CHAPTER I
INTRODUCTION AND RESEARCH METHODOLOGY

1.1 INTRODUCTION

Outsourcing is a management strategy, by which an organization delegates major non-core functions to specialized and efficient service providers. Outsourcing has been a growing phenomenon in the last few decades for business entities. Most organizations outsource some of the functions they used to perform themselves. Banks have also started outsourcing their operations due to various operating reasons. Outsourcing can be defined as, the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Due to widespread outsourcing practices, it has become a frequent topic in literature. Outsourcing is promoted as one of the most powerful trends in modern management.

The rationale for outsourcing some functions and/or processes includes substantial financial economies, increased ability to focus on strategic issues, access to technology and specialized expertise and an ability to demand measurable and improved service levels. Outsourcing differs from alliances, partnerships or joint ventures in that the flow of resources is one-way, from the vendor to the outsourcer; but, profit sharing or mutual contribution are not a common practice (Belcourt, 2006). Outsourcing can help in cutting costs and is fast becoming an important phenomenon according to Captain Raghu Raman.
Currently in the banking industry, a wide range of studies are taking place regarding outsourcing of activities and the potential risk exposures faced by the banks. Advances in information technology has revolutionized the way organizations conduct business. In this 21st century, where everything is driven by technology and never ending innovations, the needs and demands of the consumers are changing rapidly. They expect quality of service anytime and every time. Banking sector is no exception. The financial industry has realized that outsourcing provides an attractive means to remain competitive. Outsourcing is gaining importance as an essential strategic tool, as competition and performance pressure have lead banks towards outsourcing. The process of outsourcing has made the banks to strategically focus their resources on the banking business and leave the rest to be done by experts. According to Jones (2004) outsourcing can strengthen the competitive position of banks by allowing them to offer 24/7 service without the payroll cost of 24/7 employees.

1.2 Need for outsourcing by banks

Banking services are increasingly becoming process drivers. Technology has enabled banks to assume huge number of transactions and customers of diverse range seeking different requirements. This increased demand by customers involves a huge amount of back office functions. For many banks, it is not possible to handle this rapid growth on their own. Hence, outsourcing is the only solution to handling of this increased work. 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.
At present, most banks are pursuing outsourcing strategies more aggressively than before in view of the global economic crises. Many banks have started realising that they need external partners for additional innovation, increasing revenues and maximizing efficiencies and also since most banks have capacity constraints, they are beginning to outsource more and more of their activities to service providers. The reasons for outsourcing have been discussed by many researchers. To emphasis this concept, observations from previous research citations are given below:

Quinn J.B.\(^4\) highlights the importance of focusing on core activities and outsourcing the non core activities. The banking functions involve a huge amount of back office work. For a number of banks, it is very difficult to handle this rapid growth on their own. They have to work in a competitive atmosphere and outsourcing is an important solution.

“Outsourcing is the practice of hiring “functions experts” to handle business units that are outside of a firm’s core business. It is also a method of augmentation of staff without adding to head count”\(^5\). According to Cheon et. al.\(^6\) “outsourcing is the organizational decision to turn over part or all of an organisation’s IS functions to external service provider(s) in order for an organization to be able to achieve its goals.” Altinkenmer\(^7\) has defined outsourcing as “the act of subcontracting a part, or all, of an organisation’s Information Systems work to external vendor(s) to manage on its behalf.” Grover et al. (1996)\(^8\), explain that, organizations expect to gain some degree of advantage, typically in the form of economic, technological or strategic benefits in an outsourcing relationship.
The fast pace of development in information technology makes IT skills obsolete and often creates shortage of skilled persons. A single organization may not have enough financial resources and professional IT staff to try a new technology. An IT service provider can provide a greater range and depth of trained personnel with the access to a large variety of advanced software and hardware products. Outsourcing is used as a strategic element in market differentiation strategies to gain further competitive advantage. In the present day banking field banks are handling huge number of transactions and a large number of customers who have to be satisfied with good service. To handle this situation outsourcing of the bank jobs are increasingly undertaken.

1.3 Information Technology Outsourcing vs. Business Process Outsourcing

There is a widely held belief (Brooks 2004) that outsourcing may be divided into two major types: information technology outsourcing (ITO) and business process outsourcing (BPO). Outsourcing first started with information technology outsourcing and later on it spread to business processes also being outsourced. According to Factor, outsourcing may be divided into two major types, namely, information technology outsourcing and business process outsourcing. ITO is typically service-based. It is a vendor-driven market with its main objective being to reduce the cost of IT systems or site/data centers. But, BPO goes beyond that wherein, it has to do with improving the performance, efficiency and productivity of a business.
Business organisations may use IT systems to support the business process outsourcing. BPO is focused on changing and improving competitiveness in the marketplace, such that it will generate more revenues, more margin, etc. With ITO, organizations can reduce costs, whereas with BPO, organizations can increase the overall productivity, efficiency and competitiveness of processes, which can result in huge gains. The main difference between BP outsourcing and traditional IT outsourcing is that BPO can help organisations achieve transformational outcomes more quickly. This usually happens when a BPO provider goes beyond just managing a process and instead re-engineers the process, and introduces new technology, to make it better.

