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Original Article

Outsourcing and Performance of Selected Deposit Money Banks in Anambra State

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Abstract - *Globalization has pushed back the frontiers of knowledge of firms while increasing the pressure for managers to deliver results and ensuring optimum utilization of firm resources and efficiency of their operations. Outsourcing has traditionally been seen to focus on cost reduction, but recent studies have revealed that it goes beyond cost to include specialization in areas of core competence. The decision to either integrate or resort to the market for competencies has resulted in many challenges ranging from improper implementation of outsourcing strategies to difficulties in managing vendor relationships. This study, therefore, examines the influence of outsourcing on the performance of selected Deposit Money Banks in Anambra State. The study measures performance in terms of competitiveness while material inputs, external contract work, and other costs not related to production were used to proxy outsourcing. Data for the study were collected using a structured questionnaire administered to employees of four different banks in Anambra State, while the ordinary least square (OLS) method and principal component analysis were used. The result shows that outsourcing activities enhance the competitiveness of the selected banks. The study noted that since globalization has resulted in the dispersal of knowledge beyond the firm and industry boundaries, firms should pursue cost reduction strategies by focusing on areas of core competence while accessing the market for services or functions in areas where they do not have competencies.*

Keywords - *Outsourcing, Resource capability, Transaction cost, Vertical Integration, and Market Orientation.*

I. INTRODUCTION

In the past, organizations operated and competed within industries in a particular economy with little influence from environments external to the economy. This provided a form of insulation that helped to define the boundaries of their operations.

Developments occasioned by globalization have pushed back the frontiers, thereby making them more.

Vulnerable to the vagaries of competition from other parts of the world. This has increased the performance indices and the pressure on managers to perform amidst tough operating environments. This situation is also exacerbated by increasing demand by stakeholders for returns on their investments. The pressure to make organizations focus on core activities and become competitive in the marketplace has been the greatest concerns managers have to face in recent times [1], which has resulted in strategic decisions that increase their competitiveness as well as their risks. Studies have shown that the increased competitiveness of organizations is a result of rapid technological change, core competencies, availability of skilled global workforce, and globalization ([1], [2]). One of such strategic decisions is outsourcing.

Outsourcing is seen as a strategic decision that enables management to optimize their resources by making a choice between keeping the entire processes of the organization in-house and accessing the market for competent partners. This task, no doubt, is complex decision managers have to make. In doing so, managers focus on the capabilities of the organization and the possibility of reducing the cost of processes. This, according to [3], is not simply a 'make or buy decision, while [4] says it is not only an operational decision but a strategic one with far-reaching consequences. Outsourcing decisions, according to [5], are motivated by increased competitive pressures, rapid technological change, and dispersion of knowledge that makes the manager seek to tap into skills from outside the organization.

The disintegration of the value-creating potentials in the financial services sector has been on the increase, and research shows that financial companies outsource significant parts of their regulated activities [6]. According to [6], this enables organizations to transfer risk management and compliance to third parties who may not be regulated or operate in a low-cost location. The banking industry, no doubt, is the most regulated in the world because of its centrality to the economy. The industry accounts for 5 percent of the world's GDP and is expected to reach 10 percent in 2020 [7]. The size and the importance no doubt account for the competitive working environment that leads to such strategic decisions.

Ref. [6] defined outsourcing 'as a regulated entity's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the regulated entity, now or in the future. Literature indicates that services or processes in the banking industry are mostly outsourced to third parties otherwise called 'near banks', whom most times are owed by banks themselves [8]. Studies show that areas mostly outsourced include consultancy services, marketing, and sales, Information Technology (IT), Human Resources (HR), legal services, security, catering services, transportation, promotion of banking services, maintenance and repair of hardware including ATMs and POS services, banking and credit card applications and other activities which are supplementary to or complementary of the activities of banks ([9], [8])

Banks in Nigeria have adopted one form of outsourcing or the other, especially since the beginning of the global financial crisis of 2008, as a strategy to remain competitive in the market. The challenge for managers, therefore, is to take appropriate measures when making sourcing decisions bearing in mind that effective outsourcing strategy is critical to the success of outsourcing. In addition, it is recommended that outsourcing decisions should be aligned with corporate strategy ([1], [4]). This study, therefore, seeks to determine the contributions of outsourcing activities to the competitiveness of selected banks in Anambra State.

