

## **DETERMINANTS OF OUTSOURCING DECISION AMONG COMMERCIAL BANKS IN NIGERIA**

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### **ABSTRACT**

This paper examined the factors affecting outsourcing decisions in the Nigerian banking industry. The paper adopted descriptive and inferential statistical techniques based on data collected through questionnaires from bank workers and stakeholders in Nigeria. Stratified and purposive sampling techniques were used to select the sample size of 500 respondents from the bank staff and other bank stakeholders. The findings revealed that outsourcing activities were driven by cost reduction and market penetration. The need to focus on core activities, improvement of service delivery and quality, to meet changing customers' needs and improve operational efficiency constituted the underlining forces behind the strategic decision by banks to outsource in Nigeria. However, it was also established that outsourcing has its own risks and cost. Hence, the paper cautioned banks to weigh the costs and benefits of the outsourcing decisions. Furthermore, it is also vital for the management of the banks to regularly review and update its outsourcing process and be actively involved in the selection of the outsourcing firms. It is equally important for government to establish a regulatory policy framework to regulate the outsourcing activities in banking industry like the corporate governance policy given the roles and fragility of banking in Nigeria.

**Keywords:** Corporate Management, Outsourcing Strategy, Management Strategy, Sustainable Banks, Nigeria  
JEL Classification: J23, J21 J02, J22, J03

## INTRODUCTION

The central role of banks is geared towards intermediation of funds from the surplus side of the economy and makes the fund available for productive purposes. Through these processes and functions, they create credit for the purpose of providing more funds for development projects and this leads to increased production, employment and sales thereby enhancing faster economic development. Banks provide long-term credit to government by investing their funds in government securities and short-term finance by purchasing treasury bills.

However, banks are found to have engaged in other functions which are not part of their core responsibility. This necessitates banks to outsource certain services and these consequently reduce their cost of operations. Also, hiring others to do particular jobs reduce the load and stress of the primary agent as well as ensure quality work by specialists in a given field. Since these specialists are focusing on a particular aspect of the business, the quality of the product is sure to increase. And all companies are happily satisfied by their business needs and desires. Basically, financial institutions engage the service of outsourcing firms to reduce and control operating costs; improve company focus, access world class capabilities and freeing internal resources for other purposes. (Bhimrao & Janardan, 2009). It is becoming indispensable for every business enterprise to utilize outsourcing processes as the world has become a global market with intense competition. Organization have realized that they have to focus on their core competencies with respect to the limitations that they have, outsourcing has become the most sought-after business. Business around the world is committed to outsourcing strategies due to its accrued benefits. Though outsourcing has its own benefits, it has its own failure rate reported in literature. To outsource therefore, managers need intelligence and managerial guidance which can only come from research which currently does not exist. While effort are being made by both corporate and public management at different levels to outsource some of their hitherto services because it affects management, staff and clients, less attention is being paid to how the outsourcing processes should be managed to improve performance. Outsourcing is thus an increasing popular method of achieving performance improvement.

In Nigeria, most commercial banks resort to outsourcing in order to achieve the set corporate goals. However, outsourcing decisions are taken without examining the critical factors that determine outsourcing services as these factors can either make or mar the survival of the bank within the stiff competitive environment. Also it is hard to find studies related to issues on factors influencing banks' decision to outsource to firms. There is therefore the need to investigate the factors that affect outsourcing decisions in the Nigerian banking industry which this study is geared to achieve.

Specifically the objective of the study is to analyse the factors influencing outsourcing decisions in the Nigerian banking industry. Therefore, the scope in term of location and number of banks was restricted to the 20 banks that were offshoot of consolidation exercise in Nigeria. The paper is organised into five sections. Section one provide the introduction while section two looked at the issues of theory and concept as well some salient empirical studies on issues relating to outsourcing decision. Section three was devoted to empirical methodology while section four provided the empirical finding and discussion. The paper was concluded with the summary of finding and the policy implications in section five.

## **LITERATURE REVIEW**

### **Concepts of Outsourcing**

Rob (2006) Defines outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Outsourcing is a strategy by which an organization contracts out major functions to specialized and efficient service providers, who become valued business partners.

Outsourcing is defined by Espino-Rodriquez et al (2006) as a “strategic decision that entails the external contracting of determined non-strategic activities or business processes necessary for the manufacture of goods or the provision of services by means of agreements or contracts with higher capability firms to undertake those activities or business processes with the aim of improving competitive advantage”. It is the transfer of one or more internal activities of an organization to an external vendor. Gilley and Rasheed (2000) emphasize that defining outsourcing in terms of procurement limits the definition – “defining outsourcing simply in terms of procurement of activities does not capture the true strategic nature of the issue ... outsourcing is not simply a purchasing decision”. In summary, outsourcing is usually explained as the contracting with an external party to provide services or activities that could be provided by an internal source (Carey et al, 2006).

Therefore, outsourcing in the context of the study is defined as the process whereby activities traditionally carried out internally are contracted out to external body or bodies. It is therefore the transfer of an activity from an internal governing body to external governing body. At this point, it is important to briefly examine what motivate corporate and public organisations to outsource. There are three major categories of motivation for outsourcing: cost, strategy and politics.

