



**ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES MASTER OF MARKETING  
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**OPPORTUNITES AND CHALLENGES OF LABOUR OUTSOURCING: A CASE OF HEINEKEN  
ETHIOPIA**

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**OUTSOURCING IN COMMERCIAL BANK OF ETHIOPIA:**  
**OPPORTUNITIES AND CHALLENGE**

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## **DECLARATION**

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

**Yilak Woubshet**

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**St. Mary's University, Addis Ababa May, 2023**

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LIST OF ABRIVTION

- HBSC.....Heineken breweries share company

## ABSTRACT

*The study's overarching goal is to identify the opportunities and challenges of labor outsourcing in the context of Heineken Breweries Share Company. The research problem is that, while the company has reaped numerous benefits from outsourcing, there are also issues and challenges that come with labor outsourcing for agencies. The study is a descriptive study that used a quantitative research approach to collect data from respondents via questionnaire and interview. The information was gathered from 150 employees of Heineken Breweries Share Company. Furthermore, interviews were conducted with the human resource manager as well as the other two unit managers who supervise the outsourced labors. To determine the sample size of the study, the student researcher used a non-probability sampling approach for the customer population under study, as well as a convenient or accidental sampling technique. The questionnaire was distributed to employees via convenient or accidental sampling, and the data collected was analyzed using mean, frequency, table, grand mean, and standard deviation and descriptive statistical methods. According to the study's findings, the company has benefited from labor outsourcing in terms of lowering overhead and operational costs, improving quality, focusing on other core functions, and assisting them in focusing on strategic issues. Despite all of these opportunities, the company has faced some challenges as a result of outsourcing labor to agencies. The main challenges or problems are a loss of full control over outsourced employees and an office divide that causes discrimination against outsourced employees, resulting in a negative workplace. The findings revealed that labor outsourcing positively contributed to cost efficiency and positively contributed to improved productivity, but that there is inconsistency with employees and an unpleasant work environment through outsourced employees, as well as a feeling of lack of motivation and belongingness and a communication gap between outsourcing employees and the agency are the major problem figured out. Finally, the researcher has forwarded some recommendations to address the organization's current labor outsourcing issues. The most important thing is that both the agency and the company have to communicate at all times in order to solve the problem with overall output. If the organization is able to implement the recommendations, it is expected to benefit in reducing the challenges of labor outsourcing in the organization. The research has limitations because it was conducted in a Heineken Addis Ababa, Ethiopia. The research findings highlight conclusions about why organizations prefer outsourcing, as well as the challenges and risks associated with outsourcing services. These are the reasons for outsourcing, for the opportunities, to focus on core competencies, for flexibility, to knowledge transfer, and to value for money.*

*Keywords: Outsourcing, Labor, Opportunity, Challenges, HBSC*

# Chapter One

## INTRODUCTION

### 1.1 Background of the Study

Outsourcing is the latest business term these days, as more and more cost and quality conscious businesses all over the world are turning to other destinations for outsourcing their non-core business processes. *Outsourcing* refers to the contracting out of an entire business function, a project, or certain activities to an external provider. Study shows that the term “outsourcing” entered the business lexicon in the 1980s. In the second half of the 20th century, as companies tended to grow larger and skills were required to be more and more specialized, companies found that external providers were often able to get work done faster and more efficiently owing to skills they possessed. This led to more hiring of external providers to manage business functions and projects where specialized skills were required (Gulzhanat T. 2012).

Companies strive to utilize the organization’s competitive advantage to improve market and profitability. One of the most effective activities in contemporary business is Outsourcing, due to the fact that many companies try to use all innovations of science, techniques and technologies to issue qualified and competitive product which will satisfy consumer. This situation is very usable for both parts, because each of them can concentrate their resources on development of core competencies and prospective directions of activity. This leads to essential reduction of expenses on production of the end product. (Robert, 2006).

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

“You outsource because you can get the best talent in a highly specialized area and not have to carry them on your payroll,” he said. “If you’re installing a new computer system, you might have one IT person and outsource beyond that. The big benefit is it’s a contracted price and a predictable cost (Simon, 2010).”

Several studies have been conducted at the international level to analyse the benefits and drawbacks of outsourcing in various industries. A study by Gulzhanat T. (2012), Bin Jiang & Amer Q. (2005, for example, can be cited. Fregal M. (2010) conducted another study to analyse the diverse effect of international outsourcing on company productivity. In addition, Zafra I and Aasim M. (2013) undertook a study to examine outsourcing trends and future directions on a global scale. A study conducted at the African level (Kenya) by Dr. Wanjungu, Dr. Michael, and Prof. Richard. (2016) found that outsourcing can have positive or negative outcomes depending on the risks encountered in the business environment, company policy, function/s to be outsourced, and the outsourcing vendor's competence and commitment.

However, there has been a few numbers of research's done regarding the pros and cons of outsourcing from a local stand point. Selamawit (2016), Abebe (2015), Workalemahu (2015), and Mersea (2007), for example, examined the topic of outsourcing in the field of MBA degree on separate times. However, these respective studies tend revolve mainly around the banking sector.

Thus, the purpose of this study is to assess challenges and opportunities of outsourcing practices, specifically labor outsourcing practices in Heineken Ethiopia (HBSC).

## **1.2 Statement of the problem**

The most significant benefits of outsourcing are the company can focus on core activities, cost savings, access to experience, improving performance, and flexibility. First, many researchers agree on the fact that by handing over noncore activities to a trusted third party, a company can concentrate on activities central to its value proposition and increase its competitive positioning. Main disadvantages of outsourcing are loss of managerial control over outsourced operations, quality problems, hidden costs, and reallocation of existing teams (Gulzhanat T. 2012).

Empirical literatures reveal that, though the practice of outsourcing is widely common in the world, the concept is still new and the practice however more present than before, is infant stage in Ethiopia. (Abebe 2015; Workalemahu 2015; Selamawit 2016). Outsourcing is a very crucial function in an organization because it directly affects the firm's operational activities. Heineken Ethiopia (HBSC) has been outsourcing services for several years now. (HEINEKEN ETHIOPIA, 16 January 2015).

Heineken Breweries Share Company (HBSC) is one of outsourcing service user in the Ethiopian beer industry. Like other business firms in Ethiopia, HBSC has a short story in experiencing the benefits of full-scale outsourcing in some of its core and auxiliary business activities.

However, for the last eight years the company has engaged itself in outsourcing its core business function like product distribution, employments, and other few marketing functions. Skilled labor outsourcing activity in HBSC, which is the focus area of this study, is mostly carried out through 3rd party agents. The position of these employees ranges from in office employees, distributors, drivers, security guards, common labor, and janitorial services. These individuals are responsible in contributing to the company on behalf of the company in various ways.

Based on the preliminary assessments made with some of key informants in the company and the researcher's own observation on the outsourcing of certain core roles, shows that the company save costs, and improves efficiencies and have time to focus on the strategic activities. On the other hand, the outsourcing decisions were not without problems.

According to the researcher's observation, gradual loss of full control over the outsourced operations lead to, office divide causing discrimination of outsourced employees which in turn created a negative workspace. The 2019 incident can be raised as a great indicator of what could happen to a company's name if it chooses to associate itself with the wrong crowd. In the mentioned incident, the company faced media as well as public backlash after the financial return and working conditions of outsourced employees was made public. ("Labour complaints)." Ethiopian Broadcasting Corporation. EBC, 2019). In some cases, outsource distributors appear to be reluctance in buying certain brands clamming them not to be profitable which unquestionably leads to the death of brands.

After conducting the preliminary assessments, the researcher has learned that outsourcing has brought both opportunities and challenges for HBSC. It is generally known that outsourcing brings several positive opportunities towards the company such as reducing operational costs as well as allows the company to focus on its core activities. Due to this, companies can afford to keep their doors open. We cannot turn a blind eye to the negative side of outsourcing as well.

With all that is mentioned above is outsourcing the best suit for Heineken Ethiopia (HBSC)? This research is conducted in the hopes of answering this question. This research has evaluated the opportunities and challenges of outsourcing from the angle of Heineken Ethiopia (HBSC).

### **1.3 Research Questions**

1. What are the reasons for outsourcing?
2. What opportunities are gained by the company through outsourcing?
3. What challenges are faced by the company through outsourcing?
4. What corrective actions are taken to overcome the challenges?
5. What are the problems faced by outsourced employees?

### **1.4 Objectives of the Study**

Identifying the major challenges and opportunities of outsourcing provides important inputs in risk management regarding outsourcing and give a better understanding of what would be anticipated when conducting outsourcing. Therefore, the study tries to achieve the above values by having the following objectives:

#### **1.4.1 General Objective**

The general objective of this paper is examining the challenges and opportunities of outsourcing in Heineken Ethiopia.

#### **1.4.2 Specific Objectives**

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

- To assess the reason why the company outsources
- To find out the opportunities obtained because of outsourcing.
- To examine the challenges encountered in carrying out outsourcing.
- To identify the measures taken to overcome the identified challenges.
- To examine some of the issues those are faced by being an outsourced employee.

## **1.5 Significance of the Study**

Because outsourcing isn't widely practiced in Ethiopia, the benefits and drawbacks aren't fully understood in many businesses, particularly in the beer industry. Furthermore, not much has been done when it comes to formal research within Heineken Ethiopia (HBSC) to determine the benefits and drawbacks of outsourcing. As a result, the researcher believes that this study is important in raising awareness about the issues and opportunities associated with outsourcing, particularly for Heineken Ethiopia (HBSC) to recognize the benefits and devise procedures to better handle the issues. Furthermore, this study can be used as a springboard for future scholars interested in learning more about the benefits and drawbacks of outsourcing in Ethiopian general, and in the beer industry in particular, commerce is booming.

The study is expected to assess the benefits and challenges in the study area. By doing so, the study would have the following major significances: It is expected that the findings and recommendations are useful to the company itself (Heineken Ethiopia) by pinpointing the importance that organizations should perform evaluation activities to properly monitor and adjust (if need be) their post outsourcing performance.

The study will not only benefit Heineken Ethiopia (HBSC), but it will also benefit other similar business organizations, particularly for those considering outsourcing or broadening the range of their services. It also creates an opportunity for the researcher to gain more knowledge in the practices of outsourcing. Furthermore, this study can be used as a foundation for future research. Researchers interested in learning more about the advantages and drawbacks of outsourcing in Ethiopia, in general and also in the beer industry in particular.

## **1.6 Scope and limitation of the Study**

### **1.6.1 Scope of the Study**

The scope of the study was delimited to outsource employees in particular employees in the contact center department. This is done to make the study more manageable in terms of time and other resources. The research was delimited geographically at the main Heineken office and possibly the outsourced company (new Generation) both of which are in Addis Ababa, Ethiopia. The main reason for the researcher to focus on at Addis Ababa level is the time it takes to get the needed resources and access to key individuals. Wining their trust and get them to be willing to share confidential information.

In terms of respondents, the study has included contact centre department members, the outsourced HR firm and Heineken HR staff members. The justification for focusing on these respondents is the researcher believes that two of the three parties mentioned above are directly involved in the outsourcing decision making and they are aware of the study subject.

As for the contact centre department members, the researcher has made them to be the main area of focus in this research. In terms of data collection, questionnaires and interview was selected among other data collection instruments. The justification for this is, the researcher believed that questionnaire provide respondents flexibility on utilizing their convenient time to complete the questionnaire. Finally, since the study is set to identify problems and benefits of outsourcing within a specific department and only within the Addis Ababa region, the result of the research might not reflect the full scope of the problem.

Finally, the researcher has chosen this topic because it is personal. We all have situations with which we are intimately familiar with. The researcher is working as an outsourced employee for Heineken Ethiopia at the time this research was conducted. The researcher wishes to understand the full scope of this reality.

