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Human Resource Outsourcing and Personnel Cost Reduction in Deposit Money Banks in Lagos State

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ABSTRACT:
Businesses are looking for ways to adapt to changes, improve their processes, and create profit, which is the primary aim of their existence, as a result of numerous causes such as globalization, natural disasters, disease outbreaks, and technological innovation. Businesses that want to achieve these goals look for practical ways that will improve their performance and long-term viability.
The purpose of this research is to evaluate human resource outsourcing and personnel cost reduction in deposit money banks in Lagos State. The study used a descriptive survey approach with 650 employees from selected money deposit banks in Lagos State. The primary data was collected using a questionnaire. Regression analysis was used to test the study's hypothesis. The study's findings demonstrated that business process outsourcing had a considerable impact on deposit money banks' performance in Lagos State. According to the findings, human resource outsourcing has a significant positive relationship with personnel cost reduction. Based on the findings of the study, it was concluded that outsourcing business processes such as human resources will lead to positive effects and reduce personnel cost in deposit money banks in Lagos State. To obtain a competitive advantage, remain profitable, and achieve sustainable performance, deposit money institutions should outsource peripheral business functions and focus on their core strengths, according to the report.

Keywords: *Outsourcing, Performance, Business Process*

INTRODUCTION

In recent times, the world has witnessed an increase in competition in the business environment which demands various businesses to enhance efficiency and be innovative in meeting and beating expectations. Maintaining lower prices while delivering customer value through the provision of quality goods and better services is a goal that sustains businesses in the global market. In a rapidly changing business world occasioned by several factors such as globalization, natural disasters, an outbreak of diseases, and technological advancement, businesses are seeking means to adapt to changes, better their processes, and make a profit which is the major goal of their existence.

Firms are being pushed to reconsider their strategy around outsourced services due to a growing need for exceptional financial performance (Ghodeswar and Vaidyanathan, 2008). The most important criterion to determine the performance of an organization is profitability. Profitability helps a firm to assess how much it is receiving from its investments in goods and services. (Narayanan, Jayaraman and Swaminathan, 2011). To gain profit, businesses put in place various strategies geared towards

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achieving this goal and one of such strategies is outsourcing. The COVID-19 pandemic has brought about a new normal which is one of the reasons why business process outsourcing is becoming a strategy to achieve cost reduction and performance. Businesses today have responded to the modern emphasis on service and speed, quality and costs by abandoning the normal way of doing business for more flexible strategies. Strategies are characterized by the restructuring of important business processes, and constant scrutiny to enhance efficiency. This guarantees survival in the harsh business environment. The sustainable competitive advantage yet poses a challenge for firms. This has been triggered by a shift in thinking within business organizations as they no longer see their strength as being controlled in the market only. Outsourcing has been one of the key strategic business issues in recent decades. Outsourcing organizations have been able to increase the performance of their in-house activities by focusing on a limited activity structure (McIvor, 2008; Ellram and Billington, 2001; Kakabadse and Kakabadse, 2005).

Organizations are making strategic choices to outsource what they are fragile at and instead concentrate their resources on their strengths to improve their performance. Business Process Outsourcing was borne out of the need for competitiveness. It is a deliberate effort towards improving efficiency and hence competitiveness by realizing higher returns on assets while increasing flexibility by using less capital to respond to the environment (Insinga and Werle 2000; Jiang and Qureshi, 2006). A firm that adopts outsourcing solutions in its business can reduce costs such as training expenses, recruitment, and overtime thus shrinking the size of the function therefore cheaper substitutes can be applied and the overall payroll expenses can decrease (Marchington and Wilkinson, 2008). By using external services, the knowledge is then delivered by external staff thus avoiding financial capital investments and subsequently leading to economies of scale (Beregszaszi and Hack-Polay, 2012).

Lowering costs, improving quality, increasing productivity, improving financial performance, increasing capacity, lowering the cost of innovation, and increasing the organization's efficiency and effectiveness are all benefits of adopting and successfully implementing an outsourcing plan (Agburu, Anza, and Iyortsun 2017). Increased competition and the emergence of modern technologies have led to the high need for deposit money banks to access more advanced strategies to remain competitive in these dynamic markets (Fitzgerald and Khan, 2004). Outsourcing for cost reduction accepts that there exist partners in the supply chain who have substantial production scale economies, volume leverage with several suppliers, or operational competencies as dedicated market agents (Brewer, Ashenbaum, and Ogden 2012).

