



St. Mary's University

School of Graduate Studies

**Perceived Relationship Between
Outsourcing and Organizational Performance:
The Case of ethio telecom**

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June, 2018

Addis Ababa, Ethiopia

**PERCEIVED RELATIONSHIP BETWEEN OUTSOURCING AND
ORGANIZATIONAL PERFORMANCE: THE CASE OF ETHIO
TELECOM**

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DECLARATION

I hereby declare that this thesis is the result of my own research work towards the partial fulfilment of the requirements for Master's Degree in Business Administration in St. Mary's University. It contains neither material previously published by another person nor that has been accepted for the award of any other degree of the university, except where I have made explicit references to the work of others.

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APPROVAL

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LIST OF ACRONYMS/ABBREVIATIONS

ET	ethio telecom
ROA	Return on Assets
ROI	Return on Investment
SLA	Service Level Agreement
SWOT	Strength, Weakness, Opportunities and Threats
SPSS	Statistical Package for Social Science
TCE	Transaction Cost Economics

ABSTRACT

Outsourcing has become an important business strategy because it enables businesses to reduce costs, improve productivity, to enable a company to focus on its core activities, to gain access to expertise and to free internal resources for other purposes thereby increasing sales and improving overall organizational performance. The research objectives were to show that there exists a relationship between outsourcing and overall improvement of organizational performance in ethio telecom. To address this, the research focused on the relationship between outsourcing of selected services by ethio telecom on the organization's cost efficiency, improved productivity, enhanced innovativeness and increased sales. A descriptive and explanatory research design was adopted in this study. The total population size was 268 managerial employees. The sample size was 73 managerial employees that were selected using convenience and proportional sampling technique for which a questionnaire has been distributed. Quantitative data resulting from the questionnaire were analyzed using Statistical Package for Social Sciences (SPSS) and qualitative data was analyzed using themes and presented in the form of narratives. Mean and frequency are generated to analyze the data and chi square correlation has also been done for cost, productivity, innovativeness and sales against organizational performance in an intent to show relationship and correlation. The major finding of the study showed that there exists a relationship between outsourcing and operational costs, productivity, innovation and sales thereby affecting organizational performance by showing a chi square statistics of less than 0.01 on all the four correlations (i.e. the alpha level is associated with a 99% confidence level on all cases). Its effect on operational cost was through cost saving from reducing operational cost and improved resources management, which was significant. The improvement in productivity and innovation resulted due to employees' focus on core activities. From the findings of this study, the researcher recommends the assessment of outsourcing impacts and problems to further be performed in ethio telecom. Promoting the adoption of outsourcing in other functions should also be considered. Furthermore, the management of ethio telecom should also devise a mechanism to perform post outsourcing evaluation and thereby develop a remediation plan to make the outsourcing successful.

Keywords: outsourcing, cost reduction, productivity, innovation, sales, organizational performance

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Outsourcing of products and services has become a widely spread phenomenon both from onshore and offshore markets as the need arises in order to manage auxiliary non-core tasks and activities in a way that sustains quality, efficiency and effectiveness. The reason of outsourcing is so that organizations will focus their economies of scale and scope on core areas of operation to withstand cutthroat competition both locally and globally and hence ensure optimal shareholder value. The first appearance of the term outsourcing surfaced in a 1979 article in the *Journal of Royal Society of Arts* that references the use of German engineers by the British automobile industry (Johnson, 2005).

Outsourcing is the handing over of assets, resources, activities, or people to third party management to achieve agreed performance (Wilcocks and Lacity, 2006). Simply put, outsourcing is the acquisition of a product or service from external source outside of the company rather than producing products or performing activities. It is also one way of solving some business problems where the company falls short of technical expertise to ensure the organization get the service.

Outsourcing (some call it "contracting out") 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. The functions that are contracted out can be performed by the third party either onsite or offsite of the business. In today's globally interrelated and interdependent world, outsourcing has great significance and became more and more complex. Outsourcing is seen as a competitive advantage that enables organizations to focus on their core business where their competency is by far better than their competitors. (Bucki, 2018)

Currently, more and more organizations outsource one or more of their business functions to external service providing companies. Outsourcing has become a strategic imperative as organisations seek to reduce costs and specialise in a limited number of core areas.

Increasingly, organisations are looking beyond the traditional boundaries of the firm to reduce costs and achieve performance improvements. Services outsourcing has grown as organisations have been transferring responsibility for entire functions such as human resources, finance and information technology services to both local and global vendors (McIvor, 2000).

The aim of outsourcing may be to reduce costs by saving on personal benefits, or to be able to reassign employees to other tasks that are more important. Thus, outsourcing is an important tool for a company to make it grow and to maintain a competitive position. It enables a firm to focus on its core competencies and let outside companies do what these firms can do best (Koontz and Wehrich, 2004).

The basic reason for outsourcing is to reduce costs and ensure organizational efficiency and effectiveness added with an improved quality. The organization chooses to spend those savings, whether they are passed along to its customers, reinvested into other areas of its operations, or returned to its owners and shareholders, the need for every organization to continually drive down its costs is constant. Another most important driver of outsourcing is the creation of more variable cost structures. Instead of having relatively fixed investments in its internal operations, the company that chooses to outsource will find that its cost structure can shift to an on-demand model. This reduces the effective cost of operations by enabling the company to adjust expenses in response to changes in the marketplace (Corbett, 2004).

According to Koontz and Wehrich (2004), other reasons why companies engage in outsourcing include gaining access to the best sources available worldwide, sharing of risks between the firm and its suppliers, and allocating capital to key success factors. In general, outsourcing enables a firm to focus on its core competencies and let outside companies do what these firms can do best and thereby influence the organizational performance measured by analysing its organizational achievements as compared to corporate goals and objectives based on the essential expected outcomes such as: financial performance, market performance and shareholder value performance.

Though outsourcing has its own benefits, it also entails risks and pitfalls. The benefits of outsourcing of course are variable, dependent upon the nature and situation of the

organization. Some of the benefits include but not necessarily limited to lowering costs (due to economies of scale or lower labour rates), increased efficiency, variable capacity, increased focus on strategy or core competencies, access to skills or resources, increased flexibility to meet changing business and commercial conditions. Moreover, other benefits also include accelerated time to market, lower ongoing investment in internal infrastructure, access to innovation, intellectual property, and thought leadership, and possible cash influx resulting from transfer of assets to the new provider (The Outsourcing Institute). Some of the major risks that happen when outsourcing include but not limited to slower turnaround time, lack of business or domain knowledge, language and cultural barriers, time zone differences and lack of control.

Outsourcing in any organization can be driven by a multitude of reasons. The most commonly noted drivers of outsourcing can broadly mentioned as cost, innovation and focus and driven outsourcing strategies (Musa, 2016).

Organizations outsource for a variety of reasons, including but not limited to access to competitive production factors, economies of scale, higher innovation capabilities, higher quality products, lower operating costs, greater focus on critical processes, and increased flexibility for coping with the current volatile business environment. (The Outsourcing Institute). The perceived benefits of outsourcing encompass competitive (that can be measured by productivity and lowest cost), financial (measured by return on investment (ROI), strategic/innovation (measured by the volume of new products and services), and stakeholder issues (that can be measured by the creation of employment on core activities and relationship with customers) (Mohiuddin and Su, 2013).

Ethio telecom came to picture by changing its name and branding in November 2010 when the government of Ethiopia entered into agreement with France Telecom to outsource the management of its sole telecom provider to France Telecom. The outsourcing of the management was meant to improve coverage and service for a contractual period of two years. Consequently, France Telecom strived to improve and modernise ethio telecom's overall business aspect by implementing a new organisational structure.

Outsourcing is one of the most prevalent trends in today's world business environment even though it is a new phenomenon in Ethiopia. Ethio telecom has different reasons for outsourcing the parts of functions in its operation. The driving factor to outsource service is focus. It has strategically decided to focus on core operations and obtain the auxiliary services from third parties through outsourcing reckon performance enhancement. In the context of this research performance may be understood as management efficiency, extended outreach of the outsourced services to clientele, sales growth and customer satisfaction, Besides, performance can be measured by the introduction of new products and services, the positive change volume of sales and growth in profit.

1.2 Statement of the Problem

In Ethiopia, outsourcing is a recent phenomenon and it is found to be at the preliminary stage to prosper as strategy management tool because of the fact that the market is not as such developed to provide the requisite products and services in the required breadth and depth. Nonetheless, companies that deploy outsourcing as a strategic management tool is increasing in order to foster competitive edge and enhance efficiency and effectiveness in their operations by focusing on key areas, cutting costs and bringing process efficiency sourced from out.

Basically, the trend in outsourcing among Ethiopian firms is a driven by cost cut, focus or a combination of both. The services that are commonly outsourced to external suppliers are the non-core, auxiliary ones such as janitorial service, security guard services, maintenance & garage service, accounting & tax services, legal services, medical services, payroll & human resource services and information technology services. Foreign origin companies operating in Ethiopia have had the luxury to outsource some of their products and services to gain competitive advantage. Because, the market is vast and mature to avail them the services they go for outsourcing.

Ethio telecom is from among the government owned organizations' that outsourced some of its service activities. Ethio telecom has a wide range of customers and variety of services that makes it difficult to reach all customers and satisfy their needs. Apart from its operational activities, the complexity to identify core and support functions and to exert utmost effort in

optimizing its core competencies and operation to provide high quality, modern and competitive telecom service become an apparent burden for the company's management.

As the need to emphasize on the value-added (core) functions, ethio telecom has considered business process outsourcing as strategic option to reduce these burdens thereby resulting in cost reduction, improved productivity, enhanced innovativeness and increase sales. As presented in Table 1.1, several functions were outsourced by the company.

Table 1.1: Functions outsourced by ethio telecom

Outsourced Activity/Function	Vendor	Year Outsourced
Garage Service	Hidase Telecom	2011
Maintenance Service	Hidase Telecom	2011
Telephone line maintenance service	Small and medium enterprises	2011
Bill collection	Lehulu	2013
Janitorial Service	Different enterprises	In the 1990s but exact time not known

Source: Tele Negarit (2013)

As such, the relationship between outsourcing these selected activities and the performance of ethio telecom has not been performed. There has not been related literature and verifiable research works in the Ethiopian context to know the relationship of outsourcing and organizational performance. Hence, the study intends to analyse the relationship of outsourcing the aforementioned functions by ethio telecom and its performance with respect to cost, productivity, innovativeness and sales based on perceived results rather than direct measurement of performance indicators.

1.3 Research Objective

1.3.1 General Objective

The overall objective of this research is to analyze the perceived relationship between outsourcing and organizational performance of ethio telecom.

1.3.2 Specific Objectives

The specific objectives of the study are to know the relationship of:

- i. outsourcing in organizational performance of ethio telecom through cost reduction
- ii. outsourcing in organizational performance of ethio telecom through improved productivity
- iii. outsourcing in organizational performance of ethio telecom through improved innovations
- iv. outsourcing in organizational performance of ethio telecom through increased sales

1.4. Research Hypothesis

- H₁:** There is a positive relationship between outsourcing and organizational performance through cost reduction
- H₂:** There is a positive relationship between outsourcing and organizational performance through increased productivity
- H₃:** There is a positive relationship between outsourcing and organizational performance through improved innovativeness
- H₄:** There is a positive relationship between outsourcing and organizational performance through increased sales

1.5. Scope and Limitation

The scope of the study was limited to outsourced services in particular to voucher card distribution service, bill collection, garage services and maintenance services. The research was delimited geographically at ethio telecom Head office. Furthermore, the most significant limitation of this study was that the relationship between outsourcing and organizational performance was investigated based on perceived results rather than direct measurement of performance indicators.

1.6 Significance of the Study

This study highlighted the relationship between outsourcing and organization performance of ethio telecom that are explained by operational cost, productivity, innovation and sales. The results of this study would help management see the relationship of outsourcing on their organizational performance and pinpoint areas where policy change have to be made related to outsourcing in order to boost productivity, innovativeness and sales which in turn relate to

organizational performance. Furthermore, the study tried to pinpoint the importance that organizations' should perform evaluation activities to properly monitor and adjust (if need be) their post outsourcing performance.

1.7 Organization of the Study

The study was organized in the following manner.

Chapter One focuses on the background of the study that provides what outsourcing is and discusses why companies opt for outsourcing, the statement of the research problem, research questions and objectives. Furthermore, research hypotheses were outlined for this study, scope & limitations of the study are stated, and significance of the study is highlighted.

Chapter Two deals with literature review mainly theoretical, empirical and conceptual frameworks. The theoretical frameworks are cited in relation to transactional cost economics (TCE), relational view, the concept of core competence, resource based view, agency theory, and knowledge based view and social exchange theory. Each theory has its own significance that describes the importance and benefits of outsourcing. Types of outsourcing, components of the outsourcing process and drivers of outsourcing are also explained in this chapter. Furthermore, empirical studies from previous studies were presented.

