



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ANALYZING THE IMPACT OF OUTSOURCING ON
ORGANIZATIONAL PERFORMANCE: THE CASE OF BANK OF
ABYSSINIA**

BY: SELAMAWIT FIKIRE

**JUNE, 2022
ADDIS ABABA, ETHIOPIA**

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OF ABYSSINIA**

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DECLARATION

I, Selamawit Fikire, the undersigned person declare that the thesis entitled “Analyzing the Impact of Outsourcing on Organizational Performance: The Case of Bank of Abyssinia” is my original work and submitted for the award of Master Degree in Business Administration and it hasn't been presented for the award of any other degree. Under this study, fellowship of other similar titles of any other university or institution of all sources of material used for the study has been appropriately acknowledged and noticed.

Name/Signature

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LIST OF ACRONYMS/ ABRIVATION

CCT - Core Competencies Theory

EET - Evolutionary Economic Theory

EIT - Economy of Information Theory

NET - Neoclassical Economic Theory

KBV - Knowledge Based View

RBV - Resource Based View

SET - Social Exchange Theory

TCE -Transaction Cost Economic Theory

SD - Standard deviation

SPSS - Statistical Package for the Social Sciences

ABSTRACT

With a view to focus on core business functions and to take advantage the benefit of specialization, organizations took outsourcing as one of the widely embraced business strategy for delivering outstanding services to customers and enhancing their business performance. The practice of outsourcing in Ethiopia is pronounced more on clerical part. This research sought to study the impact of outsourcing of security service on the performance of Bank of Abyssinia (BOA). The research objectives were to determine whether outsourcing of security services in Bank of Abyssinia affects organizational performance through its influence on Key Parameters as cost effectiveness, efficiency, service quality, trust and competitive advantage. The study employed both qualitative and quantitative (mixed) research design. The study targeted a population of 10,000 both Bank's and outsourced staffs and sample of 100 is selected based on stratified sampling method in a way that could represent the whole population. Data was collected from primary sources through survey method by use of questionnaires. The data was quantitatively analyzed based on research objectives. The quantitative data was analyzed through descriptive statistics, and regression analysis by use of statistical package for social sciences (SPSS) software version 20. The results revealed that efficiency and competitive advantage have a significant strong positive relationship while cost, service quality and trust turned out to have an insignificant weak relationship with organizational performance due to outsourcing. Cost and trust have positive relationship while service quality has negative association with organizational performance although are all insignificant. Based on the study findings, the study result leads to the conclusion that the outsourcing of security service by BOA does not as such bring about a significant influence on its business performance as its association with majority of key parameters (except efficiency and competitive advantage) is turned out to be insignificant. However, the result came up with the finding that outsourcing has improved efficiency in the Bank and helped the Bank to gain competitive advantage. Thus, to bring about the desired result, BOA in future should not outsource an activity fully until it has confirmed beyond doubt that the service provider is capable of handling the activity and has a positive influence in driving its business performance.

Key Words: Organizational Performance, Cost, Efficiency, Service Quality, Trust, Competitive Advantage

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Outsourcing is a business strategy that moves some of the organizational tasks from within an organization to outside providers (Overby (2017)). Organizations outsource their function to gear their focus on core business activities, take competitive advantage by containing operating costs and improve service quality (Patel (2017), Overby (2017), Patricia (2017)). Some of the benefits that organizations gain by means of outsourcing their subsidiary duties as drawn from literature include lowering costs, increased efficiency, improved access to skills and resources, swiftness and expertise, giving room to strategic focus and risk sharing. On the other side risks associated with outsourcing comprise risk of exposing confidential data, hidden costs, lack of customer focus, employee lay off, quality risk, language and culture barrier, loss of control, etc.(Patel (2017), Overby (2017), Patricia (2017))

It has been the usual practice in overseas world of outsourcing subsidiary duties of organizations with the main purpose of gearing their organizations focus towards their core business. It has been established practice of outsourcing general administration and logistics services, human resource activities, IT services, call centre, marketing and accounting activities, security and cleaning services, etc.

The practice of hiring outsourced staffs in Ethiopia came in to the picture during the recent 10 years. As compared with other duties, the practice of using outsourced services been pronounced more on areas of non-clerical activities such as security and cleaning services. Of organizations Banks have been widely using outsourced companies for these non-clerical activities. Due to the sensitive nature of the duty in banks as their activities are directly related with safeguarding money, they have faced with the challenges side by side with advantages they have gained from this practice.

Bank of Abyssinia (BOA) started using the contracted outsourced security staffs with few branches and expanded gradually to others replacing the existing permanent staffs of the bank. In most of BOA branches security guards constitute not less than 35% of the work force. The Bank

choose to employ the service of security companies with an intention to address the administrative difficulty in deploying the required workforce, with an intention to be cost effective, bring efficiency, to be relieved from day-to-day handling of administrative matters and focus on the core business of the Bank, and to get proper safeguard of its resources by virtue of being handled by a company specialized in this service, etc.

It lasts about eight years since Bank of Abyssinia embarked on hiring contracting outsourced security companies for its head office and branches physical security services. The Bank is in the first row to commence the outsourcing practice just to be relieved from human resource administrative matters and focus on core functions, when there is no well-developed service providers in the area and with no detailed analysis of the pros and cons of the outsourcing. Other industry operators also follow suite those in the first row with no further effort to take lesson from their predecessors.

Besides, there is no study conducted so far whether this outsourcing practice has drawn the required benefit and brought costs to BOA in particular and Banking sector operators in general vis-à-vis the direct employment practice. This paper has thus focused on identifying and analysing the impact of outsourcing on Bank of Abyssinia (BOA) performance through its Key Influencing Indicators such as efficiency, cost effectiveness, customer service quality, trust, competitive advantage.

1.2. Statement of the Problem

Banks are financial institutions where the country core public resource that is finance is being transacted. While handling the intermediary role between surplus and deficit units of the financial resource, Banks need to manage risks. There are different aspects of risk management in banks. One of the risk management practices that banks needed to manage is thus operational risk. This mainly dwells on managing risk while handling domestic and international banking activities/operations. Among the domestic banking operations, one of the critical components of safeguarding the public deposit is putting in place appropriate security system. In banking practices security implies both physical as well as electronic banking system. The electronic security dwells more on IT security system while the physical security involves the material and human resources employed in safeguarding the financial resource.

The most diligent part of ensuring physical security is through hiring security guards in each office and branches of banks. In BOA 35% of the human resource engaged in the bank can be categorized under non-clerical positions where more than 90% of them are security guards and cleaners. In gross, one can imagine how a bank could get relieved by outsourcing these non-clerical positions to companies. Its implication on Bank's performance through cost effectiveness and competitive advantage requires close scrutiny. The advantages that the Bank gained by focusing on its core functions and the efficiency effect as a result shall be looked into. On the other side, there has been incidences of theft and bribery which indicates the need to analyse the loophole in security operation. There has been feedback from customers on service quality in relation to security guards as they are on the get receiving customers for banking services. There has also been issues on the relationship between security companies and staffs. There is limited knowledge and experience of outsourcing subsidiary duties both from organizations perspective as well as service providers' point of view.

These all requires close examination so as to identify and analyse significant factors that influences Bank's business performance due to outsourcing of its security guarding operations. It also helps to draw implication on future direction of possible outsourcing of other activities as has been practiced in the outside world. May be because of the short history in the country on outsourcing subsidiary duties of companies, there has not been studies done so far in Ethiopia in this respect. This research will open eyes to future work in association with the impact of outsourcing practice on company performance in different sectors and organizations.

The study specifically focused on BOA since it is the one in the first raw to adopt outsourcing practice of this nature and we fill that sufficient time has elapsed since the onset of the outsourcing practice to make the actual analysis of the impact in driving the Bank's performance. The study result could also give clue to other Banks in the industry that followed suite with the outsourcing practice of BOA.

1.3. Research Questions

In the course of identifying the possible parameters through which outsourcing practice impacts Bank's business performance, one needs to address the following research questions:

- 1) What is the implication of outsourcing on Bank of Abyssinia performance via its effect on cost saving/cost effectiveness?
- 2) What is the impact of outsourcing on Bank's Performance via its efficiency effect?
- 3) What is the impact of outsourcing security services in BOA via Key Parameters as service quality and customer trust on business performance of the Bank?
- 4) Whether or not BOA has got competitive advantage to other operators in the industry by virtue of outsourcing its security services?

1.4. Objectives of the Study

1.4.1. General Objective

The purpose of the study is identifying and analysing the impact of hiring outsourced staffs on BOA's Performance via its effect on KEY Performance Parameters (KPIs) and draw its implication on its strategic direction in this regard.

1.4.2. Specific Objectives

The **specific objectives** of the study are thus:

- 1) Analysing the impact of outsourcing on BOA Performance via its effect on cost effectiveness, efficiency, service quality and Trust.
- 2) To identify whether BOA has drawn competitive advantage by outsourcing in improving the organizational performance.
- 3) Draw future possible implication of outsourcing concept in the Bank's strategic direction on other human resource and non-core functions of the Bank.

1.5. Significance of the Study

The result of the study has possible implication on future potential of outsourcing in different aspects of Bank's operations. It also helps to measure the extent of gains on the one side and gaps observed and its adverse impact on the other side. The study could serve as an input for the Banking sector operators to easily track the root causes behind the challenges so as to address them accordingly. Outsourced companies also get input on the scientific analysis of their capabilities and their gaps to make themselves efficient, effective and give prudent outsourcing services. Researchers could make use of the study document as reference and also get insight on possible future research area to investigate

and address them. Policy makers could make use of the research result as an input for their policy development, monitoring and evaluation.

1.6. Scope and Limitation of the Study

1.6.1. Scope of the Study

The scope of the study is divided into three parts such as geographical, conceptual and methodological.

1.6.1.1. Geographical Scope

In Ethiopia there are about 17 banks in operation at present. Almost all of these banks hired outsourced staffs for their non-clerical activities mainly security guards and cleaners. In the interest of time and cost, this study focuses on the Bank of Abyssinia. The study findings that is drawn from BOA could some extent reflect what is being prevailed in the sector as well since there is more or less similarity of the practice in the industry. The study covers both the Head Office as well as the branch offices situated in different parts of the country. Head office and a sample of 10 branches one from each district office are selected for filling questionnaire/interview. 10 individuals composed of bank's staffs, and outsourced staffs were made to fill the questionnaire from each selected branch. Since the three stakeholders involved in the outsourcing practice i.e. Bank's staffs, one outsourced company representatives and outsourced staffs are from similar institutions (the Bank and outsourced company), the data collected based on the above sample size could fairly represent the whole population.

