5.1 INTRODUCTION

Outsourcing refers to a company that contract with another company to provide services that might otherwise be performed by in-house employees. Outsourcing has been a growing phenomenon in the last few decades. It is a management strategy, by which an organization delegates major, non-core functions to specialized and efficient service providers. Banks have started outsourcing their operations due to various reasons. The world over, banks are increasingly using outsourcing as a means of both reducing cost and accessing specialist expertise not available internally, to achieve strategic aims. The business environment is extremely competitive and banks must have the resources to maintain efficiency and profitability.

The main purpose of this present research study is to understand and evaluate the perceptions of bank executives regarding the outsourcing of banking activities. This study focuses exclusively on the banking industry and particularly commercial banks due to its intensive IT application and enormous IT investment. Even though risk is involved in outsourcing, banks resort to outsourcing due to the operational benefits it brings to the institution. This concluding chapter aims to summarise the perceptions of bank executives in India and the practices that are used in the
outsourcing of banking activities, based on the findings of empirical survey covering selected parameters.

This empirical study is one of the few select studies in the Indian context. It attempts to identify the risk/return-concept in outsourcing. The high response rate indicates the importance of the topic and the interest of bank executives in the results of this research.

The major objectives of the study are summarized as follows:

1. To review the concepts of outsourcing and the current development in the Indian banking sector.

2. To examine the impact of demographic variables of bank executives on risks involved in outsourcing by banks and also to find out the satisfaction levels and the actual quality of the outsourced activities of the banks.

3. To identify the drivers for outsourcing in Indian banks and the risks perception of bank executives regarding outsourcing.

4. To analyse their perception regarding the importance of outsourcing and the actual quality of performance of the outsourced activities.

5. To know about the satisfaction levels of the bank executives regarding the outsourced activities.

6. To suggest suitable measures that may be adopted by banks to make best utilization of the outsourcing activities to benefit the banks and their customers.

Considering the present Indian scenario, bank managers expect that outsourcing would bring in various benefits like,

- Reduction in cost
• Increase in revenue
• Improvement in customer service
• Betterment of brand building
• Better marketing of bank products
• Easier introduction of new products
• Better utilization of new technology
• Reduction in capital investment
• Effective recycling of funds
• Focus of core competence
• Access to specialized vendors
• Importance of reduction of morale of employees
• Better use of in house personnel

All the above benefits are expected to improve the operating capabilities of banks.

The **risk perceptions** of the respondents are:

• Perceived risks: Perceived risk is the potential loss in the pursuit of a desired outcome of outsourcing business processes.

• Strategic risks: Loss of control over the various activities outsourced may give rise to strategic risks.

• Performance risks: For example, some of the risks associated with performance on the part of service providers are: On-time delivery performance and end customer satisfaction levels may decline because of delays by service providers.
• Financial risks: Banking authorities may fail to reckon the costs of evaluating vendors, managing major contracts, traveling to sites, enhancing security and paying severance for laid-off workers.

Further, **Satisfaction levels** of the banking personalities with reference to outsourcing were studied on the basis of the following criteria. They are:

• Cost reduction
• Provision for better service
• Better match of resource to supply
• Access to better technology
• Better use of in-house personnel
• Access to services unavailable in-house
• Access to better/more skills/expertise
• Reduction in risk of technology obsolescence
• Has provided enhanced economies of scale in technological resources
• Has provided enhanced economies of scale in human resources
• Has enhanced our banks IT competence
• Has enabled our bank to refocus on our core business

The aim of this research endeavour was to investigate IT outsourcing in Indian banks, in particular, the relationship between the service quality, service satisfaction and risks involved in the outsourcing process. This study has examined the factors involved in service satisfaction and if outsourcing’s success is assessed differently between the outsourcer’s various staffing levels.
Important hypotheses were formulated based on literature review and interviews with bank executives in relation to the criteria for outsourcing, risks in outsourcing and the satisfaction with outsourcing.

The primary data required for the study was collected from 310 banking executives using structured format questionnaire. The questionnaire developed for research enquiry covers the major objectives of the study. For the purpose of this study, convenience sampling method was adopted, considering the availability and approachability of bank executives. The scales developed for measuring the core variables were tested through pilot study for their reliability and were found to be satisfactory. The questionnaire developed for research enquiry covers the major objectives of the study.

