

**ASSESSMENT OF BUSINESS OUTSOURCING  
CHALLENGES AND PROSPECTS:  
THE CASE OF AFRICA JUICE TIBILA S.C.,  
ETHIOPIA**



A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF  
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION

BY  
HIWOT MEHERETEAB GEBRU  
SGS/0127/2005

DECEMBER 2016  
ADDIS ABABA, ETHIOPIA

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## **DECLARATION**

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

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**Name**

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**Signature**

**St. Mary University University, Addis Ababa December, 2016**

## **ENDORSEMENT**

This thesis has been submitted to St. Mary University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor

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Signature

**St. Mary's University, Addis Ababa December, 2016**



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## Acronyms

ATA	-	Agricultural Transformation Agency
AJ S.C.	-	Africa Juice Tibila S.C.
CF	-	Contract Farming
Out grower	-	Outsourcee/Farmers

## Abstract

*Business outsourcing although not a new concept in Ethiopia, it still is at the very early stage of operating in the country. Offshore outsourcing particularly is a new and aggressively implementing kind of outsourcing in Africa, where Ethiopia is catching up, unlike countries like India, China, Morocco, South Africa, and Kenya, along with the rest of the world. The purpose of this study is to determine the challenges and the prospects of outsourcing business in Ethiopia by case studying AJ S.C. Ethiopia. The study has a descriptive design, Qualitative and Quantitative research method and Inductive research approach is used. The data analysis is conducted from the responses of 42 out growers, 280 staff and 10 householders. The technique used to select these samples are convenient sampling for the out growers, non-management staff, and the society; whereas, the management staff is purposefully selected. The finding of this study summarize the major challenges as: the country's lack of recorded data on the business sector (being a very new entrant to the sector), Contract farming, a tool that prevents the foreign company from land grabbing and that enables the local community to be benefited as much as possible, is still under studying stage, the out-growers being new to the passion fruit production, the training, advise, and support they require from the AJ S.C. is not to the best of their expectation, the sharing of the scarcest natural resource- Water is also another problem. On the other hand the prospect of business outsourcing particularly the off shore outsourcing is: it helps the society grow and prosper; it exposes the local farmers to the international markets. The study concluded that in order to be benefited from this new and popular business sector, Ethiopia needs to double and effectively increase the effort to attract foreign business outsourcing to the country by producing effective policy, collecting back log of data for reference, having functional contract farming agreement that can benefit both the company and out growers, polishing its political appearance in the eye of the world.*

**Key words: Outsourcing, Offshore Outsourcing, Contract Farming**

# CHAPTER ONE

## INTRODUCTION

### 1.1. Background of the Study

Outsourcing is a strategy that can benefit a company by making arrangements of one company to provide products/services for another company. Outsourcing occurs when a company retains another business to perform some of its work activities. These companies are usually located in the same country as the company, or at the nearest country to the where the company located, or at foreign countries with lower labor and resource costs, less strict regulatory environment or with services that are specialized than the outsourcer.

Gartner (2008) noted that outsourcing has become a multi-billion dollar industry in which more and more countries are participating. Globalization is playing a major and ultimate roll in driving continents to integrate globally and this movement is not in any way easing, but rather it is deepening their relationship. Every continent is recognized in some category for outsourcing and it is apparent that this is a sustainable, proven part of many companies' strategic goals.

Aran and Patel (2005) noted that outsourcing is driven by a number of factors such as costs, focusing on core areas, improve service level and process innovation, of all these cost consideration and the need to focus on core activities seems to be the prominent drivers. According to Brown and Wilson (2005), outsourcing can work for any size of company in any industry; there is no correlation between the success of the program and the size or type of firm. Rather the success of an outsourcing program depends on planning, execution, selection of the right patterns and flexible service level agreement with the outsourcing provider.

Outsourcing does not come without risks. One of the main risks that are incurred when practicing outsourcing is that, clients leave their supply of the product or service in the hands of someone whom they cannot control, contrary to controlling their own supply. Maynard (2002)

Even though some studies argued that outsourcing in Ethiopia was almost none, and/or limited only to a company's non-core activities such as Recruitment service, Security service and Janitorial service; now a days, observed through different media outlets, the country is working towards attracting big international/foreign companies to implement offshore business in the country.

On its March 9, 2015 issue, Capital newspaper printed that the Government is considering outsourcing the Ethiopian Shipping and Logistics Services Enterprise (ESLSE) shipping lines' management for private companies like it does in the Electric power and Telecom sector.

## 1.2. Background of AJ S.C.

AJ S.C. established in Netherlands in 2007 with the objective of developing juice production companies in Africa that excel in social and Environmental value creation as well as delivering returns to investors. Its first project the AJ S.C. plantation in Ethiopia is located about 150km to the south-east of the capital Addis Ababa with the government holding 14% of the share. The share company started its operations in 2009 and the first phase saw an investment of USD10million to rehabilitate the farm, establish the first passion fruit plantations and construct the processing facility. The company is the First and only one to plant and harvest Passion Fruit in Ethiopia. The company's 2011 project report also explains that AJ S.C, is a joint venture agro-industry established between Ethiopian Privatization and Public Enterprise Supervising Agency (PPESA) and a Holland Company named Africa Juice BV. The company is transforming an ex-state owned farm in upper Awash valley into a modern tropical fruit plantation and constructed an EU-standard facility to process fruit, mostly yellow passion fruit and mango into juices and concentrates for export to EU market.

In order to realize the objectives it set, AJ S.C. has been able to mobilize small holder peasants as out-growers so that they produce and supply yellow passion fruits to the processing plant run by the company. The project was designed with the mutual interest of the company and the surrounding small holding farmers. A Contract Farming is signed between the out growers and AJ S.C. specifying the obligations of farmers and the company as partners in business. The obligations of the outgrowers are to supply the volumes and qualities as specified. The company's



obligation is to off-take the goods and realizes payments as agreed. Furthermore, AJ S.C. has to provide embedded services delivery of inputs, pre-financing of input on credit, provide trainings, and support on transport and logistics.

Wikipedia explained the origin of Passion fruit, also known as *Passiflora edulis*, as a vine species of passion flower that is native to Brazil, Paraguay and northern Argentina. The passion fruit is a type of berry, round to oval shaped, either yellow or dark purple at maturity, with a soft to firm, juicy interior filled with numerous seeds. The fruit is both eaten and juiced; passion fruit juice is often added to other fruit juices to enhance aroma.

AJ S.C. has an office in Addis Ababa city, Ethio-China road to facilitate its shipping processes. Its regional Head Office is seated at Doni Town about 49 km from Adama Town. The company has a total of 2,361 staff. The share company owns about 1600 hectare land in which it grows Passion Fruit mainly and other fruits and vegetables such as Tomato, Green Beans, Papaya, and Mandarin. The harvested passion fruit collected both from the out growers and from own farm will be processed into juice at the site and packed, sealed and shipped to Netherland where the juice will be further processed with Mango and put out for Market. The fruits and vegetables will be sold out to a contracted company in Ethiopia with a profit arrangement of 70/30% (the higher profit goes to AJ S.C. and the lowest goes to the contracted organization).

The company's key element is the development of local smallholder farmers (out-growers) to grow the fruit to supply the company for processing and export. Currently the company outsourced its passion fruit production to 16 farmers so far and there are about 100-200 farmers who are waiting in the pipeline to be included in this project.

The process of working with farmers starts when a farmer approaches the company. After signing and CF agreement, the company then prepares the land by installing water irrigation system, providing farmers input supplies: Pole wire, gripples, Chemical and Fertilizer, provide expert advices though out the harvesting time. The farmers are required to give back the installation cost of the vine through three years' time. The fruit, once planted will take about 10 months to a year to flower during which time the farmers are allowed intercropping. Once it started flowering it will yield fruit for a consecutive of 3 years. After 3 years the plant has to be changed by a

new breed. To keep the plant yielding the fruit, pollination has be done manually by the farmers daily on hourly bases, requiring a hard work from their part. Twice a week AJ S.C. will collect/purchase the fruits from the farmers with a price of 5.00Br. Per 1kg.

The focus of the study; thus, geared towards empirically assessing the challenge and prospect of Business outsourcing in Ethiopia taking AJ S.C. as a case study. The study found out the problems and the pull points for foreign companies to implement Business Outsourcing in Ethiopia. The study presents the major concerns of offshore outsourcing from the aspects of: the company, the farmers and the society in this particular case. As the off shore outsource interests are growing, the study assesses what needs to be done to captivate more interests and strength the connection that already has implemented. However, as noted by Meresa (2007) little or no formal research work has been done in understanding outsourcing in Ethiopia.

Previous studies made to show the trend of outsourcing in Ethiopia have reached common conclusions that Ethiopia is only at a baby stage of enjoying the benefits of outsourcing whereas the rest of the world is already relishing outsourcing.

Determination to fill out the contextual gap that exists between the past and the current studies done on outsourcing in Ethiopia motivates the researcher to investigate the issue more.

Following a descriptive research approach, the study addressed the conceptual and contextual gap between previous studies done on Outsourcing in Ethiopia and the current outlook of Ethiopia in the Global Business Outsourcing implementation.

### **1.3. Statement of the Problem**

The legendary management consultant, Peter Drucker derived the internationally recognized business tagline slogan “Do what you do best and outsource the rest” affirming the beneficially of Business outsourcing.

Few studies have been done about outsourcing in Ethiopia mostly on onshore outsource. A study on offshore outsourcing is still at introductory stage requiring further exploring and understanding. The study works to fill this conceptual gap.

Ethiopia recently has become a focal point for offshore business outsourcing especially in the Agro business. However, the policy is still being refined; contractual agreements are still under study by The ATA. There are systematic bottlenecks, a gap between the high demand and what is to be offered.

The foreign company, its staff and the society in which the company operates must work in sync for the business sustainability and mutual benefit. Thus, a study should be done to assess what works for their synchronization.

These factors have initiated the researcher to do more study and find out why Ethiopia is not going as fast as the rest of the world to adopt outsourcing.

#### **1.4. Research Questions**

Attempting to investigate the challenges and prospects of Business Outsourcing, the following questions are raised:

- ✚ What benefits the organization, outsourcees and the society get from Business outsourcing?
- ✚ What are the attractions that drive a foreign company to do offshore outsourcing in Ethiopia?
- ✚ What are the challenges the company could face while outsourcing a business in Ethiopia?
- ✚ What are the prospects of business outsourcing in Ethiopia

#### **1.5. Objective of the Study**

##### **1.5.1. General Objective**

The General objective of the study is to assess the Business outsourcing challenges and prospects in Ethiopia

##### **1.5.2. Specific Objectives**

The specific aims of the study are:

- ✓ To assess the benefits the society, A.J S.C. and out growers get as the result of AJ S.C. business implementation
- ✓ To investigate what attracts A.J.S.C. to implement its offshore business activity in Ethiopia.

- ✓ To analyze the challenges/risks the company faces while implementing business outsourcing
- ✓ To assess the prospects of business outsourcing in Ethiopia.

### **1.6. Significance of the Study**

Business outsourcing is extremely related to globalization. Globalization is growing in fast speed throughout the world forcing continents and countries to take part in the growth or be forgotten and worthless.

