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Outsourcing Strategy and the Performance of Deposit Money Banks in North-Central, Nigeria

Echukwu Ifeoma Jeraldine, PhD
Department of Business Administration and Management, The Federal Polytechnic Idah Kogi State, Nigeria

Abstract

This study on Impact of Outsourcing Strategy on the Performance of Deposit Money Banks in North-Central, Nigeria is written to examine the extent to which outsourcing strategy influences performance of Deposit Money Banks in North-Central, Nigeria. The study applied a descriptive research survey design. The population of the study was 879 thus; the researcher adopts Godden sample size statistical formula to obtain the view of respondents numbering 192 using structured questionnaire designed in a 5 points Likert scale. However, out of the total of 192 questionnaires distributed only 157 were duly completed and returned giving a retrieval rate of 82%. The analytical tools employed comprised descriptive and inferential statistics and hypotheses tested using multiple regression technique. Finding revealed that there is a significant positive relationship between Outsourcing strategy and performance of Deposit Money Banks in North- Central, Nigeria (r =0.440, p-value <0.05). Based on the finding, the study concludes that concluded that outsourcing strategy supports operations of Deposit Money Banks as it guarantees efficient services and also covers the weak aspect of the organization. Premised on the finding the study recommends that there is need for banks to outsource other weak aspects of business to experts rather than managing the areas as it will contribute to timely task attainment and quality service delivery. Bank Management should also compare hiring marketing staff and contracting marketing functions to agencies. The cost effective and positive results should be the basis for selection among other viable options. This measure will enhance the sustainability of banking operations in North-Central, Nigeria.
Keywords: *Outsourcing, Strategy, Performance, Banks.*

Introduction

The banking industry plays a crucial role in transforming resources into economic and social infrastructure, driving socio-economic development (Adudu et al, 2020). In Nigeria, the banking industry holds a crucial position in the economy and has the potential to become one of the largest markets in the world. However, it currently contributes less to the economy compared to other economies, including those that are less developed than Nigeria (Onouha, 2022). Although the industry is steadily growing and has outperformed most sectors of the economy, its contribution to the Gross Domestic Product (GDP) remains very low (Umar & AbdulQadir, 2020). The banking industry's performance significantly impacts the economy (Iheriohanma & Austin-Egole). It faces challenges including inefficient policies, practices, weak institutions, adverse business environment, and complex social and cultural practices (Adenugba & Oteyowo, 2012, Malik & Audu, 2023). Concerns about the industry's performance have been raised by stakeholders who have called for improvement (Oluyemi, 2013, Achimugu et al, 2015, Acho et al, 2021). This special interest in the sector stems from the belief that it is a major contributor to employment for millions of people across various professions and skills and also serves as a vocational training ground.

The performance of the sector is not unconnected with the strategy adopted by the banking firms in Nigeria. These strategies entail out-tasking and core competencies. However, of particular interest to this study is the outsourcing strategy employed by these firms. Outsourcing has been a global trend in business for several years. Some managers even consider it a panacea for every companies. Verwaal (2017) observed that the beginning of outsourcing can be traced to the late part of the 20th century when firms began to contract out some of the smallest aspects of their business to companies that provide specialized services. The Densai study conducted in 2012 defined outsourcing as the contracting out of a business process that an organization may have previously performed internally, or as a new need for an independent organization from which the process is purchased back as a service. Outsourcing has been identified as a business strategy in the Nigerian banking industry, and this study aims to investigate the extent to which outsourcing has influenced the performance of banking firms in North-Central Nigeria.

Objectives of the Study

The broad objective of the study is to ascertain the relationship that exists between outsourcing strategy and the performance of Deposit Money Banks in North-Central, Nigeria. However, this study is specifically accomplishing the following objectives:

i. To determined if there is significant relationship that exists between out tasking and performance of Deposit Money Banks in North-Central, Nigeria.
ii. To examine if there is significant relationship that exists between core competencies and performance of Deposit Money Banks in North-Central, Nigeria.

Statement of Hypotheses

This study formulates two research hypotheses in null form.

H_1: There is no significant relationship between out tasking and performance of Deposit Money Banks in North-Central, Nigeria.

H_2: There is no significant relationship between core competencies and performance of Deposit Money Banks in North-Central, Nigeria.