### **1.6.2 Limitation of the Study**

Interviews were conducted via telephone, Internet and of course in person. However, these days information can be much protected and held private. It may be difficult in gaining access to needed information for the research. All information regarding this topic were heavily weighed and considered before judgment is given to conclude a professional opinion. Bias was considered with each decision in order to make sure nothing is being judged unfairly.

Additionally, due to the cost and time of completing this paper, it is somehow impossible to cover all non-core business functions. So, this research focuses mainly on the pros and cons of outsourcing. Finally, issues such as carelessness of some respondents while filling questionnaires, time as well as locations constraints can be mentioned as limitations of the study.

### **1.7 Organization of the Paper**

This research proposal consists of five chapters. Chapter one focuses on the background of the study that provides what outsourcing is and discusses why companies participate in outsourcing, the research problem, research questions and objectives. Furthermore, research hypotheses were outlined for this study, scope & limitations of the study are also stated along with significance of the study. The second chapter

revolves around the theoretical and empirical aspects of the literatures relevant to the research. The third chapter describes the research design and methodology of the study. The fourth chapter deals with data analysis and interpretation. The fifth or last chapter is the summary of this research paper where the conclusions and recommendations drawn based on the results of the study are be included.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Theoretical Review

The practice of outsourcing has become widespread in the world. The term "outsourcing" is from the English language and some synonyms for it can be "foreign resources", "contract out" or "subcontract", from these dictionary definitions we can understand the core meaning of the term. This term has been defined in various ways by scholars based on a wide range of factors. The following are the sort of history and facts regarding outsourcing:

According to Cox (2014), every company outsources to some degree. The choice of which tasks to outsource and which to remain in-house depends on a variety of criteria that vary from firm to company, including the need to invest in new resources, skills, and technology in any internal areas.

Outsourcing is defined as moving a business function performed inside of an organization to a third-party business function provider. This means that a service or production that was accomplished inside an organization is now accomplished by another organization that is mandated to be a part of the same organization. Offshore outsourcing is defined as outsourcing outside of country borders (Aleksandra and Dragan 2012).

Outsource magazine (2011), defined outsourcing as: Any operation or process that could be or would usually be performed in-house by an organization's employees is subcontracted to another organization for a substantial period. The outsourced tasks can be performed onsite or offsite. Meanwhile, Oxford dictionary (2015) defines outsourcing as follows, the transfer of a business function to an external service provider. The term of outsourcing is defined in different ways by different scholars based on the location and type of function outsourced. The following are some of the definitions and terms of outsourcing explained by scholars.

"One can outsource because it can get the best talent in a highly specialized area and not have to carry them on the payroll," he said. "If you're installing a new computer system, you might have one IT person and outsource beyond that. The big benefit is it's a contracted price and a predictable cost (Simon, 2010)."

It is commonly accepted that any phenomenon can be described through a series of theoretical frameworks based on the corresponding approaches. Naturally enough, outsourcing has been approached applying a series of different theories, which can often lead to confusion among researchers this presentation focuses, with a few exceptions, on the models published during the past 25 years as they contain the solid knowledge of previous researchers, and they ensure the minimum required timeliness (Busi& McIvor, 2008).

When comparing the definitions of the authors, it is evident that they share similar ideas regarding outsourcing in which they agree that outsourcing could be summed up as the organizational focus on core business activities while handling non-core activities to others who are specialist to increase job efficiency and cost reduction. They also agree that outsourcing could be summarized in the functions of make or buy decisions, transfer the job to a third party, and organizational focus on core business activities.

## **2.2 History of Outsourcing**

Outsourcing has been employed for quite some time, however up until the late 1990s, most outsourcing was concentrated on information technology. At that time, the goal was frequently limited to improving operational efficiencies. (Maku & Iravo, 2013)

Since the Industrial Revolution, companies have grappled with how they can exploit their competitive advantage to increase their markets and their profits. The model for most of the 20th century was a large integrated company that can “own, manage, and directly control” its assets. In the 1950s and 1960s, the rallying cry was diversification to broaden corporate bases and take advantage of economies of scale. By diversifying, companies expected to protect profits, even though expansion required multiple layers of management. Subsequently, organizations attempting to compete globally in the 1970s and 1980s were handicapped by a lack of agility that resulted from bloated management structures. To increase their flexibility and creativity, many large companies developed a new strategy of focusing on their core business, which required identifying critical processes and deciding which could be outsourced (Handfield, 2006).

Wikipedia dates the origin of outsourcing back to 1981. It says the concept of outsourcing came from American glossary “outside resourcing”. In early 21st century, the businesses increasingly outsourced to suppliers outside their own country, sometimes referred to as off shoring or offshore

outsourcing. Several related terms have emerged to refer to various aspects of the complete relationship between economic organizations or networks, such as near shoring, crowd sourcing, multisource and strategic outsourcing. During the early years of America, the manufacturing of clippers ships sails was sent to Scotland, and the raw material came from India. India was also an outsourcing destination for British textile industry during the 1800s, but eventually the British become more efficient and outsourced job came back to Britain.

Outsourcing was not formally identified as a business strategy until 1989 (Handfield, 2006). However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. Publishers, for example, have often purchased composition, printing, and fulfillment services. The use of external suppliers for these essential but ancillary services might be termed the baseline stage in the evolution of outsourcing.

Outsourcing support services is the next stage. In the 1990s, as organizations began to focus more on cost-saving measures, they started to outsource those functions necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of “good housekeeping”. Outsourcing components to affect cost savings in key functions is yet another stage as managers seek to improve their finances (Handfield, 2006).

### **2.3 Theories Related to Outsourcing**

Outsourcing consists of different activities and each phenomenon can be described by several frameworks that are embedded in various theoretical approaches. Much of the studies on outsourcing have been affected by three approaches: Resource-Based View, Core Competency Approach, and Transaction Cost Theory. a. The resource-based view - the resource-based view (RBV) is an economic theory, which discusses the strategic resources available to a firm. The main principle of the RBV is that the basis of a sustained competitive advantage lies in the application of valuable resources, which are at the 9 firm’s disposal (Rodríguez and Robaina, 2006).

The RBV considers that the firm must possess unique resources that enable it to achieve competitive advantage. Resources need to be valuable, rare, non-substitutable and non-imitable. Resources therefore requires displaying each of the above four characteristics to be a possible source of a sustainable competitive advantage (Barney, 1991).

This advantage can be attained if the strategy being implemented is value-creating, and not being implemented by present or future possible competitors. He also stated that that sustainable competitive advantage is a result of possessing immobile resources that permit clear product or service differentiation. However, not all resources have the potential to be a source of sustainable competitive advantage for the firm. Resource based view consider that resources can be exploited by means of contracts (Barney 2000), and so this perspective forms a theoretical framework that assists in the decision-making about which activities to perform in-house and which to outsource. Resource Based View (RBV) has been employed for outsourcing decisions, shifting the attention from transaction costs and opportunism to competitive advantage.

The key principle in RBV is that unique organizational resources are the real source of competitive advantage and has become a useful framework to outsourcing some of the organization's functions. Within RBV, the core competences approach is one of the most powerful frameworks to explain why companies turn to outsourcing and it suggests that 19 on organization should invest in those activities constituting core competences and outsource the rest. Resource based view also points out that improved performance in a firm can be achieved through focusing on those resources that provide the core competences. b. Competence-based view - Competence-Based view is based on the firm's resources and capabilities that give an organization a competitive advantage. The essence is that core competencies should be kept in-house while the other things that the organization does which are not deemed core, or critical to its mission or function, should be considered for outsourcing without any loss to future requirements in expertise.

To maintain a sustainable competitive advantage, the organization competence must respond to the dynamics of the external environment by enabling an organization to maintain its ability to create value in the business processes. Therefore, vendors' competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Rodríguez and Robaina, 2006). The core competency perspective is useful in prompting serious consideration about the

functions which are truly cost-effectively done in-house, and those which could be outsourced. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. However, the meaning of the term core competence is not 10 clearly understood since terms such as resource, capability and competence are used interchangeably by researchers (Ozbag, 2013).

A firm's resources can be defined as any production factors that are available to the firm and they are classified into five categories: financial, physical, human, technological and reputation. The first two constitute the firm's tangible resources, which are easy to assess and identify, while the others are intangible resources, which are assets with sufficient potential to achieve competitive advantage. The resources and capabilities are therefore complementary to sustain competitive advantage. c. Transaction cost- view - The transaction-cost view is where the decision to outsource is determined by the relative transaction and production costs associated with the process or service. Transactional costs are related to the effort, time, and costs associated with searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers. The goal of any organization is to these reduce cost and to achieve cost efficiency (Zack and Singh, 2010).

According to Dhar and Balakrishnan (2006), production costs and coordination costs are the only costs involved for any service or to produce any product. Production cost is the cost incurred to make the product or to provide the service and it includes the cost of labor, material, and capital. Coordination costs include monitoring, controlling, and managing the work internally. For the outsourced process, the coordination costs are called transaction costs. (Manhnke2005) stated that the relative transaction and production costs associated with the process or service determines whether to outsource or internalize the process. The decision to outsource is to reduce transaction costs as much as possible and thus the transaction cost theory (TCT) perspective is useful in examining the contributions to transaction costs, and how these might be reduced.

#### **2.4 Advantages and Disadvantages of outsourcing**

Outsourcing is used because it supposedly advantages the organization. The advantages and disadvantages can be categorized as strategic or tactical/calculated, long-term or short-term, and tangible or intangible. Advantages and disadvantages of outsourcing are described briefly bellow.

### **2.4.1 Advantages of outsourcing**

The 2011 article published by “the thriving small business” stated that it is important to mention some cases where outsourcing process is highly in the favor of a company.

The company makes a strategic decision to focus resources on core business

The company has just started to operate, and yet cannot afford to have its own staff

The company is reducing staff, but several marketing functions is still needed

The company is not satisfied with the level of service that internal services provided

The Company has a period of internal changes (restructuring, reorganization, the process of mergers and acquisitions) and therefore the transfer of the internal functions currently is the most painless way to solve problems facing the organization.

Business is growing up and the pressures on the individual functions are increasing in proportion with it, by using outsourcing there is no need to hire additional staff and equip jobs the outsourcing partners could make any volume of work accurately and on time.

Outsourcing can also give a company an opportunity to cut costs and significantly reduce the complexity and expenses of information systems operation and applications, to focus on core business processes of the company.

Employee compensation costs, office space expenses, and other costs associated with providing a workspace or manufacturing setup are eliminated and free up resources for other purposes. (The Thriving Small Business 2011)

Introduction of advanced technologies through specialized outsourcing company can also provide an obvious advantage to a company. All in all, outsourcing provides great flexibility for the companies in case of sudden changes in market conditions or consumer preferences.

## **2.4.2 Disadvantages of outsourcing**

As outsourcing has positive side, which can help to make the business of the company more profitable and get rid of some headache; unfortunately, it also contains some down sides as well. Listed below, are some of disadvantages of outsourcing.

Several activities require instant reaction. Which makes it more appropriate to keep a hands-on staff? If a crucial service is outsourced and immediate response is needed, it is hard to predict the outcome of the service. The risk of losses is big due to factors of poor quality of service. In addition, the company-outsourcer can become bankrupt, consequently the contracting authority will have to find a new outsourcer, and this is an additional moral and material costs. (BKR-Intercom- Audit 2007). This may even lead to loss of customers.

The lack of standards and methodology entails the difficulty of measuring results and quality of performance. Possible reduction in productivity of own staff may lead to loss of motivation, evaluation by the existing employees due to the negative changes. Outsourcing contract is usually for a long period, and this means that there is a risk of future costs and expenses

One of the biggest disadvantages of outsourcing is the lack of control over the activities of organizations or professionals who provide services. The problem with a lack of communication also should be considered. It can be very frustrating for a consumer who is calling in with a customer service issue. When this individual cannot understand the customer service representative they are speaking with, it just causes more frustration and does little to solve the problem (Articles Base 2011).