However, Ethiopia shows slow development in attracting investors mostly for offshore outsourcing business. The development has a long way to be strengthened to include more and more kind of outsourcing types.

The study can be considerably used as an input or a stepping stone for further in-depth studies on off shore outsourcing in Ethiopia.

AJ S.C. can also be benefited from this study for its future research. The company can also draw action points based on this study for its future sustainability and success.

This research is significant towards identifying the contextual gap, the risks and the potential benefit of Business outsourcing in Ethiopia, particularly in offshore outsourcing.

The study is also significant for the researcher in providing an educational cross reference between the theory learnt and the actual practice.

### **1.7. Scope of the Study**

The scope of the study has a limitation on both geographical and thematic aspects. Outsourcing is the impact of Globalization. Studying it should include different continents, but the study is limited to Ethiopia only. From different regions in Ethiopia, it focuses in Oromia region. There are 17 models of outsourcing. The theme of this study focuses only on the offshore outsourcing model.

Of all the different foreign companies doing different kinds of offshore outsourcing business in Ethiopia, the study focuses on one foreign company doing an offshore

outsourcing business in Ethiopia, and the relationship it has with its out growers and with the society it operates in.

### **1.8. Limitation of the Study**

The study also has a methodology limitation as only questionnaires and interviews are used to collect the primary data. The sample size is also very limited. Undertaking a research that can bring out a true change requires adequate time, finance, involvement of all institutions in the country and extracting a genuine information from all the stake owners.

### **1.9. Definition of Key Terms**

#### **The Operation Definition of key terms are listed below**

**Outsourcing:** is contracting out. It is a business practice used by companies to reduce costs or improve efficiency by shifting tasks, operations, jobs or processes to an external contracted third party for a significant period of time.

**Offshore Outsourcing:** Work done for a company by people in another country that it typically done at a much cheaper cost

**Contract Farming:** involves agricultural production being carried out on the basis of an agreement between the buyer and farm producers. Sometimes it involves the buyer specifying the quality required and the price, with the farmer agreeing to deliver at a future date.

### **1.10. Organization of the study**

The study is organized in five chapters.

- **The First chapter:** consist of the Background of the study, Statement of the problems associated with Research Question, Objective and Significance, Scope and Limitation of the study, and Organization of the study.
- **The Second chapter:** consist of Literature Review, Conceptual and Empirical Reviews
- **The Third chapter:** include the Research Design, and Methodology
- **The Fourth chapter:** covers the Data Analysis and Interpretation
- **The Fifth chapter:** consist of Conclusions and Recommendations

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1. Conceptual Review**

Merriam-Webster dictionary defines outsourcing simply as:

1. “to send away (some of a company’s work) to be done by people outside the company”
2. “to procure (as some goods or services needed by a business or organization) under contract with an outside suppliers <decided to outsource some back-office operations”

Wikipedia dates the origin of outsourcing back to 1981. It says the concept of outsourcing came from American glossary “outside resourcing”. In early 21<sup>st</sup> century, the businesses increasingly outsourced to suppliers outside their own country, sometimes referred to as off shoring or offshore outsourcing. Several related terms have emerged to refer to various aspects of the complete relationship between economic organizations or networks, such as near shoring, crowd sourcing, multisourcing and strategic outsourcing.

##### **2.1.1. Understanding Business Outsourcing**

During the early years of America, the manufacturing of clippers ships sails was sent to Scotland, and the raw material came from India. India was also an outsourcing destination for British textile industry during the 1800s, but eventually the British become more efficient and outsourced job came back to Britain.

In more recent times, during 1970s computer companies used to outsource their payroll processing. The job was sent to company in another state or city, not overseas. Unlike today offshore outsourcing was not common in those days. Late 1980s saw emergence of offshore outsourcing when companies started sending off their manufacturing jobs overseas. This trend got a boost from the increasing technical advancement and the 1986-94 Uruguay Round of talks which lead to the creation of WTO. Kodak and American standard were among the first companies to outsource. Kelly, Terry (2005).

There are a wide variety of “shoring” and sourcing models, each representing some combination of strategies related to costs, resources and location that could be manipulated to provide a particular strategic advantage. Carmel & Tjia 2005; Oshri et al. (2007)

Table 1: “Shoring” and Sourcing Models Developed over time.

<b>Term</b>	<b>Location</b>
<b>Offshore</b>	In a different country
<b>On shore</b>	In the same country
<b>Nearshore</b>	In country near by
<b>No shore</b>	In no country
<b>Fare shore</b>	In remote country
<b>Best Shore (EDS)</b>	Blend of different countries
<b>Any shore (Bearing Point)</b>	In any of a number of countries
<b>Right shore (Capgemini)</b>	In any countries where the right combination of resources could be found
<b>Dual Shore (NIIT)</b>	In two countries
<b>Off sourcing(HCL)</b>	Off shore outsourcing
<b>Multi shore</b>	In more than 1 country
<b>Seacode</b>	In the sea (in a cruise liner, e.g.)
<b>Net sourcing</b>	Over the internet
<b>Cloud sourcing</b>	Outsourcing enabled by cloud services
<b>Crowd sourcing</b>	Outsourcing to a large online community
<b>Rural Sourcing</b>	Domestic sourcing from a rural, underprivileged areas
<b>Impact Sourcing</b>	Sustainable outsourcing

Source: Carmel and Tjia(2005); Oshri et al. (2007)

Dunning and Click (2005) divided business process outsourcing into three types: Offshore, Near shore, and Onshore which differ both in location and the function served. For the sake of specificity, this study focuses on the offshore type of outsourcing, and it will to see why the company chose this type of outsourcing and the impact of this decision.

## **Contract Farming**

As the study subject matter focuses on smallholder farmers (out growers) and the off shoring company, it is only relevant to explain a Contract Farming which contractually links both parties.

CF is a concept that has been in existence for many years as a means of organizing the commercial production of industrial crops and perishable agricultural commodities in developed countries. Eaton and Shepherd (2001); Da Silva (2005)

The many definitions of CF in the literature make arriving at a meaningful description rather difficult. The most widely cited definition in the literature by Eaton and Shepherd refers to an agreement between farmers and agribusiness firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. In this arrangement the agribusiness firm provides production support in terms of input supply, technical assistance, and guaranteed market while the farmers are committed to supply the specific commodity in the quantity and at the quality standards specified in the agreement. Eaton and Shepherd (2001)

Little and Watts (1994) have defined CF as a form of vertical coordination between agricultural producers and agribusiness firms<sup>1</sup> that directly shapes production decisions through contractually specifying market obligations (by volume, value, quality and , at times, advanced price determination); provides specific inputs; and exercise some control on the production process.

While CF has long been part of the agricultural production system in developed economies, it is increasingly used in developing countries as an institutional arrangement for facilitating the commercialization of smallholder farmers as a strategy that leads to income growth and poverty alleviation. Ethiopia's Growth and Transformation Plan (GTP) 2010/2014/15, maintains agriculture as a major source of economic growth, intensifying commercialization and involving both small holders and large private commercial farms. The plan acknowledges the increasing importance of CF (out-grower schemes) in linking small holder farmers with high value markets, in the context of a fundamental shift to the production of high value crops. Ethiopia's Growth and Transformation Plan (GTP) 2010/2014/15.

Despite its potential, the experience of contract farming in Ethiopia has been very limited. This has consequently limited the capacity to frame appropriate policy and binding formal legislation that support contract farming arrangements. This is further compounded by lack of in-depth study to guide policy making.



The Government of Ethiopia established the ATA by Federal Regulation in December 2010 as a catalyst for positive, transformational, and sustainable change. The primary aim of the Agency is to promote agricultural sector transformation by supporting existing structures of government, private sector and other non-governmental partners to address systemic bottlenecks in delivering on a priority national agenda for achieving growth and food security. The Agency's formation results from two years of extensive diagnostic study across eight sub-sectors of Ethiopia's agricultural system in a highly consultative, multi-stakeholder process led by the Ministry of Agriculture. It has been modeled after similar public-sector bodies in Asia (i.e. Taiwan, Korea, Malaysia, etc.) that played important roles in the growth of those national economies. The Agency's structure and function is focused on nimble, innovative and results-oriented support to a range of partners in the agricultural sector. More specifically, the Agency has been created to respond to a core set of needs identified by the Ministry of Agriculture and its governing Transformation Council. Although it is a nationally oriented organization, in the initial stage of its work, the Agency focuses its efforts both programmatically and geographically. USAID-CIAFS (2012)

The Ethiopian ATA conducting a study with GIZ derived the following advantage and disadvantage points of CF from out growers and the company perspective

***Advantage for out growers***

- More stable income through higher yields, reduced losses, possible premiums
- Reliable and stable market access
- Improved access to non-financial services (i.e. technology, training)
- Improved overall farm system performance through spill-over of technologies and skills

***Advantage for the company***

- Reduced staff costs through outsourcing production
- Sustainable supply of required volumes and qualities at required date
- More consistent supplies through better control over production
- Improved public reputation and relations owing to inclusiveness of CF

***Disadvantage for out growers***

- Increased risk of loss of decision-making autonomy
- Increased production, marketing and investment credit risk if the CF is not viable
- Weak negotiation power resulting in depressed prices

***Disadvantages for the company***

- Unreliable business attitudes of farmers leading to high credit default rates
- High infrastructure and transaction costs and high risk in organizing supply

Current evidence shows that the pattern of CF varies among African countries. Although contract farming and related activities are prevalent in most African countries, the available case studies are dominated by only a few countries such as Kenya and Zimbabwe. This could be related to the fact that contract farming arrangements seem to be more developed in these countries, especially in Kenya, and thus information is more easily available. USAID-CIAFS Contract Farming (2012)

There are five CF models as illustrated by Technoserve and IFAD (2011)

Table 2: Contract Farming models and defining characteristics

<b>Informal Model</b>	<b>Speculative, seasonal sourcing on an ad-hoc or semi-formal basis and spot-market transactions; few if any inputs/services provided to farmers; minimal firm/farmer coordination; little to no product specification by buyer</b>	
	<b>Pros:</b>	<b>Cons:</b>
	Little to no buyer investment in technical/financial support; low operational costs; high level of sourcing flexibility	Limited control over production (i.e. products varieties, quality, etc); high risk of supply ruptures; strong buyer competition
<b>Intermediary Model</b>	<b>Semi-formal to formal subcontracting by buyers to partner intermediaries (e.g. lead farmers, farmer groups, buying agents) who manage out growers provide services; limited direct firm/farmer interaction, enhanced but limited product specification</b>	
	<b>Pros:</b>	<b>Cons:</b>
	Reduced risk, assuming effective	Lower buyer visibility among

	management; minimal buyer investment in technical/financial support; marginally improved supply chain management; low cost of switching to new partners	farmers; marginal control over production (volumes, quality)
<b>Multipartite Model</b>	Buyer sources from farmers & farmer groups; technical assistance/input/credit provision & grower management via 3rd parties; limited firm/farmer coordination; higher level of product specification necessitates close monitoring/supervision of production	
	<b>Pros:</b>	<b>Cons:</b>
	Limited investment & reduced costs due to partner cost-sharing; reduced risks due to geo-dispersal of out growers	Greater risk of side-selling; no core production, reliant on small holder production; high transport costs
<b>Centralized Model</b>	<b>Buyer provides technical assistance/inputs directly, purchases crop, handles many post-harvest activities; farmers provide land &amp; labor; high degree of firm/farmer coordination; strict product specifications monitored by in-house technical staff; linked to processing</b>	
	<b>Pros:</b>	<b>Cons:</b>
	Enables high level of control over product quality & volumes; frequent interaction with farmer inhibits side-selling	High level of investment for in-house technical assistance and pre- and post – harvest logistics and related infrastructure
<b>Nucleus estate Model</b>	<b>Buyer operates centralized production and processing (estate), supplementing throughput via direct contracting with out growers; buyers often own/control land used by farmers who supply labor; buyer provides technical assistance/inputs/credit; close monitoring/supervision</b>	
	<b>Pros:</b>	<b>Cons:</b>
	High level of control over the supply chain; simplified technical assistance/extension/farmer oversight; reduced risk of supply rupture	Requires heavy investments (Land, Labor) in production; higher crop related risks; limited flexibility/options in selecting out grower.

