OUTSOURCING AS A STRATEGIC OPTION TO ORGANIZATIONAL EFFECTIVENESS: A STUDY OF SELECTED MICRO-FINANCE BANKS IN SOUTH-EAST NIGERIA

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Abstract: this paper focused on outsourcing as a strategic option to organizational effectiveness with selected micro-finance banks in south-east Nigeria as its study firms. From a population of 578 members of staff from the selected microfinance, purposive sampling was used to select 410 members of staff who were surveyed for the study. In line with the design of this study, the data collected for this study was analyzed using inferential statistics. The study was guided by three research objectives and hypotheses which are consistent. Data was gathered using a five point likert scale questionnaire and the hypotheses were tested using Mann-Whitney Test (U) using the 20.0 version of statistical package for social sciences (SPSS). It is concluded in this study that micro-finance banks in south-east Nigeria can leverage on outsourcing to improve their adaptability, innovativeness and sustainability which are the hallmarks of improved competitiveness and at the long-run organizational effectiveness. The researchers recommend that micro-finance banks should focus more on its core duties where it enjoys unique competitive capabilities (UCC), while outsourcing its non-core functions. It should however, integrate outsourcing programmes into the corporate strategy of the organization to eliminate waste or duplications in resource application.

Keywords: adaptability, IT, HRS, innovativeness, outsourcing, procurement, sustainability
INTRODUCTION
Across the globe, organizations are redefining their methods of providing goods and services and making changes in their processes in order to maximize returns on their investment, this may be associated to the visible dwindling resources and ever increasing market competitiveness. In Nigeria, the volatility of exchange rate, high inflation, unstable government policies has deepen the need for organizations to review their cost drivers with the intention of adopting operational models that reduces their cost while boosting their sustainability. To achieve this in current globalization era according to Brannemo (2006), organizations have pursued continuous improvement, leaned up production, reengineered business processes, and integrated supply chains. With competition becoming stiffer, and the Nigerian business environment increasingly becoming hostile amidst several regulations and government interference nowadays, organizations especially banks are continuously being forced to find ways to improve their business performance and to obtain competitive advantage in all possible means. To this end, many of them have looked beyond the traditional boundaries of their firms to obtain performance improvement. They have turned to outsourcing with an increasing attempt to enhance their competitiveness, increase their profitability and refocus on their core business (Hill, Ireland and Hoskisson, 2007). Moreover, outsourcing is seen as a management model that can potentially reduce costs, which is one crucial basis for attaining competitive advantage over competitors as well as increasing profitability. It’s potential of helping organizations to concentrate on their “core activities” which generates enormous “experience curve” and “organizational memory” is another strategic point that is advanced by the promoters of the concept. However, the extent to which it is significant for the effective attainment of corporate goals is scarcely discussed especially within the Nigerian clime. Understanding that the both concepts under study i.e outsourcing and organizational effectiveness are multidimensional constructs, we shall therefore proxy them as follows; outsourcing (IT, business process, and human resource outsourcing) while organizational effectiveness shall be proxied with (innovativeness, sustainability and adaptability)

Statement of the Problems
To attain competitiveness, banks try to maintain a lean structure by divesting its non-core functions through outsourcing. In doing this however, the banks and other organizations may give away their ‘Crown of Jewels’ if they are not careful when managing the process. Challenges of strategic reputation loss, compliance and operational risks arising from failure of a service provider in providing the services, breaches in security, or inability to comply with legal and regulatory requirements of the company, etc, can create additional cost through damage control and reputation remediation programs. This will not only reduce their profitability but reduce their competitiveness in the market. To be innovative and sustainable, organizations needs to build a strong memory of its operations through the “on-the-job experiences” of her employees. When tasks are outsourced, employees are denied of this rare opportunity of having and keeping on the job experiences and this vitiates the ability of the organization to create a market and operational information based memory to guide its future operations. The problem of this study therefore is to investigate the effects outsourcing practice has on the effectiveness of organizations in Nigeria.

Objectives of the Study
The general objective of this study is to examine the effects of outsourcing on the effectiveness of Nigerian banks. Its specific objectives include;

i. To examine the effects of information technology outsourcing on the adaptability of organizations

ii. To examine the effects of human resource services outsourcing on the innovativeness of organizations

iii. To examine the effects of procurement and logistics on the sustainability of organizations

Research Questions
The questions that will provide guide to this study include;

i. What are the effects of information technology outsourcing on the adaptability of organizations?

ii. What are the effects of human resource services outsourcing on the innovativeness of organizations?

iii. What are the effects of procurement and logistics outsourcing on the sustainability of organizations?

