Global Scientific JOURNALS

GSJ: Volume 8, Issue 3, March 2020, Online: ISSN 2320-9186
www.globalscientificjournal.com

Outsourcing Strategies and Performance of Deposit Money Banks (DMBs) in Nigeria

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ABSTRACT

This study examines the effect of outsourcing strategies on the performance in Deposit Money Banks (DMBs) in Nigeria. The study specifically examines the effect of three outsourcing strategies (contracting, comprehensive and selective strategy) on profitability and operational efficiency of deposit money banks in Nigeria. Structured questionnaire was used as the instrument for collection of primary data. A sample size of 261 was determined from a population of 752 employees of four deposit money banks in Nigeria (First Bank of Nigeria Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc and Zenith Bank Plc) Validity and reliability of instrument were determined using Cronbach Alpha and Factor Analysis respectively. Descriptive statistical tools such as table and simple percentages were used for data presentation while multiple regression analysis was used to determine the effect of the independent variables on the dependent variables. Results of tested hypotheses revealed that all the dimensions of outsourcing strategies (contracting, comprehensive and selective strategy) have positive significant effect on performance on deposit money banks in Nigeria. The study concluded that outsourcing as a strategy has become a useful weapon for corporate organizations most especially the banking industry where there is stiff competition. The study recommends among others that managers of deposit money banks in Nigeria should ensure that banks continue to benefit from the positive significant effect through selective outsourcing of functions as it contribute more to the profitability level and operational efficiency in the banking industry.

Keywords: Outsourcing Strategies, Organizational Performance, Contracting Strategy, Comprehensive Strategy, Selective Strategy

1. Introduction

The global economic instability has considerably accelerated and intensified competition in many industries, forcing organizations to identify strategies and new ways of dealing with the challenging environment (Orogbu *et al*., 2015). Companies which have traditionally put manufacturing and service excellence at the core of their competitiveness are being forced by external factors to re-examine their core competence (Wagner & Friedl, 2007; Welmer & Seuring, 2008). Stewart (2007) affirmed that organizations are facing turbulent times due to changes in economic conditions, globalization and rapid technological advances and to cope with such changes, organizations continuously seek for different solutions including outsourcing strategy. Outsourcing strategy otherwise known as sub-servicing is the process of contracting tasks that are usually handled internally by the company itself to a third-party in order to achieve goals (Ganesh, 2007). Outsourcing strategy is important because companies today are expected to improve their performance and remain competitive through effective management which requires the services of outsiders (Oluyemi, 2013).

Most business organizations focus on utilizing their core competencies and outsourcing the non-core functions. They outsource those functions that are resource intensive (high labor or capital costs), specialist competencies, rapidly changing technology and require expensive investment (Lysons & Farrington, 2000). Today, outsourcing strategies (such as contracting, comprehensive and selective strategy) have been made easy in developing countries through globalization, explosive growth of internet and the development of information society. In Nigerian banking industry, efforts have been made by Deposit Money Banks (DMBs) to achieve stated objectives through effective adoption and implementation of outsourcing strategies.

Deposit Money Banks have engaged in outsourcing of several non-core functions such as security services, catering services, cleaning services, data bank, human resource, maintenance of Automated Teller Machines amongst others to improve performance in terms of profitability, improved service delivery, customer satisfaction, job satisfaction, operational efficiency, liquidity and market share. Olajide (2014) noted that organizational performance is affected by multiplicity of individual, groups and task, technological, structural, managerial and environmental factors including outsourcing strategy. This study is therefore carried out to investigate the extent to which outsourcing strategies affect performance of the Nigerian banking industry with specific focus on deposit money banks (First Bank of Nigeria Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc and Zenith Bank Plc). The choice of deposit money banks was informed because of the critical role they play in the Nigerian banking industry and adoption of outsourcing strategies in enhancing performance of the sector.

1.1 Statement of the Problem

The importance of outsourcing strategies in the performance of deposit money banks in Nigeria cannot be underplayed. Outsourcing strategies offers incentives that lead to firm’s competitive advantage, it contributes to cost reduction by providing improved economies of scale, access to technologies, shared risk, and greater availability of time that guarantees freeing up of internal resources for the development of core competencies. These shared advantages could be experienced in most organizations in the developed world. In developing countries, outsourcing strategies have not received the desired attention and most managers of organizations still face challenges in adopting appropriate outsourcing strategies. In Nigerian banking industry, deposit money banks fail to achieve expected results due to their inability to effectively implement outsourcing strategies.

