A Study of Outsourcing and Performance of Commercial Banks in Lagos, Lagos State, Nigeria

Jegede Charles Temitope PhD Institute for Entrepreneurship and Development Studies, Obafemi Awolowo University Ile-Ife, Osun State, Nigeria

Abstract
The study assessed the outsourced services in Nigerian Commercial Banks. It also examined reasons for outsourcing business services with a view to identifying benefits and challenges facing outsourcing in the commercial banking industry of Lagos, Lagos State, Nigeria. The study utilized primary data which were collected through the use of in-depth interview. The in-depth interview was conducted on five staff each of the 10 commercial banks which have their headquarters based in Lagos. The result showed that majority of staff in the commercial banking industry is being outsourced and these staffs were spread across five activities such as cleaning, recruitment and training, security, ATM and IT Unit and Marketing and Promotion Units of department/units in the banks. The result further showed that the identified reasons for outsourcing business services in banks include the need to focus on core activities, cost reduction, technical considerations, increase productivity and performance.

The study found that outsourcing has been beneficial in five ways to banking industry namely: focused on core competence, reduction in staff head counts/size, curtailing and preventing industrial disputes, cost reduction in manager’s burden and meeting targets. The result also revealed that the major challenges facing outsourcing include failure to adhere to quality requirement and specification dilution control, financial risks, poor planning, opposition from internal staff among others. The study concluded that outsourcing activities has been beneficial to the overall bank performance and has greatly improved service delivery and overall operational efficiency of banks in Lagos in particular and Nigeria in general.

Keyword: Business services, Core Areas Operational Efficiency, Outsourcing, Performance.

Introduction
Outsourcing has attracted growing interest in recent years as managers consider whether it is in their best interest to perform activities in-house or contract out to external body or bodies. Outsourcing is a process of replacement of in-house provided activities by sub-contracting it out to external agents (Irefin, Olateju and Hammed, 2012). It is also a system whereby organizations give out some of its services to outside services providers to handle on their behalf. Outsourcing of human resources has come a long way in history and has continued to be more acceptable in Nigeria and other developing nations of the world.

In Nigeria, most commercial banks resort to outsourcing without any regulatory guidelines as well as evidence of performance implications of outsourcing. Recent financial crisis episodes in the Nigerian commercial banking industry have resulted in several
empirical issues about its contributing factors and how to mitigate the adverse effect of such crisis. Most of these studies concentrated on issues relating to corporate governance, risk management, merger and acquisition. There was little or no sufficient evidence in the existing literature on the outsourced services, reasons for outsourcing in the commercial banking industry in Nigeria. Thus, the study endeavors to bridge the gap. It is against this backdrop that this study sets to examine the outsourcing and performance of commercial banks in Lagos, Lagos State, Nigeria.

**Objectives the study**

The general objective of this research is to explore outsourcing and performance of the commercial banks in Lagos. The specific objectives are to:

(i) examine the services outsourced in the commercial banks of Lagos, Lagos State, Nigeria.

(ii) identify the reasons for outsourcing business services in the commercial banks based in the state.

(iii) assess the benefits of outsourcing; and

(iv) explore the challenges facing outsourcing in the commercial banking industry of Lagos, Lagos State, Nigeria.

**Outsourcing: A Conceptual Review of Literature**

Different definitions have been offered by scholars and researchers across the globe in explaining the concept of outsourcing. Adegbami et al. (2012) defined outsourcing as a contract service agreement in which an organization hires out all or part of its operation to an external company. Corbett (1999) regarded outsourcing as an approach through which major but non-core organization functions are delegated to expert service provider. For him the works being outsourced are the non-core activities which “internal staff” could not render or organizational works that need specialized personnel.

Domberger (1998) in his more detailed definition regarded outsourcing as a strategy of delegating organizational services or works to other party under in business agreement that includes time of service in relation to cost, quality and the timeliness of providing the services. To Beaumont (2006), outsourcing can be said to be one sub-type of production to external entity such as a sub-contractor. Outsourcing has become an alternative which all major corporations must consider in order to remain competitive. It has also helped to increase efficiency, improve service quality, accountability, values, decreased head counts and cash infusion and gain access to world class capability and sharing risk (The Outsourcing Institute, 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.

