. This is revealed that services flexibility was not improved in DBE.

Outsourcing assisted the current fast growth situation of the bank: It depicts that 14.6% and26.6% of respondents strongly agreed and agreed respectively where as 25.4% and 17.1% of respondents strongly disagreed and disagreed while 16.3% of respondents responded neutral with the median value of 3 not supported the statement. This revealed that outsourcing of the janitorial, messengers, drivers, and Security services, were not assisted the current fast growth situation of the bank.

After outsourcing service quality has been improved: It reveals that, 14.2% and 27.9% of respondents strongly agreed and agreed respectively where as 23.3% and 20.4% of respondents strongly disagreed and disagreed on the other hand, 14.2% of respondents responded neutral with

the median value of 3 not supported the statement. This shows that outsourcing of the janitorial, messengers, and Security services quality were not improved.

Outsourcing saves time and money through reduced the need to control day to day operations of the noncore function of the bank: It denotes that the maximum 27.9% and 42.5% of respondents strongly agreed and agreed respectively on the contrary 10.0% and 9.6% of respondents strongly disagreed and disagreed, while, 10.0% of respondents responded neutral with the median value of 4 also supported the statement. This is asserted by Bragg (1998) and 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. This revealed that outsourcing of the janitorial, messengers, and Security services, are saved time and money through reduced the need to control day to day operations of the noncore function of the bank.

Outsourcing helped the bank to focus on more strategic areas rather than noncore: It denotes that the maximum 25.8% and 33.8% of respondents strongly agreed and agreed respectively however, 14.6% and12.5% of respondents strongly disagreed and disagreed, while, 13.3% of respondents responded neutral with the median value of 3 not supported the statement. This is supported by McCray (2008) and said that, organizations outsource functional operations for numerous benefits, such as: Outsourcing decisions allow companies to create professional operations, and gather knowledge and capital while improving efficiency. This revealed that outsourcing of the janitorial, messengers, and Security services, are helped to focus on more strategic areas rather than non-core activities in DBE.

Easier and more economic access: It depicts that 11.2% and 25.0% of respondents strongly agreed and agreed respectively on the contrary, 28.8% and17.1% of respondents strongly disagreed and disagreed, while, 17.9% of respondents responded neutral. This revealed that outsourcing of the janitorial, messengers, drivers, and Security services, outsourcing was not easier and more economic access in DBE.

In supporting this, results from interview indicated that, the major benefits of outsourcing are focusing on the core functions, save manager's time, administrative office, and cost reduction

such as Hiring, training, insurance, bonus, compensation, medical, overtime, education fees and annual leaves are costs that are reduced due to outsourcing

To sum up, the result presented in Table 4.3, related to the Benefits of outsourcing (the janitorial, messengers and Security services) are enjoyed to the following benefits such as: Outsourcing saves time and money through reduced the need to control day to day operations of the noncore function of the bank, helps to reduce costs and personal work paper, helps the bank to give more focus to its core functions of the bank, and, helps the bank to focus on more strategic areas rather than noncore activities. as asserted by Ashirefa, et al (2010) and   Bragg (1998) and 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. However, the service provider can't assisted the current fast growth situation of the bank, cannot Easier and more economic access, and can't able to excel outsourced services quality.

4.5 Challenges or Problems of Outsourcing

According to Kremic et.al (2006), conflict of interest, poor contract or poor selection of partner, loss of knowledge/skills, loss of control, supplier problems (poor performance or bad relations), losing customers, opportunities, or reputation, and poor morale/employee issues, inadequate training, and lack of careful implementation of the outsourcing strategy are considered as the major challenges of outsourcing accordingly.

Table 4.4 Challenges or Problems of Outsourcing (the janitorial, messenger, and Security services).

