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Effect Outsourcing Strategy on Institutional Performance in Ethiopian Private Banks

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ABSTRACT

The purpose of the study was to examine outsourcing effect on institutional performance in Ethiopian private commercial banks Dire Dawa District. Explanatory survey research design was employed and using quantitative methods. Stratified random sampling technique was used to select the respondents. The usable sample of 116 were used giving a response rate of 85%. The primary data gathered in the form of self-administer questionnaires with a Likert typed-scale. Ordered logistics regression were employed to satisfy specific objectives of this study. The analysis indicated that three outsourcing dimensions (Innovation Driven Outsourcing; Quality Driven Outsourcing and Cost Driven Outsourcing) have significant effects on the other hand, focus on core competencies driven outsourcing wasn't significantly influence on institutional performance of private commercial banks. Thus, management team within private commercial banks strategic outsourcing is one way by which firms may build and sustain their core competencies, which is vital for survival. Therefore, a firm needs to create a focus around its core competencies, which entails handing over the activities of low strategic value to specialists who can do them better through strategic outsourcing.

KEY WORDS

Performance, Outsourcing, Cost, quality, innovation

1. Introduction

In today's knowledge-based economy and with heterogeneous customer demand, outsourcing practice has become a vital ingredient employed by organizations to enhance their business initiatives, corporate memory and intellectual assets (Msofe, 2017), experiencing effectiveness and efficiency through cost savings (Buckley, Munjal, & Requejo, 2022), reduced capital investment within the firm (Agburu, Anza, Calvin, Iyortsuun, & Shadrach, 2017), improved responsiveness to changes in the business environment (Anikin & Rudaya, 2009), increased competition among suppliers (Stiel, 2022) ensuring higher quality goods and services in the future (Leo, Bui, & Adelakun, 2022), reduced risk of changing technology (Buckley, Munjal, & Requejo, 2022) , better customer satisfaction and more importantly freeing the management to concentrate on the more strategic issues by ceding the non-core functions to specialized firms ((Lahiri, Karna, Kalubandi, & Edacherian, 2022; Stiel, 2022; Buckley, Munjal, & Requejo, 2022; Kivuva & Beatrice, 2018.; Demsie, 2021; Msofe, 2017).

In order to increase worldwide competition in the international financial markets, Mega banking organizations have outsourced their operations and services to "Experts," according to Agburu et al. (2017). Gamage (2014) and Christine (2019) looked at how outsourcing helps businesses achieve their goals and improve performance. (Leo, Bui, & Adelakun, 2022; Agburu, Anza, Calvin, Iyortsuun, & Shadrach, 2017) Explained that outsourcing affects overall efficiency of institutions through facilitating major activities that also supported by (Buckley, Munjal, & Requejo, 2022; Fan, Zhou, Yeung, Lo, & Tang, 2022; Hsu, et al., 2022; Musau, 2016; Wagachire, 2018) (Perez & Machado, 2015) also find outsourcing affects performance of the organization.

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According to Kerandi et al. (2014), banks outsource the majority of their non-core services so they may focus on their primary business. The standards used to distinguish between core and non-core activities are not clear. (Espino & Padron, 2006; Fan T. , 2009; García-Vega & Huergo, 2014; Gomez-Conde, 2015; Grimpe & Kaiser, 2010; Holcomb & Hitt, 2007; Insinga & Werle, 2000; Isaksson & Lantz, 2015; Kakumanu & Portanova, 2006; Kaleli & David, 2013), established that costs, service quality, and functional departments have a beneficial and significant impact on Commercial Bank performance. The study found that outsourcing may be risky owing to inadequate management, inexperienced workforce, business uncertainty, obsolete technology skills, environmental unpredictability, hidden costs, lack of organizational learning and loss of innovative capability that is consistent with (Bartem & Sherry, 2001; Cheng, Cantor, Grimm, & Dresner, 2014; Leo, Bui, & Adelakun, 2022; Cox, 2014; Stiel, 2022; Wagachire, 2018).