Business process outsourcing can be defined as the delegation of one or more entire business processes to third party providers, including the information systems (IS) services that support those processes according to Halvey and Melby, 2000\textsuperscript{14}. It is the combination of traditional information technology outsourcing and the outsourcing of non-IS business functions\textsuperscript{15}.

Further, business process outsourcing (BPO) refers to the delegation of one or more information technology enabled business processes to an external service provider (Rouse and Corbitt 2006\textsuperscript{16}; Wülenweber et al. 2008\textsuperscript{17}). Business processes involve the manipulation of either physical or informational objects\textsuperscript{18}.

It is evident from the above references, that, IT is integral to process execution and management in BPO. This is true of transactional processes such as administration or processing services, where IT performs simple automation or
process updates, as well as more strategic processes such as customer analytics or financial planning, where IT facilitates linkages with other processes and delivers business information to process workers in a timely fashion. (Mani et al. 2010)\textsuperscript{19}.

The benefits of IT outsourcing in the banking industry has been well understood from both academic and a practitioner’s perspective (Ang and Straub 1998\textsuperscript{20}, Lancellotti et al. 2003\textsuperscript{21}). As the banking industry relies very much on information technology, information technology has been a strong driver of developments in the banking industry with ATMs being a popular example according to Benaroch and Kauffmann 2000\textsuperscript{22}.

Well developed information systems have made the processing of large transaction volumes possible. While banks have gained some experience in Information Technology outsourcing (ITO) over the past decade, business process outsourcing (BPO), i.e., procuring a business process together with the relevant IT from the market, is quite a new challenge (Heiko Gewald et al.2006)\textsuperscript{23}.

It is evident from the above that, the outsourcing market especially business process outsourcing is growing every year. For years organizations have successfully used outsourcing to generate significant savings. BPO is widely seen as an opportunity which is enabled by advancements in IT, where organizations gain competitive advantage from outsourcing. Accordingly, BPO is considered to be of substantial importance in the banking industry (Kumar and Hillegersberg 2004)\textsuperscript{24}.
Like in any other business sector, financial sector also has increasingly started using outsourcing to gain in operational efficiency\textsuperscript{25}.

As such, outsourcing refers to a company that contract with another company to provide services that might otherwise be performed by in-house employees. Many large companies now outsource jobs such as call center services, e-mail services, payroll etc. These jobs are handled by service providers who specialize in each service.

In the present global operating scenario, there are many reasons that companies outsource various jobs, but the most prominent advantage seems to be the fact that it often saves money. Many of the companies that provide outsourcing services are able to do the work for considerably less money, as they don't have to provide benefits to their workers and have fewer overhead expenses to worry about.

Business process outsourcing—or BPO—is the outsourcing of a specific business process task, and it is often divided into two categories: back office outsourcing, which includes internal business functions such as billing or purchasing and front office outsourcing, which includes customer-related services such as marketing or technical support. Information technology outsourcing, therefore, is a subset of business process outsourcing.

Given its dependence on IT, BPO shares important attributes with information technology outsourcing (ITO). Yet, there are important distinctions between these two outsourcing forms, namely, the objectives driving the outsourcing decision. Prior research (e.g., Lacity and Willcocks 2001\textsuperscript{26}) and industry surveys attribute the adoption of ITO to two primary factors: a focus on core competencies of the firm and reduction of IT costs. On the other hand, BPO involves significant diversity in
outsourcing objectives, ranging from reduction in operating costs to innovation and business transformation 27.

A business model ITO vs. BPO as described by Saxton28, is shown in the following figure:

**FIGURE 1.1**

*Information Technology Outsourcing vs. Business Process Outsourcing*

<table>
<thead>
<tr>
<th>Strategic</th>
<th>BPO activities: e.g. Complex or core applications,</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tactical</td>
<td>ITO activities: e.g. help desk, Asset management,</td>
</tr>
<tr>
<td></td>
<td>Data center</td>
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<td>Volume Activity</td>
<td>Value Activity</td>
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<tr>
<td>Revenue Generation</td>
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The potential for BPO is high in the Banking Industry. Those business processes, in which IT plays an important role for processing, have become prime components for BPO in almost all sectors of industry and commerce.
1.4 Evolution of Outsourcing

The growth of outsourcing is difficult to estimate. From the time of industrial revolution, business organizations have started exploiting their competitive advantage to increase their markets and their profits. In the nineteenth century, railway companies relied on steel manufacturers, component manufacturers and tool makers to construct locomotives. In the 1950s and 1960s, business entities started diversifying to broaden the corporate bases. This is to take advantage of economies of scale. Business organizations started finding it difficult to manage their size and started thinking of outsourcing some of their non-core business activities. Outsourcing was not formally identified as a business strategy until 1989 (Mullin 1996\textsuperscript{29}). Organizations that were not self-sufficient started outsourcing those functions for which they had no competency. The use of external service providers for certain activities might be termed as the beginning stage in the evolution of outsourcing.