Most banks have placed too much emphasis on benchmarking, downsizing and rightsizing while ignoring the importance of outsourcing strategies while some banks concentrate on one aspect of outsourcing while neglecting others which may hinder their growth and survival. Also, the low performance of some banks may be attributable to the failure of management of such banks to come up with salient forces influencing outsourcing strategies and their effects on organizational performance. Previous studies have been conducted on outsourcing in Nigeria (Oluyemi, 2013; Ogunsanmi, 2013; Jegede, 2015). However, these studies have failed to cogently determine the extent of effect of outsourcing strategies on organizational performance in the Nigeria banking industry. This has given rise to the question: what is the effect of outsourcing strategies on performance of deposit money banks in Nigeria? To provide answer to this question, the study is poised to fill the gap in existing literature by examining the extent to which outsourcing strategies have effect on performance of deposit money banks in Nigeria.

1.2 Objectives of the Study

The broad objective of this study is to examine the effect of outsourcing strategies on performance of deposit money banks in Nigeria. The specific objectives of the study include to:

i. determine the extent to which contracting strategy has effect on profitability of deposit money deposit banks in Nigeria

ii. establish the extent to which contracting strategy has effect on operational efficiency of deposit money banks in Nigeria

iii. evaluate the extent to which comprehensive strategy has effect on profitability of deposit money banks in Nigeria

iv. investigate the extent to which comprehensive strategy has effect on operational efficiency of deposit money banks in Nigeria

v. ascertain the extent to which selective strategy has effect on profitability of deposit money banks in Nigeria

vi. assess the extent to which selective strategy has effect on operational efficiency of deposit money banks in Nigeria

1.3 Research Hypotheses

The following null hypotheses were formulated to achieve objectives of the study:

$H0_1$: Contracting strategy has no significant effect on profitability of deposit money banks in Nigeria

$H0_2$: Contracting strategy has no significant effect on operational efficiency of deposit money banks in Nigeria

$H0_3$: Comprehensive strategy has no significant effect on profitability of deposit money banks in Nigeria

$H0_4$: Comprehensive strategy has no significant effect on operational efficiency of deposit money banks in Nigeria

$H0_5$: Selective strategy has no significant effect on profitability of deposit money banks in Nigeria

$H0_6$: Selective strategy has no significant effect on operational efficiency of deposit money banks in Nigeria

2. Literature Review

2.1 Concept of Outsourcing

Outsourcing is a complex term as it embodies several descriptions and generally refers to the relocation of jobs (Cubides, 2006). Outsourcing is defined by Fiona (2006) as a business strategy that occurs when a business purchases services or products from another or when a business pays another company to provide services that the business might otherwise have employed its own staff to perform. It is refers to as the process of one company contracting with another company to provide services that might otherwise be performed by in-house employees (Sako, 2006).

Gilley and Rasheed (2000) see outsourcing as procuring something that was either originally sourced internally or could have been sourced internally notwithstanding the decision to go outside. Outsourcing is an increasingly important initiative being pursued by organizations to improve efficiency (Vining and Globerman, 2000). To be able to survive and be profitable in current globalization era, companies tend to use outsourcing in larger extent (Brannemo, 2006). Existing literature identified different types of outsourcing which are distinguished depending on firm's strategies covering the degree of decision analysis, the range, the degree of integration, the property relationship, the level of administrative control and ownership (Espino-Rodriguez & Padron-Robaina, 2004).

Momme and Hvolby (2002) defined outsourcing as the process of establishing and managing a contractual relationship with an external supplier or service provider for the provision of capacity that has previously been provided in-house in order to achieve objectives. This definition is embracing hence adopted for this study. Outsourcing is therefore defined as the process of deliberating non-core activities or operations from internal production within a business to an external entity that specializes in that particular operation. There are several dimensions of outsourcing strategies which constitute their characteristics ranging from contracting strategy, licensing agreement strategy, comprehensive strategy and selective strategy as outlined by Ogunsanmi (2013) and Nyangau *et al*. (2014). This study limits itself to contracting strategy, comprehensive strategy and selective strategy in explaining outsourcing strategies. The choice of these strategies is owing to the fact that they are prominent, much more applicable and suitable in the Nigerian banking industry which is the focus of the study.