The data analysis was carried out using mean scores and percentages. Standard deviation test was applied to find out significance in deviation among different demographic profile and the core variables. One way ANOVA was carried out to find out significant differences among bank executives’ perceptions on risk, importance of outsourcing, quality of outsourced work, and gap in performance in outsourcing.

Chi square test was applied to find out the association between different demographic characters and the variables taken up for the study. The correlation and regression analysis were undertaken to identify the relationships and also the influence of predictor variables on outsourcing of banking activities.
Factor analysis was used to find out the most important variables in the study. The responses are analysed by using “Extraction Method”. To eliminate the unique variances, the results were further iterated and the communalities of the various variables after such iteration were taken.

Cluster analysis was used to examine the respondents’ perceptions on outsourcing operations. It is a main task of exploratory data mining, and a common technique for statistical data analysis used in many fields.

5.2 MAIN FINDINGS OF THE STUDY

The main findings of the study are summarised as follows:

5.2.1 Demographic characteristics of the sample respondents are presented below:

- The percentage analysis showed that the most numerous respondents had 21 to 30 years of service, which was 32.6% of the total respondents.
- The gender representation was mostly even, although there were slightly more females than males. Female respondents were 52.9% and the male respondents were 47.1%.
- Over 70% of the respondents were over 35 years of age.
- 87.1% of the sample respondents were either graduates or post graduates.
5.2.2 Core Variables taken up for the Study:

For the purpose of the study, perceptions regarding risk due to outsourcing, importance of outsourcing, quality of work outsourced, gap in performance and satisfaction levels of bank executives are chosen as independent variables. The perceptions of the respondents regarding these variables based on their demographic profile are presented below:

5.2.3 Rank Analysis for Reasons for Outsourcing

The data show that the respondents in the sample survey opted for “cost reduction” as the foremost reason for outsourcing their banking operations. Twice as many respondents ranked this factor as number 1 reason for outsourcing compared to the next highest ranked reason for outsourcing, namely “competitive advantage”, which has been given rank 2 by 20.3 percent of the respondents. Further the variable “improvement in quality of customer service” has been given rank 3 by 16.8 percent of the respondents, whereas, “lack of internal expertise has been given rank 4 by 14.5 percent of the respondents. Only 6.8 percent of the respondents, ranked the variable “avoiding recruitment of additional staff in the 5th place.. This shows that the main reason for the banks to outsource is reduction of cost and to compete with other banks in this modern technology driven situation when even nationalized banks have to compete with other banks, both in private sector and public sector.
5.2.4 Overall Ranking for Factors Considered before Selecting Outsourcing Vendors

The banks that outsource should develop performance and cost targets to develop initiative; review performance of the service provider regularly and decide whether to continue the contractual relationship with the service provider.

Two factors, prior expertise and cost competitiveness, dominated the factors relevant to vendor choice among nine factors given. More than two-thirds of the respondents ranked these factors as number 1 or 2 during the survey.

5.2.5 Ranking of the Risks Relating to Outsourcing

Potential loss of internal expertise and loss of credibility were the highest ranked concerns about outsourcing among six items given. 28.4 percent of the respondents have considered ‘loss of internal expertise’ as the most risky factor. 20.6 percent of the respondents are of the view that ‘loss of credibility due to inability of the service provider’ and has ranked it in the 2nd place. 17.7 percent of the respondents have given the 3rd ranking to ‘loss of confidentiality of data shared with service provider’, 16.5 percent of the respondents have given ‘risk of third party failure’ 4th ranking, 10.3 percent of the respondents have given the 5th ranking to ‘inability to source an activity once outsourced’ and only 3.9 percent of the respondents have given rank 6 to the factor ‘conflict of interest if vendor provides similar services to other banks’ as one of the risk factors of banks’ outsourcing policy.
5.3 MANAGEMENT OF OUTSOURCING ACTIVITIES

Of the 310 respondents in the sample survey, 78.1 percent of the total respondents have said that they have service level agreements (SLAs) with outsourcing vendors while the rest of 21.9 percent have said that no SLAs are there.

87.4 percent of the respondents have said that there has been no power vested with the bank branches to appoint service providers while 12.6 percent of the respondents only have said that to some extent bank branches can appoint service providers.

83.5 percent of the respondents are of the view that there is a separate management structure to manage and monitor the outsourcing processes and operations in their banks. Banks generally seem to have a management structure in place to monitor and supervise outsourcing activities.

Less than half of the respondents reported a system of internal and external audits for outsourcing activities in their banks.

