



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

**EFFECTS OF INFORMATION TECHNOLOGY OUTSOURCING ON
ORGANIZATIONAL PERFORMANCE: /THE CASE OF BANK OF
ABYSSINIA HEAD OFFICE/**

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ACCEPTANCE

EFFECTS OF INFORMATION TECHNOLOGY OUTSOURCING ON ORGANIZATIONAL PERFORMANCE: /THE CASE OF BANK OF ABYSSINIA HEAD OFFICE/

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Project Management

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ABSTRACT

The study aimed to examine the impact of IT outsourcing on organizational performance, focusing on financial, operational, and strategic dimensions. Objectives included assessing the relationship between IT outsourcing levels and strategies, understanding Bank of Abyssinia's outsourcing decisions, and evaluating the impact on performance metrics such as service quality, employee motivation, cost effectiveness, and profitability. This research utilizes a mixed-methods approach that combines both quantitative and qualitative techniques using a variety of data sources including surveys and interviews with executives. The study found that the major reasons for Outsourcing IT functions was to access global talent, to access new technologies, followed closely by access to specialized expertise and improved service quality. The findings of this research indicate that IT outsourcing at Bank of Abyssinia had a positive effect on the service quality, profitability and employee motivation while it had a negative effect on the cost effectiveness of the Bank as compared to the in-house maintenance. The challenges of IT outsourcing in BoA include hidden costs and the risk of exposing confidential data. High levels of IT outsourcing have a positive effect on the quality of service and productivity of the bank, while low levels of outsourcing positively affect data security and cost effectiveness. Additionally, employees have shown increased motivation when involved in activities after outsourcing, compared to fully outsourced products. Overall, IT outsourcing at BoA indicates that it has been perceived as beneficial in terms of profitability, particularly in improving the return on investment for IT projects and quality observed in outsourced products. Regarding the impact of IT outsourcing on cost effectiveness, the respondents believed it didn't have positive relationship indicating there is a high cost of implementation when outsourcing. The study will provide valuable insights into how IT outsourcing can be managed to enable BOA and other banks to have a perspective to achieve their strategic objectives and enhance their overall performance.

Key Words: In-house, Organizational performance, IT Outsourcing, Performance metrics

Table of Contents

Acknowledgement	I
ABSTRACT	II
List of Tables	VI
List of Figures	VII
ACRONYMS	VIII
CHAPTER ONE	1
INTRODUCTION TO THE STUDY	1
1.1 Background of the study	1
1.2 Statement of the problem	3
1.3 Objectives of the study	6
1.3.1 General Objective	6
1.3.2 Specific Objectives	6
1.3.3 Research Questions	6
1.4 Significance of the study	6
1.5 Scope of the study	7
1.6 Limitations of the Study	8
1.7 Operational Definition of terms	8
1.8 Organization of the study	8
CHAPTER TWO	9
LITERATURE REVIEW	9
INTRODUCTION	9
2.1 History of Outsourcing	9
2.2 Concept of Outsourcing	10
2.3 Types of Outsourced Services	11
2.4 Outsourcing in Global	11
2.5 Outsourcing in Ethiopia	12
2.6 Benefits of Outsourcing	12
2.7 Challenges/Risks of Outsourcing	13
2.8 Rationale for Outsourcing	15
2.9 Concept of IT outsourcing	15
2.10 History of IT Outsourcing	16
2.11 Benefits of IT Outsourcing	17

2.12 Challenges/Risks of IT Outsourcing	17
2.13 Rationale for IT Outsourcing	18
2.14 Types of IT Outsourced Activities	18
2.15 Reviewed empirical studies of IT outsourcing	19
2.16 Conceptual Framework	24
2.17 Hypothesis of the Study	24
CHAPTER THREE	25
RESEARCH METHODOLOGY	25
3.1 Description of the Study Area	25
3.2 Research Design	25
3.3 Research Approach	25
3.4 Target Population and sample	26
3.4.1 Sampling Method	26
3.5 Data Collection methods and tools	28
3.6 Data Analysis	29
3.7 Reliability	29
3.8 Validity	29
3.9 Ethical Considerations	30
CHAPTER FOUR	31
DATA PRESENTATION, ANALYSIS AND DISCUSSION	31
4.1 INTRODUCTION	31
4.2 Background of Respondents	31
4.2.1 Gender of Respondents	31
4.2.2 Age of Respondents	32
4.2.3 Educational status	32
4.2.4 Length of Service	32
4.3 Rationale for IT Outsourcing	33
4.4. Challenges Faced by IT Outsourcing	35
4.5 Level of IT outsourcing and Organizational Performance	36
4.6 Ascertaining outsourcing strategies currently used by BoA	39
4.7 IT Outsourcing and Organizational Performance metrics	42
4.7.1 Employee Perspective on IT outsourcing	42
4.7.2 IT Outsourcing on Cost saving and Profitability	45
4.7.3 IT Outsourcing and Quality of service	46

CHAPTER FIVE	47
CONCLUSION AND RECOMMENDATION	47
5.1 Conclusion	47
5.2 Recommendation	48
References	49
APPENDIX	51
Questionnaire	51

List of Tables

Table 1: References on Benefits of Outsourcing	13
Table 2: References on Risks of Outsourcing	14
Table 3: IS problems and outsourcing forms	17
Table 4: Sample size	28
Table 5: Age of Respondents	32
Table 6: Educational Status of the Respondents	32
Table 7: Length of Service of the Respondents	32
Table 8: Rationale for IT Outsourcing	33
Table 9: Challenges Faced by IT Outsourcing	35
Table 10: Level of IT outsourcing and Organizational Performance	37
Table 11: Factors affecting level of IT Outsourcing	38
Table 12: Outsourcing strategies Analysis	40
Table 13: Employee Perspective of IT outsourcing	42
Table 14: Employee Challenges	43
Table 15: IT Outsourcing on Cost saving and Profitability	45
Table 16: IT Outsourcing and Quality of service	46

List of Figures

Figure 1: Average Outsourcing of Information Systems Services	19
Figure 2: Conceptual Framework	24
Figure 3: Age of the Respondents	31

ACRONYMS

ATM	Automated Teller Machine
BOA	Bank of Abyssinia
BPO	Business Process Outsourcing
HR	Human Resources
IT	Information Technology
NBE	National Bank of Ethiopia
PLC	Public Limited Company
POS	Point of sale
QA	Quality Assurance
ROI	Return on investment
USSD	Unstructured supplementary service data

CHAPTER ONE

INTRODUCTION TO THE STUDY

1.1 Background of the study

Organizations today face intense competition and the need to improve performance to enhance competitiveness is critical. One way that many organizations have sought to achieve this is through outsourcing.

The emergence of outsourcing is dated to recent ages up to the 1970s when companies especially in the manufacturing were seeking to hire outside firms and has been expanding still to the recent days Outsourcing as defined by Simichi-Levi et al. (2004) is the practice of delegating internal activities, such as providing semi-finished or finished products or services, to an external company. In the aforementioned sentence, the word "product" can be substituted with the term "service". The entity that outsources is identified as the "buyer", while the entity that delivers the service is referred to as the "vendor". In our current time and age technology and information, system is important as each firm is in need of information technology. Therefore, as the need for technology grows and expands, firm's desire to keep up with the new ideas and technologies.

Many companies found outsourcing beneficial to do so with different reasons to outsource. Some companies outsource their operation to concentrate on their own core competence others engage in outsourcing for activities with new technological advancements. (Antonucci & Tucker, 1998a; Barako & Gatere, 2008) In Ethiopia, however, the practice of outsourcing, the need and effects of outsourcing IT services is not clear, even though the IT based project and the significant yield it may bring the company has been increasing.

Outsourcing has been formally identified in 1989(Mullin, 1996), when it was first seen as a formal business strategy. Its scope has expanded over time to include a variety of tasks, including software development, network services, disaster recovery, and QA testing in addition to IT duties. The rise of digital transformation has also had an impact on the evolution of IT services, changing the way outsourcing is done. The decision to outsource IT functions to external service providers has become a critical consideration for many organizations looking to reduce costs, access specialized expertise, and enhance their overall operational efficiency.

However, the impact of outsourcing on organizational performance remains a topic of debate. Some studies have argued that IT outsourcing has a positive effect on performance, (Rono, 2011) while others suggest that outsourcing may have negative consequences. Mtsweni et al. (2021) Therefore, there is a need to examine the relationship between IT outsourcing and organizational performance.

The banking sector continues to be the most important and influential party of every country's financial system. IPB (2004) Banks in Ethiopia are increasingly relying on IT-based services and products to meet the needs of their customers. With the country's growing economy and a rapidly increasing population, the demands from the financial sector have never been higher. The increasing use of electronic and mobile banking services allows banks to enhance customer connections, manage financial activities efficiently, and reduce operational costs. By leveraging the latest technology, banks can fulfill regulatory requirements, boost revenue, and enhance customer satisfaction. Furthermore, IT-based solutions empower Ethiopian banks to compete globally and foster the financial sector's advancement. The rapid expansion of information and communication technologies (ICT) has facilitated value creation in the digital realm (Schrieck and Wiesche, 2017).

(Itimi, 2022) mentions that Bank of Abyssinia is one of the leading commercial banks in Ethiopia with 710 branches, 6 million active customers and 1300 ATMs. "Providing excellent financial services through digital technology in order to maximize value to all stakeholders" is one of the missions of Abyssinia bank. And therefore, there are various IT-Based services and products used to meet this objective within BOA in which most of them are outsourced. The company offers a wide range of services, but in order to improve efficiency and handle information more effectively, IT-related services are currently gaining center stage. Among these modern e-banking methods, some of them are Mobile banking, agent banking, Credit cards, ATMs, Apollo and others. With these and others customers of the company can have multiple services at the pace of their mobile phones starting from making transactions online to making payments of different kinds, completing bill payments and other different activities can now be made with ease without going to the physical bank.

Bank of Abyssinia has different IT services and products like virtual banking, Digital Banking, ATM banking, Agency banking, Mobile and Internet banking in which most of these services are usually outsourced offshore.

In addition, Majority of the banks in Ethiopia including Abyssinia bank purchase their ATM and POS machine from one company known as MOTI Engineering PLC supposedly having 95% market share throughout the nation. (*Moti Engineering, 2024*) It is also known that MOTI engineering gives maintenance service for the banks for which the ATMs are sold to. Although the proper purchasing and supply of the machine doesn't have a problem, according to the NBE's directive on Licensing and authorization of payment system operators, it's always advisable to solve and control the maintenance that are needed to be carried out within the bank's internal staff. Maintenance of automated teller machine shall always be carried out in the presence of the operator's internal staff and under controlled environment (if maintenance service is outsourced) (NBE, 2020)

Bank of Abyssinia has collaborated with several third-party companies, such as Temenos, Digital Cash, Xpert Digital, Paretix, MOTI PLC, and others to improve and streamline their services using advanced technological solutions. Through these collaborations, a larger audience will be able to receive a contemporary and effective banking experience, capitalizing on the advantages of cutting-edge technology in the rapidly changing environment of today. By using these services, more clients can improve their overall experience and get access to the newest methods and lifestyles in the banking sector.

