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Impacts of Outsourcing Activities on Banking Industry Performance in Nigeria

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Abstract:
The paper empirically examined impacts of outsourcing activities on performance of banks in Nigeria using data from twenty banks with fifty respondents selected from each bank. The findings emanated from this research exercise concluded that outsourcing has no effect on profitability and personnel cost of the bank but increases stock prices and also service delivery, hence, the study concluded that there is significant relationship between outsourcing activities and bank performance and that outsourcing is a strategic tool in the activities banks in Nigeria. The paper recommends and advice Banks to improve their outsourcing activities, operations and organizational performance. Banks should involve in Human resource (HR) outsourcing so as to take advantage of the use of expert services as well as to capitalize on the outstanding quality that external firms provide in performing the human resource (HR) functions.

Keywords: *Outsourcing, strategic management, firm performance, banking industry, Nigeria*

1. Introduction

The role of banks in a nation's economy has been accentuated all over the world as to their contribution to total productivity and job opportunities. In developing countries, banks play a significant role as sources of employment generation and funding for real sectors of the economy. They provide more than 50% of employment in the financial sector, hence the emphasis being placed on the healthiness and stability of banking sector by policy makers across the globe. The intermediation role of banks in a country with an estimated population of 160 million inhabitant results in a pressing need to develop or acquire efficient, effective, robust and fluid system in order to respond and adapt to current and future operational needs. Outsourcing was a means to partner with service providers so they could handle specific business processes – better, faster and at a lower operating cost (Krishna Polineni, 2001). Outsourcing, the practice of charging external service providers with the task of performing in –house activities, 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 (Maltz and Ellram, 2000, Lewis and Talalayevsky, 2000).

Outsourcing is the method of replacing an in-house provided activity to a third agents mostly an external party. Consequently, the management and development of innovations in outsourced activities become the responsibility of an agent external to the firm. The purpose of outsourcing mostly in an organization are strategic: improved efficacies, lower outlays, enhanced flexibility, higher quality, and a greater capability to achieve a competitive advantage. The ultimate strategic goal is to develop core competencies that will strengthen barriers of entry for new firms to survive. By focusing on core competencies and utilizing qualified vendors to provide process that are not one of the organization's core competencies, such that the organization's risk can be minimized and shared with its suppliers. Financial service industry or the banking industry.

More specifically despite the significant rise in outsourcing activities in the banking sector in Nigeria, there is sparingly little attention paid to the issue of outsourcing activities in terms of trends, types and implication of outsourcing on bank performance in the literature on Nigerian economy. It is interesting to note also that a sizeable number of studies have been done on outsourcing activities with respect to even SMEs, in many other countries like Kenya, Uganda, South Africa and many other countries (Ekiya, 2007), there is sparsely (if any) evidence of such studies with respect to Nigerian banking industry. Hence there is need for examining the outsourcing practices and performance in the banking industry in Nigeria as there are increasing rate at which banks are embracing outsourcing as way of improving operational efficiency.

2. Theoretical Framework

2.1. The Agency Theory

The agency theory refers to the methods by which one party (the principal) ensures the development and maintenance/monitoring of beneficial relationship with another party (i.e. service providers and vendors). The agency theory addresses two issues of particular interest to outsourcing decision. The first is the problem of goal incongruence that may exist between the principal and the agent and the problem of verifying that the agent has behaved appropriately. The second issue concerns how the principal and the agent may have conflicting risk perspectives.

2.2. Theoretical Framework Adopted for the Study

In this study a combination of the four theories will be adopted. While the core competency theory and agency theory will be used as basis for analyzing the types of activities outsourced, the transaction cost theory will be used to analyses the factor influencing the outsourcing decision. The effects of outsourcing on performance will also be carried out on the basis of transaction cost theory.

2.3. Conceptual Framework for Study

This section provides a framework for outsourcing decision in financial services provider like banks. The framework is adopted from McIvor, et al. (2008). The framework employs tools and techniques that allow organizations to integrate performance measurement considerations into the outsourcing process. It provides guidelines on deciding whether outsourcing is appropriate and, if so, how the outsourcing process should be managed in order to improve performance. Figure 1 provides an overview of the outsourcing framework for the banking industry.