The cost motive of outsourcing relates to the need to save costs (Arnold 2000, Aubert et al 1996; Willocks et al,1995).Toutes (2000) argued that cost saving could be direct or indirect in which some organisation motive is not mainly to reduce the magnitude of the cost incurred in the business but to ensure that cost is firmly within the limit. Therefore some organizationsengage in outsourcing to achieve better cost control. Lafferty’s and Roan’s (2000) study suggests that the education and skill level of a whole class of workers may be declining due to outsourcing of service. This is because contractors may be unwilling to invest in the training and capacity building of the staff since mostly they are contract and casual staff. Hence the commitment to invest in their education may be low and unattractive to the firms.Many organizations outsource to reduce costs and therefore, the higher the internal costs to perform the function relative to the expected cost of purchasing the service, the more likely the functions is to be outsourced.

Literature supports outsourcing as a strategy which may offer improved business performance on numerous dimensions. (Brandes et al 1997,Dekkers 2000).Perhaps the most often sited strategic reasons for outsourcing is to allow the organization to better focus on its core competences (Sislian and Satir 2000, Quinn 1999). Because of intense competition, organizations are forced to reassess and redirect scarce resources (works management 1999). Resources are typically redirected to where they make the greatest positive impact namely the organizations core functions.Core-competences is therefore what an organization uses to sustain a competitive edge or which determines the competitiveness of an organization. In general, a function that is more core to the organization is less likely to be outsourced. In addition to refocusing resources onto core competencies, other strategy issues which encourage the

consideration of outsourcing are restructuring, rapid organizational growth, changing technology and the need for greater flexibility to manage demand swings (Kakabadse 2000a).

Flexibility is the second strategy factor. It intended to include demand flexibility, operational flexibility, resource flexibility or the flexibility of a number of other strategic elements. Flexibility can be impacted positively or negatively by outsourcing. Critical Knowledge constitutes the third strategy, there are some functions in an organization that may not in and of themselves be “core” but the unique data or technology they generated and feed into other processes is critical. In general, if a function provides critical knowledge, it is less likely to be outsourced. Function characteristics such as complexity, degree of integration, structure etc unlike strategy or cost factors are generally not unique to an organization.

Avery (2000) argues that the performance of a service by the public service is not based on market demand or profitability but on political expedient. The issue may be more social than economics. Industry performs a service to make money while public organization attempts to ensure the general wellbeing a different goal and mission. So while cost and strategy may drive private firms, the desire for the general wellbeing of citizens may drive outsourcing by public organizations. This factor relate to the internal and external environment faced by the organization.

Willcocks and Currie document that one of the reasons that many firms try outsourcing is because others are doing it. (Willcocks and Currie,1997). The unwritten assumption appears to be that if the competitors are doing it, it must be good. In general, if the organizations competitors are actively outsourcing a function, it is more likely to be outsourced. In general, successful outsourcing of highly uncertain functions is more difficult. Conclusively, there is enough evidence in the literature to suggest that outsourcing by public organization may be initiated for reasons quite different from private industry.

### **Empirical Review**

A series of empirical studies have been dealing recently with the factors determining the outsourcing decisions of firms in several countries. Most of them are based on firm data, while a few studies use industry data. There are two main groups of studies with respect to the specification of the outsourcing variables. A first larger group of papers uses binary information based on firms’ reports of overall outsourcing activities and/or different types of outsourcing. A second smaller group of investigations is based on quantitative measures of intermediate material or service inputs. There was only two set of studies combining both kinds of measurement (Hempell und Zwick 2008; Bartel et al. 2009). To the first group of studies belong all six studies reviewed here that are based on Spanish firm data in the nineties.

Merino and Rodriguez (2007) investigated based on data for about 1400 firms in 1998 12 different categories of services outsourcing (from legal advising to advertising, software development and software installation). These last two categories correspond to the outsourcing variable two variables, particularly to this part of determinants that are similar to those used in this study. These are the average labour costs (negative effect for software development, no effect for software installation) and an inversed-U-effect for firm size that unifies existing divergent theoretical expectations. Most of the other variables in this study refer to spatial factors that were not considered in our study. The study of Diaz-Mora and Triguero (2007) based also on Spanish firm data for the period 1992-2002 used a model specification that comes near to ours. They found a positive effect on the likelihood of an (overall) outsourcing decision for the average wage, the export propensity, an indicator for market competition and three different innovation variables, but no effect for firm size and firm age.