Therefore, outsourcing implications on business sectors need to be viewed from a different perspective. Throughout this paper outsourcing has been addressed in relation to outsourcing functions within the Commercial Bank of Ethiopia. What it boils down is that business sectors need to become more flexible, entrepreneurial, responsive, and efficient and proper evaluations of outsourcing opportunities and threats can help a business to reach their goals by trying new things, competitively price services, strengthen capabilities use other people's capital and, most importantly, to concentrate on what they do best (Bartem and Sherry, 2001).

## **2.5 Strategic Assessment for Outsourcing**

Most outsourcing failures can be traced back to organizations that short-change or eliminate the following critical strategic assessment, thereby failing to lay a solid foundation to make objective, data-driven outsourcing decisions. As stated by Power (2006) the goals of conducting a strategic assessment are: To develop a clear vision of outsourcing, setting tangible goals and objectives, to determine how outsourcing fits into the overall business strategy, to select and engage executive sponsors for the outsourcing endeavor, to identify the key functions and processes suitable for outsourcing, to determine whether the engagement should be onshore, near shore or offshore and also the goal of the strategic assessment is to examine the current and the future strategic position of the organization and to understand where outsourcing as a strategy fits in. It is during this stage that the organization needs to understand both the pros and cons of using outsourcing as a strategy. An analysis of the pros and cons, and the fit –does outsourcing as a strategy fit the business needs? will form the foundation of the outsourcing plan. Failure to lay this solid foundation in place will result in questionable outcomes in the future stages of the outsourcing life cycle.

## **2.6 The Rational for Outsourcing**

Outsourcing has moved from initiatives that were financially motivated to the current stage of being strategically motivated. Power (2006) quoted that financially motivated outsourcing efforts have been around since the early days of commerce. Manufacturing work, such as garment production, has long been outsourced to locations in Southeast Asia. The goal of these efforts was to get the best financial deal in terms of lowest cost of production.

These efforts were mainly one-sided; information and requirements moved from the client to the vendor, who would then construct the product and/or service and deliver this back to the client. Information and knowledge would seldom flow back from the vendor to the client, as the client was assumed to be more knowledgeable than the vendor. In financially driven outsourcing efforts, it was common for a firm to structure a long-term deal with a single vendor to get the best possible discounts and secure the most stable relationship. After all, the goal here was to offload work to places where it could be done at lower cost.

Strategically driven outsourcing efforts are capability- and competency- intensive. The focus here is to tap into specialized expertise, knowledge, processes, and capabilities found outside the organization, and to use these as inputs to help improve the effectiveness and efficiency of operations. More important, if done properly, strategically driven outsourcing efforts can not only help operations, but can also contribute to the strategic and competitive advantages of the organization.

Strategic outsourcing often involves partnerships between the client organization and multiple vendors. As a prime example consider the case of Dell Computers. Dell does not hold large amounts of computer hardware in its inventory; instead, its core competency is its information systems and supply chain management systems.

Dell takes in customer orders, and then coordinates the fulfillment process. To be successful in this, Dell must rely on a vast network of suppliers and manufacturers, not only for the products, but also for knowledge. Dell realizes that it does not have the necessary resources to have up-to-date information about each component of computer hardware (Power, 2006). Such knowledge resides in the minds of Dell's business partners and hence Dell must not only send order information to these suppliers but must also access the knowledge possessed by them. In addition, Dell must ensure that knowledge from one supplier is shared with the others, so that each one benefits from improved knowledge and insights. Strategically driven outsourcing efforts involve such collaboration between the client and multiple vendors, because the client organization is focused on getting the best breed of knowledge and expertise, as these have serious ramifications on its strategic and competitive advantages (Power, 2006).

## **2.7 Types of Outsourcing**

Brown and Wilson (2005) have stated that outsourcing can be categorized in to three, as listed below:

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

### **2.7.1 Selective and full outsourcing**

Outsourcing allows for an institution to concentrate on its core competencies as stated previously. Outsourcing can be classified into two categories depending on the type of human capital and the type of work function. The first type of outsourcing is called selective outsourcing and is classified as a tactical move to outsource unwanted functions within an organization. The second type of outsourcing is more extensive and is called strategic-shift outsourcing, which focuses on bringing in highly demanded specialists that are limited in supply. Selective outsourcing enables service provider companies to reduce costs while enabling the institution to put their attention elsewhere while strategic shift also outsourcing conquerors the same goals as selective outsourcing, but also seeks to create a mutually beneficial relationship due to the sheer size of the contract agreement and its implications for both parties.

### **2.7.2 Tactical and strategic outsourcing**

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

Tactical outsourcing can also extend to outsourcing peripheral activities enabling the management to acquire industry specific capabilities by partnering with a chosen vendor. This is a common method used by large mature corporations for handling high-volume repetitive tasks and used for processes such as payroll transactions, HR administration, and procurement. Strategic outsourcing is used as part of the process of redefining the organization and results in freeing the management staff to refocus on the core business functions. Strategic outsourcing relationships build long-term value resulting from the client working with a fewer number of best-in-class integrated service providers.

### **2.7.3 Transformational outsourcing**

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

### **2.8 Outsourcing Process**

The typical process and phases of outsourcing ranging from decisions to continuous management and performance evaluation along with the life cycle of the relationship between the host institution and the business process vendor, (Brown and Wilson2005). The strategy phase is often the take-off point for an outsourcing initiative. The host institution determines the objectives, scope, and feasibility of the outsourcing concept before furtherance in this initiative. In addition, the total time, budget, and necessary resources are estimated. A request for information (RFI) may be drafted, floated and responses from interested service vendors may be obtained at this stage. This enables the host institution to gain more insight into various particulars of the outsourcing engagement. In the next phase on scoping, the baselines and service levels expected from the vendors are established.

Further clear delineation is agreed on the functions that are to be outsourced and the functions that will remain in-house. A request for proposal (RFP) is drafted at this stage by the host institution. Only vendors who have qualified based on merit of the RFI response are eligible for responding to the RFP. Responses of the RFP are analyzed, and vendors are qualified. The next phase involves negotiation. Here, the host institution can develop a request for quotation (RFQ) wherein the host institution attempts to understand the pricing model of the qualified vendor. The most common pricing models used are cost per full time equivalent, time and material, price per unit, volume-based pricing, managed service fee, no cure – no pay, fixed price, etc. (Gonalgo2005).

Negotiations culminate in a contract signed between the host institution and the chosen vendor. Vendors may also be asked to demonstrate capabilities indicated in the response to the RFP/RFQ by executing a pilot project. The host institution then examines the services provided by the vendor during the pilot phase to assess the competence of the vendor to execute the proposed service. As discussed above, the nature of the outsourced work may involve only a single time engagement for non-continuous services indicating a one-time contract. For business processes its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005).

Initiation and implementation of change management is one of the key elements of this phase for a successful outcome. This marks the end of the contractual phase and marks the beginning of the post-contractual phase.

Management of end-of-life arrangements is executed in the completion phase. Contracts that come up for renewal are assessed in this phase. Buyer makes vital decisions on extension of the contract, amicable/friendly separation with the vendor to consider engagement with another vendor or executing the function in-house. Renewal of a contract indicates the cyclical nature of the activity. The decision to outsource has associated risk that can be mitigated by adequate planning (Aron, 2005). While some of the risks are strategic in nature often caused by the vendor's action, others are operational in nature caused by the complexity of the activity itself that are continuous in nature a multi-year renewable contract is signed.

The implementation phase marks the transition of the in-house process to the outsourced vendor. This often involves a requirements assessment sub-phase where the process is studied in detail by the vendor. The vendor can re-engineer the process to optimize the operations. After successful transition the phase of continuous monitoring and management is carried out in the management phase, the client now has external organizations performing the functions and it must seamlessly integrate its own processes with these and define suitable interfaces between the buyer and the service providers (Gonalgo, 2005). Initiation and implementation of change management is one of the key elements of this phase for a successful outcome. This marks the end of the contractual phase and the beginning of the post-contractual phase.

## **2.9 Drivers of Outsourcing**

The key drivers include financial reasons such as reducing costs, generating additional profits, and reducing capital outlays with periodic payments and the technical reasons for outsourcing are quality improvement, gaining access to new talent and technology, the easy availability of vendors with expertise, and economies of scale. Among the tactical drivers the most prominent ones are shortage of skilled workers and cost-reduction opportunities. Strategic reasons include refocus on innovation and core-competencies. Leading organizations are shrinking their business cycles and tightening feedback loops (Brown and Wilson, 2005)

### **2.9.1 Organizational drivers**

The major objectives in the organization-driven initiative are to achieve a higher quantum of focus on core business, increase flexibility to deal with ever changing business conditions, demand for products and services, leveraging/pulling emerging technologies and achieving higher stakeholder value. Outsourcing the tactical components of job functions of the management team empowers them to spend time on strategy-related issues such as focus on core business and enhanced quality of service. Outsourcing permits the redirection of resources from non-core activities towards activities that provide a greater return in serving the customer.

Functions of this nature are identified, isolated, and then outsourced to specialist vendors. The institution can also proactively identify some current core functions that are expected to become less important due to some strategic changes. These initiatives provide employees with a stronger career path and increased commitment and energy in non-core areas. Employees are recognized as key assets in labor intensive service industries. (Brown and Wilson, 2005)

### **2.9.2 Improvement drivers**

The significant objectives of this initiative are to improve operating performance; obtain expertise, skills, and technologies; improve management and control; improve risk management; acquire innovative ideas; improve credibility and image by associating with superior providers. Performance measures of productivity, quality, timeliness, cycle time, utilization, etc. can be targeted for improvement.

An institution when realizes that its in-house skill set is inadequate for a given function as business dynamics change, it may entrust this function to a specialist service provider who is highly competent in administration, use well-trained and experienced staff and have the industry best practices. When institutions outsource, they become more flexible, dynamic, and competent to change themselves to exploit changing opportunities. (Brown and Wilson, 2005)

### **2.9.3 Financial and cost drivers**

The objectives of this initiative are to reduce investment costs in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. These business processes when outsourced reduce the investment required by the host institution to modernize them. Outsourcing helps in reducing or controlling the operating costs. Access to an outside provider's lower cost structure is one of the most compelling short-term benefits of outsourcing. Other benefits sought by institutions are cost reduction with enhanced performance and conversion of fixed costs into variable costs. Service providers can handle varying demand more efficiently because of economies of scale, automation, process maturity, and investment in the latest technology. (Brown and Wilson, 2005)

## **2.10 Factors to be considered for Successful Outsourcing**

### **2.10.1 Availability of Skills Needed to Manage Outsourcing efforts**

Companies need to ensure that employees have the skills that will allow them to contribute to the goals and objectives of the organization. One respondent company reported that it uses a team-based approach to the set skills required to for each class of employee. Such a special team should consist of groups of employees and managers, who were, understand experience in the working area (Yenus, 2005).

Additionally, Thomas (2004) stated that, to be successful at leading outsourcing efforts, you must develop certain competencies. Good decision making in high uncertainty environments is a critical skill when managing outsourcing efforts. While outsourcing initiatives are not entirely new to organizations, their complexity risk and impact on organizations has never been higher. A consequent factor of this is the need to make decisions in uncertain environments.

You must be able to make decisions with incomplete information, have the foresight to plan using scenarios, think through various alternatives, and most importantly find ways to reduce the uncertainty associated with making decisions. Hence, it is very important to have good marketing, negotiating, and

relationship-building skills are essential for building a good outsourcing relationship with your vendors. To do this successfully, it is important that you have excellent negotiating skills and can manage the relationship to attain the organizational objectives with minimal hostilities with the vendor.