2.1.1 Contracting Strategy

Contracting outsourcing strategy implies a contractor being awarded a contract to perform a task and he is paid by hour/day/week/month (Harward, 2013). In contracting outsourcing a vendor manages a project in form of consulting or instructional design that are tactical and whose complexity and breath are limited. Contracting strategy usually include outsourcing ancillary services such as cleaning and managing washroom hygiene. This is a short–term, tactical solution, often initiated not because the process fits in with the organization's perspective of how it wants to develop strategically, but rather to find an urgent means of dealing with a problem (Manono, 2012). For an outsourcing strategy to be implemented, it requires a legally bound contract which sets the institutional framework in which each party's rights, duties, and responsibilities are clearly defined. The goals, policies, practices, and strategies on which the arrangement is based are also specified in the contract (Luo, 2002).

2.1.2 Comprehensive Strategy

Comprehensive outsourcing strategy otherwise known as complete or full outsourcing is the most complex, strategic, long term, and demanding relationship you can have with a supplier. A comprehensive outsourcing involves companies engaging with a training partner for a multi-year period to strategically manage a comprehensive set of processes across all functional process areas of your organization. In this type of outsourcing, both parties are willing to commit dedicated resources (both human and financial) over period of time (Worley, 2011). It also involves using third parties to deliver back-office support services such as finance and payroll (Worley, 2011). Business support services that have been outsourced by some deposit money banks are IT services and provision, recruitment and human resources is outsourced to KPMG, cleaning to selective cleaning services organizations, catering, library and information services to Interswitch, a European based company for all banks in Nigerian, including knowledge management services (Ogechi & Nyameino, 2010).

2.1.3 Selective Strategy

Selective outsourcing is a sourcing strategy in which a training supplier is chosen to manage selected processes related to administration, content, delivery or technology services (Nyangau *et al.* 2014). Selective outsourcing has been described to involve complex engagement but somehow less than comprehensive deal because of reduced integration of functional processes. In selective outsourcing, the client can engage a vendor to manage multiple processes within one functional area but not processes across functional areas (Ogunsanmi, 2013). Selective outsourcing involves outsourcing only part of an activity and performing the rest of the activity in-house and that is why it is also known as partial outsourcing. This type of outsourcing is based on an analysis of costs and benefits, technology/infrastructure availability, and human resource availability. Selective outsourcing is generally more successful than total outsourcing since companies that outsource an entire activity tend to be constrained in their ability to control the supplier, secondly when companies perform a part of the activity in-house, they have access to the operational knowledge and information required to design effective reporting systems (Lankford & Parsa, 2009).

2.2 Concept of Organizational Performance

The extent to which organizations achieve their intended goals is referred to as organizational performance. Alwanga (2015) defines organizational performance as the ability of an organization to fulfill its mission through sound management, strong governance and persistent rededication to achieving results. Organizational performance is the achievement of an organization's stated goals and how organizations have been able to achieve their targets of efficiency and effectiveness (Gibson *et al.*, 2010). Organizational performance is also viewed in terms of how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Performance lies at the heart of any managerial process and organizational construct and is therefore considered a critical concept in management. Organizational performance includes multiple activities that help in establishing the goals of the organization, and monitor the progress towards the target (Johnson & Scholes, 2006).

Upadhaya *et al*. (2014) view performance as the analysis of a company as compared to goals and objectives within corporate organization in three basic outcomes: financial performance, market performance, valued added performance and in some cases production performance. Richard *et al*. (2009) assert that organizational performance covers three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment), product market performance (sales turnover, market share) and shareholders return (total shareholders return, economic value added).

Many researchers have used managers' subjective perceptions to measure beneficial outcomes for firm's performance. Scholars have widely established that there is a high correlation and concurrent validity between objective and subjective data on organizational performance, which implies that both are valid when calculating a firm's performance for instance, Falshwa *et al.*, (2006). The subjective approach just like the objective measures is extensively used in empirical research and is justified by many authors. Falshwa *et al.* (2006) and Akinbola (2012) adopted the subjective approach and found consistency between managers' perceptions of performance and objective measures. In this study, our focus is on profitability as a measure of financial performance because it is one of the effective indicators of financial performance of banks and other profit oriented organizations (Eljelly, 2004). Non-financial performance is used to measure firms' specific measures of effectiveness which reflect the success of the organization. There are several measures of non-financial performance which include: operational efficiency, managerial discretion, corporate governance, improved service delivery, and customer satisfaction (Richard *et al.* 2009). In this study profitability is used as a measure of financial performance while operational efficiency is used as non-financial measure of performance.