Source: Technoserve and IFAD 2011

AJ S.c. uses the Nucleus model. Going from Informal to Nucleus model, buyer investment increases; whereas going reverse, risk of inconsistent supply increases.

## **Offshore**

Off-shoring in general means sending a job overseas. Offshore outsourcing is “the transfer of the responsibility for delivering service to provide who delivers these services from continent different from where the recipients operate”. Buelen et al (2006)

Off shore outsourcing has become a multi-billion dollar industry in which more and more countries are participating. Gartner (2008). Off shoring is the outsourcing of service activities to a lower cost organization in a foreign country and it allows the outsourcer companies to compete on a global basis for lower costs and better efficiencies.<sup>1</sup>

On the contrary offshoring leads to loss of local jobs due to relocation of the business unit, loss of visibility and control over a potentially extended supply chain, difficulty with business operations due to time differences, difficulties in transferring knowledge and misunderstandings due to language or culture. Alex Bank (2010)

Here are some popular countries in offshore outsourcing: India, Pakistan, Vietnam, Poland, China, and Morocco. Gartner (2008)

### **2.1.2. Legal issues surrounding outsourcing**

According to Maynard (2002), there are international laws to govern trade among two nations but most of the time it is a long process to resolve any dispute. So for a company it is always a good idea to employ the local laws. To have a smooth operation in the offshore destination, a company should keep its team aware about the difference in legal system and devise a management plan to deal with it. Some of the major legal issues faced by a company are

**Contract:**The Company has to be aware of the contract laws of the host nation, clauses for claiming damages and remedies available.

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<sup>1</sup> They include agro-processing companies, exporters, or retailers at the end of the value chain

**Copyright and patent:** Before entering to any long term relationship a company has to make sure that the host country has laws to protect its copyright and patent.

**Labor Law:** Labor laws are very important if the company is going to hire local people. It has to be aware about the working hours, minimum payment, and laws against discrimination.

**Bribes, gifts and undue influence:** In some parts of the world, especially in Asia gift giving is part of common courtesy, and some places bribes are the only means to get through the red tape. A company has to make sure that their action does not cross the legal boundaries because even in place where bribe is socially accepted they have laws against it.

Hiring a local lawyer to advise the company, training the home employees about the local system and also, communicating to the local employees about the system back home would help the company in long run.

### **2.1.3. Advantages and Disadvantages of Outsourcing**

Outsourcing more specifically off shoring type of outsourcing has its own Advantage and Disadvantages. Most of the time, the advantages of outsourcing overshadow the disadvantages of outsourcing. Dunning T. and Click R. (2005)

#### **The Advantages**

**Swiftness and Expertise:** Most of the times tasks are outsourced to vendors who specialize in their field. The outsourced vendors also have specific equipment and technical expertise, most of the times better than the ones at the outsourcing organization. Effectively the tasks can be completed faster and with better quality output

**Concentrating on core process rather than the supporting ones:** Outsourcing the supporting processes gives the organization more time to strengthen their core business process

**Risk-sharing:** one of the most crucial factors determining the outcome of a campaign is risk-analysis. Outsourcing certain components of your business process

helps the organization to shift certain responsibilities to the outsourced vendor. Since the outsourced vendor is a specialist, they plan your risk-mitigating factors better

**Reduced Operational and Recruitment costs:** Outsourcing eludes the need to hire individuals in-house; hence recruitment and operational costs can be minimized to a great extent. This is one of the prime advantages of offshore outsourcing.

## **The Disadvantages**

**Risk of exposing confidential data:** When an organization outsources HR, Payroll and Recruitment services, it involves a risk if exposing confidential company information to a third-party

**Synchronizing the deliverables:** In case you do not choose a right partner for outsourcing, some of the common problem areas include stretched delivery time frames, sub-standard quality output and inappropriate categorization of responsibilities. At times it is easier to regulate these factors inside an organization rather than with an outsourced partner

**Hidden costs:** Although outsourcing most of the times is cost-effective at times the hidden costs involved in signing a contract while signing a contract across international boundaries may pose a serious threat.

**Lack of customer focus:** An outsourced vendor may be catering to the expertise-needs of multiple organizations at a time. In such situations vendors may lack complete focus on your organization's tasks.

With all these pros and cons of outsourcing to be considered before actually approaching a service provider, it is always advisable to specifically determine the importance of the tasks which are to be outsourced. It is always beneficial for an organization to consider the advantages and disadvantages of off shoring before actually outsourcing it. Dunning T. and Click R. (2005)

#### **2.1.4. Factors to consider when selecting offshore outsourcing**

By examining the various factors involved in selecting an offshore outsourcing and keeping in mind best practices, a clearer picture of the pitfalls to avoid emerges. By following these simple steps a company considering going offshore can ensure stronger relationships, better consumer satisfaction and increased profits. Software Russia (2012)

**Pricing:** Price will always remain the primary motivation for outsourcing and it is important to get the best price you possibly can. While most of the discussions regarding off shoring will return again and again to this topic, it should not be the only factor influencing your final decision to go overseas with all or part of your business. Pricing is important, but let the market decide what is appropriate. This means you may opt for reverse auctioning but if you do, only serious players should be allowed to participate.

**The Management Team:** It is extremely important to know as much as possible about who is leading the team. Do they have the kind of experience or exposure needed to fulfill your objectives? Experienced leaders often ease the transition and possess the audacity needed to employ creative solutions.

**SLA:** The service level agreement is the most indispensable document of any transition. Have everything written out so that it is crystal clear to everyone involved and leaves absolutely no room for confusion. There shouldn't be any ambiguity about the minimum quality levels required for the services being provided.

**Flexibility:** Determine if your prospective vendor is rigid or flexible in their approach. Usually outsourcing contracts are in place for a number of years. Over time a situation may arise that necessitates renegotiation of the contract. The vendor must be flexible enough to understand its clients concerns and act accordingly.

**Communication:** Any vendor must be able to clearly understand what is required, should be able to promptly reply to your queries, and must be competent enough to ask for information in clear terms so as to avoid any delay in the decision making process.

**Staff Resources:** Vendor must have sufficiently qualified and experienced staff who are competent enough to carry out your day-to-day operations smoothly and efficiently.

**Reliability:** When visiting a potential vendor's site, it is imperative that infrastructure safeguards, backups against downtime and adequate staff availability are thoroughly checked. You shouldn't place all of your trust in the technical specifications that you are presented with on paper, but must insure that everything is also present on the floor, including servers, dialers, etc.

**Stability:** It is essential that you check the references of your vendor be conducted before awarding any contracts. A past record check helps establish the trust necessary for a working relationship and should be the final assurance that you have made the right decision to go ahead and sign the contract.

### **2.1.5. Global Trends of Outsourcing and its future**

As explained in an article offered by Flat world Solutions website, Outsourcing critics point out that rising salaries, in outsourcing destinations like India, is taking the sheen away from outsourcing and thus it may not be as profitable in the long run. Despite such perceived negative aspects, outsourcing has only continued to grow. In fact, outsourcing is now being embraced by organizations of all sizes and domains. From startups to large enterprises, outsourcing continues to be a tool of choice to gain competitive advantage in the business scenario. Businesses are moving over to multiple platforms - cloud, social, mobile etc., stakeholders are getting geographically distributed; in such a disparate environment, outsourcing has been able to conveniently adapt to rapidly changing business environments.

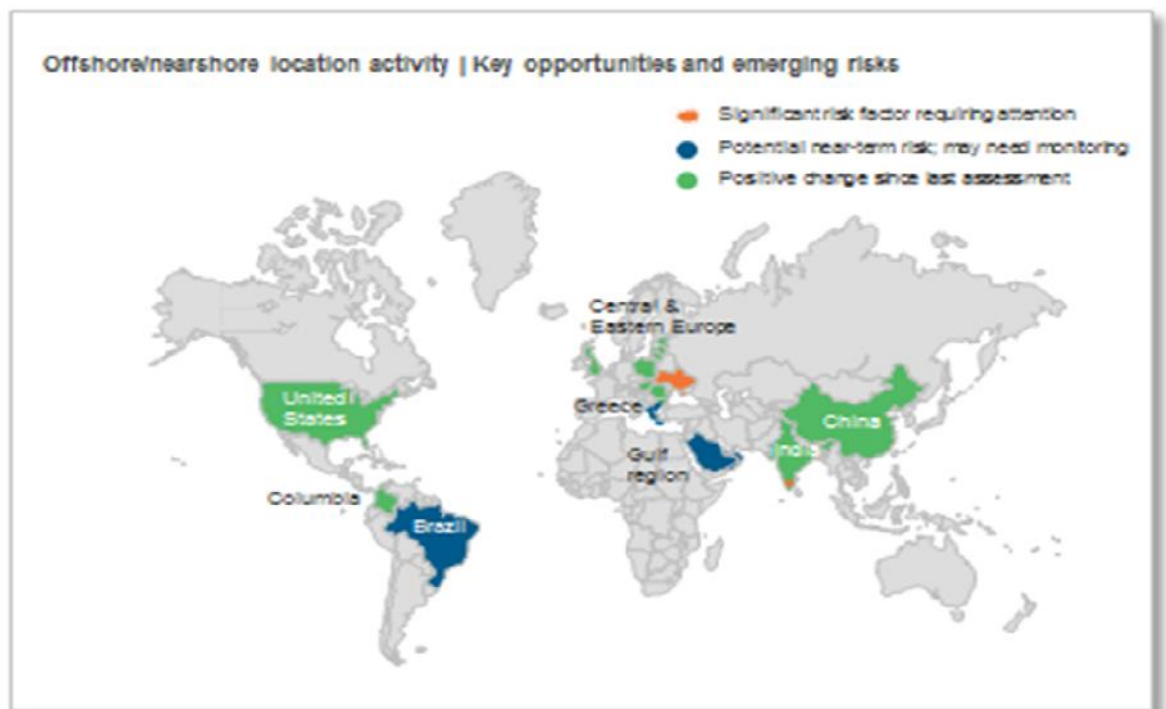
The recent global economic crisis is the testament to the fact that businesses not only need to learn how to survive during a downturn, but also need to look at newer ways of overcoming weak economic conditions. In the current business scenario, it is all about "outsource and survive", and efficiently managing your outsourcing projects and staying ahead in the competition.