Chapter Three presents research design, methodology, the research type, population of the study, sampling method, sample size, data collection instrument and method of data analysis are presented.

Chapter Four covers data analysis and interpretation by using mean and frequency of responses coupled with a chi square (significance test) to see whether there is a relationship between outsourcing and organizational performance. Chapter Five presents summary, conclusion, recommendations and provide suggestion for future researches.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1. The Concept of Outsourcing

The past few decades have witnessed a boom of outsourcing in which firms transfer their non-core business activities to third-party service providers. Functions that have seen substantial outsourcing include information technology management, support services, manufacturing, logistics, and customer support. The biggest motivation for such outsourcing has been to maintain a competitive edge by reducing costs and focusing on core competencies (Zhao et al, 2014).

Outsourcing practices is an emerging concept in Ethiopia and a recent phenomenon that is largely introduced after the decision by public and private enterprises to re-engineer the traditional method of doing business where outsourcing has evolved as an imperative strategic tool to carryout non-some supportive business activities and devote the organizational vigor and resources towards the core functions. It is therefore essential to understand the existing theories and practices on how these institutions decide to source goods and services out from external vendors by making sure the capacity, intelligence and experience of these providers and the adequacy of the market to supply outsourcing needs in breadth and depth. Two scholars (Jurison, 1995), discussed such theoretical frameworks. The theories discussed are the decision theory and the risk and corporate risk appetite theory by (Bauer, 1967).

The decision theory reveals the notion of risk-benefit analysis that measures the magnitude of risk involved and the expected return from a decision that is made, to reckon optimal result from engagements. Cognizant to the risk and return trade off in mind, the decision maker shall appraise the potential risk and benefits that may arise from the outsourcing process before it decides to procure services or goods from a third party vendor through outsourcing contract. As explained Bauer (1967), the risk theory analyses the risk a person individually assumes and the outcome entailed subsequent to the decision the respective effect of that decision on the interest to conduct a transaction with other parties. Hence, if the expected benefit outweighs the associated risks, the person will have a positive attitude and capacity towards to pass decision. According to Pavlou (2001), potential risk refrain individuals from making

deals provided that gross risk involved outweigh in contrast to the expected benefit. For obvious reasons the attitude and perception about the outsourcing of a good or service could be positive or negative, which depends on their understanding and quantification of the risk and return thereon.

Academic research on outsourcing often relies on the risk framework developed by Das & Teng (1996). They divide alliance risk between the outsourcer and the vendor into two broad categories: relational risk, the risk that alliances will fail due to poor cooperation between opportunistic alliance partners, and performance risk, the risk that operational or performance factors will undermine the success of alliances despite full cooperation by all alliance partners. The risk-benefit framework is also applied to evaluate outsourcing decisions since it concurs with decision theory regarding decisions that involve risk or uncertainty (Tamura, 2005). In outsourcing studies, the analytical framework of balance between costs and risk is well documented (Jurison , 1995). This suggests the financial administrators need to assess all the perceived risks and potential benefits in making outsourcing decisions. These factors indicate the final decision to outsource a function or not. To deliver quality services to their clients, bigger organizations might be obliged to give due focus only on their core competencies and divest their auxiliary functions.

In doing so, the main consideration for outsourcing decision is that if an organization cannot provide a service or product at lesser cost than and of equal quality to an external provider, then it should outsource the service or product from an external vendor. Advocates of outsourcing argue that the private sector provides better service and more efficiently and at lower cost than the public sector which is unmotivated by profit (Jefferies, 1996). This can result in two ways, added expertise and economies of scale. Institutions can structure the outsourcing contract so that a vendor bears the cost of bringing in new equipment and technology, new levels of expertise and business knowledge. Services providers are experts in their respective fields of operations and they possess the latest technology and knowledge to complete the assigned job. They point out that outsourcing reduces a firm's labor and benefits costs, provide a single point of accountability, and provide predictable costs; the resultant cost savings permits to focus more resources on its core functions.

The key to any outsourcing endeavour is to ensure that the process helps fulfil the organization's mission and long-term goals and objectives. It requires a number of support services in order to achieve their primary missions. If these organizations feel that they are not in a position to maintain these support services to the expectations of the community, it is highly commendable to outsource these services to outside experts who are capable of providing high levels of services.

Outsourcing for any organization can be a very demanding task and tough process in both implementation and overall acceptance by the stakeholders of the organization since it affects employees and other patterns. The level of complexity increases from time to time due to failure stories of others, ownership stability, management philosophy, and structured norms and cultures creating more resistance to change (Bartem and Sherry, 2001). It is believed that outsourcing is natural processes for business operations, but unlike businesses have significant differences due to the effects of outsourcing in areas of motivation, performance and evaluation.

Kennedy (2003) argues that the prime reasons for outsourcing include enhanced service, staffing constraints, and budget constraints, to access technology. Similarly, Jefferies (1996) asserts that outsourcing, when properly managed, is expected to produce several benefits, such as reduced costs, improved service quality, and increased efficiency and innovation. In other words, outsourcing results in improving the strategic triangle of an organization quality, cost and time.

Some organizations do not want to spend resources to do market research or other formalities in acquiring the latest techniques. Contracts will be entered with capable and trustworthy vendors so that they bear the cost of acquiring new equipment and technology. Outsourcers take the advantage of economies of scale achieved by vendors who specialize in a particular service area, allowing them to acquire inputs at a lower cost. Vendors are also forced to use the most cost-effective means to provide a service to ensure that a profit is realized and this will be an added advantage to the outsourcer, which has other prime goals and objectives.

Outsourcing decision-making should involve a number of strategic issues and it should examine the full array of options and select the operating and management approach, which is best for the organization. At first, understanding how the functional area in question is

currently operated and conducting thorough SWOT analysis enables the outsourcer to make informed decision.

According to Weele (2010) outsourcing describes a company that divests itself of the resources to fulfil a particular activity to another company, to focus more on its own competence. Some of the major characteristics of outsourcing that can worth mentioning are; the activities initially performed in-house are transferred to an external party, the assets, knowledge and in some cases, people. There will be an external relationship between the parties involved over a long period of time, that in transferring the activity to the external party the buyer is exposed to a cost and a risk profile, both of which are new to the companies involved.

2.2 Theoretical Foundations of Outsourcing

Since its inception, there are different theories advocated by different scholars on outsourcing. The most commonly cited theories proposed are Transactional Cost Economics (TCE), Relational View, Concept of Core Competence, and Resource Based view, Evolutionary Economics, Agency Theory, Knowledge Based View, Neo-classical Economic Theory, Social Exchange Theory and Economy of Information. Each of these views have underpinned different perspectives related to business process outsourcing.

2.2.1 Transaction Cost Economics

Transaction cost economics (TCE) has been the most utilized theory of outsourcing. The TCE theory was developed through the exceptional contributions of Economics Nobel Laureate (Coase, 1937). He noted that firms, to buy a product or service, incur some costs. The TCE include price searching, provider searching, negotiation, and contracting and are termed transaction costs. For Coase (1937), firms and markets are alternative forms of organization to manage the same transactions, and the choice of where to carry out these transactions influences their efficiency. Based on an analysis of the magnitude of these costs, entrepreneurs decide where the transactions should occur, either within the firms or in the market. TCE is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influenced that it has been applied in studying the managing relationship phase, whilst the concept of switching costs made the theory applicable in the

reconsideration phase. Another useful issue for outsourcing provided by TCE is explanation of contractual complexity (Perunović, 2007).

Though it has been exercised extensively in outsourcing applications, the TCE has several limitations in applying in a wider sphere of outsourcing arrangements and contracting. Lacity and Willwoks (1995) found that the original mapping to the TCE framework only explained few IT sourcing decisions and generated much more anomalies in their sample. Besides, TCE relies on a single transaction as a unit of analysis, neglecting other arrangements, being static, which does not correspond to dynamism of current business environment.

2.2.2 Relational View

Relational view develops and explains how firms can maximize their gain and sustain competitive advantage in the near future bound within inter-organizational relationships (McLevor, 2005). The central idea of the relational view bases on the presumption that the concept of relational rents has to be explored to describe how firms choose their future outsourcing vendors and ideal type of the relationship. It has been also utilized in the overall outsourcing process steps; more importantly in studying the transition, managing relationship and reconsideration phases. Hence, it is the only theory can be applied across all phases of outsourcing arrangement carried out by organizations.

2.2.3 Concept of Core Competences

Resource based view is the underlying foundation of the theory of core competencies. The core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies (Prahalad and Hamel, 1990). The concept is mainly used to determine, envelop and test various outsourcing decisions arguing that the core functions and activities of the organization where the organization has high capability shall remain in house provided that the benefit of retaining in house is of paramount importance. Vendor's competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina & Ross, 2003).

2.2.4 Resource Based View

Resources are the prime tools in fostering performance and ensuring shareholder value through efficient and effective utilization. A firm should be construed as an administrative structure that connects and coordinates the activities of many individuals and groups. Overall, it should be viewed as a set of productive resources (Penrose, 1956). The type of resource controlled by different firms might be different and heterogeneous, albeit they operate in a similar industry. If the resources and capabilities of firms are mixed and deployed in an optimum way, they can fetch competitive advantage for the firm. According to Barney & Hesterly (1996), the resource-based view, in outsourcing builds from a proposition that an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness.

2.2.5 Agency Theory

Agency theory was initially proposed to emphasize the relationship between managers and stakeholders (Jensen & Meckling, 1976). The concept has been spread in the course of time on explaining the relationship between two inter-firm subjects. In that context, we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards that may be committed by the vendor after outsourcing and adverse selection that might be committed by the outsourcer before inking the outsourcing contract (Arrow, 1985) should be resolved by monitoring and bonding (Barney and Hesterly, 1996). Thus, the application of the theory in the outsourcing process is found in the screening for vendors and defining its own attitude towards the type of the relationship.

2.2.6 Knowledge Based View

The knowledge-based view provides insight in understanding how individuals co-operate to produce goods and services. The knowledge-based view distinguishes two ways how knowledge is shared among partners (the outsourcers and the providers); namely, knowledge generation and knowledge application. The knowledge-based view has been used in the outsourcing research to prove that knowledge sharing in the managing relationship phase is positively related to the success of an outsourcing arrangement (Perunović, 2007).

2.2.7 Social Exchange Theory

The social exchange theory explains interpersonal relationships by advancing the economic cost benefit analysis as a prerequisite for social engagement, and interaction. The theory presupposes that the exchange of resources (material or social) is a basic form of human interaction. Social exchange is an ongoing reciprocal process in which actions are contingent on rewarding reactions from others (Gottschalk & Solli-Sæther, 2006). The theory has been used in conjunction with Transaction cost economics (TCE) to specifying switching behavior in the reconsideration phase of outsourcing arrangement.

2.2.8 Economy of Information

Information asymmetry is created because of the inefficiency of markets. Therefore, new economic models emerged to explain situations where two parties have disparity of information on the same subject. One of the first works in the area was development of the search theory. The identification of sellers and the discovery of their prices are only one sample of the vast role of the search for information in economics. Another key concept of the economy of information is the concept of signaling developed by (Spence, 1973).

Markets in which signaling takes place and in which the primary signalers who credibly convey actual information about themselves (the gents) are relatively numerous and in the market sufficiently infrequently that they are not expected to invest in acquiring signaling reputation. Application of the economy of information in outsourcing is associated to activities of searching, selecting, and contracting the vendor. However, the economics of information has not been used explicitly in the studies of the outsourcing process.

2.3. The Nature of Outsourcing

The term "outsourcing" is borrowed from the English language and literally translates as the use of foreign resources. The underneath table enlist the definition of outsourcing given by different scholars.

Table 2.1 Summary of Definitions on Outsourcing

Source	The definition of "outsourcing" term
1. Mikahilov (2006, p. 12)	The transfer of conventional and organically inherent functions of the subjects to third-party companies.
2. Rumyansteva (2006, pp. 31-32)	Way to optimize the company through the transfer of non-core functions to outside specialized companies.
3. Raizberg & et al (2005, p. 29)	The transfer of traditional non-core functions of the organization to outside subcontractors, which are highly qualified third-party companies, with the rejection of its own business process, considering it as a way of co-operation.
4. Kalendzhyan (2003, p. 270)	The tool that allows effectively allocate the internal and external resources and funding to reach the goals and challenges facing by modern business in conditions of dynamic insuperability.
5. Mol (2007)	Dependence on the external resources.
6. Lonsdale & Cox (2005)	The process of transferring the existing within the company functions to a third party company.

By and large, from these definitions, outsourcing can be taken as an effective business model, which is the deployment of external resources to achieve own goals.