IT outsourcing has become a common phenomenon in Bank of Abyssinia. However, to ascertain whether outsourcing offers more advantages than drawbacks, it is necessary to assess how IT outsourcing affects organizational performance. This evaluation requires an understanding of the various factors that may affect organizational performance before and after IT outsourcing and how these factors interact.

1.2 Statement of the problem

Despite widespread adoption of IT outsourcing across industries, there is limited research on the specific impact of IT outsourcing on the organizational performance of financial institutions in

developing countries such as Ethiopia. While outsourcing IT functions brings the potential benefits of gaining access to specialized expertise, better technology, cost savings and many more (Antonucci & Tucker, 1998a; Gulla & Gupta, 2012; Varajão et al., 2017). However, there is a lack of comprehensive understanding regarding the effect of IT outsourcing on the organizational performance of financial institutions like Bank of Abyssinia, particularly in the context of developing countries such as Ethiopia. BOA management needs to understand the effects of IT outsourcing on their organizational performance to make informed decisions about the outsourcing strategy.

It is well known there is a high cash flow on the different IT products, machines and channels and threats could increase while outsourcing as mentioned by (Antonucci & Tucker, 1998a, 1998b; Mathew, 2006; Nili et al., 2013; Peak et al., 2002). There are different issues and risks happening while outsourcing for the IT services like data protection and confidentiality risk, lack of consistency, loss of control, negative impact on staff and other disadvantages coming with outsourcing. (Dhar & Balakrishnan, 2006; Nduwimfura & Zheng, 2015; Antonucci & Tucker, 1998b; Varajão et al., 2017)

Different types of attacks are also made on ATMs and its yet unclear how the attackers gain the access to the internal software of the machines. There are various assumptions to what may have led to the cause such as the unencrypted hard disc, the vulnerability of the usb cable connecting the dispenser, plugins into the network cables on the exterior of an ATM to record the cardholder information. (Afolabi, 2022) The mere practice of outsourcing for maintenance of machines like An ATM is not advised since it can lead to malpractices and theft.

Outsourcing could sometimes lead to being vulnerable to untrusted vendor according to a study by (Nduwimfura & Zheng, 2015) there are different risk factors coming up with vendor involvement like damaged relationship between client and vendor, the reliability of the vendors, the difficultness of division of technological activities into parts and others. and even if the attack might not be immediate, it shows how a bank stores information and operates on a daily basis, then it would be a matter These and other related issues coming with unidentified sources of attack primarily challenge the existence of the organization and put banks at a stake of losing large amounts of money and data. Secondly, they affect customer satisfaction and stakeholder's expectations including the owner, the National Bank of Ethiopia. Thus, ignoring such problems is not an option as it shakes the foundation of the organization. In addition to outsourcing of

ATM machines, outsourcing software applications could also lead to loss of data of customers and also the banks if proper measures are not taken by the bank. This loss of data also includes the bank's strategic plan, which is the main concern of banks as it may prohibit them to be uniquely competitive.

Although one of the benefits of IT service outsourcing is less cost of reduction. It is noted that there is a high expense when outsourcing for products and services as compared to the in-house developed products. There is also easier access of data and information within the bank when it is developed in-house than the vulnerability risk of outsourcing which is loss of data and such. (Antonucci & Tucker, 1998a; Weerakkody & Irani, 2010)

Although ATMs maintenance and the process of IT Projects implementation are advised to be within the supervision of the bank's authorities and proper care and attentive follow-up of the concerned divisions in the IT sector, most often there is not much control and follow ups done on the process. In addition to the attacks being made, the fact that these services are not being done and maintained in the company indicates a sign of losing control over it. Loss of control on IS assets is one of the challenges of Outsourcing IT services as mentioned by (Varajão et al., 2017) As one of the big companies with a large number of employees, banks should be able to train employees within the bank and handle all maintenance and additional integrations that may occur. This will enhance the practice of training, engage the employees more creating a better environment, and increase the safety of the machines.

The impact of IT outsourcing on organizational performance has been a topic of research for many years. The outcomes of previous studies on the effects of IT outsourcing on organizational performance have been mixed, with some indicating that outsourcing leads to improved performance while others suggest the opposite. (Nyameboame & Haddud, 2017) Hence, this study seeks to fill this gap by investigating the effect of IT outsourcing on the organizational performance of Bank of Abyssinia, taking into account both strategic and operational factors. The research aims to provide insights into the key drivers of successful IT outsourcing and the challenges that organizations face when outsourcing IT functions. The study will contribute to the broader literature on IT outsourcing and organizational performance, particularly in the context of developing countries.

1.3 Objectives of the study

1.3.1 General Objective

The main aim of this research is to assess the effect of IT outsourcing practices on Organizational performance in the case of Bank of Abyssinia. To achieve this objective the following specific objectives must be achieved.

1.3.2 Specific Objectives

- ❖ To identify why Bank of Abyssinia's outsource its IT functions.
- ❖ To ascertain outsourcing strategies currently used by Bank of Abyssinia.
- ❖ To evaluate the association between the levels of IT outsourcing with organizational performance.
- ❖ To examine the relationship between IT outsourcing and organizational performance metrics such as cost savings, productivity, and employee motivation.
- ❖ To identify the challenges and risks associated with outsourcing IT functions in Bank of Abyssinia and examine the measures taken to mitigate them.

1.3.3 Research Questions

1. What were the specific reasons behind Bank of Abyssinia's decision to outsource its IT functions?
2. What are the specific outsourcing strategies currently employed by Bank of Abyssinia for its IT functions?
3. How does the extent of IT outsourcing affect the bank's overall performance and operational efficiency?
4. How does IT outsourcing affect organizational performance metrics such as cost savings, productivity, and employee motivation at Bank of Abyssinia?
5. What are the challenges and risks associated with outsourcing IT functions in Bank of Abyssinia?

1.4 Significance of the study

The significance of researching the effect of IT outsourcing on organizational performance lies in its potential to provide organizations with insights into the benefits and drawbacks of IT

outsourcing. Some potential benefits of IT outsourcing include cost savings, improved service quality, greater flexibility, and access to specialized expertise, while drawbacks may include loss of control, decreased quality, and security risks. By conducting research on this topic, organizations can gain a better understanding of these factors affecting outsourcing decisions and make more informed decisions about whether and how to outsource IT functions. Furthermore, the research can help identify best practices for managing outsourcing relationships and mitigating any negative impacts on organizational performance. Ultimately, the insights gained from this research can aid in improving IT decision-making processes, enhancing organizational performance, and contributing to the overall success of the organization. Therefore, this paper may serve as a valuable resource for the Banking industry in Ethiopia to assess the effect of IT services outsourcing, highlighting the risks and benefits associated with outsourcing. It holds the potential to provide valuable insights that can contribute to the continuous existence and survival of organizations in this sector.

1.5 Scope of the study

The research encompasses a comprehensive investigation into the factors driving Bank of Abyssinia's decision to outsource its IT functions. The study will solely focus on the outsourcing of IT products and services, with a particular emphasis on the decision-making process involved in this strategic move. To obtain an in-depth insight of the outsourcing decision-making process, the research will involve interviewing managers, many of whom work in the IT department.

While the research aims to ascertain the specific outsourcing, strategies employed by Bank of Abyssinia, it does not provide details on the different types of outsourcing models or approaches.

Additionally, this study will examine the many risks and challenges related to Bank of Abyssinia's outsourcing of its IT services and assess the relationship between the organization's performance and the extent of IT outsourcing. It aims to ascertain the specific outsourcing strategies currently employed by the bank, while examining the impact of IT outsourcing on various organizational performance metrics. These measures comprise, but are not restricted to, employee motivation, productivity, and cost savings. The study offers a thorough grasp of the overall implications of IT outsourcing on Bank of Abyssinia's organizational performance by examining the influence of IT outsourcing on key performance indicators.

1.6 Limitations of the Study

Firstly, the study only focuses on IT outsourcing, and the findings may not be applicable to other types of outsourcing. Secondly, the study takes into consideration only one organization, Bank of Abyssinia, and may not be generalizable to other organizations in the banking sector or other industries. Thirdly, the study relies on self-reported data from respondents, and there may be a potential for response bias. Lastly, the study is limited by time and resources and it may not be possible to explore all aspects related to the impact of IT outsourcing on organizational performance.

1.7 Operational Definition of terms

IT Outsourcing the practice of contracting out IT activities, functions, or services to a third-party provider.

Vulnerability: The quality or state of being exposed to the possibility of being attacked or harmed.

Organizational performance: the ability of an organization to achieve its goals and objectives and optimize its results.

Effect: the observable or measurable changes that occur as a result of implementing a particular process, practice, or intervention.

1.8 Organization of the study

This paper is organized in five parts. Chapter one provides the introduction which includes background of the study, statement of the problem, basic research questions, objectives of the study, and significance of the study. The chapter also provides definitions for operational terminologies. The second chapter deals with literature review on the areas of project management and management contract outsourcing. Chapter 3 discuss the research methodology. Chapter 4 constitute data presentation, analysis and discussion based on information obtained from primary data through questionnaire and interviews and secondary data from management officials and published reports in the selected organization. Lastly, the paper is concluded in chapter 5, summarizing the main findings, draws conclusions and suggests recommendations regarding shortcomings and other issues that need remedies.

CHAPTER TWO

LITERATURE REVIEW

INTRODUCTION

Financial sectors like banks have been using technology to address their customer's needs and have been improving their efficiency by upgrading and using ever-growing technology. The practice of IT outsourcing has gained popularity as a means for organizations to achieve cost savings, flexibility, and access to specialized skills and technology. However, the potential impact of outsourcing on organizational performance has raised concerns. This literature review seeks to investigate current research on the positive and negative effects of IT outsourcing on organizational performance.

2.1 History of Outsourcing

A review on the history of outsourcing would need to cover several decades' worth of publications across multiple domains including business, economics, and management. Many studies have examined the evolution of outsourcing, its drivers and benefits, and the different types of outsourcing models. Researchers have explored the history of outsourcing as far back as the 19th century, tracing its roots to the Industrial Revolution. They have also looked at how outsourcing practices have evolved over the years in response to economic and technological advancements.

Outsourcing, the practice of using external vendors to perform services or functions that would otherwise be carried out in-house, has a long and complex history dating back decades. While it has grown increasingly prevalent in recent years with the rise of globalization, technology, and economic pressures, the practice of outsourcing can be traced back to the 19th century, where it began as a means of obtaining cheaper labor in the textile industry. (DiRomualdo & Gurbaxani, 1998)

Over the years, the scope of outsourcing has widened, and today it encompasses many different activities, including but not limited to manufacturing, information technology, customer service, and back-office operations. Outsourcing has become a strategic tool for organizations to reduce costs and access specialized skills, knowledge, and technologies. Yet, outsourcing is also fraught with challenges such as issues related to quality control, communication, cultural differences,

and the risk of loss of intellectual property. (Dhar & Balakrishnan, 2006; Herath & Kishore, 2009)

To understand the evolution of outsourcing, it is necessary to look at the various stages it has gone through. According to (DiRomualdo & Gurbaxani, 1998) the first stage can be identified as the pre-modern period (pre-1960), where outsourcing was primarily used for goods and services that were not critical to a company's core business. The second stage was the early outsourcing stage (1960-1980), where the outsourcing of goods mainly took place to take advantage of lower labor costs. The third stage was the strategic outsourcing stage (1980-present), where organizations began to outsource strategically to focus on their core competencies while accessing specialized skills and knowledge (Lankford & Parsa, 1999)

In conclusion, outsourcing has a long history that dates back to the industrial revolution, but it has evolved significantly in recent years. Outsourcing has become a strategic tool for many organizations, but it is not without challenges. It is essential for companies to carefully evaluate the risks and benefits associated with outsourcing before making the decision to outsource.