2.3.1. Stage 1 – Process Importance Analysis

This involves determining the level of importance for processes that have to be performed to satisfy customer needs. Identifying which processes are critical for success involves understanding the major determinants of competitive advantage in the markets where the organisation competes or wishes to compete. Critical processes are those that can be used to build sources of advantage that are difficult and costly for competitors to replicate. They are processes that will enable an organization to differentiate itself from its competitors. An understanding of critical processes is therefore central to outsourcing decision making. For example, where an organization possesses a superior capability in a critical process relative to competitors or suppliers, it should continue to perform that process internally. Additionally, the organization must have a clear understanding of how sustainable this position is over time. Similarly, processes that are not key influences on the organization's ability to achieve competitive advantage should be outsourced. A useful technique for distinguishing between critical and non-critical process in the context of outsourcing is the critical success factor (CSF) methodology (McIvor, 2005). The CSF method is useful in an outsourcing context as it can establish a direct link between outsourcing and the factors that influence business success. Van Veen-Dirks and Wijn (2002) showed that the CSF methodology can help managers deal effectively with the tension between outsourcing strategy implementation and formulation. It provides a language that generates acceptance at senior managerial level as it identifies important areas for strategic attention. Using performance measures to monitor the status of CSFs, changes in the market can easily be detected, directly allowing appropriate management action to be taken.

The empirical analysis in this study will be based on the management decision theory. This so because the risk-benefit analysis in decision theory compares the risks associated with and the benefits expected of a decision that is made, in order to achieve an optimal result. This concept has been discussed by Jurison (1995). When the concept is applied to outsourcing, it means that the manager or decision maker has to assess all the potential risks and benefits that may arise from outsourcing process.

Perceived risk theory which also constitutes part of decision theory analyses the risk a person subjectively associates with the consequences of a decision and its impact on the intention to close a transaction (Bauer 1967). This theory is grounded on the fact that as long as the perceived benefits outweigh the perceived risks, the person in charge will have a positive attitude towards a particular decision. In information system research, perceived risk inherent in a transaction plays a critical role especially in adoption of technology. For example, Feartherman (2001) found that the overall potential risk may reduce the usefulness of an activity. Also, Pavlou (2001) noted that potential risk reduces individual intentions to conclude a deal.

It is apparent that the individual perception towards outsourcing could either be positive or negative. Negative perceptions of outsourcing are often equated with risks of outsourcing, that is, the possibility of outsourcing failure [Aubert, et al., (1998); Earl, M.J (1996)]. Similarly, there are a number of outsourcing advantages, which may be summarized as outsourcing benefits [Dibbern, et al., (2004); ECB (2004)]. In this research, therefore the risk-benefit framework is applied to examine outsourcing decisions. The framework is in line with decision theory regarding decisions that involve risk or uncertainty [Friendmann and savage (1948); Machina (1987); Tamura (2005)]. In outsourcing research, the analytical framework of tradeoff between costs versus risks is well documented [see for example Jurison [1995]; (1998); (2002)]. This suggests that in making outsourcing decisions firm managers assess all the perceived risks and benefits. These factors are aggregated in arriving at the final decision to outsource a function or not. Consistent with this theory framework, it is plausible to argue that the decision to outsource is positively influenced by perceived benefits of outsourcing and negatively influenced by perceived risks of outsourcing. In this study therefore, the main hypothesis involves using size, cost reduction and profitability as possible predictors of banks' decision to outsource certain functional activities.

There are two key elements of the CSF methodology:

- Identification of CSFs and this can be developed from both the mission statement of the organisation and from an evaluation of the organization's competitive position.
- Determine performance measures to monitor CSFs -performance measures should be determined to allow the organization to monitor progress on whether the CSFs are being met

2.3.2. Stage 2 - Assessing Process Capability

A major part of outsourcing decision involves determining whether an organisation can achieve superior performance levels internally in critical processes on an ongoing basis or outsource such services. This analysis is concerned with identifying the disparity between the sourcing organisation and potential external sources. Organisations considering outsourcing must evaluate their capabilities internally and in relation to both their suppliers and competitors. It is important to carry out this analysis from a process perspective, given that organisations are increasingly positioning themselves in specific parts of the industry chain to gain competitive advantage. This allows an organisation to concentrate on what it will be detrimental to their competitive position to outsource both in the short and long term.

Determining the capability of the sourcing organisation in relation to competitors or suppliers involves analysing the following:

- Cost analysis – part of this analysis involves comparing the costs of sourcing the process internally and from an external supplier.
- An assessment of the relative cost position of the sourcing organisation in relation to suppliers in the processes should also be made.