II. REVIEW OF RELATED LITERATURE

The concept of outsourcing has enjoyed huge corporate and research attention since the 1980s [10]. The increasing pressure on managers to innovate and make the right sourcing decisions to retain a competitive advantage in a globalized marketplace have been at the root of this, [1], resulting in various approaches and outcomes. In spite of the varied motivations, there seems to be a consensus among researchers and managers that outsourcing is a very complex corporate decision to take and implement ([11], [10], [3], [8]). Ref. [11] classified outsourcing into two categories, namely peripheral outsourcing, which includes all activities that are not strategically relevant to the firm, and core outsourcing, referring to those that have significant and strategic relevance to the business of the firm. According to [3], outsourcing should not be seen as a simple 'make or buy' decision rather as a strategic decision to improve the performance of organizations. They also identified other aspects of outsourcing as offshoring, global sourcing, and smart sourcing. In an era of rapid innovation, organizations have realized the need to continuously create knowledge, innovate processes and products and collaborate with partners to achieve organizational goals [1]. Many researchers view outsourcing as the transfer of some or major activities previously handled by an organization to a third party (outside vendors) ([1],[12]). This process of transferring production units or service functions to vendors is seen by [10] as being consistent with the views of [1], who defined outsourcing as a management approach that allows delegation to specialized and efficient external agents. It can therefore be inferred that outsourcing is primarily motivated by the need to have specialized services at a competitive cost. Vendor selection and management of such relationships are critical in any outsourcing decision. Outsourcing can therefore be defined as a management approach that tends to achieve efficiency by concentrating resources in areas of core competence while taking advantage of external value-adding potentials for other activities in order to achieve organizational goals.

There seems to be an agreement by researchers that outsourcing involves acquiring capabilities that ordinarily would have been provided internally from an external source [3]; however, there seems to be an unending debate on the reason or motive for such actions. Two different views have dominated this discussion. One viewpoint posited that outsourcing decisions are influenced by weighing the cost of internalizing the activities of the organization and taking advantage of market potentials [3]. The other view suggests that outsourcing decisions are influenced by the availability of resources in the organization and the capacity to utilize them in a competitive way.

A. Outsourcing Strategy

The literature recommends that an effective outsourcing strategy is critical to the success of outsourcing, and to reap better outsourcing benefits and firm performance; organizations have to align their outsourcing strategy with the business strategy [4]. Ref. [13], relying on [25] residual theory, identified three forms of governance: hierarchy, market, and network. Three corresponding gestalts were also formulated based on the governance types as follows- Independent outsourcing strategy (hierarchy) - this strategy aims at developing internal competency by obtaining its resource needs and competencies from external suppliers in order to manage them within the organization. The competencies are then internalized, thereby reducing the organization's dependence on external sources. This kind of relationship is characterized by a buy-in contract, short-term contract duration, and minimal outsourcing. Arms-length outsourcing strategy (market) is a loose outsourcing relationship with a focus on improving the financial position of the organization through cost-saving approaches [4]. This can be in the form of a fee-for-service contract with medium-term duration and a selective approach. Embedded outsourcing strategy (network) encourages long-term commitment and mutual interest. It allows for the exchange of relevant business information as a result of mutual trust leading to the transfer and acquisition of knowledge. This contractual relationship is mostly in the form of a partnership, comprehensive and long-term in nature. [14], used two terms 'specificity' and 'complexity' as criteria for defining four different outsourcing relationships on the basis of how high or low the degree of evaluation is Traditional vendor, temporary relationship, strategic relationship, and Network Organisation. A critical analysis of the first three types of relationship compares with [4] classification, while the fourth is an extension of the partnership into the future where the two entities enjoy mutual trust and jointly seek to strengthen their synergy.