2.2.1 Profitability

Profitability means the ability of a business to make profit and remain sustainable. It indicates and measures the success of the business. Profitability of an organization is an important financial indicator to reflect the efficiency of the organization and the owners'/managers' ability to increase sales while keeping the variable costs down (Davis *et al*. 2000). The net profit or income is an indicator of the firm's profitable operations, which is the surplus of total revenues over total expenses during the accounting year. The firm may be unprofitable if the total expenses are in excess of total revenues, known as net loss. Profit margin, return on assets, return on equity, return on investment, and return on sales are considered to be the common measures of financial profitability. Profitability ratios such as gross profit margin (GPM), net profit margin (NPM), operating expense ratio (OER), return on investment (ROI), return on equity (ROE), earnings per share (EPS), dividend per share (DPS), dividend payout ratio (DPR), dividend yield

(DY) and earnings yield (EY), price earning ration (P/E) are used in measuring profitability of the firm (Pandey, 2010).

2.2.2 Operational Efficiency

Operational efficiency is used as a measure of non-financial performance as outlined by Richard *et al.* (2009) and Kamanga and Ismail (2016) who averred that operational efficiency leads to improved productivity and consequently profitability as compared to other non-financial performance measures (Ndolo, 2015). Kalluru and Bhat (2009) define operational efficiency as the proficiency of a corporation to curtail the unwelcome and maximize resource capabilities so as to deliver quality products and services to customers. An organizational operational efficiency depends on factors like skillful and proficient workers, proper technological progression, proper procurement carry out, return to scale of the businesses, supply chain controlling among many others. Operational efficiency is suitable in the banking industry because, the key to create value and achieve competitive edge among banks lies in the better operational efficiency and productivity (Kalluru & Bhat, 2009; Bhagavath, 2009; Ndolo, 2015).

2.3 Outsourcing Strategies and Performance of Deposit Money Banks in Nigeria

Successful outsourcing strategies have effect on organizational performance of the Nigerian banking industry because it raises the quality of results and most deposit money banks that engage in outsourcing strategies gain economic result, that is outsourcing strategy is attractive when the tasks being outsourced can be performed by the provider at a lower total cost. Outsourcing strategies are attractive when organizations have the capacity or capability to constraints which prevent them from servicing a market (Currie and Seltsikas, 2001; Orogbu, *et al.,* 2015). Outsourcing is considered as a strategic tool for an organization to employ in order to increase its competitiveness and performance in the marketplace. The effect of outsourcing strategies on organizational performance has produced mixed result. For instance, Awino and Mutua (2014) found positive relationship between outsourcing and organizational performance while Ifurueze and Ekezie (2014) found negative result and others found no significant effect of outsourcing on organizational performance (Gilley & Rasheed, 2000; Isaksson & Lantz 2015).

Kimura (2002) did not found any evidence that subcontracting leads to higher profits in organizations. Alwanga (2015) who found that contracting was statistically insignificant in explaining the relationship between contracting strategy and efficiency. In Nigeria, Salisu and Kabiru (2015) also found positive significant relationship between outsourcing and turnover intention of employees. A study by Ogunsanmi (2013) indicated that comprehensive outsourcing has a significant and positive relationship with the performance of mobile telephone service providers in Nigeria. Nyangau *et al.* (2014) found that comprehensive strategy outsourcing is one among the main determinants of procurement performance of universities in Kenya.

Akewushola and Elegbede (2012) also supported the findings of other scholars. Contrarily, Alwanga (2015) found that comprehensive was statistically insignificant explaining the relationship between comprehensive strategy and profitability. Naru and Truitt (2013) argued that partial off-shoring does not have a significant relationship with business growth. Musau (2016) also affirmed that selective outsourcing strategy had reduced both costs and risks while increasing operational efficiency which led to improved profitability. These results clearly indicate that the effect of outsourcing strategies on organizational performance differs across sectors and countries.

Conceptual Model of the Study

The conceptual model for this study is derived to highlight the effect of explanatory variables (contracting, comprehensive and selective strategy) on the response variable (organizational performance) measured using profitability and operational efficiency as presented in Figure 1.