1.6.1.2. Conceptual Scope

The study focused on the impact of outsourcing security services in BOA, its effect expressed in different perspectives on the performance of the Bank. The variables hypothesised to be affected by outsourcing practice and impacting the performance of the Bank include: cost, efficiency, service quality, trust and competitive advantage.

1.6.1.3 Methodological scope

The study designed questionnaire to conduct survey to collect data from respondents. A sample of 100 respondents are selected for filling questionnaire out of which 77 responded. The sample comprises both gender composition, working age profile, different educational and job position.

1.6.2. Limitation of the Study

Although there is wider application in outsourcing practice, due to limitation of time and resource, the study focused on security guards in particular in view of the sensitivity of this position in ensuring safe banking operations. Despite the limitation of the scope to BOA due to accessibility to the required data, it is presumed that the findings could reflect the pros and cons of the practice in the industry and its implication in outsourcing other non-core banking functions.

1.7. Organization of the Study

This research paper is organized in five important chapters where the first chapter along with this section comprises presenting statement of the problem, putting research questions, putting in place general and specific objectives of the study, highlighting significance, scope and limitation of the study. Chapter two deals with literature review where it reviews theoretical literature, conceptual framework and empirical literature drawn from research works of various scholars and the resulting research framework established from it. The next chapter three dwells on the research methodology employed during conducting the research papers which comprises research approach, research design, target population, sample size and sampling technique, data type and source, data collection instrument, reliability and validity, data collection procedure and ethical values, and method of data analysis employed to come up with research findings.

Chapter four of the paper present data analysis and interpretation where descriptive and regression analysis of the data collected through survey conducted focusing on the Key Influencing Parameters that outsourcing brought about as cost effectiveness, efficiency, service quality, trust, and competitive advantage on one side and organization's performance on the other side. The analysis is conducted through application of SPSS software package version 20. The last chapter Five summarizes the major findings of the research paper, draw conclusion and recommendation and suggest future area of further research based on the gaps identified.

CHAPTER TWO LITERATURE REVIEW

2.1 Definition of Outsourcing

Outsourcing as defined by Stephanie Overby (2017) is a business practice in which services or job functions are farmed out to a third party. Outsourcing is an allocation of specific business processes to a specialist external service provider. He further noted that once the task is outsourced to the service provider, he will take the responsibility of carrying out the tasks and maintaining the organization's assets. Outsourcing is a business strategy that moves some of an organization's functions, processes, activities and decision responsibility from within an organization to outside providers. Outsourcing can be a permanent or temporary arrangement to bridge the gap in staffing, to learn better quality techniques or improvement of faulty product design.

2.2. Theoretical Literature

Outsourcing has been approached applying a series of different theories. These theories have been used by scientists to understand the nature of outsourcing operations and activities, as well as help enterprises and organizations handle processes in an effective manner (AnthiVaxevanou and Nikolaos Konstantopoulos (2015).

i) Transaction Cost Economics Theory (TCE)

This is the most widely used theory of outsourcing among a series of different theories. TCE Theory relies on a rational decision made by firms after considering transaction related factors such as asset specificity, environmental uncertainty and other types of transaction cost (Felix Ndungu and Shale Ismail, 2016). On the other hand, it views the relationship between service receiver and service provider as a model that allows economic transactions to take place (Reuben et al., 2007 in Felix Ndungu and Shale Ismail, 2016).

The characteristics of this model allow for outsourcing implementation both at the relationship management phase and at reconsideration phase (Zoran Perunovic and JergenLindgaard Pedersen (2007). Aubert, Rivard and Patry (1996) in AnthiVaxevanou and Nikolaos

Konstantopoulos (2015) proposed a model which combines the TCE theory with theory of incomplete contracts in order to formulate a model that explains the phases of preparation and relationship management. The limitation of this theory is that the TCE framework only explained few IT sourcing decisions and generated much more in their sample on top of its reliance on a single transaction as a unit of analysis, neglecting the contemporary industrial collaborative arrangements. Besides it is static in nature that does not fit itself to dynamism of current business environment.

ii) Core Competencies Theory (CCT)

Prahalad and Hamel (1990) in AnthiVaxevanou and Nikolaos Konstantopoulos (2015), defined core competencies as the collective knowledge of an organization in combining different productive skills and the integration methods of various different technologies. This theory has been used to study the phases of relationship management and reconsideration. It is also the second popular approach related to outsourcing. In relation to IT system, the outsourcing of business operation focused on the phases of preparation and reconsideration (Pinnington and Woolcock (1995). Examining the phases of preparation, relationship management and reconsideration, Gottschalk and Solli-Saether (2005) concluded that the CCT is one of the two approaches that better illustrate the success factors of the outsourcing process.

iii) Relational Theory

Relational theory explains how firms gain and sustain competitive advantage with in inter-organizational relationships (McIvor, 2005 in Zoran Perunovic and JergenLindgaard Pedersen (2007). It has been utilized in studying the transition, managing relationship and reconsideration phases. It is the only theory to be applied in all outsourcing process phases. Yahnghong (2011) in AnthiVaxevanou and Nikolaos Konstantopoulos (2015), described an outsourcing model based on the Relational Theory, aiming to interpret the phases of preparation, vendor selection and relationship maintenance. The research concluded that the benefits of outsourcing process are determined by the quality of relationship at its establishment and by the care given by contracting parties to the development of the relationship.

iv) Resourced-Based Theory (RBV)

In RBV theory, outsourcing is taken as a strategic decision which can be used to fill gaps in the firm's resource and capabilities (Gover et al., 1998 in Felix NdunguKamanga and Shale Noor Ismail (2016). More emphasis is placed on the firm's internal resource rather than external opportunities and threats in RBV theory. The theory also relies on two key points: first that resource is determinant of performance and second that resource must be scarce, valuable, difficult to imitate and non-substitutable to create a competitive advantage (Priem and Butler, 2001 in Felix NdunguKamanga and Shale Noor Ismail (2016). The most prominent use of the theory is in the preparation phase for defining decision making framework, vendor selection phase, and to explain some key issues in managing relationship and reconsideration phases (Zoran Perunovic and JergenLindgaard Pedersen (2007).

v) Evolutionary Economics Theory

The backbone of this theory, according to Andersen (1994) in AnthiVaxevanou and Nikolaos Konstantopoulos (2015), comprises a series of six basic assumptions: 1) That individuals and organizations can never be fully informed and that they must adjust and optimize their performance at the local instead of the global level; 2) that the decision-making process of individuals and organization is subject to rules, norms and institutions; 3) that individuals and organizations may imitate, to a certain extent, the behavior and rules followed by their peers in order to gain self-knowledge and create innovation; 4) that the imitation and innovation processes are, to a great extent, stable, continuous and cumulative except interruptions by occasional disruptions due to exceptional circumstances; 5) that the interaction between individuals and organizations takes place in an unbalanced manner where its success or failure is conditioned by external factors, the persons involved and their methods; and Finally, the processes of change occur within a framework determined by the aforementioned five assumptions. These assumptions create a framework where changes have an unpredictable result; they are irreversible. Mahnke (2001) in AnthiVaxevanou and Nikolaos Konstantopoulos (2015) uses Evolutionary Economics in order to develop a broad model, which attempts to explain four out of the five phases of the outsourcing process, i.e. the phases of Preparation, Transition, Relationship Management and Reconsideration.

vi) KnowledgeBased View

This refers to understanding how individuals cooperate to produce goods and services. It distinguishes two ways how knowledge is share among partners: knowledge generation and knowledge application (Zoran Perunovic and JergenLindgaard Pedersen, 2007). It is utilized in the outsourcing search to prove that knowledge sharing in managing relationship phase is positively related to the success of an outsourcing arrangement.

vii) Agency Theory

This theory focused on the relationship between an organization's management and all other stakeholders (agents) and different organizations (Jensen &Meckling, 1976 in AnthiVaxevanou and Nikolaos Konstantopoulos). This theory has been applied to outsourcing in order to interpret the relationship between the organization and the vendor. In addition to relationship management, this theory has been used to explore the Preparation phase and, in particular, the stage where the organization considers all potential Vendors and decides on which type of relationship it wishes to develop with them, whereas it has been used, to a lesser extent, to analyze the Reconsideration phase.

viii) Neoclassical Economic Theory

According to Hodgson (1994), the Neoclassical Economic Theory has three assumptions: First people and organizations act rationally in order to maximize their benefits, always on the basis of their preferences. Secondly, emphasis is placed on striking a balance or moving constantly towards balance. Finally, this theory does not recognize the issue of the absence of adequate information on behalf of individuals or organizations. This theory has been heavily criticized due to its inability to explain modern business operations. Gottschalk and Solli-Sæther (2005) have demonstrated that the Neoclassical Economic Theory may be applied to explain critical success factors of the outsourcing process during the Reconsideration phase.

ix) Social Exchange Theory

This theory according to Gottschalk and Solli-Sæther, 2005 interprets interpersonal transactional relationships by using the economic cost-benefit analysis as a requirement for social participation

and social exchange. The theory assumes that the sharing of resources (material or social-intangible) is a fundamental form of human interaction. The theory has been used in combination with the TCE Theory in order to interpret the behavior of organizations at the reconsideration phase.

x) Economy of Information Theory

One of the first such models was the development of the Search Theory (Stigler, 1961). The determination of sellers and the prices they offer is only an example of the extent and importance of information search in economic theory and practice. Another basic concept of the economy of information theory is “signaling”. This concept was developed by Spence (1973) and focuses on the influence of signals transmitted from entire markets or individual organizations on the decision-making process of others. Application of the economy of information in outsourcing is associated to activities of searching, selecting and contracting the vendor. However, it has not been used explicitly in the studies of outsourcing process.

From the aforementioned theories reviewed above, it is more likely that Resourced Based View (RBV) can best apply in this research case since this theory is in use in the preparation phase for defining decision making framework, vendor selection, managing relationship and reconsideration phase which all are the cases to be addressed in outsourcing of this nature.