2.2 Concept of Outsourcing

The first known use of outsourcing was in 1979 based on the following definition as per Meriem's online dictionary.

“To procure (something, such as some goods or services needed by a business or organization) from outside sources and especially from foreign or nonunion suppliers: to contract for work, jobs, etc., to be done by outside or foreign workers.”

Outsourcing has become a common practice in the business world, with many organizations choosing to transfer certain aspects of their operations to external service providers. Despite its widespread use, there is no clear and agreed-upon definition of outsourcing.

(Palvia et al., 2002) define outsourcing as the use of third-party service providers to perform business processes that were previously conducted in-house. They suggest that outsourcing can provide many benefits to organizations, including cost savings, access to specialized expertise, and increased flexibility.

Outsourcing is also defined as the procurement of products or services from sources that are external to the organization by (Lankford & Parsa, 1999)

In general, outsourcing is a complicated and multifaceted process that entails handing off some tasks to outside service providers. Depending on the environment and size of the outsourcing operation, many definitions of outsourcing may apply.

2.3 Types of Outsourced Services

According to a study by (Lacity et al., 2010), there are four types of outsourced activities: IT outsourcing (ITO), business process outsourcing (BPO), knowledge process outsourcing (KPO), and legal process outsourcing (LPO). ITO refers to the outsourcing of IT-related services, such as software development and maintenance, to external providers. BPO involves the outsourcing of non-core business processes such as accounting, HR, and customer support. KPO is a specialized form of BPO that involves the transfer of knowledge-intensive tasks, such as research and analysis, to external providers. Finally, LPO is a specialized form of BPO that focuses on the outsourcing of legal processes, such as document review and drafting, to external providers.

Cloud sourcing is a relatively new type of outsourcing that is gaining increasing relevance in today's business environment. Cloud sourcing is an outsourcing arrangement that utilizes cloud computing platforms to deliver IT services, applications, or resources to businesses. In a research of cloud based outsourcing framework (Alemu et al., 2020), several factors were identified that organizations must consider when adopting cloud-based outsourcing models. These factors include cost, service quality, security, regulatory compliance, and business continuity management.

According to Mulat (2007) the top three business functions that Ethiopian organizations are willing to outsource in ascending order are: Security service, Maintenance & Janitorial service, and Information technology and that 80% of banks have outsourcing experience in one or more business functions.

2.4 Outsourcing in Global

Research by (Statista Research Department, 2022) The global outsourced services industry has had an unstable revenue over the past few years, with the market size shrinking to \$76.9 billion in

2016, which was the lowest figure recorded in a decade. The largest revenue share for this industry came from the Americas, followed by Europe, the Middle East and Africa. However, the Asia Pacific region had a much smaller share of global revenue. Additionally, the information technology outsourcing sector contributed a bigger proportion of the industry's revenue in 2019 compared to business process outsourcing. Business process outsourcing generated \$26 billion, while information technology outsourcing generated \$66.5 billion.

2.5 Outsourcing in Ethiopia

According to research conducted by (Mulat, 2007), respondents in which the research was made of are top managers and the study shows that 79% of the respondents have more than medium level of awareness about the concept of outsourcing. According to the survey, forty percent of the respondents' firms outsource maintenance and cleaning services, making them the most often outsourced business tasks. Information technology and security services are outsourced by 30% of the respondents' firms, placing them in second place. Interestingly, none of the respondents' organizations reported outsourcing accounting services and administrative functions. Additionally, some respondents mentioned outsourcing community training, agricultural mechanization, and public toilet administration as other business functions.

Lahiri (2016) in his paper, "Does Outsourcing Really Improve Firm Performance," revealed that outsourcing can produce positive, negative, mixed, moderated, or even no significant impact at all on the firm. Following this, it is beneficial to explore the benefits and challenges of outsourcing on companies.

2.6 Benefits of Outsourcing

A Research on outsourcing practices of the Kenyan banking sector by (Barako & Gatere, 2008) the survey respondents generally agree that outsourcing brings benefits to a bank. **Focusing on the core business** was mentioned by all of the respondents as one of the benefits of outsourcing, while only 45% believed that outsourcing allowed for **the allocation of resources to other bank functions**. **Access to specialized vendors** was identified as a positive outcome for banks, particularly in the IT field where rapid technological changes often necessitate outsourcing.

Using previous literature, some of the benefits of outsourcing are gathered and summarized in table as follows.

Table 1: References on Benefits of Outsourcing

Advantages	References
Cost Reduction	(Dhar & Balakrishnan, 2006),(Antonucci & Tucker, 1998a; Lankford & Parsa, 1999; Overby, 2022)
Focus on core competences	(Antonucci & Tucker, 1998a; Barako & Gatere, 2008; Overby, 2022)
Access to global Talent	(Barako & Gatere, 2008)
Access to new Technology	(Antonucci & Tucker, 1998a; Barako & Gatere, 2008)
Access to skills or resources	(Deep, 2017; Overby, 2022)
optimal allocation and utilization of internal resources	(Dhar & Balakrishnan, 2006)
Flexibility to the changing of demand	(Antonucci & Tucker, 1998a; Dhar & Balakrishnan, 2006)
Higher quality and Reliability	(Dhar & Balakrishnan, 2006)

Sources: Dhar & Balakrishnan (2006), Antonucci & Tucker(1998a); Lankford & Parsa (1999); Overby, (2022) , Barako & Gatere (2008); Overby (2022) ,Deep (2017)

2.7 Challenges/Risks of Outsourcing

According to an article by Overby (2022), the failure rate of outsourcing relationships is high ranging from 40% to 70%. One of the major causes for this failure is the conflict of interest between the vendor and the client. The client seeks better service often at lower costs; however, the vendor wants to make a profit and thus it creates tension. Another cause for the failure of outsourcing is the rush to outsource as a “quick fix” cost cutting operation rather than an investment designed to enhance capabilities, expand globally, increase profitability or bring a competitive advantage.

According to Hayes (2021) outsourcing may lead to losing a company’s loyalty. Employees within the company lose confidence and become discouraged which leads to the workplace satisfaction and worker productivity impacted negatively.

According to the survey by (Barako & Gatere, 2008) , reputational, strategic, operational, and contractual risks are the most likely risks associated with outsourcing, with 79%, 53%, 58%, and 53% respectively considering these risks to be very high or high. Respondents believe that reputational risk is a significant concern since the outsourced third party's service quality may not meet the bank's expectations, causing harm to the bank's reputation. Country risk is not perceived as a high-risk factor in outsourcing, with 89% of respondents considering the risk to be neutral or low, and only 11% considering it high.

Belcourt (2006) mentions that there will be less flexibility as the outsourcing provider offers the level of services specified in the contract using the technological platform it deems appropriate. Unless specifically spelled out in the contract, an organization may lose the flexibility of moving to another computing platform. Loss of control is also another reported disadvantage when outsourcing IT services, here the researcher explains that critics of IT outsourcing argue that no outside providers can match the responsiveness and service levels offered by an in-house team mainly because the vendors in charge will not be in control of the same management direction as internal staff and there is a concern about the confidentiality of strategic applications and data.

Below the summaries of disadvantages are presented in tabular form with cited references.

Table 2: References on Risks of Outsourcing

Disadvantages/Risks	References
Risk of exposing confidential data and technology	(Dhar & Balakrishnan, 2006; Nduwimfura & Zheng, 2015) (Antonucci & Tucker, 1998b; Varajão et al., 2017)
Lack of customer focus	(Dhar & Balakrishnan, 2006; Herath & Kishore, 2009; Varajão et al., 2017)
Hidden costs	(Antonucci & Tucker, 1998b)
Instability/ Loss of management control	(Antonucci & Tucker, 1998b; Varajão et al., 2017)
Lack of flexibility	(Antonucci & Tucker, 1998b; Varajão et al., 2017)
Uncertainty about the vendor	(Varajão et al., 2017)

Sources: Dhar & Balakrishnan (2006), Nduwimfura & Zheng (2015), Antonucci & Tucker(1998b), Varajão et al (2017), Herath & Kishore (2009)

2.8 Rationale for Outsourcing

One of the main reasons for organization's decision to outsource is Quality Management according to (Lacity et al., 2010) accordingly; there exists a belief that outsourcing may contribute to an increase in the processes' efficiency and effectiveness that such application services support.

(Rodrigue, 2020) mentions that the main rationale for outsourcing is related to finding lower input costs for the good or service allowing for a better level of cost control and this in turn will allow the organization to focus on the core competency and frees up internal resources.

Mulat (2007) explains how different business functions place varying levels of importance on the reasons for outsourcing. For instance, while IT outsourcing is often driven by the need for innovative ideas, this is considered a less important factor for functions such as maintenance, janitorial and security services. Similarly, some reasons for not outsourcing are more relevant to certain functions than others. Loss of confidentiality is seen as a significant risk for security, IT and sales marketing functions, but is given less weight when considering procurement and supplies management.

Mulat (2007) summarizes the significance of reasons for outsourcing arranging in ascending order, with the most prominent being allowing companies to concentrate on core business, enhancing service level, obtaining innovative ideas, and reducing expenses.

2.9 Concept of IT outsourcing

Information systems and technology outsourcing may be defined as contracting with outside vendors for the provision of various IT functions, including data entry, data center operations, application maintenance and development, disaster recovery, and network management and operations. (Antonucci & Tucker, 1998a)

"IT “outsourcing is the practice of contracting out some or all of an organization's IT functions to external vendors or service providers." It is when an organization moves a part of the software

development outside of the in-house structure to save costs and control all the processes and is a fast-growing part of the industry. (Lacity et al., 2010)

2.10 History of IT Outsourcing

According to Antonucci & Tucker (1998a) IT outsourcing has grown significantly in the US market, with the highest growth rate seen in IT outsourcing services such as applications development, applications maintenance, and desktop systems. By 2001, IT outsourcing is projected to generate \$184 billion in revenue. Prior to 1990, IT outsourcing was primarily driven by cost-effective access to specialized computing power or system development skills, avoidance of building in-house IT skills especially for small and low-technology organizations, and access to special functional capabilities.

Dibbern et al. (2004) IT outsourcing has been an important aspect of many businesses' operations for several years. It involves the transfer of IT services from an organization's internal IT department to an external vendor. As the technological landscape evolves, so does IT outsourcing. This following review explores the evolution of IT outsourcing and critically examines the challenges and benefits associated with it.