Experts mark the start of outsourcing to the foundation of Ross Perot’s Electronic Data Systems (EDS) (Erber and Sayed-Ahmed 2005\textsuperscript{10}). It was probably the first few companies to act as service providers. Outsourcing really took off with Eastman Kodak’s decision to outsource the majority of its IT operations to IBM in 1989. For many, this first big deal marked the starting point of IT outsourcing (Lacity et al 1996\textsuperscript{31}). Since then, there has been growth in the volume of outsourcing\textsuperscript{32}. Business organisations chose to contract-out their software activity to an outsourcer whose contribution was difficult to measure and demonstrate\textsuperscript{33}. 
Starting in the 1970s, the outsourcing trend by banks began mainly with outsourcing software development and maintenance. In the banking industry, the beginning was made by outsourcing business processes as well as technology projects. Outsourcing traditionally involved offshore call centers and credit card transaction processing. Since the beginning of 1990s, there has been a significant increase in the number of banking organizations that have decided to outsource some or all of their activities.

In the early days of outsourcing, the focus was primarily on short-term cost reduction. Outsourcing was not much more than the traditional make-or-buy decisions, i.e., the decision to provide certain goods or services internally or to purchase them in the market. This form of outsourcing is known as conventional outsourcing (Stephan Weinert and Kirsten Meyer 2005). Thereafter, information technology outsourcing has been a major trend over the last fifteen years. After a period, the idea of strategic outsourcing was introduced. Thus, software outsourcing emerged in the late 1980s and has been reported as one of the strongest and most sustained business trends since then. Companies were forced to look much harder than before at efficiency and costs. Competition has led organizations to adopt to outsourcing as an option to increase efficiency and cut costs (Kern and Willcocks, 2000).
1.5 Barriers of Outsourcing:

Outsourcing is not devoid of certain barriers. The major barrier is the fear of loss of customer data which banks will be preserving with utmost confidentiality.

According to Power, Bonifazi and Desouza\textsuperscript{39} there are ten common traps of outsourcing. They are:

- Lack of management commitment,
- Minimal knowledge of outsourcing methodologies,
- Lack of an outsourcing communications plan,
- Failure to recognize outsourcing business risks,
- Failure to tap into external sources of knowledge,
- Not dedicating the best and brightest internal resources,
- Rushing through the initiative,
- Not appreciating cultural differences,
- Minimizing what it will take to make the vendor productive and
- Poor relationship management programs.

Banks have to overcome the barriers of outsourcing if it has to work very effectively. With this in view, they can adopt the following steps to overcome the barriers:

- Establish clear objectives of outsourcing a particular service,
- Develop the talent base by generating/encouraging enough opportunities for technical knowledge.
- Design appropriate training programmes for BPO employees.
- Provide broad and essential hands-on experience.
- Follow proper code of ethics and procedures in recruitment of employees.
• Ensure proper control and quality management systems.
• Make sure that the service provider understands the project specifications, which requires a great deal of coordination and back-and-forth communications.
• Organize formal review meetings periodically to maintain successful relationships.
• Pre-determine the incentives and penalties schemes so that the service provider is driven to meet the established customer expectations by adopting the performance based pricing criteria.

Therefore, banks should take the required steps in order to reap the full benefits of outsourcing. If handled properly, outsourcing can be considered as an excellent opportunity to reduce costs and increase efficiency which is the most important concern of banks.

1.6 INDIAN BANKS AND OUTSOURCING OF SERVICES

Like any other industry, banking sector in India too which is serving a huge number of customers, has been influenced by the latest buzzword in business, namely, “outsourcing”. Internationally, the banking and financial services sector has been in the forefront of the outsourcing movement. India also does not lag behind. In today’s dynamic environment, services sector, especially banking and financial sectors are faced with new challenges. Technology has grown to such a great extent that banks have to keep pace with this growth. Since, banks handle critical financial services, outsourcing is not as simple option for banks as it is for various other businesses. However, for the sake of rationalizing costs and tapping professional expertise, outsourcing is being adopted by banks at an increasingly faster rate.
In order to make banking operations more efficient, Indian banks are becoming more technology oriented as information technology enables sophisticated product development and development of better market infrastructure. Banks are, for that purpose increasingly relying on external services providers to provide IT services so as to get access to specialized services and to avail cost benefits.

The activities presently being outsourced by Indian banks include:

- Opening of Bank Accounts
- Call centre for customer queries
- Recruitment, selection and training of personnel
- HR and Payroll
- Marketing of Banking Products
- Software Development, maintenance
- Network management
- AMCs for IT Assets- Hardware and networks
- ATM/Debit card printing, disbursement and switch management
- ATM maintenance
- Marketing of Insurance Products etc.