5.4 ANALYSIS OF VARIANCES BASED ON DEMOGRAPHIC PROFILE

For the purpose of this study, an analysis of work related demographic profile like, experience, age, level of education, etc., are presented. The results show that demographic variables such as gender, age, qualification and experience in working in the banking sector play a positive role in adoption of banking technology. Firstly, bank executives’ perception of how important different dimensions of banking are, was investigated according to traditional demographic variables (age, number of
years of service, and gender etc.). Next, their perception was analysed with the questions on the same dimensions of banking. Comparison of respondents’ perceptions of risk in outsourcing, overall assessment of the quality of work performed by the service providers and the satisfaction for each of the questions reveals areas (i.e. gaps) where banks may reduce or increase outsourcing.

5.4.1 Risk Analysis

1. Statistically there was not much of a difference between the genders in the perception of risk.

2. Although there was no linear relationship between age and risk perception, the youngest age group exhibited the greatest apprehension about outsourcing, while the respondents above the age of 55 revealed the least degree of concern.

3. Risk in outsourcing, when analysed on the basis of educational qualification reveals a significant difference among bankers possessing different educational qualifications.

5.4.2 Importance of outsourcing

1. Statistically there is no evidence to suggest a difference between the genders in the perception of importance of outsourcing. Both genders are more or less neutral with regards to their perception on importance of outsourcing and therefore the average
mean scores imply that gender does not influence perceptions of the importance and therefore the need for outsourcing.

2. Statistically, age differences were significant when importance of outsourcing is considered. Although there was not a linear relationship between age and perception of importance, the youngest respondents between the age of 26 and 35 revealed that outsourcing is more important. Respondents between the age of 26 and 35 felt it was risky to outsource many banking operations.

3. The level of education is highly significant at 1% level when perception regarding importance of outsourcing is considered. Respondents with different educational background have different opinion about the importance of outsourcing.

5.4.3 Quality of outsourced activities

1. The p value is significant as far as gender of the respondents is concerned with reference to perception of quality of outsourced activities. Male executives are more optimistic about the quality of outsourced activities.

2. Comparatively those in the age group of 26-35 have a lesser mean score that show that their perception of the quality of outsourcing is not to the level of other respondents. Statistically the age difference is highly significant at 1% level as far as age and perception of quality of outsourced activities.

3. The level of education is highly significant as far as this dimension of quality is concerned.
5.4.4 Gap between importance and quality of outsourced activities

1. Gender plays a significant role in the perception of gap between importance and quality of outsourced activities of banks.

2. Age plays a very significant role in perceiving the gap between importance and actual quality of performance.

3. Statistically educational level is highly significant in determining the gap between importance and actual results of work provided by the service providers.

5.4.5 Satisfaction level of outsourced activities

1. There is no significant difference between the perception of male and female respondents in their perception of importance of outsourcing.

2. The level of satisfaction among the different age groups of respondents vary significantly at 1% level.

3. Level of education plays an important part in the perceived satisfaction of outsourced activities.

Important demographic factors such as gender, age and education level have been used to measure the perceptions of bank executives on outsourcing. These demographic factors have a significant role to play in acceptance and using outsourcing as a strategy for banks’ success towards better performance.

Women perceived a greater level of risk than men. Both genders are more or less neutral with regards to their perception of importance of outsourcing and therefore the average mean scores above imply that gender does not influence perception of the importance and therefore the need for outsourcing.
Comparatively female respondents have a little apprehension about the actual quality of banking services handled by external agencies, which indicate their cautious approach toward outsourcing.

Comparatively those in the age group of 26-35 have a lesser mean score that show that their perception on the quality of outsourcing is not to the level of other respondents.

The expectations of the younger executives is perhaps more in the modern technology driven banking system and that may be the reason for their high expectations of the quality of the work achieved. Age plays a very significant role in perceiving the gap between importance and actual quality of performance.