Benchmarking – can assist in determining performance levels in the processes under scrutiny. It involves considering the cost position and a number of other dimensions such as quality, flexibility and service relative to competitors and suppliers.

<u>2.3.3. Stage 3 - Selecting the Sourcing Strategy</u>

Stages one and two considered the important level and capability of the organisation in the processes under consideration for outsourcing. Based on these analyses, the organisation should select the most appropriate sourcing strategy for both critical and non-critical processes in stage three. Figure 1 shows the four potential sourcing strategies for the process, which range from investing to keep the process in-house, to total outsourcing. The organisation should choose the sourcing strategy that fully reflects its competitive position and its process capabilities.

2.4. Review of Empirical Study

Young (2003) also notes that in outsourcing the major elements are first, the third party should be outside the normal employment conditions that governs traditional employees of the organization and second, the functions should have been previously conducted in-house. Mylott 1995, Pearlson 2000, Butler et al 2001) distinguished two forms of outsourcing namely full outsourcing and selective outsourcing. In full outsourcing, all the services are outsourced to the vendor. This according to Pearlson (2001) happens when organization does not see outsourcing of their services as a 'strategic advantage' that should be developed internally. Arguments for full outsourcing usually involve the allocation of organizational resources to areas that can add value to the organization value chain or reduce cost per transaction due to economies of scale. In selective outsourcing, only a range of services is selectively outsourced or contracted out to a third party. It often results in greater flexibility and better services (Pearlson 2001). Thus outsourcing in the context of this study is more related to transfer than procurement and is the transfer of an activity from internal governance to external control.

Akewushola and Elegbede examined the relationship between outsourcing strategy and organizational performance in Nigeria manufacturing sector. The study adopted a stratified sampling technique and the data were analyzed using Regression analysis. The findings reveal that firms that outsource experience reduce average cost, increased sales turnover and profitability, enhance expertise, improve service quality, reduce staff strength, streamline the production process, reduced administrative burden and save time for core activities. Margret et al (2014) empirically investigated the effects of outsourcing on organizational performance in Nigerian banking industry using both primary and secondary data. The study confirmed that outsourcing has substantial association with bank performance which accordingly enhances competitive advantage.

Masaaki and Michael (2009) studied the degree of a firm's outsourcing across all activities and the influences on financial performance using 1995 and 1998 data on a sample of manufacturing businesses. The empirical work revealed an optimal degree of outsourcing for some activities but a lower deviation for performance negatively. Jegede Charles (2015) investigated outsourcing and performance of commercial banks employed primary data which were collected through the use of in-depth interview on five staff of 10 commercial banks. The findings showed that outsourcing has been beneficial to banking industry in Nigeria. Bernice Oparebea Sackey (2016) assessed the prospects and challenges of outsourcing human resource in the banking industry using the case of Fidelity Bank. A simple random sampling and purposive sampling technique were used to select staff from the bank, in addition with secondary data. The study main challenges that the bank faced in outsourcing its HR included loss of managerial control over outsourced operations, effect on the quality of operations of the bank, security and confidentially and relocation of existing employees, hidden costs, loss of in-house knowledge and skills and loss of organizational innovation and knowledge.

Olannye & Okoro (2017) examined the effect of Human Resources Outsourcing on organizational performance in Deposit Money Banks. The study made use of a sample of 260 staff from 10 money deposit banks in the Asaba metropolis of Delta State, Nigeria. A cross-sectional survey research design method was adopted, and the statistical techniques used are principle component factor analysis, correlation and multiple regression analysis. The findings showed that that there is a significant positive relationship between the variables of human resource outsourcing and organizational performance. Anum Tariq, Basit Bashir, Bilal Ghuzanafar and Muhammad Ali Dar (2016) investigated outsourcing and organizational performance in Banking Sector using 50(sample) branches of different banks with the aid of a structured questionnaires, the empirical result using t- test revealed a strong and positive relationship between organizational performance(profitability, quality of work life) and outsourcing.

Agburu, Anza and Iyortsuun (2017) determined the effect of outsourcing strategies on the performance of small and medium scale enterprises using a primary source data and secondary data gotten through a well-designed and selfadministered questionnaires and financial records of ten (10) selected SMEs respectively. The study showed a conflicting result with outsourcing of supporting activities has a significant effect on organizational profitability of SMEs and outsourcing of accounting activities has no significant effect on performance of SMEs. Okechukwu, Elizabeth, IKE, and Ezikwere (2018) studied the correlation between outsourced staff flexibility and organizational profitability using descriptive survey design comprise 271 staff of selected money deposit banks in Enugu. Questionnaire instruction was used for data collection. The result of the study revealed that there is significant relationship between flexibility of outsourced staff and organizational profitability of selected deposit money banks, hence, employee flexibility of outsourced staff influences organizational performance.