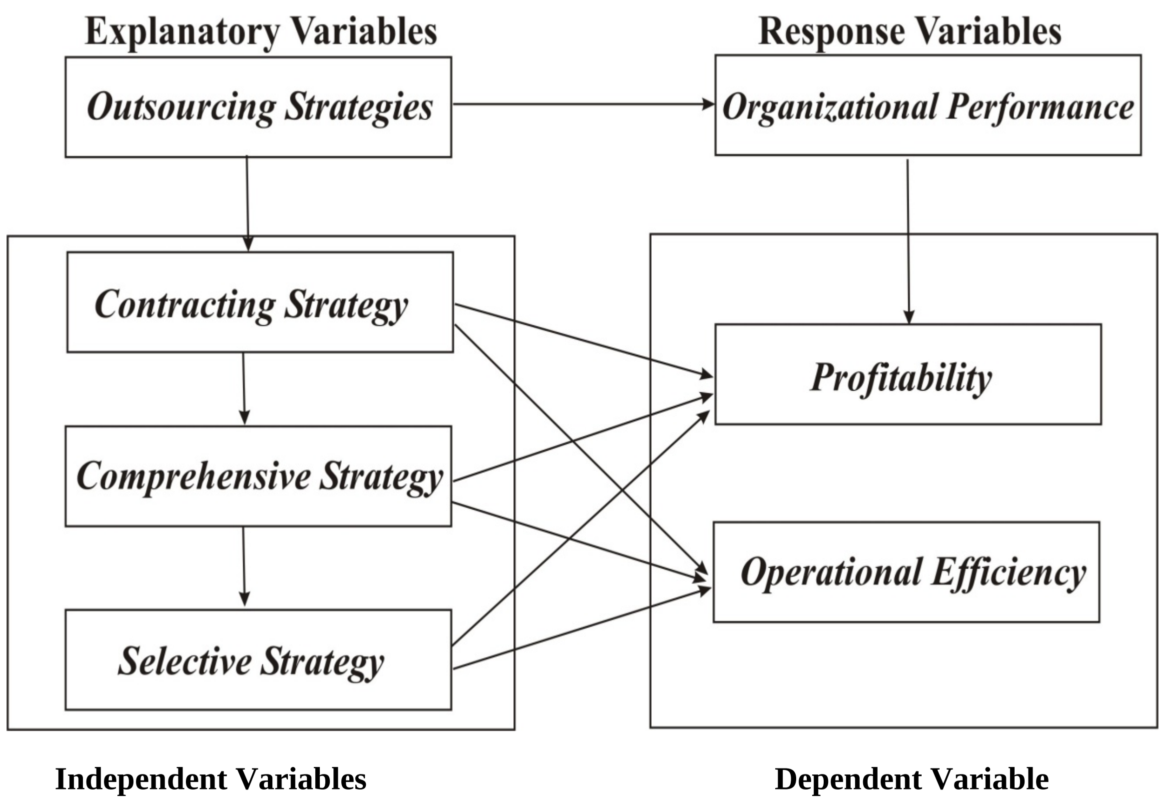

Figure 1: Conceptual Model for the Study

Source: Designed by the Researchers 2017

3. Methodology

The study adopted survey research design. The survey research design is suitable because the study examines the extent to which outsourcing strategies (contracting, comprehensive and selective strategy) have effect on organizational performance. The population of the study includes 752 top management, middle management and lower management levels staff of four (4) deposit money banks in Federal Capital Territory, Abuja-Nigeria. The banks sampled for the study included First Bank of Nigeria Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc and Zenith Bank Plc. The banks were selected because they are leading adopters of outsourcing strategy in Nigeria. A sample of 261 was arrived at using Taro Yamane's formula. A five-point Likert scale questionnaire was used as the instrument for data collection. The instrument used to measure opinions which consist of Very Great Extent = (5), Great Extent = (4), Moderate Extent (3) Small Extent = (2), and No Extent = (1). Factor analysis was used for test of construct validity. This was done to ensure that the questions asked relate the construct intended to measure. The KMO statistic varies between 0 and 1. A value of 0 indicated that the sum of partial correlations is largely relative to the sum of correlations, indicating diffusion in the pattern of correlations. According to the results from the KMO and Bartlett's Test, the Kaiser-Meyer- Olkin (KMO) which measures the sample adequacy was 0.776 and the Bartlett's Test of Sphericity was significant (App. chi-square= 511.529, sig. is .000) which indicates the sufficient inter correlations of the factor analysis. A pilot test was also carried out on 87 staff of deposit money banks and the result of Cronbach's Alpha Co-efficient was 0.736 indicating that all the variables were reliable and consistent. Multiple regression analysis was used to measure the extent to which independent variables predict the dependent variable. Formulated hypotheses were tested at 0.05 level of significance.