No	Challenges	Levels of Agreement	Frequency	(%)	Median
1	Lack of clear communication and coordination	SA (5)	61	25.4	4
		A (4)	76	31.7	
		N (3)	42	17.5	
		D (2)	31	12.9	
		SD (1)	30	12.5	

			240	100.0	
Total					
2	Theft of property has increased due to Outsourcing workers	SA (5)	20	8.4	3
		A (4)	68	28.3	
		N (3)	38	15.8	
		D (2)	67	27.9	
		SD (1)	47	19.6	
Total			**240**	**100.0**	
3	There are contract termination problems	SA (5)	27	11.3	2
		A (4)	34	14.2	
		N (3)	55	22.9	
		D (2)	65	27.1	
		SD (1)	59	24.5	
Total			**240**	**100.0**	
4	There are problem of controlling outsourced staffs during working hours	SA (5)	62	25.8	4
		A (4)	111	46.3	
		N (3)	20	8.3	
		D (2)	24	10.0	
		SD (1)	23	9.6	
Total			**240**	**100.0**	
5	Poor handling of the Bank's resource and high maintenance costs are occurred	SA (5)	75	31.3	4
		A (4)	97	40.4	
		N (3)	24	10.0	
		D (2)	26	10.8	
		SD (1)	18	7.5	
Total			**240**	**100.0**	
6	Consistency and quality of services are not delivered by outsourced staffs	SA (5)	61	25.4	4
		A (4)	103	42.9	
		N (3)	32	13.3	
		D (2)	27	11.3	
		SD (1)	17	7.1	
Total			**240**	**100.0**	
7	Low employee belongingness	SA (5)	61	25.4	4
		A (4)	85	35.4	

		N (3)	35	14.6	
		D (2)	35	14.6	
		SD (1)	24	10.0	
Total			**240**	**100.0**	
8	Conflict of interest between outsourced and DBE's permanent employees	SA (5)	30	12.5	3
		A (4)	37	15.4	
		N (3)	106	44.2	
		D (2)	41	17.1	
		SD (1)	26	10.8	
Total			**240**	**100.0**	

Sources: Survey data, 2017

Lack of clear communication and coordination: As indicated in the above table 4.5, most of the respondents 25.4% and 31.7% of respondents strongly agreed and agreed respectively where as 12.9% and 12.5% of respondents strongly disagreed and disagreed respectively, while 17.5% of respondents responded neutral with the median value of 4 supported the statement. This is also supported by Brown and Wilson (2005) and stated that lack of careful attention to personnel issues and conducting open communication is one of the challenges due to outsourcing. This revealed that there is no clear communication and coordination among outsourced employees in DBE.

Theft of property has increased due to Outsourcing workers: It shows 8.4% and 28.3% of respondents strongly agreed and agreed respectively on the other hand 27.9% and 19.6% of respondents strongly disagreed and disagreed respectively, while 15.8% respondents responded neutral with the median value of 3 not supported the statement. This revealed that due to outsourcing workers, there is no theft of vehicles' parts. So it is not serious problem faced in DBE.

There are contract termination problems: It indicated that 11.3% and 14.2% of respondents strongly agreed and agreed respectively while, hand 27.1% and 24.5% of respondents strongly disagreed and disagreed respectively, while 22.9% of respondents responded neutral with the median value of 2 not supported the statement. This revealed that due to inexperienced

outsourcing workers, there is no vehicle (car) accident. So it is not serious problem faced in DBE.

There are problem of controlling outsourced staffs during working hours: As indicated in the above table, majority of the respondents 25.8% and 46.3% of respondents strongly agreed and agreed respectively, on the contrary, 10.0% and 9.6% of respondents strongly disagreed and disagreed respectively, while 8.3% of respondents responded neutral with the median value of 4 supported the statement This is also supported by Steensma and Corley (2000) and Kremic et.al (2006) mentioned that outsourcing generate problems, usually reduces an organization's control over how certain services are delivered, which in turn may raise the organization's liability exposure. This revealed that there is a problem of controlling outsourced staffs during working hours in DBE.