According to Jamila and Shantanu (2019) undoubtedly, outsourcing seems very risky for complex business process. When the outsourcing activity is not core activity, it is easy to address the risk, but if the activity is core activity then finding out the risk becomes a complicated task. Yet there is a findings that discuss, outsourcing concept has not received a remarkable attention and support which can be considered to be favorable for improving organization growth and performance (Blumberg, 1998; Cheng, Cantor, Grimm, & Dresner, 2014; Cox, 2014; Contractor, Woodley, & Piepenbrink, 2011). Besides the effects of outsourcing on organization performance is not well documented. This is supported by the fact that previous outsourcing studies give contradicting outcomes. For example, (Yeboah (2013) indicates that there is no statistically significant correlation between outsourcing and organizational productivity whereas, Wanjiru, 2015; Ndinda (2016); Njihia (2014) give positive relationships between outsourcing and organizational performance results.

In Ethiopian context many studies undertaken in the benefits and challenges of outsourcing such as, Tewedros (2017), Sisay (2017), Selamawit (2016), Abebe and Workalemahu (2015) however, none of them were investigating cost, focus, quality and innovation as one dimension of outsourcing to measure institutional performance. This study focus in private banks. Despite, very little evidence does exist on the effect of outsourcing on organizational performance in the private commercial banks. This study aims to fill this gap by answering the question what is the effect of outsourcing on organizational performance of private commercial banks which have district office in Dire Dawa

2. Literature Review

Lysons and Gillingham (2003), define outsourcing as the strategic use of resources to perform activities traditionally handled by internal staff and their resources (Lysons & Gillingham, 2003). They view it as a management strategy by which an organization contracts major non-core functions to specialized efficient server providers. It is a process of contracting with an outside party to handle a portion of a client's business compared with traditional make or buy decisions (Buckley, Munjal, & Requejo, 2022; Betelhem, 2017; Blumberg, 1998; Gomez-Conde, 2015; Kolawole & Agha, 2015; Wagachire, 2018)

Ford (2000) points out the reasons for outsourcing decisions as cost reduction, leveraging to make businesses focus on their core functions leaving operations details assumed by an outside expert. However, Kakabadse and Kakabadse (2000) states that quality is an important driver not just from a scale perspective but also regarding the customer's perception of your product or service resulting to customer loyalty hence improving the firm's performance (Kakabadse & Kakabadse, 2000). Outsourcing can provide access to the best in the world quality for particular activities or components that will increase your market share (Betelhem, 2017; Bartem & Sherry, 2001).

The basic idea behind strategic outsourcing is to create gains by allowing outside providers and specialists to take over the operation and management of a given function. Such gains may come in different forms such as improving the bottom line of a company by reducing various operating expenses and increasing the flexibility for innovation without having to invest too much in training and capital infrastructure (Kerandi, Nyaoga, Bosire, & Nyambega, 2014; KW, 2005; Kolawole & Agha, 2015; Leavy, 2004; JN & YJ., 1999; Letica, 2016; Mella & Pellicelli, 2012; Modarress, Ansari, & Thies, 2016; Nordin, 2008; Parker & Russel, 2004).

Outsourcing benefits may come in form of convenience, where the strategy allows the business owners and managers to concentrate on their core business (Stiel, 2022; Anikin & Rudaya, 2009). As a simple rule, so long as the benefits are considered sufficient by the client, then the process of strategic outsourcing can be considered a success. In the context of this study, strategic outsourcing will be considered in terms of the driving force behind the

strategy. This study will focus on cost-driven outsourcing, innovation-driven outsourcing and focus-driven outsourcing.

Several studies Mwelu , 2014; Yeboah, 2013; Njihia, 2014; Femi and Babatunde, 2013 had been carried out on the outsourced services and organizational performance. Ndinda (2016) conduct research by taking Cost driven outsourcing, Innovation driven outsourcing, Focus driven outsourcing and organizational performance. The study found that cost driven outsourcing led to improved organizational performance by reducing costs and risks while increasing operational efficiency. Further, the study found that innovation driven outsourcing improved organizational performance by enabling it to create, develop and deliver value to the market faster than its competitors other finding done by (Buckley, Munjal, & Requejo, 2022; Akewushola & Elegbede, 2012; Betelhem, 2017). Wanjiru (2015), conduct a study taking outsourcing of security services, computer maintenance services and cleaning services and Performance. The finding incited that those noncore activity took significant percent of time and cost that need to be outsourced ad per the recommendation provided in his study.

