Outsourcing Strategy and Financial Performance of Quoted Commercial Banks in Nigeria

Umar Abbas Ibrahim PhD*  AbdulQadir Isiaka2
1. Department of Business Administration, Nile University of Nigeria, Abuja, Nigeria
2. MPhil researcher, Department of Business Administration, Nile University of Nigeria, Abuja, Nigeria

Abstract
This study investigates the impact of outsourcing on the financial performance of commercial banks in Nigeria over the period 2013 – 2018, while adopting a panel research design. The sample of the study covers the commercial banks with international authorization in Nigeria. These eight commercial banks represent the tier one banks. This set of commercial banks continue to grow in customer deposits, branch spread and loan issuance. They are considered to be the strongest banks. Financial performance was captured by using profit before tax, profit after tax and earnings per share as proxies, while the independent variable- outsourcing was denominated by the annual expenditure on outsourcing. All data was collected from the companies’ annual reports. The models were estimated using the Pooled Ordinary Least Squares method. The stata software was used in model estimation. Results from this study generally indicate that outsourcing has a positive impact on all the measures of financial performance. Based on the findings, the researchers recommend that outsourcing can contribute more to performance, if companies manage the outsourcing process better and involve the employees in the decision.

Keywords: Business Processing Outsourcing, total outsourcing, partial outsourcing, core activities, non-core activities

DOI: 10.7176/EJBM/12-3-08
Publication date: January 31st 2020

1. Introduction
Globalization has removed boundaries between countries thus resulting in increased competition pressures and challenges. Companies have been forced to continuously improve their efficiency and competitiveness by embarking on outsourcing of business activities, leading to a global rise in the adoption of outsourcing as a business strategy. According to Ernst & Young (2015), annual spending on outsourcing at many Fortune 500 companies exceeds $1 billion and next generation outsourcing can bring savings in excess of 30%. Despite the rise in the acceptance of outsourcing PricewaterhouseCoopers (2008) noted that a research indicated many outsourcing deals collapse before the contract ends, citing rising costs and mistrust between service providers and customers as some of the reasons for the collapse.

A consideration of the literature on the impact of outsourcing on organizational performance reveals that there appears to be a long standing debate. While some theorists opine that a positive relationship should exist between the two, others are of the view that outsourcing strategy does not necessarily guarantee improved performance. This work also has an empirical relevance because empirical findings from research works carried out on this topic are of divergent conclusions. Based on the above mentioned, this research attempts to fill the gap in the literature on outsourcing and firm performance in a number of ways. Firstly, to the knowledge of these researchers few of the existing research works focused on the effect of outsourcing strategy on performance with specific focus on the commercial banking sector of the Nigerian economy. Secondly, this research work is unique in that it studies the effect outsourcing on three different performance measures namely; profit after tax, profit before tax; and earnings per share thus allowing a more comprehensive appraisal of financial performance. This study aims to examine the impact of outsourcing on profit before tax, profit after tax and earnings per share of commercial banks in Nigeria.

1.1 Research questions
1. To what extent does outsourcing strategy affect the profit after tax of commercial banks in Nigeria?
2. Is there a significant relationship between outsourcing strategy and profit before tax of commercial banks in Nigeria?
3. Does outsourcing strategy affect the earnings per share of commercial banks in Nigeria?

1.2 Research objectives
The objectives of this study are as follows:
1. To investigate the effect of outsourcing strategy on the profit after tax of commercial banks in Nigeria.
2. To examine the relationship between outsourcing strategy and profit before tax of commercial banks in Nigeria.
3. To study the impact of outsourcing strategy on the earnings per share of commercial banks in Nigeria.

2. Literature Review

2.1 Concept of Outsourcing

Outsourcing is the act of obtaining goods or services from individuals or organizations outside of a firm's boundaries (Brown & Wilson, 2005). According to Heywood (2001), the most complete definition of the outsourcing concept is “the transferring of an internal business function or functions, plus any associated assets, to an external supplier or service provider who offers a defined service for a specified period of time, at an agreed but probably qualified price” (p. 27). Organizational activities can be divided into two; core activities and non-core activities. Core activities are activities that are central to the organization’s processes such as inbound logistics, processing, outbound logistics, marketing and sales, and service. Non-core activities are activities that are not central to the organization’s processes such as finance and accounting, human resources, procurement, payroll, internal audit, taxation. There are two types of outsourcing strategies namely partial outsourcing and total outsourcing.