2.4 Types of Outsourcing

Brown & Wilson (2005), distinguished different categories of outsourcing as described below:

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

2.4.1 Selective and Full Outsourcing

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

2.4.2. Tactical and Strategic Outsourcing

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

Tactical outsourcing may involve of outsourcing non-core activities to enable decision makers to acquire industry specific capabilities by collaborating with a chosen vendor (Hussey & Jenster, 2003). This is a common method used by large mature corporations for handling high-volume repetitive tasks. This is used for processes such as payroll transactions, HR administration, and procurement. Strategic outsourcing is used as a process of outlining the organization as new and would result more free time for decision makers to focus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best in class integrated service providers.

2.4.3. Transformational Outsourcing

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

2.5 Outsourcing Process

It is commonly recognized that the outsourcing process consists of the preparation, vendor(s) selection, transition, management of relationship, and reconsideration phases. Each of the phases has been broken down in the series of activities that an outsourcing company performs (Perunović, 2007). In general, the typical process encompasses decisions to continuous management and performance evaluation along with the life cycle of the relationship between the host institution and the business process vendor (Brown & Wilson, 2005). Outsourcing is the process of establishing and managing a contractual relationship with an external third party supplier for the provision of services or capabilities that has previously been provided in-house (Momme, 2001).

In spite of an impressive research intensity of the outsourcing process, there are only few frameworks depicting the actual stages and the layout of the overall process of outsourcing. Figure 2.1 presents an overview of some of the frameworks.

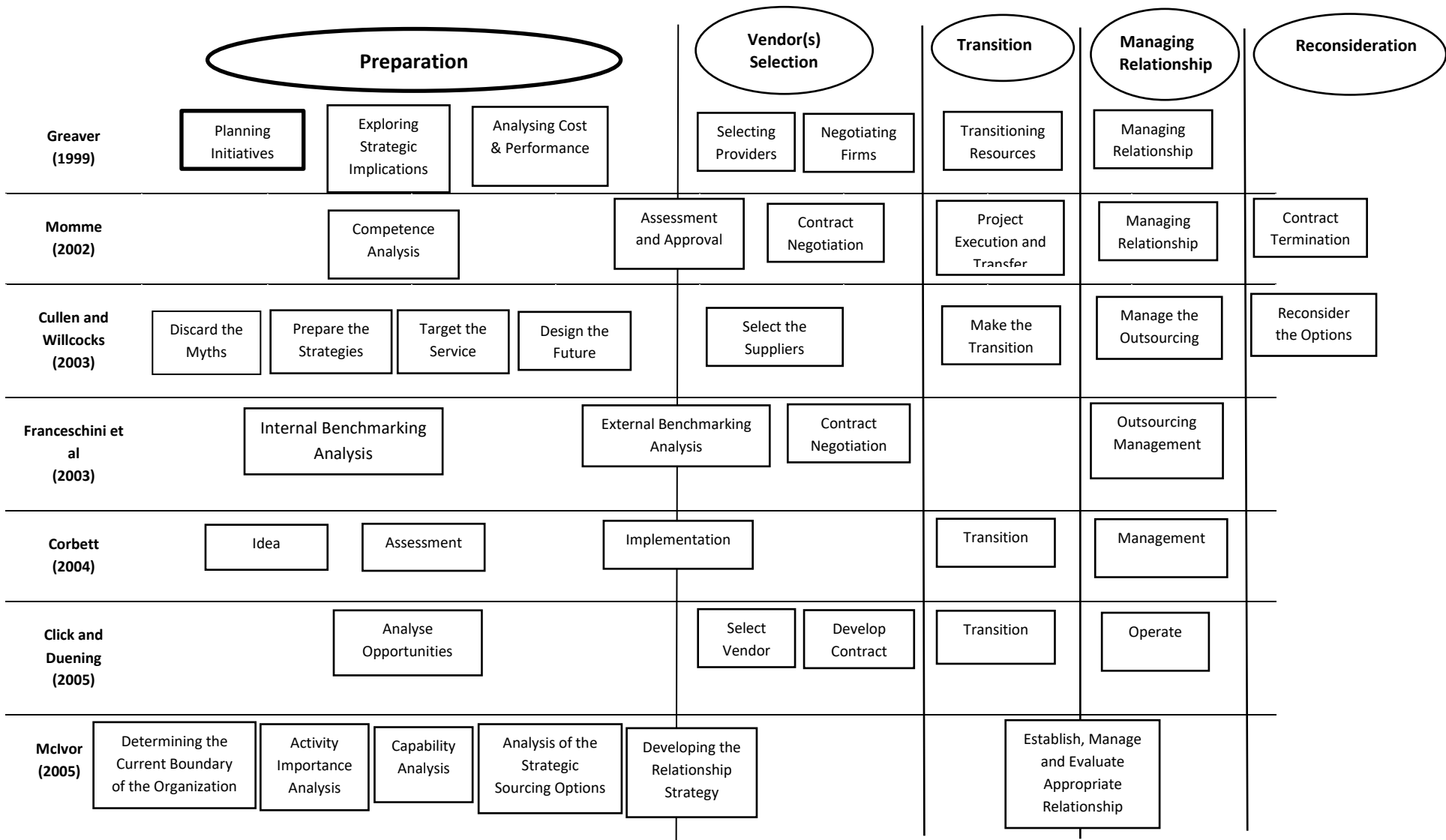


Figure 2.1 Overview of the outsourcing process frameworks (Source Perunovic et al 2007)

By analyzing the content of the stages of each of the proposed outsourcing process frameworks, (Perunović, 2007) aligned the frameworks and grouped the stages into the following sequence: preparation, vendor(s) selection, transition, managing relationship and reconsideration (See Figure 2.2). Each of the stages has to provide an answer on various questions, thus emphasizing the complexity of the outsourcing process and arguing for a need that it has to be managed carefully throughout all of its life cycle. Recurring and holistic characteristic of outsourcing process management is stemmed in the evolutionary economics (Nelson & Winter, 1982). The evolutionary economic theory is in the core of process theories. It has received significant application in exploring firm's learning characteristics for improving performance creating value (Anand and Khanna, 2000), and capabilities (Kale et al., 2002).

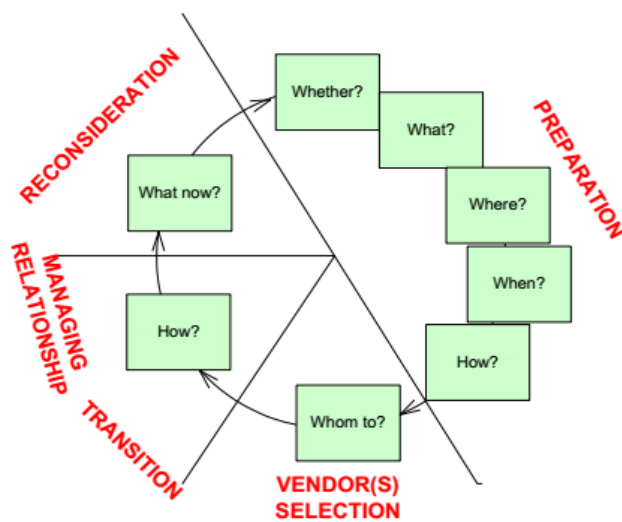


Figure 2.2 Framework for the process of outsourcing (Source: Perunovic et. al., 2007)

A more detailed into the contents of the phases is given in the following table.

Table 2.2: Key activities and issues within the phases of the outsourcing process

Phase	Key Activities	Some key issues
Preparation	Strategy Sourcing Options Configuration Screening of potential vendors Preferred relationship Preferred length of the contract Drafting the SLA	Underlying philosophy Why and what to outsource Big Bang Incremental Piecemeal Many Suppliers Preferred suppliers Prime contractor with subcontractors Sole supplier (one stop shop) Contractual of collaborative
Vendor(s) Selection	Announcing Outsourcing Choosing the vendor Negotiating Finalizing the contract	RFP Evaluation Creating a win-win situation Type, flexibility and content of the contract
Transition	Defining communication and exchange of knowledge and information Transferring assets, people, information, knowledge Hardware, software Human Resource management	Change management Reengineering Adopting organizational structure and processes Job loss, transfer
Managing Relationship	Type of relationship Maintaining relationship Handling meetings and communicating Performance monitoring and evaluation Applying incentives and penalties Solving problems Re-negotiating and managing variations Managing success factors	Reciprocal Client dominant Vendor dominant Preferred vendor Contracts Trust Hostages Economic Factors Character of the exchange Co-operation between buyer and supplier Distance between buyer and supplier
Reconsideration	Reconsidering	Continue Change Vendor Backsource Switching Costs

Source: Adopted from Perunovic et al (2007)

2.6. Advantages and Disadvantages of Outsourcing

Outsourcing is normally perceived as an advantages move to the organization. The merits and demerits can be categorized as strategic or tactical, long-term or short-term, and tangible or intangible.

2.6.1. Benefits of Outsourcing

The most significant advantages of outsourcing are focus on core activities, cost savings, access to experience, improving performance, and flexibility. Many researchers argue on the fact that by handing over noncore activities to a trusted third party supplier, a company may be able to concentrate on its core activities that add value to its value proposition and increase its competitive position (Gulzhanat, 2012). Business is growing up and the pressures on the individual functions are increasing in proportion with it, by using outsourcing, there is no need to hire additional staff and equip jobs - the outsourcing partners could make any volume of work accurately and on time. (Dumnaya & Cheremishin, 2010).

- ❖ The use of highly skilled professionals with extensive experience, the hiring of whom would be too expensive or not rational.
- ❖ Introduction of advanced technologies through specialized outsourcing company
- ❖ Improving the competitiveness of the company when an outsourcing firm is better able to invest its released resources in its core business
- ❖ No dependence on the disease or dismissal of employees Improved Customer Satisfaction

According to Somajai (2017) and Jiang & Qureshi (2006), outsourcing brings about the following advantages to an organization.

- **Reduction and control of operating costs.** Instead of employing expensive specialists that might not be kept busy at all times it could be cheaper to ‘buy in’ specialist services or products as and when needed. Outsourcing firms may be economical if they benefit from economies of scale, as they may provide similar services to other big companies or a large number of other businesses. Much outsourcing involves off shoring – buying in services, components or completed products from low-wage economies.
- **Cost certainty.** An outsourcing contract at a fixed, or closely defined price, releases most of the financial risk on to the service provider resulting in costs becoming more predictable.

- **Cost restructuring.** For some types of outsourcing such as component manufacturing, there will be lower fixed costs and higher variable costs. If all components are outsourced, then these costs are all variable. On the other hand, if all the components were made in-house, there would inevitably have been associated substantial fixed overheads.
- **Access to cutting-edge expertise and talent.** In technically advanced, fast moving industries, it can be difficult for small companies to develop or make use of new processes. Outsourcing to a third company that specializes in a specific service can give access to the latest technologies.
- **Better quality.** There can be an immediate improvement in quality if a process is outsourced to an excellent company where the quality is carefully defined in a service level agreement.
- **Increased flexibility.** By minimizing the expenses from the staff payroll and buying in services when needed, fixed costs are converted into variable costs. Added capacity can be acquired from outsourcing only when necessary. Contracts need to be withdrawn if demand falls much more quickly rather than closing down whole factories owned by the business.
- **Improved company focus.** By outsourcing ‘peripheral’ activities, the management of a business can concentrate on the main aims and tasks of the business. These are called the ‘core’ parts of the business.
- **Access to quality service or resources that are not available internally.** Many outsourcing firms employ quality specialists that small to medium-sized businesses could not afford to employ directly.
- **Free up internal resources for use in other areas.** If the human resources department of a certain company is closed and the functions outsourced, then the resulting office space and computer facilities could be made available to improve customer service.
- **Expertise and fast delivery:** Most of the times tasks or projects are outsourced to others who specialize in the particular field. The outsourced suppliers must have specific equipment and technical expertise, mostly better than the ones within the outsourcing organization. This means the tasks should be completed faster and with better quality and prompt delivery.
- **Risk sharing:** This is the most crucial factors determining the outcome of a campaign is risk-analysis. Outsourcing certain components of many company’s business process that

helps the organization to shift certain responsibilities to the outsourced vendor. The outsourced must have ability to plan your risk-mitigating factors better.

2.6.2. Weaknesses of Outsourcing

As opposed to the advantages, outsourcing has its own pitfalls that might harm the expectations and objectives of the firm. Main disadvantages of outsourcing are loss of managerial control over outsourced operations, threat to security and confidentiality, quality problems, hidden costs and reallocation of existing teams (Gulzhanat , 2012).

Somajai (2017) and Jiang & Qureshi (2006) the following weakness that may result subsequent to outsourcing.