2.2.1. Conceptual Framework

i) Why Do Organizations Outsource?

Different researchers (Patel (2017), Overby (2019), Patricia (2017)) reasoned out why organizations outsource part of their function as follows: Outsourcing allows organizations to focus on their core business and can create a competitive advantage by reducing operational costs. This can provide an organization with a good balance of on-site support for employees. Organizations use outsourcing as a strategic initiative to improve customer service, quality and reduce costs.

ii) Some Common Areas of Functions for Outsourcing

Different industries outsource different aspects of their businesses, but some common operational functions that get outsourced as presented by Riggins (2017) and Patricia (2017) are: Human Resources, Cleaning Services, Payroll Services, Facility Management, Manufacturing, Order Fulfilment, Call Centre, Marketing Services, Accounting Services, IT Outsourcing, Legal outsourcing, Content development, Web Design and Maintenance, Logistics, Manufacturing, Customer support, etc. The key factors which have led to a growing trend of outsourcing as identified by the researchers are: Lack of expert-labor in some portions of the business process, Availability of cheaper labor, whilst not comprising on the quality of output and ability and feasibility to concentrate on the other crucial business process.

iii) Advantages and Disadvantages of Outsourcing

(Kenneth Wong (2006), Stephane Overby (2017), Deep Patel (20-19), Nash Riggins (2017), Patricia (2017) and study conducted by an IT company named Flat World Solutions) outlined lower costs (due to economies of scale or lower labor rates), increased efficiency, access to skills or resources, swiftness and expertise, concentrating on strategic core process rather than support ones, risk sharing, reduce operating and recruitment costs, simplify work relationships, effort are more target and getting peace of mind as advantages of outsourcing. On the other hand the same scholars identified risk of exposing confidential data, synchronizing the deliverables, hidden costs, lack of customer focus, quality risk, language and cultural barriers, employee/public opinion, organizational knowledge, labour issues, legal compliance and security, employee layoffs, loss of control, sharing financial burdens, risk of public backlash, shift time frames, lose focus, things get lost in translation, facing morale dilemma and weighing options as potential disadvantages.

iv) Outsourcing Services

A study conducted by an IT company named Flat World Solutions on outsourcing of IT services reveals that Business process outsourcing (BPO) is an overarching term for the outsourcing of a specific business process task, such as payroll while knowledge process outsourcing (KPO) involves processes that demand advanced research and analytical, technical and decision-making

skills such as pharmaceutical R&D or patent research. The most common ways to structure an outsourcing engagement as outlined on the study include: Time and materials, Unit/on-demand pricing, Fixed pricing, Variable pricing, Cost-plus, Performance-based pricing, Gain-sharing and Shared risk/reward.

v) Considerations while Outsourcing

AnthiVaxevanou and Nikolaos Konstantopoulos (2015), Zoran Perunovic and Jordan Lindgaard Pedersen (2007) and the study conducted by the IT Company-Flat World Solutions highlighted the following considerations/steps to follow while an organization is going to engage in outsourcing of some of its functions: a) Preparation phase (i.e. strategy development, sourcing options, approach, configuration, screening of potential vendors, preferred relationship, preferred length of the contract and drafting the service level agreement (SLA)) b) Vendor selection phase (that includes activities such as announcing outsourcing, outsourcing deal lengths, choosing the right outsourcing provider portfolio, how to select a service provider, negotiating the best outsourcing deal, and outsourcing hidden costs, finalizing the contract) c) Transition phase (activities such as defining communication and exchange of knowledge and information, transferring assets, people, information, knowledge, hardware and software) d) Relationship Management Phase (i.e. type of relationship, maintaining relationship, handling meetings and communicating performance monitoring and evaluation, applying incentives and penalties, solving problems, re-negotiating and managing variations and ,managing success factors) and e) reconsideration phase.

2.3. Empirical Literature

Empirical literature refers to literature done based on figures and facts using quantified data collected through different instruments.

2.3.1. Related Empirical Research Done Globally

GyeoReh Lee, Shinwoo Lee, Deanna Malatesta and Sergio Fernandez (2015) developed a conceptual framework that integrates and extends existing explanations of outsourcing's effects on the government workforce and organizational performance. The study conducted to assess employees' perception on the relation between outsourcing and organizational performance. It then test the logic behind using five years of panel data (2010-2014) from US federal agencies.

The evidence presents modest negative effects of outsourcing on organizational performance as perceived by employees. The analysis also reveals that outsourcing affects perceived performance through its influence on job satisfaction.

Employing the core competency theory, Prof. Iftekhar Ghani Chowdhury (2012) on his research on the Impact of Outsourcing on Company Performance: Study on a Local Public Limited Company in Bangladesh, systematically investigates the firm outsourcing strategy design, operation model and impact on company performance. It also makes a comprehensive analysis on the relationship between core competency and outsourcing. This study investigates factors that influence the make or buy decision of a local public limited company. The research, more specifically examines the core competence thinking for decision making in relation with outsourcing as strategic decision taken by the top management of the company.

A paper by Alrwashdeh, M., Adaileh, M.J., & Ali, H. (2022) investigates the impact of outsourcing on the operational performance in industrial companies in Jordan. It also tested the effect of the organizational structure and organizational culture as mediator variables. Testing of hypotheses using the structural equation modeling revealed that all the hypotheses suggested were supported, besides, the organizational structure and culture ate fully mediate the impact of outsourcing on operational performance.

IşıkÇiçek, and Bilal Özer (2011) evaluated the effect of outsourcing human resource on organizational performance. In their analysis they pointed out that the improvement that high organizational performance provides is becoming more critical in today's increasing conditions of competition. The effects of human resource functions and organizational culture to perform a significant organizational efficiency attracts both theoreticians' and practitioners' interest much more. When outsourcing is considered as one of the methods that organizations utilize for strengthening their core competencies to allocate their resources efficiently, the question of the degree to which human resource functions could be outsourced brings in mind the effect of organizational culture enabling outsourcing on organizational performance.

Jeevan Jyoti (2015) examined the impact of outsourcing on organizational performance of medium scale industries and the moderating role played by cost leadership, differentiation and innovation strategies in between this relationship. Data for the study has been collected from managers of medium scale industries in J&K (India). Findings revealed that outsourcing of non-core critical activities and non-core non-critical activities positively affect organizational performance. Cost leadership, differentiation and innovation strategies act as moderators between outsourcing and organizational performance. Further, the outsourcing organizations have better financial performance than the non-outsourcing organizations. The study contributes to outsourcing literature in the Indian context and management in several ways. Managers should introduce this new management strategy in a scientific way. They should make a thorough investigation about vendor to be selected for performing activities.

With an objective to verify the relationships among human resource outsourcing of four activities such as recruitment activities, training administration, payroll management, and human resource information system and organizational performance through HR cost efficiency, effective HR development and HR flexibility, SumittraJirawuttinuntMahasarakham (2015) examined the effect of HRM outsourcing on performance of multinational firms in Thailand. The model is tested by using data collected from mail survey questionnaires of 165 multinational firms and using a questionnaire as the instrument. The results of OLS regression analysis show that HRM outsourcing has a significant impact on organizational performance both direct and indirect via HR cost efficiency, effective HR development and HR flexibility.

A study conducted by Anum Tariq Basit Bashir Bilal Ghuzanafar (2016), shows that the decision to outsource, significantly improves performance. “Continuous improvement” (performance dimension) shows the greatest improvement and the lowest improvement is in the quality of work life (performance dimension). But no significant improvement is observed in profitability and quality of work life. Outsourcing firms devote their released capital from outsourcing to boost their core competencies. And due to competitive pressure (on prices), outsourcing companies reduce their profit margins. That’s why; there is no significant improvement in profitability. But according to study overall improvement in organizational performance is observed.

After making an empirical study of service firms, Bustinza, O.F., Arias-Aranda, D. and Gutierrez-Gutierrez, L. (2010) finds that there is a relationship between outsourcing decisions and company performance which is articulated via the impact of outsourcing decisions on the firm's competitive capabilities.

2.3.2. Related Empirical Research Done in Africa

A research conducted by Charity NdinaMusau (2016) on the effect of outsourcing strategy on organizational performance on Bidco Africa Limited using a descriptive research design and correlation and regression analysis indicates that cost driven outsourcing, innovation driven outsourcing and focus driven outsourcing has a significant influence on organizational performance. The study found that cost driven outsourcing led to improved organizational performance by reducing costs and risks while increasing operational efficiency, both in the short term and long term. Further, the study found that innovation driven outsourcing improved organizational performance by enabling it to create, develop and deliver value to the market faster than its competitors. The success of innovation driven outsourcing however was found to be largely dependent on cost control and core competencies focus, hence must be evaluated carefully. Finally, the study found that focus driven outsourcing assists a company to free up its resources so as to concentrate on its core business, which leads to improved organizational performance.

Boison, David King, Amedi, Emmanuel Senyo, Addison Linda and Esther Asiedu (2018) assessed the impact of outsourcing on the organizational performance of Vodafone Ghana. Both leading (quality of service and knowledge development) and lagging (financial) indicators of performance were selected to obtain a balanced view of the firm. The quantitative approach to research was chosen with a descriptive research design. The research revealed a moderately positive relationship between outsourcing and quality of service. Similar results were obtained between outsourcing and knowledge development. The study however found no significant relationship between outsourcing and financial performance. This paper finally advises the case study organization to take corrective action against undesirable outcomes of the relationship

between outsourcing and financial performance, which is key. It also recommends that management should as a measure to mitigate the risk of outsourcing undertake a thorough check on all potential vendors and ensure their expertise and resources are sufficient to deliver customer-centric services. The paper further suggests that Vodafone Ghana should invest considerably in the development of intellectual skills and capabilities of its workforce in order to improve on the positive knowledge development effect outsourcing has on the firm.

Joyce WanjiruChege (2015) assess the influence of outsourcing on operating cost, examine the influence of outsourcing on customer satisfaction and establish the influence of outsourcing on service delivery efficiency. The study found out that outsourcing of security services greatly affected performance; there was a strong relationship of outsourcing of security services and performance. Outsourcing of computer maintenance services greatly affected performance; there was a strong positive relationship between outsourcing of computer maintenance services and performance. Outsourcing of cleaning services greatly affected performance; there was a strong positive relationship between outsourcing of cleaning services and performance.