2.1.1 Partial outsourcing

This is a kind of Outsourcing where only non-core processes are outsourced. This kind of outsourcing is also known as business process outsourcing (Heywood, 2001). This type of outsourcing relies on the core/ non-core classification of organizational activities. By outsourcing the non-core activities, companies believe they can focus more on their core activities.

2.1.2 Total outsourcing

On the other hand, total outsourcing involves outsourcing both non-core activities and some core activities. Gradually, there has been a shift in the financial sector towards outsourcing of even core activities like treasury and investment banking activities like research support and so on (Patel & Aran, 2005). There is a new thinking among theorists that the core/non-core distinction is as misleading as it is outdated, since it does not take into account recent changes in outsourcing. A more useful approach to selecting which activities to be outsourced would be to evaluate the likelihood that the activity would bring competitive advantage and the capability of the company to conduct the activity in-house.

2.2 Financial performance

Financial performance can be seen as the company's ability to manage and control its resources in a bid to achieving its objectives (Horne, Van and Wachowicz, 2001). There are various measures of financial performance identified in the literature, some of which include earnings per share, profit after tax, profit before tax, return on total assets, return on equity, return on asset, economic value added. However, this work identifies three key measures of financial performance and these are earnings per share, profit after tax and profit before tax.

2.2.1 Earnings per share (EPS)

EPS is a measure that is critical to both management as well as shareholders because it is believed to be the most reliable basis of developing corporate strategic plans (Helfert 1991). Globally, EPS is considered to be the most adopted financial performance measure. Graham, Harvey and Raigopal (2004) surveyed 400 financial executives in the United States of America (USA) and reported that the majority were of the opinion that earnings were the most important performance measure they report to outsiders. Taboga (2011) reiterated the continued relevance of EPS. The popularity of EPS is as a result of how well it summarises the earnings generated for shareholders by management (Adkins Matchett & Toy, 2016).

2.2.2 Profit after-tax (PAT)

Profit after-tax is the earnings of a business after all income taxes have been deducted. This amount is the final, residual amount of profit generated by an organization. The profit after-tax figure is considered the best measure of the ability of an entity to generate a return, since it incorporates both operating income and income from other sources, such as interest income.

2.2.3 Profit before tax (PBT)

Profit before tax is a measure of a company’s profitability that looks at the profits made before any tax is paid. It matches all the company’s expenses, which include operating and interest expenses, against its revenues but excludes the payment of income tax. By excluding the tax factor, PBT minimizes the potential impact of taxes on the company’s profits. In such a way, profit before tax helps individuals to focus on operating profitability as a singular indicator of performance.
2.3 Outsourcing and financial performance

The relationship between outsourcing and performance has been a source of debate in normative literature. Some authors have put forward possible advantages of outsourcing. Hirschheim (2009) believed that outsourcing allows companies to save cost. Mehta, Armenakis, Mehta, and Irani (2006) opined that outsourcing allows companies to focus on their core competencies. Owens (2010) believed that organizations who outsource have better customer relationship. Sharma and Loh (2009) noted that by outsourcing, organizations have access to global sources and talent. Herath and Kishore (2009) believed that outsourcing gives companies access to new technology.

Meanwhile, a number of authors have stressed the negative effects of outsourcing. One negative effect of outsourcing is that employees of outsourcing companies end up losing their jobs (Aron, Clemons, & Reddi, 2005). According to Shy and Stenbacka (2005), outsourcing leads to increased monitoring cost. A major downside of outsourcing according to Kremic, Tukel, & Rom (2006) is that outsourcing companies ultimately transfer specialist or core knowledge to the vendor. Another criticism of outsourcing is that relying on the vendor increases lead time in the supply chain (Wu & Park, 2009). Ang and Inkpen (2008) noted that companies who outsource are invariably nurturing companies who in future would become their own competitors.

2.4. Theoretical framework

Resource Based View of the firm underlines this study due to its relevance in recognizing the transferability of a firm's resources and capabilities as a critical determinant of their capacity to confer sustainable competitive advantage (Barney, 1986). The resource-based view (RBV) of the firm is based on the works of Selznick (1957) and Penrose (2009). The RBV of the firm considers the firm to be a package of resources and capabilities. These resources endow the firm with unique competences. However, the performance of the firm depends on how efficiently the resources are deployed. Schmalensee (1985) discusses how adopting RBV can result in maintaining profitability over long periods regardless of industry factors. RBV lays emphasis on the internal resources available to the company.