- **Loss of jobs within the business.** Workers who remain directly employed by the organization may experience a loss of job security, reducing motivation. Negative reputation may result from redundancies, especially if the business is accused of employing very low-wage employees in other countries to replace the jobs lost. In such a case, the firm's ethical standards could be questioned.
- **Quality issues.** Internal processes will have to be monitored by the firm's own quality assurance system. If quality controls should not be performed the third party company. To this end, a clear contract with minimum service-level agreements are needed. The company contracting out the functions may have to send quality assurance staff out to the business undertaking the tasks to ensure that product quality and customer service standards are not compromised.
- **Customer resistance.** This could take several forms. Outsourced components and functions may raise doubts in customers' minds over quality and reliability. A good example may be overseas telephone call centres as they have led to criticism about inability to understand foreign operators. Customers may object to dealing with overseas-outsourced operations.
- **Ethical concerns.** Outsourcing, if is undertaken by firms in countries with poor human rights or employment rights records, it may be cheaper for the business that has outsourced – but how will the media and consumers view this potentially unethical decision?
- **Security.** Using outside businesses to perform important IT functions may be a security risk – if important data were lost by the business, who would take responsibility?

- **Synchronizing the deliverables.** If you choose a wrong partner for outsourcing, some of the common problem areas include stretched delivery periods, substandard quality output, defects, and inappropriate categorization of responsibilities. At times, it is easier to mitigate these factors inside an organization rather than with an outsourced partner.
- **Many hidden costs.** In general, the concept of outsourcing is cost-effective but 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 have to serve many companies and multiple organizations at a time. Therefore, they may lack a complete focus on your organization's tasks and job assignment.
- **Damage to reputation.** If the outsource company does not perform properly – for example, not manufacturing to the required quality standards and not supplying goods on time –great damage can be done to the organization's reputation.
- **Success depends on another company's performance.** Even if there is always a dependency between outsourcing company and service provider, outsourcing shifts more responsibility for success to other companies' performance. If an important outsource company goes bankrupt, this can also have serious consequences on the former.

2.7. Drivers of Outsourcing

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments (Bhattacharya et al 2003). Technical reasons for outsourcing are quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale.

The most conspicuous of the results of tactical drivers of outsourcing are shortage of skilled workers and cost-reduction opportunities. Strategic reasons include refocus on innovation and core-competencies. Leading organizations are shrinking their business cycles and tightening feedback loops (Brown and Wilson, 2005; Greaver, 1999), and increasing quality standards. Chamberland (2003) classified drivers of outsourcing into three categories, viz. organizational, improvement, financial and cost drivers as discussed below.

1) Organizational Drivers

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever-changing business conditions, demand for products and services, leveraging emerging technologies and achieving higher stakeholder value. Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing paves the way to the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer. Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labour-intensive service industries.

2) Improvement Drivers

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with superior providers. Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement. An institution that realizes that its in-house skill-set is inadequate for a given function as business dynamics change, may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities.

3) Financial and Cost Drivers

The objectives of this initiative is to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Having access to a third party provider's lower cost structure is one of the most compelling short-term benefits of outsourcing.

Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology.

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

2.8 Outsourcing and Organizational Performance

Irrespective of the factor that drives, outsourcing entails an impact on organizational performance explicitly or implicitly. Outsourcing enables the avoidance of the bureaucratic costs that are typically related to the organizational production while also creating the possibility of obtaining benefits from relationships with suppliers who can manage the tasks at minimal cost and enhanced quality that drives customer satisfaction. This will enable the firm to divest its resources (both human and capital) to its core operations that are mainstay for its existence. However, organizations must not only control but also strategically organize and leverage these outsourced activities to generate superior performance (Sirmon et al, 2008).

In an attempt to analyze the relationship between outsourcing and performance, organizational performance was measured using different performance measures (Conde, 2012). As cited by Conde (2012), managers were asked about the level of their business performance along several dimensions relative to their expectations on a five-point Likert scale (Bisbe & Otley , 2004); (Gunday et al, 2011); (Kores & Ghosh, 2010). The selected items proxy measurement parameters used to gage organizational performance include eight selected dimensions, which were aggregated in an adapted version of Gunday et al. (2011):

- ***Financial performance*** (sales, profits and ROA);
- ***Market performance*** (market share and internationalization); and
- ***Innovative performance*** (new product launched, improvements to existing products and changes in product design).

According to Hojinik (2010), the performance measures of organizations can be classified into nine categories to which firms can analyze the effect of outsourcing thereon. These refer to improving income, decreasing expenses, company growth, business factors, personal factors, the need of extreme concentration on the main part of actions, the need to enhance management and decrease threat, periodic specific achievements and too high start of financial commitment for accomplishment of specific actions.

If organizations thrive to manage outsourcing properly in an orderly manner by reducing the inherent risks involved in, the efficiency of the operational functions can be increased with a tolerable risk and human resource management. Outsourcing has an ability to increase the sales revenue as well as residual income. When the costs of production (internal and external) are considered, the capacity enhancement advantage can be evaluated properly (Papaioannou, 2002).

2.8.1 Cost-Driven Outsourcing and Organizational Performance

Today, outsourcing has become a strategic lever in the global economy and it is widely expected that this trend will continue in the near future. Kenyon & Meixel (2005) found that outsourcing works better for international markets where labor and cost of doing business is cheaper due to comparative advantage of nations. The strategic theme of outsourcing and the surging demand for offshore outsourcing and contract manufacturing in lower cost countries such as India and China, fueled by these countries' comparative advantage. The tendency of outsourcing in foreign countries is basically due to lower cost (Mella & Pellicelli, 2012). However, as Instiga & Werle (2000) stated outsourcing at the operational level can easily lead to the development of subordination that may expose the organization to unprecedented vulnerabilities. Therefore, outsourcing is undoubtedly a strategic move by organizations. However, the crucial essence is consideration of the strategic value that outsourcing can add to the organization. They have also noted that, the real risk is in losing the strategic intent of outsourcing in the recurring red tape of the organization's operations. The dominant success of outsourcing becomes lower cost. The respective impact on organizational performance can be reflected in terms of the following.

- Reducing Costs and Risks Simultaneously
- Cost-Effective Intellectual Value
- Better Efficiency

2.8.2 Innovation-Driven Outsourcing and Organizational Performance

According to Buchanan (2014), innovation is defined as something that changes a market. Companies are said to be innovative when they develop something better for their customers. This can be done by improving or developing not only the products but also their materials and means of production. The impact can on performance can be seen in the areas such as:

- Faster New Product Development
- The Ability to Assemble Expertise for Innovation
- Increased Flexibility for Innovation

2.8.3 Focus-Driven Outsourcing and Organizational Performance

The process of organizational and structural change is preceded by radical changes, which lay the groundwork for business process reengineering. The current trends are moving towards the concept of virtual corporations founded on the relationships, co-operation and strategic business partnerships among several firms. The building of such relationships often begins with the identification and exploitation of the concept of core competences, in a manner that provides for new advantages to be obtained from specialization (Agndal & Nordin, 2009).

Additionally, the process must ensure that the customer receives value addition, which is superior to the levels previously offered (Styles & Goddard, 2014). The unforeseen realities and complexities of competing in a global supply chain environment has made many organizations to focus on strategic renewal and creative solutions. These solutions are designed to manage and mitigate the risks associated with operating in today's dynamic marketplace including outsourcing of services (Buchanan, 2014). In the past large organizations, both public and private, were able to achieve significant cost and differentiation advantages (Porter, 1980) through complex organizational structures, systems, and processes. However, a lot has changed and today, we see an increasing inclusion of outsourcing in the strategy of many organizations. A company will normally keep internal control over the processes that it deems both necessary and core, then outsources the processes that is deemed necessary but not core (Shekar, 2008). The potential performance improvement areas include:

- Focus on Core Competencies
- Flexibility and Competitive Advantage

2.9 Review of Empirical Literature

Jiang, Frazier & Prater (2006) found out that outsourcing arrangement that transfer-outsourcing firms' assets to a vendor can convert fixed costs and operating expenses to variable usage charges. On the application side, outsourcing resulted in reduced fixed-cost, full-time human resource expenses and other overhead costs through contracts that provide development skills on an as-needed basis. Accordingly, outsourcing improves firms' cost efficiency.

Furthermore, cost savings has been observed as a primary benefit of outsourcing as firms aim always to achieve cost advantage. This view has been supported by extensive body of literature both conceptually (Kakabadse & Kakabadse, 2002; Domberger, 1998) and empirically by (Kakabadse & Kakabadse 2002; Bailey, Massonand & Raeside, 2002). However, outsourcing primarily for cost savings is a concern to many scholars. Lonsdale and Cox (1998) and Melvor (2000) view cost saving purpose of outsourcing as a short-term perspective taking place in an ad-hoc manner.

Ten Raa and Wolff (2001) found a positive association between the rate of outsourcing and productivity growth. Fixler and Siegel (1999) provide some insights into outsourcing and its productivity impact on the services sector. Their empirical evidence depict that outsourcing led to short-run reductions in services sector productivity, but that productivity improvements can be expected, especially for business services, once outsourcing of services by manufacturing firms will subside relative to production capacity in the services sector. They also argue that productivity in the services sector will increase as outsourcing by service firms increases, although they provide no direct evidence of this.

Glass and Saggi, (2001) and Görg and Hanley (2009) observed a positive relationship between international outsourcing of services and innovative activity. Furthermore, Görg and Hanley (2009) found a positive effect for domestic outsourcing of services, but the magnitude is smaller which makes intuitive sense, as international outsourcing allows more scope for exploiting international factor price differentials, therefore giving the establishment higher profits and more scope to restructure production activities towards innovation. Görg and Hanley (2009) also found that international outsourcing has a positive effect on profitability.

2.10 Conceptual Framework of Outsourcing

A conceptual framework may be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The aim is to assist a researcher to develop awareness and understanding of the situation under study and interconnect the same in a broad perspective. It highlights the study variables and illustrates the underlying relationships (Thomas, 2010).

This displays the inputs as independent variables and the output as dependent variables. Any changes in the input brought about by the way outsourcing process is carried out will have an effect on the outputs. The independent variables of the study is outsourcing.

Outsourcing can be conceptualized as a process rather than an event. This process begins with the development of a strategic and financial business case for outsourcing. The designing of the business case is followed by implementing the external sourcing model and ultimately managing the relationship with the provider (Benton, 2010).

Due to increased competitive pressures accelerated technological changes and globalization effects, firms are searching for means of reducing costs and building new opportunities by optimizing the use of internal and external resources (Hoetker, 2005). Firms may therefore adopt either tactical or strategic outsourcing. While strategic outsourcing for overall business improvement as well as competitive advantage and not simple cost cutting measures, hence the firm attains its strategic goals on core activities leading to superior performance tactical outsourcing has a short term focus of minimizing operational costs on daily, weekly and monthly basis (Murphy, 2004).

Ultimately, outsourcing is used as a means to increase organizational performance.

Cost

Chaffey (2008), cost efficiency refers to total revenue or sales compared to the total costs and overhead costs incurred to provide outsource services.

Productivity

Productivity is the amount of output produced with a given amount of inputs (Houseman, 2006).

Innovation

Schumpeter (1934) described different types of innovation: new products, new methods of production, new sources of supply, the exploitation of new markets and new ways to organize business. With increased competitive pressure from globalization, product innovations help firms protect margins by offering new, differentiated features while process innovations help make manufacturing more efficient (Cox, 2014).

Profitability

Profitability refers to the efficiency of a company to generate earnings (Houseman, 2006). Bathelemy and Adsit (2003) also emphasize that outsourcing some or all of non-core business processes can enable a firm focus on its core activities or activities in which the firm is more competent, rather services that fall outside its expertise. He adds that it will not only improve function effectiveness and flexibility by accessing a support network with highly qualified and specialized workforce but also help firms control their costs and business risk.

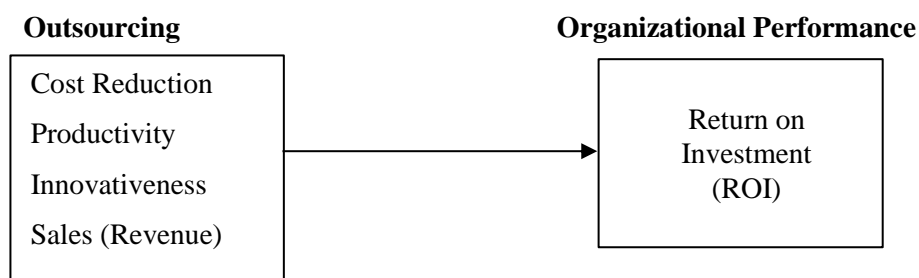


Figure 2.3 Conceptual Framework

Source: (Modified and adopted from Ogola (2013) and Mung'ala (2014))

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

Research methodology is the systematic, theoretical analysis of the procedures applied to a field of study (Kothari, 2004). Research methodology encompasses concepts such as research designs, target population, sample size and sampling procedure, data collection instruments and data analysis procedure.

A descriptive and explanatory research design was applied as it helps to realize the objectives and answer the research questions. Descriptive studies are usually the best methods for collecting information that will demonstrate relationships and describe the world, as it exists. The main aim of descriptive research is to provide an accurate and valid representation of the factors or variables that pertain are relevant to the research question. Bickman and Rog (2008) suggest that descriptive studies can answer questions such as “what is” or “what was”. The design has been chosen since it is more precise and accurate as it involves description of events in a carefully planned way (Babbie, 2002).