Poor handling of the Bank's resource and high maintenance costs are occurred: As indicated in the above table 4.5, most of the respondents 31.3% and 40.4% of respondents strongly agreed and agreed respectively, on the other hand, 10.8% and 7.5% of respondents strongly disagreed and disagreed respectively, while 10.0% of respondents responded neutral with the median value of 4 supported the statement. This is also supported by Kremic et.al (2006), and said that Poor morale/employee issues, inadequate training, and Lack of careful implementation of the outsourcing strategy are considered as the major challenges of outsourcing. This revealed that costs of maintenance are increases due to Poor handling of the Bank's resources and high maintenance costs are occurred.

Consistency and quality of services are not delivered by outsourced staffs: It indicated that 25.4% and 42.9% of respondents strongly agreed and agreed respectively, whereas, 11.3% and 7.1% of respondents strongly disagreed and disagreed respectively, while13.3% of respondents responded neutral with the median value of 4 also supported the statement. This revealed that due to outsourcing staffs, there are problems of Consistency and quality of services. So it is a serious problem faced in DBE.

Low employee belongingness: It shows that25.4% and 35.4% of respondents strongly agreed and agreed respectively on the other hand 14.6% and 10.0% of respondents strongly disagreed and disagreed respectively, while14.6% respondents responded neutral with the median value of 4 also supported the statement. This is supported by Nayak et al. (2007) and said that, one of the

challenges or problems arise due to outsourcing is a Poor morale/employee issues. This revealed that outsourced employees are low belongingness and it is a very critical issue for the bank.

Conflict of interest between outsourced employees and DBE's permanent employees: It indicated that that 12.5% and 15.4% of respondents strongly agreed and agreed respectively on while17.1% and 10.8% of respondents strongly disagreed and disagreed respectively, on the other hand 44.2% of respondents responded neutral with the median value of 2 not supported the statement. This revealed that Conflict of interest between outsourced employees and DBE's permanent employees is insignificant in DBE.

In supporting this, results from interview indicated, DBE are faced by the problems of controlling outsourced staffs during working hours, lack of ownership and belongingness, and high employee turnover.

In general, the result presented in Table 4.4, related to the challenges of outsourcing (the janitorial, messengers, and security services) are faced by the following challenges such as: poor handling of the Bank's resource and high maintenance costs, problems of controlling outsourced staffs during working hours, problems of consistency and quality of services delivered by outsourced staffs, low employee belongingness, lack of clear communication and coordination are the major challenges due to outsourcing. This is asserted by Kremic et.al (2006) and Nayak et al. (2007) and mentioned that loss of knowledge/skills, loss of control, supplier problems (poor performance or bad relations), losing customers, opportunities, or reputation, and poor morale/employee issues, are considered as the major challenges of outsourcing accordingly.

4.6 Evaluation of Securities service delivered by outsourcing agent

According to Bragg (1998), outsourcing security function has its own benefits: such a company has no longer to deal with the hiring, firing and other personnel issues because of the supplier take care of all these administration details. This is a particular advantage in the security area. Many supplier offer security training to their staffs, which gives a company the assurance of consistent, reliable and quality service wherever the supplier does business. And also eliminates personnel related paper work while improving the reliability and training of the security staffs.