In an effort to find out the impact of outsourcing activities on the organizational performance of private company especially Bralirwa Ltd with specific objectives of identifying and assessing outsourced activities, assessing the level of organizational performance and establishing impact of outsourcing activities to the organizational performance Mpambara Frederick*, Ueamahoro Annie Justine, &Uwamahoro K. (2015) adopted a descriptive and correlation research design. The findings revealed that all activities in the sequence of International logistic, distribution (transport), security, manpower, motor-vehicle repairing, cleaning and chicken staff were outsourced at 100%. The study also revealed that Bralirwa Ltd outsourcing increased employee productivity (90.7%), improved management of resources, and upgraded quality of products (94.4%). The findings also displayed that Bralirwa Ltd outsourcing increased sales (96.3%), helped to expand into new markets (53.7%), thus boosted profits. Finally the study revealed that outsourcing activities impacted Bralirwa Ltd performance at a rate of 2.5% ($r^2 = (0.158)^2 = 0.024964 \approx 2.5\%$). This is normal as other factors contribute at the big remaining percentage of

97.5%. This very low correlation revealed a sound need that Bralirwa Ltd continues to focus on the management of outsourcing activities.

A study by IfedapoAdeleye (2011), examines the (potential) impact of outsourcing on business operations and performance, providing insights on how employers can better leverage outsourcing for strategic advantage, as well as how to mitigate key outsourcing risks. The discussion is based on a four-cell typology of outsourcing, along two dimensions: strategic/economic importance and functional domain. Each of the four quadrants – tactical outsourcing, operational outsourcing, strategic outsourcing and transformational outsourcing – presents a different set of opportunities and risks for employers, contrary to the widespread depiction of outsourcing as a monolithic concept. Employers must understand the opportunities and risks associated with each of these four types of outsourcing and take appropriate measures to handle them to stand a chance of successfully using outsourcing as a lever to improve business operations and performance.

AsiamahYeboah (2013) examined the relationship between outsourcing and organizational performance in the services sector. The study revealed a number of findings including: there is no statistically significant correlation between outsourcing and organizational productivity, there is statistically significant correlation between outsourcing and quality, there is statistically significant correlation between outsourcing and competitive advantage. Based on the findings, some recommendations were made most importantly: there must be thorough background check before outsourcing, and organizations must also have a back-up system to avoid losing vital data as a result of incompetence on the part of the external supplier.

Helena Mary Boakye, Isaac Opoku-Fofie and Frank Obeng (2016), examined the effects of key service outsourcing strategies on organizational performance (a case study of commercial banks in Ghana). The discoveries demonstrated that outsourcing absolutely increases on the execution of associations, it diminishes expenses of operation, efficient, nature of administration lastly the influences emphatically business deftness operation. Hence, the rate of hierarchical execution as a consequence of outsourcing is high in both short and long haul and numerous business

administrators are resolved to join their prosperity to the outsourcing process. The study suggests that Policy creators and the administration need to comprehend the difficulties confronted in outsourcing administrations and figure approaches that would enhance administration conveyance.

2.3.3. Related Empirical Research Done in East Africa

A study done on the Effect of Outsourcing Human Resources and Organizational Performance in Public Universities in Kenya by Rose SyombuaMatolo and Prof. Mike Iravo (2018) in Department of Entrepreneurship and Procurement Jomo Kenyatta University of Agriculture and Technology, outlines the relationship between outsourcing Human Resources and the performance of the organizational performance. It focuses on the public universities in Kenya. According to research done, Human Resource Outsourcing improves efficiency. The independent variables are reduction of cost, access to technology, allowing HR Personnel to focus on the strategic functions and focusing on the core competences. The research concludes by indicating that there is an overall benefit in terms of organizational performance when organizations outsource their Human Resources thus creating competitive advantage.

Felix NdunguKamanga and Shale Noor Ismail (PhD) (2016) sought to study the effects of outsourcing on organization performance in manufacturing sector in Kenyan firms. The research objectives were to determine whether cost affects organizational performance, to assess whether quality affects organizational performance, to find out whether technology adaption affects organization performance and finally to establish whether risks affects organization performance at Del Monte Kenya Limited. Both correlation and regression analysis were done and the results reviewed that: Cost, quality, technology adaption had organization performance had a significant strong positive relationship. There was an insignificant positive weak relationship between risks and organization performance.

HawaTimbulaMasawanga (2015), explored the impact of outsourcing human resource function on organization performance, while focusing on Tanzania Cigarette Company (TCC). The study founded that HR outsourcing has both pros and cons on organization performance. Some of the

greatest pros were control of operating costs, correcting poor financial performances, improve company focus, improve efficiency and many more. Meanwhile most popular cons of outsourcing were staff dissatisfaction and demoralization, confidentiality leaks and loss of intellectual property rights, reduction of in-house technique and expertise. Furthermore some factors which could support effectiveness of HR outsourcing program at TCC were standardization of the HR functions, automation of the HR functions, availability of resources, sharing of information between Erolink and TCC while factors that could hinder effectiveness were lack of integration of TCC and Erolink management systems, lack of regular meeting between Erolink and TCC managers and lack of co-operation between TCC and Erolink in business process improvement and innovation. The study concluded that HR outsourcing has positive implication on organization performance since the program was associated with growth of the company.

With an objective to determine the effects of outsourcing on an organization's performance: a case study of Kenya Revenue Authority Nairobi Customs Station, W. Anthony (014) analyzed the influence of cost of operation, time saving in outsourcing, quality of service operation, business agility operation in outsourcing on an organization's performance. The findings indicated that outsourcing positively increases on the performance of organizations, it reduces costs of operation, time saving, quality of service and finally the affects positively business agility operation. Therefore, the rate of organizational performance as a result of outsourcing is high in both short and long- term and many business executives are committed to attach their success to the outsourcing process. At the end of the study, the study provides variable insight to firms on how effective the outsourcing can be, as performance management tool.

A paper prepared by Rose SyombuaMatolo and Mike Iravo (2018) outlined the relationship between outsourcing Human Resources and the performance of the organizational performance. It focuses on the public universities in Kenya. According to research done, Human Resource Outsourcing improves efficiency. The independent variables are reduction of cost, access to technology, allowing HR Personnel to focus on the strategic functions and focusing on the core competences. The research concludes by indicating that there is an overall benefit in terms of

organizational performance when organizations outsource their Human Resources thus creating competitive advantage.

A study by Mutero Mercy Nyokabi (2016) sought to find out the effects of outsourcing on the performance of non-core organizational functions. An empirical study was conducted at the University of Nairobi with an aim of establishing whether outsourcing has significant impact on the performance of the outsourced services. The study found a strong positive correlation between outsourcing and the performance of the outsourced services namely. That is, outsourcing has improved the performance of cleaning at the University of Nairobi in terms of cost and quality. That is, the adoption of outsourcing has significantly improved the levels of cleanliness of the offices, lecture halls as well as the lawns and walkways at the university's main campus. Further, the study established that cleaning cost has reduced after outsourcing. These findings therefore strongly support the study hypothesis.

The study by Petronila A Ogola (2013) determined the relationship between outsourcing and organizational performance among book publishing industry-firms in Kenya. The study's finding was that the firms outsource printing services, support services, distribution, production and pre-press, advertising services and technology services. Outsourcing of functions influences the performance of the publishing firms because it enhances productivity, flexibility, better quality of products, operating cost reduction, technology advancement and customer satisfaction. However, outsourcing has challenges which the research highlighted such as piracy, cost of delayed delivery or non-delivery, vendor failure to deliver, leakage of confidential information, plagiarism, loss due to disasters and recovery costs, disclosure of commercial secrets, interest conflicts with outsourcing partners and poor quality of goods and services. The study found out that outsourcing of processes by the book publishing firms in Kenya has influenced its performance and it is recommended that the firms should continue outsourcing other services which they do not have competitive advantage over its competitors so that they can continue improving their performance.

2.4. Research Framework

Cost Effectiveness

The most attractive implication of Human Resource outsourcing involves cost reduction. By outsourcing certain functions, organizations do not need to spend money hiring and training employees for those particular roles. It also eliminates the need to pay wages and benefits in favor of a flat rate to contract the work to third party agency. Companies can also avoid paying taxes, insurance and various overhead costs since the contracted organization handles those instead. Cost-savings achieved by outsourcing can help you release capital for investment in other areas of your business (Kenneth Wong (2006) hence improve organizational performance.

Hypothesis I: There is a positive and significant relationship between outsourcing and bank performance by way of cost effectiveness in Bank of Abyssinia.

Efficiency

Outsourcing has a positive implication on the company's ability to allocate time and resources to other endeavors. It absolves the main company from having to recruit, train and replace employees. In doing so, the organization can focus on its main functions/core business allowing it to stay competitive and speed up productivity hence boost performance (Stephanie Overby (2017), Kenneth Wong (2006).

Outsourcing can free up a company's business to focus on its strengths, allowing its staffs to concentrate on their main tasks and on the future strategy (Stephanie Overby (2017), Kenneth Wong (2006).

Hypothesis 2: There is a positive and significant relationship between outsourcing practice and organizational performance via enhanced efficiency in Bank of Abyssinia.

Service Quality

Human Resource outsourcing is not an effective way to ensure quality. Whether it is human resource functions, customer service or manufacturing, third party companies employ less skilled workers at a lower wage. This can result in a substandard service that ultimately results in client

dissatisfaction. In other words, a company's desire to save money can be offset by lost revenue due to a poor end product and service (Nash Riggings (2017)).

On the other hand choosing an outsourcing company that specializes in the process or service you want them to carry out for you can help you achieve a more productive, efficient service, often of greater quality (Patricia (2017)).

Hypothesis 3: There is inconclusive hypothesis between outsourcing and organizational performance because of variability in customer service quality in Bank of Abyssinia.

Trust

Hypothesis 4: Outsourcing has negative and significant impact on organizational performance through its effect on building trust.