B. Benefits of Outsourcing

The benefits of outsourcing can be categorized into economic, technological, and strategic [4]. So many reasons have been advanced by organizations as reasons for outsourcing. Ref. [5] outlined some of the benefits of outsourcing to include: (a) increased cash flow through the exchange for internal factors of production, (b) free capital to fund future investment, and (c) provision of access to resources. Ref. [15] identified factors that affect IT outsourcing decisions which also serve as benefits of outsourcing, namely reduction in operating cost, cost predictability due to fixed contract, sharing risk on technology investment (outsourcing services or processes), access to specialized expertise, efficiency and political reasons. Ref. [16] included, among others, the following, quality improvement, increased speed, greater flexibility, access to skills and talents, augment staff, access to the latest technology/ infrastructure.

C. Performance

The literature identified two different types of performance, (i) Operational performance, which comprises productivity, efficiency, and quality, all geared towards achieving low cost, and (ii) Strategic performance, which include innovation, growth, and competitiveness acquired through knowledge and firm capabilities [17]. Ref. [11] used what they called financial and non-financial performance criteria to measure the performance of an organization. Tobin's q specification has been severally used to calculate the financial performance of organizations. Nonfinancial performance, on the other hand, was measured using the following criteria: (1) Firm's R&D outlays, (2) stability/ growth of employment (3) process innovations, (4) product innovations, (5) employee compensation, (6) employee morale/ job satisfaction, (7) customer relations, and supplier relations relative to their competitors. Ref. [13] developed what they called measures of outsourcing success to include – operational efficiency, technological leadership, and responsiveness to business needs. Outsourcing success or performance will be looked at in terms of the competitiveness of the firm. Competitiveness is the ability of the organization to identify, meet and even surpass customers' expectations profitably [18]. Competitiveness can also be seen as the ability of firms to develop competence in areas such as product design, production, and marketing beyond those offered by competitors in terms of price and quality. Competitiveness will be measured in terms of operational efficiency, technological leadership, and responsiveness to business needs.

D. Outsourcing and Performance

The actual effect of outsourcing on performance has generated a lot of debate among management scholars, and available empirical research has provided little insight on the extent outsourcing influences performance [11]. Ref. [19] posit that there is no agreement on the question of whether outsourcing contributes to organizational performance. However, [11] observed that outsourcing interacts with firm strategy and environment dynamism to predict performance; hence there is no direct effect. Ref. [3] posited that investments in core competencies rather than reducing cost in the short run result in higher performance. Ref. [12] opined that outsourcing is a very powerful tool to cut costs and improve performance. He, therefore, affirmed that properly planned outsourcing results in the overall performance of the firm.

On their part, [20] opined that proper alignment of cost leadership strategy as well as competitor orientation, which are the two major characteristics of outsourcing, enhance performance. Cost leadership, according to them, entails organizing and managing business activities so as to produce goods or services at the lowest cost in relation to the competition. At the same time, competitor-oriented organizations use information collected from the market to adjust their competitive position in order to remain in a competitive advantage position.

H_1: Outsourcing activities do not contribute to the competitiveness of Deposit Money Banks in Anambra State.

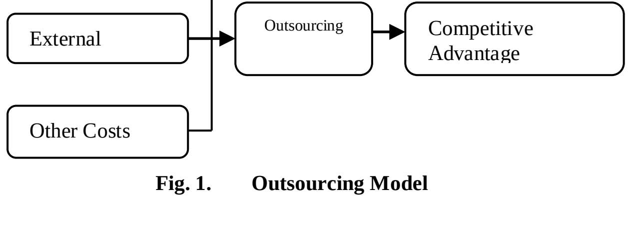

Fig. 1. Outsourcing Model

E. Theoretical Review

Contemporary studies of outsourcing have favored the approach of integrating two different but complementary theories while explaining the concept of outsourcing in order to put it in proper perspective ([21], [19], [22], [23], [3]). Traditionally, transaction cost economics (TCE) propounded by [24] and popularised by the seminal works of [25] dominated the theoretical explanation of outsourcing [26]. The TCE theory focused on economic approaches as the reason for outsourcing by weighing the cost of internal transaction and market transactions. It, therefore, posits that an organization should internalize transactions when contractual hazards are high and resort to the market (outsource) when low in relation to internal cost [22]. Ref. [27] defined transaction cost as "the cost associated with the transfer of ownership including organization, adjustment, and regulation of services in the market." The theory further identified key drivers of integration, namely, asset specification, appropriability, or observability in an exchange. Some of the limitations identified by recent studies in strategic management are that TCE may have overrated rationality in organizational behavior and reducing outsourcing as only relevant in situations of uncertainty.