Table 4.5 Evaluation of Securities service delivered by outsourcing agent

No	Item	Levels of Agreement	Frequency	(%)	Median
1	Outsourcing Security Service increase flexibility	SA (5)	30	12.5	3
		A (4)	33	13.8	
		N (3)	108	45.0	
		D (2)	37	15.4	
		SD (1)	32	13.3	
Total			240	100.0	
2	Outsourcing Security Service reduce risk	SA (5)	61	25.4	4
		A (4)	69	28.8	
		N (3)	47	19.6	
		D (2)	33	13.8	
		SD (1)	30	12.4	
Total			240	100.0	
3	Outsourcing Security Service improves service quality	SA (5)	18	7.5	2
		A (4)	41	17.1	
		N (3)	47	19.6	
		D (2)	73	30.4	
		SD (1)	61	25.4	
Total			240	100.0	
4	Outsourcing of Security Service save time and cost	SA (5)	62	25.9	4
		A (4)	91	37.9	
		N (3)	37	15.4	
		D (2)	26	10.8	
		SD (1)	24	10.0	
Total			240	100.0	
5	Outsourcing Security Service allow to focus on core business function	SA (5)	62	25.8	4
		A (4)	86	35.8	
		N (3)	41	17.1	
		D (2)	30	12.5	
		SD (1)	21	8.8	
Total			240	100.0	
6	Outsourcing Security Service reduce budget allocation	SA (5)	64	26.7	4
		A (4)	73	30.4	
		N (3)	56	23.3	
		D (2)	29	12.1	
		SD (1)	18	7.5	
Total			240	100.0	

Sources: Survey data, 2017

In Table 4.5 above, shows that the majorities of respondents (60.8%) are accepted that security services save time and cost, allow focusing on core business function, reduce budget allocation, and reduce risks respectively with median value of 4 supported the statement. This result is parallel with the result found in benefits of outsourcing. However, outsourcing security services increase flexibility, and improves service qualities were disagreed by respondents. This revealed that security services delivered by outsourcing agent, DBE were accepted and benefited.

4.7 Evaluation of Janitorial service delivered by outsourcing agent

The janitorial function is one of the most commonly outsourced functions but many companies do not control the outsourced janitorial function very well, nor regularly examine the performance of their supplier. With related to this function there are a verity of advantages and disadvantages.

Table 4-6 Evaluation of Janitorial services delivered by outsourcing agent.

No	Item	Levels of Agreement	Frequency	(%)	Median
1	Outsourcing cleaning Service increase flexibility	SA (5)	28	11.7	3
		A (4)	41	17.1	
		N (3)	105	43.8	
		D (2)	43	17.9	
		SD (1)	23	9.6	
Total			**240**	**100.0**	
2	Outsourcing cleaning Service reduces risk	SA (5)	12	5.0	2
		A (4)	58	24.2	
		N (3)	36	15.0	
		D (2)	78	32.5	
		SD (1)	56	23.3	
Total			**240**	**100.0**	
3	Outsourcing cleaning Service improves service quality	SA (5)	11	4.6	2
		A (4)	38	15.8	
		N (3)	53	22.1	
		D (2)	79	32.9	
		SD (1)	59	24.6	
Total			**240**	**100.0**	
4	Outsourcing cleaning Service save time and cost	SA (5)	57	23.8	4
		A (4)	87	36.3	
		N (3)	41	17.1	

No	Item	Levels of Agreement	Frequency	(%)	Median
		D (2)	44	18.3	
		SD (1)	11	4.5	
Total			**240**	**100.0**	
5	Outsourcing cleaning Service allows focusing on core business function.	SA (5)	64	26.7	4
		A (4)	65	27.0	
		N (3)	56	23.3	
		D (2)	45	18.8	
		SD (1)	10	4.2	
Total			**240**	**100.0**	
6	Outsourcing cleaning Service reduces budget allocation.	SA (5)	56	23.3	4
		A (4)	74	30.8	
		N (3)	46	19.2	
		D (2)	46	19.2	
		SD (1)	18	7.5	
	Total		**240**	**100.0**	
7	Cleaning service is delivered on time without affecting office hours.	SA (5)	15	6.3	2
		A (4)	44	18.3	
		N (3)	17	7.1	
		D (2)	108	45.0	
		SD (1)	56	23.3	
			240	**100.0**	

Sources: Survey data, 2017

The Table 4-6 above, shows that outsourced cleaning services is advantageous in save time and cost, allows focusing on core business functions, and reduces budget allocation with median value of 4 supported the statement. However, the majorities of s respondents (60.5%) are disagreed with outsourcing Cleaning service is delivered on time without affecting office hours, improves service quality, and reduces respectively. This revealed that DBE were not benefited from janitorial services delivered by outsourcing agent.