An increase in outsourcing costs often declines and investments in manpower, equipment, and facilities can be reduced. Cost reduction outsourcing can also lessen fixed investments in internal facilities and processes (Kotabe, Mol and Murray 2008; Diaz-Mora and Triguero-Cano, 2012), and allow for capital investments in high productivity areas within the organization, thus driving costs even lower (Nayak, Sinha and Guin, 2007). In the light of the aforementioned background, the relationship between business process outsourcing and the performance of deposit money banks remains a debate to be confirmed.

Organizations seek to operate efficiently and effectively in human resource management to reduce personnel costs by utilizing the minimum resources against the unlimited wants with the view that human resources account for over 50% of their budgets. Cost reduction is one of the most challenging tasks that a company can undertake especially when there are so many options open to cost-conscious managers and firms that outsource experience reduced average cost. (Gupta, 2000; Akewushola and Elegbede, 2013).

For deposit money banks to achieve set goals in the presence of globalization, technological advancement, the sophistication of business processes, knowledge explosion, and the need for constant growth in the business world, they seek strategies to enhance sustainable performance and one of such strategies is outsourcing of operation services to vendors who are up to date with the technical knowhow of new technology and skills needed to be competitive in the evolving business world. Outsourcing contributes to the growth of an organization this is because such contribution is evidenced in creative and innovative products resulting from specialization. Business Process Outsourcing is seen as the center of focus in several industries due to its predicted ability to reduce cost and enhance efficiency (Fitzgerald and Khan, 2004).

Statement of the Problem

Procedures in Business Outsourcing is a profitable approach for deposit money institutions that allows them to learn from and benefit from external experience. While the fundamental reasons for outsourcing remain innovation and lower operating costs, other experts think that the trend will shift in the coming years as the importance of this argument diminishes (Kakabadse and Kakabadse, 2002).

Deposit money banks play a critical role in the development of the Nigerian banking industry, reducing poverty and cooperating with other sectors of the economy to provide financial facilities that enhance economic activity. Despite the Central Bank of Nigeria's efforts through its post-consolidation policies to enable deposit money banks in Nigeria to remain competitive and profitable, about eight of the twenty-five banks that remained after recapitalization in 2004 are no longer in operation because they either focused more on rightsizing, downsizing, and benchmarking while ignoring the benefits of business process outsourcing. Despite efforts by deposit money banks in Nigeria to improve their performance after the start of the financial crisis in 2007/2008, many are still struggling to achieve long-term success. Outsourcing is mostly used to cut costs and allow businesses to focus on their core competencies.

According to Okechukwu and Ike (2018), the flexibility of outsourced workers has an impact on an organization's production. Abudu, Asenge, and Torough (2020) posit that a contracting strategy helps in saving the cost involved in carrying out core activities by the organization thereby increasing the organizational profitability of deposit money banks in Nigeria.

From previous research carried out it was obvious few studies had been conducted on business process outsourcing and the performance of deposit money banks. This study seeks to enquire how deposit money banks can achieve sustainable performance and remain profitable to avoid underperformance or possible liquidation and also fill the existing gap by conducting a study to ascertain the relationship between business process outsourcing and deposit money banks in Lagos State.

Objective of the Study

The objective of this study is to determine the relationship between human resource outsourcing and personnel cost reduction in deposit money banks.

Research Questions

The following research question is developed to guide the study.

1. What is the relationship that exists between human resource outsourcing and personnel cost reduction in deposit money banks in Lagos State?

LITERATURE REVIEW

Theoretical Framework

This section reviews the theoretical framework on which the concept of outsourcing for organizational performance is anchored. Business Process Outsourcing is based on many theories of which this research was supported by the following theory: Resource-Based View, and contractual Theory.