Researchers have argued that economic reasons are not adequate to explain the concept and the rationale behind outsourcing decisions and have recommended other theories like resource-based view (RBV). This theory assesses the internal capabilities in relation to external ones in making the decision to outsource in order to create the greatest value [3]. This value can be either through substitution-based or abstention-based outsourcing. RBV propounded by [28] attributes the organizational performance to the resource capabilities and the capacity to utilize them to achieve sustainable competitive advantage [29].

To bridge the gap noticed in TCE, RBV recommended that outsourcing decisions are taken by weighing organizational capabilities in relation to those of the market (suppliers). This idea was further classified into two, namely, the propensity to outsource and the relationship between the outsourcing decisions and organizational performance. Ref. [30] in his study defined 'firm resources to include all assets, capabilities, organizational processes, firm attributes, information, knowledge, controlled by a firm that enables the firm to conceive and implement strategies that improve its efficiency and effectiveness.'

This study, therefore, adopts an integrative approach by using the two theories to answer the question of what motivates outsourcing and what is the outcome of outsourcing? Based on the foregoing, it can be said that organizations should internalize when the transaction cost is high and resort to the market when resources are weak to guarantee sustainable competitive advantage.

F. Empirical Review

The number of scholarly publications on outsourcing has indicated the level of interest of both academics and managers on the subject. Ref. [31] studied the effect of successful outsourcing on perceived business performance in the Nigerian banking industry. He reviewed the hard and soft factors that lead to the success and failure of outsourcing and the impact of such factors on business performance measures and concluded that successful outsourcing could possibly affect perceived business performance measures. Ref. [32] looked at the effect of outsourcing strategy and organizational performance in the manufacturing sector. The findings of the study show that the outsourcing strategy resulted in a reduction in the cost of production, competitive selling price, and ultimately increased sales turnover of Cadbury Nigeria Plc and Nestle foods Plc. Ref. [3] x-ray the impact of outsourcing on business performance of 107 companies that have previously outsourced assets or activities. The authors proposed a model that analyzed outsourcing from the implementation stage to the effect on an organization's value chain and the relationship between organizational performance and vertically-related value chain activities. The results of the study show that outsourcing could contribute to giving an organization a competitive advantage, though it does not generate a cost reduction. Again, resources could be re-invested where the organization is a cost leader. Ref. [19] studied outsourcing and firm-level performance; the study measured the firm's outsourcing activities, namely, material input, external contract work, and other categories of costs not related to production. The study results show that in the long run, firms that have all three types of outsourcing activities have a positive impact on return per employee, which is a measure of firm efficiency. On the other hand, those who outsource internal production or used external services are more efficient but have a lower profit margin. Ref. [8] studied the reasons for implementation and factors that influenced the success of outsourcing in the Polish Banking Sector. The study identified a reduction of operating costs as the principal reason for outsourcing in the Polish banking sector. Other reasons include mitigating risk (risk management), increasing the quality of service, and ethics and morality of customers and vendors. The authors, however, failed to provide details on how outsourcing can influence the ethics and morality of customers and vendors. The growing level of education (resource) was observed as one factor that influences the success of outsourcing. Ref. [33], in their study, focused on the relationship between outsourcing and performance by looking at the effects of outsourcing on profitability, productivity, growth, and financial solidity. The study considered two aspects of outsourcing decisions organizations face as follows: static or degree of outsourcing and dynamic meaning trends in material and services. Secondary data were sourced from financial statements of 456 companies in Italy from 1998 to 2001. The make or buy activities were measured using the material outsourcing variable (MOV), Service outsourcing variable (SOV), and Integration variable (IV). Findings show that companies with less integration have better growth performance but weak profitability while highly integrated ones performed better in terms of profitability and debt ratio. Ref. [34] used a very analytical and compelling argument to project what they termed 'taper integration'- the balancing of vertical integration and outsourcing to archive the overall firm performance. They argued that effective balancing of vertical integration and strategic outsourcing enhances a firm's product portfolio, new product success, and overall firm performance. The findings show strong support for taper integration and outsourcing of value chain activities, product portfolio, and success of new product lunch and overall performance.