4.8 Evaluation of messenger services delivered by outsourcing agent

Table 4-7 Evaluation of messenger services delivered by outsourcing agent.

No	Item	Levels of Agreement	Frequency	(%)	Median
1	Outsourcing courier Service increase flexibility	SA (5)	52	21.7	4
		A (4)	71	29.6	
		N (3)	32	13.3	
		D (2)	47	19.5	

		SD (1)	38	15.9	
Total			**240**	**100.0**	
2	Outsourcing courier has good understanding about the value of bank documents they received or delivered to others on behalf of the bank	SA (5)	2	0.8	2
		A (4)	33	13.8	
		N (3)	49	20.4	
		D (2)	91	37.9	
		SD (1)	65	27.1	
Total			**240**	**100.0**	
3	Outsourcing courier Service improves service quality.	SA (5)	18	7.5	2
		A (4)	33	13.8	
		N (3)	58	24.2	
		D (2)	81	33.7	
		SD (1)	50	20.8	
Total			**240**	**100.0**	
4	Outsourcing courier Service save time and cost	SA (5)	56	23.3	4
		A (4)	88	36.8	
		N (3)	38	15.8	
		D (2)	32	13.3	
		SD (1)	26	10.8	
Total			**240**	**100.0**	
5	Outsourcing courier Service allows focusing on core business function	SA (5)	62	25.8	4
		A (4)	67	27.9	
		N (3)	46	19.2	
		D (2)	56	23.3	
		SD (1)	9	3.8	
Total			**240**	**100.0**	
6	Outsourcing courier Service reduces budget allocation	SA (5)	62	25.8	4
		A (4)	64	26.7	
		N (3)	53	22.1	
		D (2)	38	15.8	
		SD (1)	23	9.6	
Total			**240**	**100.0**	
7	Outsourcing courier service incoming and outgoing letters, memos, and other documents are delivered and received on time	SA (5)	15	6.3	2
		A (4)	23	9.5	
		N (3)	37	15.4	
		D (2)	100	41.7	
		SD (1)	65	27.1	
	Total		**240**	**100.0**	

Sources: Survey data, 2017

The Table 4-7 above shows that the majorities of respondents agreed with outsourcing messenger services is allowed to focus on core business function, save time and cost, reduced budget allocation and increase flexibility with median value of 4 supported the statement. On the other hand the majorities of s respondents (62.77%) are disagreed with outsourcing messenger services, incoming and outgoing letters, memos, and other documents are delivered and received on time, and courier Services has good understanding respectively. This revealed that DBE were not benefited from messenger services delivered by outsourcing agent

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study has explored the outsourcing and its benefits and challenges at Development Bank of Ethiopia with reference to Security, cleaning, and messenger services in order to answer whether outsourcing has facilitated or disadvantaged the core business functions and to identify possible problems and benefits that occur after the implementation of outsourcing services. This chapter is divided in to three sections. The first section presents the summary of findings, second section is conclusion of the research that are derived from the data analysis and discussions, and the last section suggests important points for future researches.

5.1 Summary of Major Findings

The main purpose of this study was to assess the noncore outsourcing and its benefits and challenges at Development Bank of Ethiopia. Therefore, in order to address the research problem the study focused on answering the following basic questions

1. What are the reasons for outsourcing the services?
2. What are the benefits arising from outsourcing non-core business functions?
3. What are the challenges arising from outsourcing non-core business functions?
4. What types of business functions have been successfully outsourced by DBE?

In order to address these issues a descriptive design was used. Both questionnaire and interview were applied to gather primary data. Using Statistical Package for Social Studies (SPSS) of 20th version software descriptive statistics such as percentage, and median are applied on the analysis. Stratified random sampling method was used to select sample respondents. From the total target population 685, 252 distributed to respondents of which 240 (95%) questionnaires were filled and returned.