4. Findings and Discussion

A total of 261 copies of the questionnaire were distributed and 252 (96.5 %) were correctly filled by and returned by the respondents while 9(3.5 %) were not retrieved from the respondents. Data presentation and analysis was done based on the response rate. The results of regression analysis were presented in model summary, Analysis of Variance and regression coefficient tables.

Table 1: Model Summary 1

R	R-Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.747[a]	.557	.552	.25622	1.779

a. Predictors (Constant), Selective strategy, comprehensive strategy, contracting strategy
b. Dependent Variable: Profitability

Source: Field Survey, 2017.

The result of the model summary as presented in Table 1 has an R^2 value of 0.557 meaning that 56 % of the variation in the dependent variable is explained by the independent variables while 44 % is explained by other variables outside the model. This indicated that the model is a strong predictor. The R-value of 0.747 indicates that there is a strong positive correlation between the dependent variable (profitability) and the set of independent variables (contracting strategy, comprehensive strategy and selective strategy).

Table 2: Analysis of Variance (ANOVA)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	38.299	3	12.766	103.791	.000[b]
Residual	30.416	248	.123		
Total	68.714	251			

a. Dependent Variable: Profitability

b. Predictors (Constant), Selective strategy, comprehensive strategy, contracting strategy
Source: Field Survey, 2017.

The result in Table 2indicates that the significance value is 0.000 which is less than 0.05 which implies that the model is statistically significant in predicting the effect of the independent variables (contracting strategy, comprehensive strategy and selective strategy) on the dependent variable (Profitability). The F critical at 5 % level of significance was 103.791. This is an indication that the independent variables positively affect the profitability of deposit money banks in Nigeria.

Table 3: Regression Coefficients

	Unstandardized Coefficients			**Standardized Coefficients**	
	B	Std. Error	Beta	t	Sig.
(Constant)	1.191	.194		6.124	.000
CTS	.133	.034	.192	3.973	.000
CPS	.218	.044	.274	4.998	.000
SLS	.398	.051	.428	7.811	.000

a. Dependent Variable: Profitability
Source: Field Survey, 2017.

The result in Table 3 reveals that taking all other independent variables at zero, a unit increase in contracting strategy will lead to a 13.3 % increase in the profitability of banks. Also, a unit increase in comprehensive strategy will lead to a 21.8 % increase in the profitability of banks in Nigeria and a unit increase in selective strategy will lead to a 39.8 % increase in the profitability of banks in Nigeria. At 5 % level of significance and 95 % level of confidence; contracting strategy showed a beta value of 0.192 and 0.000 level of significance, comprehensive strategy showed a beta value of 0.274 and 0.000 level of significance while selective strategy showed a beta value of 0.428 and 0.000 level of significance respectively. The result further shows that selective strategy (39.8 %) contributes more to the profitability of deposit money banks in Nigeria than comprehensive strategy (21.8 %) and contracting strategy (13.3 %) respectively. The three hypotheses based on model 1 were all rejected.

Table 4: Model Summary 2

R	**R-Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
.809[a]	.671	.663	.435	1.932

a. Predictors (Constant), Selective strategy, comprehensive strategy, contracting strategy
b. Dependent Variable: Operational Efficiency
Source: Field Survey, 2017.

The results of the model summary in Table 4 has a R^2 value of 0.671 meaning that 67 % of the variation in the dependent variable is explained by the independent variables while 33 % is explained by other variables outside the model. This indicated that the model is a strong predictor. The R-value of 0.809 indicates that there is a strong positive correlation between the dependent variable (operational efficiency) and the set of independent variables (contracting strategy, comprehensive strategy and selective strategy).

Table 5: Analysis of Variance (ANOVA)

	Sum of Squares	**Df**	**Mean Square**	**F**	**Sig.**
Regression	27.587	3	9.196	48.654	.000[b]
Residual	46.842	248	.189		
Total	74.429	251			

a. Dependent Variable: Operational Efficiency

b. Predictors (Constant), Selective strategy, comprehensive strategy, contracting strategy

Source: Field Survey, 2017.