5.5 FACTORS INFLUENCING PERCEPTIONS OF BANK EXECUTIVES OF DIFFERENT VARIABLES

The influence of selected independent variables, viz., risk analysis, gap in performance levels in outsourced activities and satisfaction of the respondents on outsourcing are analysed. The summary results of the analyses are presented below:

5.5.1 Chi square Test Analysis:

All the demographic characters such as number of years of experience in the banking sector, age, gender and the education level of the respondents in this study have significant association with the core variables that have been taken up for analyses, namely, risk perception of outsourcing, importance of outsourcing, quality of outsourced work, satisfaction levels of the outsourced work and the gap in performance of the outsourced work.
A comparison of the results obtained in ANOVA with chi square test results, show the following outcomes: The age and education levels of the respondents have a significant impact on risks in outsourcing, importance of outsourcing, quality of outsourced work, gap in performance and satisfaction levels of the bank executives due to outsourcing, in both the analysis which shows the uniformity of the results. But gender category of the respondents, though is significantly associated with all the variables as per chi square test, it differs in the ANOVA results, in that, it does not have a significant impact on the variables, risks in outsourcing, importance of outsourcing and satisfaction levels on performance.

5.5.2 Correlation Analysis:

The relationship between core variables as identified by sample executives show the following results:

- Risk in outsourcing the banking activities is positively correlated (.236) with the gap in importance of outsourcing and the actual performance by banks.
- Risk in outsourcing is negatively correlated (-.127) with satisfaction levels of the respondents.
- Gap between importance of outsourcing and actual performance of the banks is positively correlated with risk in outsourcing.
- Gap between importance of outsourcing and actual performance of the banks is negatively correlated (-.515) with satisfaction levels of the respondents.
- Satisfaction levels of the respondents is negatively correlated with both of the other variables namely with risk in outsourcing and gap between importance of outsourcing and actual performance.
There is positive correlation between the perceptions on risk in outsourcing and gap in performance and vice versa, whereas risk in outsourcing is negatively correlated with the perception of satisfaction levels. The sample respondents’ perceived correlation between satisfaction and the variables risk in outsourcing and gap in performance is negatively correlated. The respondents are still satisfied with the performance of the service providers even though they realize there are risks in outsourcing and gap in the perceptions of importance and quality of work results of outsourcing.

5.5.3 Multiple Stepwise Regression Analysis:

The analysis showed that there is a positive relationship between the variables risks in outsourcing and the variable gap in outsourcing. Hence the null hypothesis is rejected. But the relationship between risks in outsourcing and the variable satisfaction is not significantly related in this study.

There is positive relationship between the variable satisfaction and the variable gap in performance. Hence, the null hypothesis is rejected. There is no relationship between satisfaction and risks in satisfaction.

The statistical analysis showed that the variable gap in performance and risk in outsourcing is significantly related. Therefore the null hypothesis is rejected. The gap in performance is also significantly related to the variable satisfaction.
5.5.4 Factor Analysis:

To understand the perceptions of the bank executives on outsourcing in this study, the variables are divided into three groups. The responses are analysed by using “Extraction Method”. To eliminate the unique variances, the results are further iterated and the communalities of the various variables after such iteration are given.

Based on the analysis, executives are formed into one main group. The variables perceived satisfaction and gap in performance are more important in the views of the sample bank executives. These two factors have been given an appropriate common name as “outsourcing experience group”. The sample respondents perhaps perceive that satisfaction of performance of outsourced activities are very important for a bank to achieve the desired results. Not much of gap in performance should be there due to outsourcing as that will lead to dissatisfaction among the stakeholders of banks.

5.5.5 Cluster Analysis:

The study reveals the presence of two clusters in the data collected. In all 310 bank executives have been classified into two distinct clusters. The first cluster consists of 147 executives and the second cluster consists of 163 executives. This shows that 47% of the sample respondents formed the first cluster and the remaining 53% of the sample respondents formed the second cluster.

The average values of the two clusters differ in all the three aspects considered in the present study. The mean value of the second cluster is found to be more in the risk in outsourcing and satisfaction compared to that of the first cluster. The second
cluster seems to be more satisfied group regarding outsourcing activities. The gap between expected levels of performance seems to be less. The bank executives of this cluster can be named as ‘highly satisfied group’.

The mean value of the first cluster is less for risk in outsourcing and the variable satisfaction when compared to the second cluster. The bank executives in this cluster can be named as ‘moderately satisfied group’. A close examination of the results shows that the mean value of both the clusters is very much less for gap in performance. This shows that the bank executives have higher perception values on the parameters, i.e., risk in outsourcing and satisfaction.

5.6 SPECIFIC SUGGESTIONS GIVEN BY RESPONDENTS OF THE STUDY:

Suggestions recorded by the banking executives are listed below:

- Instead of diverting funds towards outsourcing, more people can be recruited in the banks which would be better for the banks as a whole.
- Secrecy should be maintained and customers’ information should not be leaked out.
- The banks may not give much importance to social responsibility if they outsource some or all of the work they were doing internally.
- The banks must choose the right outsourcing provider based on their competency levels after proper verification.
- Attention should be paid to the details in the service agreements.
- Stringent outsourcing policies should be followed otherwise public money will be squandered.