RBV does not overlook the importance of the competitive environment, although it has its basic assumption that the source of competitive advantage largely resides within the company’s resources. The resource based view is not so concerned with the nature of the resources of the company, but rather on the way in which these resources are used. This is why the modern perspective of the RBV suggests that ownership of resources is not a precondition. The resource based view proposes how resources can be turned into competencies through the efficient and continual use of resources and integration of resources over time and across activities. Resource based view model has been adopted as the theoretical framework of this study because it models how firm performance is a function of the ability of the firm to manage the resources at its disposal whether internally derived or otherwise. This is consistent with the aim of this research work which seeks to study the extent to which externally sourced expertise contributes to firm’s financial performance.

2.5 Empirical review

Several studies revealed mixed findings in relation to the impact of outsourcing on performance. On one hand are those whose findings reveal that outsourcing has a negative impact on performance. Some of these studies are reviewed as follows:

Munjal, Requejo and Kundu (2018) explored the impact of foreign technology and professional services from outsourcing on firm financial performance. The research used panel data as the research design. Data for the study was from secondary source, particularly annual reports. The study used a sample of one thousand seven hundred and ten (1710) Indian firms over a period of thirteen (13) years, from 2001 to 2013. The dependent variable of the study was performance while the independent variables were foreign technology and foreign professional services from outsourcing. Leverage, sales growth, financial slack, age and size were taken as control variables. The study used generalized method of moments (GMM) as its model estimation technique. The result obtained shows that
the positive effects of outsourcing in terms of technological knowledge and professional services on performance are moderated by firm size, business growth and slack resources.

Likewise, Calia and Pacei (2017) empirically analysed the production outsourcing effect on firm productivity and profitability in the Italian manufacturing industry. The study used firm-level panel data. Secondary data from the Italian National Statistical Institute. 1998-2007 was relied upon. A sample of five thousand eight hundred and sixty two (5,862) manufacturing firms in Italy were used for the study. The dependent variables were firm productivity and profitability while the independent variable was outsourcing. The model estimation technique adopted in this work was the Ordinary Least Squares technique. The research found out that there was a non-significant effect of outsourcing on profitability and a significant negative effect of outsourcing on productivity.

In the same vein, Kalaignanam, Kushwaha, Jan-Benedict, Steenkamp and Kapil (2010) empirically tested the performance implications of Customer relationship management outsourcing. The study was anchored on the Resource based view and agency theory. They used the event-study research design. The study relied on data from secondary sources, specifically the annual report of the companies and record of stock prices. The sample used included 158 announced outsourcing contracts by 111 firms between January 1996 and December 2006. Their dependent variable was change in shareholder value, while their independent variables was announcement of CRM outsourcing contract. Where, change in shareholder value was measured as the difference between observed return on the event date and the expected returns. They adopted the Generalized Estimating Equations as their model estimation technique. They found out that CRM outsourcing erodes shareholder value of the outsourcing firm.

Previously, Weigelt (2009) had studied the impact of outsourcing on firms’ subsequent performance in the market and their integrative capabilities. The theoretical framework relied on for the study was resource-based and knowledge-based views. The study adopted survey research design and used archival data. Outsourcing was taken as the independent variable while firms’ subsequent performance in the market and integrative capabilities were the dependent variables. The study concludes that performance consequences of outsourcing were negative.

On the other hand some researchers through their studies found out that a positive relationship existed between outsourcing and performance. Mwelu, Moya, Muhwezi, Rulangaranga and Watundu (2014) studied the impact of outsourcing practice on the profitability level of manufacturing firms of Uganda. They used cross sectional research design. Data collection was through self administered questionnaires. The study was based on a sample of one hundred and fifty three (153) respondents from eighty (80) manufacturing firms in Uganda. Profitability level was adopted as the dependent variable, while outsourcing practice was taken as the independent variable. Model estimation was done through simple linear regression and correlation estimations. They found out that outsourcing has a positive significant association with the level of profitability of manufacturing firms in Uganda.