The banking sector, no doubt, is one of the sectors most affected by the globalization trend due to the huge reliance on information technology to drive businesses. Outsourcing has been attributed to a response to pressures on businesses to realign in order to take a competitive advantage in the marketplace. The majority of the empirical research works accessed and reviewed above focused on outsourcing of production processes and or functions in the manufacturing and service industries, especially information technology. Only a few studies focused on outsourcing in the banking industry. However, none focused on the influence of outsourcing activities on firm competitiveness.

III. METHODOLOGY

This study adopts the descriptive research design. Descriptive research design helps the researcher narrate facts, highlight characteristics, and make specific predictions concerning individuals, groups, or situations [35]. The population of this study comprises branch managers and heads of operations of the selected banks in Anambra State. The banks include First Bank Nigeria Plc (FBN), United Bank for Africa (UBA), Fidelity Bank Plc, and Access Bank Plc. The study has a population of 162, while a sample size of 116 was drawn using the Taro Yamane formula.

Table 1. Number Of Managers And Heads Of Operations Of Banks

Name of Banks	Number
First Bank Nigeria Plc	48
United Bank of Africa Plc	48
Fidelity Bank Plc	36
Access Bank Plc	30
Total	162

Source: Fieldwork.

Primary data for this study were collected using a structured questionnaire and interview. Participants were made to provide answers to a 5 point Likert scale set of questions. Responses ranged from strongly agree (SA = 5) to strongly disagree (SD = 1). A total of 116 copies of the questionnaire were distributed, while 82 copies were returned, representing 70 percent. Interviews were also conducted in order to compare the responses received with the use of a questionnaire. Outsourcing was measured using the scale by [19], while competitiveness was measured using the scale developed by [13] for measuring outsourcing success. Reliability test helps the researcher to estimate the proportion of total variance of a test score that is error variance [36]. The alternate form reliability was used, and the scores were analyzed using Cronbach Alpha with the aid of SPSS version 20. The test result shows a coefficient level of 0.703, which indicates that the instrument is reliable.

Content and construct validity were achieved using experts whose independent contributions were incorporated in the final copy of the questionnaire. Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) test was used to determine the suitability of factor analysis and varies between 0 and 1. The more the value approaches 1, the better the result gets, and so the result 0.624 is seen as suitable. Bartlett test of Sphericity which is used to determine the correlation between variables, was found to be significant at ($p = 0.000$) less than 0.05. And finally, the factor loadings for the items ranged between 0.103 and 0.874. In view of the above results, it can therefore be said that all the results are in acceptable regions. Secondary data were collected from textbooks, journals, reports, and conference papers.

Variables for the research include the dependent and independent variables. Competitiveness is the dependent variable, while outsourcing which is the independent variable, was measured by material input (X_1), external contract work (X_2), and other costs not related to production (X_3). While external contract works represent the independent variable. The study adopted the following model to determine the influence of outsourcing on the performance of selected banks.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Where,

A = the intercept,

b_1, b_2, b_3 = coefficients of independent variables,

X_1 = material inputs,

X_2 = external contract work,

X_3 = other costs not related to production,

e = error term.

Multiple regression analysis was used to analyze data collected in order to establish the nature of the relationship between the response variable (Y) and the explanatory variables (X_1, X_2, and X_3).