Developments in telecommunication, fiber optics and satellite communications have made internet-based communication and transfer of data possible, paving the path for outsourcing by Indian banks. Getting access to technology benefits is the main driver for outsourcing. Outsourcing of activities and processes are the key outcomes of the large scale technology adoption in the banking sector during 1990s. But to some extent, the majority of the banks in India are conservative in their approach towards outsourcing their business processes due to some risks involved in outsourcing and also because of resistance from some quarters of employees.
The primary driving force behind the increase in outsourcing activities in India is the cost saving involved. In a study it was found that outsourcing to third parties can result in cost savings of up to 30-40 percent as compared to doing the same work in-house. Saving through IT outsourcing is more of a long-term perspective as there might not be significant up-front return on investment. Over a period of five years the cost savings vis-a-vis in-house work can be as high as 50 percent. Another advantage that banks can get due to outsourcing is greater expertise. Service Providers would have appointed employees with the required technical skill which can be easily adapted and utilized by all the banks that outsource their activities.

The banks in India are concerned over the security of information. This security risk can be minimized if certain aspects are taken care of. The Reserve Bank of India has advised banks to follow the outsourcing guidelines to manage risks arising out of third-party service providers. These risks include disruption in service, defective services and personnel of service providers gaining intimate knowledge of banks’ systems and misusing the same, etc. The banks today are being forced to maintain operational and cost efficiencies, main imperatives to fight tough competition.

Dependency on third party service providers for provision of certain services (say, for example, ATMs) does pose certain limitations on the range and level of services offered to the customers. The risks arising out of outsourcing need to be suitably mitigated through proper selection of vendors, comprehensive agreement, etc. An appropriate Service Level Agreement (SLA) with the vendors should cover the service needs of the banks.
In a research work undertaken on “outsourcing by Indian banks” by Siva Prasad Ravi et al., the following conclusions were drawn:

1) Both private and public sector banks in India are outsourcing business related activities.

2) Private sector banks, to combat competition, have adopted more aggressive outsourcing strategies.

3) Almost all banks preferred having on-shore outsourcing irrespective of the type of activities outsourced.

4) It was also noticed that majority of banks preferred dealing with a single vendor for providing all services and

5) Several banks preferred short term or medium term contracts with the service providers.

The above observations indicate that, banks in private sector in India, outsource their non core activities more when compared to public sector banks. The Joint Forum, a tripartite body comprising Basel Committee on Banking Supervision, International Organization of Securities Commission and International Association of Insurance Supervisors, had issued guidelines on outsourcing in financial services in February, 2005. Internationally, several countries like USA, UK, Germany, Hong Kong, Australia and Singapore have put in place, guidelines on outsourcing in financial services.

Based on these international best practices, The Reserve Bank of India has issued certain guidelines for outsourcing in financial services. In India, as banks augment growth and expand business, there is an increasing reliance on external service providers as partners in achieving the growth targets and as effective cost
alternatives. According to the guidelines given by RBI, 'Outsourcing' may be defined as a bank's use of a third party (either an affiliated entity within a corporate group or an entity that is external to the corporate group) to perform activities on a continuing basis that would normally be undertaken by the bank itself, now or in the future. ‘Continuing basis’ includes agreements for a limited period.

The benefits of outsourcing include efficiencies in operations, increased ability to acquire and support current technology and tide over the risk of obsolescence, increased time availability for management to focus on key management functions, shorter lead time in delivering services to customers, better quality of services, and stronger controls among others.

Common Areas for Outsourcing:

Outsourcing has been a constant theme in banking technology over at least the past ten years, as banking has become more technology intensive and the required scale of investment has grown exponentially. Many operations have been outsourced to third party vendors comprising external vendors and specialized subsidiaries. Service providers today may be a technology company or specialist outsourcing manager. This decision to outsource should fit into the institution’s overall strategic plan and corporate objectives.

Common areas where Banks have outsourced functions include:

1. **Technology Operations**
   - Technology Infrastructure Management, Maintenance and Support
   - Application Development, Maintenance and Testing
2. **Banking Operations**

- Cash Management and Collections
- Customer Service helpdesk / call center services
- Transaction Processing including payments, loans, deposits
- Activities such as Debit card printing and dispatch, verifications, etc.

3. **Marketing and Research**

4. **Fiduciary and Trading activities**

Role of the Board and Senior Management:

The Board and senior management are ultimately responsible for ‘outsourcing operations’ and for managing risks inherent in such outsourcing relationships. Whereas an institution may delegate its day-to-day operational duties to a service provider, responsibilities for effective due diligence and management of outsourcing and accountability for all outsourcing decisions continue to rest with the Bank board and senior management. Board and senior management have the responsibility to institute an effective governance mechanism and risk management process for all outsourced operations.

Banks should undertake a periodic review of their outsourced processes to identify new outsourcing risks as they arise. For e.g. when the service provider has further sub-contracted work to other service providers or has undergone a significant change in processes, infrastructure, or management.
The key recommendations given by Reserve Bank of India are given below:

1. The Board and senior management are responsible for outsourced operations and for managing risks inherent in such outsourcing relationships. They have the responsibility to institute an effective governance mechanism and risk management process for all outsourced operations.

2. Banks need to assess the degree of ‘materiality’ inherent in the outsourced functions. Whether an outsourcing arrangement is ‘material’ to the business context or not is a qualitative judgment and may be determined on the basis of criticality of service, or technology to the overall business objectives.