LITERATURE REVIEW

Conceptual Review

Outsourcing strategy refers to strategy whereby corporate tasks and structures are given to an external contractor (Smith, Vozikis & Varaksina, 2016). This could be individual tasks, specific areas, or the entire business processes. Thus, with outsourcing, one or more responsibilities or processes are given to an external partner. Outsourcing strategy is an abbreviation for “outside resource utilisation” (Rajee & Akinlabi, 2013). Outsourcing is when a company transfers its services or functions to a provider outside of the organization. It involves entrusting non-core services or operations to an external entity that specializes in that particular operation. According to George & Jones (2014), outsourcing is when a company hires other organizations to perform specific jobs that it used to do itself. Tolera (2018) defines outsourcing as turning over activities outside the organization’s core competencies to a supplier. Gyeo et al (2019) see outsourcing as procuring something externally that could have been sourced internally.

The term "outsourcing strategy" refers to the process of transferring the responsibility for a specific business function from an employee group to a non-employee group. In other words, outsourcing involves handing over an activity to an external supplier instead of handling it internally (Aubert, Rivard & Patry, 2014). Additionally, outsourcing is the use of external agents to carry out organizational activities. This definition aligns with Maurice (2019), who defines outsourcing as the transfer of an organization's recurring internal activities and decision rights to an external provider. Eyaa (2017) defines outsourcing as firms opting to have an external supplier take over an activity that would have been performed in-house by organization employees. Overall, outsourcing can be described as the transfer of activities previously conducted in-house to a third party. In recent times, the scope of outsourcing decisions has expanded from manufacturing physical products to encompass service activities. For example, bank firms outsource power management, generator maintenance, purchase of raw materials, accounting and bookkeeping, security, payroll, recruitment processes, and more, allowing their own employees to focus on core business functions. The global trend of globalization has prompted many organizations to outsource their non-core activities to service providers and concentrate on their core competence. In the realm of services, outsourcing is viewed as a solution for ensuring continuous, reliable, and uninterrupted service (Chaojie et al, 2019). "Out-tasking," on the other hand, refers to less complex models involving fewer processes and limited to functional areas; they are also more tactical and labor-oriented (Elumuti, 2004). It is an outsourcing business model where a supplier performs tactical or project-oriented tasks or processes. It encompasses contracting and licensing engagements that are more complex than Business Process Outsourcing (BPO) engagements (Munjal et al, 2019). Core competency is the combination of observable and measurable knowledge, skills, abilities, and personal attributes contributing to enhanced employee performance and ultimately resulting in organizational success. Core competencies are the resources and capabilities that form the strategic advantages of a business. A modern management theory argues that a business must define, cultivate, and exploit its core competencies to succeed against the competition (Appiah-Adu et al, 2016).

Organizational Performance

Prasad and Prasad (2007) posited that the drive for greater efficiencies" and cost reductions have forced several organizations to increasingly specialize in a limited number of key areas. This has led organizations, to outsource activities traditionally carried out in-house. Interestingly, the term outsourcing has become popular in recent years, firms have always made decisions about determining their boundaries (Daniel, 2006, Uchenna & Audu, 2021; Uchenna & Audu, 2022). Outsourcing has been a key strategy used by firms in several industries for reasonable length of time. Across the globe, competitive pressure and the need for quarter-to-quarter financial performance improvement are driving an increase in the magnitude of outsourcing across industries worldwide. Firms are establishing and executing outsourcing schedules in order to match competitors in their outsourcing endeavors, improve non-competitive cost structures, focus on core competencies and reduce capital investment as well as overall fixed costs, achieve cost-competitive growth in the supply base for goods, services arid technologies in a firm's value chain, and establish a future sales footprint in a low-cost country by outsourcing simple goods or business processes. These factors are forcing firms to fully evaluate their outsourcing models to determine their validity in today's highly competitive world (Adkins, 2016).

Task accomplishment entails the accomplishment of the requirements that are part of the contract between the employer and employee. Again, task accomplishment in itself can be described as a multi -dimensional construct. Robinson (2014) argued that task accomplishment is different from contextual performance. Contextual performance consists of phenomenon that does not out rightly contribute to organizational performance but supports the organizational, social and psychological environment (Robinson, 2014). Additionally, cost effectiveness is the regulation of cost of operating a business and it is sync with keeping costs within acceptable limit (Adeniyi, 2017). Cost effectiveness is widely used today, and there is no consensus on the definition yet. Cost effectiveness is used to describe the action of manager in short-run and long-run planning and management of costs (Richard et al,2009).