Greater Competitive Advantage

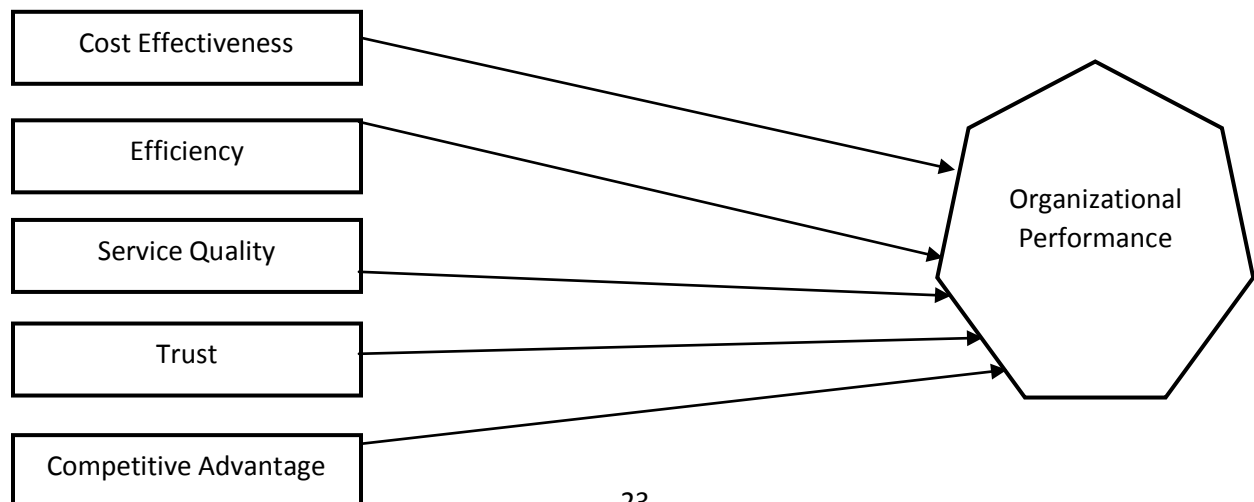
Outsourcing can help you leverage knowledge and skills along with your complete supply chain (Terence T. Burton (2013)).

Hypothesis 5: Outsourcing enhances the competitive capacity of Bank of Abyssinia hence has a positive and significant implication on its performance enhancing competitiveness position of the Bank.

Summary of Hypothesis

Independent variable

Dependent variable



CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Approach

The study employed primary data to assess the impact of outsourcing via some key parameters on BOA organizational performance. Descriptive and regression analysis have been conducted to give answer to the research questions highlighted above. It employed both qualitative (that comprises review of related literature, and theoretical back ground of outsourcing) and quantitative (that comprises primary data collection, analysis and interpretation of results) or mixed approach depending up on the quantification of the variables used in the analysis.

3.2. Research Design

This study employed descriptive research design. This research design is selected to describe the quantitative data collected on the variables used in the analysis. It describes the percentage, frequency and the number of respondents on each category of the queries posed on the questionnaire. It then clearly explores the impact of outsourcing practice of its security services on business performance of the Bank.

Primary data has been collected for the analysis. Quantitative data is analysed using SPSS package. A descriptive analysis is employed for interpretation of the quantitative data collected. A Multiple Regression model has been employed to establish the relationship between explanatory and dependent variables.

3.3. Target Population

The research focused on identifying the financial and non-financial gains that BOA has acquired by way of outsourcing of some of their Human resource functions. Based on these analysis, the study could come up with the finding on the impact of outsourcing on the Bank's performance parameters and the implication on future strategic direction in this respect.

As described earlier the study has been done taking Bank of Abyssinia as reference. BOA presently has about 700 branches operating throughout the country and it has total workforce of about 10,000 staffs out of which 3,500 staffs are outsourced ones 90% of which being security officers and cleaners and it has about 7 million customers. The security guarding service has been rendered by one Security Company. Thus the target population are the Bank's Head Quarter, these 700 branches spread throughout the country, Bank's staffs, outsourced staffs, and outsourced company itself.

3.4. Sample Size and Sampling Techniques

Having the target population mention above, data has been collected from a total sample size of 100 individuals from all stream of population categories. A stratified sampling technique has been employed by which there shall be representation from each category of the population. Accordingly, the target population versus the sample size by different categories is presented here under:

Table 3.1. Sample Size

No.	Description	Population Size	Sample Size	Non-Responded	Responded Samples
2	Outsourced Company Administrative Staffs		5	3	2
4	Outsourced Staffs	3,500	14	4	10
5	BOA Branches	700	8	3	5
6	BOA Staffs	6,500	73	13	60
	Total		100	23	77

Although the study is conducted on BOA only, the findings of the study is expected to pinpoint the possible implication on other beneficiaries in the sector.

3.5. Data Type and Source

The data to be used in the study is primary data. It is collected by designing questionnaire, and conducting survey and interview on target samples.

3.6. Data Collection Instruments

The study employed primary data. It is collected by administering questionnaire, conducting survey and making interview of outsourced security guards. The

questionnaire administration and interview has been done by preparing the questionnaire for survey on the Bank and outsourced companies representatives as well as staffs of the Bank and outsourced companies' engaged in banking security services.

A questionnaire was prepared that consist two parts which are respondents profile and main research questions. It consists of eight dimensions having sub-questions for each variable ranging from 4 to 10, with a five-point Likert scale ranging from 5 (strongly agree) to 1 (strongly disagree) questionnaires has been introduced.

3.7. Reliability and Validity

3.7.1. Reliability

The most common reliability measure “Cronbach’s Alpha” using SPSS application which would give an estimation of internal consistency by determining how all items on a test relate to all other items and to the total test has been employed. Reliability is given as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test. If the coefficient is greater than 0.7 the data collected said to be more valid.

Table 3.2. Reliability Test

Variable	Cronbach’s Alpha	No of Items
Average Cronbach’s Alpha	0.881	38

3.7.2. Validity

Validity is thus the degree to which results obtained from an analysis of the data actually represent the phenomenon under study.(Mugenda,2007).(Kothari C.,2004) further notes that a test is said to be valid if it measures what it is designed to. Questioner papers were modified according to literatures within the specific topic and were reviewed by advisor and professionals and academicians.

3.8. Data Collection Procedure and Ethical Issues

During the study, first collection of data and information from secondary sources (theoretical background about outsourcing, factors affected by outsourcing, the impact of

outsourcing on business performance from literature, identification of target population, determination of sample size, etc.) has been done. Based on the information contained in these secondary sources, questionnaire has been designed to be filled by the Bank's staffs, outsourced company and security guards of outsourced company engaged in the Bank (to be filled by respondents and interview sessions).

The questionnaire while it is designed has been coded to make it easy for inputting and for further analysis. The researcher selected dependable individuals for data collection purpose so that the data contained for the analysis could truly explain the actual practice and come up with dependable findings. The researcher has also made use of its technique while designing the questionnaire in such a way that the queries contained in the survey could by themselves check and balance so that reliable information could be tracked.

3.9. Method of Data Analysis

The study employed descriptive and regression analysis for analysing the data collected. In descriptive analysis, it uses tables, summary statistics, and descriptive statistics. Tabular presentation has been used to analyse respondents profile, summary statistics has been generated to measure the mean, and frequency of each variable and descriptive analysis has been employed to analyse the percentage of respondents on each queries of the questionnaire so that one can conclude the implication of the impact of outsourcing by each performance parameters.

It also established the correlation between variables employed in the analysis and tested the fitness of the model used based on the behaviour of the data and identifying the variables to be used in the analysis. The variables mainly employ largely of cross sectional data collected through questionnaire administration and interview. Appropriate care has been taken to make sure that the variables and data employed could truly be fitted for the desired analysis.

The regression analysis will clearly show the impact of outsourcing on BOA performance establishing the relationship between the dependent variables and explanatory variables

using SPSS software package. By way of this data analytics, the researcher will be in a position to prove or disprove the research hypotheses or answer to the research questions presented in the first chapter of this paper as follows:

Independent Variables:- are variables depicting the cost effectiveness, efficiency, customer service quality, trust and competitive advantage implication of outsourcing on the Bank's performance.

Dependent Variables:- are organizational performance parameters as market share, sales and profitability position of the Bank.

Independent Variables

Cost
Efficiency
Customer Service Quality
Trust
Competitive Advantage

Dependent Variable

Organizational Performance

Both correlation and multiple regression analysis will be used to test the relationship between the independent variables and dependent variables.

Regression Model: the equation was expressed as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$$

Y = Organization Performance

α = Constant (Coefficient of intercept)

X1 = Cost Reduction

X2 = Efficiency

X3 = Service Quality

X4 = Trust

X5 = Competitive Advantage

e = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4$ and β_5 – regression coefficient for five variables

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

The study analyzed the impact of outsourcing security guarding services on organizational performance in Bank of Abyssinia. The explanatory variables presumed to affect organizational performance because of outsourcing include cost effectiveness, efficiency, service quality, job security, trust, accessibility, and competitive advantage whereas the survey result described from dependent variable point of view is explained by organizational performance. Data collected is mainly ordinal in nature which captured the perception of the respondents in a 5-point scale. Varied statistical methods were applied to provide answers to the research questions by investigating, interpreting and bringing forward implications drawn from the research findings.

4.1. Response Rate

This section deals with describing the survey findings in different perspective. Of the total respondents covered in the survey, the response from 23 of them is incomplete whereas the remaining 77 are accommodated in the analysis.

Table 4.1: Response Rate

Category	Frequency	Percent
Response	77	77
Non-response	23	23
Total	100	100

4.2. Respondents' Profile

Table 4.2: Respondents Profile

Gender	Frequency	Percent	Valid percent	Cumulative Percent
Male	44	57.1	57.1	57.1
Female	33	42.9	42.9	42.9
Total	77	100	100	100
Education				
Illiterate	1	1.3	1.3	1.3
Primary Education	4	5.2	5.2	6.5
Secondary Education	8	10.4	10.4	16.9
First Degree Graduate	52	67.5	67.5	84.4
Masters Degree	12	15.6	15.6	100
Total	77	100	100	100
Age				
Age	Frequency	Percent	Valid Percent	Cumulative Percent
20-30 years	54	70.1	70.1	70.1
31-40 years	13	16.9	16.9	87.0
41-50 years	6	7.8	7.8	94.8
51-60 years	4	5.2	5.2	100.0
Total	77	100	100	
Position				
Outsourced company Staffs	12	15.6	15.6	15.6
Bank Officers	60	77.9	77.9	93.5
Bank's Mgt Staff	5	6.5	6.5	100
Total	77	100.0	100	

Looking into the gender distribution, as presented on table above, 57.1% of the respondents are male while the remaining 42.9% are females. In terms of education 1 respondent is found out to be illiterate, 4(5.2%) have attained primary education, 8 in number accounting 10.4% have educated until secondary level while the large majority which are mostly of banking professionals accounting 67.5% and 15.6% are first and second degree graduates respectively.