Resource-Based View (RBV) Theory

Outsourcing can be explained from the dimension of the relationship between service receiver and service provider. The resource-based view (RBV) theory is believed to be propounded by Jay Barney in his article “Firm Resources and Sustained Competitive Advantage” in 1991. RBV analyses other aspects, taking into account internal strengths and weaknesses. A firm’s resource perspective generates the core competencies and competitive advantage for specific business activity, the resource-based theory holds that a resource provides organizations with a sustained competitive advantage. Hedman and Kalling (2002), posit that a resource has four relevant attributes namely: valuable, rare, costly to imitate, and efficiently organized. RBV defines resources as tangible and intangible assets within the firm. According to Gilley. Mcgee and Rasheed, (2004) the resource-based view consider the resources and capabilities of the firm as the source of competitive advantage. Because of the RBV theory of the firm, outsourcing is taken as a strategic decision that can be used to fill gaps in the firm's resources and capabilities (Grover et al., 1998). Normally firms establish their specific resources which they keep on reviewing to respond to shifts in the changing business environment. Hence, firms must come up with dynamic capabilities which are adaptable to environmental changes (Pettus, 2001). Capability is the key role of strategic management to ably adapt, integrate and reconfigure internal and external organizational skills, resources, and functional capabilities to match the requirements of a changing environment. Combined capability, skills, and right resources are necessary ingredients used by service providers to make quality products. RBV theory puts more emphasis on the firm's internal resources rather than external opportunities and threats created by industry conditions. The theory maintains that to generate sustainable competitive advantage a resource must provide economic value and must be presently scarce, difficult to imitate, non-substitutable, and not readily obtainable from markets. The theory also relies on two key points; first that resources are determinants of firm performance and second that resources must be rare, valuable, difficult to imitate, and not substitutable by other rare resources. When the latter occurs a competitive advantage has been created (Priem and Butler, 2001).

Contractual Theory

For an outsourcing strategy to be implemented, it requires a legally bound contract that 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. The purpose of the outsourcing contract is to facilitate the proper exchange of services between the two parties, prevent misunderstanding, prohibit moral hazards in a cooperative relationship, and protect each party's proprietary knowledge. Properly written contracts prevent risks arising from non-performance and misunderstanding and also reduce uncertainty likely to be faced by the firm's decision-making process. The contract sets a procedure for conflict resolution (Luo, 2002). Legal experts emphasize the need for a comprehensive contract that can serve as a reference point specifying how the client and the vendor relate (Kern and Willcocks, 2000).

Empirical Reviews

Previous empirical studies on human resource outsourcing and the performance of deposit money banks are reviewed as follows: Inegbedion (2016) interrogated the relationship between outsourcing of human resources functions and organizational competitiveness in Nigeria using a sample population of 250 staff from NABTEB, First Bank, and Airtel in Benin City, Nigeria. Findings indicated that outsourcing human resources factors enhances the reduction of an organization's cost, which makes it a viable strategy for competitiveness. Olannye and Okoro (2017) in their study examined the effect of Human Resource Outsourcing and organizational performance in the Nigerian deposit money banks. A sample population of 260 staff from ten money deposit banks in Asaba metropolis, Delta State Nigeria was used in the study. A cross-sectional survey research design method was adopted and data were collected using questionnaires. Data were analyzed using factor analysis, correlation, and multiple regression analysis. The study revealed that a significant positive relationship exists between the variables of human resource outsourcing and organizational performance. Gilley, Greer, and Rasheed (2002) shed additional light on the relationship between outsourcing and firm performance by examining HR outsourcing practices and their influence on financial, innovation, and stakeholder performance measures using a sample of manufacturing firms in their study that analyzed the relationship between outsourcing and firm performance. The findings indicated that certain types of HR outsourcing operations had a considerable, beneficial impact on corporate performance. Outsourced training, in particular, was found to have a favorable effect on both innovation and stakeholder performance. Furthermore, payroll outsourcing was discovered to significantly promote firm innovativeness.

Okechukwu and Ike (2018) looked at the relationship between outsourced worker flexibility and deposit money bank profitability in Enugu, Nigeria. They used a descriptive survey design with 271 employees from several deposit money banks. Data was obtained using questionnaire copies, and hypotheses were assessed using linear regression. The study found a link between outsourced worker flexibility and deposit money bank profitability. In his study on the relationship between outsourcing and organizational performance, Yeboah (2013) suggested that changes in outsourcing will correlate with changes in quality of service, employing a sample population of 50 respondents and analyzing with correlation analysis. However, the study overlooked the impact of the strategy on organizational performance.