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Conceptual Model

Independent variable **Dependent variable**

Outsourcing Strategy (OS)

Organizational performance (OP)

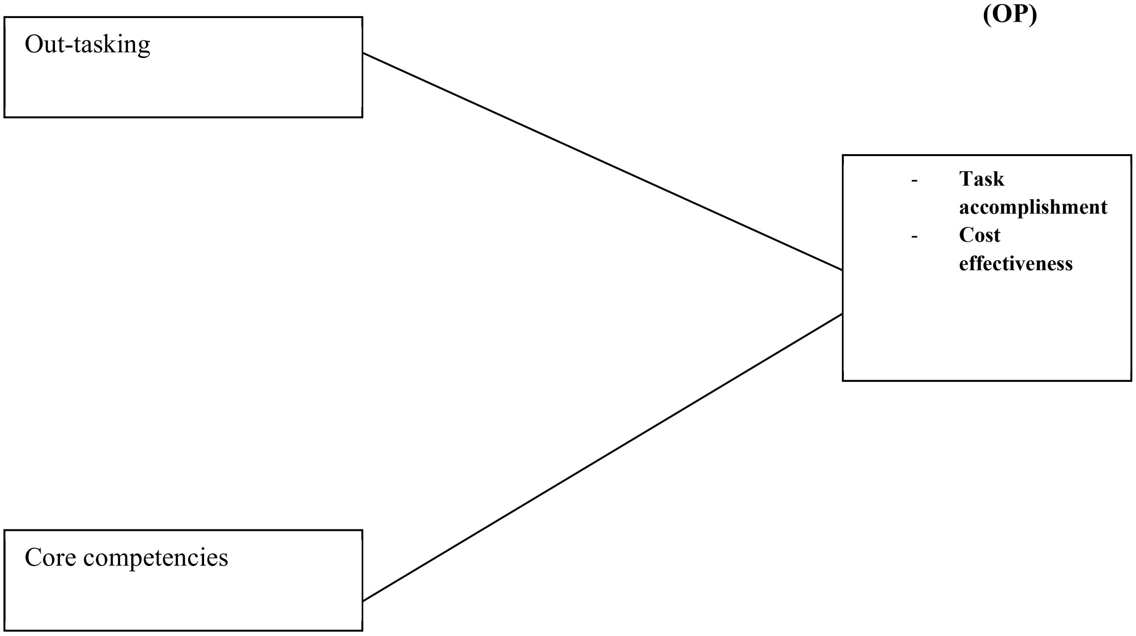

Fig 1: Conceptual Model

Fig 1 describes the influence of outsourcing strategy on organizational performance. Outsourcing strategy was examined with the view to exploring which has more influence on the performance of the Deposit Money Banks in North-Central, Nigeria towards economic sustainability. These strategies play fundamental role in enhancing performance. Hence, the model revealed that there is a correlation between the independent variable, outsourcing strategy and dependent variable, performance of Deposit money banks in North-Central, Nigeria.

Research Methodology

The research adopted a descriptive research design. This research technique is a research survey design involves surveying the respondents with the target of collecting responses with the aim of making statistical analysis. Therefore, this study which examines outsourcing strategy and performance of Deposit Money Banks involved collecting data through primary sources. The primary data obtained were through a structured questionnaire while the data were subjected to descriptive and inferential statistical analysis. The population of this study comprised the entire employees of Management staff of Deposit Money Banks in North-Central, Nigeria numbering about

879. However, considering the fact that the population for this study may not be manageable effectively, it becomes impossible to study the entire population. Thus, the research adopted Godden' statistical technique.