Based on interviewee's response, Janitorial and Messengers Services are fully outsourced, and Security Services are partially outsourced. However, Drivers Services are not outsourced (kept in- home) in DBE.

In the descriptive part of the analysis, the result indicated that Development bank of Ethiopia has its own reasons to make outsourcing of Security, janitorial, and messenger services. In this concern reduce costs, to give more focus to core functions of the bank, and to save manager's time and lead them to focus on strategies of the bank by the service provider were the major reason for outsourcing in DBE. Based on interviewee's response, the major reasons of outsourcing are also focusing on the core functions, save manager's time and, cost and time saving, and administrative office are the basic reasons.

The result indicated that Development bank of Ethiopia brings the following benefits from outsourcing of the janitorial, messenger and security services: Outsourcing saves time and money through reduced the need to control day to day operations of the noncore function of the bank, helped to save costs and personal work paper (cost reduction such as Hiring, training, insurance, bonus, compensation, medical, overtime, education fees and annual leaves), helps the bank to give more focus to its core functions of the bank, helps the bank to focus on more strategic areas rather than noncore activities, and outsourcing services reduce budget allocation are the major benefits due to outsourcing. Based on interviewee's response, the major benefits of outsourcing are also focusing on the core functions, save manager's time, administrative office, and cost reduction such as Hiring, training, insurance, bonus, compensation, medical, overtime, education fees and annual leaves are costs that are reduced due to outsourcing.

Similarly, most of respondents (60.8% on average) indicated that the outsourcer brings good security services as compared with janitorial and messenger services.

On the other hand, DBE faced by the following challenges such as: poor handling of the Bank's resource and high maintenance costs, problems of controlling outsourced staffs during working hours, problems of consistency and quality of services delivered by outsourced staffs, low employee belongingness, and lack of clear communication and coordination are the major challenges due to outsourcing. Based on interviewee's response, DBE was faced by the problems of controlling outsourced staffs during working hours, lack of ownership and belongingness, and high employee turnover. Similarly, the result indicated that DBE also faced by the challenges of janitor and messenger services: Service delivered by janitor affected office hours that are not delivered on time, outsourcing courier has not good understanding about the value of bank

documents they received or delivered to others on behalf of the bank, and incoming and outgoing letters, memos, and other documents were not delivered and received on time.

5.2 Conclusion

In which regard the researcher tried to address the research part by identifying the types of functions have been successfully outsourced, the reasons for outsourcing the services, benefits gained after outsourcing 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.

The following are the major conclusions remarked by the researcher:

From the supported materials and results of the study, the major reasons are reduce costs, to give more focus to core functions of the bank, save manager's time and lead them to focus on strategies of the bank and administrative office were the major reasons for outsourcing in DBE.

The result indicated that due to outsourcing, DBE able to save time and money through reduced the need to control day to day operations of the noncore function of the bank, helpes to save costs and personal work papers (cost reduction such as Hiring, training, insurance, bonus, compensation, medical, overtime, education fees and annual leaves), helps the bank to give more focus to its core functions of the bank, helps the bank to focus on more strategic areas rather than noncore activities, reduce budget allocation, and administrative office. However the bank faced by the following problems or challenges such as : poor handling of the Bank's resource and high maintenance costs, problems of controlling outsourced staffs during working hours, problems of consistency and quality of services, lack of ownership and belongingness, lack of clear communication and coordination, service delivered by janitor affected office hours that are not delivered on time, outsourcing courier has not good understanding about the value of bank documents they received or delivered to others on behalf of the bank and incoming and outgoing letters, memos, and other documents were not delivered and received on time.