### **2.10.2 Assessing and Selecting Competent service providers**

Considering a company does not jump on the bandwagon and instead takes due diligence in planning a concrete outsourcing strategy, one of the critical steps is choosing a vendor capable of complimenting the company's needs (Thoms 2005). In essence, vendor selection is just as important as the decision to outsource. Although it is difficult to assess every aspect of a vendor, the following list provides areas a company should be looking at:

company Stability, references/reputation, flexibility of the contract terms, scope of resources, additional value-added capability, location, price, cultural match, existing relationship, and staff Turnover, we can agree that some of the areas listed above such as price, quality and contract management are on the list of top priorities, but what about some of these other intangible aspects such as a cultural match.

According to (Kurat, 2011) as quoted in (Borisova 2011) there are additional criteria for the company to evaluate the service providers. This will help to perform at least a preliminary analysis of which company is dealing with (Kurat 2011): Quality commitment-The vendor should be quality focused. The company should as providers what measures they have for quality assurance and quality control. Cost-Provider's price policy should enable customers to save money and still choose outsourcing as opposed to in-house development.

Additional resources and capabilities-The vendor should have resources and capabilities that are not available to the customer internally or with other providers. These days 'customers are smart and are looking for additional capabilities of a vendor at competing price. Smarter vendors can use it as advantage over competitors. Prior work-The vendor should have experience of working with other organizations. The company should check provider's portfolio and if there are no testimonials available, the company should contact some of its clients and ask them what kind of experience they had or still have with this vendor.

Contract terms-The terms of contract should offer flexibility to the client to modify the requirements or terminate the contract easily if required. The best development methodologies for fast and frequent changes are agile based. Confidentiality-How secure is the customer's data at the vendor site? The vendor should have well-defined security policies in place.

### **2.10.3 Availability of Well-Formulated Contract**

Outsourcing is required to comply with all federal, state, and local laws and regulations as well as an organization's own policies and procedures. Although it is easy to summarize the restrictions placed on outsourcing in once sentence, it is far more difficult defining such in terms of a contract and without proper contract management; an outsourcing initiative can turn into an ugly legal battle. Although legal action should only be taken as a last resort, it is important for an organization to be aware of the various governmental, environmental, and organizational liabilities that exist. It describes the services that a vendor is to provide, discusses financial and legal issues, and becomes the blueprint for the life of the agreement.

### **2.10.4 Setting Service Level Agreement (SLA)**

Thoms (2005) a well-defined and constructed SLA will aptly set expectations for both sides of an outsourcing relationship while providing targets for accurately measuring performance to those objectives. There are various steps to establishing an SLA between parties. The first involves negotiation whereby both parties will agree to the terms of service. Once established and agreed upon, the various methods of payment are also identified. Of the important aspects of any SLA are the methods by which a company will evaluate the service of a vendor.

In other words, did the vendor perform the service in line with the agreement? Further Thomas (2005) added that when properly chosen and implemented, the SLA metrics: First measure the right performance characteristics to ensure that the client is receiving its required level of service and the service provider is achieving an acceptable level of profitability. Second it can be easily collected with an appropriate level of detail but without costly overhead, and tie all commitments to reasonable, attainable performance levels so that "good" service can be easily differentiated from "bad" service, and finally giving the service provider a fair opportunity to satisfy its client.

### **2.10.5 Giving Attention to Employee Issues**

The efficient management of personnel issues is crucial because employees generally view outsourcing as an underestimation of their skills. This may result in a massive exodus even before an actual outsourcing decision has been made. Secrecy in outsourcing feasibility and decision making is very difficult, and open communication is the key to managing personnel issues in outsourcing. When attempts at secrecy fail, rumors start spreading. As soon as employees know that outsourcing is under consideration,

counterproductive anxiety arises, and employees begin handing in their notice in anticipation of outsourcing.

Moreover, Barthelemy argues that Firms that contemplate outsourcing must face two interrelated personnel issues. First, key employees must be retained and motivated. For most activities, outsourcing does not mean transferring all the employees to the vendor. When an activity has been performed in-house for a long period of time, firm-specific knowledge about how to run the activity smoothly has accumulated. Employees who possess this firm-specific knowledge must be identified (Thomas 2005).

## **2.11 Empirical Review**

Few publications have examined Ethiopia's potential for outsourcing in the future as well as its advantages and drawbacks. Selamawit (2016), Abebe (2015), Werkalemahu (2015), and Mersea (2007), for instance, studied the subject as a part of their MBA degree requirements at various points in time. These studies generally agree that outsourcing is still in its infancy in Ethiopia and is steadily spreading throughout the financial industry in general and banking institutions.

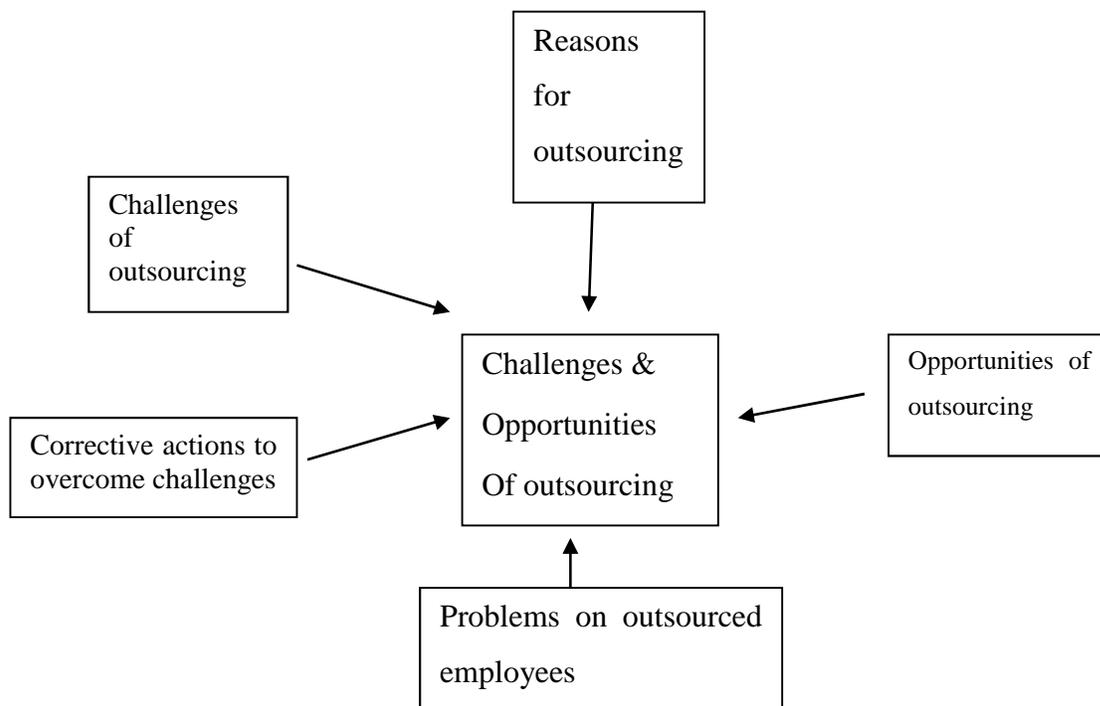
According to their analysis, Commercial Bank of Ethiopia (CBE) outsources most of its support functions, including janitorial, security, transportation, and messenger services, to outside businesses. The study has examined the advantages and challenges of outsourcing that Commercial Bank of Ethiopia confront in addition to looking at the extent and trends of outsourcing in the bank. The findings of Workalemahu (2015) and Selam (2014) reveal that the bank has benefited in several ways from its outsourcing decision. To mention quite a few among their list; cost saving, focus on core business activities, saving manager's time to focus on other activities, lower investment requirement, change fixed cost to variable cost, ability to spread commercial risk, improved quality, increase flexibility to deal with ever changing business condition are some of them.

Selamawit (2016), study in particular reveal that the bank was not successful in gaining benefit regarding gaining easier and more economic access to latest 15 technology and external competencies. The same way it examined the benefits that CBE has gained out of outsourcing its non-core activities, the study has also revealed several problems that have come hand in hand with their decision to outsource. Some of the drawbacks include Communication and coordination difficulties, Contract termination problem, Slow response time, Loss of control over key information resources.

Although outsourcing is a common practice in virtually every industry and almost all corporate organizations worldwide, little research has been done on the practice in Ethiopia in particular, and specifically in the beverage industry. When it comes to determining the level of outsourcing practice outside of banking institutions, particularly in the Ethiopian beer industry, the empirical literature is substantially thinner. In general, empirical literatures concur that Ethiopian outsourcing practices are substantially better off now than they were before.

## 2.12 Conceptual Framework

**Figure 1 Conceptual framework**



As stated in research objective, there are several reasons for a company to make the decision of outsourcing. For instance, in terms of cost efficiency, it is indicated by a college during an informal conversation with the student researcher that the company save a large sum of money on benefits and health care when employees are outsourced. The research goes deeper into this topic and more. Similar issues with job insecurity, relating to risk management and size of department was also assessed. The figure above gives a general outlook to why a company may or may not go down the route of outsourcing.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

The study's methodology is covered in this section. Furthermore, it covers the subject matter and research design, data sources and kinds, data collection methods, sampling methods, and data analysis.

#### **3.1. Research Approach**

To attain the objective of the study and answer the research questions; the researcher adopted Quantitative approach because it allows the researcher to easily generate large amount of data and identify patterns Bryman, A., & Bell, E. (2015). *Business Research Methods* (4th ed.). Oxford University Press.

#### **3.2. Research design**

A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the problem research. The design of the study defines the study type (descriptive, explanatory, and causal). It is a framework that has been created to find answers to research questions. (Wikipedia, 18 Apr., 2019). Descriptive research is as its name implies to describe something, usually market characteristics or function.(Shukla,2008). This study used descriptive research design. Because it would enable the student researcher to gather and describe descriptive information and provide information for formulating more sophisticate studies.

#### **3.3. Population**

For conduct this research HBSC and the outsourced new generation agency were considered as a participant or population of this study. It meant the target population was the HR department head and management team of the company with questionnaire and interview. In addition, Because of customer population size is infinite (3000 employees of HBSC and New generation agency), or it is difficult to list down all population, the student researcher was selected populations those should be participant of this study were 150 of the company's and Agency's employees.

### **3.4. Sample size**

Due to the difficulty nature of determining sample size of the customers of HBSC the study used Malhotra's (2006) suggestion of 200 respondent customers as representative sample to have sufficient and reliable data. However, because of the time span left on hand the student researcher used 150-200 respondents as representative of sample size of the study.

### **3.5. Sample techniques**

The student researcher used a non-probability sampling approach for the customer population under study, as well as a convenient or accidental sampling technique, to determine the sample size of the study. Because it aids in testing and gaining a general idea or impression of the subject of interest. That is, if I asked people who are willing to fill out the questionnaire and give me the correct answer, I would get from the people who are easily accessible and readily available.

### **3.6. Types and Sources of Data Collected**

The study has collected Both Primary and secondary types and sources of data to conduct the research and to make it good. The purpose of multiple sources of evidence is to add rigor to the research through triangulation. (Creswell, 2007).

### **3.7. Methods of data collection**

As I stated on the types and source of data section, both primary and secondary data applied. The primary data was collected from the outsourced employees, company's employees, and HR department management team of the company. Those primary data were collected through questionnaires and interview So that it enables to get first-hand information. A questionnaire was distributed to the employees of HBSC in Addis Ababa around KALITY and BOLE, Dembel. Secondary data was collected from, consisted company's published documents and other books related to labor outsourcing, journals and internet. The reason for using secondary data is easier to quick reference and incurs less cost and it helps to get information that cannot be obtained from the primary data.

### **3.8. Data Analysis Method**

The study applied qualitative and quantitative data analysis. The data that collected through close ended questions was analyzed quantitatively, put in frequency and percentage. Mean SD, and grand mean were also employed, and presented in table and narration. The data that collected through open ended questions were structured through interview reviewing company publication, relevant books and other resources and it analyzed through qualitative method and present through narration.