3. Methodology

This aspect of this paper presents the empirical methodology adopted for the analysis of the relationship between outsourcing decision and bank performance among selected banks in Nigeria. 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.

In order to give each member of the population an equal chance of being selected and to ensure accuracy, the simple random sampling techniques was 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

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

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)[1] 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

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

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. 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, 1000 will be 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 were adopted. The purposive sampling was used to determinate the unit to survey while simple random sampling was used to select the staff to interview or administer questionnaires.

For the objective of the paper to be achieved which involved the analysis of the contribution outsourcing to bank performance a model where outsourcing activities is used as independent variable will be estimated. A multiple regression model is specified for the determination of the impact of outsourcing on the organizational performance of the banks. The hypotheses were formulated, results from respondents were analysed with regression analysis with the aid of statistical package for social scientists (SPSS).

The model is of the form

$$Performance = \alpha_0 + \alpha_1(OUT)_i + \alpha_2SIZE_i + \alpha_3COST_i + \alpha_4NAS_i + \alpha_5ROS_i + \alpha_5Age_i + \alpha_6NOB_i + \alpha_7NCS_i + e_i \text{……………………………………………………………………………}2$$

Where

Performance =is measure in three ways namely : return on assets (ROA), return on equity (ROE), return on investment (ROI) and net interest margin (NIM).
OUT= Type of outsourcing whether full or partial outsourcing
BS = Bank size measures as the log of total asset of the bank
Cost = the ratio of amount spent on outsourcing as percentage of total operating cost
NAS= is the Number of activities outsourced

ROS= Ratio of outsourced staff to total staff employed
Age = is the age of the bank that is year in operation
NOB= number of bank branches
NCS= number of account holder or customers serviced by the banks

4. Empirical Results

This aspect of the chapter presents the analysis of results emanated from the research exercise using the techniques discussed earlier. In order to establish the ways outsourcing has affected the performance of banks observed in this study, the Percentage distribution of the various options provided in the questionnaire was determined and a Linear Regression analysis was conducted to determine the relationship and significant effect of outsourcing activities on banks' performance. The Linear Regression analysis involves a dependent (response) variable and independent (explanatory) variables. In this process, the variables; Profitability, Stock prices, Service delivery, Personnel cost and Employer-employee labour disputes were computed into a single variable tagged 'Banks' Performance' (with SPSS analysis) which is dependent variable, while the independent variables are composed of the various services outsourced.

The result however, unfolds that outsourcing activities have significant effect on banks' performance in Nigeria. These are presented in Table 1, table 4.2, table 4.3 and table 4.4 below.

Variable		Increases		Decreases		Constant		Not Applicable		Total	
		Freq	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**	**Freq**	**%**
In which of the following ways have outsourcing affected the performance of your bank?	Profitability	113	22.6%	2	0.4%	2	0.4%	383	76.6%	500	100%
	Stock prices	16	3.2%	6	1.2%	9	1.8%	469	93.8%	500	100%
	Service delivery	463	92.6%	6	1.2%	0	0.0%	31	6.2%	500	100%
	Personnel cost	118	23.6%	78	15.6%	2	0.4%	302	60.4%	500	100%
	Employer-employee labour disputes	5	1.0%	52	10.4%	12	2.4%	431	86.2%	500	100%
	Others please, specify	0	0.0%	0	0.0%	0	0.0%	500	100%	500	100%

Table 1: Percentage Distribution of the Ways Outsourcing Has Affected the Performance of Banks
Source: Field Survey of Bank Workers in Lagos, 2018

The figure 1 shows the effect of outsourcing on the profitability on the selected banks in Nigeria. It can be seen that 22.60% of the respondents agreed that outsourcing has increased the profitability of their banks, 0.4% claimed it has decreased the profitability, while 0.40% and 76.60% suggested that it remained constant and not applicable respectively.