The practice of outsourcing began in the 1960s and 1970s when companies sought to reduce the cost of labor and software development. It was not until the 1980s that outsourcing became more widespread, with firms beginning to outsource IT services to take advantage of the rapid development of technology and IT expertise (Dibbern et al., 2004). During the 1990s, outsourcing took on a more strategic role, with businesses using it as a way to improve operational efficiency and profitability. The outsourcing market continued to grow throughout the 2000s and 2010s, with firms seeking new ways of cutting costs and improving their competitive position (Lacity et al., 2010)

In conclusion, IT outsourcing has undergone significant development over the years, from a purely cost-based approach to strategic outsourcing. The benefits of IT outsourcing are numerous but it is vital to be aware of the challenges associated with it. As a result, careful consideration of the potential risks and benefits is essential to making effective outsourcing decisions.

2.11 Benefits of IT Outsourcing

A study by Dhar & Balakrishnan (2006) on IT outsourcing by analyzing two large organizations that have been involved in IT outsourcing for several years as a part of their business strategy. The two organizations were chosen because of their experience in dealing with offshore vendors and their efficient project management expertise. They had also dealt with various challenges such as multicultural teams, diverse geographic and political environment, and varying quality standards. Antonucci & Tucker (1998a) Outsourcing provides various benefits, including the ability for companies to focus on their core competencies while accessing state-of-the-art technology through outsourcing. The introduction of market competition and increased economies of scale lead to cost savings through outsourcing while also providing flexibility. Outsourcing can also protect a firm's image and increase job security for regular employees. Additionally, outsourcing can help mitigate the vulnerability of internal IT and prevent image problems.

2.12 Challenges/Risks of IT Outsourcing

Information system outsourcing has become a significant challenge for IS management (Yang & Huang, 2000). In a study (Ketler & Walstrom, 1993) outlined different types of information system problems and forms of outsourcing from the 1960s to the 1990s, which can be summarized in a table by (Yang & Huang, 2000) as the following.

Table 3: IS problems and outsourcing forms

Time	Problem	Form of outsourcing
1960s	Cost of hardware	Facilities or operation management
1970s	Expenses of software development	Contract programming
1980s	Lack of IS personnel and high demand of IS applications	In house
Early 1990s	To support vertical integration	Onsite facilities management and complete outsourcing
1990s	Rapid changing and complex technology	Partial outsourcing

Source: Ketler & Walstrom (1993)

2.13 Rationale for IT Outsourcing

Cost reduction is the main driving factor for outsourcing their IT activities. In addition to cost reduction, the researcher believes that focus on core activities and professional services are other objectives for the firms to outsource IT. (Dhar & Balakrishnan, 2006)

Antonucci & Tucker (1998a) Managers outsource various functions for short-term tactical benefits and long-term strategic benefits. A survey of more than 1200 firms highlights the top five short-term tactical reasons for outsourcing. These include reducing or controlling operating costs, making capital funds available, receiving a cash infusion, lack of resources available internally, and difficulty managing or controlling a particular function.

The long-term strategic reasons for outsourcing mainly focus on improving the overall performance of the business. The top five reasons include improving business focus, access to world-class capabilities, accelerating reengineering benefits, sharing risks, and freeing up resources for other purposes.

According to Dhar & Balakrishnan (2006), on a case study analysis made on 2 global organizations, the most significant reasons for IT outsourcing in both firms are reduced costs, emphasis on core activities, and access to professional services. 75% of survey respondents identified lower costs, professional services, quality, and reliability as the main reasons driving their IT outsourcing projects. Another 63% of respondents cited a focus on core activities as a key motivator for IT outsourcing.

2.14 Types of IT Outsourced Activities

There are different types of IT outsourcing activities and services that can be used depending on a company's specific needs. In this literature review, we will examine the various types of IT outsourced activities and services that are available.

A Research by Varajão et al. (2017) Aiming at identifying which IT/IS services are more often outsourced, presents the percentage of outsourcing for each type of service. The services identified were: Microcomputer management; Technical training to internal IT staff; Data center management; Consulting services; Helpdesk; User training; Network Management; Security management; Platforms and communications services; Web services; Application development; Application maintenance; Project management; E-mail and messaging services; Systems

integration; Disaster recovery management. The figure below shows the obtained ranking of the main services outsourced, sorted by relevance.



Figure 1: Average Outsourcing of Information Systems Services

2.15 Reviewed empirical studies of IT outsourcing

The relationship between IT outsourcing and organizational performance is not always clear. This literature review aims to provide a critical evaluation of the empirical studies that have investigated the effect of IT outsourcing on organizational performance.

In a study on outsourcing practices and their impact on the performance of commercial banks in Kenya by (Rono, 2011), it was found that outsourcing had a limited positive impact on firm performance. The study surveyed 16 commercial banks, which represent 43 currently in operation in Kenya. The study used primary and secondary sources of data, with most of the data collection being in terms of the perceived benefits and risks of outsourcing and their impact on banks' performance. The findings demonstrated that, although the effects of risks and advantages on banks' performance vary, respondents agreed that outsourcing boosts service quality, lowers costs, allows for a concentration on key skills, and gives businesses a competitive edge. Overall, according to the study, banks' performance has been seen to improve through outsourcing, with the perceived advantages surpassing the perceived drawbacks. The study's conclusions provide light on the variables influencing outsourcing choices made by Kenyan banks.

Gulla & Gupta (2012) examined the impact of IS outsourcing on the Indian banking sector in the short, medium, and long-term. To measure this impact, they used a questionnaire survey to test seven research propositions, receiving valid responses from 159 out of 162 respondents from 43 banks. These propositions included efficiency, service levels, cost savings, outcome-based performance, IS control and monitoring mechanisms, risks associated with IS outsourcing, core competence, and learning competence. The study found that an increase in the degree of IS outsourcing led to a significant improvement in efficiency, service level, and cost savings in the short-term. However, in the long-term, the impact of outsourcing may not be significant at a high degree of outsourcing. Medium-term impact only showed significant improvement at a reasonable degree of outsourcing, with further outsourcing not leading to significant performance improvements. Although initial IS controls and risks increased with outsourcing, reaching a certain degree of outsourcing resulted in lower risk and lower IS control. Core competence showed significant improvement at high levels of IS outsourcing, but beyond a certain point, improvement was not significant. Learning capabilities increased only up to a medium degree of outsourcing, beyond which it showed negative growth. Therefore, outsourcing may be a beneficial solution for banks facing tough competition or lagging in their IS infrastructure, as it can lead to faster acquisition of necessary capabilities.

Riggins (2019) discusses the challenges and opportunities of IT outsourcing in the banking industry. The author notes that outsourcing can be a cost-effective way for banks to access specialized technology and expertise, but also highlights the risks associated with outsourcing, such as loss of control, quality issues, and security concerns. The article recommends that banks carefully evaluate their outsourcing relationships and ensure that they have adequate risk management processes in place to mitigate these risks. Additionally, the author emphasizes the importance of effective communication and collaboration between banks and outsourcing providers to ensure successful outcomes. Overall, the article provides useful insights for banks considering outsourcing as a strategy for improving their IT operations.

The research article by (Kaźmierczyk & Macholak, 2014) analyzed documents related to outsourcing in the Polish central bank and near-bank institutions. A questionnaire survey of bank employees was also conducted, and the results were interpreted using interviews conducted in 2010. The study found that the main reason for outsourcing among Polish banks was to reduce operational costs. Other factors that influenced outsourcing included an increase in the level of

education among employees and access to specialized expertise. Ethics and customer satisfaction were also mentioned as important considerations. The study found no significant differences between the responses of managerial and non-managerial employees. The authors recommend further analysis of outsourcing in the banking sector in the future. Overall, the study provides insights into the motivations for outsourcing in the Polish banking industry.

The purpose of the study by (Barako & Gatere, 2008) was to examine the contemporary evidence of outsourcing practices in the Kenyan banking sector, including perceived benefits and risks associated with outsourcing activities. One significant finding is that nearly 50% of financial institutions outsource certain banking functions without regulatory framework. The authors sent a questionnaire to 40 commercial banks operating in Kenya, and results show that Automated Teller Machine (ATM) services are the most commonly outsourced function while customer account processing is least. The main benefits reported by banks for outsourcing are cost reduction, focus on core competencies, and improved services, whereas reputational, operational, contractual, and strategic risks are the main risks associated with outsourcing. The study finds that bank size is positively related to outsourcing decisions, whereas cost-saving and profitability are not significant predictors. However, the study's focus was limited to Kenya's banking sector and therefore has regulatory implications. The authors conclude that as larger financial institutions are likely to outsource, the industry could face high exposure to outsourcing risks, and the contagion effect in the event of third-party default is difficult to predict due to interdependence in the sector.

In their study, Mtsweni et al. (2021) examined how outsourcing of in-house IT services affects the performance of IT operations and the organization itself. They took a qualitative approach and collected data through structured interviews, analyzing it thematically. The study found that outsourcing IT services had both positive and negative impacts on the organization. Understanding the operating environment was crucial in providing relevant services that added value to the organization. The study revealed that in-house IT and the quality of IT services provided directly affected the organization's performance. Outsourcing IT services have both positive and negative impacts on quality and performance. Therefore, the authors suggested that in-house IT and outsource service providers work closely to ensure smooth service delivery, process alignment, and up-skilling of in-house IT to manage first-line support.

Mulat (2007) suggests that challenges in outsourcing activities are most likely to arise with accounting and administration service providers, as there may be concerns about loss of confidential data and loss of control. However, Mulat emphasizes the readiness to outsource Information technology services in Ethiopia.

The article "IT/IS Outsourcing in Large Companies - Motivations and Risks" by (Varajão et al., 2017) presents a thorough literature review on IT and IS outsourcing in large organizations. The authors examine various studies on the motivations behind outsourcing, as well as the risks and benefits associated with it. The study also explores different outsourcing models and how they affect organizational performance. The authors used a systematic literature review methodology to gather and analyze the data. The approach adopted by the authors proved successful in identifying patterns and themes across multiple studies, thus adding to our understanding of the phenomenon.

Varajão et al. (2017) found that the financial benefits followed by access to expertise and IS management improvement are the main motivations for outsourcing. However, the study also identified that loss of control in fundamental business processes, fear of unexpected costs, risk of supplier instability, and decrease in service quality are the main perceived risks associated with outsourcing. The authors suggested that future research should focus on analyzing the effects of outsourcing on firm performance, in order to gain a better understanding of the impact of motivations and risks. The study's results provide valuable insights for large enterprises considering outsourcing as a strategy for their IT/IS services. However, the authors also recognized that outsourcing should be carefully weighed against its risks before making a decision, as the value-added by outsourcing still remains uncertain.

A study titled "Developments in IT Outsourcing in Croatian Banks" by (Smojver & Blažeković, 2015) provides an analysis of the outsourcing landscape in Croatian banks between 2005 and 2012. The study found that while the scope of outsourcing did not significantly increase during this time period, the perception of the risks associated with outsourcing had increased somewhat. According to the analyzed data, banks predominantly processed their banking applications and provided IT infrastructure services from their premises, and offshoring of these services out of the banking group was rare. The study's insights can improve banking supervision in Croatia by

directing focus and planning of banks' supervision as well as enhancing banking supervision models that are in development. These findings present important information that can help researchers and practitioners better understand the current dynamics of outsourcing in Croatian banks. However, the study's narrow scope limits its generalizability to other contexts. Further studies are recommended to explore the effects of outsourcing on organizations' financial performance and competitiveness.