**Historical Perspective of Outsourcing**

Over the last two hundred years, firms have been organized in almost every way imaginable organizations have evolved from a focus on a single activity to vertical integrated businesses to multi-dimensional business and how many firms are returning a narrower focus by outsourcing non-core activities. However, outsourcing was not formally identified as a business strategy until 1989 (Mullin, 1996). Most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency...
internally. They use of external supplier for these essential but ancillary services might be termed stage in the evolution of outsourcing. The next stage is outsourcing support services. This is because as organizations began to focus more on cost-saving measures, they started to outsource those functions, necessary to run a company but not related to the core business. These organizations use outsourcing to strive for greater efficiencies and cost reduction (McIvor, 2005).

The current stage in the evolution of outsourcing is the development of strategic partnership. This is because the focus today is less on ownership but more on developing strategic partnership to bring about enhance results. Consequently, organizations are likely to select out sourcing more on the basis of who can deliver more effective results for a specific function than on whether the function is of core competency. Thus, this trend in outsourcing is leading developed countries to outsource into developing economies where there are lower labour cost and more favourable employment legislation.

**Reasons for Outsourcing**

Looking through past research (Prasad and Prasad, 2007) posited that the drive for greater efficiencies and cost reductions has forced many organizations to increasingly specialize in a limited number of key areas. This has led organizations to outsource activities traditionally carried out in-house. Although the term outsourcing has become popular in recent years, organizations have always made decisions about determining their boundaries (Daniel, 2006).

Across the globe companies are establishing and executing outsourcing plans in order to match competitors in their outsourcing endeavors, improve non-competitive cost structures, focus on core competencies and reduce capital investment and overall fixed costs, achieve cost competitive growth in the supply base for goods, services and technologies in a company’s value chain and establish or future sales footprint in a low-cost country by outsourcing simple goods or business processes. These factors are forcing companies to fully evaluate their outsourcing models to determine in today’s highly competitive world (Akingbola, 2012).

**Outsourcing Activities and Role of Performance**

Past researches have focused on outsourcing performance measures (Kotabe et al 1998). For example they identified three types of performance measures as necessary components in any performance measurement system; strategic measures, financial measures and quality measures. While other studies use additional dimensions of market performance such as cost savings, customer satisfaction and productivity to measure effectiveness of outsourcing strategy (Atallah and Li, 2005).

From a different perspective, obstacles such as poor choices of sourcing partners, inadequate planning and training needed to manage outsourcing activities and poor organizational communication have also been identified as impacting the success of outsourcing projects (Maskell, Peterson and Dick-Nielsen, 2007). The increasing use of outsourcing arrangements, as well as the unfamiliar complexity, suggests the need to know more about how to effectively utilize this strategy. Consequently, more information is needed to understand successful outsourcing and problems encountered in outsourcing activities and its impact on overall organizational performance. These areas represent the areas that companies and demonstrate high
performance levels in order to survive in an extremely competitive environment. Sustaining successful outsourcing activities require a company to undertake several activities relating to supplier audits, assessment and evaluation. These activities should be an integral part of management process. The organizational competitiveness (in terms of quality, reliability, speed and cost efficiency) depends on supplier’s performance ability to reduce cost as well as supplier’s cost reduction in a highly competitive environment (Moss, 2002).

**Benefits of Outsourcing**

Outsourcing offers many incentives that can contribute to the firm’s competitive advantage. With respect to cost, outsourcing may contribute to cost reduction by providing improved economies of scale, access to technologies, shared risk and greater availability of time to devote to the development of care competencies (Ghodewar and Vaidyanathan, 2008). Outsourcing also provides an opportunity to acquire specialized expertise and expert knowledge in areas where a firm’s internal staff is deficient (Shy and Stenbacka, 2005). In similar manner, outsourcing helps to attain sustained competitive advantage by improving performance as well as freeing up to Internal resources for core competences.

