

# Outsourcing and Organizational Performance in Banking Sector of Punjab, Pakistan

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## Abstract

Organizations are more competitive these days .To maintain competitive position, Firms are developing new strategies and introducing new techniques. Outsourcing is widely recommended technique for this purpose. Outsourcing, support functions is a common practice in organizations so that the management can focus on its core functions. Outsourcing helps organization's to improve their performance. This paper explores the impact of outsourcing on organizational performance in banking sector of Punjab, Pakistan.

**Key words** outsourcing, organizational performance, banking, Pakistan

## Introduction

The word outsourcing is originated from two words, out (means exterior) and source (means origin or resource) and in business terms, it means that specific activities are obtained from outside the firm(Teng, Cheon, & Grover, 1995).To improve competitive position of an organization, widely used technique is outsourcing(Maiga & Jacobs, 2004).According to many managers outsourcing is the only technique to keep a company competitive. The word is relatively new, though outsourcing practice exists from the 15<sup>th</sup> century(Kistner, 2006).Over few decades outsourcing is becoming very common in private and public sector. In business firms, after expending outsourcing to their business activities, operations find multiple benefits of outsourcing. The growth of outsourcing indicates that multiple benefits lie behind this process(Abdul-Halim & Che-Ha, 2010; Sheehan & Cooper, 2011).A firm may outsource to gain the benefits regarding low price and higher expertise level. One of the most compelling reason to adopt outsourcing is that senior manager let to enter the other firms enter in because they have the opportunity to have cost efficiency(Lankford & Parsa, 1999).

Despite its popularity the result is an unsolved puzzle. There is a risk factor associated with outsourcing result in frailer of plan. Decision of outsourcing is a complex decision which involves multidimensional considerable aspects, investigation on tactical level, managerial level and operational level, and identifies those factors which put influence on outsourcing, a wrong decision influence the whole process for which outsourcing is being made(Delmotte & Sels, 2008).By outsourcing certain activities to expert organizations, firms may enhance focus on their core functions. That results in effectiveness of those functions. As level of outsourcing increases, costs possibly will decline (Jiang, Frazier, & Prater, 2006).The purpose of this paper is to find the difference between performance levels(before and after outsourcing) and to study the impact of outsourcing on an organization's performance.

## Theoretical framework

To solve different kind of problems such as cost, quality, and speed of service firms are developing different strategies. Downsizings, exclusion of some functions and processes, franchising and leasing arrangement are some examples of these decisions. Outsourcing is also included in these strategies. Organizations usually outsource their support activities(Hemmington & King, 2000).

## Outsourcing and organizational performance

Outsourcing improves different dimensions of organizational performance and is attractive to upper management (Lilly, Gray, & Virick, 2005). Outsourcing helps organizations to increase focus on their core competencies (Dess, Rasheed, McLaughlin, & Priem, 1995). If an external party can perform the work more competently and economically than can the organization itself, then the external party ought to perform it but if the organization's employees can perform the work better, then the work should remain in-house (Bahli & Rivard, 2001). Outsourcing firms who know that how to handle the process can improve their firm's performance and attain a higher level of satisfaction (Lacey & Blumberg, 2005). The outsourcing of support activities allows the organizations to increase management attention and resource allotment to those tasks in which the firm has edge. This attention can improve performance and allows the organizations to be more efficient and innovative moreover, outsourcing helps to increase the "quality of work life". Jobs become more meaningful for the staff when firms ensure focus on their core competencies (Bolat & Yilmaz, 2009).

Studies show that there is a direct relationship between productivity and outsourcing. According to (Abraham & Taylor, 1993) firms outsource activities for smoothing production and gaining from specialization. (Ten Raa & Wolff, 2001) discover a positive connection among the rate of "outsourcing" and "productivity growth. Well-organized organizations assign their resources to those activities in which they have comparative advantage and other activities are usually outsourced (Perry, 1997). Outsourcing allows the firms to evaluate the productivity of their internal service functions (Siegel & Griliches, 1992). Now a day's economies offer countless opportunities for organizations to maximize profits through outsourcing (Quinn, 1999). Firms are focusing on outsourcing strategies to reduce and control costs (Smith, Mitra, & Narasimhan, 1998). Outsourcing minimizes the requirement of capital assets that results in lower fixed cost and lower "break-even point" (Gilley & Rasheed, 2000). In summary, the organizations outsource their activities (functions) with the idea that organization's performance will enhance (Lilly, et al., 2005). We will study the relationship between outsourcing and organizational performance by using four organizational performance dimensions.

- Productivity
- Profitability
- Continuous improvement
- Quality of work life

On the basis of above arguments about outsourcing and organizational performance, the following hypothesis is formulated:

H1 The outsourcing significantly improves organizational performance.