5.3 Recommendation

Based on the findings, the following recommendations are forwarded to alleviate or at least to minimize currently encountered problems in the Development bank of Ethiopia with related to of outsourcing non-core business functions:

In order to minimize poor handling of resources and the high maintenance costs the bank should prepared mentally and physically through proper and continuous training and should set up controlling and monitoring actual equipment condition and using the information to predict when a problem is likely to occur. With that approaching, set up schedule maintenance for the equipment that needs it   and only what needs it before the problem affects process or equipment performance. That will be a great way to improve maintenance productivity, as well as reduce costs for repairs.

In order to control outsourcing staff during working hours, the bank should log employee time attendance automatically and Generate reports on employee application and document usage.

Cost reduction is still the major drivers for outsourcing but today quality has become a major issue when it comes to choosing an outsourcing partner. Therefore, to increase the services quality and consistency the bank should be focus on enhance its controlling and evaluation mechanisms.

In order 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 services of the bank delivered to its customers. Thus, to decrease service delivery time service provider and DBE should discuss and facilitate a personal transportation mechanism such as a motorbike for messengers work out of the office.

To understand the value of the bank's document the bank should give free induction training is absolutely vital for new starters. Good induction training ensures new starters are retained, and then settled in quickly and happily to a productive role. It is about the basics that seasoned employees all take for granted: what the shifts are; where the notice-board is; what the routine is for holidays, sickness; where the canteen is; what the dress code is; where the toilets are. New employees also need to understand the organization's mission, goals, values and philosophy;

personnel practices, health and safety rules, and of course the job they are required to do, with clear methods, timescales and expectations

To improve clear communication and coordination, the bank should improve work groups, teams, or functional specialists. These include creating a well-communicated and accurate mission statement; clearly defining strategic objectives; monitoring and evaluating each functional group; providing company-wide updates and communications from each department.

In order to increase employee belongingness and ownership, the bank should give gift certificates to outsourcing staffs for once per year during annual ceremony. Because of certificates have the potential to boost employee morale and belongingness and intrinsic rewards that are experienced internally; that include feelings of accomplishment, competence, responsibility, or personal growth. It may be to increase the effectiveness with which managers/supervisors deliver praise to workers.

Finally the bank should recruit some effective outsourced workers into permanent workers to increase others' employees moral and belongingness.

5.4 Direction for Future Research

A number of studies have examined the Outsourcing and its benefits of and challenges in many countries around the world. But most of the studies considered outsourcing in core activities. In the context of Ethiopia, there is no published research which is directly related to this research.

To this end, this preliminary research provides findings, which can also serve as a stepping stone for other related research, regarding Outsourcing and its benefits of and challenges for an Ethiopian organization. However, this research has narrow scope which requires further investigations both in breadth and depth. Thus, future researches should consider an in-depth study on the benefits and challenges of outsourcing of different industries beyond the banking industry.

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Appendix I

St. Mary University School of Graduate

Masters of Business Administration (MBA) Program

Dear Respondents:

First of all I would like to forward my heartfelt gratitude and respect to you for administering this questionnaire honestly and responsibly. The questionnaire is designed to collect the necessary information to undertake a research on the topic "Outsourcing and its benefits and challenges at Development Bank of Ethiopia" for the partial fulfillment of the requirements of the degree of Masters of Business Administration. 'Outsourcing is a business model whereby part of a business or production process is putout or give up to a third party'. 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.

Note:

- The respondents must be one and above year experiences.
- For close ended questions put "circle" and for open ended questions write a brief answer in the space provided.
- Writing your name is not necessary.

Thank you in advance for your cooperation!

Instruction put (✓) in the corresponding column (i.e. SA=Strongly Agree, A=Agree, N=Neutral, D=Disagree, SD=Strongly Disagree)

1. **Questions: Reasons of outsourcing** (the janitorial, messengers, and Security services).

No	*Justification to decision making*	SA (5)	A (4)	N (3)	D (2)	SD (1)
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.					

2. **Questions: Benefits of outsourcing** (the janitorial, messengers, and Security services).