### **3.9 Validity and Reliability of the study**

The questionnaire items created using a five-point Likert scale, and multiple questions. The instrument was examined before it is distributed to ensure the validity of the items included in the questioner. Reliability Cronbach Alpha used to assess the internal consistency of the instrument's items. The mean of each variable was computed, and the reliability checked using the Means.

## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION

#### Introduction

The data received from the study participants are analyzed and discussed in this chapter. The study largely examines the main drawbacks and advantages of labor outsourcing within Heineken Breweries Share Company. The information was acquired through a questionnaire given to employees of the companies in the Human Resources department (HRD) and to outsourced workers who are employed by the company in the Addis Abeba region. The data analysis and discussion are supported by relevant literatures, interview discussion with the company's HRD.

The chapter begins with an analysis of the respondents' position and level of knowledge regarding the study topic before moving on to an analysis and discussion of key issues, such as the justification for labor outsourcing, the advantages of outsourcing, problems with outsourcing labor functions from both the company's and the perspective of the outsourced employees.

A total of 200 questionnaires were circulated and 153 questionnaires were completed and returned. 50 questioners were not returned. The completed questionnaires are over 75% of the total questionnaires distributed. However, 3 questioners were discarded due to missing data. Out of the 150 completed questionnaires, 120 questionnaires are completed by the outsourced staff of the company while the remaining 30 questionnaires are completed by Human resource staff.

#### 4.1 Demography

Respondents were asked about their gender, age, level of education and positions within the organization. Findings are presented in the table below followed with an analysis and interpretation

**Table 5 Summary of Respondent's Gender, Age, Academic Qualification and position**

Profile	Choice	Frequency	Percent	
Gender of respondents	Male	97	65	
	Female	53	35	
	Total	150	100	

<b>Age range of respondents</b>	18-40	<b>116</b>	<b>77</b>	
	41-55	<b>22</b>	<b>15</b>	
	>55	<b>12</b>	<b>8</b>	
	<b>Total</b>	<b>150</b>	<b>100.0</b>	
<b>Level of education of respondents</b>	Diploma	36	24	
	1st Degree	93	62	
	2nd Degree and above	21	14	
	<b>Total</b>	<b>150</b>	<b>100</b>	
<b>Respondent Job Position</b>	Managerial	31	20	
	Professional	119	80	
	<b>Total</b>	<b>150</b>	<b>100</b>	

Source – Survey 2023

Regarding age category most respondents 77.2% (116) were between 18-40 years, 14.6% (22) were between the ages of 41-55 as well as respondents above 55 years of age, they were 8.2 % (12) in number, holding the smallest portion.

Findings in Table 5 shows that most of the respondent's educational status or 62% (93) have first degree level of educational background whereas a much smaller number of respondents 14% (21) recorded that they have master's degree credentials. On the other hand, 24% (36) of the respondents had diploma level education. This shows that the respondents are fairly educated, and they can also understand and give reasonable responses to the questionnaire distributed to them.

Findings in Table 5 also show that a large proportion of respondents 79.4% (119) out of the total respondents were Professional representing, while only 20.6 %(31) of respondents were in managerial. This indicates that all the respondents are literate and have the ability to not only understand the questions, but also give elaborate answers that will help the research.

#### 4.2 Reasons for outsourcing

There are numerous reasons for a business to outsource its services, including cost reduction, increased focus on core competencies, proper time management, increased effectiveness, and reduced risk, as identified in the literature on the subject. Several questions were posed to study participants in order to determine how much the company benefited from outsourcing versus in-house sourcing.

Ranking - (5=Strongly Disagree, 4=Disagree, 3=Neutral, 2=Agree, 1=Strongly Agree)

Mean – (1-1.75= Strongly Disagree, 1.76 – 2.51= Disagree, 2.52 – 3.26= Neutral, 3.27-4.00 = Agree, 4.02-5.00= Strongly Agree)

Table 1

Description			1	2	3	4	5	Mean	SD
1	It improved focus of on core activity	F	10	8	27	50	55	2.1	1.9
		%	7	5	18	33	37		
2	It minimizes or reduces the HBSC's labor cost.	F	0	37	0	43	70	1.7	1.4
		%	0	25	0	29	45		
3	It contributes to the company's increased efficiency and effectiveness.	F	0	42	40	44	24	2.6	2.3
		%	0	28	27	29	16		
4	It allows access to skills and tools that are not available in HBSC.	F	0	41	29	55	25	2.5	2.2
		%	0	27	19	37	17		

	<b>Grand mean</b>		<b>2.2</b>	
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**Source: 2023 survey**

**Focus on Core areas**

As displayed above, responded leaned more to the side disagreeing when it came to their thought regarding outsourcing and focus of core activities. Both 36.6% (55) as well as 33.3 % (50) of respondents have strongly disagreed and disagreed to the notion respectively. This is while 18.1 % (27) of respondents chose to stay Neutral and finally a small portion of the respondents, 3.3 % (8) and 5.5 % (10) of the respondents agreed and strongly agreed to the question respectively. According to Choi (2008) successful outsourcing allows the organization to focus in-house resources on tackling priorities. When organization concentrates on carrying out its priorities, it can use its financial, human and management resources more effectively and efficiently. Outsourcing of some non-core functions provides organizations with the flexibility to redirect and focus their resources on activities critical to their mission. This outcome has turned out to be the complete opposite to Choic (2008), most respondents have disagreed with the notion.

**Cost Reduction**

Regarding the benefit of cost reduction, majority of respondents representing 46.6 % (70) and 28.6 % (43) believed that the benefit gained is little or none. These respondents strongly disagreed as well as disagreed accordingly. Among the total respondents the remaining 24.8 % (37) of them believed outsourcing brings the above benefits to a small degree.

During the informal conversations had with some key individuals within the company in charge of outsourcing. In Addis Ababa alone, after outsourcing the function to distributors the company has gained huge cost reduction in terms rent, employee turnover, vehicle cost and other related costs. According to Power (2006) the most obvious and visible benefit related to outsourcing brings about is cost savings. Cost efficiency and improvement to the bottom line are important benefits of the outsourcing strategy. Much of this cost saving is realized by moving from a fixed-cost model to one of variable cost model. The objectives are to reduce investment in assets, free-up resources for other purposes, and generate cash by transferring assets to the service provider. However, it was also mentioned that even if outsourced employees get less in areas of benefits as well as financial compensations. The company still goes to great length to extend benefit outsourced employees as well. This touches the company pockets. As Brown and

Wilson (2005), outsourcing is not all about reducing cost. However, a company may emphasize cost saving of a variety of reason, such as being a poor financial position, plan to increase profit.

### **Improved Quality**

From the above table we can see that 28 % (42) of the respondents said that a direct line between outsourcing and increase of efficiency and or effectiveness. On the contrary 29.4 % (44) and 16 % (24) of the respondents disagreed and strongly disagreed respectively, saying there is little to no connection between outsourcing and effectiveness and or efficiency. This is while the remaining 26.6 % (40) of respondents remained neutral. Saying there is a small connection between the two. According to Diskstein and Flast (2009), the most common reasons for outsourcing in the past were cost or headcount reduction. Over time, the reason for outsourcing has shifted to improve the quality of services. According to the data in the table above, the majority of respondents disagree with the link between outsourcing and quality improvement. As a result, outsourcing has fallen short in the company. According to Aran and Patel (2005), several factors such as cost, focusing on core areas, improving service level, and process innovation drive outsourcing. Of all these cost considerations, the need to focus on core activities appears to be the most prominent driver.

### **To access new skill**

27.3% (41) of respondents agreed that outsourcing helps HBSC acquire new abilities not readily available internally, while 19.4% (29) were neutral or felt that it slightly aids the company in acquiring new skills from outsourcing. However, 36.6% (55) and 16.7 % (25) of respondents made up the majority and they chose to disagree and strongly disagree accordingly. It seems as if the respondents agree that accessing new skills had nothing to do with the HBSC's choice for outsourcing. This finding contradicts Aran and Patel's (2005) suggestion that functions that are noncore for the outsourcer are core for the vendors. Because it is a core activity for the vendor, it will strive to improve the outsourced process and deliver a higher quality standard than the company itself.

Outsourcing can have several disadvantages that companies need to consider before making a decision. These disadvantages include language barriers, cultural differences, quality control issues, and the potential loss of jobs in the home country. Additionally, outsourcing may lead to a lack of control over the outsourced tasks and the possibility of intellectual property theft. Dhar, P. (2016). Outsourcing: Pros, Cons and Risk Factors.

In the case of this research, the responses the student researcher got for the respondents, paint a different picture. It is important to note that, why studying the reasons for outsourcing, the grand mean has been calculated to 2.285. This implies that the respondents disagree regarding the benefits that outsourcing brings for the company. The benefits include, access to new skills, improvement of quality, focusing on core areas as well as the reduction of cost. This indicates that the supposed benefits that the company aims to get from outsourcing are not serving there initially intended purpose.

## Challenges of outsourcing

Table 2. Challenges of outsourcing

Challenges of outsourcing										
Description			1	2	3	4	5	Total	Mean	SD
1	It creates unpleasant experience with an outsourcing labor.	F	44	70	32	4	0	150	4.0	3.5
		%	29	45	21	3	0	100%		
2	It increases the risk of losing confidential information because of labor outsourcing, especially if the employee leaves the company.	F	45	59	30	16	0	150	3.8	3.4
		%	30	39	20	11	0	100%		
3	Lack of motivation in outsourcing employees	F	48	55	27	20	0	150	3.8	3.4
		%	32	36	18	13	0	100%		
4	Lack of control on outsourcing labors.	F	0	48	21	63	18	150	2.6	2.3
		%	0	32	14	42	12	100%		
5	Outsourced workers have a low sense of belonging to HBSC.	F	62	56	32	0	0	150	4.2	3.7
		%	41	37	21	0	0	100%		
Grand mean									4.6	

**Source: survey 2023**

## Work Experience

As we see from the above table, 46.6% (70) and 29.4% (44) of the total respondents replied that they fell as if the outsourcing creates an unpleasant work experience respectively. In other words, these respondents responded that they agreed and strongly agreed with the question respectively. While 21.4 % (32) of respondents chose to remain neutral that outsourcing and workplace experience are somewhat connected. A small group of respondents 2.6% (4) disagreed with the notion.

### **Loss of information**

As seen in the table above most respondents 30.4 % (45) and 39 % (59) strongly agree and agree on the loss of confidential information held by outsourced labor accordingly. 30 (20 %) of respondents remained neutral. While the remaining 10.6 % (16) of respondents disagreed with the statement. This implies that loss of information contributes to the challenges of labor outsourcing.

### **Lack of motivation**

As we observe from the above table, about 32 % (48) and 36.6 % (55) of respondent indicated that outsourced employees were not motivated in doing their duties and responsibilities. While on the complete opposite side of the spectrum 13.4 % (20) of the respondents disagree that lack of motivation was caused by outsourcing. The remaining 18 % (37) of the respondents remained on the side of neutral. Numerous academic studies show that money is one of the factors that spark enthusiasm at work for people with low incomes. As a result, the majority of outsourced employees are not sufficiently motivated. During informal discussions with said employees, they stated that they only give the bare minimum. This alone can harm the company's reputation because some outsourced employees are involved in customer and or consumer service, product production, product transportation, and much more.

### **Management of labor**

In connection with management of labor, responds mostly disagree that outsourced labor is difficult to manage. 42 % (63) as well as 12 % (18) of the respondents have disagreed and strongly disagreed accordingly. 14 % (21) of the respondents agreed with the small connection of outsourced employees and lack of control, while the remaining 32 % (48) of respondents agreed on the notion. According to Alex Bank (2010), due to a lack of direct control over human resources, the vendor may hire under qualified or unqualified employees at his discretion, lowering the quality of service even further.