3. Risk evaluation should be performed prior to entering into an outsourcing agreement and all outsourced information systems and operations may be subject to risk management and security and privacy policies that meet the Bank’s own standards.

4. When considering negotiating / renewing an Outsourcing arrangement, due diligence should be performed to assess the capability of the technology service provider to comply with obligations in the outsourcing agreement.

5. Banks must be required to report to the regulator, where the scale and nature of functions outsourced are significant, or extensive data sharing is involved across geographic locations as part of technology / process outsourcing.

6. In the event of multiple service provider relationships where two or more service providers collaborate to deliver an end to end solution for the financial institution, a bank, however, remains responsible for understanding and monitoring the control...
environment of all service providers that have access to the banks systems, records or resources.

7. The terms and conditions governing the contract between the bank and the service provider should be carefully defined in written agreements and vetted by bank's legal counsel on their legal effect and enforceability.

8. Banks should ensure that the contract brings out the nature of the legal relationship between the parties (agent, principal or otherwise) and addresses risks and mitigation strategies identified at the risk evaluation and due diligence stages.

9. Banks should establish a structure for management and control of outsourcing, based on the nature, scope, complexity and inherent risk of the outsourced activity.

10. Management should include service level agreements in the outsourcing contracts to agree and establish accountability for performance expectations. SLAs must clearly formalize the performance criteria to measure the quality and quantity of service levels.

11. Banks should evaluate the adequacy of the internal controls environment offered by the service provider. Due consideration should be given to implementation by the service provider of various aspects like information security policies and employee awareness of the same, logical access controls, physical and environmental security and controls, controls for handling data etc.

12. Outsourcing should not impede or interfere with the ability of the bank or the regulator in performing its supervisory functions and objectives. An institution should also review its outsourcing arrangements periodically to ensure that its outsourcing risk management policies and procedures, and these guidelines are effectively complied with.
13. Banks should also periodically commission independent audit and expert assessments on the security and control environment of the service provider. Such assessments and reports on the service provider may be performed and prepared by the institution’s internal or external auditors, or by agents appointed by the institution.

14. Banks should ensure that their business continuity preparedness is not compromised on account of outsourcing.

15. A bank needs to take effective steps to ensure that risks with respect to confidentiality and security of data are adequately mitigated.

16. Banks, while framing the viable contingency plan, need to consider the availability of alternative service providers or the possibility of bringing the outsourced activity back-in-house in an emergency (for example, where number of vendors for a particular service is extremely limited) and the costs, time and resources that would be involved and take suitable action, if warranted.

17. In the event of outsourcing of technology operations, the banks should subject the same to enhanced and rigorous change management and monitoring controls since ultimate responsibility and accountability rests with the bank. It may be desirable that banks control the management of user ids created for use of external vendor personnel. As a contingency measure, banks may also endeavor to develop, over a period of time, reasonable level of skills/knowledge in various technology related areas like system administration, database administration, network architecture and administration, etc., to effectively engage with the vendors or to take over these functions in the event of any contingency.

18. The engagement of service providers across multiple geographies exposes the organisation to country risk – economic, social and political reasons in the country
that may adversely affect the Banks business and operations. Banks should proactively evaluate such risk as part of the due diligence process and develop appropriate mitigating controls and as required, an effective exit strategy.

19. Emerging technologies such as data center hosting, applications as a service and cloud computing have given rise to unique legal jurisdictions for data and cross border regulations. Banks should clarify the jurisdiction for their data and applicable regulations at the outset of an outsourcing arrangement. This information should be reviewed periodically and in case of significant changes performed by the service provider.

20. Banks should ensure that quality and availability of banking services to customers are not adversely affected due to the outsourcing arrangements entered into by the Bank. Banks need to institute a robust grievance redress mechanism, which should not be compromised in any way due to outsourcing.

21. Indian Banks’ Association may facilitate requisite data sharing between banks to maintain scoring information for existing / new service providers and including any fraud or major operational lapses committed by the service providers.

These recommendations are aimed to improve the effective functioning of outsourcing by Indian banks and to insulate them from the risks in outsourcing.

1.7 SELECTION OF OUTSOURCING VENDORS

There are numerous factors to consider when evaluating and selecting a vendor. Banks looking to outsource their activities should evaluate the capabilities of the providers. There are many benchmarking reports by independent research and
consulting firms which analyze the vendors' capabilities. The role of outsourcing has changed from traditional purchasing to strategic activity (Chan and Chin, 2007). Their role has also been expanded to that of business partner dealing with operational control of functions, business process added values (Liou and Chuang, 2010) and sustainable competitive advantage (Miles and Snow, 2007).

It is more challenging to identify the right vendor for the job, and it is more important than ever for banks to clearly understand their current requirements and capabilities to be able to identify the suppliers that best align with their needs. It is also critical that banks clearly identify areas they believe are core to their business. Banks must ensure that the vendors of choice have the right mix of knowledge, skills, technology, and best-practice processes and that these capabilities are complementary to internal strengths.