Hypotheses
The following hypotheses are made for this study

H₀₁: Information technology outsourcing does not have significant effect on the adaptability of organizations

H₀₂: Human resource services outsourcing does not have significant effect on the innovativeness of organizations

H₀₃: Procurement and logistics outsourcing does not have significant effect on the sustainability of organizations

REVIEW OF RELATED LITERATURES
Conceptual Framework
In the view of Lacey and Blumberg (2005), outsourcing is the reliance on external sources for manufacturing components and other value adding activities. It is 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. According to Beaumont, (2006) outsourcing can be said to be one sub-type of distributed work. It is the delegation of task or job from internal production to external entity, such as a sub-contractor. Smith (2007) defined outsourcing as turning over to a supplier those activities outside the organization’s chosen core competencies.

Gilley and Rasheed (2004) provide clarifications for the definitional confusions; positioning outsourcing as procuring something that was either originally sourced internally (i.e vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e make or buy). This includes arrangements that have been termed–internal vs external sourcing (Beaumont, 2006).

Types of Outsourcing
There are three basic types of outsourcing as described by Mark et al (2006). The outsourcing forms include the following:

Business process outsourcing (BPO): According to Thomas and Rick, (2005) business process outsourcing (BPO) is defined simply as the movement of business processes from inside the
organization to an external service provider. With the global telecommunications infrastructure now well established and consistently reliable, BPO initiatives often include shifting work to international providers when organizational needs for outsourcing cannot be met locally. Mark et al (2006) pointed out that business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of specific business functions (or processes) to a third-party service provider. It has to do with establishing a partnership with a single supplier or service providers. Brudenalls (2005) model of business process outsourcing presents three main outsourcing strategies: captive centres, external vendors, and hybrid models. Organizational structure, culture, status and other environmental factors influence the choice of strategy adopted.

- **Knowledge process outsourcing (KPO):** KPO has to do outsourcing of core business activities which are often competitively important. Therefore, KPO includes processes that require advanced information search, analytical, interpretation and technical skills as well as some judgment and decision-making. The concept of KPO is information driven. It means that it is a continuous process of creation and dissemination of information by bringing together the information industry leaders to create knowledge in an industry whose areas of involvement includes marketing, research and development, advertising and allied services (Agarwal, 2009).

- **Information technology outsourcing (ITO):** ITO has to do with Information technology being perceived as a service or support function. Majorly it aims at reducing IT costs through outsourcing organizations retain strategic control. Multiple suppliers sourcing are not as concerned with partnerships as the aim is to foster innovation and create competition between suppliers, although suppliers will form alliances among themselves for bidding purposes.

**Reasons for Outsourcing**

Some of the common reasons organizations involved in outsourcing advances include:

*Cost effectiveness:* Although asset costs are increasing due to the impact of the global financial crisis (Mohammed, 2008), organizations cannot increase their production cost due to the high level of competition in today’s markets. It is necessary for organizations therefore to search for strategies which lower asset costs (Hansen, 2009). Stroh and Treehuboff (2003) claim that outsourcing is seen as a cost saving strategy, with organizations outsourcing their non-core competencies whilst still maintaining customer service, and thereby gaining a competitive advantage (Thompson, Strickland & Gamble, 2005). Global operations and the goal of organizational growth naturally put pressure on organizations to invest in human capital (Potkány, 2008). However, this investment can be very costly. The maintenance and development of key HR personnel to manage and administer such large and diverse workforces is significant (Blackman, Humphries, Davis & Brereton, 2006).

*Focus on core competencies:* Many organizations make a decision to outsource some organizational activities. This is because they want to focus on their core competencies, and see low value in developing in-house activities outside of this core (Potkány, 2008). Specifically, outsourcing HR activities can reduce the work load of existing HR staff, thereby allowing the organization to primarily focus on strategic decision making and developing core competencies (Hansen, 2009). Cook (1999) supports the view that outsourcing HR activities can allow managers to pay attention to their core business rather than spend valuable time on HR activities that are becoming increasingly more complex and advanced. Datar (2003) proposes that some internal activities of the strategic HR: Organizations increasingly acknowledge the strategic importance of the human resource function (Wirtz, Heracleous & Pangarkar, 2008). As human resource management
perspectives change from operational and administrative, to strategic, HR becomes more aligned with organizational goals and strategy. This change has increased the focus of outsourcing the HR function, and it is steadily building momentum in many organizations (Merritt, 2007). Hence, outsourcing the HR function is seen as a significant part of contemporary HR strategy (Lohr, 2007). More importantly however, research supports that outsourcing HR activities can encourage the HR function to become more strategic by spending less time on meeting cost objectives and addressing developmental goals – in terms of specific HR knowledge – and more time on strategic planning (Kosnik, Ji & Hoover, 2006). Currently, it seems the most common outsourcing HR activities are recruitment, payroll, training and development, benefit administration and legal compliance.