The result of the analysis of variance in Table 5 shows that the significance value is 0.000 which is less than 0.05. This implies that the model is statistically significant in predicting how the independent variables (contracting strategy, comprehensive strategy and selective strategy) have effect on the dependent variable (operational efficiency). The F critical at 5 % level of significance was 48.654 indicating that the independent variables (selective strategy, contracting strategy and comprehensive strategy) affect operational efficiency of deposit money banks in Nigeria.

Table 6: Regression Coefficients

	Unstandardized Coefficients			**Standardized Coefficients**	
	B	Std. Error	Beta	T	Sig.
(Constant)	1.619	.254		6.599	.000
CTS	.101	.040	.142	2.543	.012
CPS	.186	.048	.237	3.917	.000
SLS	.358	.058	.370	6.121	.000

a. Dependent Variable: Operational Efficiency

Source: Field Survey, 2017.

The result of data presented in Table 6 shows that taking all other independent variables at zero, a unit increase in contracting strategy will lead to a 10.1 % increase in the operational efficiency of banks, a unit increase in comprehensive strategy will lead to an 18.6 % increase in the operational efficiency of banks in Nigeria and a unit increase in selective strategy will lead to a 35.8 % increase in the operational efficiency of banks in Nigeria. At 5 % level of significance and 95 % level of confidence; contracting strategy showed a beta value of 0.142 and 0.000 level of significance, comprehensive strategy showed a beta value of 0.237 and 0.000 level of significance while selective strategy showed a beta value of 0.370 and 0.000 level of significance respectively. The regression coefficient further shows that selective strategy (35.8 %) contributes more to the operational efficiency of deposit money banks in Nigeria than followed by comprehensive strategy (18.6 %) and contracting strategy (10.1 %) respectively. The three hypotheses formulated for the study based on model 2 were all rejected and this implies that all the independent variables (contracting, comprehensive and selective strategy) have significant effect on operational efficiency of deposit money banks in Nigeria.

4.1 Discussion of Findings

The analysis of the data collected from the respondents revealed that contracting strategy has a positive significant effect on profitability of deposit money banks in Nigeria. The result of the study shows that contracting strategy helps in saving the cost involved in carrying out core activities by the organization thereby increasing organizational profitability of deposit money banks in Nigeria. The result of this study is in consonance with the previous studies done by Salisu and Kabiru (2015) who found positive significant effect of contracting strategy on business turnover in private organizations in Nigeria. The result is also in line with Supo and Wale (2010) who found significant relationship between contracting strategy and organizational profitability. The result is inconsistent with the findings of earlier studies such as Alwanga (2015) and Isaksson and Lantz (2015) who found that contracting was statistically insignificant in explaining the relationship between contracting strategy and profitability. Kimura (2002) also found no evidence that subcontracting leads to higher profits in organizations. The implication of the finding is that banks that contracts out activities and meaningfully manage them are more successful in exploiting their business opportunities which in turn increases their profitability level as compare to those banks that do not contract out activities.

Findings of the study also indicated that contracting strategy has a positive significant effect on operational efficiency of deposit money banks in Nigeria. This finding is corroborated by Letangule and Letting (2012) whose study revealed that contracting strategy has a positive effect on service quality, operational efficiency and employees' creativity. Ngetich (2013) also affirmed that contracting enhances effective and efficient service delivery in organizations. The result contradicted that of Gilley and Rasheed (2000) who found that there is no significant effect of outsourcing on firm's non-financial performance, rather both firm strategy and environmental dynamism moderated the relationship between outsourcing and performance. The implication of the finding is that Nigerian banks that contract out activities to outsiders to assist them have been able to improve on operational efficiency and service delivery.

The result of the study indicated that comprehensive strategy has a positive significant effect on profitability of deposit money banks in Nigeria. This result was supported by previous studies of

Shey (2014) whose findings indicated that comprehensive strategy ensures that quality assurance is implemented in organizations with business goals and service levels which improve profitability in organizations. The result is also in agreement with Ogunsanmi (2013) who affirmed that comprehensive strategy has a significant and positive relationship with the performance of mobile telephone service providers in Nigeria. The implication of the finding is that deposit money banks that adopt comprehensive strategy due to increased competitive pressures, accelerated technological changes and effects of globalization, are more likely to improve on their profitability since banks are looking for ways of reducing costs and building new opportunities by optimizing the use of internal and external resources.