Table 2. Results Of Regression Model: Depended Variable - Competitiveness

Variables	Coefficient	Std. Error	t-Statistic	Probability
Constant	.422	.110	3.850	.000
Material Input	.316	.025	12.906	.000
External Contract Work	.273	.037	7.397	.000
Other Costs	.295	.032	9.354	.000

Source: SPSS ver. 20

Durbin-Watson = 1.425, Adjusted R^2 = 0.910 and F- Statistic = 273.082 at P = 0.000. The results of the regression analysis above show that there is a positive relationship between the independent variables and the dependent variable. Material inputs, external contract work, and other costs not related to production are statistically significant with a p-value < 0.05. The adjusted R-squared (R^2) value of 0.910 indicates that 91 percent of the variation in the dependent variable is explained by the independent variables. The Durbin-Watson result of 1.425 shows there is positive autocorrelation. The F-test result of 273.082 at (p= 0.000) indicates that the result is statistically significant. This implies that the independent variable (outsourcing) with material inputs, external contract work, and other costs not related to production as proxies have a significant influence on performance measures by competitiveness. From the foregoing, we do not refuse to accept the null hypothesis that outsourcing does not have any significant contribution to the performance of selected banks in Anambra State.

IV. DISCUSSION OF FINDINGS

The result of this study shows that there is a significant relationship between Outsourcing activities and competitiveness. Drawing from the results of the above model, 91% of the changes in competitiveness (a proxy for performance) are explained by material inputs, external contract work, and other costs not associated with production. Material inputs increase relative to labor cost when 'make or buy decisions are made. The test shows positive values, thus making them statistically significant. This shows that such changes have a positive influence on the performance of the banks surveyed. This is consistent with the result of an empirical study by [19], which discovered that firms that increased their material inputs relative to labor cost performed better than those that did not. External contract work, which represents the use of external services or farming out of internal processes, also turned out to be statistically significant. This was also corroborated by [19] in their observation that firms that farmed out internal processes or used external services were more efficient than those that did not. Other costs not related to production, such as consultancy, janitorial services, and repairs and maintenance costs, are better controlled and predictable when they are handled by outside vendors. This was affirmed by results from interviews with managers.

Generally, the results show that there is a significant relationship between outsourcing activities as the independent variable and competitiveness as the dependent variable. Drawing from the results of the model above, 91% of the changes in competitiveness (a proxy for performance) were accounted for by material inputs, external contract work, and other costs not associated with production (Independent variable). This result shows that outsourcing activities contribute significantly to the competitiveness of the banks studied. This is in line with the findings of [31], in his conclusion that Nigerian banks should give priority to outsourcing efforts in order to enhance their competitive position and [3], that it is possible that outsourcing contributes to giving companies a sustainable competitive advantage.

V. CONCLUSION AND RECOMMENDATIONS

The purpose of this study is to determine the contributions of outsourcing activities to the competitiveness of banks in Anambra State. The study used material inputs, external contract work, and other costs not related to production to measure outsourcing activities, while competitiveness was used to proxy performance. The result showed that outsourcing activities have a significant contribution to the competitiveness of the selected banks in Anambra State. The banks, therefore, should adopt outsourcing as a strategy to gain a competitive edge, thereby enhancing their performance in the industry.

The study, therefore, makes the following recommendations based on the finding-

1. Banks should thoroughly review their resources and apply them in core areas of strength while accessing the market for competent vendors to handle their support functions or services in order to ensure improved performance.
2. Globalization has resulted in the dispersal of knowledge beyond the firm and industry boundaries, and no organization has all the needed expertise to make it perform and compete well in a competitive market like the financial sector. Therefore there is a need for bank managers to tap into the knowledge industry by having a network of relationships with competent service providers in specialized areas such as Information and Communication

Technology (ICT) and research and development (R&D).

3. For many firms, reduction of cost has been the major motive for undertaking outsourcing decisions. Therefore managers of banks should look beyond cost to other areas like returns on investment as they focus on areas of core competence.
4. The study observed the possibility of poor vendor management, especially in the area of outsourced human resources characterized by most banks studied, leading to the low morale of mostly junior staff. Therefore managers should pay more attention to post-contract monitoring to ensure that service providers live up to the terms of their contract as this is critical to the success of outsourcing arrangements.

The present study focussed on the influence of outsourcing on the competitiveness of banks. Future research may look at vendor management in Nigerian banks, which is critical for the success of outsourcing.

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