Contrary to these results, Holl (2008) found for about 3200 Spanish firms in the period 1990-1999 positive effects on the likelihood of production subcontracting decisions for firm size and firm age, in addition also positive effects for the average wage and expected demand. In a further study based on the same (or a similar) data set and using the likelihood of (overall) outsourcing as dependent variable Bartel et al. (2008) could confirm – at least for one of their econometric specifications – (partly) the positive effect of firm size as well as the positive effects for firm age, expanding market demand, export propensity, R&D activities and IT use found in some other studies. The same authors used in a further paper both kinds of outsourcing indicators (binary variable and quantitative intermediate input variable) in an investigation concentrating on the role of technology and innovation (Bartel et al. 2009). They found significant positive effects for R&D and product innovation for both kinds of outsourcing indicators

However, negative effects of R&D intensity on outsourcing were found, e.g., in Mol (2005) for a sample of Dutch industries and in Tomiura (2008) for Japanese. To round up, a study for about 90 Spanish industries in the period 1991-2002 found a positive effect for unit labour costs and high skills but no effect for export propensity (Diaz-Mora 2008). To this first group of studies belong also two Italian studies that are based on firm data from Emilia Romana and the Lombardy respectively. Mazzanti et al. (2009) used a small sample of 166 firms for 1998-2001 but they disposed of an extensive vector of explanatory variables. They found positive effects for firm age and product innovation, no effect for the (relative) wage, negative effects for firm size and for two organizational variables, one for organizational hierarchy and one for organizational innovation.

Cusman et al. (2009) investigated a sample of 1200 firms in 2005 and found a positive effect for R&D and human capital and no significant effects for a firm being exporter and for firm size. Finally, in a study for about 1300 UK firms in Gooroochurn and Hanley (2007) could find the following effects on the likelihood of innovation outsourcing: no effect for firm size, negative effect for R&D intensity for process innovation and no effect for product innovation, negative effect for human capital in the case of process innovation outsourcing and no effect for product innovation outsourcing, and no effect for market concentration. The most interesting result of this study is the negative effects of variables measuring the importance of property rights.

To the second group of studies using the value of intermediate inputs divided by some overall cost measure as an outsourcing indicator belong two UK studies, one study based on Irish firm data and one based on German firm data. Girma and Görz (2004) used the cost of industry services as share of total labour costs as dependent variable in a study for about 4500 UK manufacturing firms in the period 1980-1992. The most important determinants of outsourcing according to this study are firm size (positive effect) and the average wage (also positive effects for the separately measured average wage for skilled and unskilled workers, the unskilled workers average wage showing a much lower elasticity than that of the skilled workers).

A further study based on about 25'000 UK firms in 2001/2002 using the value of imported services divided by the total expenditure of purchased services as outsourcing variable found no effect for firm age and a positive effect for ICT (Abramovsky and Griffith 2006). Debaere et al. (2010) found in a study of 538 Irish firms in 2004 a positive effect for firm size and a positive effect for a firm being an exporter. As outsourcing variables used the authors of this study the ratio of material and service inputs over sales distinguishing imported and domestically procured materials and services.

Finally, in a study based on about 4500 German firms in 2002 and 2004 Hempell and Zwick (2008) investigated both kinds of outsourcing variables and found for both kinds positive effects for ICT use and export and a negative effect of human capital only for the share of intermediate inputs but not for the binary variable for outsourcing of business

activities. On the whole, the majority of the reviewed rather heterogeneous studies in terms of sampling and model specification show only a few common results, namely positive effects for R&D, ICT, firm size and export.

## **RESEARCH METHODOLOGY**

### **The study Area**

The study area for this study is considered in two ways: the geographical and operational area of study. The geographical area relates to the geographical boundaries/demarcation of the places that the study will be conducted. This could be a city, a community, a state, a region, country, a continent and even the whole world. The second classification is the operational boundary that related with the object of the study irrespective of where it is located. This demarcation is much concern with the object of the study and anywhere it resides or found it is also part of the study area. In this study the two approaches are adopted. The geographical study area is Nigeria but with much emphasis on banks that have their headquarters in Lagos. The choice of this study is because of easy accessibility and the need to have focus without compromising the representativeness and adequacy of information. The study concentrates only on Lagos since the headquarters of all the banks except Unity Bank are in Lagos, and since the outsourcing decisions are taken from the headquarters. A preliminary interaction with some of the executives of these banks shows that outsourcing activities and decisions to outsource are policy issues that are taken at the management level. Also most of the outsourcing firms are located in Lagos and hence focusing on Lagos allows easy access and opportunity to meet those that are directly involved in outsourcing activities with banks at different levels.

### **Sampling Technique and Sample Size**

The population of the study includes both the employees and employers of the banks in Nigeria as at the time the research was conducted. The population comprises also both outsourced and core staff of the banks in Nigeria. There are four major categories of population for this study. The first is the totality of the management staff of the existing banks (with exception of Unity bank) that that remained after the second consolidation exercise in 2010.

There were 25 banks at the end of the first round of consolidation however four more banks (Oceanic Bank, International Plc, FinBank Plc, Intercontinental Bank Plc, and Equatorial Bank Limited (ETB)) were declared technically distress and were acquired by Access Bank, First City Monument Bank (FCMB), Sterling Bank and Ecobank, the total number of banks in the country reduced from 25 to 20. With the addition of Jaiz banks and resuscitation of Savannah banks the number of licensed banks in Nigeria now stands at 22 banks. The second category is the non-management staff that are core staff of these banks and while the third categories are the outsourced staff of the banks. The fourth categories are the vendors of these outsourced activities and staff of these banks.