Also, Thouin, Hoffman, and Ford (2009) studied the effect of the level of low asset specificity information technology outsourcing on firm-level financial performance they adopted transaction cost economics (TCE) as their theoretical framework. Quantitative –survey research design was used. The study relied on secondary source of data which was obtained from the Dorenfest Institute for Health Information Research and Education. The study was based on a sample of One thousand four hundred and forty four(1444) Integrated Healthcare Delivery Systems(IHDS). The study adopted firm’s financial performance as its dependent variable and used the level of outsourced services as its independent variable, while holding the level of expenditures on IT, the availability of personal computers (PCs), the level of IHDS data center consolidation, the complexity of the organizational network, and the level of IT staff as control variables. The model estimation technique was the Ordinary least squares technique by the multiple regression. Their results provide support for the hypothesis that IT activities should be outsourced to improve the firm’s financial performance.

The third category of research works reviewed are those with a mixed result or conclusion. Appiah-Adu,Okpattah and Djokoto (2016) in their study sought to investigate the effect of outsourcing and technology transfer on corporate performance of companies in Ghana. The theoretical framework of the work was the source-position-performance model originally propounded by Day and Wensley (1988). The cross-sectional survey approach was used as their research design while data collection was through questionnaires that were administered. The leading firms in Ghana, drawn from the country’s top one hundred (100) companies formed the target sample for the study. The model adopted identified outsourcing, technology transfer and capability as drivers of business performance. The study adopted the Partial Least Squares (PLS) and Structural Equation Modelling (SEM) as their model estimation technique. It was found that the relationship between outsourcing and enhanced capability of local firms was positive, significant but weak. For foreign firms, there was a positive, moderate and significant impact of outsourcing on capability.

Kamanga and Ismail (2016) investigated the effects of outsourcing on performance of organisations in the manufacturing sector in Kenyan firms. The descriptive research design was utilised. Data was sourced by administration of questionnaires. The study targeted a population of forty- two (42) management staff from three major departments at Del Monte Kenya Limited namely: Production, Transport and Agriculture, Engineering. The researcher used census survey method to pick his sample. The dependent variable was organisational performance
while Cost reduction, improvement in quality, increased risks, technology adaption due to outsourcing were considered as the independent variables. The model estimation technique used was the ordinary least squares technique. They found out that a significant strong positive relationship existed between Cost, quality, and technology adaption due to outsourcing and organisational performance. While an insignificant positive weak relationship was found between risk and organization performance.

Kotabe and Mol (2009) relied on data from 1995-1998, from a sample of manufacturing businesses in the Netherlands. They carried out a post hoc scenario analysis. They found a negative relationship between outsourcing and financial performance. The research design adopted in the study was cross sectional and post hoc analysis. In terms of data collection, census data covering manufacturing companies operating in the Netherlands were relied on. A total of one thousand one hundred and forty seven (1147) manufacturing firms from twenty five (25) different industries were identified in their sample. Performance was identified as the dependent variable while Outsourcing and Market uncertainty were considered as the independent variables. Sales growth rate, export ratio and, productivity were adopted as control variables. Model estimation technique used was the ordinary least squares (OLS) regression analysis. Their findings revealed that there is a negative curvilinear relationship between outsourcing and financial performance.

Based on the observations from the above-mentioned studies, this research attempts to fill the gap in the literature on outsourcing and firm performance in a number of ways. Firstly, to the knowledge of these researchers none of the previous research works focused on the effect of outsourcing strategy on performance of commercial banks in Nigeria. Secondly, this research work is unique in that it studies the effect outsourcing on three different performance measures namely; profit after tax, profit before tax; and earnings per share thus allowing a more complete evaluation of performance. Thirdly, this study is of relevance, on account of its research design. Unlike most of the extant works, this study adopts a quantitative research design using panel data which looks at many entities over a period of time. Fourthly, this research work adopts as its estimation technique the Pooled Ordinary Least squares (POLS) method while robustly addressing issues of heteroscedasticity, autocorrelation and non-stationarity. This is expected to result in a more reliable result.

3. Methodology

3.1 Research design

This study adopted a quantitative research design which is explanatory or causal in its object as it investigates the cause and effect relationship between outsourcing and profit after tax, profit before tax and earnings per share of the organisations under study. Generally, the research adopted survey quantitative design. Specifically, this work utilized the panel studies which is a longitudinal study examining changes in the organisations across time. Panel data is used because it helps to combine accurate measurement of parameters and individual behavior.