## Low Employee belongingness

As we see from the above table, majority of respondents adding up to 41.3 % (62) and 37.3 % (56) replied that low employee belongingness is a serious challenge as an outsourced employee. The others 21.4 % (32) of respondent's choice to stay neutral. This implies that everyone at work needs to feel a sense of belonging to perform at their best. Employees who do not feel a sense of belonging are more likely to be anxious about their position in the company and have less freedom to be themselves. An employee feels like they belong at work when they believe their company and coworkers value their uniqueness. Being able to feel safe and bring one's entire, distinct self to work is the result of a series of daily encounters that make one feel like they belong.

In regards to the challenges of outsourcing, the Grand mean has been calculated to 4.6. This implies that the respondents strongly agree on the challenges that are related to outsourcing. Confirming that problems associated with outsourcing such as; low employee belongingness, lack of employee belongingness and similar issues stated in the questioner. This indicates that the problems being faced by outsourced employees are very well present in the company amongst outsourced employees.

Similarly with the research finding stated above, the potential disadvantages of outsourcing are pointed out in a separate research as follows; the benefits of outsourcing include; cost savings and access to specialized expertise. However, there are also several challenges that companies may face. These challenges include communication difficulties, cultural differences, and the risk of intellectual property theft.(Rampton.J,2020, the Risks and Challenges of Outsourcing,).

## Problems of outsourcing from employee's perspective.

Problems faced by outsourced employees										
Description			1	2	3	4	5	Total	Mean	SD
1	I am happy with my current job.	F	0	21	43	58	28	<b>150</b>	2.3	2.0
		%	0	14	29	39	19	<b>100%</b>		
2	I feel at home here or I have the impression that I belong here.	F	62	56	32	0	0	<b>150</b>	4.2	3.7
		%	41	37	21	0	0	<b>100%</b>		
3	My qualifications are	F	0	22	25	40	63	<b>150</b>	2.0	1.8

	appropriate/merit for the position in which I am employed.	%	0	15	16	26	42	<b>100%</b>		
4	I received the same training as my counterparts and my colleagues.	F	0	0	32	48	70	<b>150</b>	1.7	1.3
		%	0	0	21	32	47	<b>100%</b>		
5	In comparison to my coworkers and the company's permanent employees, I am compensated.	F	0	0	41	76	33	<b>150</b>	2.0	1.6
		%	0	0	27	51	22	<b>100%</b>		
<b>Grand mean</b>									<b>3.2</b>	

Source: Questionnaire Survey, 2023

### Job Satisfaction

Most of the sum respondents making up a total number of 38.6 % (58) disagreed with the notion of being happy in their current work situation. 18.6 % (28) percent of the respondents strongly disagree with the notion of being happy in the workplace. On the opposite end of the spectrum, 14.1 % (21) of the respondents said that they are happy with their stay thus far. While the remaining 28.7% (43) of respondent's choice neutral when it comes to their happiness with their current work situation.

This clearly shows the level of dissatisfaction in which outsourced employees have towards their respective positions and roles within the company. This is worrying, because job dissatisfaction of employees may trickle down to behavioral misconducts, improper working styles and many more.

### Low Employee belongingness

As we see from the above table, majority of respondents adding up to 41.3 % (62) and 37.3 % (56) replied that low employee belongingness is a serious challenge as an outsourced employee. The others 21.4 % (32) of respondent's choice to stay neutral. This implies that everyone at work needs to feel a sense of belonging to perform at their best. Employees who do not feel a sense of belonging are more likely to be anxious about their position in the company and have less freedom to be themselves. An employee feels like they belong at work when they believe their company and coworkers value their uniqueness. Being able to feel safe and bring one's entire, distinct self to work is the result of a series of daily encounters that make one feel like they belong.

## **Qualification for job**

42.1% (63) and 21.1 % (40) of the respondents responded that they strongly disagree as well as disagree with their qualifications for the job respectively. An average in comparison of 16.7 % (25) of respondents stayed neutral while the remaining 22 (14.6 %) of respondents agreed that they qualify for their current respective positions. According to the table, the vast majority of respondents believe they are a big fish in a small pond. This brings with it a slew of drawbacks. Employees who believe they are overqualified for their positions believe they are entitled to a better position with higher prestige and better working conditions, and the resulting resentment and fury is linked to unfavorable work attitudes and unproductive work behaviors. On the contrary, during my conversations with HR personnel, the main issue they encountered in relation to outsourced services was the service provider hiring unskilled employees, particularly in positions such as security guards and messengers. It was also stated that, according to the agreement made at the time of the contract, the service provider should provide skilled full-time employees as the job required, as well as the necessary training to assist performers in performing their duties and responsibilities. It is important to note that nothing was said about other outsourced departments such as telesales, distributors on the ground, or other outsourced employees during this conversation.

## **Focus given to respondents.**

Most respondents 46.6% (70) responded that they strongly disagree in terms of getting equal training in comparison to their peers. 32.1 % (48) of the respondents also stated that they disagree with the notion. As for the neutral position 21.3 % (32) of respondents have placed themselves there. Finally, agree and strongly agree sections of the questioner have scored zero. This implies that the employer or company should prioritize training and other similar activities for its outsourced employees in order to retain them and attract outstanding employees who will help the company grow.

## **Compensation**

As a result of the study's exploration of the difficulties distributors encounter when dealing with the organization, 50.6 % (76) and 22.1% (33) of respondents think that the margin they receive from agencies is unattractive. These respondents think that the present margin provided by the company, is not insufficient to pay for all of their expenses and provide them with a respectable profit. On the contrary 27.3 % (41) of the remaining respondents chose to remain neutral on the issue of unattractive compensation. This implies that economic conditions, organizational changes, and consumer demand for business services

and products all have an impact on an employer's ability to pay employees extremely competitive salaries. Employees who are paid poorly may suffer from severe consequences such as stress, low morale and rage.

Outsourcing can create hidden costs for both the outsourcing company and the outsourced employees. It is noted that outsourced employees often face challenges such as job insecurity, lack of benefits, and limited opportunities for career advancement. Additionally, outsourcing can lead to communication and cultural barriers between the outsourcing company and the outsourced employees. (Ashkenas, R. 2018, the Hidden Costs of Outsourcing,).

In this research paper, under problems faced by outsourced employees, several questions have been answered by respondents yet; the Grand mean has been calculated to 3.280. This implies that the respondents agreed to the existence of problems faced by outsourced employees, such as; fair and proper compensations, qualifications for job, Job satisfaction and the few other points mentioned in the questioner.

### Corrective Actions taken

Corrective Actions										
Description			1	2	3	4	5	Total	Mean	SD
1	The company representatives mostly sit down with their outsourced employees.	F	0	43	27	60	20	<b>150</b>	2.6	2.3
		%	0	29	18	40	13	<b>100%</b>		
2	The company representatives include their outsourced employees in the HBSC's meetings	F	0	30	21	78	21	<b>150</b>	2.4	2.0
		%	0	20	14	52	14	<b>100%</b>		
3	HBSC has the strategy or methods to tackle problems or to address the issue that arises with outsourced employees.	F	38	11	90	11	0	<b>150</b>	3.5	3.1
		%	25	7.3	60	7.3	0	<b>100%</b>		
4	The agencies and HBSC have often meeting.	F	0	39	99	12	0	<b>150</b>	3.2	2.7
		%	0	26	66	8	0	<b>100%</b>		

5	The company takes proper assessments regarding the agencies chosen.	F	0	33	102	5	10	<b>150</b>	3.1	2.6
		%	0	22	68	3.3	6.6	<b>100%</b>		
<b>Grand mean</b>									<b>3.2</b>	

**Source: questionnaire survey 2023.**

The respondents were asked to, on a scale of 1 to 5; to rank their takes regarding corrective measure taken or may be taken by the company. The responses were analyzed and classified into five categories. The above table summarizes the findings with regards to the stated reasons as driving forces for motivation or lack their off.

### **Focus Given to outsourced employees**

On the question regarding company representatives sitting down with their outsourced employees, 28.6 % (43) percent of the respondents agreed. 18% (27) remained neutral, while 40% (60) and 13.4% (20) disagreed and strongly disagreed respectively. This shows that the focus given to outsourced employees by the company representatives is low. Outsourced employees in the company take up a significantly larger number when compared to that of permanent employees. Such a large group of people that do not feel as if they are not heard or cared for would leave the company the first chance they get and even more hurt the company in various ways if the opportunity was to be presented.

### **The company representatives include their outsourced employees in the HBSC’s meetings**

For the question of inclusion and being involved in HBSC meetings Most of the respondents making up a total number of 78% (52) respondents disagreed with the notion. While 14% (21) disagreed.14% (21) remained neutral and a total of 20% (30) respondents agreed. This shows that outsourced employees have nettle to no involvement in the meeting held by permanent company employees. In an ideal situation, where outsourced employees are mainly consisted of janitorial and security service provides, their inclusion in meeting might be unimportant. However, the company has been outsourcing services that have direct relations to areas of focus such as distribution and sales. For that factor might be risky to ignore employees in such areas.

### **The company having strategies in place**

In this portion of the questioner, the majority of respondents 60% (90) remained neutral, the same number of employees both agreed as well as disagreed 7.3% (11). 25.3% (38)of the respondents chose to strongly

agree to the notion. This shows that the good sum of the total amount of respondents do not know whether the company has strategies or methods put in place to tackle problems or to address issue that arises with outsourced employees. This can be a source of a problem. If employees do not know the proper steps during an issue or the repercussions during faults, it may be difficult to operate in situations that are outside of the norm.

**The agencies and HBSC have often meeting.**

For the question of the agency and HBSC often having meetings, 26% (39) respondents agreed, while 66% (99) remained neutral and the remaining 8% (12) respondents disagreed. This shows that outsourced employees are kept outside of the loop when it comes to communications made between agencies and the company. The feeling of belonging to something is very important, even more so important in areas where individuals spend much of their time. If these employees do not know where they stand “so to speak”, they might feel disposable. Thus, increasing their chances of leaving, which interns affect the company through high turnover rates and the constant hustle of training new employees that come.

**The company takes proper assessments regarding the agencies chosen.**

In regard to company taking proper assessments to find the right outsourcing agency the majority of the respondents 68% (102) remained neutral, while 22 % (33) agreed. Leaving 3.3% (5) and 6.6% (10) of which disagreed and strongly disagreed respectively. This shows that a only a small portion of respondents believe or rather know the steps taken in regards to taking on agencies that are in charge of bringing in the workforce. Thus majority of the respondents are once again kept in the dark.

It is important to note that the Grand mean of this table has been calculated to be 3.236. This shows that the respondents took a more neutral stand regarding corrective actions taken by the company. This implies that the respondents do not know about the inner workings of the company in regards of outsourcing or they are kept out of the loop.

On the other hand, outsourcing can lead to hidden risks such as data breaches, quality control issues, and reputational damage. It also highlights several examples of companies that have faced these risks and the corrective actions they have taken to mitigate them. Harvard Business Review. (2019).

For instance, internationally known American based company Target faced a major data breach in 2013 due to vulnerability in its supply chain caused by an outsourced vendor. To prevent similar incidents in the

future, Target implemented a new vendor management program that includes increased oversight and regular risk assessments. Similarly, when Boeing faced quality control issues with its outsourced suppliers for the 787 Dreamliner, it brought some of the work back in-house and established a new system for monitoring supplier performance. (Morphy. E, 2021, The Hidden Risks of Outsourcing)

### 4.3 Analysis of Interview Questions

- The second part of the data analysis was centered on the opinions from the HR outsourcing director. The aim was to consider opinions apart from employees that management sought in outsourcing. Therefore, questions on reasons to outsource, benefits after outsourcing, major challenges faced and how to control quality of the outsourced service & evaluate the performance.
- They confirmed that focusing on core functions, cost reduction and quality service as prime factors that influenced their choice of an outsourcing practice. The interview also confirmed that, there are benefits after outsourcing the cleaning and security services which are: -
  - ✓ Increased efficiency: - They can do other activities better with their capacity. This leads to an increase in productivity and efficiency in the process thereby contributing to the bottom-line of Heineken.
  - ✓ Focus on core areas: - The outsourcing director confirmed, the company benefits from Outsourcing those activities B/C the management is free to lose energy and skill to non-core activities and enable them to focus on building the core once.
  - ✓ Access to skilled resources: - they no longer need to invest in recruiting and training expensive resources for the university.
- On the other hand, they also confirmed that there are some challenges and problems in the company. Problems related to telesales department, Inputs to cleaning service is provided by the outsourcing company, which leads the company to abuse the internal controlling, High absence of employees by the security service provider company as well as high turnover rate with the telesales department, the company do not have stable employees, b/c of the company perform more than 2000 of contract in Ethiopia and Employees work by half day shifts which decreases the trust among them.
- There is no evaluating Criteria's for company performance in regards to outsourced parties. This can give responsibility to the outsourcing agency (New Generation) in checking if there is a gap in the process.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this last chapter is to present summaries of major findings, concluding remarks and forwarded possible recommendations. Hence, the first section presents the study's major finding summaries, the second section present conclusion and the third section presents recommendations.