One of the most difficult things to ascertain is the population of the study; especially the population of bank staff. The continuous retrenchment in the banking industry has made it difficult to ascertain with precision the exact number of staff in most these banks. Retrenchment and recruitment is a continuous process in the Nigeria banking industry and any figure given is only relevant as that particular time only". A study by Gunu (2009) and a report of bank supervision by CBN (2010) however, put the number of staff in Nigerian banks in 2008 at 88,902. Projecting this figure further to 2016 shows further that the employment in the banking industry should have increased by 10% after the consolidation and the employment in the sector should be about 110,000.

### Determination of sample Size for the study

In order to give each member of the population an equal chance of being selected and to ensure accuracy, the simple random sampling techniques will be employed in the selection of respondents to be interviewed. The simple random sampling makes the sample to be representative if all the subjects participate and reduce the potential of human bias, if other methods are used. For the selection of the sample size, the statistical formula given by

$$s = \frac{x^2 NP(1-P)}{d^2(N-1)+X^2P(1-P)} \quad 3.1$$

Where  $s$  = the required sample size,  $X^2$ = the Table value of Chi- square at the one degree of freedom for the desired confidence level [ for 10% (2.71), 5 %(3.84) and 1%( 6.64)]  $N$ = the population size.  $P$ = the population proportion (assumed to be 0.50) since this would provide the maximum sample size).  $d$ = margin error permissible and expressed as a proportion (.05) at 95% accuracy and confidence level. This formula gives the minimum sample size that is permissible given the size of the population for this study. However Israel (2012)<sup>1</sup> has simplified this formula further and even provided a table for different possible population and sample size. The simplified formula expresses the sample size in term of the population size and margin error however; the two formulas are equivalent and give the same sample size. The formula is given as

$$n = \frac{N}{(1+N(d^2))} \quad 3.2$$

Based on this simplified formula and with a confidence level of 95 per cent that is allowing a margin of error of 5 per cent, a minimum of 399 samples is found appropriate to be selected out of 107,015 staff population in the Nigerian banking industry based on the figure in table 3.1 above. This amounts less than 5% of the total of target population of bank workers.

However, in view of the fact that similar studies in this area especially on in Nigeria has shown that the response rates of bank workers to questionnaires and research survey instruments generally is low and there is tendency that if the minimum is chosen, there may be too few questionnaires that will be returned for analysis. Therefore instead of the 399 suggested by statistical procedure and formula, 500 was chosen. With this higher sample size, allowance is made for the low response rate observed to be prevalence among the bank staff respondents. Both random sampling and purposive sampling techniques was adopted. The purposive sampling was used to determine the unit to survey. The unit must be those units that have something to do with outsourcing decision while simple random sampling will then be used to select the staff to interview or administer questionnaires.

The self-administered questionnaire was sent to each head office and at least one state zonal office in the south west part of the country. The respondents were selected using simple random sampling technique to give each member a chance to be involved in the study without any element of bias. The total sample size drawn from the selected 20 banks is 500 (25 respondents from each bank) for the quantitative instrument (questionnaire),

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<sup>1</sup> Glenn D. Israel (2012) "Determining Sample Size" A Publication series of the Agricultural Education and Communication Department, Florida Cooperative Extension Service, Institute of Food and Agricultural Sciences, University of Florida.

However to validate the research instrument, prior to banks' survey, the questionnaire were discussed independently with staff of selected banks and a pilot survey was done. Questions that were ambiguous and were reframed and those that seem irrelevant were completely removed. The structure of some of the open questions were reframed into category questions which are less time consuming.

### **Data Analytical Techniques**

In achieving the objective of the study which relate to the investigation of the factors that determine outsourcing decisions, descriptive statistics was adopted. In these descriptive, statistical tools such as table graphs and chart was used to describe the socio demographic and economic profile of the banks and the workers in these banks that responded to the questionnaires.

#### *The Empirical Model*

To empirically capture the determinants of outsourcing decision in the Nigerian banking industry, a regression equation that captured inter relationship among the dependent variable and independent variable was specified and estimated. For the second objective that involved examining the determinants of outsourcing practices and in particular whether profitability, bank size and cost reduction were key factors considered in outsourcing decisions, regression analysis was applied in this study. Given the dichotomous attribute of the dependent variable (outsourcing decision), and some of the independent variables, regression was most suitable over other regressions techniques such as the Ordinary Least Square (OLS) and the Logit regression (Madalla, 2001). The regression model for this study was defined as:

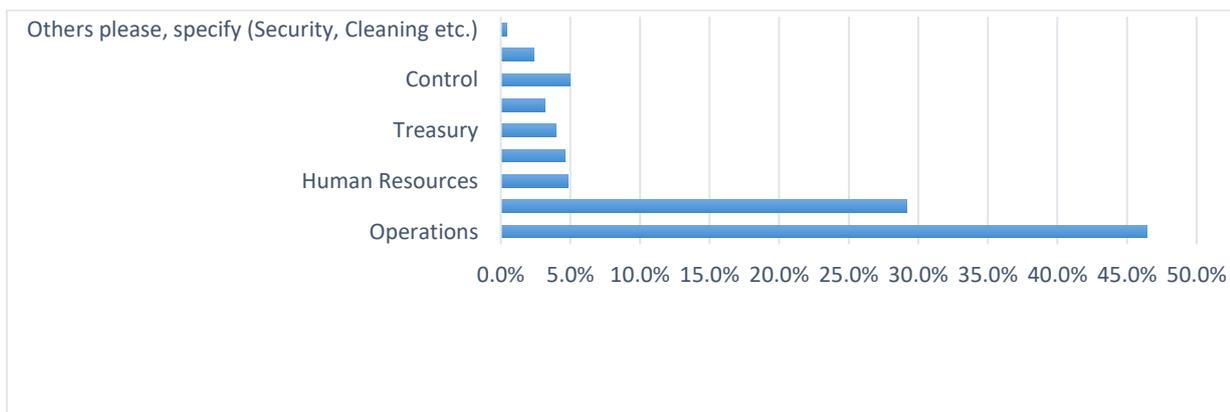
$$OUTS (0, 1) = \beta_0 + \beta_1 SIZE + \beta_2 COST + \beta_3 PROFITABILITY + \beta_4 DIR + e_i \dots (3.3)$$

**Where:** OUTS (0, 1) = the dependent variable, 1 is for outsourcing bank and 0 otherwise.  $\beta_0$  = the constant, Size = measured as total assets of a bank as at 31<sup>st</sup> December 2005, Cost = measured as ratio of wage to total operating costs and profitability is measured by return on assets. DIR = CBN Directive. For instance, the CBN had directed that all banks should hands off the operation of ATMs outside the banking premises. Also the movement of cash through Bullion vans was also subject to CBN directives, the variable took 1 if the decision to outsource was a directive and 0 if it was internal policy.

## EMPIRICAL RESULTS

### Socio-Demographic Characteristics of the Respondents

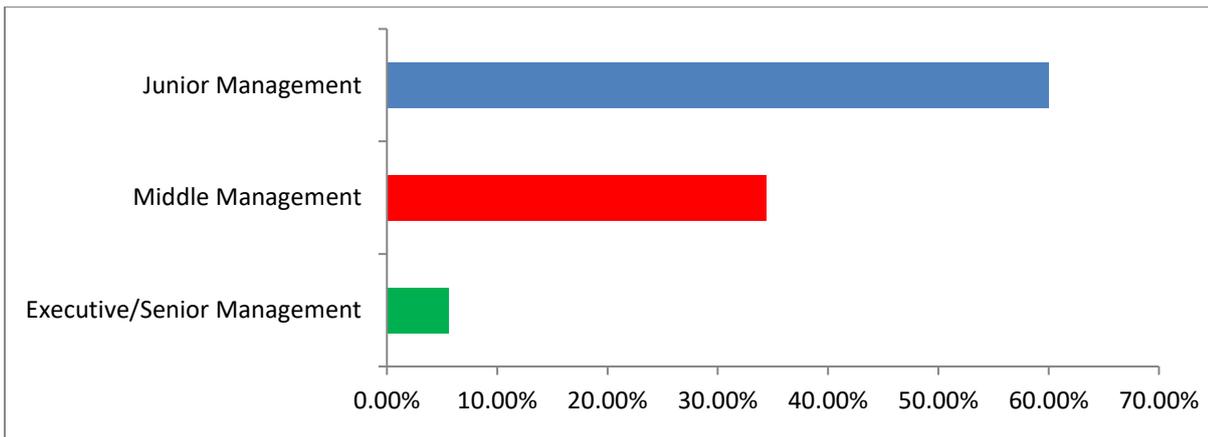
Figure 1 presents the socio-demographic features of the respondents examined in the field survey of bank workers. Three variables were used to determine the social status and position that each of the respondents occupy in the bank. These variables include; Section of the bank where the respondent work, Position in the bank, and Number of years in the service of the bank. This is shown below:



**Figure 1: Socio-Demographic Characteristics of Respondents by Department where they work in the Bank**

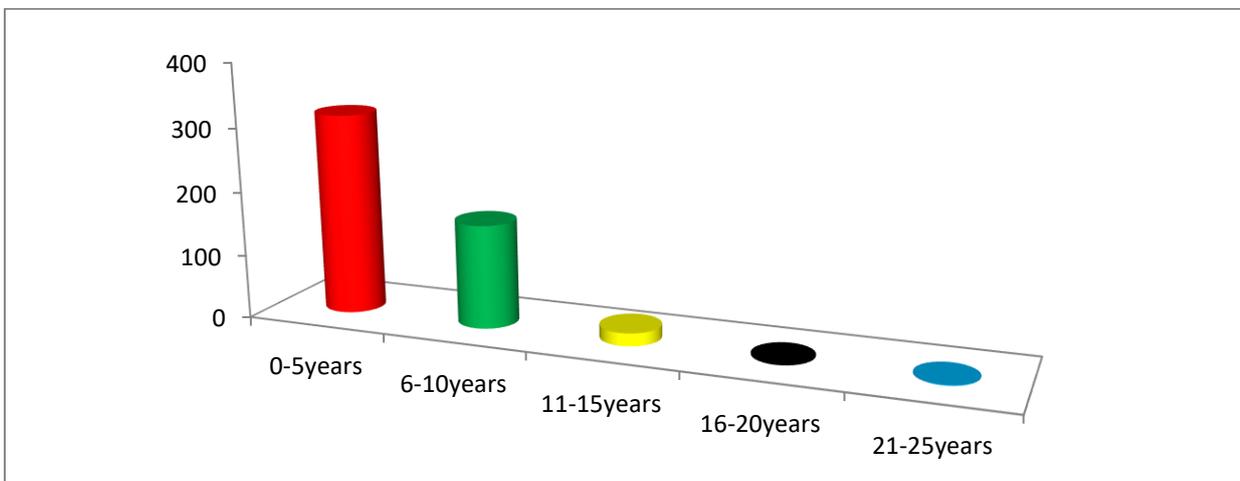
Figure 1 shows the various sections of the bank where each of the respondents belong to. This include; Operations, Marketing, Human resources, Legal and admin, Treasury, Inspection, Control, Information technology and others as Security and Cleaning. Among the total of 500 respondents examined, 46% work in Operations, 29% are in Marketing section, 5% are in Human Resources section, while 4.6% are in Legal and Admin section. 4.0% of the respondents are in Treasury, 3% work in Inspection section, 5% are in Control, while 2% are in Information and technology section and the remaining 1% belongs to Others as Security and Cleaning sections. Thus, the survey established that a relatively larger percentage of the bank workers examined work in Operations section and more others are in the Marketing section. This shows that banks recruit more staff to Operations and Marketing sections than other sections of the bank.

Figure 2 shows the position of the respondents in the Bank. The position of each of the respondents within the banks is divided into three; Executive/senior management, Middle management and junior management. The survey shows that 28 Or 5.6 % of the respondents are in Executive/senior management, while 172 or 34.4% belong to Middle management and the remaining 300 or 60.0% fall into Junior management category. Hence, the study ascertained that most and more than average of the bank workers examined are in Junior management category, and a considerable number of 34.4% are Middle management staff, while only very few number of 5.6% have risen up to the top Executive/senior management position.



**Figure 2: Position of Respondents in the Bank**

The length of service of the respondent was also examined. Figure 3 depicts the respondents by length of service. Figure 3 shows that out of the total of 500 respondents examined, 315 have spent between 0-5 years in the bank service, 162 of the respondents have spent 6-10 years, 20 spent between 11-15 years, while 2 have spent up to 16-20 years and just 1 has stayed up to 21-25 years in the banking service. This assessment shows that most of bank workers only stay for an average of 5 to 10 years of banking services, while less stay up to 11-15 years and only 3 have up to 16 to 25 years of banking experience. Thus, this suggests many of the bank workers are either laid off or personally withdraw from service after certain period of time, thereby affirming that the concern of permanent staffing is not peculiar to the banking sector.



**Figure 3: Number of years in the service of the bank**

### Types of Activities Outsourced by Banks in Nigeria

The respondents were specifically asked whether they were aware of any activities being traditionally carried in-house but that were then contracted to external vendors or providers or outsourced. As presented in Table 4.4 and Figure 4.5, in the major services being outsourced in the past five years, the study showed that most of the respondents considered security (85.2%), Cleaning (73.2%) and Recruitment (72.2%) as the most outsourced activities in the banking system in Nigeria. The second set of activities mostly outsourced by the banks in the last five years according to the perception of the respondents were training (53.6%) and human resources (47.2%), only insignificant proportion of the respondents

indicated that ATM(21.4%), Information Technology (15.0%), Advert and Promotion (14.8%),Consultancy Services (13.8%), Maintenance (12.6%), Call Centre (7.4%) and Internet banking (5.0%)had been outsourced in the last five years. Services like Card Processing (3.0%), Debt Collection (2.65%), Internal Audit had 8 (1.6%), Pay-roll (1.4%), Customer Information Verification, (1.2%) and Data Centre (1.0%) was less likely to have been outsourced. Those options with no responses like Product Design, Account Opening and Processing, were perceived by the respondents as activities that had not been fully outsourced in the past five years.