3.2 Population and Sample of the Study

The population of the study include the twenty-three (23) commercial banks licensed by the central bank of Nigeria. The commercial banks can be categorized based on the nature of license awarded to them as shown in table 1 below.

<table>
<thead>
<tr>
<th>S/N</th>
<th>Type of bank</th>
<th>Type of license</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Commercial Banks</td>
<td>International license</td>
<td>8</td>
</tr>
<tr>
<td>2.</td>
<td>Commercial Banks</td>
<td>National operating license</td>
<td>11</td>
</tr>
<tr>
<td>3.</td>
<td>Commercial Banks</td>
<td>Regional operating license</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>23</td>
</tr>
</tbody>
</table>

**Source: Central Bank of Nigeria official website (2019)**

The sample of the study includes only commercial banks with international authorization in Nigeria. These eight commercial banks represent the tier one banks. This set of commercial banks continue to grow in customer deposits, branch spread and loan issuance. They are considered to be the strongest banks. They include: Access Bank Plc, Fidelity Bank Plc, First City Monument Bank Plc, First Bank of Nigeria Limited, Guaranty Trust Bank Plc, Union Bank of Nigeria, United Bank of Africa, and Zenith Bank Plc. The study adopted a purposive sampling technique in with focus on the eight commercial banks which are considered first rate. This study relied on secondary source of data on annual outsourcing expense, PBT, PAT and EPS as reported by the Nigeria Stock Exchange.

3.3 Model Specification

The study uses three simple linear models representing the three research hypotheses as follows:

\[ H_0: \text{There is no significant relationship between outsourcing and profit after tax of commercial banks in Nigeria.} \]
3.4 Definition of variables

\[ \text{PAT} = \alpha_1 + \beta_1 (\text{OUTS.}) + \mu \quad \text{............... (1)} \]

H0 2: There is no significant relationship between outsourcing and profit before tax of commercial banks in Nigeria.

\[ \text{PBT} = \alpha_2 + \beta_2 (\text{OUTS.}) + \mu \quad \text{............... (2)} \]

H0 3: There is no significant relationship between outsourcing and earning per share of commercial banks in Nigeria.

\[ \text{EPS} = \alpha_3 + \beta_3 (\text{OUTS.}) + \mu \quad \text{............... (3)} \]

3.5 A priori Expectation for the Models

Based on prior knowledge from normative writings on the relationship between outsourcing and financial performance Table 2 below shows that the relationship between outsourcing and PAT, PBT and EPS should be positive. In other words, an increase in outsourcing expenditure of the companies is expected to lead to a positive reaction in the financial performance of the companies.

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>Independent Variable</th>
<th>Relationship between Dependent and Independent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax</td>
<td>Outsourcing</td>
<td>Positive</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>Outsourcing</td>
<td>Positive</td>
</tr>
<tr>
<td>Earnings per share</td>
<td>Outsourcing</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Source: Authors compilation

3.6 Data Analysis

A review of descriptive statistics in Table 3 below shows the minimum profit after tax as N37, 00,000 while the maximum profit after tax was N166, 920,000,000. The mean of all the profit after tax was N55, 986,231,523.81. The minimum profit before tax as N1,540,219,000 while the maximum profit before tax was N192,107,000,000. The mean of all the profit after tax was N65,101,479,047.62. The minimum earnings per share was N0.08 while the maximum earnings per share was N5.67. The mean of all the earnings per share was N1.96.

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAT</td>
<td>42</td>
<td>37000000</td>
<td>1669200000000.</td>
<td>55986231523.81</td>
<td>48799048930.64</td>
</tr>
<tr>
<td>PBT</td>
<td>42</td>
<td>1540219000</td>
<td>192107000000.</td>
<td>65101479047.62</td>
<td>56654839755.51</td>
</tr>
<tr>
<td>EPS</td>
<td>42</td>
<td>0.08</td>
<td>5.67</td>
<td>1.96</td>
<td>1.61</td>
</tr>
</tbody>
</table>

Source: Author’s own computation

Table 4. Outsourcing strategy and financial performance using Pooled Ordinary Least Squares (POLS) estimator