3.2 Population and sampling

A sample is a unit of the entire population, which the researcher uses to generalize the results of the study. A sample should be representative to the entire population and thus a proper sampling technique will be employed to enhance the study.

3.2.1 Population and Sampling Technique

The total population and the sample size are described in the following table.

Table 3.1 Distribution of the Target Population and Sample

Managerial Employees by position	Number of employees	Sample Size
Chief Officers	14	=14x0.27 =3.81 = 4
Officers	62	=62X0.27 = 16.88 = 17
Managers	192	=192x0.27 = 52.229 = 52
Total	268	73

Source: ethio telecom (HR department)

Of the total managerial employees of ethio telcom, the research was conducted on the head office only; hence, the total number of target population for the study are 268 managerial employees at the head office.

3.2.2 Sample Size

Sample size refers to the actual number of respondents that would be representative of the population under study (Blumberg et al, 2008). The size must be large and should bear some proportional relationship to the size of population from which it is drawn. The criteria used to determine the sample size are the level of precision, the level of confidence, the degree of variability in the attributes under study. In order to calculate the appropriate sample size for the study, the below formula was used. (Yamane, 1967) provides a simplified formula to calculate sample sizes. A 90% confidence level and 10% standard of error were applied to reach the sample size.

By basing the below formula, the sample size for the study was determined to be seventy three (73) from the total sample population of 268 managerial employees.

$$n = \frac{N}{1 + N(e^2)}$$

Key

n = Sample Size, N = Population, e = Margin of Error

The sample taken from the total population of 268 managerial employees is 73. Hence, 73/268 means 27 % of the total target population. Accordingly, as indicated in the table 3.1, the researcher applied a proportional convenience sampling technique where 27% from each categories of managerial employees to come up with the total sample of respondents to whom the questionnaires are distributed.

3.2.3 Sampling Technique

Sampling technique is a scientific or rather statistical method of selecting the sampling units that would offer the requisite estimates with their related margins of uncertainty. This will happen from the investigation of only part of the total population (often called sample) and not the whole population (Saunders et al, 2012). This study utilized simple random sampling technique and convenient sampling method while a proportionate weight was given to each category of managerial employees.

3.3 Variables and Data Sources

3.3.1 The Variables

In this study, the variables considered are outsourcing influencing cost reduction, innovativeness, employee productivity, and sales which would in the end affect organizational performance (i.e. the dependent variable). Hence, the researcher tried to show the overall relationship between outsourcing and organizational performance, which are resulting due to the change in cost, innovation, productivity and sales, which are influenced by the outsourcing decision.

3.3.2 Data Sources

The researcher will use primary data for this study. The primary information will be gathered through questionnaire from the selected sample of respondents. According to Biggam (2008), primary data is the information that the researcher finds by him/herself regarding a specific topic. The main advantage with this type of data is that it is collected with the research purpose in mind. It implies that the information among from it is more consistent with the research questions and objectives. To this end, as the research tries to show organizational performance because of outsourcing. Secondary data may be used (as appropriate) to further emphasize and strengthen the discussion of the relationship between outsourcing and organizational performance.

According to Greener (2008), secondary data sources are interpretations of events of that period based on primary sources. This is an empirical study that used purely primary data from the organization under study. Questionnaires are used and were administered in person. According to Collis and Hussey (2013), a questionnaire is an instrument of collecting data in which a selected group of participants were asked to complete a written set of questions to find out what they think.

3.4 Instrument of Data Gathering

Primary data was collected through questionnaire and interview. The questionnaire has been distributed to 73 managerial employees of ethio telecom. The questioner consists both closed and open-ended questions. The close ended questions has been designed using Likert categorical scale to measure respondents' attitude towards the factors that affect corporate income tax administration where: Strongly Agree = 5; Agree = 4; Neutral = 3; Disagree = 2 and Strongly Disagree = 1. The open-ended questions enables the researcher to triangulate the responses in order to ensure consistency. An introductory letter has been attached on the first page of questionnaire explaining the reason for the research and its relevance, and to seek their agreement to participate in this research.

3.5 Data analysis and Presentation Techniques

The data collected has been analysed both quantitatively and qualitatively. A Chi-square test has been used in analyzing the results. The Chi-square test enables the researcher to verify the possible relationship between two ordinal variables. According to Moore and McCabe (2003), "The Chi-square statistic is a measure of how much the observed cell counts in a two-way table diverge from the expected cell counts." In this test, a (cross-tabulated) two-way table has been created and the observed counts are compared to the expected counts of the cells.

The questionnaire was treated according to the objective of the study. Tables and bar graphs are also used to help interpret the data according to the issues analyzed. Qualitative summary has also been generated for open-ended responses and accordingly summarized.

SPSS 20 software has been used in the data analysis and presentation. SPSS (Statistical Package for the Social Sciences) is a computer application that supports statistical analysis of data. It

allows for comprehensive data access and preparation. The software has extensive capabilities in analytical reporting, graphics and statistical modelling.

3.6 Validity and Reliability of Data

3.6.1 Validity

The term 'pilot studies' refers to small versions of a full-scale study (also called 'feasibility' studies), used for specific pre-testing of a particular research instrument such as a questionnaire or interview schedule (Polit et al., 2001). However, a pilot study can also be the pre-testing or 'trying out' of a particular research instrument (Baker 1994). One of the advantages of conducting a pilot study is that it might give advance warning about where the main research project could fail, where research protocols may not be followed, or whether proposed methods or instruments are inappropriate or too complicated. As a result, a pilot test was conducted to a selected sample of target population to check the validity of data.

3.6.2 Reliability

In statistics, Crobach's (alpha) is a coefficient of internal consistency. It is commonly used as an estimate of the reliability of a psychometric test for a sample of examinees. Crobach's alpha reliability coefficient normally ranges between 0 and 1. However, there is actually no lower limit to the coefficient. The closer Crobach's alpha coefficient is to 1.0 the greater the internal consistency of the items in the scale (Gliem and Gliem, 2003).

The Crobach's Alpha was used to test the reliability of the responses from the respondents. Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study. A study is reliable if the results of a study can be reproduced under a similar methodology. A commonly accepted rule of thumb for describing internal consistency using Crobach's Alpha are as follows (Gliem and Gliem, 2003) and from the table below it can be concluded that higher values of alpha are more desirable.

Table 3.2 *Level of Internal Consistency using Crobach's Alpha*

Crobach's Alpha	Level of Internal consistency
$\alpha \geq 0.9$	Excellent
$0.8 \leq \alpha < 0.9$	Good
$0.7 \leq \alpha < 0.8$	Acceptable
$0.6 \leq \alpha < 0.7$	Questionable
$0.5 \leq \alpha < 0.6$	Poor
$\alpha < .5$	Unacceptable

Source: Adopted from George and Mallery (2003)

Furthermore, a goodness-of-fit test was performed. In general, **goodness-of-fit test** refers to measuring how well do the observed data correspond to the fitted (assumed) model.

The Cronbach's "α" for the first 15 respondents and 34 items was analyzed to determine whether the questionnaire is in fact is a reliable tool for this specific study. The results of the Cronbach's "α" indicates that the survey instrument has Cronbach's Alpha value of 0.95, which can be accepted as a reliable tool to measure the relationship between outsourcing and organizational performance based on the rule of thumb presented on Table 3.2.

3.7 Ethical Consideration

The participant's names has been kept strictly confidential. The only people who have access to the data are the researcher and the advisor of the research. Respondents for questionnaire were given a brief covering letter stating the purpose of the study. This letter informed the participants the sole purpose of the study; and what the researcher would do to preserve their confidentiality and privacy.

Honesty - The researcher will analyze and report the findings with complete honesty.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Analysis and Discussions of Questionnaire Results

4.1.1 Mean of Responses to Questionnaire

The five-point Likert scale was calculated and interpreted into the degree of satisfaction using the following formula.

- 1- Strongly Disagree
- 2- Disagree
- 3- Neutral
- 4- Agree
- 5- Strongly Agree

The average score (mean) obtained from each item was interpreted into degree of the factors as

- ✓ Strongly Disagree/Very Low , - Average Score = 1.00 – 1.80 ,
- ✓ Disagree/Low - Average Score = 1.81 – 2.60,
- ✓ Neither Agree nor Disagree - Average Score = 2.61 – 3.40
- ✓ Agree/High - Average Score = 3.41 – 4.20, and
- ✓ Strongly Agree/Extremely(Very) High - Average Score = 4.21 – 5.00

i. Reasons for outsourcing

Table 4.1 *Mean of Responses for Reasons of Outsourcing*

Description of Questions	Mean	Conclusion on Mean
Allow the Company to focus on its core business	4.55	Very High
To reduce operating costs	3.98	High
To introduce new products and services to the company	3.92	High
Reduce the number of staff and related expenses	3.70	High
To avoid labour issues associated with employees	3.82	High
Provide improved service delivery	4.15	High

As can be seen in Table 4.1, the mean for reason of outsourcing questions fall under high average mean score indicating respondents have a positive response to the questions raised. The answers indicate that the respondents are aware of the reasons for the outsourcing of selected services by ethio telecom. In fact, the responses coincide with the concept of core competency theory as the main reason for outsourcing according to the respondents that indicate a mean of 4.55. Other reasons asked were to reduce operating costs, to introduce new products and services, among other that all support and confirm the theories discussed.

When respondents were asked (in an open ended question) what the motive of outsourcing is, the majority of the respondents replied based on the degree of preference that the motive to outsource selected services of ethio teleom was to focus on core business and acquire such services from third party service providers that have experience and efficiency. Other vital reasons they provide were to minimize operational and administrative costs thereby improve cost efficiency, service excellence, to avoid labor issues and reduce labor costs.

ii. Relationship between Outsourcing and Cost Efficiency

Table 4.2 Mean of Responses on Relationship between Outsourcing and Cost Efficiency

Description of Questions	Mean	Conclusion on Mean
Outsourcing has reduced costs (overheads and fixed)	4.14	High
Outsourcing enable ET to obtain skilled labor at a lowest cost	3.63	High
Outsourcing enables ET to obtain services that are more efficiently and timely	3.67	High
Outsourcing enabled ET to reduce the need to make capital investments in new tech. to receive services	3.67	High
Cost of Outsourcing is lower than the cost of acquiring more resources to perform work internally	3.74	High
Outsourcing Contributes to improved performance through cost reduction	3.91	High

According to Table 4.2 above that shows the mean results of the responses between outsourcing and productivity, all responses fall on high side indicating that the respondents are of the opinion that outsourcing has resulted in cost reduction by the organization. This result is in line with the

what Kenyon & Meixel (2005) discussed about outsourcing working better for international markets where labour and cost of doing business is cheaper that could result due to comparative advantage. The result also supports the theory by Hoetker (2005). According to him, firms are always searching for means of reducing costs and building new opportunities by optimizing the use of internal and external sources. Hence, the solution to achieve this outsourcing. The finding also supports the financial and cost drivers of outsourcing.

iii. Relationship between Outsourcing and Productivity of Employees

Table 4.3 Mean of Responses on Relationship between Outsourcing and Productivity

Description of Questions	Mean	Conclusion on Mean
Outsourcing has helped ET to have increased productivity	3.88	High
Performance per employee in ET has increased due to Outsourcing	3.53	High
Outsourcing has helped ET to improve staff capacity	3.53	High
Outsourcing has helped ET to improve quality of its products/services	3.77	High
Outsourcing has helped ET to help employees set their priorities more clearly	3.70	High
Outsourcing had a positive outcome in ET	3.86	High
Services ET obtained from the service providers has been very satisfactory after outsourcing	3.62	High

As can be indicated in Table 4.3, the mean for responses on relationship between outsourcing and productivity questions show a high average mean score indicating respondents have positive response to the questions discussed. The answers indicate the respondents are of the opinion that outsourcing resulted in high productivity to ethio telecom.