## Methodology

The region selected for research was Punjab, Pakistan. This region contributes a lot in the economy of Pakistan. After the selection of research area; target population was defined that includes all the major branches of different banks in Punjab, Pakistan. Out of which 50 (sample) branches (located in different cities) of different banks were selected for study. Questionnaires were presented to assistant vice presidents, branch managers and operational managers of banks by visiting them and their responses were recorded. To find the information about the differences of the performance of the banks, 24 items were included in the questionnaire, relating to four performance dimensions. Each item was asked for both situations, before and after outsourcing. A "Likert scale" (1-5) was used, 1 = very low and 5 = very high.

The difference between the means (before and after outsourcing) of performance dimensions was calculated. It is further studied by "t- test" whether a significant difference exists or not, between the means of both (Before and after outsourcing) performance levels.

**Results:**

Reliability of the scale for organizational performance is tested by Cronbach’s Alpha (co-efficient) that shows the value .769 and .717 for after and before outsourcing respectively. The results in **Table 1** shows that the organizational performance after outsourcing is significantly higher as compare to before outsourcing for all four performance dimensions. Organizational productivity “difference .377”, profitability “difference .28”, continuous improvement “difference .67”, quality of work life “difference .07”, level after outsourcing were higher as compare to before outsourcing. The highest difference is for “continuous improvement” and lowest difference is for “quality of work life”. By taking the mean of all four performance dimensions “general performance” level was determined. The “general organizational performance” level after outsourcing “3.77” was significantly higher as compare to before outsourcing “3.42” (difference .35).

		Mean	N	SD	SE Mean
Pair 1	Productivity(After)	3.83	50	0.825	0.117
	Productivity(Before)	3.453	50	0.848	0.12
Pair 2	Profitability(After)	3.88	50	0.914	0.129
	Profitability(Before)	3.60	50	0.922	0.13
Pair 3	Continuous improvement(After)	4.01	50	0.762	0.108
	Continuous improvement(Before)	3.34	50	1.01	0.14
Pair 4	Quality of work life(After)	3.37	50	1.057	0.149
	Quality of work life(Before)	3.30	50	1.12	0.15
Pair 5	General performance(After)	3.77	50	0.88	0.12
	General performance(Before)	3.42	50	0.975	1.135

**Table 1 (Comparison of performance after and before outsourcing)**

It is further studied by “ t- test” whether a significant difference exists or not, between the means of both (Before and After outsourcing) performance levels Table 2 shows a significant difference in “means” between the organizational productivity and continuous improvement level before and after outsourcing (t=2.709, p=.009 and t=5.147, p< .000 respectively). And there is no significant difference in the mean between profitability and quality of work life level before and after outsourcing (As t=1.982, p=.053 and t=.480, p=.634 respectively).

**Paired Samples Test**

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Productivity( After)– productivity(Before)	.38000	.99205	.14030	.09806	.66194	2.709	49	.009
Pair 2	Profitability(After)– profitability(Before)	.27333	.97518	.13791	-.00381	.55048	1.982	49	.053
Pair 3	Continuousimprove ment(After)– continuousimprovement(Before)	.66667	.91597	.12954	.40635	.92698	5.147	49	.000
Pair 4	Qualityofworklife(Af ter)– Qualityofworklife(Be fore)	.06667	.98285	.13900	-.21266	.34599	.480	49	.634
Pair 5	Generalperformance( After) - General performance(Before)	.34667	.70155	.09921	.14729	.54604	3.494	49	.001

**Table 2 Comparison of organizational performance (after and before outsourcing)**

The sig. (2 tailed) value for general performance after and general performance before is .001 that is less than 0.05. It means that a significant difference (t=3.494, p=.001) exists between the general organizational performance after outsourcing and general organizational performance before outsourcing. Statistics revealed that general performance after outsourcing is greater than general performance before outsourcing. So the organizational performance after outsourcing is better in banking sector of Punjab, Pakistan. The above results show that outsourcing is very essential for organizational performance. Therefore H1 was supported.

**Conclusion and Recommendations**

Outsourcing is a relatively new management technique. Its practical benefits can be seen from its growing use. Firms no longer carry out all the operations. Organizations want to focus on their core activities. So they contract out support functions. Outsourcing advantages are not automatic. Outsourcing arrangements need proper attention, considerable time and care from management. Our study shows that the decision to outsource, significantly improves performance. “Continuous improvement” (performance dimension) shows the greatest

improvement and the lowest improvement is in the quality of work life (performance dimension). But no significant improvement is observed in profitability and quality of work life. Outsourcing firms devote their released capital from outsourcing to boost their core competencies. And due to competitive pressure (on prices), outsourcing companies reduce their profit margins. That's why; there is no significant improvement in profitability. But according to study overall improvement in organizational performance is observed.

In our research we have considered four performance dimensions. In future research, some other performance dimensions can be considered to investigate that what is the impact of outsourcing on those dimensions and what is the relation between outsourcing and those performance dimensions.

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