- The opportunity to include all details in the contract with the service provider is very limited. The contract should be detailed enough to identify all expectations. Nonetheless, it may not be possible to include everything in the contract as future contingencies are hard to predict.

- Some bank executives opined that it was difficult for them when the vendor suddenly shifted a key project employee to a different project. It was even more disturbing for clients, when vendors did not inform them about such changes in advance. Such process may create a negative impact on the performance by the vendors.

5.7 IMPLICATIONS OF THE STUDY

The present study focuses on the perceptions of the bank executives on the risks involved in outsourcing banking operations and their relative importance and the satisfaction levels of the functioning of the outsourced work.

This thesis essentially contributes to academic and banking organisations’ knowledge on outsourcing relationships. For the academic community, it aims to give a thorough understanding of outsourcing practices in Indian banks and also offers an opportunity to understand the outsourcing relationship between vendors and Indian banks.

The results of this research can be applied directly to outsourcing projects as they are particularly relevant to banks’ outsourcing in India. The benefits of
outsourcing such as saving in cost, better utilization of new technology and focus on core competence will motivate more banks to outsource. A bank can quickly improve the quality of its services, increase its operational and financial efficiencies by outsourcing their activities.

Furthermore, the difficulties identified from the respondents, such as loss of internal expertise, risk of loss of confidentiality of data shared with service provider etc., in this study will help banks understand what kind of challenges they may come across during an outsourcing project. The identified difficulties can also help banks to develop a more effectively structured relationship with the vendor.

The motivators for outsourcing and difficulties identified in this study will also help vendors. Vendors who are relatively new to the outsourcing market will learn more. Banks involved in outsourcing decisions need to be aware that certain resulting benefits from outsourcing may be short-lived given the rapid change in technology.

Therefore, prior to outsourcing project, the bank seeking to outsource must:
1. be clear and unambiguous about its reasons for outsourcing (whether it is entire or selective outsourcing);
2. be clear and unambiguous about the objectives of outsourcing;
3. Implement a comprehensive policy to guide the assessment of whether and how activities can be appropriately outsourced.
4. be clear and unambiguous with an outsourcing vendor regarding its expectations for the outsourcing contract.
5. Manage its internal knowledge to the optimum extent;
6. Ensure that outsourcing arrangements do not diminish the bank's ability to fulfill obligations to customers and regulators;

Based on the results, a positive attitude towards outsourcing seems to lead to a high degree of satisfaction and support from employees, which leads to positive employee experience. The results suggest that by allowing an outsourcing provider to take responsibility for non-core competencies, it creates a chance for employees and organisations to concentrate on core competencies, including marketing, production, and customer service, resulting in increased organisational performance and profits. By focusing on core competencies, employees shall focus on their main duty and thereby increase their work efficiency.

To conclude it can be said that all the variables are interconnected and banks should take steps to effectively manage the outsourcing process. The relationship between the outsourcing banks and the service providers is that of trust and both of them should have the goal of achieving the objectives of the bank and also to ultimately satisfy the customers of the banks.

5.8 CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

This study has analysed the overall perceptions of bank executives on outsourcing by Indian Banks. Banks are focusing on outsourcing for cost optimization and to create controls for risk management. This study examined the determinants of the decision to outsource business processes in terms of the associated
risks and benefits as perceived by the bank executives. Empirical evidences show that they value the benefits of outsourcing higher than the associated risks.

This study provides an additional knowledge for future research avenues in this field. The results of the study may be tentative and must be revalidated in follow up studies. Both the perspectives, namely bank and service providers’ point of views may be taken for studies. Also, future research is needed to explore the long-term effects of outsourcing. There is further scope for studying the impact of outsourcing on bank customers’ satisfaction. Along with this, further research in this field should also study the process after the implementation of the outsourcing service and assess its success by considering banks’ profit and productivity as measures of success.

Banks are focusing on outsourcing for cost optimization and to create controls for risk management. This study examined the determinants of the decision to outsource business processes in terms of the associated risks and benefits as perceived by the bank executives. Empirical evidence shows that they value the benefits of outsourcing as primary advantage higher than the associated risks in outsourcing.