This can be partly due to improved company focus as outsourcing enables the management to concentrate on the core functions of the business and it frees up internal resources for use in other areas where they can be more productive.

iv. Relationship between Outsourcing and Innovativeness

Table 4.4 Mean of Responses on Relationship between Outsourcing and Innovativeness

Description of Questions	Mean	Conclusion on Mean
Outsourcing gave ET the mechanisms to innovate & introduce new products/services	3.70	High
ET is keen on innovativeness, in new pdt/service dev't to the public after outsourcing	3.67	High
ET frequently introduced new pdts/ser to the public after outsourcing	3.64	High
The new pdts/serv introduced by ET were generally accepted by the public after outsourcing	3.58	High
ET has improved its already existing pdts/serv after outsourcing	3.59	High

As can be seen in Table 4.4, the mean for innovativeness and outsourcing questions fall on the high average mean score indicating respondents have a positive response to the questions regarding relationships between outsourcing and innovativeness. The answers indicate that the respondents perceived that ethio telecom has introduced new products and services. The result coincides with the theory of innovation driven outsourcing of Buchanan (2004). According to Buchanan, companies are said to be innovative when they develop something better for their customers. This has been also the case at ethio telecom as the company improved or developed new services to its wider base customer. This also shows ethio telecom’s flexibility in improving its services and adopting and innovating new services.

v. Relationship between Outsourcing and Sales

Table 4.5 Mean of Responses on Relationship between Outsourcing and Sales

Description of Questions	Mean	Conclusion on Mean
Outsourcing has enabled ET to increase sales of its pdts/serv.	4.11	High
Outsourcing results in better short term performance	3.98	High
Outsourcing has helped this org. to expand into other markets	3.77	High
Outsourcing has enabled ET to increase its sales	4.09	High
The growth of ET has been steadily increasing and very satisfactory in terms of sales after outsourcing	3.97	High

vi. Relationship between Outsourcing and Sales

Table 4.6 *Mean of Responses on Relationship between Outsourcing and Profit (ROI)*

Description of Questions	Mean	Conclusion on Mean
Outsourcing has helped ET to increase its profits	3.97	High
Outsourcing enabled ET to increase value of its pdts/serv.	3.89	High
Profits of ET increased as a result of Outsourcing	3.91	High
Outsourcing enabled ET to expand into other markets	3.85	High
Outsourcing enabled ET to become more competitive in the market	3.45	High

As can be seen from Table 4.5, the mean of responses for the relationship between outsourcing and sales questions show a high average mean score indicating respondents have a positive response. The overall effect of cost reduction, increased productivity and innovation has eventually resulted an increase in sales in ethio telecom. The findings show that the customer base of ethio telecom has skyrocketed after outsourcing. Accordingly, this results in more sales. More sales means more profitability.

According to the Table 4.6, the mean responses for the relationship between outsourcing and profitability (return on investment) depicts a high average mean score value indicating respondents having strong positive response to the question raised. This actually support the findings of Gunday (2011) that outsourcing results in financial performance (i.e. sales, profits and ROA).

4.1.2 Frequencies of Responses

i. Frequencies of Responses on Reasons for Outsourcing Questions

Table 4.7 *Frequency of responses on Reasons for Outsourcing*

Reasons for Outsourcing	Frequency (%) of Responses					
	SA	A	N	DA	SD	Miss.
Allow the Company to focus on its core business	(43) 65%	(19) 29%	(1) 2%	(3) 5%	(0) 0%	(0) 0%
To reduce operating costs	(19) 29%	(30) 45%	(14) 21%	(3) 5%	(0) 0%	(0) 0%
To introduce new products and services to the company	(17) 26%	(31) 47%	(14) 21%	(4) 6%	(0) 0%	(0) 0%
Reduce the number of staff and related expenses	(16) 24%	(27) 41%	(12) 18%	(9) 14%	(2) 3%	(1) 2%
To avoid labour issues associated with employees	(21) 32%	(22) 33%	(13) 20%	(7) 11%	(2) 3%	(0) 0%
Provide improved service delivery	(29) 44%	(22) 33%	(11) 17%	(4) 6%	(0) 0%	(0) 0%

Key: SA – Strongly Agree, A – Agree, N – Neutral, DA – Disagree,

SD – Strongly Disagree, Miss. – Missing

As can be seen in Table 4.7, 94% % of respondents strongly agree or agree for the question of the reasons of outsourcing of activities by ethio telecom to focus on its core business, while 74% of the respondents strongly agree or agree to the question that another reason for outsourcing is to reduce operating costs of ethio telecom.

On the other hand, 73% of the respondents strongly agree or agree to the question that another reason for outsourcing of selected services of ethio telecom is to introduce new products and services to the company. 65% of the respondents strongly agree or agree to the question to another reason to outsourcing is to reduce the number of staff and related expenses. Another 65% of the respondents strongly agree or agree to the question to another reason to outsourcing is to avoid labor issues associated with employees. Finally, 77% of the respondents strongly agree or agree to the question to another reason to outsourcing is to provide consistent/improved service delivery.

The result also supports the theory of the concept of core competency, cost driven outsourcing, as well as relational view theory. According to Elmuti (2003), increasingly managers are keen to focus their energies on their core business activities, that is, those activities which are the source of competitive advantage and which determine the success or failure of the organizations.

ii. Frequency of Responses on Relationship between Outsourcing and Cost Efficiency

Table 4.8 *Frequency of Responses on Relationship between Outsourcing and Cost Efficiency*

Description of Questions regarding Relationship between Outsourcing and Cost Efficiency	Frequency (%) of Responses					
	SA	A	N	DA	SD	Miss
Outsourcing has reduced costs (overheads and fixed)	(21) 32%	(34) 52%	(10) 15%	(1) 2%	(0) 0%	(0) 0%
Outsourcing enable ET to obtain skilled labour at a lowest cost	(12) 18%	(27) 41%	(17) 26%	(8) 12%	(1) 2%	(1) 2%
Outsourcing enables ET to obtain services that are more efficiently and timely	(13) 20%	(28) 42%	(16) 24%	(8) 12%	(1) 2%	(0) 0%
Outsourcing enabled ET to reduce the need to make capital investments in new tech. to receive services	(14) 21%	(26) 39%	(18) 27%	(6) 9%	(2) 3%	(0) 0%
Cost of Outsourcing is lower than the cost of acquiring more resources to perform work internally	(16) 24%	(25) 38%	(17) 26%	(8) 12%	(0) 0%	(0) 0%
Outsourcing Contributes to improved perf. through cost reduction	(14) 21%	(36) 55%	(12) 18%	(4) 6%	(0) 0%	(0) 0%

As can be seen from Table 4.8, 83% of the respondents strongly agree or agree to the question that outsourcing has reduced costs such as overheads and fixed costs while only 59% of the respondents strongly agree or agree to the question that outsourcing has enabled ethio telecom to obtain skilled labor at a lower cost. Another 26% of the respondents neither agree or disagree while 14% strongly disagree or disagree to the fact that outsourcing has enabled the organization to obtain skilled labor at a lower cost.

62% of the respondents strongly agree or agree to the question that outsourcing has enabled ethio telecom obtain services that are more efficient and timely whereas 24% of the respondents

neither agree nor disagree to this question. Again 61% of the respondents strongly agree or agree to the question that outsourcing has enabled ethio telecom to reduce the need to make capital investments in new technologies to receive services. Furthermore, 62% of the respondents strongly agree or agree to the question that the cost of outsourcing is lower than the cost of acquiring more resources to perform work internally while only 55% of the respondents agree to the question that outsourcing contributes to improved performance through cost reduction. These findings are in agreement with the fact that outsourcing had a positive effect on the reduction of operational costs as argued by Kakumanu and Portanova (2006) who note that the main driver for outsourcing is often cost reduction.

iii. Frequency of Responses on Relationship between Outsourcing and Productivity

Table 4.9 *Frequency of Responses on Relationship between Outsourcing and Productivity*

Description of Questions Regarding Relationship between Outsourcing and Productivity	Frequency (%) of Responses					
	SA	A	N	DA	SD	Miss
Outsourcing has helped ET to have increased productivity	(14) 21%	(35) 53%	(12) 18%	(5) 8%	(0) 0%	(0) 0%
Performance per employee in ET has increased due to Outsourcing	(10) 15%	(23) 35%	(26) 39%	(6) 9%	(1) 2%	(0) 0%
Outsourcing has helped ET to improve staff capacity	(14) 21%	(18) 27%	(20) 30%	(12) 18%	(0) 0%	(2) 3%
Outsourcing has helped ET to improve quality of its products/services	(12) 18%	(33) 50%	(15) 23%	(6) 9%	(0) 0%	(0) 0%
Outsourcing has helped ET to help employees set their priorities more clearly	(16) 24%	(22) 33%	(21) 32%	(6) 9%	(1) 2%	(0) 0%
Outsourcing had a positive outcome in ET	(15) 23%	(31) 47%	(17) 26%	(2) 3%	(1) 2%	(0) 0%
Services ET obtained from the service providers has been very satisfactory after outsourcing	(13) 20%	(26) 39%	(17) 26%	(9) 14%	(1) 2%	(0) 0%

As can be seen from Table 4.9, 74% of the respondents agree to the question that outsourcing has helped ethio telecom to have increased productivity while only 35% of the respondents strongly agree to the question that performance per employee in ethio telecom has increased due

to outsourcing and only 15% strongly agree. Another 39% of the respondents neither agree nor disagree to this question.

Only 48% of the respondents strongly agree or agree to the question that outsourcing has helped ethio telecom to improve staff capacity while 30% of the respondents neither agree nor disagree to this question while 18% of the respondents disagree to it.

50% of the respondents agree to the question that outsourcing has helped ethio telecom to improve quality of its products while only 18% of the respondents strongly agree. However, 23% of the respondents neither agree nor disagree to this question.

58% of the respondents strongly agree or agree to the question that outsourcing has helped ethio telecom to help employees set their priorities more clearly. However, 32% of the respondents neither agree nor disagree to this question. A total of 70% of the respondents strongly agree or agree to the question that outsourcing had a positive impact on ethio telecom. 26% of the respondents neither agree nor disagree to this question.

Finally, 59% of the respondents strongly agree or agree to the question that says services ethio telecom obtained from the service providers has been very satisfactory after outsourcing where 26% of the respondents neither agree nor disagree to this question.

The result coincides with the findings of Fixler and Siegel (1999) whose empirical evidence show that outsourcing led to increase in productivity in the services sector.

Furthermore, the respondents indicated that the outsourced services that resulted in improved performance in ethio telecom are cleaning/janitorial service, and sim card and voucher card distribution. As a result, expansion of the organizations products show improvement (such as introduction of new technological enterprise automated applications), operational costs reduced, unnecessary number of employees has been significantly reduced, sales as well as revenue of ethio telecom has increased. Apart from these, usage of facility/space has improved, customer base has shown a significant level of increase, and risk of theft has decreased, network quality and marketing activities have shown improvement.

iv. Frequency of responses on Relationship between Outsourcing and Innovation

Table 4.10 *Frequency of responses on Relationship between Outsourcing and Innovation*

Description of Questions regarding Relationship between Outsourcing and Innovativeness	Frequency (%) of Responses					
	SA	A	N	DA	SD	Miss
Outsourcing gave ET the mechanisms to innovate & introduce new products/services	(12) 18%	(30) 45%	(16) 24%	(8) 12%	(0) 0%	(0) 0%
ET is keen on innovativeness, in new pdt/service dev't to the public after outsourcing	(13) 20%	(29) 44%	(14) 21%	(9) 14%	(1) 2%	(0) 0%
ET frequently introduced new pdts/ser to the public after outsourcing	(10) 15%	(29) 44%	(20) 30%	(7) 11%	(0) 0%	(0) 0%
The new pdts/serv introduced by ET were generally accepted by the public after outsourcing	(10) 15%	(27) 41%	(20) 30%	(9) 14%	(0) 0%	(0) 0%
ET has improved its already existing pdts/serv after outsourcing	(9) 14%	(29) 44%	(20) 30%	(8) 12%	(0) 0%	(0) 0%

As can be seen from Table 4.10, 64% of the respondents strongly agree or agree to the question that outsourcing gave ethio telecom the mechanism to innovate and introduce new products and services. 64% of the respondents strongly agree or agree when asked whether ethio telecom is keen on innovativeness, in new product and service development as a result of outsourcing. 59% of the respondents strongly agree or agree to the question that ethio telecom is keen on innovativeness, in new product and service development because of outsourcing and 56% of the respondents strongly agree or agree to the question that the public generally accepted the new products and services introduced by ethio telecom after outsourcing. Another 58% of the respondents strongly agree or agree when asked whether ethio telecom has improved its already existing product and services after outsourcing. This finding echoes Glass and Saggi, (2001), Görg and Hanley (2009) observation that shows a positive relationship between international outsourcing of services and innovative activity.

v. Frequency of Responses on Relationship between Outsourcing and Sales

Table 4.11 *Frequency of Responses on Relationship between Outsourcing and Sales*

Description of Questions regarding Relationship between Outsourcing and Sales	Frequency (%) of Responses					
	SA	A	N	DA	SD	Miss
Outsourcing has enabled ET to increase sales of its pdts/serv.	(27) 41%	(25) 38%	(9) 14%	(4) 6%	(1) 2%	(0) 0%
Outsourcing results in better short term performance	(21) 32%	(27) 41%	(15) 23%	(2) 3%	(1) 2%	(0) 0%
Outsourcing has helped this org. to expand into other markets	(16) 24%	(29) 44%	(13) 20%	(6) 9%	(2) 3%	(0) 0%
Outsourcing has enabled ET to increase its sales	(24) 36%	(29) 44%	(7) 11%	(4) 6%	(1) 2%	(1) 2%
The growth of ET has been steadily increasing and very satisfactory in terms of sales after outsourcing	(20) 30%	(31) 47%	(9) 14%	(5) 8%	(1) 2%	(0) 0%

As per Table 4.11, a total 79% of the respondents strongly agree or agree to the question that outsourcing has enabled ethio telecom to increase sales of its products/services. 73% of the respondents strongly agree or agree when asked whether outsourcing results in better short-term performance.