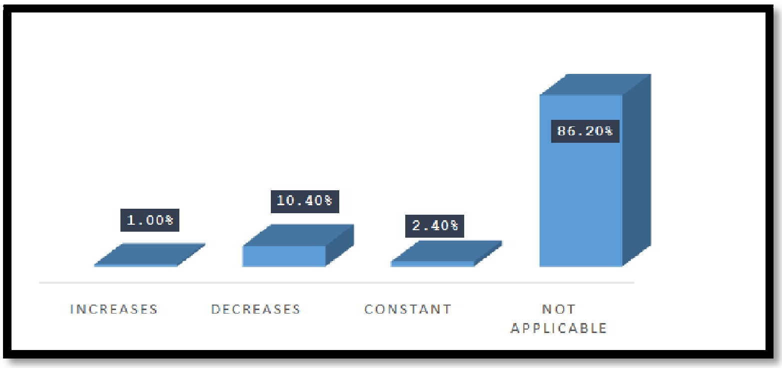

Figure 1: Effect of Outsourcing on Profitability

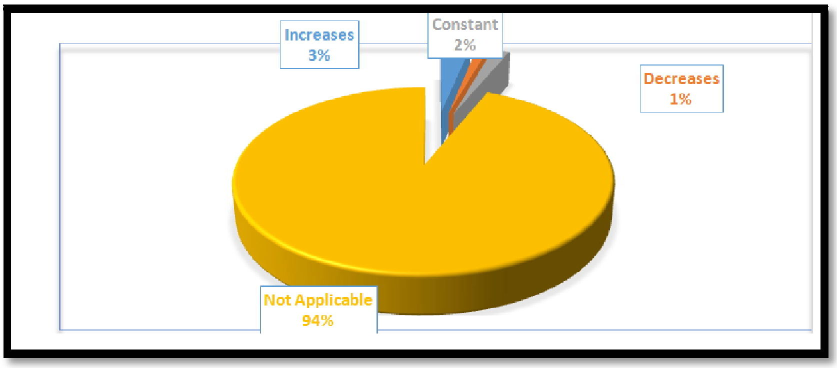

Figure 2: Effect of Outsourcing on Stock Prices on the Selected Banks in Nigeria
Source: Field Survey of Bank Workers in Lagos, 2018

Figure 2 shows the effect of outsourcing on the stock prices on the selected banks in Nigeria. It can be seen that 3.0% of the respondents agreed that outsourcing has increased the profitability of their banks, 0.4% claimed it has decreased the profitability, while 0.40% and 94.0% suggested that it remained constant and not applicable respectively.

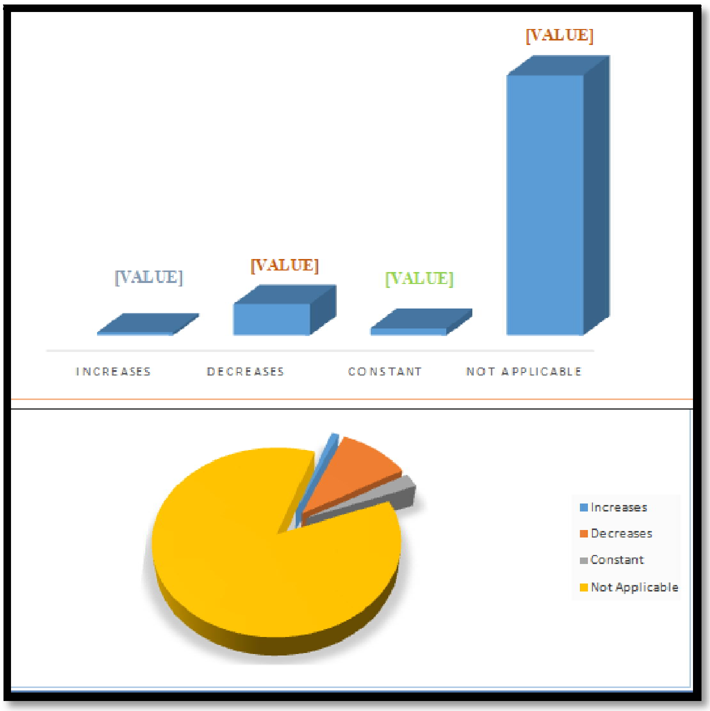

Figure 3: Effect of Outsourcing on Service Delivery and Personal Cost of Banks in Nigeria
Source: Field Survey of Bank Workers in Lagos, 2018