The study conducted by Mulat (2007) from the Faculty of Business and Economics at Addis Ababa University School of Graduate Studies examines outsourcing practices in Ethiopia, assessing the factors that influence outsourcing decisions, models of outsourcing and the impact of outsourcing on job and data security. The study also suggests that Ethiopian firms should develop clear outsourcing strategies that weigh the potential benefits against the drawbacks while mitigating potential risks. In particular, the study highlights the potential for outsourcing to contribute to economic development in Ethiopia. This research paper becomes a valuable resource for policymakers, business leaders and researchers in the field of outsourcing.

However, there is another piece of information related to outsourcing found in the search results. It suggests that reasons for outsourcing and not outsourcing in different business functions may vary. While acquiring innovative ideas may be a crucial reason for information technology outsourcing, it may not hold the same level of importance for other outsourcing decisions like maintenance and janitorial service and security service. Additionally, reasons for not outsourcing like the potential loss of confidentiality may be more important for decision-making in outsourcing security services and IT and Sales marketing functions, while less important for the procurement and supplies management function.

Overall, the empirical studies reviewed in this literature review provide mixed evidence on the effect of IT outsourcing on organizational performance. While some studies have found significant benefits of IT outsourcing, others have found negative or mixed effects. The relationship between IT outsourcing and organizational performance is influenced by several factors, including vendor selection, contract design, and governance mechanisms. Future research should continue to explore these factors and their impact on IT outsourcing outcomes.

According to (Mtsweni et al., 2021) a low level of outsourcing involves the limited outsourcing of IT functions, resulting in positive impacts on data security and cost effectiveness. On the other hand, a high level of outsourcing refers to a scenario where a substantial portion of IT functions

is outsourced, leading to positive effects on the quality of service and productivity, but potentially resulting in a negative impact on cost effectiveness.

2.16 Conceptual Framework

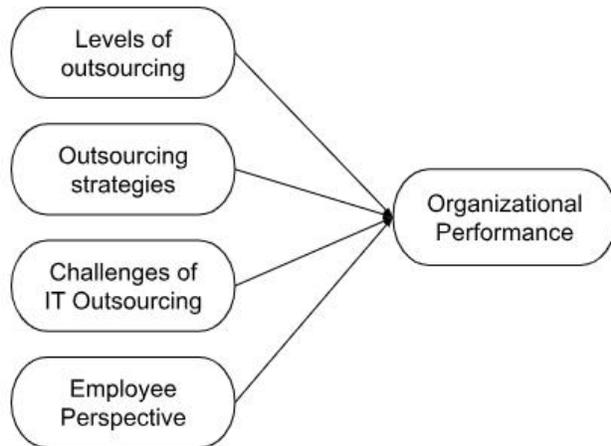


Figure 2: Conceptual Framework

The conceptual framework depicted in the image shows that organizational performance is directly impacted by four key outsourcing-related factors: levels of outsourcing, outsourcing strategies, IT outsourcing challenges, and employee perspective. Each of these elements represents a distinct aspect of outsourcing that can influence the overall performance of an organization.

2.17 Hypothesis of the Study

- H1:** The low level of IT outsourcing has a positive impact on organizational performance.
- H2:** IT Outsourcing has positive impact on organizational performance through its effect on service quality, Customer Satisfaction and Employee Motivation.
- H3:** IT Outsourcing has negative impact on organizational performance through its effect on cost effectiveness
- H4:** IT Outsourcing has a significant positive relation with the strategic alignment of BoA.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Description of the Study Area

This chapter presents details of the research design, sample size and sampling technique, data source and collection method, procedure of data collection, questionnaire and the method of data analysis. Research design and methodology present a description about the design employed for this study, the various procedures and processes used to collect and analyze the data. It also indicates the path through which researchers need to conduct the study and the method of analysis of the data. Generally, this chapter highlights in what way the research finding was obtained in line with the objective of the study.

3.2 Research Design

The function of a research design is to ensure that the evidence obtained enables the researcher to answer the research questions as unambiguously as possible (Kothari, 2004). In this research, Descriptive study design was used to conduct this research. Application of descriptive study design is chosen as it is interested in describing the existing effects of IT outsourcing within Bank of Abyssinia and in order to understand the practices, challenges and factors affecting IT offshore outsourced services. Survey method and Interview will be used to assess opinions and perceptions of IT employees by use of rational reasoning, where the researcher forms a research question.

3.3 Research Approach

In this research, both quantitative and qualitative research strategies (Mixed methods) were used to solicit data from both non-managerial and managerial employees regarding the effect that IT outsourcing had on organizational performance of BoA, using well-structured questionnaires and Interview containing both open-ended and closed-ended. The main aim of gathering qualitative and quantitative data is to acquire all necessary data from the entire studied population that was used to answer research questions in relation to the effect of IT outsourcing on Bank of

Abyssinia. These both open ended and closed ended questionnaires allow us to look in depth, observing and analyzing the populations under this study.

3.4 Target Population and sample

The total populations in the study are mainly employees of the IT sector however; an Interview with some HR management personnel, Procurement divisions since they are involved in selecting and managing the relationship with the outsourcing provider, both managerial and non-managerial level involved in the project management sector and IT Division of the company is also involved.

Target population can be defined as a group of individuals taken from the general population who share common characteristics. Sampling is a system of identifying individuals from a wider targeted population for study purposes.

3.4.1 Sampling Method

In this study, a simple random sampling method is used as each member of the population has an equal chance of being chosen. This method was selected because it ensures that the sample is representative of the population, minimizing selection bias and enhancing the validity and reliability of the results. Simple random sampling is straightforward to implement and understand, which adds to the transparency and replicability of the research. Additionally, it allows the use of standard statistical techniques to accurately estimate population parameters and calculate confidence intervals. Currently, there are 187 employees in the IT sector, of which 114 are relevant to the research questions of this paper. To obtain a simple random sample that can estimate a population parameter with a 95% confidence level and a margin of error of 5%, we can use the following formula to determine the necessary sample size.

Formula for Calculating Sample Size:

$$n = (Z^2 * p * (1-p)) / (E^2)$$

Where:

n = sample size

Z = Z-score corresponding to the desired confidence level (1.96 for a 95% confidence level)

p = estimated proportion of the population

E = margin of error

In the given formula, the estimated proportion of the population, p, is 0.5 (assuming a 50% distribution in the population), and the margin of error, E, is 0.05. The Z-score is used to determine the level of confidence, and in this case, it corresponds to a 95% confidence level.

$$n = \frac{114 \cdot (1.96)^2 \cdot 0.5 \cdot (1-0.5)}{(114-1) \cdot (0.05)^2 + (1.96)^2 \cdot 0.5 \cdot (1-0.5)}$$

Now we can plug in the values and compute:

$$n = \frac{114 \cdot (1.96)^2 \cdot 0.5 \cdot 0.5}{113 \cdot 0.0025 + (1.96)^2 \cdot 0.25}$$

$$n = \frac{114 \cdot 3.8416 \cdot 0.25}{0.2825 + 0.9604}$$

$$n = \frac{114 \cdot 0.9604}{1.2429}$$

$$n = \frac{109.482}{1.2429}$$

$$n \approx 88.1$$

The calculated sample size, n, is 88.1, which would typically be rounded up to the nearest whole number to ensure an adequate sample size. The research suggests that in order to gather data, it would be necessary to select a sample of 88 individuals from the total population of 114 employees in BOA's IT Department.

Additionally, a qualitative study is conducted by interviewing ten senior management staff members from IT, Procurement, and Human resources. The research goes for purposive sampling as it helps in selecting the senior members who relatively have more idea on the topic. The decision to choose ten members by means of judgmental sampling is based on the researcher's belief that these members hold significant and sufficient views.

Table 4: Sample size

Questionnaire		
Department	General Roles	Number of participants
IT	General Employees	88
Interview		
HR	Staff Members	2
Procurement	Staff Members	3
IT	Senior Staff (Managers and Director)	5

3.5 Data Collection methods and tools

The instruments used for collecting the required data include both questionnaires and individual interviews. Self-administered questionnaires were distributed to the study population as mentioned above. The questionnaire was preferred because it is an efficient and economical way of gathering data from a large number of respondents anonymously, which encourages them to provide genuine information and makes the data relatively easy to analyze (Kothari, 2004) The questionnaires were designed to answer the research questions and gather data on the level of IT outsourcing at Bank of Abyssinia, the impact of IT outsourcing on employees, and the resulting effects on organizational performance. In addition, semi-structured individual interviews were conducted. The semi-structured interview was preferred because it allows the researcher to elicit a substantial amount of firsthand data from knowledgeable key informants, such as IT managers. The survey was implemented using a Google Form-based questionnaire to obtain a better response rate. This data collection approach was chosen to facilitate appropriate follow-up reminders and to support respondents with any queries they might have regarding the

questionnaire items. Subsequently, continuous follow-ups is conducted through phone and visit to encourage the respondents to finalize the questionnaires timely with their genuine feedbacks

3.6 Data Analysis

After data is gathered and coded, it was entered into SPSS version 27 for analysis. The data collected through the questionnaires was analyzed quantitatively using both descriptive and inferential statistics. Descriptive statistics were used to summarize and describe the main features of the data, while inferential statistics helped in drawing conclusions and making inferences about the broader population. The qualitative data collected through the interviews was coded and analyzed using an open coding method and presented in a descriptive manner. The results of the survey are then presented in descriptive form.

3.7 Reliability

A reliability test was performed to assess the stability and consistency of the data using the Cronbach's Alpha method. The questionnaires were designed to be closely aligned with the research questions, and a meticulous data collection method was employed. Cronbach's Alpha was computed with SPSS version 27 software. As noted by McMillan and Schumacher (2010), a Cronbach's Alpha value of 0.7 or higher is generally considered acceptable. In this study, a Cronbach's Alpha of 0.7 was achieved, indicating a good reliability.

3.8 Validity

Validity refers to the degree to which a measurement accurately reflects the true value of the parameter being studied. It also involves determining whether the findings of the study are authentic or influenced by unobserved factors. In this study, validity was ensured through several methods: the questionnaire was pretested to identify and address potential issues, and efforts were made to eliminate bias in the sampling techniques, ensuring that every participant had an equal chance to be selected. Additionally, the questionnaires were designed to comprehensively address all the variables under investigation.

3.9 Ethical Considerations

The data gathered is through informed consent from participants and used solely for academic purposes. The anonymity and privacy of the respondents while gathering data is also maintained, fabrication of data is strictly avoided and the study is independent and free from conflict of interest, partiality, and politics.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 INTRODUCTION

This chapter of the research paper focuses on the analysis of the data collected in the study to test the hypotheses and better understand the research questions at hand. By analyzing the data, we can gain insights into the relationships between different variables and draw conclusions about the research topic. The results of this analysis can be used to support or refute existing theories, as well as to identify areas for further research and exploration.