When the age distribution is viewed, large share of the respondents accounting 70.1% falls in the age range of 20-30 years followed by respondents in the range of 31-40 containing 16.9% while the remaining accounting 7.8% and 5.2% falls in the higher age range of 41-50 and 51-60 years respectively. In job category 60 respondents accounting 77.9% are Bank officers, 12(15.6%) are staffs of the outsourcing company where majority of which are security officers and the remaining 5(6.5%) and Bank's management staffs. The respondents are largely drawn from branch offices where there is direct customer interaction.

The respondents profile constitute majority of BoA staffs (77.9%), BOA branch management (6.5%), and outsourced company staffs (15.6%). Except outsourced staffs which are largely of security guards, all the other respondents are holders of 1st degree and masters.

4.3. Analysis of Collected Data

4.3.1. Descriptive Analysis of the Study

i) Cost Effectiveness

The study sought to establish the impact of outsourcing on organizational performance through cost effectiveness. The study tried to assess the effect on overhead and fixed costs, cost incurred on unproductive assets, the redirection of internal resource due to cost saving, assess the knowledge of the outsourcing company in cost reduction and the results brought about in reduction of real cost per staff and cost of training because of outsourcing.

From the survey result, it is found out that the Bank is lasses fair to reduce the cost of security service because of outsourcing. Majority of the respondents (Mean 2.86) are neutral to the fact that the Bank could manage to reduce overhead and fixed costs because of outsourcing. 78% with Mean of 2.80 are neutral and didn't agree that unproductive assets are removed. 76% are still neutral and does not agree that investment in assets is reduced. Only few with percentage share of 6.5% and 5.2% express their agreement moderately and strongly respectively. Besides, the Bank's resource management in directing to other purposes due to cost saving as is undefined by most of the responding accounting 33.8% with mean value of 2.88 with inclination to their disagreement. Majority of the respondents are also indifference in their perception of the cost consciousness of the outsourcing company in reducing the real cost per staff and the cost of

training for security officers to a large extent as confirmed by majority of respondents (Mean = 3.05 and 2.92).

Table 4.3: Respondents Opinion on Cost Effectiveness

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree(5)	Average
1	Overhead and fixed Costs are reduced	7.8%(6)	27.3%(21)	51.9%(40)	13%(10)	0%(0)	2.70
2	Unproductive assets are removed	3.9%(3)	32.5%(25)	45.5%(35)	15.6%(12)	2.6%(2)	2.80
3	Investment in Assets is less	11.7%(9)	27.3%(21)	49.4%(38)	6.5%(5)	5.2%(4)	2.66
4	Internal resources are redirected due to cost saving.	6.5%(5)	31.2%(24)	33.8%(26)	24.7%(19)	3.9%(3)	2.88
5	Service Provider has knowledge of Cost Reduction	2.6%(2)	29.9%(23)	35.1%(27)	27.3%(21)	5.2%(4)	3.03
6	It has brought reduction in real cost per staff	3.9%(3)	24.7%(19)	42.9%(33)	19.5%(15)	9.1%(7)	3.05
7	It has brought decrease in cost of training	11.7%(9)	23.4%(18)	32.5%(25)	26.0%(20)	6.5%(5)	2.92

The numbers in the bracket are frequencies.

Aggregate Mean of Cost effectiveness = 2.86

In general the above finding leads to the conclusion that the Bank could get material impact in managing to reduce cost due to outsourcing with overall Mean value of 2.86 which doesn't concur with the research premise of Museu (2016), Kamanga and Ismail (2016), Nyokabi (2016), Jyoti (2015) and Boakye, Opoku, Fofie and Obeng (2016) which supports that cost reduction have been reported as the major drivers of outsourcing.

ii)Efficiency

When the skill level of outsourced staffs is assessed, most of the respondents agreed that they have limited skill level as rated in small and moderate extent. Besides the effort of the service provider to enhance their skill through training and orientation is also very small which could lead to the suggestion that the Bank shall incorporate in the agreement continuous skill

development as one of the responsibility of the outsourcing company. On the other hand, respondents assured that the Bank could be relieved from routine Human resource management and focus on strategic matters because of outsourcing to a moderate extent by large number of respondents.

Table 4.4: Respondents Opinion on Efficiency

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Average
1	Employees availed by service provider have the required skill	3.9%(3)	13%(10)	40.3%(31)	32.5%(25)	10.4%(8)	3.32
2	Service provider give the necessary training and orientation before employment	5.2%(4)	22.1%(17)	33.8%(26)	32.5%(25)	6.5%(5)	3.13
3	The Bank's HR has got the opportunity to focus on strategic issues rather than administering employees	2.6%(2)	24.7%(19)	37.7%(29)	32.5%(25)	2.6%(2)	3.08
4	It has reduced dispute with labour union and focus on critical jobs	9.1%(7)	32.5%(25)	28.6%(22)	24.7%(19)	5.2%(4)	2.84
5	The time elapsed in recruitment process shortened	1.3%(1)	23.4%(18)	49.4%(38)	22.1%(17)	3.9%(3)	3.04
6	The service provider avail the required no. and quality of staffs immediately as and when needed.	9.1%(7)	27.3%(21)	31.2%(24)	26.0%(20)	6.5%(5)	2.93

The numbers in the bracket are frequencies.

The aggregate Mean of efficiency = 3.06

The required level of efficiency in recruitment process and availing of the required number of security officers as and when required requires further enhancement/improvement from outsourced company side. When the outsourcing practice from efficiency point of view is assessed, it seems that a lot further need to be worked from the company side to enhance its capability of execution. In general, the effect of outsourcing from efficiency point of view is moderate with average Mean value of 3.06.

iii)Service Quality

More than 33% of the respondents are with the view that outsourced security officers have limited understanding of their role in terms of customer service expected from them. As a result there are a number of complaints from customers in service delivery quality of outsourced security officers as exhibited by 72% of the respondents. Besides, there is limitation in outsourced staffs' knowledge on the Bank's products and services as exemplified by majority of the respondents (65%). Their presentation is not attractive/appealing to customers. The outsourced company is not giving appropriate orientation and training to their employees before their assignment on the actual work as nearly 60% of the respondents confirmed which has limited their knowledge on the expectation of the Bank from them particularly in customer handling.

Table 4.5. Respondents Opinion on Service Quality

N o.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Average
1	The outsourced staffs have the understanding of their role in terms of customer service expected from them	5.2%(4)	18.2%(14)	33.8%(26)	26%(20)	16.9%(13)	3.31
2	There is no complain from customer on service delivery quality of outsourced security officers.	9.1%(7)	24.7%(19)	37.7%(29)	18.2%(14)	10.4%(8)	2.96
3	The outsourced staffs have the full knowledge of the Banks products and services	11.7%(9)	22.1%(17)	32.5%(25)	29.9%(23)	3.9%(3)	2.92
4	The outsourced staffs presentation is appealing to customers	5.2%(4)	27.3%(21)	44.2%(34)	20.8%(16)	2.6%(2)	2.88
5	Adequate orientation and training is given to outsourced staffs before they are assigned to their position.	3.9%(3)	24.7%(19)	37.7%(29)	27.3%(21)	6.5%(5)	3.08
6	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.	5.2%(4)	22.1%(17)	45.5%(35)	22.1%(17)	5.2%(4)	3.00

7	The educational level and skill of the outsourced staffs fits with the requirement of the Bank.	6.5%(5)	26%(20)	35.1%(27)	22.1%(17)	10.4%(8)	3.04
8	The outsourced staffs are satisfied with the remuneration package given by the company.	13%(10)	29.9%(23)	39%(30)	13%(10)	5.2%(4)	2.67
9	The outsourced staffs developed a sense of belongingness to the Bank	5.2%(4)	18.2%(14)	37.7%(29)	27.3%(21)	11.7%(9)	3.22
10	There is a practice of performance based compensation package based on their contribution towards service quality witness of the bank.	23.4%(18)	22.1%(17)	36.4%(28)	13%(10)	5.2%(4)	2.54

The numbers in the bracket are frequencies.

The aggregate mean of service quality = 2.96

In terms of logistics most of the respondents are with the view that the necessary material resource is fulfilled to a moderate and small extent accounting 72% of the respondents. The outsourced company has also the limitation of availing security officers that meets the educational and skill requirement of the Bank as testified by 68% of the respondents. The remuneration package attached to the outsourced staffs by the company is not satisfactory nor is their compensation package attached based on their performance on service quality witness of the Bank. This has limited their effort to bring about at most customer satisfaction and also erodes their sense of belongingness to the Bank. In general the effect of outsourcing in positively impacting the organizational performance by way of enhanced service quality is very minimal as exhibited by a small average Mean value of 2.96.

iv)Trust

The majority of the response on the customers trust on the Bank due to outsourced security officers is moderate with a Mean value of 3.09. There is incidence of fraud on outsourced security staffs themselves to a moderate extent. The limitation on material resource and logistics, the educational and skill level, remuneration package attached to employees and the resulting underdeveloped sense of belongingness to safeguard the property of the Bank has limited the level of trust that customers could have developed by use of outsourced security company

Table 4.6. Respondents Opinion on Trust

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Average
1	Customers trust on the Bank increased due to use of outsourced security officers.	6.5%(5)	26%(20)	32.5%(25)	22.1%(17)	13%(10)	3.09
2	There is no complain from customer on service delivery of outsourced security officers.	10.4%(8)	24.7%(19)	49.4%(38)	9.1%(7)	6.5%(5)	2.77
3	There is no incidence of fraud from outsourced staffs in the Bank.	22.1%(17)	22.1%(17)	32.5%(25)	15.6%(12)	7.8%(6)	2.65
4	The outsourced staffs' presentation builds trust from customers' perception side.	3.9%(3)	22.1%(17)	40.3%(31)	24.7%(19)	9.1%(7)	3.13
5	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.	3.9%(3)	18.2%(14)	55.8%(43)	20.8%(16)	1.3%(1)	2.97
6	The educational level and skill of the outsourced staffs fits with the requirement of the job position.	5.2%(4)	19.5%(15)	44.2%(34)	24.7%(19)	6.5%(5)	3.08
7	The outsourced staffs are satisfied with the remuneration package given by the company.	20.8%(16)	20.8%(16)	35.1%(27)	19.5%(15)	3.9%(3)	2.65
8	The outsourced staffs developed a sense of belongingness in safeguarding the property of the Bank.	7.8%(6)	13%(10)	33.8%(26)	35.1%(27)	10.4%(8)	3.27

The numbers in the bracket are frequencies.