80% of the respondents strongly agree or agree to the question that outsourcing has enables ethio telecom to increase its sales while 77% of the respondents strongly agree or agree to the question that the growth of ethio telecom has been steadily increasing and very satisfactory in terms of sales after outsourcing. According to Conde (2012), organizational performance was measured using different performance measures one of which is financial performance, which is expressed, by sales, profits and ROA. The finding of this study also supports that outsourcing brought about sales performance in ethio telecom.

vi. Frequency of Responses on Relationship between Outsourcing and Profitability

Table 4.12 *Frequency of Responses on Relationship between Outsourcing and Profitability*

Description of Questions regarding Relationship between Outsourcing and Profitability (ROI)	Frequency of Responses					
	SA	A	N	DA	SD	Miss
Outsourcing has helped ET to increase its profits	(21) 32%	(29) 44%	(10) 15%	(5) 8%	(1) 2%	(0) 0%
Outsourcing enabled ET to increase value of its pdts/serv.	(14) 21%	(36) 55%	(11) 17%	(5) 8%	(0) 0%	(0) 0%
Profits of ET increased as a result of Outsourcing	(18) 27%	(30) 45%	(13) 20%	(4) 6%	(1) 2%	(0) 0%
Outsourcing enabled ET to expand into other markets	(18) 27%	(27) 41%	(14) 21%	(7) 11%	(0) 0%	(0) 0%
Outsourcing enabled ET to become more competitive in the market	(16) 24%	(15) 23%	(23) 35%	(7) 11%	(5) 8%	(0) 0%

As shown in Table 4.12, 76% of the respondents strongly agree or agree to the question that outsourcing has helped ethio telecom to increase its profits and 76% of the respondents strongly agree or agree when requested whether outsourcing enabled ethio telecom to increase value of its products/services. 73% of the respondents strongly agree or agree when asked that profits of ethio telecom increased because of outsourcing. This confirms Bathelemy and Adsit (2003) theory that emphasize that outsourcing some or all of non-core business processes can enable a firm focus on its core activities or activities in which the firm is more competent, rather services that fall outside its expertise.

4.1 3 Additional Insights from Respondents

When respondents were requested whether all the targets set were achieved as a result of outsourcing, they responded by saying most of the targets of outsourcing have been achieved in the areas of bill collection and SIM card and voucher card distribution, and janitorial services. As a result, sales has significantly increased. However, many respondents indicated that there is a gap in fleet management and maintenance areas. It is also mentioned that there still exists repetitive customer complains. Furthermore, the majority of the respondents when requested if there are targets that are achieved well beyond the minimum criteria, they indicated that the outsourcing in distribution channel (SIM Card and Voucher Card) to distributors and

retailers has resulted in ease of accessibility even in the most remote areas. As a result, the targets for minimizing operational costs and increasing revenue have been achieved.

The respondents were also requested to provide responses regarding the pros and cons of outsourcing and which one weighted more. The responses pointed out that the pros of outsourcing are focus on core business, saving cost from employee benefits, improved speed and quality of service delivery, cost reduction, reduction in number of human resources and labor issues, increased accessibility and customer satisfaction, increased sales/revenue, optimization of resource utilization, knowledge transfer, access of better technology, and ease of management burden. It also gave opportunity for business firms to work with ethio telecom. The cons witnessed by the respondents are negative employee opinion (drivers), low employee payment by service provider companies, loss of skilled labor, loss of control over the company's business, turnaround time and slow issue resolution, lack of flexibility, inability/limited accessibility of potential suppliers in the market, low maintenance quality.

Furthermore, the service providers are profit focused and lack public commitment, risk of fraudulent activities on the part of the service provider companies, failure of few distributors to return credit, lack of confidentiality, and withholding information.

When employees were asked to list if they have faced any challenges that can directly attributed to outsourcing, they responded indicating lack of employee belongingness, lack of coping up with changes in the business dynamics and customer expectations. Others include job insecurity, service delivery below the expected standard, delay in maintenance, rework, low maintenance quality, inability to get competent service providers, lack of commitment.

The respondents further disclosed that from the activities currently performed in-house, they would like to see security guards outsourced , filling fuel for generators, call center, staff recruitment, cafeteria service, freight forwarding from customs to central warehouse, fixed wire operation, network (survey, installation, & maintenance).

On the other hand, the respondents would like to see the following outsourced activities to be brought back in house.

- Fleet and vehicle maintenance, franchise shops to be partially outsources, cleaning/janitorial, custom clearing

Finally, the respondents raised the following issues concerning the effects of outsourcing.

- ✓ Low payment for employees by service provider companies have a negative impact on ethio telecom
- ✓ Lack of potential service provider companies is challenging as it impacts the ET's public commitment
- ✓ As outsourcing is not yet mature in Ethiopia, it is wise to perform a thorough assessment before outsourcing decision
- ✓ Loss of jobs by employees may force them to refuge to some other country
- ✓ ET should continuously assess the effects of outsourcing on its performance

4.2 Relationship Between Outsourcing and Organizational Performance

A median value was generated for all the items under each variable (i.e. for cost reduction, for improved productivity, for improved innovativeness and increased sales). This was also performed for profit (that indicates organizational performance). Then, cross tabulation of each intervening variables was performed against performance.

Chi-square goodness of fit test (simple chi-square) was used to compare the observed sample distribution with the expected probability distribution. To this end, the four alternate hypotheses were tested to determine whether there was a significance difference between the expected frequencies and the observed frequencies in one or more categories.

The test statistic value was compared with the p-value (significance value) whereby $P < 0.01$ the alternate hypothesis was accepted and concluded there was significant difference between the observed and the expected frequency.

4.2.1 Chi Square Analysis

i. Chi Square Analysis between Cost Reduction and Profitability

Table 4.13 *Chi Square test of Cost Reduction and Profitability*

			Cost Reduction				Total
			DA	Neutral	Agree	SA	
Increased Profitability	SD	Count	0	1	0	0	1
		% within Cost Reduction	0.0%	4.3%	0.0%	0.0%	1.5%
		% of Total	0.0%	1.5%	0.0%	0.0%	1.5%
	DA	Count	0	3	0	0	3
		% within Cost Reduction	0.0%	13.0%	0.0%	0.0%	4.5%
		% of Total	0.0%	4.5%	0.0%	0.0%	4.5%
	Neutral	Count	0	9	5	0	14
		% within Cost Reduction	0.0%	39.1%	17.2%	0.0%	21.2%
		% of Total	0.0%	13.6%	7.6%	0.0%	21.2%
	Agree	Count	1	9	17	3	30
		% within Cost Reduction	100.0%	39.1%	58.6%	23.1%	45.5%
		% of Total	1.5%	13.6%	25.8%	4.5%	45.5%
	SA	Count	0	1	7	10	18
		% within Cost Reduction	0.0%	4.3%	24.1%	76.9%	27.3%
		% of Total	0.0%	1.5%	10.6%	15.2%	27.3%
Total		Count	1	23	29	13	66
		% within Cost Reduction	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	1.5%	34.8%	43.9%	19.7%	100.0%

	Value	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.100a	.001
Likelihood Ratio	36.201	.000
Linear-by-Linear Association	22.235	.000
N of Valid Cases	66	

As per Table 4.13, the value labeled Asymp. Sig. (which is the *p*-value of the Chi-Square statistic) is less than .01 (which is the alpha level associated with a 99% confidence level). Hence, we can conclude that the alternative hypothesis (H1) that states outsourcing increases ROI through reducing cost of the company is accepted at $p < 0.01$ level of significance.

ii. Chi Square Analysis between Productivity and Profitability

Table 4.14 *Chi Square Analysis between Productivity and Profitability*

			Increased Productivity				
			DA	Neutral	Agree	SA	Total
Increased Profitability	SD	Count	1	0	0	0	1
		% within Increased Productivity	16.7%	0.0%	0.0%	0.0%	1.5%
		% of Total	1.5%	0.0%	0.0%	0.0%	1.5%
	DA	Count	3	0	0	0	3
		% within Increased Productivity	50.0%	0.0%	0.0%	0.0%	4.5%
		% of Total	4.5%	0.0%	0.0%	0.0%	4.5%
	Neutral	Count	1	8	4	1	14
		% within Increased Productivity	16.7%	61.5%	11.4%	8.3%	21.2%
		% of Total	1.5%	12.1%	6.1%	1.5%	21.2%
	Agree	Count	1	4	23	2	30
		% within Increased Productivity	16.7%	30.8%	65.7%	16.7%	45.5%
		% of Total	1.5%	6.1%	34.8%	3.0%	45.5%
SA	Count	0	1	8	9	18	
	% within Increased Productivity	0.0%	7.7%	22.9%	75.0%	27.3%	
	% of Total	0.0%	1.5%	12.1%	13.6%	27.3%	
Total	Count	6	13	35	12	66	
	% within Increased Productivity	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	9.1%	19.7%	53.0%	18.2%	100.0%	

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	73.338a	12	.000
Likelihood Ratio	49.592	12	.000
Linear-by-Linear Association	30.776	1	.000
N of Valid Cases		66	

a. 15 cells (75.0%) have expected count less than 5. The minimum expected count is .09.

As per Table 4.14, the value labeled Asymp. Sig. (which is the p -value of the Chi-Square statistic) is less than .01 (which is the alpha level associated with a 99% confidence level). Hence, we can conclude that the alternative hypothesis (H2) that states outsourcing

increases ROI through improving productivity of the company is accepted at $p < 0.01$ level of significance.

iii. Chi Square Analysis between Innovation and Profitability

Table 4.15 *Chi Square Analysis between Innovation and Profitability*

			Improved Innovativeness				
			DA	Neutral	Agree	SA	Total
Increased Profitability	SD	Count	1	0	0	0	1
		% within Improved Innovativeness	12.5%	0.0%	0.0%	0.0%	1.5%
		% of Total	1.5%	0.0%	0.0%	0.0%	1.5%
	DA	Count	3	0	0	0	3
		% within Improved Innovativeness	37.5%	0.0%	0.0%	0.0%	4.5%
		% of Total	4.5%	0.0%	0.0%	0.0%	4.5%
	Neutral	Count	3	6	4	1	14
		% within Improved Innovativeness	37.5%	40.0%	12.1%	10.0%	21.2%
		% of Total	4.5%	9.1%	6.1%	1.5%	21.2%
	Agree	Count	1	7	21	1	30
		% within Improved Innovativeness	12.5%	46.7%	63.6%	10.0%	45.5%
		% of Total	1.5%	10.6%	31.8%	1.5%	45.5%
SA	Count	0	2	8	8	18	
	% within Improved Innovativeness	0.0%	13.3%	24.2%	80.0%	27.3%	
	% of Total	0.0%	3.0%	12.1%	12.1%	27.3%	
Total	Count	8	15	33	10	66	
	% within Improved Innovativeness	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	12.1%	22.7%	50.0%	15.2%	100.0%	

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	55.012a	12	.000
Likelihood Ratio	43.292	12	.000
Linear-by-Linear Association	27.400	1	.000
N of Valid Cases	66		

a. 16 cells (80.0%) have expected count less than 5. The minimum expected count is .12.

As per Table 4.15, the value labeled Asymp. Sig. (which is the p -value of the Chi-Square statistic) is less than .01 (which is the alpha level associated with a 99% confidence level). Hence, we can conclude that the alternative hypothesis (H3) that states outsourcing increases ROI through enhanced innovativeness of the company is accepted at $p < 0.01$ level of significance.

iv. Chi Square Analysis of between Sales and Profitability

Table 4.16 Chi Square Analysis between Sales and Profitability

			Increased Sales					Total
			SD	DA	Neutral	Agree	SA	
Increased Profitability	SD	Count	1	0	0	0	0	1
		% within Increased Sales	100.0%	0.0%	0.0%	0.0%	0.0%	1.5%
		% of Total	1.5%	0.0%	0.0%	0.0%	0.0%	1.5%
	DA	Count	0	3	0	0	0	3
		% within Increased Sales	0.0%	100.0%	0.0%	0.0%	0.0%	4.5%
		% of Total	0.0%	4.5%	0.0%	0.0%	0.0%	4.5%
	Neutral	Count	0	0	6	8	0	14
		% within Increased Sales	0.0%	0.0%	50.0%	25.8%	0.0%	21.2%
		% of Total	0.0%	0.0%	9.1%	12.1%	0.0%	21.2%
	Agree	Count	0	0	6	17	7	30
		% within Increased Sales	0.0%	0.0%	50.0%	54.8%	36.8%	45.5%
		% of Total	0.0%	0.0%	9.1%	25.8%	10.6%	45.5%
	SA	Count	0	0	0	6	12	18
		% within Increased Sales	0.0%	0.0%	0.0%	19.4%	63.2%	27.3%
		% of Total	0.0%	0.0%	0.0%	9.1%	18.2%	27.3%
Total	Count	1	3	12	31	19	66	
	% within Increased Sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	1.5%	4.5%	18.2%	47.0%	28.8%	100.0%	
Chi Square Tests		Value	Asymp. Sig. (2-sided)					

Pearson Chi-Square	154.706 ^a	.000
Likelihood Ratio	60.974	.000
Linear-by-Linear Association	35.893	.000
N of Valid Cases	66	

As per Table 4.16, the value labeled Asymp. Sig. (which is the *p*-value of the Chi-Square statistic) is less than .01 (which is the alpha level associated with a 99% confidence level). Hence, we can conclude that the alternative hypothesis (H4) that states outsourcing increases ROI through increased sales of the company is accepted at $p < 0.01$ level of significance.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Findings of the Study

The findings derived from the research are presented as follows.