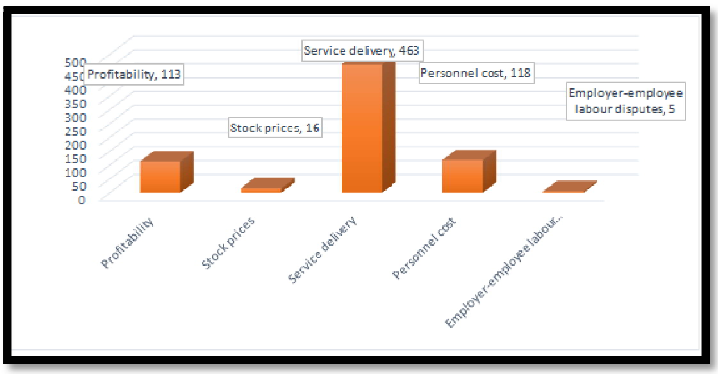

Figure 4

The figure above shows the effect of outsourcing on the service delivery on the selected banks in Nigeria. 92.60% of the respondents agreed that outsourcing has increased the service delivery of their banks, 1.20% claimed it has decreased the service delivery, while 0% and 6.20% suggested that it remained constant and not applicable respectively.

The above graph depicts how outsourcing has affected the performance of the banking industry ranging from the Profitability of the banks to their Employer-employee labour disputes. 113(15.80%) of the respondents argued that outsourcing had increased the profitability of the banking sector, 16(2.2%) of the respondent supported it has increased the stock prices, 463(64.8%) of the respondent further argued that it has increased service delivery, however, 118(16.6%) argued against the general opinion and suggested that outsourcing has increased the personnel cost and 5(0.6%) further reached consensus that outsourcing brought an increased to Employer-employee labour disputes

In order to provide answer to the above question, certain variables on the possible ways outsourcing can affect the performance of banks were outlined in the questionnaire for the respondents to consent to. The variables include; Profitability, Stock prices, Service delivery, Personnel cost, Employer-employee labour disputes and others (yet unspecified). In this context, outsourcing is presumed to either increase, decrease, leave constant or not applicable to the suggested variables in the questionnaire. In this regard. Table 1 above revealed that out of the total 500 respondents examined, 113 or 22.6% of the respondents consented that outsourcing increases profitability, 2 or 0.4% specified that it decreases profitability, also 2 or 0.4% specified that it leaves profitability constant, while larger remaining 383 or 76.6% respondents observed that outsourcing has no effect on profitability. 16 or 3.2% of the respondents cited that outsourcing increases stock prices, 6 or 1.2% respondents suggested that it decreases stock prices, 9 or 1.8% submitted that it leaves stock prices constant while a larger respondents of 469 or 93.8% approved that it is not applicable to stock prices. A larger number of respondents 463 or 92.6% agreed that outsourcing increases service delivery, 6 or 1.2% of the respondents claimed it decreases service delivery, 0 or 0.0% on constant, while 31 or 6.2% of the respondents affirmed that outsourcing is not applicable to service delivery. 118 or 23.6% of the respondents agrees that outsourcing increases personnel cost, 78 or 15.6% of the respondents claimed it decreases personnel cost, while 2 or 0.4% respondents specified that it leaves personnel cost constant and the a larger proportion of 302 or 60.4% indicated that it has no effect on outsourcing. Few 5 or 1.0% respondents indicated that outsourcing increases employer-employee labour disputes, 52 or 10.4% respondents claimed it decreases employer-employee labour disputes, while 12 or 2.4% respondents supported that it leaves employer-employee labour disputes constant, and a larger proportion of 431 or 86.2% respondents approved that outsourcing do not affect employer-employee labour disputes. From the survey, no other possible way was identified by the respondent.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.989	.289		6.875	.000
	ATM	-.200	.165	-.054	-1.213	.226
	Card Processing	-.339	.421	-.038	-.806	.421
	Internal Audit	-.552	.573	-.045	-.962	.337
	Human Resources	-.216	.140	-.071	-1.540	.124
	Information Technology	.203	.191	.047	1.064	.288
	Internet Banking	-.195	.316	-.028	-.616	.538
	Security	-.129	.197	-.030	-.655	.513
	Training	.016	.138	.005	.113	.910
	Cleaning	.110	.159	.032	.696	.487
	Advert and Promotion	.642	.198	.149	3.234	.001
	Customer Information Verification	.254	.646	.018	.393	.695
	Recruitment	.064	.152	.019	.421	.674
	Sales/Marketing	.144	.813	.008	.177	.860
	Debt Collection	1.039	.425	.108	2.446	.015
	Pay-roll	1.776	.584	.136	3.040	.002
	Consultancy service	.102	.114	.039	.891	.374
	Call centre	.785	.261	.134	3.010	.003
	Maintenance	.472	.205	.102	2.295	.022
	Data centre	.061	.702	.004	.087	.931