The aggregate mean value for trust = 2.95

Thus, the overall rating of customers trust in impacting the organizations move because of outsourcing practice is moderate as explained by average Mean value of 2.95.

v)Competitive Advantage

The premise that Bank of Abyssinia has got unique competitive advantage by outsourcing security service from other operators in the industry didn't get support by majority of the respondents. This has been evidenced by the responses that there is no or small extent outsourcing practice that makes BOA unique, that the capability of the outsourcing company is not as such outlie from similar operators hence no unique advantage for BOA by virtue of creating business partnership with the security company and finally respondents informed that there is no difference in outsourcing model in all operators in the industry rather there has been incidence where two or more Banks outsource the service to one security company.

Table 4.7. Respondents Opinion on Competitive Advantage

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Average
1	Bank of Abyssinia has got competitive advantage by outsourcing security service.	6.5% (5)	22.1% (17)	41.6%(32)	18.2%(14)	11.7%(9)	3.06
2	The Outsourcing practice in the Bank is unique from similar operators in the Bank in creating strong relationship with the security company and in creating a sense of belongingness to the staffs of the company working in the Bank.	10.4%(8)	26%(20)	42.9%(33)	10.4%(8)	10.4%(8)	2.84
3	The outsourced company have the necessary logistics and branch outlet that gives it competitive advantage	9.1%(7)	18.2%(14)	40.3%(31)	26%(20)	6.5%(5)	3.03
4	There is no difference in outsourcing model in all operators in the industry hence no unique competitive advantage.	14.3%(11)	28.6%(22)	29.9%(23)	20.8%(16)	6.5%(5)	2.77

The numbers in the bracket are frequencies.

The aggregate mean value of competitive advantage = 2.93

vi)Organizational Performance

From the survey data, there is few denied the Bank growth in every respect mentioned on the questionnaire. Majority of the respondents agreed that the Bank’s revenue, market share, profit, return on investment and growth sustainability has increased markedly with moderate and great extent as exhibited with Mean value of 3.39, 3.52, 3.52, 3.43 and 3.51. These leads to a conclusion that majority agreed on the Bank’s positive progress in its performance in all measuring parameters mentioned with overall mean value of 3.47.

Table4.8.Respondents Opinion on Performance

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	Average
1	BOA has high Revenue Growth	7.8%(6)	10.4%(8)	31.2%(24)	36.4%(28)	14.3%(11)	3.39
2	Market Share of the Bank has increased	7.8%(6)	9.1%(7)	24.7%(19)	40.3%(31)	18.2%(14)	3.52
3	The Profit Position of the Bank has increased.	6.5%(5)	11.7% (9)	22.1% (17)	42.9%(33)	16.9%(13)	3.52
4	There is Satisfactory Return on Investment	6.5%(5)	10.4%(8)	29.9%(23)	40.3%(31)	13%(10)	3.43
5	The Bank’s growth is more sustainable	6.5%(5)	10.4%(8)	26%(20)	40.3%(31)	16.9%(13)	3.51

The numbers in the bracket are frequencies.

The aggregate mean value of organizational performance = 3.47

4.3.2. Correlation Analysis

Correlation analysis studies the joint variation of two or more variables. The criteria for analyzing the level of correlation is determined by the amount of correlation between two or more variables (Kothari, 2004). The term correlation refer to the strength of the relationship between two or more variables with coefficient ranging from -1.00 to +1.00 where -1.00 is a perfect negative correlation whereas +1.00 is a perfect positive correlation and 0.00 means there is no relationship between the variables being tested. Table 12 below illustrates the correlation

matrix among the study variables. It was used to explore the extent of the relationship among the group of the study variables. Since the independent variables were measuring the same dependent variable, it was expected that there existed some association between the predictor variables even if the relationship is not significant.

From the table below, it is shown that there is a significant weak positive relationship between cost and all other variables where the Pearson correlation coefficient in all cases are less than 0.80. Similarly the variable efficiency have no strong relationship with any other of the variables employed in the analysis. All the remaining variables as well does not have strong association among themselves as exhibited by less than 0.80 Pearson correlation coefficient. Although the correlation between variables is not significant, some of the coefficient are higher in value indicating that there is some association between themselves.

Table 4.9. Correlation between the Variables
Correlations

		Cost	Efficiency	Service Quality	Trust	Competitive Advantage	Organizational Performance
Cost	Pearson Correlation	1	.582**	.482**	.454**	.374**	.507**
	Sig. (2-tailed)		.000	.000	.000	.001	.000
	N	77	77	77	77	77	77
Efficiency	Pearson Correlation	.582**	1	.568**	.492**	.439**	.693**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	77	77	77	77	77	77
Service Quality	Pearson Correlation	.482**	.568**	1	.812**	.647**	.535**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	77	77	77	77	77	77
Trust	Pearson Correlation	.454**	.492**	.812**	1	.741**	.580**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	77	77	77	77	77	77
Competitive Advantage	Pearson Correlation	.374**	.439**	.647**	.741**	1	.619**
	Sig. (2-tailed)	.001	.000	.000	.000		.000
	N	77	77	77	77	77	77
Organizational Performance	Pearson Correlation	.507**	.693**	.535**	.580**	.619**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	77	77	77	77	77	77

** . Correlation is significant at the 0.01 level (2-tailed).

4.3.3. Regression Analysis

i) Reliability and Validity Test

It refers to the extent to which a research instrument brings out consistent results or data after repeated trials. The most common reliability measure is Cronbach's Alpha which gives an estimation of internal consistency by determining how well all items on a test relate to all other items and to the total test. Reliability is given as a coefficient between 0 and 1. The higher the coefficient, the more reliable is the test..

Cronbach's Alpha for each value was established by the SPSS application and gauged against each other at a cut off value of 0.7 which is acceptable according to Cooper and Schindler (2008). Cronbach's Alpha value of 0.889 as shown in table 3 below meaning the items under each variable were consistent.

Table 4.10. Reliability Analysis

Variable	Cronbach's Alpha	No of Items
Cost Effectiveness	0.861	7
Efficiency	0.740	6
Service Quality	0.837	10
Trust	0.712	6
Competitive Advantage	0.808	4
Organizational Performance	0.944	5
Average Cronbach's Alpha	0.881	38

ii) Model Summary

Regression is the determination of a statistical relationship between two or more variables (Kothari, 2004). This study utilized multiple linear regression analysis to examine the relationship of more than one explanatory variables on dependent variable. Adjusted R² which is known as the coefficient of determination was used to explain how organization performance varied with cost, efficiency, service quality, trust, and competitive advantage. The model

summary table shows that 58.7% of the change in the dependent variable is explained by these five explanatory variables implying that the remaining 41.3% could be accounted by other factors not considered in this study.

Table 4.11. Model Summary^b

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.784 ^a	.614	.587	.63834

a. Predictors: (Constant), Competitive Advantage, Cost, Efficiency, Service Quality, Trust

b. Dependent Variable: Organizational Performance

iii) Analysis of Variance (ANOVA)

Analysis of variance (ANOVA) was done to establish the fitness of the model used. The ANOVA table shows that F-ratio (F=22.628, P=0.000) was statistically significant. This means that the model used was appropriate and the relationship of the variables shown could not have occurred by chance.

Table 4.12. ANOVA^a

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.102	5	9.220	22.628	.000 ^b
	Residual	28.931	71	.407		
	Total	75.033	76			

a. **Dependent Variable:** Organization Performance

b. **Independent or explanatory variables:** Constant, cost, efficiency, service quality, job security, trust, accessibility and competitive advantage

iv) Regression Result

Table 4.13. Regression Coefficients

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.388	.400		-.972	.334
	Cost	.123	.132	.087	.928	.357
	Efficiency	.759	.154	.491	4.938	.000
	Service Quality	-.194	.202	-.130	-.963	.339
	Trust	.204	.198	.149	1.029	.307
	Competitive Advantage	.397	.128	.344	3.100	.003

a. Dependent Variable: Organizational Performance

The above table gives the results for the regression coefficient for the multiple linear equation.

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + e$$

$$Y = -0.388 + 0.123X_1 + 0.759X_2 - 0.194X_3 + 0.204X_4 + 0.397X_5$$

Y = Organization Performance

α = Constant (Coefficient of intercept)

X1 = Cost Reduction

X2 = Efficiency

X3 = Service Quality

X4 = Trust

X5 = Competitive Advantage

e = Error Term

$\beta_1, \beta_2, \beta_3, \beta_4,$ and β_5 – regression coefficient for seven variables

According to the regression equation established, holding all independent factors a constant, the performance of the organization will be -0.388units. From the regression result holding all other independent variables a constant, a unit improvement in cost will lead to a 0.123improvement in organizational performance but is statistically insignificant indicating that cost reduction because of outsourcing has an insignificant and positive impact on performance of the Bank. A unit positive change in efficiency as a result of the Banks move in outsourcing its security services leads to a 0.759increase in the organizational performance implying that efficiency has a positive and significant (at 1% level of significance) contribution in impacting the performance of the organization. A unit improvement in service quality has also an insignificant effect on performance. The sign of the relationship is negative implying that there is no understanding of the outsourced staff on the bank's expectation from them interms of customer service quality. It also indicates that there is complain from customers on outsourcing staff customer handling, that their appearance is not appealing to customers, appropriate orientation is not given to them by the outsourced company, that they are not equipped with the necessary material and logistics, their salary and benefit package is not satisfactory and there is no practice of performance based reward system that promotes service quality by the outsourced company.

The regression result also came up with the finding that there is positive association between trust and organization performance. However, the strength of the relationship is insignificant implying that there is a tendency of deterioration of trust from customers and employees side due to hiring of outsourced staffs but it is not significant enough to materially affect the performance of the Bank.

The regression result further pointed out that there is significant and positive relationship between enhancing competitive advantage because of outsourcing and organization performance. This shows that Bank of Abyssiniacan tap unique advantage in adopting outsourcing security servicesfrom the industry as there is uniquely identified remuneration package to workers of outsourcing company as compared with others working in partnership with other Banks in the industry.