Access to Global talent: Outsourcing to companies in different geographical locations offers companies the capability to operate in different time zones and thus improve overall business performance levels (Gupta, 2009).

Sharing risks: Outsourcing certain components of your business processes help the organization to shift responsibilities to the outsourced organization. The outsourced organization is in most cases the specialist and thus should be able to plan those risks factors better. On the other hand the outsourced organization should be able to meet your growth requirements. It will be very unlikely that they will have a bunch of experienced people on demand. Choosing your partner in outsourcing will be an important and strategic decision; you will be sharing risks, strategy and obviously also your goals.

Organizational Effectiveness
According to Hardesty (2003), organizational effectiveness is defined in many different ways depending on the organizations goals and objectives in today's market and also is dependent on the industry. In today's market, organizational effectiveness is dependent on seven to ten attributes/characteristics, dependent on the theorist. He further stated ten characteristics those highly effective organizations exhibits. They are, clarity of the organization’s mission, the power of leadership vision, adherence to shared values throughout the organization, cohesive, balanced team of leaders, clear and measurable goals and objectives, mechanisms for external feedback and input, a desire to learn continuously, pursuit of excellence, competent planning and decision-making processes, periodic celebrations of nobility of the work and collective accomplishments. Fitz-Enz (1997) concluded there are eight practices of highly effective organizations. They entail balanced values, commitment, culture, communication, partnering, collaboration, innovation and risk, and competitive passion. Stating what an organization is supposed to look like and how it should function is easy. The hard part is how to get there and practicing the characteristics of an effective organization. Most organizations know the success of an organization is dependent on the people in place that produce the product or service. It starts with the leadership who tries to instill values throughout the organization.

Dimensions of Organizational Effectiveness
Studies have shown that the concept of organizational effectiveness is a multidimensional construct. This study shall focus on the dimensions of effectiveness discussed below;

i. Organizational Adaptability: Organizational adaptation is the renewal at the organizational level. This concept closely corresponds to the idea that an organization develops its characteristics and behaviour patterns as a response to changes in its stakeholder environment (Tikka, 2010). Edmonson & Moingeon (2004) defines organizational adaptation as a change by an organization in response to external changes. Successful organizational adaptation may result in a
more effective organizational structure and process, replacement of outmoded and a better fit with emerging environmental conditions (Marks, 2003). Adaptation can be categorized into “discontinuous” transition and “continuous” change process. Continuous change signifies moving to a known state in an orderly, incremental and continuous manner whereas discontinuous transition represents moving to an unknown state, where simultaneous and interactive changes result in new ways of thinking, organizing or conducting activities. Adaptability represents the capability of an enterprise to react quickly to opportunities and risks and convert them into business advantage (Macmillan & Tampoe, 2000). Adaptability refers to:

- The capacity to respond to the needs of customers and clients
- The ability to make optimum choices: an intentional response to change based on the information regarding the environment - past, present and future.
- Recognizing that primarily people are the ones who must adapt not organizations. People must be empowered to: take sensible risks, build new capabilities, experiment, adjust their behaviours, be fearless, learn from their failures and share their experiences with others.
- Simplifying the organizational structure of the company, if deficiencies are proven. Adapting to the permanent changes in the business environment represents a continuous process that consumes many resources in an organization, like time, effort and energy.

In theory, adaptability has a direct implication on achieving success, especially in a changing environment. In the present turbulent times, when business environments are changing drastically, it is expected that this relationship between adaptability and performance is identified in most industries.

**ii. Organizational innovativeness:** Innovativeness refers to a firm’s capacity to engage in innovation: that is, introduction of new processes, products, or ideas in the organization (Hult et al., 2004). Innovativeness is a key capability which provides competitive advantage in industries. Innovation, in its simplest form, is defined as commercialization process which is converting the idea to product/or service, newly improved production/distribution method or a new social service. As such, innovation is the realization of a new or improved product (goods or services) or process, a new marketing method or organizational method in internal applications, workplace organization or external relations (Tirupati, 2008). For innovation to have taken place, product, process, marketing method and organizational method must be new or significantly improved for the company. In this context, innovation activities cover newly developed or adapted products, processes or methods (OECD and Eurostat, 2006). In general, innovation activities in a business are carried out with technical and administrative areas and products and processes (Cunliffe, 2008). According to some authors, the concept of innovation which can be evaluated in two categories as product and process innovation goes beyond this basic classification and examined under four classes (product, process, marketing and organizational innovation) in Oslo Handbook (OECD, 2005). The innovation which is regarded as the main source (Xu et. al., 2008) of competitive advantage and developing the competitiveness of enterprises is examined under the dimensions of product, process, marketing, strategic and behavioral innovation.