Outsourcing relationships are now more standardized, and process and people driven rather than price driven. This change is believed to level the playing field for outsourcing service providers in the future.

Market Vista – 2015 Year-in-review report gives an overview of the developments that took place in the global services industry in 2015. The report highlights key trends and drivers pertaining to GICs, offshore/ nearshore locations, select service providers, and outsourcing transactions. Besides providing an outlook for 2016, the report highlights implications for market participants as well.

Figure 1: Global off shoring/near shoring location.



Source: Market Vista – 2015

The National Outsourcing Association (NOA), now in its twelfth year, recognizes and celebrates the efforts of companies who have demonstrated best-practice in outsourcing. The association announced South Africa as one of the best off shoring Destination of the Year along with Bulgaria, Slovakia, and Sri Lanka at the 2015 NOA Awards shortlist. NOA (2015)

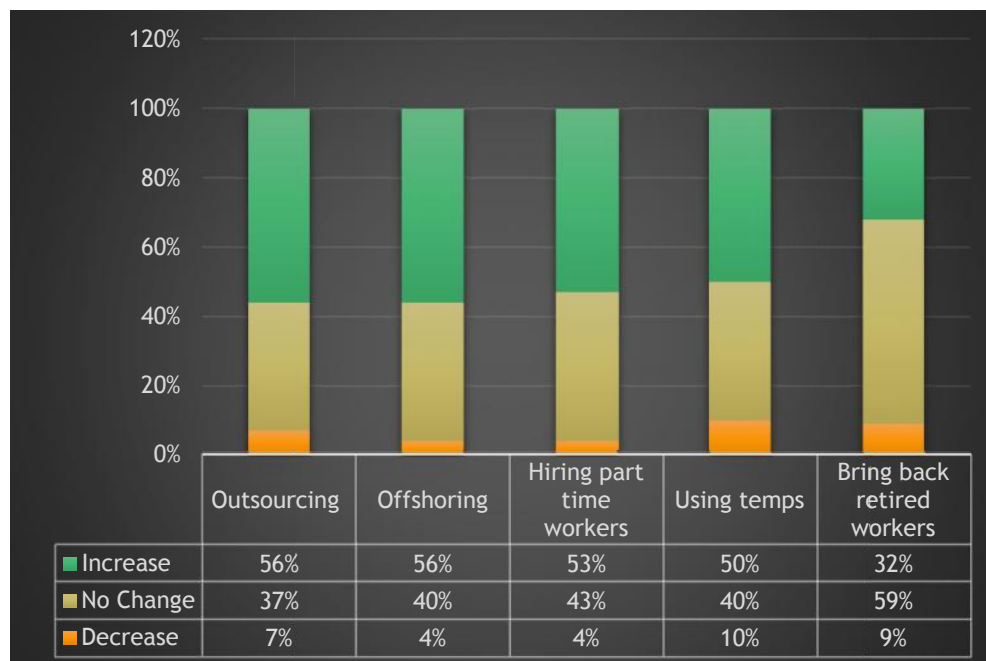
As the U.S. political debate about off shoring escalates, the process itself continues. To save on labor costs and increase efficiency more U.S. companies are either establishing outposts overseas or contracting their parties in other countries to do

some of their work for them. Since 2001 between 400,000 and 600,000 service sector jobs have moved offshore, according to Goldman Sachs. That number is likely to grow. Forrester Research predicts 3.3 Million white-collar jobs will move offshore by 2015. Doran (2014)

The Tholons 2013 Top 100 outsourcing destinations report reflects the dynamic shifts occurring across regional outsourcing landscapes. South Asia, North America and Eastern Europe are getting more attention from service providers globally. Whereas, Middle East and North Africa are being dropped because of political and social risks affecting some industries such as IT prompting large off shoring companies to explore and expand their operations in less volatile locations. Tholons (2013)

It is noted that India’s key advantage as an offshore outsourcing location- lower cost, is losing its advantage to countries like Pakistan and Vietnam, which now offer staff at far lower costs than India. French speaking countries like Morocco are also poised to benefit from more off shore outsourcing by French speaking markets in Europe. Ribeiro (2008).

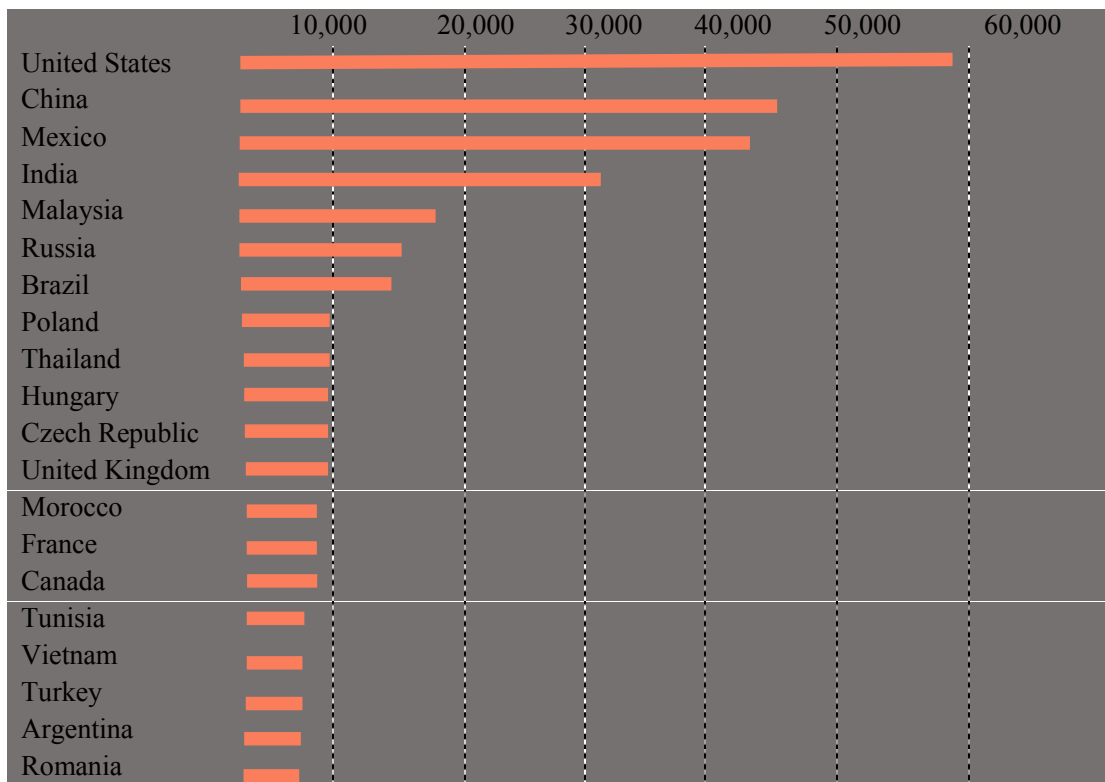
Figure 2: Anticipated Human Resource Activity 2010



Source: 700 chief Human Resource officers study done on 2010

The above chart from a 2010 study surveying over 700 Chief Human Resource Officers shows that outsourcing and off shoring are still very pertinent topics with no signs of decreased outsourcing/off shoring activity.

Figure 3: Top ranking destination countries by estimated jobs in production 2009



Source: Tholon 2009

Figure 3 shows the top ranking destination of outsourcing in terms of estimated jobs for production outsourcing in 2009. The United States holds firm as the top ranking destination for activity for 2009. Figure also shows that African countries such as Morocco and Tunisia are holding their ground in the completion.

### 2.1.6. Outsourcing in Africa

Off shoring became a dominant global industry during the “millennium bug” crisis in the 1990s when abundant and cheap labor was needed by higher-income countries to address the rollover date problem, which threatened to put thousands of software applications out of commission including those that were critical to geospatial and defense technology. Rivard & Aubert (2008)

This crisis was a catalyst for the off shoring industry but its popularity grew when it became clear that the lower cost of labor and the flexibility and scale that off shoring provided made a financial and strategic proposition that most companies could not ignore. Oshri et al. (2011); Carmel & Tjia (2005)

The list of off shore providing countries was 72 in number in 2008 with Egypt, South Africa, and Morocco appearing in the 30 list. South Africa remains a dominant player in this industry in the African continent. Bargent (2012) while North African countries are struggling to retain their former popularity, due to business uncertainty arising from recent political upheaval in the region. The Africa Report (2012)

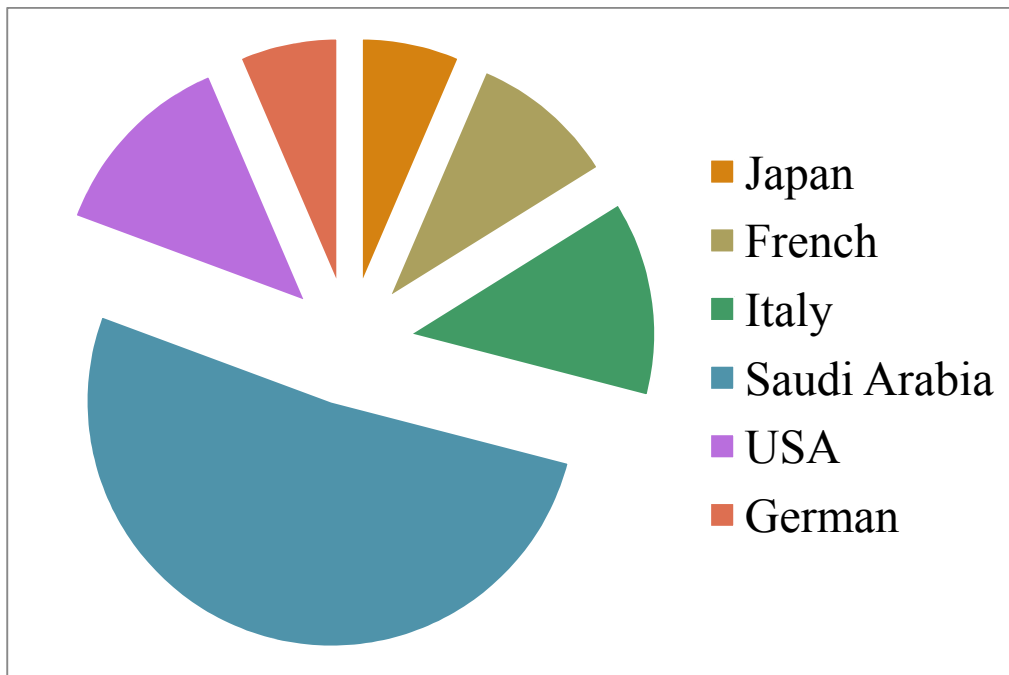
### **2.1.7. Outsourcing in Ethiopia**

According to a study made at DePaul University in Chicago, Illinois, United States in 2004 about Ethiopia – Outsourcing Opportunities, Ethiopia's readiness for Outsourcing and off shoring readiness chart shows the country falls in 'Not Yet Ready' and 'Not Attractive' stage. The reason given for Not Yet Ready result is because Ethiopia has very limited high speed access with 56k dialup connection being most common throughout the major cities and little or no access in rural areas. The reasons given for the country's Not Yet Attractive result are: Language barriers since English is spoken by only well-educated population and most of the population still speaks the local languages causing a barrier, The economy is largely agriculture-based which doesn't translate as well to the networked world and the last reason is because there is no policies or standards in place for the ICT workforce.