The result of objective four showed that comprehensive strategy has a positive significant effect on operational efficiency of deposit money banks in Nigeria. The result was supported by previous studies by Ogunsanmi (2013) who affirmed that comprehensive strategy has a positive significant effect on operational efficiency. The result is also in agreement with Smith and McKeen, (2004) and Akewushola and Elegbede (2012) whose studies found significant effect of comprehensive outsourcing strategy on operational efficiency of organizations. The implication of the finding is that, if properly carried out by banks, comprehensive outsourcing strategy can result to increased operational efficiency.

The result further indicated that selective strategy has a positive significant effect on profitability of deposit money banks in Nigeria. This result is in line with Suhaimi *et al* (2015) who asserted that the focus on core competencies helps in turning non-profit activities into profit generating activities and cost reduction as a result of selective outsourcing of information technology services in commercial banks. Similarly, Quinn, (2000) agreed that firms outsource some of their operations to other service providers in order to improve profitability in their businesses. Previous study by Musau (2016) also found that selective outsourcing strategy had reduced both costs and risks while increasing operational efficiency which led to improved profitability. The implication of the result to organizations is that deposit money banks that selectively outsource functions and focuses on core competencies stand a better chance in turning non-profit activities into profit generating activities and cost reduction which increases their profitability.

Finally, analysis of the result indicated that selective strategy has a positive significant effect on operational efficiency of deposit money banks in Nigeria. The result agrees with Harward (2013) who averred that selective outsourcing strategy to a greater extent enhances operational efficiency of business organizations. In consonance with this finding, Baldwin *et al.* (2001) established that efficiency improvement has frequently been reported as one of the major drivers of outsourcing. Musau (2016) also found that selective outsourcing strategy had reduced both costs and risks while increasing operational efficiency. The result is however in disagreement with Alwanga (2015) who found statistically insignificant relationship between selective outsourcing strategy and efficiency. The implication of this result to the Nigerian banking industry is that encouraging the adoption of outsourcing strategies in the positive direction will enhance the performance of deposit money banks thereby boosting economic growth in Nigeria.

5. Conclusion and Recommendations

5.1 Conclusion

Outsourcing of functions is an option for the Nigerian banking industry to maintain a competitive advantage in the business world environment. The study found that deposit money banks in Nigeria have adopted the usage of outsourcing strategies to reduce cost of business operations which is due to many factors that have to do with transferring of certain business process rights to specialized firms to avoid unwanted losses and increase revenue. The study concludes that outsourcing as a strategy has become a useful strategy and weapon for corporate organizations; most especially the deposit money banks in Nigeria that continuously seek for improvement in their performance in the banking industry. The focus on core competencies is a key attraction of outsourcing practice, which the primary value and benefit of outsourcing strategies has been in opening up new and novel ways of extending the services to businesses today.

5.2 Recommendations

In relation to the findings and conclusion drawn, the following recommendations are made:

i. Management of deposit money banks in Nigeria should outsource those functions that will help in saving the cost involved in carrying out core activities and meaningfully manage them in order to be more successful in exploiting business opportunities that increases profitability in the deposit money banks.

ii. Management of deposit money banks should contract those activities that help them to enhance service delivery, efficiency and consistency of operations which guarantees operational efficiency in the deposit money banks.

iii. They should fully outsource those activities that guarantee quality assurance throughout the operations of banks, since banks outsource comprehensively with a clear objective of saving money and other resources so as to achieve operational efficiency in deposit money banks.

iv. Management of deposit money banks should channel their resources strategically and engage with a partner to save cost of operations and risk reduction through selective outsourcing of functions as it contributes more to the profitability and operational efficiency of deposit money banks.

5.3 Directions for Further Studies

The study was limited to four deposit money banks in FCT, Abuja namely First Bank of Nigeria Plc, United Bank for Africa Plc, Guaranty Trust Bank Plc and Zenith Bank Plc. It is therefore suggested that further studies should be carried out to cover other deposit money banks in Nigeria. Further studies should implement a research design to the extent of having interview with more banks, in order to investigate further what triggers banks to outsource their activities and not just based on the questionnaire survey as it is not sufficient. Finally, other researchers could investigate on challenges of outsourcing strategies in the Nigerian banking industry and other sectors in Nigeria.

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