H1. Cost driving outsourcing significantly affects institutional performance

Based on Ndinda (2016) finding, the success of innovation driven outsourcing however was found to be largely dependent on cost control and core competencies focus, hence must be evaluated carefully the finding was consistent with early researches (O'Regan & Kling, 2011; Tojeiro-Rivero & Moreno, 2019; Kang, Wu, Hong, & Park, 2012) . Other study found that focus driven outsourcing assists a company to free up its resources so as to concentrate on its core business, which leads to improved organizational performance. The result is supported with (Agburu, Anza, Calvin, Iyortsuun, & Shadrach, 2017; Anikin & Rudaya, 2009; Buckley, Munjal, & Requejo, 2022). Ndungu and Noor (2016), were looking Cost, Quality, Technology adaption, Risks and Organization performance as variable using inferential statistics. The finding found that Cost, quality, technology adaption had organization performance had a significant strong positive relationship. There was an insignificant positive weak relationship between risks and organization performance. Femi and Babatunde (2013), investigated that organizational growth, productivity, cost have affected by outsourcing and affects performance.

H2. Innovation driven outsourcing significantly affects institutional performance

H3. Focus on core competencies driven outsourcing have direct relationship with institutional performance

Tewedros (2017) studied on the effect of outsourcing non-core business functions leads to theft of properties, both the security staff and drivers lack commitment and loyalty, have ethical problems and lack of support from stakeholders and top management. Sisay (2017) found outsourcing able to save time, money, costs and personal work. Abebe (2015) finds outsourced services enabled the bank to save managers time, give more attention for the core functions of the bank rather than non-core areas that also confirmed by (Saunders, Gebelt, & Hu, 2007; Smith & Mckeen, 2004; Stroh & Treehuboff, 2003; Tijun, Leif, Jiehong, & Dandan, 2009; Yeboah, 2013; Zhao, Xue, & Zhang, 2014) Selamawit (2016) shows that the Bank outsources to access special expertise, reduce overhead and operational costs, improve quality, spread commercial risk and get enough time to concentrate on their core activities. Significant number study indicated that quality driven outsourcing made by the service sector significantly affects organizational performance (Nyameboame & Haddud, 2017). Even early research were also indicated that quality has forced many industries to apply outsourcing as a strategy (Bardhan, Whitaker, & Mithas, 2006; Kiongera, Wanyonyi, Musiega, & Masinde, 2014; Uluskan, Joines, & Godfrey, 2016). Yeboah (2013), quality driven outsourcing affects, productivity and Competitive advantage and have significant positive correlation. Mwelu 2014), investigates Outsourcing positively affects Profitability. Njihia (2014), indicated there is a positive strong correlation between quality Dirven outsourcing and organization performance.

Quality driven outsourcing have direct relation with institutional performance.

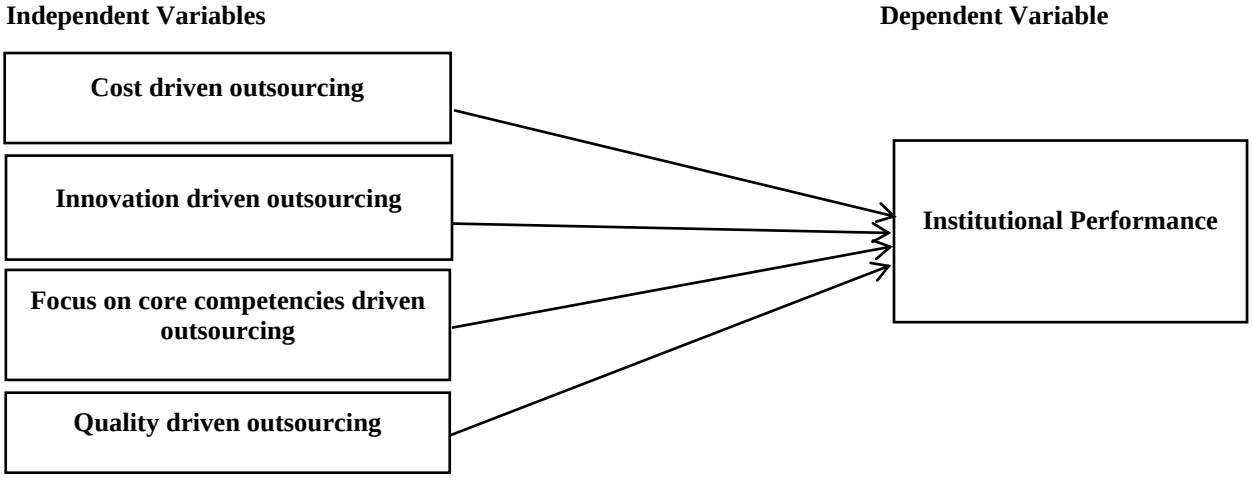

Figure 2.1 Conceptual framework; Source: Modified from Ndinda (2016)