The study also noted that there is a positive side, as Ethiopia seems to be moving in the right direction. Some of the reasons for this direction as noted in the study are: The Ethiopian Government is supportive of change since it recently established the Ethiopian ICT Development Authority (EICTDA) to make improvements in this sector, The Economy has undergone a major shift in development policies in order to make it more attractive to offshore companies, The Addis Ababa Chamber of Commerce is very active in the community.

***The Major outsourcer countries in Ethiopia:*** A non exhaustive list prepared by Ethiopia embassy at UK showed firms in Ethiopia operating in different kinds of business:

Figure 4: Countries doing off shore outsourcing in Ethiopia



Saudi - Plantation, Meat processing, Gold Mining, and hotel

Italy - Construction, Automatic and mechanical equipment,

USA - Soft drinks, Petroleum product distribution, Seed importation

French - Brewing, Petroleum, and Solution (Biosol)

Japan - Textile, Mitsubishi trading,

German- Construction equipment, Automotive and mechanical equipment

## 2.2. Empirical Review

Offshore outsourcing explained in Wikipedia as it is brought out by globalization bringing opportunities for low-income countries to become part of an ever-growing global workforce.

Off shoring has been a controversial issue spurring heated debates among economists, some of which overlap those related to the topic of free trade. It is seen as benefiting both the origin and destination country through free trade, providing jobs to the destination country and lower cost of goods and services to the origin country. This makes both sides see increased gross domestic product (GDP). The total number of jobs increases in both countries since those workers in the origin

country that lost their job can move to higher-value jobs in which their country has a comparative advantage. Wikipedia (accessed on 2016)

On the other hand, job losses and wage erosion in developed countries have sparked opposition to off shoring. Experts argue that the quality of any new jobs in developed countries are less than the jobs lost and offer lower pay. Economists against off shoring charge that currency manipulation by governments and their central banks causes the difference in labor cost creating an illusion of comparative advantage. Further, they point out that even more educated highly trained workers with higher-value jobs such as software engineers, accountants, radiologists, and journalists in the developed world have been displaced by highly educated and cheaper workers from India and China. On May 1, 2002, Economist and former Ambassador Ernest H. Preeg testified before the Senate committee on Banking, Housing, and Urban Affairs that China, for instance, pegs its currency to the dollar at a sub-par value in violation of Article IV of the International Monetary Fund Articles of Agreement which state that no nation shall manipulate its currency to gain a market advantage. Traditionally "safe" developed world jobs in R&D and the Science, Technology, Engineering, and Mathematics (STEM) fields are now perceived to be endangered in these countries as higher proportions of workers are trained for these fields in developing nations. Economists such as Paul Craig Roberts claim that those economists who promote off shoring misunderstand the difference between comparative advantage and absolute advantage. Aran H. and Patel A. (2005)

Christopher D. West (2010), in his article titled The Pros and Cons of Offshore Outsourcing, he pin pointed some of the factors as follows: "With the changing global economy, and the excessive costs associated with keeping an in-house staff for secondary functions, many of today's small businesses and corporations are outsourcing the production of goods and services to foreign firms in an effort to cut costs. While many critics argue that this can devastate local economies by cutting jobs at home, success is often a balancing act between meeting customer and community demands and also maximizing profits. Many of today's largest corporations in the US are now outsourcing production of their goods to foreign countries where there are fewer regulations and cheaper labor. In addition, a number of small businesses also outsource services such as administrative functions to a number of local and foreign firms that often compete for pay."

“While there are certainly ethical decisions to be made for many of these businesses, there are a number of pros and cons to offshore outsourcing. While many criticize the act of outsourcing production by large corporations, there are a number of US firms that continue to provide outsourcing and remote service jobs for small businesses in the US that cannot afford to maintain a large full time staff and also foreign businesses as well.”

“One of the biggest benefits of global outsourcing is that it allows for increased efficiency within larger organizations. Although a number of less-skilled jobs are often lost to overseas production facilities, the increased efficiency allows these organizations to create more skilled positions and implement improved strategic plans. In addition, the benefit for many consumers is that they can enjoy decreased prices created by increased levels of efficiency, which can in turn promote greater economic growth. The drive for lower prices and the increased demands of consumers for businesses to compete is one of the largest factors that drive many corporations to move production to offshore facilities.”

“However, there are also many disadvantages to offshore outsourcing as well. For workers in the US, a number of jobs are lost permanently, many workers have to gain new skills, and wages decrease due to the competitiveness of overseas workers. In essence, American workers are now forced to compete on a global level, as are businesses.”

“For these large corporations, one of the downfalls of outsourcing that has the potential to do the most damage is decreased quality control, minimal product development and improvement, and lower quality materials and workmanship that go into products. In the US, and in many other countries as well, poor quality products have the potential for increased liability and lawsuits, as well as exposure by consumers to certain materials that can be deadly. One example of this is the lead toy recall by many leading American toy manufacturers in late 2007 and early 2008, which had a dramatic effect not only on consumers and concerned parents, but also the toy industry.”

“Another one of the biggest disadvantages of offshore outsourcing that is particularly detrimental to smaller companies, is the communication barrier that often exists between foreign countries of production where another language is spoken and

companies in other countries that speak a different native language. However, increases in technology are working to reduce this barrier and make global communication possible for everyone.”

Outsourcing is a controversial topic. Some people feel anxious and want to slow it down, while some people are optimistic and have hope in it. But no matter how intense the disagreements are, people have to agree that outsourcing is just getting started and is not going to stop; more and more companies will be involved in greater scales of outsourcing. U.S. jobs, not only in manufacturing and customer service, but also those that require higher skills and education, will eventually be outsourced; when countries like China and India have been receivers of outsourcing for some years, they will outsource their jobs away one day as well. Offshore outsourcing is the trend of the world, and it will be continuously pumped by the progress in technology and economic development. The listed facts warn us that outsourcing may not be that dangerous, but indulging in the debate could be. The dispute over offshore outsourcing is essentially a debate of the role the United States is going to play in the new world, where more and more new economies are emerging, and where the U.S.’ production edge is being cut. Americans lost their jobs to people in the developing world who they cannot compete with for salary, but the domestic job market has no jobs for them either. Their conditions ask us to offer greater social concern. Offshore outsourcing is a difficult change, a mild revolution. More scholars, politicians, and citizens should feel obliged to discover new ways of creating Offshore Outsourcing: Its Merits, Its Drawbacks, and Its Future<sup>14</sup> of 16 opportunities and jobs, instead of regretting lost ones. Offshore outsourcing is a current historical trend that requires us to calm down and to accept it objectively. Pengxiang Ding Sean (2014)

Meresa Mulat (2007) argues that “in spite of its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none. No formal research has been done in this area to assess the impacts, challenges and prospects of outsourcing in the country.” His findings showed that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services. Conversely, Accounting and Administration outsourcing service providers



will face great challenges from Ethiopian organization to deliver their services. This is mainly due to the organizations fear of loss of confidential information and loss of control. In addition, the organizations suspect that the external service providers are not loyal to them.

Whereas, from another researcher, Muluneh Atinaf Kebede (2009) study it can be understood that more core business function such as IT related business are being outsourced since there is lack of experienced in-house Software developers are some of the reasons.

According to Zelalem Getahun(article accessed on 2016), Marketing Executive of GeoMark Systems short compilation on Outsourcing Services in Ethiopia – The GeoMark Experience, there is a list of Challenges to conduct outsourcing in Ethiopia. Some of them are: High cost of training, Poor Internet Services, Policy/Regulation, Internet Bandwidth Tariff etc...The compilation also noted that “As a third world country, Ethiopia can take advantage of the prevailing low-wage by investing on technology transfer and working towards upgrading the local skill.”

Outsourcing saves money by allowing a company to focus its limited resources on its core competency. Companies that excel in design or research no longer have to blunder with inefficiencies as they enter marketing or production sectors. This makes outsourcing activities especially attractive for small and medium sized businesses that don't have the support and expertise in multiple sectors like large multinational corporations. By outsourcing business process functions, businesses maintain their comparative advantage in their core competency and reduce the opportunity costs associated with diverting resources into non-critical business functions. Alex Bank (2010)

The recent media outlet in Ethiopia shows that the country is working towards being a part of the global trade.

### **2.2.1 The impact of Brexit "*British exit*"in Ethiopia outsourcing business**

In Ethiopian Herald newspaper, Zelalem Girma (2016) noted his opinion about the very current hot news of Brexit (the historic referendum, the United Kingdom voted to leave the European Union (EU) after 43 year on 23 June 2016) and its impact on

Ethiopia Business. He said it is likely to increase uncertainty and market volatility, which might translate to slower economic activity and affect trade relations.

Brexit could bring uncertainty on the markets and over the future of trade relations between the UK and Africa. African Businesses have raised alarm over the decision by Britain to exit the European Union citing it's likely to have far reaching effects on African businesses.

Zelalem argued that "Remittances and other business transactions from the UK and generally from Europe have changed the lives of many in Africa. Brexit is likely to increase uncertainty and market volatility, which might translate to slower economic activity and affect trade relations. We hope things will be stable especially for the good of global businesses," he says.