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing</td>
<td>3.515**</td>
<td>4.111**</td>
<td>0.0000000000136**</td>
</tr>
<tr>
<td></td>
<td>(1.928)</td>
<td>(2.261)</td>
<td>(0.0000000000604)</td>
</tr>
<tr>
<td>Constant</td>
<td>36800000000*</td>
<td>42700000000***</td>
<td>1.130**</td>
</tr>
<tr>
<td>Newey west standard error</td>
<td>(16400000000)</td>
<td>(19300000000)</td>
<td>(0.545)</td>
</tr>
<tr>
<td>No of observations</td>
<td>40</td>
<td>40</td>
<td>37</td>
</tr>
<tr>
<td>P-value(model significance)</td>
<td>0.036</td>
<td>0.035</td>
<td>0.20</td>
</tr>
</tbody>
</table>

Source: Author’s own computation.

Note: The parentheses contain the standard errors. *p < .10, **p < .05, ***p < .01.

Table 4 above shows the results of Pooled Ordinary Least Squares (POLS) regressions of various performance
indicators on outsourcing expenses within a panel of 40 observations. Specifically, Table 4 reveals that an increase in outsourcing expenses has a positive impact on all the proxies of financial performance. The table indicates that a given increase in outsourcing expenses brings about a 3.515 increase in profit after tax, 4.111 increase in profit before tax, 0.000000000136 increase in earnings per share. The parameter estimates for outsourcing in model 1, model 2, and model 3 are significant at 5% significance level. Further, the P-values from the F-test conducted indicate that model 1, model 2, and model 3 are significant. The results therefore confirm that an increase in outsourcing expenses has a positive impact on all the proxies of financial performance. It is worthy of note that this study addresses the issues of heteroscedasticity and autocorrelation by employing Newey-West standard errors (Newey and West, 1987).

Table 5. Correlation matrix

<table>
<thead>
<tr>
<th></th>
<th>PBT</th>
<th>PAT</th>
<th>OUTS</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PBT</td>
<td>-</td>
<td>0.997</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PAT</td>
<td>0.997</td>
<td>-</td>
<td>0.331</td>
<td>-</td>
</tr>
<tr>
<td>OUTS</td>
<td>0.334</td>
<td>0.331</td>
<td>-</td>
<td>0.395</td>
</tr>
<tr>
<td>EPS</td>
<td>0.968</td>
<td>0.97</td>
<td>0.395</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Author’s own computation

Table 5 above shows the correlation between the indices of the commercial Banks’ financial performance and their outsourcing expenditure. Specifically, the positive correlation coefficient (0.334) between profit before tax and outsourcing indicates that there is a statistically significant positive relationship between the two variables implying that outsourcing and PBT of the Banks move in similar direction. There is a weak but positive relationship between PAT and outsourcing as indicated by a positive correlation coefficient of 0.331. The positive correlation coefficient (0.395) between EPS and outsourcing indicates that there is a positive relationship between the two variables.

Table 6. Hadri Panel Unit Root Test

<table>
<thead>
<tr>
<th></th>
<th>Hadri Z statistics</th>
<th>Corresponding P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Profit before tax</td>
<td>15.939</td>
<td>0.000</td>
</tr>
<tr>
<td>2 Profit after tax</td>
<td>2.249</td>
<td>0.012</td>
</tr>
<tr>
<td>3 Outsourced expense</td>
<td>27.437</td>
<td>0.000</td>
</tr>
<tr>
<td>4 Earnings per share</td>
<td>26.888</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Source: Author’s own computation

Table 6. Shows the tests for unit root using Hadri unit root test. Ordinary least squares (OLS) is used to estimate the slope coefficients of the models. One assumption of the OLS is the stationarity of the stochastic process. When the stochastic process is non-stationary, the use of OLS can produce invalid estimates of the slope coefficients. For this reason, the unit root test is conducted. The null hypothesis is that a unit root is present. The Hadri panel unit root test is conducted with an intercept and a trend. With p values of 0.00 the null hypothesis that there is a unit root in the case of model 1 is rejected. For model two the p value is 0.012. Hence the the null hypothesis that there is presence of unit root is rejected. In the case of earnings per share the p value is also 0.00 which means that the null hypothesis would be rejected. The test results confirm that the variables are stationary at level and that the OLS estimates are reliable (Hadri, 2000).