Time spent in training vendors, defining and negotiating service-level agreements (SLAs), building appropriate governance capability and selection and implementation of tools is a significant overhead investment that needs to be clarified and agreed to by both parties.

1.7.1 Considerations for Selecting outsourcing vendors include the following:

Certain important criteria for selecting outsourcing vendors are listed below:

- Financial viability of outsourcing contract,
- Evaluation of expertise of the outsourcing vendors,
- References obtained about service vendors,
- Requiring the vendor to do a Proof of Concept (PoC),
- Cost competitiveness in selecting outsourcing vendors,
- Access and ability to adapt to latest technology on the part of the service vendors,
- Practices of security by the service vendor/provider,
- Practices of standard policies and procedures by service provider and
- Responsibility towards disaster recovery plan.

Financial viability includes an assessment of the vendor’s overall financial health, the fiscal and practical success of the business unit and the likelihood that the business unit in question will continue to invest in and offer the product within the vendor’s portfolio of offerings.

Reference validation is also a viable option to the decision team. Historically, organisations may have requested the vendors to supply a list of references. Reference checking is an opportunity to discuss Critical Success Factors (CSFs) regarding implementation, managing the vendor relationship, and other division or industry-specific topics. An evaluation process and an RFI to select vendors must be adopted. The vendor evaluation process will be more effective if it is started with a high quality RFP.

Bailey 2002\(^{46}\) shows that the criteria used for selecting outsourcing contractors were mainly reputation, cost, previous contacts and technical capability. Kennedy 1997\(^{47}\) argued that the most common selection factors are market position of the potential vendor, the quality of service offered, the product and technical leadership, the contending company’s image and reputation.
1.8 RISKS EVALUATION AND MANAGEMENT

Risk management is the process of identifying, measuring, monitoring and managing risk. Risks inherent to outsourcing include perceived risks, strategic risks, performance risks and financial risks. Risk is defined as the probability of an event. It is the chance of serious adverse outcome (Bahli & Rivard, 2003)\textsuperscript{48}.

Basel II\textsuperscript{49} defined four general causal categories - people, technology, processes and external factors. Brief description on each factors are provided below.

1. People: human factor related matters
2. Technology: IT and all communication system including hardware and software.
3. External Factors: man-made or natural disaster, business environment and competition.
4. Strategy/Policy: strategic change either in the management itself or in its counterparties

The predominant theory among Indian regulators and policymakers is that when something is outsourced, the outsourcing company still owns it and is responsible for managing it and managing it and needs to control it.
1.8.1 Classification of Outsourcing Risks:

The following chart depicts the major risks in outsourcing faced by banks:

**FIGURE 1.2**  
RISKS IN OUTSOURCING

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**PERCEIVED RISKS**

Perceived risk is the potential loss in the pursuit of a desired outcome of outsourcing business processes (Featherman and Pavlou 2003). The decision to outsource banking activities often strikes fear in the minds of bank authorities. Outsourcing of banking operations is associated with high levels of risks as perceived by banks. According to the banking authorities there is a high level of risk that the expected benefits of outsourcing will not materialize. This is due to the fact that banks have to depend on outside service providers for the performance of their work.
STRATEGIC RISKS

Loss of control over the various activities outsourced may give rise to strategic risks. Attention to the outsourced activity may tend to lapse as knowledgeable staff depart for greener pastures or are laid off, leaving fewer people to keep up with advances in the core functional areas. By outsourcing, banks become dependent on the service providers. There may be conflict between the objectives of banks and the service providers. Yet another strategic risk may be that the banks may lose the capability of long term operational innovativeness. Loss of critical skills is one of the most important risks associated with outsourcing. Outsourcing leads to loss of organizational competencies (Earl, 1996; Lacity et al., 1995).

The loss of technical knowledge is another relevant problem. When a service is outsourced, banks gradually lose their understanding of the service over time. Banks may lose its capacity to stay up to date with the technological breakthroughs. (T.D. Clark et al. 1995).

According to Lacity and Hirschheim, external providers are not strategic partners, since the interest in benefits is not a shared one. It is because, when clients’ costs grow, so do providers’ benefits also.

PERFORMANCE RISK

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. The service provider may not have sufficient outsourcing experience. High level of confidentiality should be
maintained for banking operations which the service providers may not provide. The process of outsourcing is too complex and difficult to be properly executed by the service providers and there may not be proper coordination between the bank employees and the vendors. There is the risk of technology failure.

The technology needed to service the company’s needs may change over time and the supplier may no longer be able to service that new technology. Thus, there is the risk of service provider’s inability to adapt to the new technologies (R.L. Glass 1996)\textsuperscript{55}

The Lack of Compliance with the contract by the provider is a potential risk. This problem is inherent to any contract: when an agent performs a task for a principal, the latter always faces the risk that the agent might not carry out the task as expected or that the agent might pay less attention and monitor the process less closely than the principal would have done\textsuperscript{56}.

\textbf{FINANCIAL RISKS}

Unforeseen costs are one of the major risks in outsourcing. In the first instance banking authorities may fail to reckon the costs of evaluating vendors, managing major contracts, travelling to sites, enhancing security and paying severance for laid-off workers. In addition, standardized services rarely meet the needs of the business and customized solutions by the vendor will likely to add between 15\% and 30\% to the cost.