Research Design

The research employed descriptive research to explain the link between outsourced business processes and deposit money bank performance in Lagos. A descriptive survey research design consists of a set of procedures and methods for describing variables (Kothari, 2008). The descriptive research method was chosen because it describes and identifies the impact of business process outsourcing on deposit money bank performance in Lagos.

The Population of the Study

The target population consisted of 650 employees from Guaranty Trust Bank, Access Bank, and Zenith Bank, all of which are deposit money banks licensed by the Central Bank of Nigeria and listed on the Nigerian Stock Exchange. Branch managers, heads of operations, and team leaders from the selected banks in Lagos State make up the study's population. Because the population was relatively small, a census survey was used to determine the respondents. According to the Corporate Finance Institute 2020 ranking, the aforementioned banks are among the top three deposit money banks in Nigeria. The researcher chose the aforementioned deposit money banks because he wants a diverse response from the country's top leading adopters of outsourcing strategy banks (Table 1).

Sample and Sampling Techniques

The Taro Yamene's statistical formula will be used in determining the sample size and to obtain facts about the sample which will be a true reflection of the population for the study. This is shown as follows:

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

where,
n = sample size
N =population size
e = error of significance
1 = constant
Using the formula, we have
Therefore, let n? N = 650, e = 5% or 0.05

$$n = \frac{650}{1+650(0.05)^2}$$

n= 247≅ 247

Likert scale questionnaire was used as the instrument for data collection. This was done to ensure that the questions asked related to the construct intended to be measured.

A simple random sampling technique will be applied to determine the selected sample size for the study. In using simple random sampling, a member of the population represents the whole population.

Table 1: Target Population

Respondents	Frequency	Percentage %
Access Bank	220	33.85
Guaranty Trust Bank	217	33.38
Zenith Bank	213	32.77
Total	650	100

Source: Field Survey, 2021

Method of Data Collection

The study used both primary and secondary data collected through a self-administered questionnaire that included both open and closed-ended questions designed to elicit specific responses. The questionnaire has four sections. Section A contains questions on the bio-data of the staff of the deposit money banks; Section B addressed the extent of business process outsourcing by deposit money banks in Lagos; Section C ascertained the relationship between business process outsourcing and performance of deposit money banks in Lagos; Section D determined the challenges of outsourcing faced by deposit money banks in Lagos. Secondary data was collected through journals, academic works, records, observations and the internet and contained data about outsourcing strategies and profitability of some selected deposit money banks.

Validity of Instrument

The validity of the content and construct were tested. Expert review was used to determine content validity, and confirmatory factor analysis was used to determine construct validity. A copy of the instrument was given to experts in research methodology in management for their professional input and constructive criticism.

Reliability of Instrument

Reliability measures the accuracy and stability to which a measuring instrument measures what it is planned to measure (Susman, 2006). The reliability of the measurement instruments was achieved by calculating the Cronbach Alpha Coefficient using SPSS v.23. After conducting the reliability test, the average Cronbach alpha must be above 0.70 for the data to be considered acceptable

Method of Data Analysis

Data collected will be analyzed by use of descriptive statistics particularly frequency distribution, percentages, mean and standard deviation. Data collected will be analyzed by use of simple linear regression analysis with the aid of Statistical Package for Social Sciences version twenty-three (SPSSv23).

Regression equation $Y = \beta0 + \beta1X1$
Y= Performance,
X1= Human resource Outsourcing

RESULTS AND DISCUSSION

This chapter deals with the presentation and analysis of data based on the hypotheses stated in the study. In this subchapter, the questionnaire is distributed to the individual firms and their response rate are shown (Table 2).

Table 2 shows that 97 percent of the distributed questionnaire was returned, and 3 percent of the distributed questionnaire was not returned. This shows that a larger percentage of the questionnaire was returned.

Table 2: Analysis of the Distributed Questionnaire

Questionnaire	Questionnaire distributed	Percentage
Distributed Questionnaire	247	
Returned questionnaire	240	97
Unreturned/uncompleted questionnaire	7	3
Total	247	100

Source: Field Survey 2021.