The following are the advantages of outsourcing:

(i) **Increase Productivity:** Employment of a large number of skilled manpower at a low cost would result to increased productivity and customer satisfaction (Vonaka and Takeuchi, 1995).

(ii) **Better focus of Resources on Firm’s Core Business:** Companies want to spotlight their core competencies; they avoid getting entangled and wasting time performing task disadvantageous to those competencies so therefore back office are critical for the firm’s everyday activities, the operation of the back office requires high maintenance and specialized concentration. By outsourcing back office operations to a specialized third party company, business can focus on their major activities (Viming and Globerman, 1999).

(iii) **Competitive Advantage:** Outsourcing in this case can help the company maintain lower rates with better service solutions, thereby giving them a better market position and competitive advantage. Organizations obtain sustain competitive advantage by implementing strategies that exploit their internal strengths through responding to environmental opportunities while neutralizing external threats and avoiding internal weakness (Brooks, 2006).

(iv) **Cheaper World Class Technology:** Outsourcing resolves the problem of an over-changing technology world and enable the executive to focus on promoting his core competencies (Thomas and Thomas, 2008).

(v) **Skilled Manpower:** A bank can employ skilled and trained manpower at low rates by outsourcing which ultimately leads to increased productivity and low cost. This helps the banks to utilize the kind of expertise that could not be produced internally (Farrell and Grant, 2005).

**Challenges of Outsourcing**

Despite the rising popularity of outsourcing activities in the banking industry the practice is not without pitfalls. Risk and pitfall typical in an outsourcing initiative, the following can be identified:
(i) **Displaced Employees:** Thomas and Rick (2005) discovered that outsourcing sometimes results in job losses, especially in cases where reducing head count is the objective.

According to a research, banks that outsource IT must deal with unexpected costs such as lower productivity, added sick leave and poor quality work. The cost of displaced workers and the effect on company morale may exceed the benefits of outsourcing project.

(ii) **Loss of Control:** Without addressing issues in the service level agreement such as successful job completion rate, 24 hour response time and timely project completion and without clear guidelines, control cannot be maintained. Most control issues are a result of lack of information. If the vendor and client do not communicate and establish a mutually beneficial partnership promoting each other’s success, control problems increase.

(iii) **Loss of Business Knowledge:** When knowledgeable staff people are eliminated by the banks, the accumulated know-how and business knowledge goes with that staff member.

Attempts in the future to return the process in-house will not have the benefit of key personnel with the needed knowledge on staff because knowledge is non-quantifiable, organizations fail to value this asset. The retention of corporate wisdom should be taken into account when considering the issue of outsourcing (Grossman and Helpman, 2005).

(iv) **Risk and Reversibility:** Contracts always require a bank to commit to service for an extended period of time, if the outsourcer is not satisfied with the service it could be difficult to break the contract. It will be costly to reverse the situation and return the services in-house (Agarwal, 2009).

(v) **Communication Problems:**
Communication failures are the biggest contributor to outsourcing project challenges. The researcher’s personal experience contracting support personnel with outsourcers in partnership with various banks has resulted in difficulty understanding instructions due to language barriers.

(vi) **Timeliness:** Timeliness is a challenge in outsourcing. Whenever additional level is added to the infrastructure, time becomes an issue; a third party vendor adds an additional layer. If there is a delay in delivering reports at an appropriate time to the client, it is a big challenge.

**Methodology**
The study was carried out in Marina and Victoria Island, Lagos State, where the 10 selected Commercial Banks have their headquarters. The names of the selected banks are: Access Bank Plc, Diamond Bank Plc, Eco Bank Plc, Guaranty Trust Bank Plc, Intercontinental Bank Plc, Skye Bank of Nigeria Plc, Stanbic IBTC – Chartered Bank Plc, Union Bank Plc, Wema Bank Plc, Zenith Bank Plc. The study utilized primary data which were collected through the use of in-depth interview. The in-depth interview was conducted on 50 respondents representing 5 staff each of 10 commercial banks based in Lagos, Lagos State, Nigeria.