Finally, exit costs can be substantial, as ending an arrangement prematurely exposes both bankers and service providers to litigation. Banking authorities should plan realistically for the full range of costs, creating detailed financial models and
testing scenarios to make sure the decision will still look good if various factors go wrong. There is another risk of the service provider trying to increase his profit through hidden or non transparent costs. The present study incorporates all the above risks to understand the perceptions of bank executives regarding them.

1.9 THE SERVICE QUALITY OF OUTSOURCED WORK:

Service quality refers to the performance according to bank requirements in the delivery of a service. In this study service quality is defined as the level of perfection and excellence of service quality perception. The higher level of service quality means higher level of customer satisfaction and results in better customer loyalty and high level of profitability (Ghobadian, et al. 1993). To transfer the quality to service means to satisfy customers’ requirements. It is important that the firms aspiring to adopt the customer oriented approach should determine the customer requirements and associate the customer requirements with service design and capabilities.

According to Warrington, P.T., 2002, research in four different service industries, it is found that quality has a direct and positive effect on customer satisfaction, but no other inverse causal effect could be proved.

A number of existing IT outsourcing research examines different quality factors that affect bank executives’ satisfaction. These quality factors can be grouped into four types: service quality, solution quality, service level agreement (SLA) quality, and relationship quality.

Service quality is the source of competitive differentiation according to Das et al. and Gavin, D. A. 1987, especially when the number of vendors offering similar outsourcing services has increased over the years.
Solution quality refers to the extent to which the products or services provided by vendors help banks to solve their problems or improve their business needs (G. Whyte et al.)\textsuperscript{63}.

In an outsourcing context, service agreement level (SLA) refers to the “detailed formal contract between the two contracting parties”\textsuperscript{64}. SLA identifies service commitments of both the customers and the vendors\textsuperscript{65}. A good quality SLA should contain specifications and precise requirements as it sets up expectations between customers and vendors\textsuperscript{66}.

Good relationship quality refers to “a relationship between service provider and customer that involves high levels of trust and commitment, quality communication, cultural similarity, and balanced interdependence between entities in the service partnership”\textsuperscript{67}.

The overall assessment of quality of outsourced activities by client banks should be based on the following criteria:

1. Reduction in cost
2. Increase in revenue
3. Improvement in customer service
4. Betterment of brand building
5. Better marketing of bank products
6. Easier introduction of new products
7. Better utilization of new technology
8. Reduction in capital investment
9. Effective recycling of funds
10. Focus of core competence
11. Access to specialized vendors
12. Importance of reduction of morale of employees
13. Better use of in house personnel
The decision to outsource is often based primarily on cost reduction, supported by a desire to focus on core business activities. Once the activities of the banks are outsourced, the bank management should undertake periodic assessment of the outsourced activities to find out the effectiveness of the work and also the capacity of the service provider. Service quality also should be regularly evaluated. Banks must determine whether their existing outsourcing relationship is providing satisfactory service, not just in terms of adherence to contractual Service Levels, but in the overall health of the customer/service provider relationship.

Outsourcing information technology by the banks helps them to enhance efficiencies in operations, increases their ability to acquire and support current technology and helps to tide over the risk of obsolescence. Outsourcing of financial services by the banks helps the management to focus on key management functions and assist in delivering to customers in shorter lead time and better quality of services as management focuses on core services. Once when the banks decide to outsource they must undertake steps to assess the quality of outsourced work. They may even appoint people who are technically and otherwise qualified to audit the outcome of outsourcing. By this the banks can satisfy themselves as to the benefits of outsourcing to their banks.

Successful implementation of an outsourcing strategy has been credited with helping to reduce cost (Bowers1990). Business organization outsource because of reduced costs. Greer et.al. 1999 in their research paper have concluded that economy in cost is the foremost reason why organizations outsource. Outsourcing
increases capacity of the banks and improve quality so that there will be improvement in customer service\textsuperscript{71}. By outsourcing their activities, banks increase their capacity to offer good services to their customers, as opined by Kotabe et. al.\textsuperscript{72}. It will increase profitability and productivity\textsuperscript{73}, improve financial performance\textsuperscript{74}, lower innovation costs and risks (Quinn 2000)\textsuperscript{75} and improve organizational competitiveness (Lever 1997)\textsuperscript{76}. In a research study, Steensma and Corley 2000\textsuperscript{77} felt that outsourcing will improve a firm’s competitiveness.

All these earlier studies indicate that, a good outsourcing strategy will lead the banks towards focus on core competence, access to specialized vendors and better use of in-house personnel etc. with the ultimate aim of customer service satisfaction. Some of the dimensions of the above studies were adopted in this study for analytical evaluation.