**Table 1: Services outsourced in the Nigerian banking industry in the Last 5 years**

Activities Outsourced	Frequency	%	Rank	Remark
Security	426	85.2%	1	Most Outsourced Activities
Cleaning	366	73.2%	2	
Recruitment	361	72.2%	3	
Training	268	53.6%	4	
Human Resources	236	47.2%	5	Less Outsourced Activities
ATM	107	21.4%	6	
Information Technology	75	15.0%	7	Least or Not likely outsourced Activities
Advert and Promotion	74	14.8%	7	
Consultancy Services	69	13.8%	8	
Maintenance	63	12.6%	9	
Call Centre	37	7.4%	10	
Internet Banking	25	5.0%	11	
Card Processing	15	3.0%	12	
Debt Collection	13	2.6%	12	
Internal Audit	8	1.6%	13	
Pay-roll	7	1.4%	14	
Customer Information Verification	6	1.2%	14	
Data Centre	5	1.0%	14	
Product Design	0	00.0%	15	Not Outsourced
Account Opening and Processing	0	00.0%	15	

**Source:** Field Survey, 2016.

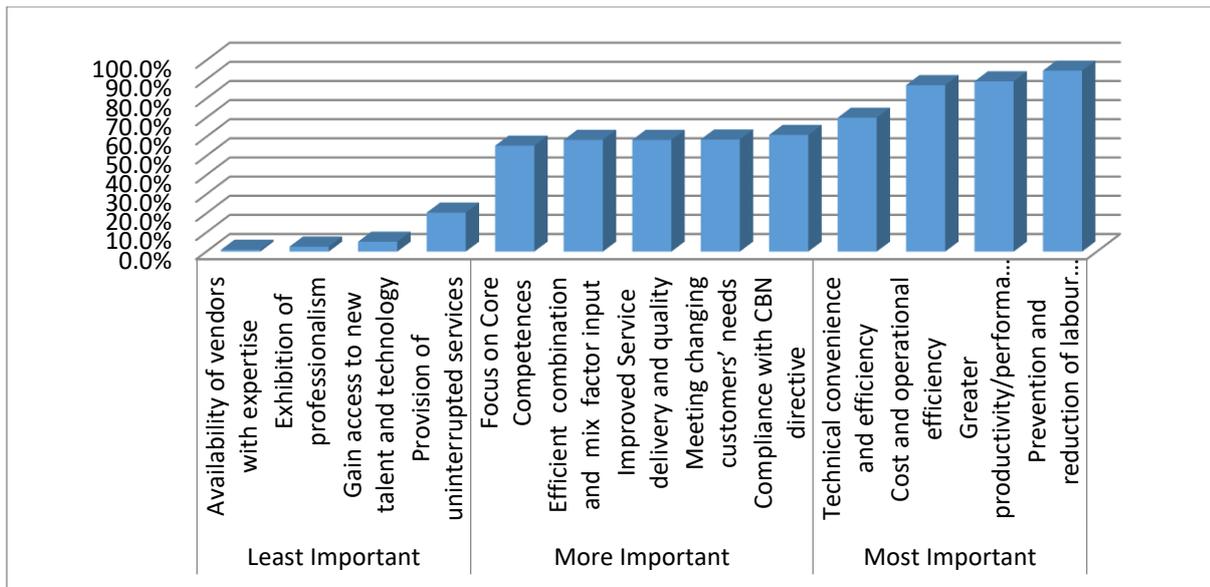
### **Factors Influencing Outsourcing Decisions in the Nigerian Banking Industry**

This section investigates the likely factors that prompt Nigerian banks to outsource their services. Outsourcing the services or activities in any organisation is a policy issue that is usually taken at the top management level. Though to some organisations it is a political decision but with economic motive. As a result, the decision to undertake outsourcing is based on the benefits that outsourcing will bring to the organisation. In this study, it is assumed that the potential and actual benefits are the driving forces behind outsourcing. Hitherto, there could be political, social and practical factors behind outsourcing decisions. Such factors are acknowledged but economic factors remain the main driving force behind outsourcing. The challenge confronting most organisations including banks is usually how to reduce cost, increase productivity and profitability, increase efficient and effective service delivery, as well as enlarge the knowledge boundaries and technical convenience. These are some of the issues raised as factors propelling outsourcing in the Nigerian banking industry. Conversely, government policy and some possible drawbacks of outsourcing are also considered to balance the assessment. This is presented in figure 4.

Prevention of labour related issues was one of the most highly rated factors as a factor influencing outsourcing decision by 94.5% of the respondents. It is obvious that the introduction of contract staff and casualization in the banking industry is to prevent trade unionism and this has proved effective as since the introduction of outsourcing of some key services the level of trade disputes and work disruptions have reduced and even been eradicated completely. Government directive (61.0%) was also identified as critical factor in the adoption of outsourcing as strategy. For instance the provision of ATM outside the bank premises is a directive by the Central bank of Nigeria to all banks. Also movement of cash from one bank to another service is a policy directive from the Central bank.

The results further showed that 87% of the respondents indicated cost efficiency as the most important factor contributing to adoption of outsourcing as a strategy for cost reduction and efficiency. 70% of the respondents indicated “technical convenience and efficiency” while increased productivity and performance were rated by 89% of the respondents as the most important factor influencing outsourcing decision. The need to focus on core activities” and “service delivery” were indicated by relatively lower proportion (55.4%) and (58.4%) respondents respectively. 20.4% of the respondents indicated “provision of uninterrupted services” as a factor influencing outsourcing decisions in the Nigerian banking industry. In the same vein, meeting changing customer needs and “to make more efficient use of labour, capital, information technology and human resources” were indicated by 58.6% and 58.4% of the respondents while only (5.2%) and (2.6%) of the respondents picked “to gain access to new talent and technology and “Exhibition of professionalism” respectively as factors responsible for adoption of outsourcing in banks. Only an insignificant proportion of the respondents (1.0%) considered “easy availability of vendors with expertise and economies of scale” as a likely factor influencing outsourcing in the banking sector.