4.2 Background of Respondents

4.2.1 Gender of Respondents

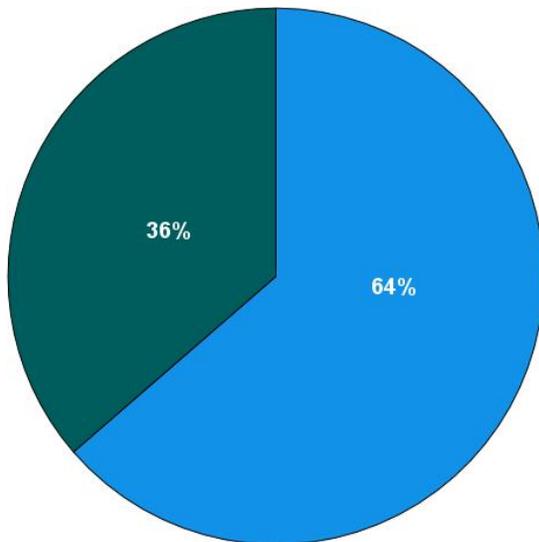


Figure 3: Age of the Respondents

According to the gender distribution shown in the above table, 64% percent of respondents are men 36% percent are women.

4.2.2 Age of Respondents

Table 5: Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-25 years	17	19.3	19.3	19.3
	26-30 years	18	20.5	20.5	39.8
	31-35 years	35	39.8	39.8	79.5
	36-40 years	15	17.0	17.0	96.6
	Above 40 years	3	3.4	3.4	100.0
	Total	88	100.0	100.0	

Source own survey data (2024)

When the age distribution is examined, a significant portion of the respondents 39.8% fall in the 31–35 year age range, followed by those in the 26–30 year range, which account for 20.5 percent, and those in the 20–25 year range, which account for 19.3 percent. The remaining respondents 17% and 3.4 %, respectively fall in the higher age range of 36–40 and Above 40 years.

4.2.3 Educational status

Table 6: Educational Status of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	First Degree	53	60.2	60.2	60.2
	Second Degree	35	39.8	39.8	100.0
	Total	88	100.0	100.0	
	Total	88	100.0		

Source own survey data (2024)

In terms of education 53(60.2%) have attained First degree and 35(39.8%) have attained their secondary level degree.

4.2.4 Length of Service

Table 7: Length of Service of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	30	34.1	34.1	34.1
	6-10 years	34	38.6	38.6	72.7
	11-15 years	9	10.2	10.2	83.0
	16-20 years	12	13.6	13.6	96.6
	Above 20 years	3	3.4	3.4	100.0
	Total	88	100.0	100.0	

Source own survey data (2024)

Among the survey participants, 34 (38.6%) had a work experience ranging from 6-10 years, while 30 (34.1%) had worked for 1-5 years. Additionally, 12 (13.6%) respondents had a work experience of 16-20 years, 9 (10.2%) had worked for 11-15 years, and 3 respondents (3.4%) had a work experience of over 20 years.

4.3 Rationale for IT Outsourcing

Table 8: Rationale for IT Outsourcing

	No of Respondents	Minimum	Maximum	Mean	Std. Deviation
Cost Reduction	88	1	5	2.95	1.330
Focus on core activities	88	1	5	3.34	1.221
Improved service quality	88	2	5	4.42	.813
Access to specialized expertise	88	3	5	4.55	.693
Access to new technologies	88	4	5	4.68	.468
Flexibility	88	2	5	3.89	.850
Access to 24/7 support	88	1	5	4.03	1.108
Valid N (listwise)	88				

Source own survey data (2024)

The respondents were asked to rank what the top reasons for outsourcing IT functions. The survey shows that the most popular reason for outsourcing was to access new technologies, followed closely by access to specialized expertise and improved service quality. Interestingly, Cost reduction and the desire to focus more on strategic issues was ranked lowest among the options, with the mean score of 2.95 and 3.36 respectively indicating little importance given to it which is in contrary to the literature reviews focusing more on the cost reduction and focus on core activities.

During interviews, respondent #1 noted that — *“Banks have to constantly reach for vendors and the reason behind most is to gain access to specialized knowledge and innovative technologies that may not be available in-house. Outsourcing these services leads to improved quality and getting competitive advantage as it can lead to faster turnaround times, increased competitiveness within the industry. It also comes with potential disadvantages such as*

communication difficulties, security threats, some hidden costs and inconvenience for immediate action may not come as easy as in house development and maintenance.”

Respondent #3 mentioned that... —” *Apart from the cost and some challenges like communication challenge, loss of control on some outsourced functions, it may be beneficial in terms of achieving competitive advantage breaking through the market as a first provider has its perks and viewing that the cost may not be so much too since the return on investment is expected to be greater.”*

Respondent #5 mentioned that ... —” *investing in new systems is frequently required to gain access to cutting-edge technologies that are not easily accessible or may take a long time to become familiar with in our country, it is often necessary to invest in new systems. However, it's important to note that some of these systems may end up costing more than initially anticipated. Therefore, from a cost perspective, it is generally recommended to purchase the necessary products, provide training to employees, and empower in-house teams to handle daily operations. This approach helps minimize the need to constantly rely on external vendors, ultimately reducing costs.”*

Majority of interviewees had similar viewpoints, and the study's findings were consistent with that (Varajão et al., 2017) who stated that the financial benefit and access to expertise was a main motivation for outsourcing. And is contrary to the perception of what (Kaźmierczyk & Macholak, 2014) stated that IT outsourcing purpose was to reduce operational costs. Furthermore, when considering IT outsourcing from the standpoint of this study, the goal of cutting operational costs is not what justifies BoA's outsourcing approach.

4.4. Challenges Faced by IT Outsourcing

Table 9: Challenges Faced by IT Outsourcing

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation
Hidden cost	88	3	2	5	372	4.23	.754
Risk of exposing confidential data	88	3	2	5	364	4.14	.819
Loss of managerial control	88	3	2	5	319	3.63	.683
Uncertainty of the vendor	88	3	2	5	274	3.11	1.149
Lack of flexibility	86	4	1	5	242	2.81	1.090
Communication challenges	88	4	1	5	270	3.07	.992
Cultural differences	88	3	2	5	253	2.88	.855
Unreliable service	88	4	1	5	231	2.63	1.021
Inexperienced staff	88	3	2	5	324	3.68	.810
Valid N (listwise)	86						

Source own survey data (2024)

The table provided appears to summarize the challenges faced by (BOA) when outsourcing their IT services. The table shows that hidden costs and the risk of exposing confidential data are the most significant concerns for BOA, with a mean score of 4.23 and 4.14 respectively, on a scale of 1 to 5 where 5 indicates the severity of the challenge. The loss of managerial control, uncertainty of the vendor, lack of flexibility, communication challenges, cultural differences, unreliable service, and inexperienced staff were also mentioned as noteworthy difficulties, though to a lesser degree.

During interviews, respondent #1 noted that — *“After observing the products we outsourced, I’ve come to realize that our main difficulties stem from communication issues. While they may not be apparent at all times, there are occasional gaps in communication between our vendors and in-house teams during the implementation of services. These gaps often lead to confusion and delays. Moreover, relying on external vendors fully can result in a loss of control over our services, forcing us to seek assistance even for minor inquiries that could have been easily handled by our own team at a lower cost. This dependency on vendors also brings about hidden expenses and may not yield the intended profits.”*

Respondent #3 mentioned that... — *“I think the services that are not shared between in-house and vendors, or those that are not managed by both or initially purchased from vendors and then not managed by in-house, pose the greatest challenges. The reason for this is that the bank's*

requirement for improvements is expanding quickly, which makes it frustrating to get in touch with vendors for every little request. This is because every service has a unique security analysis and implementation procedure, which differs when outsourced compared to being implemented in-house. The bank has limited control over fully outsourced services, resulting in a sense of dependency on the vendor. Additionally, employees may lack experience in managing such external services.”

Respondent #5 mentioned that ... —” *There could be challenges that arise with certain issues that vendors may not be able to easily resolve. Additionally, there may be difficulties in effectively communicating these cases. In rare situations, vendors may need to travel to resolve the issue, with all associated costs being covered. These hidden and unforeseen costs should be taken into account. It's important to note that by fully outsourcing to vendors, the bank's staff may lack experience in handling such matters. On the other hand, in the case of the recently purchased system, employees were trained and given control, resulting in significant benefits for both the bank and its employees. In contrast, fully outsourced systems where employees have no experience can be disadvantageous for both parties.”*

Respondent #6 mentioned that ... —” *Sensitive information may be compromised while working with suppliers in fully outsourced IT services. Therefore, in order to minimize any possible issues with data leaking, it is imperative that we update our rules on a regular basis and make sure that our staff members follow the instructions. This is the main concern in the IT industry, and our organization faces a lot of challenges due to the possibility of data exposure.”*

Based on the interview and the data collected through survey, it is indicated that major challenges BoA faces in outsourcing IT functions are hidden costs, risk of exposing confidential data, loss of control which is consistent with (Varajão et al., 2017) who stated that Loss of control on IS assets is one of the challenges of Outsourcing and employee’s inexperience which is consistent with (Hayes, 2021) who stated that Employees within the company lose confidence and become discouraged which affects their motivation.

4.5 Level of IT outsourcing and Organizational Performance

The study aimed at determining what kind of impact the extent of outsourcing has within the organization. The results were tabulated using the Likert scale to rate the extent of outsourcing within the organization the indicators as shown below.

Table 10: Level of IT outsourcing and Organizational Performance

	N	Range	Sum	Mean	Std. Deviation
How does a low level of IT outsourcing impact the productivity and efficiency of the IT department?	88	1	38	.43	.498
How does a low level of outsourcing impact the quality of IT services?	88	1	33	.38	.487
How does a low level of outsourcing impact the Data security of IT outsourcing?	88	1	68	.77	.421
How does a low level of IT outsourcing impact the cost effectiveness of the bank?	88	1	72	.82	.388
Valid N (listwise)	88				

Source own survey data (2024)

The provided data shows the results of a survey that aimed to investigate the impact of a low level of IT outsourcing on productivity, efficiency, quality of services, data security, and cost effectiveness of a bank. The mean response for the impact on productivity and efficiency was 0.43, suggesting that low levels of IT outsourcing may have a moderate impact on these aspects. Similarly, the mean response for the impact on the quality of IT services was 0.38, indicating a moderate negative impact associated with low levels of outsourcing.

On the other hand, the data shows higher mean responses for the impact of low levels of IT outsourcing on data security and cost-effectiveness, with means of 0.77 and 0.82, respectively. This suggests that low levels of outsourcing may have a stronger positive impact on these aspects, potentially due to the ability to retain more control over data security and costs.

Accordingly, interview was conducted to delve more into the reasons of the above results.