3. Material and Methods

The types of research design employed under this study was explanatory research design in order to examine the relationship between variables with an aim of estimating the outsourcing effects on organizational performance in the private commercial banks. The primary data were collected directly from the target participants by using of close-ended (a self-completion) questionnaires only. Self-completion questionnaire is very familiar method of business research, and the research instrument has to be especially easy to follow and its questions have to be particularly easy to answer (Khalid, Abdullah, & Kumar M, 201).

3.1. Target Population

The target populations for this study constituted employees who works in the ten private banks i.e. Dashen bank, Oromia International Bank, Cooperative Bank of Oromia, Abay Bank, Abysinia Bank, Wegagen Bank, Hibret Bank, Birhan Bank, Nib International bank and Enat Bank Dire Dawa Distircts .

3.2. Sampling Techniques

The study used a three-stage sampling technique process consisting of purposive sampling (selecting of banks), stratified and simple (for selecting respondents based on their respective department) and random sampling technique (for final sample selection) were used to draw the sample elements. The sample size of study computed as follows. Hence, human resources personals of each banks and their subordinates, finance, particularly, auditors and back office workers employees were approached as sources data with inclusion of the management as a part of the study.

$$n = \frac{\left(\frac{P[1-P]}{\frac{A^2}{Z^2} + \frac{P[1-P]}{N}}\right)}{R}$$

Where, n = sample size required = 136

N = number of populations = 197

P = estimated variance in the population = 50%

A = margin of error = 5%

Z = confidence level = 1.96 for 95% confidence

R = estimated response rate = 96%

The proportional stratified sampling for each stratum were determined by n/N = 136/197= 0.69 which means that 69% of each cluster as calculated in the table.

Table 3.1 Proportional stratified sample

Category of Employees	Population	Sample (69%)
HRM	74	51
Finance	67	46

IT	56	39
Total	197	136

Source: (Own Compilation, 2022)

3.3. Data analysis and interpretation

Ordinal Logistic Regression (O-logit) model was used. Ordinal logistic regression is a generalized linear modeling technique that may be used to model a single response variable which has been recorded on at least an interval (ordinal) scale. Outsourcing Practice (Independent variables) such as Cost driven outsourcing; innovation driven outsourcing; focus on core competencies driven outsourcing and quality driven outsourcing and Institutional Performance (Dependent variable). The model is as represented by (Gujarati, 2003) as the following function. Generally, it express the ordinal logistic model for k predictors with P-1 levels response variable as:

$$\frac{\ln\ (\Sigma pr(Y \leq j|x)}{1 - \Sigma pr\big(Y \leq j|\ x)\big)} = \alpha j\ +\ \beta i, 1$$

Where:
αj or β₀ = represents Constant term (Threshold)
i= 1...k, j= 1, 2,..., p-1
βi= Parameter
Xi1 = Sets of factors or predictors

4. Results and Discussions

4.1. Response rate

The survey was conducted between February 2022 and May 2022. A total of 136 questioners were distributed randomly chosen employees of private commercial banks in Dire Dawa Districts. A total of 136 questionnaires were distributed to private commercial banks staffs. Among 136 questionnaires a total 116 (85%) questionnaires were returned and valid to analyzed, while the remaining 20 (15%) questionnaires were not included due to incompleteness of the questionnaire and unreturned. In making conclusions, Mugenda (2003) indicated representativeness of the response rate to undergo the data analysis part; a response rate of 50% is satisfactory; a 60% is good, 70% and above is excellent (Mugenda & Mugenda, 2003).