From the foregoing, it can be established that outsourcing decision in the Nigerian banking industry was significantly influenced by attempts to (i) prevent labour related issues and disputes (95%); (ii) increase productivity and performance (89%); (iii) reduce cost (87%) and technical efficiency (70%) and more importantly to comply with CBN directives (61,0%), Other important factors in outsourcing decision were attempts to focus on core competence (55.4%) and service delivery ( 58.4%). Also meeting changing customer needs (58.6%) and overall efficient combination of both human and physical resources (58.45) had contributed to adoption of outsourcing in the banking industry.



**Figure 4: Factors influencing Banks' Outsourcing activities**

**Source:** Field Survey 2016.

In addition to the descriptive analysis, a model for outsourcing decision was estimated as specific in section three. Table 4 presents the results of regression analysis and the second column indicates the expected sign that the coefficient was to have. This is presented to allow easy comparison. The results showed that size had the apriori expected sign and were found also statistically significant. This implies that bank size might affect the decision to outsource; the size of the banks was a major factor in the decision of Nigerian banks to outsource. Hence the likelihood of banks to outsource is dependent on the size of the bank.

The second important variable in outsourcing decision is cost. As shown in table 4. Cost has significant positive effect on outsourcing decision. It implies that high personnel cost might be a major concern to the bank management and in order to reduce cost most of them adopted outsourcing of their operations to be more efficient and effective.

**Table 4. Regression Analysis of Determinants of Outsourcing Decision**

Variable	Expected Sign	Coefficient	Std. Error	t-Statistic	Prob.
Constant		2.18	0.33	6.59	0.00
Size	+	0.34	0.05	6.32	0.00
Cost	+	0.30	0.11	2.67	0.01
Profitability	+	-0.01	0.03	-0.28	0.78
R <sup>2</sup>		0.8672	Mean dependent var		1.385542
Adjusted R <sup>2</sup>		0.6963	S.D. dependent var		0.513983
Log likelihood		-57.2527	Hannan-Quinn criter.		1.558605
F-statistic		2.37747	Durbin-Watson stat		2.001922
Prob(F-statistic)		0.0002			

The estimated equation1 becomes:  $OUT = 2.18 + 0.34SIZE - 0.01Profit$

Profitability was not a significant factor in outsourcing decision. However, it was observed that there was a negative relationship between outsourcing and profitability. This implies that when profitability was falling banks might adopt outsourcing as a strategy to improve the performance of the banks. This is intuitive as outsourcing helps in cost reduction, a lower cost due to outsourcing will lead to higher profit margin for the banks.

## **CONCLUSION AND POLICY IMPLICATION**

The results show that banks resort to outsourcing when profitability is falling and cost is increasing. More importantly, bigger banks outsource more than smaller banks. Therefore, outsourcing decision is affected by the size of the banks, the need to reduce cost and improve profitability. Both corporate and government organisations continue to see the need for outsourcing when they face financial stress due high personnel cost. Based on the findings of this research, the main determinants of outsourcing in Nigeria banking industry are more of cost efficiency and strategic decision to improve performance.

This result is consistent with the findings of Ohnemus (2007) which revealed that firms which are actively outsourcing basic IT services have a significantly higher production efficiency as measured by the constant term compared to firms not involved in IT outsourcing. The results further showed that focusing on core activities is also one of key determinants of outsourcing. This result is consistent with the findings of Sislian and Satir (2000) & Quinn (1999) that revealed that the strategic reasons for outsourcing is to allow the organization to better focus on its core competences. Improvement of service delivery and quality and meeting changing customers' needs are also factors that determine outsourcing decisions. This finding is line with the findings of Abramovsky and Griffith (2006) who found that outsourcing has positive effect on ICT. So, if the company have sufficient resources to provide the necessary capacity and expertise then outsourcing may not be necessary.

There is the need to examine the resources of a company before an outsourcing decision is made. Outsourcing is not for every company but it is a necessary option for others. Furthermore, the result also revealed that increased productivity and performance is the second major factor that determines the outsourcing decision in Nigeria. The banking sector is a very complex and delicate industry in which any error in its operation can have negative consequence on the overall economy. Therefore, outsourcing should be adopted with caution and only where necessary and inevitable. Bank operators must identify those activities that are core activities and those that are non-core activities and only those that are critical to the organisation success should not be outsourced. They should be performed internally and develop professionals to handle them. The non-critical activities that organization has no capacity to provide should be outsourced outrightly. Such activities include security, office maintenance, advert and promotion, recruitment of staff and marketing. It was also observed that outsourcing was complex. Thus it cannot be the solution to all problems of the bank. The study concluded that Nigerian banks' engagement in outsourcing activities had contributed significantly to the overall performance of banks in Nigeria.

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