Respondent #3 mentioned that ... — “ *low level of outsourcing in IT outsourcing will definitely bring a lack of specialized expertise. Employees may need time to familiarize with the functions, and time delayances may occur. This may also have negative impact on the quality of the products. Outsourcing from specialized experts in the field gives the advantage of quality service in a very short time and the decision to minimize outsourcing will hinder this impact.* ”

Respondent #3 added that ... — “ *low level of outsourcing in IT outsourcing will definitely bring a lack of specialized expertise. Employees may need time to familiarize with the functions, and*

time delayances may occur. This may also have negative impact on the quality of the products. Outsourcing from specialized experts in the field gives the advantage of quality service in a very short time and the decision to minimize outsourcing will hinder this impact.”

Table 11: Factors affecting level of IT Outsourcing

		No of Respondents	Percent	Percent of Cases
Factors Affecting Level of IT Outsourcing ^a	The organization's overall business strategy and goals.	71	21.8%	80.7%
	The complexity and level of expertise required for the IT functions being outsourced.	73	22.5%	83.0%
	The level of control the organization wishes to maintain over the IT functions.	32	9.8%	36.4%
	The level of risk involved with outsourcing the IT functions.	36	11.1%	40.9%
	The size and flexibility of the IT service provider.	29	8.9%	33.0%
	The level of trust and communication between the organization and the IT service provider.	34	10.5%	38.6%
	The cost and availability of internal resources to perform the IT functions.	16	4.9%	18.2%
	The level of trust and communication between the organization and the IT service provider.	34	10.5%	38.6%
Total		325	100.0%	369.3%

Source own survey data (2024)

The data shows that the frequency and percentage of respondents who reported that the organization's overall business strategy and goals affect the level of IT outsourcing was the highest, with 71 responses and 21.8% of cases, followed closely by the complexity and level of expertise required for the IT functions being outsourced, with 73 responses and 22.5% of cases. This suggests that businesses often consider their overall goals and the expertise required for specific IT functions when deciding whether to outsource. Furthermore, the level of control, risk, and trust and communication between the organization and IT service provider were also reported as important factors to consider in outsourcing decisions, albeit to a lesser extent.

Respondent #3 mentioned that ... — *“Based on the bank’s strategy the level of outsourcing decision will be determined. Mostly it is to gain competitive advantage the thus to get that goal of achieving the most advanced digital technologies and thus to achieve these goals in the bank’s strategy, the bank opts for outsourcing IT functions as soon as possible.”*

Respondent #3 mentioned that ... — *“Some IT functions necessarily need to be outsourced considering the time it may cause to work on it in-house and depending on the complexity of the service, which in turn needs high security since it has large customer base, the company goes for*

investigating the company with the most secured service provider and experienced in terms of providing the service to get competitive advantage. Therefore, I believe strategy and complexity are the 2 most considered factors.”

This indicates that the bank's strategic decision plays a vital role in determining whether outsourcing is the right choice and to what extent it should be implemented. As also mentioned by (Lee et al., 2019). Additionally, the complexity of the work required is carefully assessed to determine whether it should be outsourced or developed in-house. Furthermore, the level of trust the bank has in the outsourcing company and the associated risks also influence the extent to which the bank chooses to outsource its functions.

4.6 Ascertaining outsourcing strategies currently used by BoA.

One of the objectives of this study was to investigate and analyze the current outsourcing strategies employed by Bank of Abyssinia (BoA). By examining the outsourcing practices of BoA, we aim to understand the impact and effectiveness of these strategies on the organization's overall operations and performance. The data collected for this study will be evaluated using a Likert scale to assess the extent of outsourcing activities undertaken by BoA, as well as the various indicators utilized to measure their success. The data collected through interview will be analysed in descriptive way.

Table 12: Outsourcing strategies Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
The bank has a process for transitioning activities back in-house if needed.	88	2	5	3.93	.770
The bank has a clear strategy for mitigating risks associated with outsourcing.	88	3	5	4.34	.693
The bank has been successful in selecting its efficient outsourcing partners.	88	3	5	4.24	.567
The outsourced IT services align with the strategic objectives and long-term goals of the organization.	88	2	5	4.25	.913
The outsourced IT services effectively meet the technological needs of our organization.	88	2	5	4.15	.653
Valid N (listwise)	88				

Source own survey data (2024)

The mean score for the statement “The bank has a process for transitioning activities back in-house if needed” is 3.93. This indicates that BoA has established a mechanism to bring outsourced activities back in-house if necessary.

The mean score for the statement “The bank has a clear strategy for mitigating risks associated with outsourcing” is 4.34, indicating that BoA has a well-defined approach to managing and reducing risks associated with outsourcing.

The mean score for the statement “The outsourced IT services align with the strategic objectives and long-term goals of the organization.” is 4.25, indicating BoA ensures that the IT services it outsources are in line with its strategic objectives and long-term goals.

The mean score for the statement “The outsourced IT services effectively meet the technological needs of the organization.” is 4.15, indicating BoA's outsourced IT services are designed to meet the technological requirements of the organization.

The mean score for the statement “The bank has been successful in selecting efficient outsourcing partners.” is 4.24, indicating that BoA has a track record of choosing efficient and reliable outsourcing partners. These findings suggest that BoA has implemented various

strategies to ensure successful outsourcing and mitigate associated risks. *“By aligning outsourced activities with strategic objectives, effectively meeting technological needs, and selecting efficient partners, BoA aims to optimize its operations and achieve its long-term goals.”* Said Respondent #3 on interview continuing with *“different strategical moves are made while considering outsourcing IT services. Starting from which services need to be outsourced to the cost they incur to decisions passed to collaborate inhouse-teams with vendors for cost minimization. BoA has been successful in implementing these strategies.”*

Respondent #5 mentioned that ... — *“BoA has a clear process for outsourcing in order to achieve various objectives such as expanding its customer base, offering digital loans and services, streamlining operations, and increasing productivity. BoA have a dedicated team to identify suitable vendors/service providers and thoroughly assess their performance. Additionally, BoA implements effective risk mitigation strategies to align with their strategic goals. Overall, it can be concluded that BoA has achieved success in this aspect.”*

On successful stories of Bank of Abyssinia on one of outsourced company it is also mentioned that *“Recently BoA has implemented 100% digital banking service outsourced to ensure that it grows customer base boosting financial inclusion. Consequently, by building and launching end-to-end digital banking services with Temenos core and digital banking platforms, Bank of Abyssinia has significantly increased its customer base.”* This statement shows that outsourcing IT services has been in line with its strategy.

4.7 IT Outsourcing and Organizational Performance metrics (Cost savings, Employee motivation, Quality of Service)

4.7.1 Employee Perspective on IT outsourcing

Table 13: Employee Perspective of IT outsourcing

	N	Range	Sum	Mean	Std. Deviation
How do you perceive the impact of IT outsourcing on your job responsibilities and workload?	88	1	72	.82	.388
How is employee's motivation like towards outsourced activities when compared to inhouse activities?	88	1	22	.25	.435
How do you perceive the impact of IT outsourcing on the morale and job satisfaction of employees within your organization?	88	1	20	.23	.421
Valid N (listwise)	88				

Source own survey data (2024)

The provided data consists of results from a survey, which aimed to investigate the impact of IT outsourcing on employee's job responsibilities, motivation, morale, and job satisfaction. The data was nominal holding the value of 0 for negative and 1 for positive. The data shows that for the question of the impact of IT outsourcing on job responsibilities and workload, the mean response was 0.82, indicating a generally positive impact on these aspects. On the other hand, the mean response for employee motivation towards outsourced activities compared to in-house activities was only 0.25, which suggests that outsourced activities may have a lower level of motivation among employees. Finally, the mean response for the impact of IT outsourcing on the morale and job satisfaction of employees was 0.23, indicating a relatively negative impact on these aspects.

Table 14: Employee Challenges

	N	Range	Sum	Mean	Std. Deviation
Job insecurity	84	4	219	2.61	1.353
Loss of control	85	3	344	4.05	.722
Lack of Training	88	4	359	4.08	.925
Increased workload	88	4	211	2.40	.810
Knowledge gap with the vendor	88	3	350	3.98	.758
Communication breakdown resulting confusion	88	3	282	3.20	.996
Valid N (listwise)	81				

Source own survey data (2024)

The table provided highlights some of the challenges faced by employees due to IT outsourcing, specifically related to their work. The data shows that loss of control and lack of training are the most significant challenges faced by employees, with a mean score of 4.05 and 4.08, respectively, on a scale of 1 to 5. The knowledge gap with the vendor, communication breakdown resulting in confusion, job insecurity, and increased workload were also identified as notable challenges, albeit to a lesser extent. These challenges can impact employee job satisfaction, productivity, and ultimately the success of the business. It's important for BOA to address these challenges by providing adequate training, effective communication channels, support materials, and opportunities for collaboration to ensure employee confidence and success in their jobs. Moreover, the confidence of employees can improve as they get opportunities to sharpen their skills and abilities, which promotes an overall positive work culture and helps to reduce employee turnover.

Overall, the impact of IT outsourcing on job responsibilities and workload has been found to have a positive effect on employees. By outsourcing certain tasks, employees are able to focus on their core competencies and allocate their time more efficiently and work has been less stressful. This results in increased flexibility and relaxed working environment. However, the study also revealed some negative effects of IT outsourcing on employees. Specifically, it was found that outsourcing can have a detrimental impact on employee morale and job satisfaction. When employees see their responsibilities being outsourced, it can lead to feelings of insecurity and job dissatisfaction. Additionally, the study found that employee motivation towards

outsourced activities is generally lower compared to in-house activities. This could be due to a perceived lack of control or ownership over the outsourced tasks. Overall, while IT outsourcing may have its benefits in terms of workload management, it is important for organizations to consider the potential negative impacts on employee morale and motivation.

Respondent #3 mentioned that ... —” *most employees prefer working on projects and functions which are managed in-house than outsourced ones as it can have significant change in their career and enhances their knowledge it usually has sense of accomplishment that the outsourced ones where it has less control and less control meaning employees do not engage in the work as much and hence don't get training benefits and such. This is taken as a disadvantage in employee's perspective*”

Respondent #4 mentioned that ... —” *sometimes there is communication issues due to many reasons such as communication channel failurity, internet issues which causes time delay in the delivery of the service and also language barrier which creates misunderstanding and miscommunication. This could be seen as a challenge for employees.*”

when compared to outsourcing IT maintenance services, carrying out maintenance in-house has a positive impact on the cost effectiveness of organizational performance. Based on interviews with higher officials of a bank, it was found that training the in-house team and allowing them to complete most maintenance and future developments has led to a reduction of costs and increased profits. This eliminates hidden costs associated with outsourcing IT functions. This implies that while outsourcing can provide technology advancement, flexibility, and access to global talent, organizations should limit the frequency of outsourcing activities to allow in-house teams to develop skills to solve challenges and handle activities. Therefore, the below hypothesis is accepted.