From the result, it can be inferred that the explanatory variables efficiency and competitive advantage have a significant influence on organization performance with p-values of 0.000 and

0.003 respectively at 5% level of significance and 95% level of confidence. The other variables cost, service quality and trust however have p-values of 0.357, 0.339 and 0.307 implying that although they have an influence on organizational performance, their effect is insignificant. When comparative analysis is made among the independent variables, the result found out that the outsourcing practice contribute most to enhancing the organizational performance through its effect on efficiency followed by competitive advantage as implicated by their larger coefficients.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Major Findings

As part of modern management practice, outsourcing of the subsidiary duties of organizations becomes accustomed practice worldwide with an intention to take advantage of specialization and gear organization's focus on basic strategic core business matters. Despite wide ranging application in different sectors, outsourcing practice in Ethiopia has short span of time pronounced more on non-clerical tasks of the organizations mainly security guarding services and cleaning services. Banks comes to the forefront in fully practicing it in these non-core functions.

Bank of Abyssinia (BOA) started outsourcing of its security services date back to some 8 years before commencing with few branches and gradually expanding to all. This section of the human resource in the Bank constitute more than 35% of the labour force in each branch and more than 30% Bankwide. However, there is no study conducted in the industry nor in BOA as well on how effective is the outsourcing practice in every perspective and what its impact in driving the organizational performance is.

This study, therefore, aims to fill the research gap by analyzing the impact of outsourcing on organizational performance of the Bank. The study identified five variables possibly impacting organizational performance because of outsourcing. These variables include: Cost, efficiency, service quality, trust and competitive advantage. Both descriptive and regression analysis is conducted to identify the extent of the relationship between these variables as predictors on one side and organizational performance as dependent variable on the other side.

The study finally came to the finding that the variables: efficiency and competitive advantage have positive and significant impact on organizational performance while the other variables: cost, service quality and trust have insignificant effect on the performance of the Bank.

5.2. Conclusions

As per the regression equation established, holding all independent variables constant, then organization performance will be -0.388 units. Similar keeping all other independent variables constants, a unit increase in cost will lead to a 0.123 improvement in organization performance; a unit positive change in efficiency will lead to a 0.759 increase/decrease in organization performance; a unit increase/decrease in service quality will lead to a 0.194 decrease/increase in organization performance, a unit positive change in trust will lead to a 0.204 positive change in organization performance and lastly a unit positive/negative change in competitiveness of the bank due to outsourcing of security service will lead to an increase or decrease in performance of the Bank by 0.397 unit.

However, at 5% level of significance and 95% level of confidence, only independent variables: efficiency, and competitive advantage have a significance influence on the organizational performance with p-values of 0.000 and 0.002 respectively. On the other side the p-values associated with the coefficient of the variables cost, service quality and trust are 0.357, 0.339 and 0.307 respectively implying that these variables although have an influence, its effect is insignificant to materially affect the performance of the organization. Thus, the impact of the variables other than efficiency and competitive advantage is inconclusive to affect organizational performance of the Bank. This clearly indicates, the impact of outsourcing on the Bank's business performance so far is not bold enough rather other factors other than outsourcing have material impact on performance of the Bank.

5.3. Recommendation

Based on the objectives of the study and its aforementioned conclusions, the study came up with the following recommendations:

- 1) Apart from survey result obtained, cost implication of outsourcing in materially impacting the performance of the Bank need to be assessed looking into the financial record of the bank before and after outsourcing.
- 2) The Bank need to enhance the impact of outsourcing through bringing about efficiency further building up the capability of the outsourced employees through various training

and orientation sessions and enhancing the execution capability of outsourcing companies so that the bank's focus will gear more on strategic and its business matters rather than daily routine human resource activities.

- 3) The outsourced company and its staffs should be aware of the Bank's expectation in terms of enhancing its service quality (presentation, material and logistic requirements, education and skill level requirements, their knowledge on the Bank's products and services, etc.) during contract negotiation. Besides, the outsourced company shall practice performance based staff evaluation and associated remuneration package.
- 4) The outsourcing company shall revisit its employment model in a way that there will be permanent employment practice, there could be sufficient compensation package while employees left the company and the staffs develop a sense of belongingness to the Bank while they are on duty.
- 5) The outsourced company shall work on building its reputation and image on the eyes of the Bank and its staffs and its stakeholders around it so that they could develop trust and credibility in attracting customers for the Bank, boosting its public image and thereby enhancing its performance.
- 6) The outsourced company shall continuously develop its execution capability, and expand its presence in different corners of the country so that it could swiftly respond to the Bank's human resource requirement in its endeavor to aggressively enhance its outreach (Branch Network).
- 7) From discussion with Human Resource staffs, it can be understood that the Bank increase the service fee to the outsourced company which is tied to the salary increment of outsourced staffs. This is not common practice in the industry which gives BOA competitive advantage to tap the full potential of outsourced staffs. This kind of initiative shall be promoted further in the future so as to increase a sense of belongingness of the outsourced staffs to the bank.
- 8) The survey result shows that the Bank's performance has been on high side in all measuring parameters mentioned. However, its association with variables representing outsourcing is not significant enough indicating that there are other factors where their impact outweighs. Thus, the Bank should evaluate the outsourcing companies from these

different perspectives (their technical and managerial capability, cost effectiveness, efficiency, service quality, trust and competitive advantage to the Bank) during recruitment so that they could positively and significantly impact the performance of the bank by virtue of creating partnership among themselves.

5.4. Suggestion for Further Research

Based on the study findings, it is recommended that further research is needed to evaluate and analyze the impact of outsourcing practice of other streams of organization such as IT, human resource, logistics, etc. on performance of an organization. This study could also be extended further to accommodate other Banks in the industry and come up with comparative results. Further research could also be carried out on procedures which could be used to measure outsourcing performance with more emphasis on Key Performance Indicators (KPIs). More research is also needed to be done on areas of evaluation of the risks associated with outsourcing arrangements incorporating assessment of the contracts.

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APPENDIX 1

Questionnaire Designed for Conducting Survey

Respondents Background

a) Gender Male Female

b) Educational Level

Illiterate

Primary Education

Secondary education

Diploma Graduate

Degree Graduate

Masters

PHD

c) Age

20 – 30 years

30 – 40 years

40 – 50 years

50 - 60 years

>60 years

d) Position in the Bank _____

1. Cost Effectiveness

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	There is reduction in Overhead and fixed Cost because of outsourcing					
2	Unproductive assets are avoided because of outsourcing.					
3	Investment in Assets decreased due to outsourcing					
4	The Bank could redirect of Internal resources as a result of outsourcing.					
5	Service Provider has knowledge of Cost Reduction					
6	Outsourcing brought reduction in real cost per staff					
7	Outsourcing brought reduction in Cost of Training					

2. Efficiency

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	Employees availed by service provider have the required skill					
2	Service provider give the necessary training and orientation before employment					

3	The Bank's HR has got the opportunity to focus on strategic issues rather than administering employees					
4	Reduce dispute with labour union and focus on critical jobs					
5	The time elapsed in recruitment process shortened					
6	The service provider avail the required no. and quality of staffs immediately as and when needed.					

3. Service Quality

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	The outsourced staffs have the understanding of their role in terms of customer service expected from them					
2	There is no complain from customer on service delivery quality of outsourced security officers.					
3	The outsourced staffs have the full knowledge of the Banks products and services					
4	The outsourced staffs presentation					

	is appealing to customers					
5	Adequate orientation and training is given to outsourced staffs before they are assigned to their position.					
6	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.					
7	The educational level and skill of the outsourced staffs fits with the requirement of the Bank.					
8	The outsourced staffs are satisfied with the remuneration package given by the company.					
9	The outsourced staffs developed a sense of belongingness to the Bank					
10	There is a practice of performance based compensation package based on their contribution towards service quality witness of the bank.					

4. Trust

No.	Indicators	Strongly Disagree(1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	Customers trust on the Bank increased due to use of outsourced security officers.					
2	There is no complain from customer on service delivery of outsourced security officers.					
3	There is no incidence of fraud from outsourced staffs in the Bank.					
4	The outsourced staffs' presentation builds trust from customers' perception side.					
6	The outsourced staffs are equipped with the necessary material resource and logistics for their operation.					
7	The educational level and skill of the outsourced staffs fits with the requirement of the job position.					
8	The outsourced staffs are satisfied with the remuneration package given by the company.					
9	The outsourced staffs developed a sense of belongingness in safeguarding the property of the Bank.					

5. Competitive advantage

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	Bank of Abyssinia has got competitive advantage by outsourcing security service.					
2	The Outsourcing practice in the Bank is unique from similar operators in the Bank in creating strong relationship with the security company and in creating a sense of belongingness to the staffs of the company working ion the Bank.					
3	The outsourced company have the necessary logistics and branch outlet that gives it competitive advantage					
4	There is no difference in outsourcing model in all operators in the industry hence no unique competitive advantage.					

6. Organizational Performance

No.	Indicators	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1	The Bank's revenue has registered High Growth					
2	The Bank's market share has increased.					
3	The Bank's Profit Position has increased					
4	The Bank has got Satisfactory Return on Investment					
5	The Bank has registered sustainable growth					

APPENDIX 2

Reliability

Reliability Statistics of Cost Effective

Cronbach's Alpha	N of Items
.861	7

Reliability Statistics of Efficiency

Cronbach's Alpha	N of Items
.740	6

Reliability Statistics of service quality

Cronbach's Alpha	N of Items
.837	10

Reliability Statistics of trust

Cronbach's Alpha	N of Items
.851	8

Reliability Statistics of competitive advantage

Cronbach's Alpha	N of Items
.808	4

Reliability Statistics of organization performance

Cronbach's Alpha	N of Items
.944	5

Multicollinearity and normality

Coefficients^a

Model	95.0% Confidence Interval for B		Collinearity Statistics	
	Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	-1.123	.548		
Cost	-.108	.449	.562	1.780
Efficiency	.498	1.149	.491	2.038
Service Quality	-.559	.265	.287	3.482
Trust	-.148	.666	.246	4.070
Competitive Advantage	.167	.714	.386	2.589

a. Dependent Variable: Organizational Performance

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Organizational Performance