**iii. Organizational Sustainability:** Becoming sustainable has become central to many aspects of everyday life. Not only does this relate to environmental decisions, but many products, services, production systems and developments now claim to be sustainable. However, in most cases when the term sustainability is used, the definition and the meaning of it are not clear. Sustainability has become a buzzword in the media, and is widely used in a diverse range of contexts with disparate meanings. In recent past, the concept of sustainability has found its way into business and
management lexicon. According to the Chartered Institute of Personnel and Development (CIPD, 2012), the essence of sustainability in an organizational context is “the principle of enhancing the societal, environmental and economic systems within which a business operates”. This introduces the concept of a three-way focus for organizations striving for sustainability. This is reflected also by Colbert and Kurucz (2007), who state that sustainability “implies a simultaneous focus on economic, social, and environmental performance”. This notion may of course relate to the growth of so called “Triple bottom line accounting”.

Theoretical Framework
This study is anchored on two major theories namely core competencies theory and transaction cost theory

Core Competencies Theory: A core competency is a concept in management theory originally advocated by CK Prahalad, and Gary Hamel. The concept of core competences has been developed on the basis of the resource-based theory. Prahalad and Hamel (1990) defined core competencies as the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams technologies. The concept was predominantly used to develop and test various outsourcing decision frameworks with the argument that the core activities should remain in house. Learning and communication premises of the concept made it also applicable in managing relationship and reconsideration phases. Vendor’s competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Feeney et al., 2005). Core competency is a specific factor that a business sees as being central to the way it works.

Transaction Cost theory: This combines economic theory with management theory to determine the best type of relationship a firm develops in the market place. The central theme of transaction costs theory is that the properties of the transaction determine the governance structure. Asset specifically refers to the non trivial investment in transaction – specific assets. Transaction cost theory (TCT) is been regarded as the most utilized theory of outsourcing. TCT is perceived to provide the best decision making tools to help organizations to decide to outsource and to prepare themselves for forthcoming outsourcing arrangements. The governance features of the theory influences its application in studying the Managing relationship phase of outsourcing.

Materials and methods
This study adopted the survey approach in its design and it covered a sample of 410 members of staff drawn from 23 selected microfinance banks from the five states of south-east Nigeria. In line with the design of this study, the data collected for this study was analyzed using inferential statistics. The hypotheses were tested using Mann-Whitney Test (U) using the 20.0 version of statistical package for social sciences (SPSS). The Mann-Whitney test is expressed mathematically

\[ U_1 = R_1 - \frac{n_1(n_1 + 1)}{2} \]

Where \( R_1 \) = Rank of the sample size, \( n_1 \) = sample size and \( U \) = Mann-Whitney test Statistic

RESULTS AND DISCUSSIONS
In this section, the researchers presented the results of the data collected and analyzed
Test of Hypotheses

SPSS Output for Hypothesis One

Descriptive Analysis for Research Question I

Table 1. Descriptive Statistics

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Table 3. Test Statisticsa

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a. Grouping Variable:
b. Not corrected for ties.

Discussion: From the test statistic table above, the value for Mann-Whitney (U) is 0.000 which is less than the 0.05 level of significance; hence, the null hypothesis is hereby rejected. This simply suggests that MC is significantly affected by KA.

SPSS Output for Hypothesis Two

Descriptive Analysis for Research Question II

Table 4. Descriptive Statistics

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a. Grouping Variable:
b. Not corrected for ties.

Discussion: From the test statistic table above, the value for Mann-Whitney (U) is 0.000 which is less than the 0.05 level of significance; hence, the null hypothesis is hereby rejected. This simply organizational memory can enhance the efficiency of SMEs.
**SPSS Output for Hypothesis Three**

**Descriptive Analysis for Research Question III**

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a. Grouping Variable: RANKS
b. Not corrected for ties.

**Discussion:** From the test statistic table above, the value for Mann-Whitney (U) is 0.000 which is less than the 0.05 level of significance; hence, the null hypothesis is hereby rejected. This simply implies that knowledge creation has significant effect on innovativeness.

### Conclusion and Recommendations

Efficiency in operation is one of the cardinal drivers of profitability. When organizations outsource any section or unit of their non-core operations, it is often targeted at obtaining efficient result and increased productivity. It is concluded in this study that micro-finance banks in south-east Nigeria can leverage on outsourcing to improve their adaptability, innovativeness and sustainability which are the hallmarks of improved competitiveness and at the long-run organizational effectiveness. The researchers recommend that micro-finance banks should focus more on its core duties where it enjoys unique competitive capabilities (UCC), while outsourcing its non-core functions. It should however, integrate outsourcing programmes into the corporate strategy of the organization to eliminate waste or duplications in resource application.

### REFERENCES