No	*Justification to decision making*	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	To reduce cost.					
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 of the janitorial, messenger and security services assisted the current fast growth situation of DBE.					
5	After outsourcing janitorial, messenger, security service quality has been improved.					
6	Outsourcing saves time and money through reduced the need to control day to day operations of the noncore function of the bank.					

7	Outsourcing helped the bank to focus on more strategic areas rather than none core activities					
8	Easier and more economic access					
	Other justification: (Please list and rate them):					

3. **Questions: Challenges or Problems arise due to Outsourcing** (the janitorial, messengers, and Security services).

No	*Justification to decision making*	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Lack of clear communication and coordination					
2	Theft of property has increased due to outsourcing workers.					
3	There are contract termination problems.					
4	There are problem of controlling outsourced staffs during working hours.					
5	Poor handling of the Bank's resource and high maintenance costs are occurred.					
6	Consistency and quality of services are not delivered by outsourced staffs.					
7	Low employee belongingness					
8	Conflict of interest between outsourced employees and DBE's permanent employees					

4. **Questions: To evaluate Securities service delivered by outsourcing agent**

No	Justification to decision making	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Outsourcing Security Service increase flexibility					
2	Outsourcing Security Service reduce risk					
3	Outsourcing Security Service improves service quality					
4	Outsourcing of Security Service save time and cost					
5	Outsourcing Security Service allow to focus on core business function					
6	Outsourcing Security Service reduce budget allocation					

5. **Questions: To evaluate Janitorial service delivered by outsourcing agent**

No	Justification to decision making	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Outsourcing cleaning Service increase flexibility.					
2	Outsourcing cleaning Service reduces risk.					
3	Outsourcing cleaning Service improves service quality.					
4	Outsourcing cleaning Service save time and cost.					
5	Outsourcing cleaning Service allows focusing on core business function.					
6	Outsourcing cleaning Service reduces budget allocation.					
7	Cleaning service is delivered on time without affecting office hours.					

6. **Questions: To evaluate Messengers (couriers) service delivered by outsourcing agent**

No	*Justification to decision making*	SA (5)	A (4)	N (3)	D (2)	SD (1)
1	Outsourcing courier Service increase flexibility.					
2	Outsourcing courier has good understanding about the value of bank documents they received or delivered to others on behalf of the bank.					
3	Outsourcing courier Service improves service quality.					
4	Outsourcing courier Service save time and cost.					
5	Outsourcing courier Service allows focusing on core business function.					
6	Outsourcing courier Service reduces budget allocation.					
7	Outsourcing courier service incoming and outgoing letters, memos, and other documents are delivered and received on time.					

7. Any additional comments on the following problems please write it.

Janitorial service…………………………………………………………………

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Messenger service…………………………………………………………………

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Security service …………………………………………………………………

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Appendix II

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

Interview questions to be answered by HRM, FMP, and PMP Manager of the Bank.
This interview will conduct to gather data for MBA Thesis entitled 'Benefits and Challenges of Outsourcing Practices: at DBE'.

1. What types of functions have been successfully outsourced in DBE? Such as: The janitorial, messengers, drivers, and security services?

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

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

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

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

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

7. How do you compare the challenges and benefits before and after outsourcing?

8. Due to outsourcing security services, is theft increased? Commitment decreased?

Appendix III

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

Interview question to be answered by Manager of outsourcing Administration office
This interview will conduct to gather data for MBA Thesis entitled *'Benefits and Challenges of Outsourcing Practices: at DBE'*

1. What are the drivers/reasons that encourage your organization to outsource?

2. What benefits the bank has achieved by outsourcing the four non-core functions?

3. What are the major challenges or problems facing DBE in relation to outsourcing?

4. What new problems emerged due to outsourcing?

5. What are the causes of the problems encountered in your organization?

6. What type of measure did your organization take to solve problems that faced during?

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

8. How your Organization monitors or controls the quality of the outsourced services and evaluates the performance of service provider?

9. Is there any formal channel of communication with the service provider to discuss?