#### *5.1 Summary of Major Finding*

On this section majority of the findings summarized those data are taken from the respondents summarized the majority of finding under listed.

##### *5.1.1. Summary of General Characteristics of the Respondents*

The respondents are diversified in Gender, Age, Educational back ground, and respondent Job Position.

- The majority of respondents (64.6%) are male.
- The majority of the respondents (77.2%) are 18-40 years old, which of them.
- Majority of the respondents working as a professional level.
- Majority of the respondents (62%), are degree holders.

##### *5.1.2 Summary of Data Directly Related with the Study*

The summaries below can be used to track the challenges and opportunities of HBSC labor outsourcing across multiple dimensions.

- The grand mean of respondents that were asked that outsourcing benefits include helping to focus on core activities, cost reduction, access to new skills, and improved quality came out to be 2.28. This implies that respondents disagreed on the notion. This shows that the supposed benefits brought by outsourcing for the company are not serving there intended purpose.
- In regards to the challenges of outsourcing, the Grand mean has been calculated to 4.6. This implies that the respondents strongly agree on the challenges that are related to outsourcing. Confirming that problems associated with outsourcing such as; low employee belongingness,

unpleasant experiences, loss of information and similar issues stated in the questioner. This indicates that the problems being faced by outsourced employees are very well present in the company amongst outsourced employees.

- Regarding corrective actions taken by the company, the Grand mean has been calculated to be 3.2. This implies that the respondents took a more neutral stand regarding corrective actions taken by the company. This implies that the respondents do not know about the inner workings of the company in regards of outsourcing or they are kept out of the loop.
- Under problems faced by outsourced employees, several questions have been answered by respondents yet; the Grand mean has been calculated to 3.280. This implies that the respondents agreed to the existence of problems faced by outsourced employees, such as; fair and proper compensations, qualifications for job, Job satisfaction and the few other points mentioned in the questioner.
- Based on the research findings, it can be concluded that there are significant challenges associated with outsourcing, particularly in terms of communication and control. The presence of a communication gap with outsourced employees indicates that there is a lack of effective and efficient information exchange between the company and its outsourced workforce. This can lead to misunderstandings, delays in task completion, and ultimately affect the overall productivity and quality of work.
- Furthermore, the finding that the company loses control of day-to-day monitoring of the outsourced services highlights another critical issue. When a company outsources certain tasks or functions, it relinquishes direct oversight and supervision over those activities. This loss of control can result in a lack of transparency, reduced accountability, and potential deviations from established standards or protocols.

## **5.2 Conclusions**

The aim of this research is to explore the benefits and problems of labor outsourcing within Heineken Breweries Share Company. In this regard, researcher tried to address the research theme by identifying the reasons for outsourcing, benefits gained after outsourcing the service and problems faced in relation to outsourcing the services. Based on the findings from the summary of this study, the following conclusions are drawn.

- As the study finding indicates, Heineken Breweries Share Company passed the decision to outsource labor with the intentions of reducing cost, improving the service quality, giving more focus to other core functions, improving flexibility, saving time, and implementing efficient route to market strategy. This implies that the company originally intended to switch certain labor bodies to outsourcing for the above-mentioned reasons. However, as indicated by the majority of respondents, outsourcing does not seem to be serving the company as expected.
- Unattractive wages along with the little focus given to outsourced employees appear to be the cause for the low level of motivation of outsourced employees, loss of information and similar issues faced by the company.
- The research has concluded that outsourced employees are kept outside the loop in regards to inclusion and communications made in regards to outsourcing.
- As indicated by the majority of respondents, the loss of information and low sense of belonging are the results of improper outsourcing technics followed by the company.
- The study has also concluded that there are several problems faced by outsourced employees in areas of job qualification, training and management, satisfaction of job and other similar factors.

### **5.3 Recommendations**

Based on the findings and conclusions reached, the researcher would like to make the following recommendations as a possible solution for the identified problems.

- As the outsourcing process expands beyond non-core activities in areas such as distribution and sales, HBSC should take a different perspective to outsourcing through various ways that lead to boosting employee morale and belongingness. HBSC should consider offering competitive wages that are in line with industry standards. In addition to competitive wages, offering incentives such as bonuses, commissions, and profit-sharing programs.
- HBSC must establish clear communication with agencies regarding the handling of outsourced employees. Terms such as payment dates, compensation agreements, timely checkups and more should be put into consideration alongside with other decisions regarding outsourced employees.

- HBSC should involve in key employee recruitment process for the agencies. The ideal job description & job specification should be jointly developed by HBSC as well as the agencies in order to get the ideal job recruits.
- HBSC should create awareness among its outsourcing agencies on the benefit of keeping employees motivated by using cost effective methods that benefit both sides. Such as, the introduction of workable and performance-based commission and incentive scheme to outsourced workforce involved in sales.
- Companies need to establish clear contractual agreements, service level agreements (SLAs), and governance mechanisms to maintain control over outsourced processes.
- These research findings suggest that the organization needs to carefully consider the potential drawbacks and challenges associated with outsourcing before making decisions. It is crucial to establish clear lines of communication and maintain regular contact with outsourced employees to bridge any communication gaps. Additionally, the company should implement robust monitoring mechanisms to ensure that outsourced services align with their expectations and requirements.
- In conclusion, the research findings indicate that outsourcing can introduce communication gaps and result in a loss of control over day-to-day monitoring. These challenges can have negative implications for organizational efficiency and effectiveness. Therefore, the company should approach outsourcing decisions with caution and develop strategies to mitigate these issues.

### **Suggestions for Future Research's**

Although labor outsourcing is widely used throughout most of the world, Ethiopia has little experience with it. Additionally, no official research has been conducted in this field to evaluate the difficulties/issues and advantages of outsourcing in most organizations in the nation. To that purpose, this study offers conclusions about the drawbacks and advantages of outsourcing for an Ethiopian corporate organization. These conclusions can also act as a springboard for further study in the area. However, because of the limited scope of this study, further extensive and in-depth research is needed. Future studies should therefore consider a thorough analysis of the advantages and drawbacks of outsourcing in businesses other than the beer industry.

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# Appendices

## Appendix -A

### St. Mary's University

### Business Faculty

### Department of Marketing Management

Questionnaire to be filled by HBSC HR employees.

*This questionnaire has been prepared by MA degree student of St. Mary's university in the field of marketing management. This study entails to assess the challenges and opportunities of labor outsourcing in the case of HBSC. Therefore, you are selected to fill this questionnaire because student researcher have full trust on you to get complete and real information that are required for this research. Thank you for your cooperation.*

#### Notice:

- It is not necessary to write your name.
- Please put a “ ” mark on the space provided.

#### **Part one: Personal information**

1. Sex

A. Male       B. Female

2. Age

A. below 18 years       C. 26 – 35       E. More than 45

B. 18 – 25       D. 36 – 45

3. Education Background

- A. Primary
- B. High School
- E. Second degree and above
- C. diploma / certificate
- D. first degree

4. For how long have you been the employees of HBSC?

- A. Less than 6 months
- B. 1-2 years
- C. 2-3 years
- D. 3-4 years

5. Category of your position?

- A. Permanent/managerial
- B. outsourced/non-managerial

6. What is your level of awareness about the concept of labor outsourcing?

- A. Very High
- B. High
- C. Neutral
- D. Low
- E. Very Low

**Part two: questions related to labor outsourcing**

RANK THE FOLLOWING QUESTIONS BASED ON THE FOLLOWING ALTERNATIVES.

STRONGLY AGREE=1    AGREE=2    NEUTRAL=3    DISAGREE=4    STRONGLY DISAGREE=5

Variable 1; What are the reason for outsourcing?						
	DESCRIPTION	1	2	3	4	5
1.	It improved focus of on core activity					
2.	It minimize or reduce the HBSC's labor cost.					
3.	It contributes to the company's increased					

	efficiency and effectiveness.					
4.	It allows access to skills and tools that are not available in HBSC.					

If any\_\_\_\_\_

Variable 2; What are the opportunities gained through labor outsourcing?						
DESCRIPTION		1	2	3	4	5
5	It assists the company in reducing labor cost.					
6	it aids the company in risk reduction					
7	It increased the emphasis on core activities					
8	It allows access to skills and tools that are not available in HBSC.					
9	It enables the company to cover a larger sales territory than before, particularly through telemarketing.					

If any\_\_\_\_\_

Variable 3; What are the challenges that the company faced from labor outsourcing?						
	DESCRIPTION	1	2	3	4	5
11	It create unpleasant experience with an outsourcing labors.					
12	It increase the risk of losing confidential information as a result of labor outsourcing, especially if the employee leave the company.					
13	Lack of motivation in outsourcing employees					
14	Lack of control on outsourcing labors.					
15	Outsourced workers have a low sense of belonging to HBSC.					

If any\_\_\_\_\_

Variable 4; What corrective actions are taken to overcome the challenges?						
	DESCRIPTION	1	2	3	4	5
16	The company representatives mostly sit down with their outsourced employees.					
17	The company representatives include their outsourced employees in the HBSC's meetings.					

18	HBSC has the strategy or methods to tackle problems or in place to address the issue that arises with outsourced employees.					
19	The agencies and HBSC have often meeting.					
20	The company takes proper assessments regarding the agencies chosen.					

If any \_\_\_\_\_

Thank you

Appendix -B

ቅድስትማርያምዩኒቨርሲቲ

የንግድፋኩልቲ

የግብይትአስተዳደርመምሪያ

መጠይቅበHBSCሰራተኞችመሞላትአለበት።

ይህመጠይቅየተዘጋጀውበማርኬቲንግማኔጅመንትዘርፍበቅድስትማርያምዩኒቨርሲቲየMA ዲግሪተማሪነው።ይህጥናትበኤች.ቢ.ኤስ.ሲ.ጉዳይላይ የሰውኃይልንወደውጭየማውጣትተግዳሮቶችንእናእድሎችንመገምገምንያካትታል።ስለዚህይህንንመጠይቅለመሙላትተመርጠዋልምከንያ ቲምየተማሪተመራማሪዎችለዚህጥናትየሚያስፈልጉትንየተሟላእናትከከለኛመረጃለማግኘትሙሉእምነትሰላላቸውነው።ለትብብርዎእናመሰግናለን።

ማሳሰቢያ፤

- ስምዎንመጻፍአስፈላጊአይደለም.

- እባክዎበተዘጋጀውቦታላይ “ ” ምልክትያድርጉ።

ክፍልአንድ፡የግልመረጃ

1. ጾታ

A. ወንድ                       B. ሴት

2. ዕድሜ

A. ከ 18 ዓመትቦታች                       C. 26 – 35                       E. ከ45 በላይ

B. 18 – 25                       D. 36 – 45

3. የትምህርትዳራ

A. ዋና                       C. ዲፕሎማ / የምስክርወረቀት

B. ሁለተኛደረጃትምህርትቤት                       D. የመጀመሪያዲግሪ

E. ሁለተኛዲግሪእናከዚያበላይ

4. የHBSC ስራተኞች ለምን ያህል ጊዜ ቆዩ?