4.2. Inferential/ Econometrics (Statistical) Analysis

4.2.1. Chi-square Test statistic

Chi-square test is a statistical method for assessing the goodness of fit between a set of observed values and those expected theoretically. These results were presented in Table 4.1. The Chi-square statistics determines whether the observed values from the sample and expected values from the specified distribution are statistically different compared to the p-value (sig. value) to the significance level. Usually, a significance level (denoted as α or alpha) of 0.05 works well. A significance level of 0.05 indicates a 5% risk of incorrectly rejecting the null hypothesis.

Table 4.1: Chi-square Test

	CDO	IDO	FCCDO	QDO
Chi-Square	24.948[b]	47.103[c]	50.345[d]	65.155[e]
df	14	19	17	18
Asymp. Sig.	.000	.000	.300	.000

a. 25 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 4.6.

b. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 7.7.

c. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 5.8.

d. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.4.

e. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 6.1.

Source: Field survey, 2022 IDO= Innovation Driven Outsourcing; FCCDO= Focus on Core Competencies Driven Outsourcing; QDO= Quality Driven Outsourcing; CDO= Cost Driven Outsourcing

Moreover, the basis of for Outsourcing Practice (Independent variables) such as Cost driven outsourcing; innovation driven outsourcing; focus on core competencies driven outsourcing and quality driven outsourcing has significant association with the Institutional Performance (Dependent variable). Thus, P-value (sig.) ≤ α: The observed data are statistically different from the expected values (Reject H_0). In other word, If the p-value is less than or equal to the significance level, reject the null hypothesis and conclude that there was a significant association between the Outsourcing Practice and Institutional Performance in the private commercial banks that are operating in Dire Dawa Administration, Ethiopia.

This implies that, there was a strong association between Outsourcing Practice such as (CDO= Cost Driven Outsourcing; IDO= Innovation Driven Outsourcing and QDO= Quality Driven Outsourcing) and Institutional Performance in the private commercial banks that are operating in Dire Dawa Administration, Ethiopia. Whereas there was a weak association between focus on core competencies driven outsourcing (FCCDO) and Institutional Performance.

4.2.3. Multicollinearity

The researcher is capable of measuring the significant effect of independent variables on the dependent variable when these variables are uncorrelated (Yeatts, Barton, Henson, & Martin, 2017). Tolerance rate and Variance Inflation Factor (VIF) were employed to determine collinearity among variables.

Table 4.2: Multicollinearity Test

Variables	Collinearity Statistics		Durbin-Watson
	Tolerance	VIF	
Cost driven outsourcing	.240	4.169	
Innovation Driven Outsourcing	.218	4.579	
Competencies Driven Outsourcing	.352	2.845	1.877
Quality Driven Outsourcing	.307	3.261	

Source: Field survey, 2022

Tolerance rate showed all independent variables were having no multicollinearity problem since the tolerance coefficient was between 0.218 and 0.352 value is greater than 0.1, while VIF ranged between 2.845 and 4.579. Tolerance value is greater than 0.1 and Variance Inflation Factor (VIF) values less than 10 indicate no multicollinearity problems in this study ((Becker, Ringle, Sarstedt, & Völckner, 2015). Results showed Durbin-Watson (DW) = 1.877 indicating there is no autocorrelation among the variables. However, Durbin-Watson coefficient was observed to be in an acceptable range since Durbin-Watson coefficient is in range between 1 and 3 for autocorrelation assumption test (Kottner, Blume-Peytavi, Lohrmann, & Halfens, 2014).

4.2.4. Ordinal Logistic Regression (O-logit) Analysis Model

Before running the logistic regression analysis, all the hypothesized explanatory variables were checked for the fitness and adequacy of the model, and consequently found to be significantly adequate and fitted well. The ordered logistic regression model was also fitted to estimate the effects of a unit change in the individual hypothesized explanatory variable outsourcing practice towards the variance of institutional performance in Ethiopian private commercial banks in Dire Dawa District.

4.2.4.1. Model fitting information

The model fitting information shown in table 4.3 below had significant value of 0.000 which describe the model was fit for logistic regression

Table 4.3: Model fitting information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	681.332			
Final	610.064	71.269	13	.000

Link function: Logit.

Source: Field survey, 2022

4.2.4.2. The goodness of fit

The goodness of fit of fit table contains the Pearson and Deviance chi-square tests, which are useful for determining whether a model exhibits good fit to the data. Non-significant tests results are indicators that the model fits the data well (Petrucci, 2009). In this analysis, both the Pearson Chi-Square test [X^2 (265) = 2445.793, p= 0.908] and the deviance test [X^2 (265) = 607.291, p= 1.000] were both non-significant. These results suggest good model fit.