**Staff Interview Responses**
Outsourced services of the Commercial Banks
From the findings, majority of interviewed respondents indicated that the outsourced services include cleaning, security, ATM, call center, sales/marketing, other services include collection, consultancy service in dispatch rider (Delivery Mail), training market probe etc.

Reasons for Outsourcing Services in the Commercial Banks
The respondents were required to indicate the reasons for the bank to outsource business services. Majority of the respondent indicated that the bank outsourced in order to realize cost efficiency, for technical considerations, increasing productivity, performance and the need to focus on core activities. They were further asked why not all the activities are outsourced. They indicated that core activities were not outsourced for secrecy and protection of reputation of the banks, because some skills are not easy to come by, majority are security sensitive, service that are commonly functions of the banks are not outsourced because they can be dangerous, also because of confidentiality of information for effectiveness of services.

Benefits of Outsourcing in Commercial Banks
The study sought to establish whether there are benefits that have resulted from outsourcing of services in the banks. The respondents indicated that outsourcing leads to improvement in service delivery and efficiency. Outsourcing also leads to growth of the banks value for money as it allows experts in that field to provide solutions to avoid union challenges and help in meeting demand of customers. They further stated that outsourcing helps to increase expertise and professionalism and better administration, reduction in process time, focus on core activity, improve quality and flexibility as it lifts up the burden on the bank cost reduction, streaming of processes among others.

Challenges of Outsourcing in Commercial Banks
The respondents were asked whether there are problems that have resulted from outsourcing of services in the commercial banks. They indicated that the challenges of outsourcing include failure to adhere to quality system, increase in the cost of outsourcing administration and provisions, dilution of control, financial risk, poor structure to manage the outsourcing function well, poor planning increase in banks liabilities to third parties, lack of compliance with term of contract, opposition from internal staff and provision of unclear specification among others.

Summary and Conclusion
The study examined the services outsourced in the Nigerian banking industry and identified the reasons for outsourcing services in the industry. It also assessed the benefits and challenges facing outsourcing in the industry. The study found that majority of Nigerian commercial banks outsource various services including cleaning security, information, system, recruitment, ATM, consultancy, maintenance, internet banking, card processing and payroll.
Similarly, the study also established that banks outsource in order to reduce cost efficiency, for technical considerations, increase productivity performance and need to focus on core activities. Thus, the commercial banks aimed at meeting changing customer needs, making better use of time and energy costs, redirecting or conserving energy directed at the competencies of the banks service, or to
make more efficient use of labour, capital, technology and human resources. The study also found that the benefits that have resulted from outsourcing in the banks include improvement in service delivery, improved efficiency, meeting the set target, effective decision making, growth of the banks increased customer base, freeing up resources to other areas, helps to avoid union challenges, helps to increase expertise and professionalism and leads to better administration.

The study also revealed the challenges facing outsourcing in Nigerian banking industry include financial risk lack of compliance with the contract opposition from internal staff, failure to adhere to quality system poor planning, dilution of control among other. The study concluded that when outsourcing is applied judiciously it could contribute to the improvement of the banking industry performance.

**Recommendations**

Outsourcing is an emerging process in the Nigeria banking industry. Therefore, Nigerian commercial banks need to pass through a learning phase before outsourcing is recognized as an efficient management and regulatory tool. Thus banking industry needs time before the capacities of managers and providers are adequately developed and streamlined. Outsourcing is complex and cannot be the solutions for all problems of the bank, services, not everything can or should be outsourced. When outsourcing is applied judiciously, it could contribute to this improvement of the bank services. It is also vital for the continued successes of the banks and its services to regularly review and update its outsourcing process. The management team should be actively involved in the supplier’s selection and management of the suppliers. Strategically managed organizational do not outsource because they want to down size. Therefore, for outsourcing to be successful, the outsourcing decisions needs to be informed decisions. It is also very important for the Nigerian banking industry to have a dedicated outsourcing unit for ensuring that the organizations outsourcing policy is applied consistently.

Finally, bank managers must know that the successful outsourcing requires a shift in their mindset, which means that they must manage their contractors and workers in order to improve on efficient service delivery.

**References**