A. ከ6 ወር በታች

C. 2-3 ዓመታት

B. 1-2 ዓመታት

D. 3-4 ዓመታት

5. የእርስዎ አቋም ምድብ?

A. ቋሚ/አስተዳደር

B. ወደውጭ የተላከ/የማይመራ

6. ስለ ስራተኞች የውጭ አቅርቦት ፅንሰ ሀሳብ ያለዎት የግንዛቤ ደረጃ ምን ያህል ነው?

A. በጣም ከፍተኛ

C. መካከለኛ

E. በጣም ዝቅተኛ

B. ከፍተኛ

D. ዝቅተኛ

**Part two: questions related to labor outsourcing**

በሚከተሉት አማራጮች ላይ በመመስረት የሚከተሉትን ጥያቄዎች ደረጃ ይሰጡ።

በጽኑ እስማማ ለሁ=1 እስማማ ለሁ=2 መካከለኛ=3 አልስማማም=4 በጽኑ አልስማማም=5

1; ወደውጭ የሚላኩት ምክንያት ምን ያህል ነው?						
መግለጫ	1	2	3	4	5	
1. በዋና እንቅስቃሴ ላይ ያለውን ትኩረት አሻሽሏል						
2. የHBSCን የጉልበት ዋጋ ይቀንሳል ወይም ይቀንሳል።						
3. ለኩባንያው ውጤታማነት እና ውጤታማነት ይጨምራል።						
4. በHBSC ውስጥ የማይገኙ ክህሎቶችን እና መሳሪያዎችን ማግኘት ያስችላል።						

ተጨማሪ \_\_\_\_\_

2; በሠራተኛ የውጭ አቅርቦት በኩል ምን ዕድሎች አሉ?					
መግለጫ	1	2	3	4	5
5	ከብንያው የጉልበት ዋጋን ለመቀነስ ይረዳል.				
6	ከብንያው አደጋን ለመቀነስ ይረዳል				
7	በዋና ተግባራት ላይ ትኩረትን ጨምሯል				
8	በHBSC ውስጥ የማይገኙ ክህሎቶችን እና መሳሪያዎችን ማግኘት ያስችላል።				
9	ከብንያው ከበሬቱ የበለጠ ሰፊ የሽያጭ ክልል እንዲሸፍን ያስችላል፤ በተለይም በቴሌግብይት።				

ተጨማሪ \_\_\_\_\_

3; ከብንያው ከሠራተኛ የውጭ ንግድ ሥራ ጋር በተያያዘ ያጠመቱት ፈተናዎች ምን ምን ናቸው?						
		1	2	3	4	5
1	ከውጪ ሰራተኞች ጋር ደስ የማይልል ምድይ ፈጥራል					
1						
1	በተለይም ሰራተኛው ከብንያው ከለቀቀ በሠራተኛ የውጭ አቅርቦት ምክንያት ሚስት ራዊ መረጃን የማጣት አደጋን ይጨምራል.					
2						
1	ሰራተኞችን ወደ ውጭ በመላክ ላይ ተነሳሽነት ማጣት					
3						
1	የውጭ ጉልበት ሥራ ላይ ቁጥጥር ማጣት.					
4						
1	የውጭ ሀገር ሰራተኞች የHBSC አባልነት ስሜት ገብቅተኛ ነው።					
5						

ተጨማሪ \_\_\_\_\_

4; ተግዳሮቶችን ለማሸነፍ ምን ዓይነት ተከናዎኛ እርምጃዎች ተወስደዋል?						
		1	2	3	4	5
1 6	የኩባንያው ተወካዮች በአብዛኛው ከውጪ ሰራተኞቻቸው ጋር ተቀምጠዋል.					
1 7	የኩባንያው ተወካዮች የውጭ ሰራተኞቻቸውን በ HBSC ስብሰባዎች ውስጥ ያካትታሉ።					
1 8	HBSC ችግሮችን ለመቅረፍ ወይም ከውጪ ከመጡ ሰራተኞች ጋር የሚነሱ ችግሮችን ለመፍታት የሚያስችል ስልት ወይም ዘዴዎች አሉት።					
1 9	ኤጀንሲዎች እና HBSC ብዙ ጊዜ ተገናኝተዋል።					
2 0	ኩባንያው የተመረጡትን ኤጀንሲዎች በተመለከተ ትክክለኛ ግምገማዎችን ይወስዳል.					

ተጨማሪ \_\_\_\_\_

**እና መሰግን**

## Appendix- C

This interview was conducted by Yilak Woubshet with the HR department head of outsourcing of Heineken Ethiopia, to gather data for research paper entitled “OPPORTUNITES AND CHALLENGES OF LABOUR OUTSOURCING: THE CASE OF HEINEKEN ETHIOPIA”

1. Do you think that selecting the right agency is a challenge / problem to the company? If yes, please explain how
2. What are the major benefits that the company gains out of outsourcing?
3. What are the major challenges or problems faced by the company due to outsourcing?
4. How your organization monitors or controls the quality of the outsourced services and evaluates the performance of service provider?
5. Would you like to add anything related to the topic that I didn't cover in my questions?

Thank you

**Appendix-D**  
**Interview Questions**  
**St. Mary's University**  
**Business Faculty**

**Department of Marketing Management**

**Questionnaire to be filled by HBSC outsourced employees.**

**This questionnaire has been prepared by MA degree student of St. Mary's university in the field of *marketing management*. This study entails to assess the challenges and opportunities of labor outsourcing in the case of HBSC. Therefore, you are selected to fill this questionnaire because student researcher have full trust on you to get complete and real information that are required for this research. Thank you for your cooperation.**

**Notice;**

- It is not necessary to write your name.
- Please put a “ ” mark on the space provided.

**Part one: Personal information**

1. Sex

- A. Male       B. Female

2. Age

- A. below 18 years       C. 26 – 35       E. More than 45   
B. 18 – 25       D. 36 – 45

3. Education Background

- A. Primary       C. diploma / certificate   
B. High School       D. first degree

E. Second degree and above

4. For how long have you been the employees of HBSC?

A. Less than 6 months

C. 2-3 years

B. 1-2 years

D. 3-4 years

5. Category of your position?

A. Permanent/managerial

B. outsourced/non-managerial

6. What is your level of awareness about the concept of labor outsourcing?

A. Very High

C. Neutral

E. Very Low

B. High

D. Low

## Part two: questions related to labor outsourcing

RANK THE FOLLOWING QUESTIONS BASED ON THE FOLLOWING ALTERNATIVES.

STRONGLY AGREE=1    AGREE=2    NEUTRAL=3    DISAGREE=4    STRONGLY  
DISAGREE=5

Variable 1; What are the challenges that the company faced from labor outsourcing?						
	DESCRIPTION	1	2	3	4	5
1	It creates unpleasant experience with an outsourcing labor.					
2	It increases the risk of losing confidential information because of labor outsourcing, especially if the employee leaves the company.					
3	Lack of motivation in outsourcing employees					
4	Lack of control on outsourcing labors.					
5	Outsourced workers have a low sense of belonging to HBSC.					

If any \_\_\_\_\_

Thank you

Appendix - E

Test -1 Result Analysis

It improved focus of on core activity.				
Strongly agree	10	6.6	6.6	6.6
Agree	8	5.4	5.4	12
Neutral	27	18.1	18.1	30.1
Disagree	50	33.3	33.3	63.4
Strongly Disagree	55	36.6	36.6	100
Total	150	100	100	
It minimizes or reduce the HBSC's labor cost.				
Strongly agree	0	0	0	0
Agree	0	0	0	0
Neutral	37	24.8	24.8	24.8
Disagree	43	28.6	28.6	53.4
Strongly Disagree	70	46.6	46.6	100
Total	150	100	100	
It allows access to skills and tools that are not available in HBSC.				
Strongly agree	0	0	0	0
Agree	41	27.3	27.3	27.3
Neutral	29	19.4	19.4	46.7
Disagree	55	36.6	36.6	83.3
Strongly Disagree	25	16.7	16.7	100
Total	150	100	100	
It contributes to the company's increased efficiency and effectiveness.				
Strongly agree	0	0	0	0
Agree	42	28	28	28
Neutral	40	26.6	26.6	54.6
Disagree	44	29.4	29.4	84
Strongly Disagree	24	16	16	100
Total	150	100	100	

It aids the company in risk reduction				
Strongly agree	0	0	0	
Agree	35	23.3	23.3	23.3
Neutral	50	33.3	33.3	56.6
Disagree	65	43.4	43.4	100
Strongly Disagree	0	0	0	
Total	150	100	100	
It allows access to skills and tools that are not available in HBSC.				
Strongly agree	0	0	0	0
Agree	43	28.6	28.6	28.6
Neutral	21	14	14	42.6
Disagree	66	44	44	86.6
Strongly Disagree	20	13.3	13.4	100
Total	150	100	100	
It enables the company to cover a larger sales territory than before, particularly through tele marketing.				
Strongly agree	0	0	0	0
Agree	0	0	0	0
Neutral	83	53.3	53.3	53.3
Disagree	27	19	19	72.3
Strongly Disagree	40	27.7	27.7	100
Total	150	100	100	

Questioner Survey, 2022

I am happy with my current job.				
Strongly agree	0	0		
Agree	21	14.1	14.1	
Neutral	43	28.7	28.7	
Disagree	58	38.6	38.6	
Strongly Disagree	28	18.6	18.6	
Total	150	100	100	
Outsourced workers have a low sense of belonging to HBSC.				
Strongly agree	62	41.3	41.3	41.3
Agree	56	37.3	37.3	78.6
Neutral	32	21.4	21.4	100
Disagree	0	0	0	
Strongly Disagree	0	0	0	
Total	150	100	100	
My qualifications are appropriate/merit for the position in which I am employed in.				
Strongly agree	0	0	0	0
Agree	22	14.6	14.6	14.6
Neutral	25	16.7	16.7	31.3
Strongly Disagree	40	26.6	26.6	57.9
Disagree	63	42.1	42.1	100
Total	150	100	100	
I received the same training as my counterparts and my colleagues.				
Strongly agree	0	0	0	0
Agree	0	0	0	0
Neutral	32	21.3	21.3	21.3
Disagree	48	32.1	32.1	53.4
Strongly Disagree	70	46.6	46.6	100
Total	150	100	100	
In comparison to my coworkers and the company's permanent employees, I am compensated.				
Strongly agree	0	0	0	0
Agree	0	0	0	0
Neutral	41	27.3	27.3	27.3

Disagree	76	50.6	50.6	77.9
Strongly Disagree	33	22.1	22.1	100
Total	150	100	100	
It creates unpleasant experience with an outsourcing labor.				
Strongly agree	44	29.4	29.4	29.4
Agree	70	46.6	46.6	76
Neutral	32	21.4	21.4	97.4
Disagree	4	2.6	2.6	100
Strongly Disagree	0	0	0	
Total	150	100	100	
It increases the risk of losing confidential information because of labor outsourcing, especially if the employee leaves the company.				
Strongly agree	45	30.4	30.4	30.4
Agree	59	39	39	69.4
Neutral	30	20	20	89.4
Disagree	16	10.6	10.6	100
Strongly Disagree	0	0	0	
Total	150	100	100	
Lack of motivation in outsourcing employees.				
Strongly agree	48	32	32	32
Agree	55	36.6	36.6	68.6
Neutral	27	18	18	86.6
Disagree	20	13.4	13.4	100
Strongly Disagree	0	0	0	0
Total	150	100	100	
Lack of control on outsourcing labors.				
Strongly agree	0	0	0	0
Agree	48	32	32	32
Neutral	21	14	14	46
Disagree	63	42	42	88
Strongly Disagree	18	12	12	100
Total	150	100	100	