Table 4.4: Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	2445.793	265	.908
Deviance	607.291	265	1.000

Link function: Logit.

Source: Field survey, 2022

4.2.4.3. Pseudo R-Square

Pseudo R-Squire, the fourth fitness test, revealed how the model described by the explanatory variable using those four variables describes the model's capacity to determine, unlike R^2. For ordinal regression, the pseudo-coefficients of determination of Cox and Snell (1989), Negelkerke (1991), and McFadden (1991) are used (Smith & McKenna, 2013)Table 4.5 shows pseudo-coefficient results. The model fits well based on Cox and Snell (0.595) and Negelkerke (0.625) statistics. McFadden (0.299) is good. Thus, statistically significant antecedents determined about 62.5 % (Negelkerke's = 0.625) of outsourcing practice and its impact on institutional performance in Ethiopian private commercial banks in Dire Dawa District.

Test of Parallel Lines

Parallel line testing concludes model evaluation (see table 4.5. This test determines whether the assumption that the parameters are the same for all categories is plausible, allowing the model to be universal. Hypothesis testing suggests substantial parallel lines. When P value exceeds 0.05 or 0.1, the null hypothesis is accepted (Becker, Ringle, Sarstedt, & Völckner, 2015). Since 0.064 was statistically significant, the ordinal model null hypothesis was accepted.

Table 4.5: Test of Parallel Lines

Model	-2 Log Likelihood	Chi-Square	df	Sig	Pseudo R-Square	
Null Hypothesis	246.451				Cox and Snell	**.595**
General	203.888[b]	42.563[c]	30	.064	Nagelkerke	.625
					McFadden	.299

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit

b. The log-likelihood value cannot be further increased after maximum number of step-halving.

c. The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.

Source: Field survey, 2022

4.2.4.5. Logistic Regression Parameter Estimates

The effect of a one-unit change in the individual hypothesized explanatory variable on outsourcing practice and institutional performance in Ethiopian private commercial banks was evaluated after testing and confirming the model's fitness and adequacy, which were considerably fit and adequate. Order logit link regressions were used to determine institutional performance antecedents. Table 4.6. Shows the model's regression output.

Table 4.6: Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[OP = 1]	3.137	2.191	2.051	1	.152	-1.156	7.430
	[OP = 2]	5.908	2.238	6.966	1	.008	1.521	10.295
	[OP = 3]	7.870	2.286	11.852	1	.001	3.389	12.350
	[OP = 4]	10.959	2.410	20.673	1	.000	6.235	15.683
Location	IDO	2.262	.510	19.703	1	.000	1.263	3.261
	FCCDO	-.334	.354	.894	1	.344	-1.028	.359
	QDO	-1.246	.478	6.797	1	.009	-2.183	-.309
	CDO	1.388	.404	11.789	1	.001	.595	2.180
	AGE	.130	.255	.258	1	.611	-.370	.630
	EDU	.715	.420	2.894	1	.089	-.109	1.538
	[GENDER=0]	-.500	.384	1.703	1	.192	-1.252	.251
	[GENDER=1]	0[a]	.	.	0	.	.	.
	[JOBEXP=1]	-2.508	2.471	1.030	1	.310	-7.350	2.335
	[JOBEXP=2]	-1.031	1.377	.560	1	.454	-3.729	1.668
	[JOBEXP=3]	-1.186	1.384	.734	1	.392	-3.898	1.527
	[JOBEXP=4]	0[a]	.	.	0	.	.	.

Source: Field survey, 2022 IDO= Innovation Driven Outsourcing; FCCDO= Focus on Core Competencies Driven Outsourcing; QDO= Quality Driven Outsourcing; CDO= Cost Driven Outsourcing

In table 4.6 above the ordered logit regression model was also fitted to estimate the effects of a unit change in the individual hypothesized explanatory variable towards the variance of determinants of institutional performance in Ethiopian private commercial banks in Dire Dawa District.