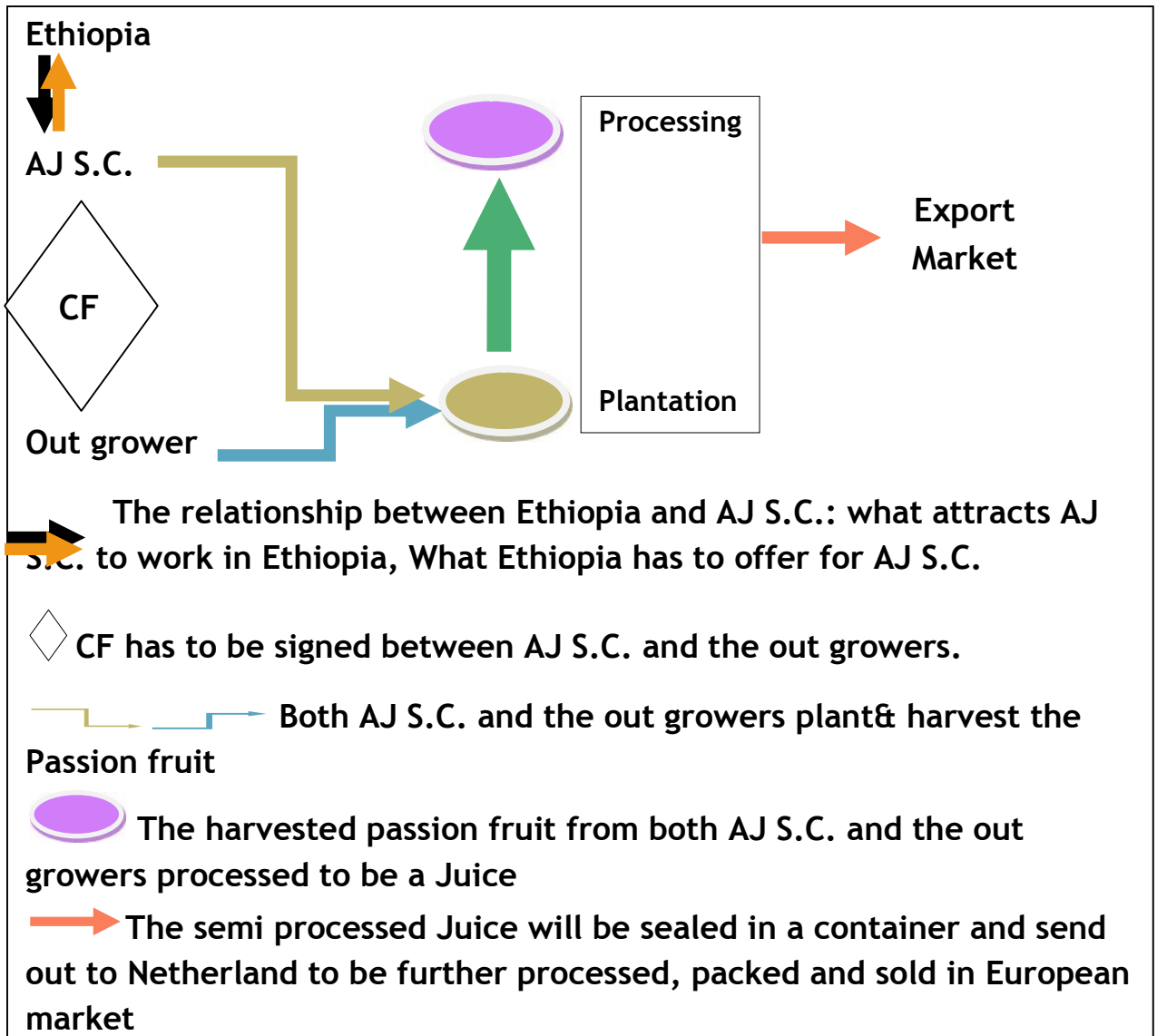
Zelalem explained the debates circling the Brexit as "Much of the debate running up to the referendum centered on immigration. Now that Brexit has been confirmed, those Africans living in the UK and those hoping to go to the UK will be concerned about their status. It's unclear what exactly a post-Brexit immigration policy would look like, but many analysts are saying that controls are bound to be tighter."

"Others say that, in order to boost trade relations with several African countries, the UK could make immigration for Commonwealth citizens slightly easier. After all, the IMF predicts that by 2019 the Commonwealth will contribute more to the world's economic output than the EU. So, those African citizens whose countries are members of the Commonwealth may have an easier time immigrating to the UK than those from non-Commonwealth African states. There may be some unintended consequences as well."

South Africa's Finance Minister Pravin Gordhan was quoted as saying that if the UK exited the EU, "The volatility and uncertainty could have a serious impact on us as a country". Until the fog of panic clears that will hold true, not only for South Africa, but for the continent as a whole.

### 2.3. Conceptual Framework of the Study

The study will have a descriptive type of conceptual frame work. The study focuses solely on the Off shoring type of Outsourcing. The Challenges and Prospects noted in the company are expected to reflect to the overall off shoring companies operating in the country.



The findings revolve in the relationships between Ethiopia and AJ S.C. as well as between AJ S.C., its staff, out growers and the society it is operating in.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1. Research Approach and Design

The study implements descriptive approach. It uses qualitative and quantitative research method by using primary and secondary data sources. The type of qualitative research technique is via questionnaires, in-depth interviews and observation of those sample population of the study. The quantitative research illustrates the collected data of the company over five years to record its overall activities.

#### 3.2. Sample size and Sampling procedure

##### 3.2.1. Sampling Size

The target populations of the study are: the company management and staff, its out growers, and the society surrounding the company. The out growers are comprised of those who are currently in the program, those who quitted the program and those who are waiting in the pipeline to be included in the program. It also included the commercial farmer (Hadiya supermarket). The difference between the anticipated and the actual sample size is occurred due to the public unrest that occurred on October 4, 2016 in the middle of data collection process.

The sample size is determined by using Krejcie & Morgan table for a finite population with confidence level 95% and Error Margin of 5.0%. Krejcie & Morgan (1970).

Table 3: Krejcie & Morgan table sample

<b>N: Population size</b>	<b>S : Sample size</b>
<b>160</b>	<b>113</b>
<b>2,400</b>	<b>331</b>

Source: Krejcie & Morgan (1970)

Table 4: Target Population Vs actual number of respondents

Target population	Number of Respondents
Out growers: in the program, in the pipeline and who quitted the program	96
Management staff(10) and non-management Staff (340) of the company	350
Society surrounding the company (Households)	27 h/holds

### 3.2.2. Sampling Technique

The sample technique used is convenient sampling for the out growers, and the society; whereas, management and non-management staffs are selected using the purposeful and random sampling technique.

### 3.3. Data sources and data collection method

The primary data is collected through Semi-structured questionnaire (a combination of closed and open questions), interview and observation to give the respondents freedom to explain themselves more. The questions in the questionnaires are tested for both validity and reliability. Check lists are prepared to guide the open ended discussions. Secondary data is also collected from the A.J. S.C. past five years production reports.

All the data collecting instruments: interview and questionnaires are self-developed by the researcher.

### 3.4. Data analysis method

The data collected from both primary and secondary sources is analyzed using tables and graphs so as to organization, interpretation, recommendation and conclusion to be clearly communicated, and findings can be precise. The technique preferred for the data analysis is descriptive data analysis method. Percentages are used to demonstrate the findings.

### **3.5. Ethical Issues**

There are certain ethical issues that were followed by the researcher. The first is soliciting explicit consent from the respondents. This ensures that their participation to the study is not out of their own volition. The researcher also ensured that the respondents are aware of the objectives of the research and their contribution to its completion. One another ethical measure exercised by the researcher is treating the respondents with respect and courtesy. This is done so that the respondents were at ease and were more likely give candid responses to the questionnaire.

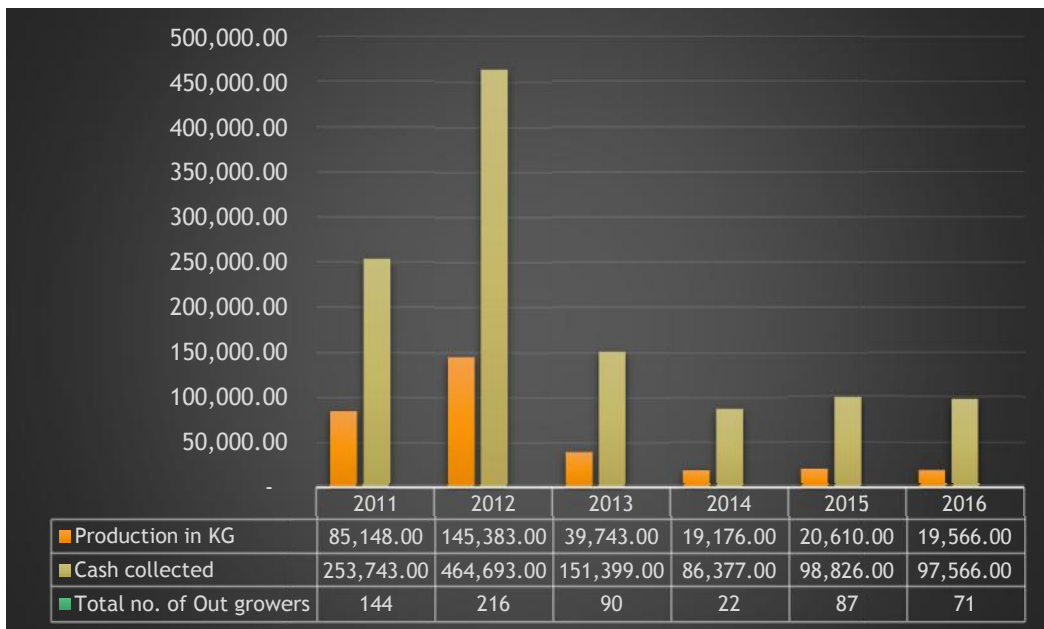
## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### 4.1. General

In this part of the study both primary data collected through interviews, questionnaires and observations and secondary data will be analyzed and interpreted. The primary purpose of this study is to Assess Business outsourcing challenges and prospects based on the case of AJ S.C. Responses from all the three target population: Out growers, the A.J.S.C. staff and the society surrounding the company is analyzed and discussions are summarized as shown below.

Figure 5: Out growers’ passion fruit production and sales income from 2011-2016



Source: Annual AJ S.C. production report

The above graph shows out growers’ past six years collective production and sales amount. The year 2016 data is collected up until August 15, 2016 only, whereas for the rest of the years the data collected for each months of the year. All data demonstrated in the graph is a total annual output.

Production is seen decreasing in correlation with decreasing Sales income as well as number of out growers the momentum picking slightly up on the year 2015. This is due to one production and harvesting cycle consists of three years. From the year 2011 to 2014 makes a one production cycle from implementation to a complete

harvesting. At the end of every third year, the plantation has to be replaced by a new seed. Also the draught and plant disease has affected the production in the past two years.

Also the consecutive years required out growers to extensively do the flower reproduction at the designated time regularly and by hand, which requires major labor output. This fact is noted as one of the down side of Passion fruit plantation.

Table 5: Summary of yield of Passion fruit for AJ S.C. farm

Year 2011-2013	Total Kg	MT (Metric Ton)	Total value ETB
<b>Total production over 3 years</b>	270,216.29	20.2163	884,908.78

Source: Annual AJ S.C. production report

Passion fruit yield for the AJ S.C. farm is about 9 tons per hectare. The total production KG is almost equal to what the total farmers produced for the same years. This indicates that there is a potential for growing passion fruit for the out growers, given they are providing due attention to their farm.

Table 6: Model Farmers' Three years of passion fruit production summary

Production year	Jehilan Mohammed		Hailemariam Dima	
	Total KG	Total Income in ETB	Total KG	Total Income in ETB
<b>2013</b>	13,413	51,433.56	7,034	26,567.86
<b>2014</b>	6,878	30,950.39	12,077	54,428.21
<b>2015</b>	5,555	26,592.36	1,181	5,615.93

Source: Annual AJ S.C. production report

As shown in Table 6, the two celebrated model farmers have managed to yield a good amount and managed to sell 3 to 5Br. per a kilo. The reason they are called model farmers is because they have managed their farms very well in respect to the other farmers. They closely monitor their farm; they take the advice of AJ S.C. experts very seriously. As compared to other farmers, their production KG is higher



for the consecutive past two years (2011 & 2012). From their decreasing production KG, it can be concluded that the draught has affected their production as well.