Table 3: Responses on Human Resource Outsourcing

S/N	Statement	SA	A	UD	D	SD	Total
1	Outsourcing of Human Resource Services has led to reduction in recruitment and staffing cost	126(53%)	97(40%)	10(4%)	3(1%)	4(2%)	240(100%)
2	Staff acquire better skills needed for the job through at cheaper rate by outsourcing of Human Resources Services	136(57%)	58(24%)	20(8%)	10(4%)	16(7%)	240(100%)
3	Payroll management and administration is effectively done by vendors at low cost.	152(63%)	73(30%)	5(2%)	8(3%)	2(1%)	240(100%)
4	Training cost is reduced as it has become part of vendors routine service	139(58%)	88(37%)	11(5%)	1(0%)	1(0%)	240(100%)
5	Talent management has become less expensive as it is now a responsibility of vendors	159(66%)	25(10%)	16(7%)	16(7%)	24(10%)	240(100%)

Source: Field Survey 2021

From the analysis above (Table 3), it shows that 53 percent of the respondents strongly agreed that outsourcing of human resource services has led to a reduction in recruitment and staffing costs, 40 percent agree, 1 percent disagree, 2 percent strongly disagree, and 4 percent were undecided.

From the analysis above, it shows that 57 percent of the respondents strongly agreed that better skills needed for the job were acquired at a cheaper rate by outsourcing human resource services, 24 percent agree, 4 percent disagree, 7 percent strongly disagree and 8 percent were undecided.

From the analysis above, it shows that 63 percent of the respondents strongly agreed that payroll management and administration is effectively done by vendors at low cost, 30 percent agree, 3 percent disagree, 1 percent strongly disagree and 2 percent were undecided.

From the analysis above, it shows that 58 percent of the respondents strongly agreed that with outsourcing of human resource services and training costs is reduced, 37 percent agree, less than 1 percent disagree, less than 1 percent strongly disagree and 5 percent were undecided.

The analysis above also shows that 66 percent of the respondents strongly agreed that talent management has become less expensive with the outsourcing of human resource services, 10 percent agree, 7 percent disagree, less than 10 percent strongly disagree, and 7 percent were undecided.

Test of Hypothesis

There is no significant relationship that exists between human resource outsourcing and cost reduction of deposit money banks in Lagos State (Table 4).

HRO: Human Resource Outsourcing

From the analysis above, it shows the regression analysis for the relationship existing between human resource outsourcing and cost reduction of deposit money banks in Lagos State. From the result, it is seen that there is positive relationship between the variable, with a correlation coefficient (R) of .969. It is also seen from the result that a 94% change in cost reduction is explained by changes in human resource outsourcing (Table 4).

The hypothesis tested indicated that human resources outsourcing significantly affected the performance of deposit money banks in Lagos State. It revealed that there is a statistically significant relationship between human resource outsourcing and cost reduction with a correlation coefficient (R) value of 0.969. This shows that there is a strong positive relationship between human resource outsourcing and cost reduction in the deposit money banks in Lagos State. This was in line with the study by Irefin, Olateju, and Hammed (2012). Their findings revealed that firms that outsource production processes to manage cost witnessed increased sales turnover while concentrating on core competency. The findings were also in accordance with the study carried out by Narentheren and Haim (2013), which revealed that costs are better controlled and predictable when they are handled by vendors.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.969[a]	0.939	0.939	1.468

a. Predictors: (Constant), HRO

Summary of Findings

The findings showed human resource outsourcing has significant positive relationship with personnel cost reduction in deposit money banks in Lagos State Nigeria.

$$(P - value\ = 0.00 < 0.05; 94\%\ confidence\ interval, r = 0.969)$$
$$(P - value\ = 0.000 < 0.05; 94\%\ confidence\ interval, r = 0.948)$$

CONCLUSION

From the discussion of findings, the study concludes that Human resource outsourcing has a significant effect on personnel cost reduction

RECOMMENDATIONS

Having discussed the findings and drawn some conclusions therein, the following recommendations were made;

1. Deposit money banks should ensure that they outsource human resource functions to reduce personnel costs.
2. Deposit money banks should contract services that they are fragile at to competent vendors while focusing on their core competency to achieve growth.
3. Banks should outsource human resource services to vendors who are professionals and have a competitive advantage in that area of specialization to increase profitability.
4. Contract human resource process to professional agencies for excellent quality service using service level agreements to leverage on positive performance.

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