Innovation Driven Outsourcing (IDO)

The estimated factor of outsourcing practice in private commercial banks in Dire Dawa District was IDO, which had a positive and significant effect on institutional performance at 5% level of confidence (beta = 2.262; Wald Statistics=19.703 P<0.05). The estimated coefficient of the variable suggested that, keeping other variables in the model constant, a one-unit increase in Innovation Driven Outsourcing (IDO), the probability of institutional performance of private commercial banks, will increase the probability of log-odds of higher outsourcing practice by 2.262 (the odds ratio= $e^{\text{estimate s}}$= $e^{2.262}$).

Focus on Core Competencies Driven Outsourcing (FCCDO)

At 5% confidence, Focus on Core Competencies Driven Outsourcing (FCCDO) had a negative and insignificant influence on institutional performance of private commercial banks in Dire Dawa District (beta = -0.334; Wald Statistics=0.894 P>0.05). The estimated coefficient of the variable suggested that, keeping other variables in the model constant, a one-unit increase in Focus on Core Competencies Driven Outsourcing (FCCDO), the probability of institutional performance of private commercial banks, will -0.334 (the odds ratio= $e^{\text{estimates}}$=$e^{-0.334}$) times significantly better FCCDO practice increase the probability of o- log-odds of being higher level.

Quality Driven Outsourcing (QDO)

Quality Driven Outsourcing (QDO) was the estimated factor of outsourcing practice in private commercial banks in Dire Dawa District, which negatively and significantly affected institutional performance at 5% confidence (beta = -1.246; Wald Statistics=6.797 P<0.05). The estimated coefficient of the variable suggested that, keeping other variables in the model constant, a one-unit increase in Quality Driven Outsourcing (QDO), the probability of institutional performance of private commercial banks, will increase the probability of log-odds of higher outsourcing practice by -1.246 (the odds ratio= $e^{\text{estimates}}$=$e^{-1.246}$).

Cost Driven Outsourcing (CDO)

Cost Driven Outsourcing (CDO) improves private commercial bank institutional performance with 5% confidence (beta = 1.388; Wald Statistics=11.789 P<0.05). The estimated coefficient of the variable suggested that, holding other variables in the model constant, a one-unit increase in Cost Driven Outsourcing (CDO), the probability of institutional performance of private commercial banks, will increase the probability of log-odds of being higher level of outsourcing practice by 1.388 (the odds ratio= $e^{estimates}=e^{1.388}$).

4.2.4.6. Hypothesis Testing

The researcher has formulated four hypotheses which were presented in chapter one.

The general objective of this study was to examine outsourcing effect on institutional performance in Ethiopian private commercial banks in Dire Dawa District.

Table 4.7: Hypothesis testing results

Hypothesis	Descriptions	Wald-statistics	P-value	Result
1	Innovation driven outsourcing have a significant influence on Institutional Performance	19.703	.000	Accepted
2	Focus on core competencies driven outsourcing have a significant influence on Institutional Performance	.894	.344	Rejected
3	Quality driven outsourcing have a significant influence on Institutional Performance	6.797	.009	Accepted
4	Cost driven outsourcing have a significant influence on Institutional Performance	11.789	.001	Accepted

Source: Field survey, 2022

However, focus on core competencies driven outsourcing (FCCDO) wasn't significantly influence on Institutional Performance in Private commercial banks since the P-values > 5%.

H_1: Innovation driven outsourcing have a significant influence on Institutional Performance.

Innovation Driven Outsourcing (IDO) in private commercial banks in Dire Dawa District had a favorable and substantial influence on institutional performance at 5% confidence (beta = 2.262; Wald Statistics=19.703 P<0.05). This study found innovation to be the second most important driver of outsourcing in private commercial bank institutional performance. This confirms Grimpe and Kaiser (2010) that outsourcing produces intellectual value by making the firm's capabilities flexible enough to facilitate innovation.

H_2: Focus on core competencies driven outsourcing have a significant influence on Institutional Performance.

Focus on Core Competencies Driven Outsourcing (FCCDO) had a negative and insignificant influence on institutional performance of private commercial banks in Dire Dawa District with 5% confidence (beta = -0.334; Wald Statistics=0.894 P>0.05).

This research supports Smith and Mc Keen (2010)'s claim that corporations outsource to outsiders with cutting-edge talents to increase performance. They can improve important company areas to boost performance. Outsourcing non-essential business tasks lets the company focus on its main business, improving performance. Outsourcing gives organizations access to specialized skills or experience they don't have allowing them to focus on their core activities and improve performance (Rueckel & Krumay, 2020; Smith & McKeen, 2010).