Table 7: Analysis of Staff responses

	Response	Frequency	Percentage
<b>Years of Experience</b>	<1 year	153	45%
	1-3 years	84	25%
	3-5 years	51	15%
	5-7 years	35	10%
	>7 years	17	5%
<b>Education</b>	Certificate	70	21%
	Diploma	54	16%
	Degree	35	10%
	MA Degree	17	5%
	NA	164	48%
<b>Site working</b>	Donni Area	333	98%
	Addis Ababa	7	2%
<b>Contract type</b>	Contract	269	79%
	Permanent	71	21%
<b>Reason for working in AJ</b>	Salary	74	22%
	Working Condition	16	5%
	Allowances	159	47%
	Working at native area	76	22%
	Capacity Building	15	4%
	Other	0	0%
<b>Satisfaction level</b>	Unsatisfied	0	0%
	Less satisfied	27	8%
	Moderately satisfied	136	40%
	Normally Satisfied	124	36%
	Highly Satisfied	53	16%
<b>Is there a disadvantage of working at AJ?</b>	Yes	298	88%
	No	42	12%
<b>Reason for Disadvantage</b>	Working Hours	27	8%
	Management style	126	37%
	Language Problem	52	15%
	Payment	14	4%
	Capacity Building	46	14%
	Staffing	57	17%
	Other	18	5%

Respondents that have an experience of less than one year is 45% whereas, 5% of them have a more than seven years work experience. The reason for this difference is

that majority of the staff is temporarily hired. Temporary staffs are hired especially during harvesting time, and when the magnitude of labor inducing tasks is higher during which the passion fruit starts to blossom flowers. As soon as the flowers start to blossom, pollination must be done by hand, at the same time period and daily. Those respondents who worked in A.J. S.C. for more than seven years are those who have been hired during the Awash Agro Industry era.

The education level of 38% of the respondents is below certificate level since the higher number of staff of A.J.S.C. is temporary staffs who are working on manual tasks. Respondents who have a Master's degree are 5% and 20% of respondents have acquired MA degree. Most of the permanent and management staff has higher education. Most Contract staff respondents have certificate level education. These responses show that most of the staff of AJ S.C. are educated.

Respondents who are working at the Donni branch are 98% whereas the rest of them work at Addis Ababa Branch. Respondents who are temporary staff are 79% while the rest are permanent for the reasons given above.

Explaining their reason for working at AJ S.C., 47% the respondents revealed the allowance attracted them while 22% said working in their native area and the salary AJ S.C. offers attracted them as well. Working condition and Capacity building rated the lowest 5% and 4%, respectively. AJ S.C. has housing, and medical allowance. All staff working in the Donni site is given houses free of electric and water expenses. The type of the houses differs according to the position of the staff acquire in the company. There is also a subsidized canteen service with free juice three times a day. The temporary staff coming from Donni and the nearby villages situating them closer to their family is one of the reasons working in AJ S.C. All these create a suitable working condition for the staff.

In working at AJ S.C. 40% respondents are modestly satisfied, whereas only 8% replied they are less satisfied. When asked if there is a disadvantage in working at AJ S.C. 88% revealed there is where the rest said there is none. The management style is voted the major disadvantage by 37% of the respondents whereas, 4% said the payment (salary) is the less disadvantage. The reason for that is there is no clear management style, the management is subjective in giving position and raise for its staff, there is no transparency.

**Origin (Birth place) of the respondents:** 65% of the respondents confirm that they are from Donni area, whereas 35% of the respondents said they are from different

part of Ethiopia such as Addis Ababa, Adama, Assela, Mekelle, Jimma, Hawassa, Arbaminch.

**Reason for Disadvantage of working in AJ:**5% of the responders who selected ‘other’ choice explained that the location of the main office far from the rural area is a disadvantage.

**Possible Solutions proposed:**Solutions proposed by the respondents are: revise management style, enhanced and engaging capacity building system for both its permanent and temporary staff, adequate staffing of the temporary and permanent staff to reduce work overload on permanent and temporary staff, AJ S.C. to have a second office at Adama and add housing allowance so the permanent staff can rent houses in Adama instead of being at farm.

Table 8: Analysis of Management staff responses

	Response	Frequency	Percentage
<b>Years of Experience AJ S.C. management staff</b>	< 1 year	0	0%
	1-3 years	2	20%
	3-5 years	6	60%
	5-7 years	2	20%
	> 7 years	0	0%
<b>Does the Top Management staff have priorwork experience in Africa?</b>	Yes	2	67%
	No	1	33%
<b>Satisfaction level of working in Ethiopia</b>	Unsatisfied	0	0%
	Less satisfied	2	20%
	Moderately satisfied	5	50%
	Normally Satisfied	3	30%
	Highly Satisfied	0	0%
<b>Initiative of off shore outsourcing</b>	Lower Labor Cost	1	10%
	Gov’t support	3	30%
	Policy and Regulation	2	20%
	Market Advantage	4	40%

The management staff respondents revealed that 60% of the have 3-5 years of work experience in the AJ S.C. whereas 20% of them have 1-3 and 5-7 years of experience. This shows that the respondents have ample experience to know the challenge and the prospect of the company. They can give reliable responses.

Out of the three top management staff (the manager, the A/Assistant manager and one share holder) 67% responded that they have work experience where 33% have no prior work experience in Africa before joining AJ S.C. This reveals that the management can compare how working in Ethiopia differs from working in other African country. They can judge the policy the good and the bad in choosing Ethiopia to do outsource business.

The management is moderately satisfied by 50% whereas 20% of them as less satisfied. The explanation given for 20% level of less satisfaction is that the recent political public unrest that erupted in Ethiopia has caused the factory to be partially destroyed; the water scarcity is also another unsatisfactory aspect. The IT, road construction and telephone connection issues contributed to the low satisfaction reason. The 50% moderate satisfaction emanates from the low production cost, the favorable weather for production, acquiring an already farm oriented place (Upper Awash Agro farm) minimizing the cost of getting the area ready for farming, the investment policy was inviting (no tax on importing materials). Reasoning what initiates AJ S.C. to do off shore outsourcing in Ethiopia, 40% of said Market advantage is the main initiator, whereas, 10% is due to lower labor cost. The low production cost in Ethiopia giving helps the company to have a competitive market advantage in the European market.

**Why choose Ethiopia:** The responses said the Ethiopian Government has attractive policies for foreign companies, The privatization option helping AJ S.C. to acquire an already ready farm, other African countries such as Kenya were either already exhausted or political instability exist. Awash River was another positive point; the farmers are already familiar with the work they have on their own plot of land to contribute. Therefore, Ethiopia was a favorable country for AJ S.C. for its off shore outsourcing business.

**The Challenges the company faced:** The draught that occurred in Ethiopia for the past two years has curtailed the production output, Passion fruit disease has hurted the plantation, only few farmers are interested since the plant requires high labor demand unlike other regular plants, and slow repayment of credits by the farmers are noted as the major production challenges. After flowering of the plant, the pollination task needs to be done manually daily at the same time period, which is unlike the regular farming procedure for the out growers, consuming their time and

charging them high energy (one big turn off point for out growers to join the program)

**Solution Fabricated:** wise use of the Awash River by using dripping water irrigation system: enabling farmsto get water every three-four days per plantation. Increase the collection price of the passion fruit from 3 birr to 5 Br/killo. Regular follow up, monitoring and providing expert advice for the farmers are some of the solutions the company fabricated in response to the challenges.

**Advices to Improve Ethiopia’s attraction points of foreign companies:** The management staff advised Ethiopia should work on refining the investment policy, and polish the Contract Farming policy. More data should be collected, analyzed and made public for other foreign companies to have easy access. Fund also should be allotted to facilitate credit for the farmers.

Table 9: Analysis of out growers’ responses

	Response	Frequency	Percentage
<b>Are you currently working with AJ S.C.?</b>	Yes	72	75%
	No	24	25%
<b>Factors limiting you from expanding passion fruit</b>	Limited Skill & Knowledge	15	16%
	Limited supply of irrigation water	43	45%
	Small land holding	13	14%
	High Investment cost	12	13%
	Low price as compared to cost	13	14%
<b>How AJ S.C. impacted your life?</b>	Positively	59	61%
	Negatively	37	39%
<b>Level of Satisfaction</b>	Unsatisfied	22	23%
	Less satisfied	0	0%
	Moderately satisfied	62	65%
	Normally Satisfied	4	4%
	Highly Satisfied	8	8%
<b>Does company provide solution, advice and close follow up?</b>	Yes	74	77%
	No	22	23%

The respondents who confirmed that are currently working with AJ S.C. are 75% while the rest 25% of them are divided among who quitted the program and waiting in the pipeline to be included in the program.

Limited supply of irrigation water is the major factor that limits out growers from expanding their farm, 45% of out growers agreed on this. Limited skill & knowledge is the second highest limiting factor at 16%. Small land holding and low product

selling price are other factors at 14% agreement. The lowest factor at 13% is the investment cost. The reason the investment cost is lowest limiting factor for out growers is because AJ S.C. provides installation cost loan to be repaid by the farmers within three years. The limited skill and knowledge originates since passion fruit is a new exotic fruit which the out growers are not familiar with. Harvesting the fruit requires skill, patience, time and manual labor.

Out growers agreed that since working with AJ S.C. their life has been impacted positively by 61%. The rest said it impacted their lives negatively since their farm couldn't yield the forecasted product and leaving them with the installation cost loan to pay to AJ S.C. The reason for the failure is argued because of the out grower's work ethic by the AJ S.C. Project manager whereas the out growers argue that the issue is due to the weather change. The positive impact is explained as once getting over the hurdle of setting up a new plantation and harvesting started after 9-10 months, selling with no other expense (transportation, no need to find buyer, not even telephone cost) makes the farmers very profitable. Intercropping is also allowed by AJ S.C. during the 9-10 months so the farmers grow onions (vegetables that can grow fast) to compensate for the time frame.

Respondents of 65% are moderately satisfied where as 23% responds as unsatisfied. The reasons are because the hard manual work the harvesting requires (manual pollination), the farm requires extra care, slight neglecting would cause the plant to dry out/get infected.

**Why not currently working with AJ:** The responders who are not working with AJ S.C. currently provided their reason: since they have a very small plot of land, they rather harvest onion and tomato which are easily grown, with high return and doesn't take 9-10 months to harvest, afraid of the startup loan from AJ S.C., and being new to the business so to avoid risk taking are some of the reasons given.

**Living standard negatively impacted:** The reasons given for this are: until harvesting (for 9-10 months), there is no cash from the passion fruit. Draught and disease severely affects the plantation with no return but to repay credit.

**Comment or Solution for the company:** Introduction of new market is very good when you don't have to search for buyer. The sale amount should be higher as it required hard work. Regular Training should be given; Introduction to new other seeds is a welcome. Mechanism should be developed to strengthen the water

irrigation system i.e. electrical water pump is much better than diesel pump cost wise as well as effectively pumping water to the farm.