The Godden (2004) sample size determination statistical technique is appropriate for determination of sample size with a finite population less than 50,000

The Godden (2004) formular denoted as.:

$$SS = \frac{Z^2 (P)(1 - P)}{C^2} \quad \text{-- equ (1)}$$

$$\text{New SS} = \frac{SS}{1 + \frac{(SS - 1)}{\text{Population}}} \quad \text{equ (2)}$$

Where SS = Sample size
Z = Confidence level 95 %
P = Percentage of population (80%)
C= Confidence interval = 5 % (0.05)

$$SS = \frac{1.96^2 \ (0.8)(1 - 0.8)}{0.05^2} \quad \text{equ (1)}$$

$$SS = \frac{3.8416 \ (0.8)(1 - 0.8)}{0.0025}$$

$$SS = \frac{0.614656}{0.0025}$$

$$SS = 246$$

Population = 879

$$\text{New SS} = \frac{246}{1 + \frac{(246 - 1)}{879}}$$

$$\frac{246}{\frac{246}{1 + 0.279}}$$

$$\text{SS} = \frac{246}{1.279}$$

New SS = 192

Therefore, the sample size = 192
However, out of the total 192 questionnaire distributed only 157 were duly completed and returned giving a retrieval rate of 82%.

The questionnaire was the only source of primary data hence in doing this the study designed a close-ended structured questionnaire while a five- point Likert-scale responses of strongly agree, Agree, Undecided, Disagree and strongly disagree was used. The decision criterion is to accept any item with a mean of 3.00 and above otherwise such a mean will be rejected.

Data Analysis and Results
Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
OT	3.63	1.03	157
CC	3.53	136	157
OP	3.21	0.82	157

The table shows the selected scale mean lies within the accepted range; therefore, they are of high extent and the research can conclude that data obtained and analyzed is significant and reliable. More so, in order to ascertain the variability of the data the standard deviations of both variables were examined. The mean of out tasking (OT) is 3.63 and the standard deviation is 1.03, the mean of core competencies (CC) is 3.53 and the standard deviation is 1.36 while that of organizational performance (OP) has the mean value of 3.21 and standard deviation of 0.82. hence all variables lies within the value of high extent as indicated by their corresponding means and standard deviations which are closely related.

Test of Hypotheses

The statistical decision rule of p- value states that the Null hypothesis should be accepted if P- value is greater than alpha value (i.e. level of significant which is 0.05) otherwise it should be rejected while the Alternative hypothesis is adopted.

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.663[a]	.440	.443	.745361

a. Predictors: (Constant), OT,CC.

Source: Field survey, 2024

Table 2 reported that the change in organizational performance which is brought about by the change in outsourcing strategies variables by 44% (.440) as indicated by the adjusted R^2 value. The independent variables explain 44% of the variability of the dependent variable.

Table 3. Fitness of the Model
ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	22.732	2	9.061	9.211	.000[b]
	Residual	87.684	155	.762		
	Total	110.416	157			

a. Dependent Variable: OP
b. Predictors: (Constant), OT, CC.

Source: Field survey, 2024

The *F*-ratio in table 3 shows that the variables of outsourcing strategies statistically significantly predict organizational performance, $F\ (2, 155) = 9.211$, $p< .0005$ (this means that the regression model is a good fit of the data).

Table 4. Coefficient

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.365	.263		1.120	.352
	OT	.232	.043	.217	2.112	.000
	CC	.163	.046	.167	2.238	.011

a. Dependent Variable: OP

Table 4 shows that out tasking (B= 0.232, S.E= 0.43, t. cal = 2.112, p= 0.000, $P < 0.05$), core competencies (B= 0.163, S.E= 0.46, t. cal = 2.238, p= 0.011, $P < 0.05$). This implies that out tasking has a more strongly relation to organizational performance followed by core competencies with p value of p= 0.000 and p= 0.0141 $P < 0.05$ respectively. However, it can be concluded that there is significant positive relationship between outsourcing strategy and the performance of Deposit Money Banks in North-Central, Nigeria.

Conclusion

The study concluded that outsourcing strategy supports operations of Deposit Money Banks as it guarantees efficient services and aslo cover the weak aspect of the organization. The adoption of out tasking outsourcing will contribute to accomplishment of task as the weak aspect of business process is contracted to experts. The study concluded that outsourcing strategy contributes to quality service delivery as it gives focus to the management of the information technological functioning of the organization.

Recommendations

There is need for banks to outsource other weak aspects of business to experts rather than managing the areas as it will contribute to timely task attainment and quality service delivery. Bank Management should compare hiring marketing staff and contracting marketing functions to agencies. The cost effective and positive results should be the basis for selection among other viable options. This measure will enhance the sustainability of banking operations in North-Central, Nigeria.

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