- i. The majority of the respondents responded that the vital reason for outsourcing of selected activities is for ethio telecom to focus on its core function of providing up to date service to the public in Ethiopia. According to Bearden et al (2007), outsourcing is the process whereby firms purchase products and services from other companies rather than to make the products or perform the services internally. Hence, the respondents disclosed that the main reason to outsource selected services of ethio telecom was to focus on core business and acquire such services from third party service providers that have experience and efficiency. Other reasons for the outsourcing of selected services of ethio telecom, according to the respondents are, to minimize costs and improve cost efficiency, service excellence, to avoid labor issues and reduce labor costs.
- ii. According to the responses, it was found that because of outsourcing ethio telecom was able to reduce its cost. To this end, more than 70% of the respondents confirmed this. The activities outsourced indicated were driving services, janitorial services, distribution of SIM card and voucher card, and bill collection. If we consider the amount of people that are required to perform this outsourced services, one can easily see that operational cost of ethio telecom would have been higher. Hence, because of outsourcing it was found out that ET was able to reduce costs that are related to these outsourced services.
- iii. Though a thorough and in depth assessment is needed to be conducted to find the relationship in outsourcing and productivity, the majority of the respondents (i.e. over 60%) responses show that there exists a strong relationship between outsourcing and employee productivity. It should be noted that employees who have been engaged in non-core activities of ethio telecom have been either transferred to other core areas of the organization or let go.

- iv. The majority of responses reveal that outsourcing enables the company to improve innovation by introducing new and advanced services or improve the already existing ones. The general public is enjoying the newly provided services. And as a result the customer base has been constantly increasing.
- v. The other major finding is that as a result of outsourcing, sales of ethio telecom has shown a significantly increased according to the respondents. This is actually supported by the National Bank Report that shows total income has increased from 21,500 ('millions of ETB) in 2014/15 to 33,343.16 ('millions of ETB) in 2016/17.
- vi. Furthermore, most of the respondents declared that the profit (ROI) of ethio telecom has been consistently increasing. Hence, outsourcing at ethio telecom positively contributed to profitability. This was because, as majority of respondents agreed with the questions outsourcing helped ethio telecom to increase value of its products/services, outsourcing helped to increase ethio telecom's profits, outsourcing helped ethio telecom to expand into other markets, outsourcing helped ethio telecom to become more competitive in the market and also has helped to increase on its volume of sales.
This actually have been supported by NBE report 2016/17, gross profit of ethio telecom has increased from 14,555 ('millions of ETB) in 2014/15 to 24,792.01 ('millions of ETB) in 2016/17 resulting in a 70% increase in just two years.

In general majority of the respondents agreed that outsourcing brought about cost savings, improved productivity, enhanced innovation and increased sales which in turn results in increased profitability in ethio telecom that led to better performance.

5.2 Conclusions

The main objective of this study is to assess and analyze managerial employees' perception on ethio telecom's performance after outsourcing. Based on the literature review it can be stated that cost efficiency, productivity, profitability and flexibility were taken as the performance indicators of an organization. The results indicate that:

Outsourcing has a significantly increased the cost reduction in ethio telecom, significantly improves the productivity performance of ethio telecom, enhances innovation, and significantly increases sales. The overall impact of the above changes were linked to

increased profitability of ethio telecom that positively influenced organizational performance of ethio telecom. Hence, it can be concluded that outsourcing has improved the overall performance of ethio telecom.

5.3 Recommendations

- i. **Outsourcing and Cost Reduction** – In this area, one-way of increasing revenue is reducing cost. Hence, ethio telecom should further investigate whether the cost reduction so far achieved can further be improved. Also, though cost reduction is one of the reasons for outsourcing selected services of ET, the organization should perform monitoring and evaluation of the results and impact of outsourcing. Based on the outcome, the organization might be able to see how well the outsourcing is working.. It can further take remediation action, had the investigation shown any loopholes. For example, some respondents have said that there is a gap in fleet management and maintenance areas. Hence, appropriate action should be taken to correct areas that are not working well.
- ii. **Outsourcing and Productivity** – Though the respondents reply there is increase in productivity due to outsourcing, a further thorough assessment has to be done by the organization. This might include investigating the average time for an employee to perform a job and standardize, place a very strong performance management system, reward super achievers, train and motivate underperformers and so on. This is not only limited to ET's employees, but those employees from the outsourced companies also. One area pointed was that the outsourcing companies are paying very low salary to their employees. As a result, those employees not only lack belongingness but also drive. Hence, ethio telecom should further negotiate with the service providers to get a better deal as well as service from the outsourced services. Furthermore, as pointed out by the respondents, the organization should also opt for outsourcing the non-performing but very important tasks (eg. Fuel refill for generator, etc.) as this would disrupt the connectivity and quality of its networks, among other things.
- iii. **Outsourcing and Innovation** – Ethio telecom should take the advantage of being the sole telecom service provider in the country. That means, the organization can still introduce and improve its accessibility, quality and efficiency of its systems. As some of the respondents pointed out, probably the organization should opt for outsourcing its

network expansion (to have a better, strong, uninterrupted and quality network) in the country. To this end, now may be the time to work for service quality instead of customer base expansion.

- iv. **Outsourcing and Sales** - The organization should still look to satisfy niche markets thereby generating sales and revenue. The organization should think “Would the market be the same as it is now had other telecom operators are working in Ethiopia?”.
- v. **Profitability** - ethio telecom was able to see a significant increase in profitability. However, the organization still has to look for learning of other world-class telecom operators to find ways to further increase sales and profitability.

Finally yet importantly, ET should also investigate what the opinion of its employees’ who actually are dealing with issues of the outsourced services. From the information gathered with open-ended questions, it was noted that these managerial employees are well aware of the pitfalls as well as the advantages of outsourcing.

5.4 Suggestions for Future Researches

The study provided an assessment on management perception on the effect of outsourcing on cost, productivity, innovation and sales that have a direct impact on organizational performance. The research pinpointed significant organizational performance improvement after outsourcing.

However, future study has to be undertaken to show the relationship between outsourcing and organizational performance based on real data. To this end, it would also be wise if ethio telecom consistently and frequently assess the effect of outsourcing and the perceptions of its employees. It is these managers’ that are actually doing the day-to-day operations of the company and face different challenges in dealing with third party service providers. Hence, their opinion and feedback on the area need further investigation and mitigation to ensure ethio telecom to continue to reap the successes of outsourcing part of its activities.

Though outsourcing is not a recent phenomenon worldwide, it should be noted that it is a recent practice in Ethiopia where there exist limited number of potential service providers.

Hence, a thorough assessment should be done to analyse the availability as well as adequacy of service providers; especially to organizations like ethio telecom that has tremendous impact on the national economy serving a huge customer base.

Finally, companies that are anticipating opting for outsourcing as an option will be better off if they can take the learnings of the pioneers such as ethio telecom.

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St. Mary's University

Perceived relationship of Outsourcing and Organizational Performance: the case of ethio telecom

Dear Participant,

First, I would like to express my heartfelt appreciation in your honest and responsible participation to fill the attached questionnaire.

The questionnaire is intended to collect and analyze the perceived relationship between outsourcing and organizational performance in ethio telecom for a research paper, which is a requirement for the partial fulfillment of General MBA Degree from St. Mary's University. Your participation to fill this questionnaire is of high significance to the realization of this paper.

I assure you that the information that you provide will be for academic purposes and will be treated with strict confidentiality.

Your participation is highly appreciated.

Thank you for taking your treasured time to fill out the questionnaire and your assistance in this important endeavor.

Sincerely yours,

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Advisor Name – Dr. Maru Shete
Email – maru.bekele@gmail.com

Part I. After reading each factor under each dimension (group), please rate each of the following statements by putting a (✓) Mark on the appropriate number with respect to your level of agreement/disagreement against each question.

(Where; 1= "strongly disagree", 2="disagree", 3="neutral", 4="agree", 5="strongly agree").

	Description	5	4	3	2	1
A	Reasons for Outsourcing					
1.	Allow the company to focus on its core business					
2.	To reduce operating costs					
3.	To introduce new products and services to the company					
4.	Reduce the number of staff and related expenses					
5.	To avoid labor issues associated with employees					
6.	Provide consistent/improved service delivery					
B	Cost Efficiency and Outsourcing					
1.	Outsourcing has reduced costs such as overheads and fixed costs					
2.	Outsourcing enabled ethio telecom to obtain skilled labor at a lower cost					
3.	Outsourcing enabled ethio telecom to obtain services that are more efficient and timely					
4.	Outsourcing enabled ethio telecom to reduce the need to make capital investments in new technologies to receive services					
5.	The cost of outsourcing is lower than the cost of acquiring more resources to perform work internally					
6.	Outsourcing contributes to improved performance through cost reduction					
C	Productivity and outsourcing					
1.	Outsourcing has helped ethio telecom to have increased productivity					
2.	Performance per employee in ethio telecom has increased due to outsourcing					
3.	Outsourcing has helped ethio telecom to improve staff capacity					
4.	Outsourcing has helped ethio telecom to improve quality of its products/services					
5.	Outsourcing has helped ethio telecom to help employees set their priorities more clearly					
6.	Outsourcing had a positive outcome in my organization					

7.	Services ethio telecom obtained from the service providers has been very satisfactory after outsourcing					
D	Innovativeness and Outsourcing					
1.	Outsourcing gave ethio telecom the mechanisms to innovate and introduce new products and services					
2.	Ethio telecom is keen on innovativeness, in new product and service development as a result of outsourcing					
3.	Ethio telecom frequently introduced new products and services to the public after outsourcing					
4.	The new products and services introduced by ethio telecom were generally accepted by the public after outsourcing					
5.	ethio telecom has improved its already existing products and services after outsourcing					
E	Sales and outsourcing					
1.	Outsourcing has enabled ethio telecom to increase sales of its products/services					
2.	Outsourcing results in better short term performance					
3.	Outsourcing has helped this organization to expand into other markets					
4.	Outsourcing has enabled ethio telecom to increase its sales					
5.	The growth of ethio telecom has been steadily increasing and very satisfactory in terms sales after outsourcing					
F	Profitability (Return on Investment)					
1.	Outsourcing has helped ethio telecom to increase its profits					
2.	Outsourcing enabled ethio telecom to increase value of its products/services					
3.	Profits of ethio telecom increased as a result of outsourcing					
4.	Outsourcing enabled ethio telecom to expand into other markets					
5.	Outsourcing enabled ethio telecom to become more competitive in the market					

Thank you!!!

Open-ended questions

1. If I can take you to the time when ethio Telecom was outsourced, what was the motive to outsource selected activities of Ethio telecom?

2. Can you say that as a result of outsourcing all the targets have been achieved? If not which one's were not achieved?

3. Are there targets that are achieved well beyond the minimum criteria set?

4. In which aspects do you think outsourcing of activities at ethio Telecom improved the company's performance?

5. From your point of view what were the pros and cons outsourcing. Which one outweighs?

Pros	Cons

6. What challenges do you currently face that can directly attributed to outsourcing? Please list.

7. Which activities would you like to see your company outsource currently in-house performed activities? Please list.

8. Which outsourced activities would you like to be brought in house? Please list.

9. If there are any issues you would like to raise concerning the effects of outsourcing?

Thank You!!!

Annex B

ethio telecom performance report 2016/17

Table 1.16: Financial Performance and Asset of Ethio Telecom

(In millions of Birr)

Finance and Asset	2014/15 A	2015/16 B	2016/17 C	Percentage Change	
				C/A	C/B
Income	21,500	28,371.67	33,343.16	55.1	17.5
Expense	6,945	12,888.36	8,551.75	23.1	-33.7
Gross Profit	14,555	15,483.31	24,792.01	70.3	60.1
Assets	52,750	37,904.65	N/A		
Fixed Gross	24,129	30,949	32,399	34.3	4.7
Depreciation	2,118	8,162	2,422.17	14.4	-70.3

Source: (Extracted from NBE report 2016/17 (p. 16))