Table 10: Analysis of the society responses

	Response	Frequency	Percentage
<b>Are you born in Donni?</b>	Yes	18	67%
	No	9	33%
<b>Have you witnessed benefit of AJ S.C.to the village?</b>	Yes	21	78%
	No	6	22%

Responders of 67% are born in Donni. The rest of the respondents came from Adama and Assela. 78% of the responders agreed AJ S.C. has benefited their village whereas the rest 22% of the respondents feel that there are no advantage they witnessed rather disadvantage which is due to natural resource sharing (water)

**The Benefits of AJ S.C. to the Society:**The Company has built School from KG-4<sup>th</sup> grade and children are receiving free education. As most of their adult children are working in the company they receive free school, free medication, and free housing. Church is built by the company for the society. In order to provide for the staff of the company small shops, small hotels are created. Also the road taking to the farm is being asphalted. Overall the area is waking up.

**The disadvantage of AJ S.C. to the society:** the company is taking most of the scarce water obtained from the Awash River causing major problems for those farmers who are not working with the company. Shortage of land to grow both passion fruit and other vegetables, AJ S.C. should allow intercropping.

## CHAPTER FIVE

### CONCLUSION AND RECOMMENDATION

#### 5.1. Summary of Major Findings

The following findings highlights on the challenges faced by AJ S.C., its staff, out growers as well as the society during this outsourcing program.

- Outsourcing means to send away some work to be done by other company.
- Globalization makes outsourcing to exist between countries & continents.
- Ethiopia is interested in outsourcing esp. offshore outsourcing model, attracting agro-processing companies, exporters, and retailers.
- AJ S.C. is a Netherland based company attracted inEthiopia to do off shore outsourcing in agro business.
- It started operation in Ethiopia in 2009 G.C. with an investment of USD10million, acquiring an ex-state government owned farm (Upper Awash Agro) with 14% of the share held by Ethiopian Government.
- AJ S.C. has two holdings in Addis Ababa and at Donni town (49km far from Adama). It is the First and only one to plant and harvest Passion Fruit in Ethiopia. It mobilizes out-growers to produce and supply yellow passion fruits.
- AJ S.C. has a total of 2,361 staff, 17 out growers currently in the program, 100 in pipeline to join the program and 35 who quitted the program.
- The population targets of the study are: The AJ S.C. staff (Management and non-management), it's out growers and the society it operates in.
- Findings from the AJ S.C. non-management staff respondents are:
  - o Most of its higher and middle level management staff acquire MA and BA degrees, its contract staff have certificates as well.
  - o The company has more temporary staff than permanent and contract staffs.
  - o The allowance (free housing, medication, education) and working in a birth place (being close to family) are top ranking reasons staff prefers working in AJ S.C.



- Majority of the staff are moderately satisfied by working with AJ S.C. the reason for their dissatisfaction is the main office being at rural area.
- The poor and non-transparent management style is the major disadvantage
- Findings from the management staff respondents are:
  - The management staff has ample years of experience working in AJ S.C. and working in Africa countries prior to joining AJ S.C.
  - The draught of the past two years curtailed production output
  - Few farmers are interested since the plant requires high labor demand unlike other regular plants
  - Slow credit repayment by the farmers held up the capital of the company
  - Political public unrest is a major turn off for foreign companies wanting to do offshore outsourcing business in any place. AJ S.C. at Donni area has been partially destroyed by the public unrest erupted on October 2016.
- Findings from Out grower respondents are
  - Limited skill and knowledge of harvesting passion fruit as well as limited supply of irrigation water have challenged the out growers
  - Passion fruit demanding by the minute care requires time, energy and poses risk since pollination has to be done manually, if missed for a day/regular time, the plantation may dry out. One of the reason for quitting the program.
  - The water dripping program is not adequate.
- Findings from the Society in which AJ S.C. operates in
  - Infrastructure of School, Road, and Church by the company, small shops, and hotels opened since the company joined the society, prompting the society to be in better economical state than before AJ S.C.
  - The sharing of scarce natural resources: Land and Water, is affecting the society both who are in the project and outside as well.

## 5.2. Conclusion

- The AJ S.C. is benefited from the Market advantage it gained by operating in Ethiopia with low labor and investment cost, and accessible natural resource.
- AJ S.C. is attracted by: the low investment cost the Ethiopian government policy provided, the privatization offer of the farm area they have in mind, The no tax arrangement to import the machineries, the availability of nature resource: land and water.
- The out growers are benefited by joining in the AJ S.C. program: learning new farming technique, intercropping enables them to have a double production benefit. They are being exposed to in the international marketing system. Plus the program changes their rooted farming trend (a laid back one) to be a more active one since passion fruit requires attention and constant care.
- The Society is also getting benefited from AJ S.C., since most of the temporary staff hired by AJ S.C. is from their own children and siblings, their living standard is better. Their children are getting free education, a road and church constructed by AJ S.C. for the village are some of the benefits the society gained because of AJ S.C. The opening of shops and hotels are also improving the economic status of the society
- The challenges AJ S.C. faced are: The politically infused public unrest severely affected the company. The out grower's work ethic is poor. The scarcity of natural resource i.e. Awash River. The slow credit repayment of out growers tides up companies money. The telecommunication, the road and the poor internet connectively are also noted as a challenge.
- The society also faced the biggest challenges because of AJ S.C.: sharing of land and Awash River.
- The attractions that drive a foreign company to do offshore outsourcing in Ethiopia is the policy: requesting minimum investment cost capital, assisting the investor in installation costs, creating a peaceful country. For AJ S.C. particularly the attraction point was the Awash River and the farm which was already was functioning (Upper Awash Agro farm.).

- The prospect of Business outsourcing is a non stopping and ever growing business aspect worldwide. Ethiopia is also joining this particular business relationship with foreign companies as well.

### **5.3. Summary**

Based on the information collected through questionnaire survey and according to key informants from the Out growers, the following summary derived.

- Ethiopia has to improve her image to the world offering Political stability, Data should be accumulated on the off shore business outsourcing trend and reports should be publicized to attract more foreign companies to do the business.
- Contract Farming agreement, poor infrastructure: telecommunication, IT service, transportation facilities are noted to be the major hindrance
- AJ S.C. needs to provide more technical training to its staff, more practical solution for problems out growers are facing. Promote intercropping to support out growers during 9-10months of the first passion fruit harvesting
- AJ S.C. needs to install electrical water pump in order to improve the slow water irrigation system. AJ S.C. also needs to increase the product buying price as well.
- AJ S.C. should improve its management style. It should be more transparent.
- Out growers has to better manage their passion fruit farms: protect it from reach of animals, invest more of their time and energy as the farm demands. Share the investment costs with the AJ S.C.

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# **APPENDICES**



**Appendix A**  
**St. Mary University**  
**Department of Business and Economics**

**Questionnaire for Africa Juice Tibila S.C. Staff**

Dear respondents,

The purpose of this questionnaire is to enable me carry out a research for the partial fulfillment of my master's degree in MBA. The research focuses on the topic: Assessment of Business Outsourcing Challenges and Prospects: The case of Africa Juice Tibila S.c.in Addis Ababa.

This questionnaire is; therefore, designed to collect data for this purpose. Hence, I kindly seek your assistance in honestly responding to the questions listed below. Any information you present will be kept utterly confidential and will be used only for academic purpose. Your cooperation and prompt response is highly appreciated.

*(Please circle a number)*

*(Please write down on the space provided)*

1. How many years have you worked in AJ S.c?
  1. Less than a year
  2. One - Three Years
  3. Three - Five years
  4. Five – Seven years
  5. More than Seven years
  
2. Please circle the appropriate education status you have
  1. Certificate
  2. Diploma
  3. Degree
  4. Master's Degree
  5. NA
  
3. Which site are you working
  1. Donni
  2. Addis Ababa
  
4. What kind of staff are you
  1. Contract
  2. Permanent
  
5. Where are you from?

- 
6. What attracts you to work at AJ S.c?
    1. Salary
    2. Working condition: Management style
    3. Allowances: Medical, Education, Housing
    4. Working at native area
    5. Capacity Building
    6. Other, *please specify below*
-

7. How satisfied are you in working at AJ S.c.? (5 highly satisfied)

<i>Unsatisfied</i>	<i>Less satisfied</i>	<i>Moderate</i>	<i>Satisfied</i>	<i>Highly satisfied</i>	
1	2		3	4	5

8. Is there a disadvantage working at AJ S.c.?

1. Yes
2. No

9. If your answer for question number 8 is Yes, please circle the appropriate

Proposed cause

1. Working Hours
2. Management style
3. Language problem
4. Payment
5. Capacity Building
6. Staffing
7. Other

---

10. Please write the possible solutions proposed for to improve the disadvantages of AJ S.C.

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# **Appendix B**

**St. Mary University**

**Department of Business and Economics**

## **Questionnaire for Management and stakeholders**

Dear Sir/Madam,

The purpose of this questionnaire is to enable me carry out a research for the partial fulfillment of my master's degree in MBA. The research focuses on the topic: Assessment of Business Outsourcing Challenges and Prospects: The case of Africa Juice Tibila S.c.in Addis Ababa.

This questionnaire is; therefore, designed to collect data for this purpose. Hence, I kindly seek your assistance in honestly responding to the questions listed below. Any information you present will be kept utterly confidential and will be used only for academic purpose. Your cooperation and prompt response is highly appreciated.

Name of Interviewee : \_\_\_\_\_

Place of Interview : \_\_\_\_\_

Date of Interview : \_\_\_\_\_

1. How long have you been working in AJ S.C.?
2. Do you have an experience working in African countries before coming to Ethiopia?
  1. Yes
  2. No
3. Why your organization chose Ethiopia to implement its offshore outsourcing company?
4. How do you rate the level of satisfaction the company has towards operating in Ethiopia?

<i>Unsatisfied</i>	<i>Less satisfied</i>	<i>Moderate</i>	<i>Satisfied</i>	<i>Highly satisfied</i>
1	2	3	4	5

5. What is the initiative for the offshore outsourcing of AJ S.C.in Ethiopia?
  1. Lower labor cost
  2. Government support in installation
  3. Policy and Regulation
  4. Market advantage
6. What are the challenges the company faced?
7. Are there any solutions the company fabricated and used to ease the challenges it faced?
8. What could the company say Ethiopia has to improve in order to attract more offshore outsourcing companies depending on its experience?

# Appendix C

St. Mary University

Department of Business and Economics

## Questionnaire for the Out growers

Dear Sir/Madam,

The purpose of this questionnaire is to enable me carry out a research for the partial fulfillment of my master's degree in MBA. The research focuses on the topic: Assessment of Business Outsourcing Challenges and Prospects: The case of Africa Juice Tibila S.c.in Addis Ababa.

This questionnaire is; therefore, designed to collect data for this purpose. Hence, I kindly seek your assistance in honestly responding to the questions listed below. Any information you present will be kept utterly confidential and will be used only for academic purpose. Your cooperation and prompt response is highly appreciated.

Name of Interviewee : \_\_\_\_\_

Place of Interview : \_\_\_\_\_

Date of Interview : \_\_\_\_\_



# Appendix D

## St. Mary University

### Department of Business and Economics

#### Interview questions for the Society

1. Are you native of Donni area
  1. Yes
  2. No
2. Have you witnessed any benefit the village has got because of AJ S.C.
  1. Yes
  2. No
3. If you answer for question 2 is yes, please describe the benefits below
4. If you answer for question 2 is no, please describe the reason below