Respondent #3 mentioned that ... —” *most employees prefer working on projects and functions which are managed in-house than outsourced ones as it can have significant change in their career and enhances their knowledge it usually has sense of accomplishment that the outsourced ones where it has less control and less control meaning employees do not engage in the work as much and hence don't get training benefits and such. This is taken as a disadvantage in employee's perspective*”

4.7.2 IT Outsourcing on Cost saving and Profitability

Table 15: IT Outsourcing on Cost saving and Profitability

	N	Minimum	Maximum	Mean	Std. Deviation
IT outsourcing has had a positive impact on the cost effectiveness of our organization.	88	1	4	2.30	.790
Outsourcing has helped BoA achieve a better return on investment (ROI) for our IT projects.	88	3	5	4.28	.642
When comparing IT outsourcing to in-house development, there are more costs associated with outsourcing.	88	3	5	4.52	.606
IT outsourcing has been a key factor in enhancing the profitability of our organization's IT projects and initiatives.	88	3	5	4.33	.690
Valid N (listwise)	88				

Source own survey data (2024)

Based on the provided descriptive statistics, it can be observed that IT outsourcing has had a positive impact on the profitability of the organization and a negative effect on cost effectiveness. The mean score for the statement "IT outsourcing has had a positive impact on the cost effectiveness of our organization" is 2.30, indicating a moderate level of disagreement among the respondents. The statement "Outsourcing has helped our organization achieve a better return on investment (ROI) for IT projects" received a higher mean score of 4.28, indicating a stronger agreement.

Furthermore, when comparing IT outsourcing to in-house development, the statement "There are more costs associated with outsourcing" received a mean score of 4.52, suggesting that the respondents generally agreed with this statement. This indicates that outsourcing may involve additional costs compared to in-house development.

Additionally, the statement "IT outsourcing has been a key factor in enhancing the profitability of our organization's IT projects and initiatives" received a mean score of 4.33, indicating a positive impact on profitability.

These results suggest that IT outsourcing has been perceived as beneficial in terms profitability by the respondents. However, it is shown from both the survey and interview that there is a high cost that comes with outsourcing IT services.

4.7.3 IT Outsourcing and Quality of service

Table 16: IT Outsourcing and Quality of service

	N	Minimum	Maximum	Mean	Std. Deviation
The outsourced IT services effectively meet the technological needs of our organization.	88	3	5	4.36	.647
There is improved service delivery and customer satisfaction through IT outsourcing.	88	3	5	4.55	.565
The expertise and knowledge of the outsourced IT service provider positively contribute to our organizational IT needs.	88	3	5	4.23	.620
The outsourced IT services have improved the security and data protection measures within our organization	88	3	5	4.36	.610
IT outsourcing has improved the quality of services provided by our organization.	88	4	5	4.83	.378
Valid N (listwise)	88				

Source own survey data (2024)

The survey includes several statements related to the impact of IT outsourcing on service delivery, customer satisfaction, expertise and knowledge, security and data protection, and the overall quality of services provided by the organization. Each statement is rated on a scale from 3 to 5, with 3 indicating a neutral level of agreement and 5 indicating a higher level of agreement. Therefore, from the result it can be said that the respondents generally agree that IT outsourcing has been effective in meeting the technological needs of the organization and has led to improvements in service delivery, customer satisfaction, expertise and knowledge, security and data protection, and the overall quality of services provided.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

The study conducted on the effects of outsourcing on BoA found a positive relationship between IT outsourcing and organizational performance. The survey indicates that the primary reason for outsourcing at the BoA is to access new technologies, followed by specialized expertise and improved service quality, with mean scores of 4.68, 4.55, and 4.42, respectively. Cost reduction and focusing on strategic issues were less significant reasons for outsourcing. The most significant concerns for BoA are hidden costs and the risk of exposing confidential data, with mean scores of 4.23 and 4.14. Interviews also revealed concerns, such as the hidden costs of fixing and travel expenses for vendors and occasional communication gaps between vendors and in-house teams.

The bank's strategic decision-making plays a crucial role in determining the appropriateness and extent of outsourcing. BoA carefully assesses the complexity of work and the level of trust in the outsourcing company, as well as associated risks, before deciding to outsource. The data shows higher mean responses for the impact of low levels of IT outsourcing on data security and cost-effectiveness, with means of 0.77 and 0.82, respectively, suggesting that lower levels of outsourcing positively impact these areas due to better control.

The organization's overall business strategy and goals significantly influence the level of IT outsourcing, with 71 responses (21.8% of cases) highlighting this factor, closely followed by the complexity and expertise required for IT functions (73 responses, 22.5% of cases). Control, risk, trust, and communication between the organization and IT service providers are also important factors, although to a lesser extent.

BoA has mechanisms to bring outsourced activities back in-house if necessary and a well-defined approach to managing and reducing outsourcing risks. BoA ensures that outsourced IT services align with its strategic objectives and long-term goals, meet technological requirements, and involve efficient and reliable outsourcing partners. Overall, IT outsourcing at BoA has a positive impact on job responsibilities and workload but a relatively negative effect on employee motivation and job satisfaction.

5.2 Recommendation

- The organization could facilitate regular training sessions to bridge knowledge gaps and increase employee motivation, which directly affects organizational performance. In-house teams should be more actively involved in IT projects to foster engagement and retain critical skills.
- Services and products might be more managed in-house to minimize costs and enhance employee engagement.
- Organizations could benefit by evaluating and implementing cost-effective methods within the outsourcing strategy, considering a hybrid approach where some services are retained in-house to reduce costs and maintain control.
- BoA shall ensure compliance by maintaining more control over outsourced functions. So that the bank maintains its reputation and reduces the risk of breaches.
- BoA can further benefit if there is a established processes for effective knowledge transfer from outsourcing partners to in-house teams, and create a repository of best practices and lessons learned to enhance organizational knowledge.

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APPENDIX

Questionnaire

PART A: INTRODUCTION

Dear Sir/Madam,

I am a Post graduate student of PM (Project Management) at St Mary's University. I am conducting an academic study on "Effects of IT Outsourcing on organizational performance on Bank of Abyssinia" and I respectfully request that you agree to be one of my participants. At no point during this research will your name be mentioned, and all data is used purely for academic purpose. If you have any additional information, please contact me at the following address.

Email: fikermeku89@gmail.com

General Directions: please put a tick mark (✓) in the corresponding container to indicate your choice and write your brief and particular answers for those accompanied by way of the blank space.

Part B: Respondent Demography

1. Gender A) Male B) Female
2. Age A) 26-30 B) 31-40 C) 41-49 D) ≥ 50
3. Educational background
A) < Diploma B) Diploma C) First Degree D) > first degree
4. Years of service in BOA?
A) ≤5 years B) 6-10 Years C) 11-15 years D) ≥16 years

Part II: Questions designed to obtain/collect information related to the effect of IT outsourcing on organizational performance in case Abyssinia bank. Indicate using the following rating scale:

5 =strongly agree 4 = Agree 3 = Neutral 2 = Disagree 1 = strongly Disagree

Put "✓" Mark in the appropriate column to signify the importance level of each item.

5. Questions concerning the reasons for outsourcing IT activities of the bank? What is the main reason to outsource IT functions of the bank?

NO	Reasons for outsourcing IT functions	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	To reduce cost					
2	To focus on core competencies					
3	To improve service quality and customer satisfaction					
4	Access to specialized expertise					
5	To improve flexibility					
6	Access to new technologies					
7	Access to 24/7 support					
8	To spend more time on strategic issues					

7. Questions concerning the challenges faced during outsourcing IT activities of the bank.

NO	Challenges of outsourcing IT functions	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	Hidden cost					
2	Risk of exposing confidential data					
3	Loss of managerial control					
4	Uncertainty of the vendor					
5	Lack of flexibility					
6	Communication Challenges					
7	Cultural differences					
8	Unreliable service					
9	Inexperienced staff					

8. Questions related to the level of IT Outsourcing

NO	Level of IT Outsourcing on Organizational Performance	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
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Effect of IT outsourcing practices on organizational performance

1	How does a low level of IT outsourcing impact the productivity and efficiency of employees?					
2	How does a low level of outsourcing impact the quality of IT services?					
3	How does a low level of outsourcing impact the Data security of IT outsourcing?					
4	How does a low level of IT outsourcing impact the cost effectiveness of the bank					

9. Questions related to ascertain outsourcing strategies currently used by BoA.

No	Indicators	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The outsourced IT services effectively meet the technological needs of our organization.					
2	The outsourced IT services align with the strategic objectives and long-term goals of the organization.					
3	The bank has a well-defined process for selecting and evaluating outsourcing partners.					
4	The bank has a clear strategy for mitigating risks associated with outsourcing.					
5	The bank has a process for transitioning activities back in-house if needed.					

10. Ascertaining IT Outsourcing strategies

No	Indicators	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The outsourced IT services effectively meet the technological needs of our organization.					
2	The outsourced IT services align with the strategic objectives and long-term goals of the organization.					
3	The bank has a well-defined process for selecting and evaluating outsourcing partners.					
4	The bank has a clear strategy for mitigating risks associated with outsourcing.					
5	The bank has a process for transitioning activities back in-house if needed.					

11. IT Outsourcing and organizational performance metrics

- Questions to assess the Challenges faced by employees

	Employee Perspective	Positively	Negatively
1	How do you perceive the impact of IT outsourcing on your job responsibilities and workload?		
2	How do you perceive the impact of IT outsourcing on the morale and job satisfaction of employees within your organization?		
3	How is employee's motivation like towards outsourced activities when compared to in-house activities		

Questions to assess the Challenges faced by employees

NO	Challenges of Employees	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	Job insecurity					

Effect of IT outsourcing practices on organizational performance

2	Loss of control					
3	Lack of Training					
4	Increased workload					
5	Knowledge gap with the vendor					
6	Communication breakdown resulting confusion					

- IT Outsourcing on Cost Effectiveness and Profitability

No	Indicators	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	IT outsourcing has had a positive impact on the cost effectiveness of our organization.					
2	Outsourcing has helped BoA achieve a better return on investment (ROI) for our IT projects.					
3	When comparing IT outsourcing to in-house development, there are more costs associated with outsourcing.					
4	IT outsourcing has been a key factor in enhancing the profitability of our organization's IT projects and initiatives.					

- IT Outsourcing on quality of service

No	Indicators	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The outsourced IT services effectively meet the technological needs of our organization.					
2	There is improved service delivery and customer satisfaction through IT outsourcing.					
3	The expertise and knowledge of the outsourced IT service provider positively contribute to our organizational IT needs.					

4	The outsourced IT services have improved the security and data protection measures within our organization.					
5	IT outsourcing has improved the quality of services provided by our organization.					

Interview Questions

1. What were the main reasons behind Bank of Abyssinia's decision to outsource its IT functions?
2. How did Bank of Abyssinia identify and mitigate the challenges and risks associated with outsourcing its IT functions?
3. Can you explain the relationship between the levels of IT outsourcing in Bank of Abyssinia and its organizational performance?
4. What are the current outsourcing strategies used by Bank of Abyssinia?
5. How does IT outsourcing impact organizational performance metrics such as cost savings, service quality, and employee motivation in Bank of Abyssinia?
6. How has IT outsourcing contributed to the growth and success of Bank of Abyssinia?
7. What lessons has Bank of Abyssinia learned from its IT outsourcing experience, and how has it applied those lessons to improve its operations?
8. Does the bank have a well-defined process for selecting and evaluating outsourcing partners?
9. Does the bank regularly monitor the performance of its outsourcing partners?
10. Does the bank have a clear strategy for mitigating risks associated with outsourcing?