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.327[a]	.107	.071	1.47670

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	125.128	19	6.586	3.020	.000[a]
	Residual	1046.704	480	2.181		
	Total	1171.832	499			

a. Dependent Variable: Bank's performance = f (Profitability + Stock prices + Service Delivery + Personnel cost + Employer-employee labour disputes)

a. Predictors: (Constant), Data centre, Customer Information Verification, Pay-roll, Debt Collection, ATM, Maintenance, Cleaning, Recruitment, Training, Information Technology, Consultancy service, Card Processing, Internet Banking, Call centre, Security, Human Resources, Advert and Promotion, Internal Audit, Sales/Marketing

b. Dependent Variable: Bank's performance = f (Profitability + Stock prices + Service Delivery + Personnel cost + Employer-employee labour disputes)

Table 2: Regression Result

Source: Field Survey of Bank Workers in Lagos, 2018

4.1. Hypothesis Testing

- H_0: Outsourcing activities have no significant effect on banks' performance in Nigeria.
- H_1: Outsourcing activities have significant effect on banks' performance in Nigeria.
- Decision Rule: Accept H_0 if P-value is greater than 0.05, if otherwise reject H_0 and accept H_1.
- Interpretation: The Linear Regression analysis above generated a P-value = 0.000, and since

P-value < 0.05, we reject the Null hypothesis (H_0) and accept the Alternative hypothesis and therefore conclude at five percent (0.05) level of significance that Outsourcing activities have significant effect on banks' performance in Nigeria.

4.2. Challenges Facing Outsourcing in the Nigerian Banking Industry

There are certain challenges combating outsourcing in the Nigerian banking industry. These challenges constitute certain setbacks to the implementation of outsourcing decision. Most banks are often discouraged to outsource their services as a result of these perceived challenges which may retard

The descriptive analysis of the responses obtained from the study identified; 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 functions well, as the likely challenges facing outsourcing in Nigerian banking industry.

Variable	Frequency (Total = 500)	Percentage (Total = 100%)	Mean Score	Rank
Failure to adhere to quality system	171	34.2%	0.34	1
Increase in the cost of outsourcing administration and provisions	140	28.0%	0.28	2
Dilution of control	133	26.6%	0.27	3
Financial risk	79	15.8%	0.16	4
Poor structure to manage the outsourcing functions well	78	15.6%	0.16	4
Poor planning	74	14.8%	0.15	5
Increase in banks liabilities to third parties e.g. software licensors, hidden cost, social cost, contract monitoring and oversight and transition cost.	62	12.4%	0.12	6
Lack of compliance with term of contract	51	10.2%	0.10	7
Opposition from internal staff	27	5.4%	0.05	8
Provision of unclear specification	13	2.6%	0.03	9
Others please, specify	0	0.0%	0.00	10

Table 3: Challenges Facing Outsourcing in the Nigerian Banking Industry
Source: Field Survey of Bank Workers in Lagos, 2018

From table 3 above, the challenges facing outsourcing activities were investigated in ranks and the mean scores were obtained. Out of a total of 500 respondents examined, 171 (34.2%) specified that 'failure to adhere to quality system' the pose most likely challenge to outsourcing. 140 (28.0%) of the respondents identified 'increase in the cost of outsourcing administration and provisions' as the second challenge, 133 (26.6%) of the respondents indicated the option 'dilution of control' as the next challenge facing outsourcing in the industry, while other options follows.

5. Conclusion and Recommendation

The paper empirically examined impacts of outsourcing activities on performance of banks in Nigeriausing data from twenty banks with fifty respondents selected from each bank. The findings emanated from this research exercise concluded that outsourcing has no effect on profitability and personnel cost of the bank but increases stock prices and also service delivery, hence, the study concluded that there is significant relationship between outsourcing activities and bank performance and that outsourcing is a strategic tool in the activities banks in Nigeria. The paper recommends and advice Banks to improve their outsourcing activities, operations and organizational performance. Banks should involve in Human resource (HR) outsourcing so as to take advantage of the use of expert services as well as to capitalize on the outstanding quality that external firms provide in performing the human resource (HR) functions.

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