H_3: Quality driven outsourcing have a significant influence on Institutional Performance.

Quality Driven Outsourcing (QDO) in private commercial banks in Dire Dawa District had a negative and significant influence on institutional performance at 5% confidence (beta = -1.246; Wald Statistics=6.797 P<0.05). Corroborates (Ren, Ngai, & Cho, 2010)

H_4: Cost driven outsourcing have a significant influence on Institutional Performance.

Cost Driven Outsourcing (CDO) had a positive and significant influence on private commercial bank institutional performance at 5% confidence (beta = 1.388; Wald Statistics=11.789 P<0.05). This analysis found cost-driven outsourcing to be the most important driver of private commercial bank institutional performance. The study found that strategic cost-driven outsourcing improves business performance in the short term by reducing operating costs and increasing profitability, and in the long term by increasing market share and customer satisfaction. According to Cox (2014), short-term cost-based performance is virtually always guaranteed in outsourcing, but better long-term relationships may result in substantially improved terms and conditions, thus improving long-term performance. The study matches with (Betelhem, 2017; García-Vega & Huergo, 2014; Fan, Zhou, Yeung, Lo, & Tang, 2022; Agburu, Anza, Calvin, Iyortsuun, & Shadrach, 2017)

5. Conclusions and Recommendations

5.1. Conclusion

This study was to examine outsourcing effect on institutional performance in Ethiopian private commercial banks in Dire Dawa District. Based on the results of the study obtained and summary of findings the following conclusions are given. The results from O logit regression analysis indicated that three outsourcing dimensions have significant influence on institutional performance of private commercial banks in Dire Dawa District. On the other hand, focus on core competencies driven outsourcing (FCCDO) wasn't significantly influence on institutional performance of private commercial banks since the P-values > 5%. Hence, based on the finding, it is possible to conclude that Private commercial banks may outsource to minimize cost, risk, and efficiency. Strategic outsourcing reduces in-house production costs and risks, improves operational efficiency, and boosts profitability and growth.

Well-managed outsourcing decreases costs and boosts efficiency and sustainability. Business innovation outsourcing. Creating, producing, and delivering value faster than competitors. This strategic approach promotes flexibility, innovation, competitiveness, growth, profitability, customer happiness, and market share. Outsourcing innovation boosts growth and performance. Cost containment and core competencies define innovation-driven outsourcing. Strategic outsourcing helps companies preserve their core competencies. Thus, a company must outsource low-value tasks to experts to focus on its key competencies. Strategic outsourcing frees resources for core business. Competitive advantage boosts institution earnings, customer happiness, and market share. Focused outsourcing boosts institutional performance. Outsourcing innovation requires careful consideration. Outsourcing frees up time for strategic planning, which boosts performance. Innovation, cost leadership, and differentiation can offer a firm a permanent competitive edge, strengthening this relationship.

5.2 Recommendations

The findings led to the following institutional performance improvements for Ethiopian private commercial banks. This study has substantial implications for top management and department managers in Ethiopian private commercial banks, notably in Dire Dawa District. The current research recommends private commercial banks to form strategic outsourcing agreements to cut operating costs for growth. Managers should examine other criteria when analyzing the cost and value of outsourcing to ensure that the plan maximizes cost savings, risk reduction, and efficiency. Strategic outsourcing must deliver both short-term cost savings and long-term operational efficiency and growth. Further, organizations expected to carefully analyze their outsourcing plans to ensure cost management, new innovation, and no outsourcing of critical activities. Outsourcing innovation risks property rights violations and quality control. This study suggests that outsourcing partners be controlled to prevent knowledge sharing. Before outsourcing innovation, a corporation should examine its value chain and identify its non-core activities. The report advises companies to distinguish core from non-core tasks. Managers should assess the benefits of outsourcing non-core functions. Private commercial banks should focus on creating best-in-class core competencies to gain a competitive edge through outsourcing. Finally, fundamental competencies are outsourceable.

5.3. Limitation of the study

The research was done in eastern part of private commercial banks districts to collect the data. This will hinder the generalizability of the finding at the national level. Hence, researchers shall study at the national level and include some financial measurement tool for measuring performance against outsourcing practice.

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