4.1 Conclusion

This study aimed to examine the impact of outsourcing on profit before tax, profit after tax and earnings per share of commercial banks in Nigeria. The concept of outsourcing was reviewed in detail by identifying and explaining the common types of outsourcing strategies which are partial and total outsourcing. The dependent variable of the study was financial performance of commercial banks. Financial performance was further analysed into three key performance measures which include PAT, PBT and EPS. The Resource based view was adopted as the theoretical framework due to the fact that it links the performance of firms to the efficient use of organisational resources rather than the external factors.

A review of existing research works on the topic revealed that the studies could be analysed into three categories namely: studies that found a positive relationship between outsourcing strategy and performance, studies that revealed a negative relationship and lastly those that found a mixed effect of outsourcing on performance of firms. In order to answer the research questions earlier espoused, this study tested three hypotheses which are based on the research objectives. Panel data from secondary sources were analysed and the results indicate a positive relationship between outsourcing and the three measures of financial performance.

4.2 Findings

Firstly, this research work proves right the hypothesis that outsourcing strategy has a positive relationship with profit after tax of commercial banks. The coefficient of the parameter at 3.515 as stated earlier is not just positive
but strong and significant. This means that an increase in outsourcing expense by one Naira will result in an increase in profit after tax by N 3.515. The p value also shows that the results are based on a confidence level of 95% which makes the result quite reliable.

Secondly, this study confirms the theoretical position that outsourcing strategy has a positive relationship with profit before tax of commercial banks. Outsourcing is seen to have an impact on the profit before tax as the parameter of the variable at 4.11 is positive, strong and significant. This means that an increase in outsourcing expense by one Naira will result in an increase in profit before tax by N 4.11. The p value also shows that the results are based on a confidence level of 90% which indicates that the result is reliable.

Thirdly, the research work provides an empirical backing for the notion that outsourcing strategy has a positive relationship with earnings per share of commercial banks. This means that an increase in outsourcing expense by one Naira will result in an increase in profit before tax by N 0.000000000136. The p value also shows that the results are based on a confidence level of 95% which makes the result reliable. This shows that, of the three measures of performance the earnings per share is the least affected by outsourcing strategy. The result of this work is similar to the conclusion of Thouin, Hoffman, and Ford (2009); Munjal, Requejo and Kundu (2018) as well as Kotabe and Mol (2009).

Fourthly, existing research works as well as this study discover that economic benefit may not be the main goal of outsourcing for many organisations who outsource. Rather organisations are involved in outsourcing basically because it is a trend among its competitors. This research shows that although outsourcing is prevalent among many top companies, the popularity of outsourcing as strategy may be as a result of bandwagon effects. Generally, while outsourcing has some proven effect on financial performance many organisations are motivated to adopt outsourcing as a strategy due to other factors other than economic benefits.

4.3 Recommendations

Based on its findings, we recommend that:

Firstly, that companies that outsource are prudent in managing all the phases of the outsourcing process as this necessary to ensure that the obvious benefits inherent in the outsourcing strategy are not lost due to the mismanagement of the process. This study revealed that outsourcing is a potent means for organisations to improve their profitability and one way to make optimal benefit from outsourcing is to be in close communication with the service provider throughout the process.

Secondly, companies that outsource should get their employees involved in the outsourcing process. The outsourcing process can be broadly categorized into two stages namely the planning and implementation stages. Success at the implementation stage necessitates the cooperation of the employees and this can only be achieved by getting them involved in the decision making process thereby winning their support for and commitment to the success of the strategy.

Thirdly, existing research works like this study prove that outsourcing like any other strategy has to be adjusted to suit the specific demands of each organization. Hence the organization must be precise in determining the type and extent of outsourcing that are compatible with its peculiar demands. In other words, decisions regarding the extent of outsourcing should be made by considering the organization’s core competencies and its critical success factors (CSF). It makes strategic sense to base decision to outsource on whether or not the activity is a CSF. This implies that activities that core competency and non-core competency can be outsourced so long as they do not fall under the category of critical success factors. This is because such functions are critical to the organization’s daily operations.

Lastly, the decision to outsource certain types of activities should be given utmost consideration before embarking on them. This is because, there is staggering evidence that the desicion to outsource some activities are irreversible, specifically information technology. Future research on this topic may consider a larger sample as well as adopt the balanced scorecard approach to performance measurement. It would also be proper to evaluate separately the effect of outsourcing core activities as different from the effects of outsourcing non-core activities on organizational performance.

5. References