1.10 THE LEVEL OF SATISFACTION DUE TO OUTSOURCING

Previous empirical researches by Parasuraman et al. (1984)\textsuperscript{78}, Lee & Kim (1999)\textsuperscript{79} and Kern (1997)\textsuperscript{80} has shown that satisfaction is strongly associated with the perception of whether or not outsourcing is working. Thus, satisfaction is a phenomenon expressing that the performance and benefits of the products exceed the expectations of the customers (Peter, J.P. and Olsan, J.C., 2005)\textsuperscript{81}. The overall satisfaction with outsourcing is strongly associated with a perception that outsourcing is effectively working in organizations that have adopted them. Satisfaction with outsourcing is related to outsourcing being seen as successful and working well but various banks may still be dissatisfied with the arrangement. Some
of the factors that affect the degree of satisfaction with outsourcing are service quality, the relationship developed between the outsourcing company and vendor, and the costs involved in switching vendors.

Based on the above references, some important dimensions for satisfaction have been taken for this study. 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
- Enhancement in economies of scale in technological resources
- Enhancement in economies of scale in human resources
- Improvement in banks IT competence
- Focus on our core business issues.

The main benefits to the banks due to outsourcing are cost reduction and concentration on core competencies by the banks. So much so that respondents were asked to give their perceptions regarding their satisfaction due to reduction in cost, their satisfaction on performance of outsourced activities like, whether, there was reduction in risk of technology obsolescence, enhancement of economies of scale in technological and human resources and enhancement of banks’ competence.
1.11 PERCEPTIONS OF THE IMPORTANCE-PERFORMANCE GAPS OF BANKS OF OUTSOURCED ACTIVITIES:

Importance-performance gap analysis involves the concurrent examination of customer views on the importance of salient service quality dimensions (or service quality attributes) and their perceptions concerning the performance of service providers in meeting customer needs related to each of these service quality dimensions (cf. Hawes and Rao 1985). The present study adopts the above theory to understand the level of perceived satisfaction among the banking customers as compared to the present day importance.

1.12 STATEMENT OF THE PROBLEM

Business process outsourcing (BPO) has been suggested as one of the biggest areas of growth in the banking industry. Nevertheless, many banks are still reluctant to outsource business processes that are non-core part of their business. In order to help overcome this divergence between expectations and reality, a systematic analysis of the factors that form banking organisations’ attitude towards BPO as well as their intention to adopt it is being attempted in this study. BPO poses both risks and benefits and decision makers need to balance both before adopting it. This is an important research context because banks increasingly outsource their activities and the resultant outcome of outsourcing is important for evaluating their good performance from bank’s perspectives. While outsourcing is a wide area of research interest, this study looks at bank executives’ perceptions regarding the risks and performance results. It was decided to explore this area because outsourcing is an issue being discussed currently all over the globe and the banking sector is proving to
be a sector that undertakes a greater percentage of outsourcing their activities and operative bank personnel are responsible for its effective functioning.

Thus, the present study on the perceptions of bank executives is attempted on the issues like the drivers for outsourcing, and the risks involved in outsourcing the banking activities. The aim of this research work is to present an evaluation of the different types of risks that banks may encounter while outsourcing their financial activities. Moreover, in order to know about the perceptions of the bank executives on the importance of the outsourced activities and the actual quality of work performed by the service providers which are relevant for further studies, this study has been undertaken. Not many research works have been undertaken in this regard in India pertaining to Indian banks.

The review of literature available suggest that most of the studies have been done on issues related to outsourcing by banks in countries like USA, UK, Malaysia, Singapore, Finland, Australia and Germany. Though sufficient interest in research works has been done recently in India with regard to outsourcing operations, bank executives’ perceptions on risks and satisfaction issues on outsourcing activities are scarce. The present study intends to identify their perceptions of risks, perceived importance and the actual quality of outsourced work identified through gap in performance and satisfaction levels of bank executives due to outsourcing in the Indian context.

Thus, the study focuses only on the bank executives’ perceptions regarding risks in outsourcing and the actual quality of work and not on any specific bank. Non
executives or employees working in non managerial positions were not included. The executives represent a wide spectrum of bank managers and officers located in Chennai. The unit of study is confined to public and private sector commercial banks in India.

1.13 OPERATIONAL DEFINITIONS:
The explanation of some of the terms adopted in this study is presented below:

**Outsourcing:** “outsourcing” is the contracting of a service provider to completely manage, deliver and operate one or more of a client’s functions.

**Service providers:** A banker enters into an agreement with the service provider for performance of certain activities of the bank that is not done in-house. Contracts are entered into by bank and service provider that define the duties, responsibilities and liabilities of both the bank and the service provider.

**Banking operations:** The following are some of the operations of the banks that are outsourced:

- Opening of Bank Accounts
- Call centre for customer queries
- Recruitment selection and training of personnel
- HR and Payroll
- Marketing of Banking Products
- Software Development, maintenance
- Network management
- AMCs for IT Assets- Hardware and networks
- ATM/Debit card printing, disbursement and switch management
- ATM maintenance
- Marketing of Insurance Products etc.
The terms, “risks in outsourcing” include the risks such as, perceived risks, strategic risks, performance risks and financial risks.

The dimensions for **quality measurement** taken up for the present study include the following:

1. Reduction in cost
2. Increase in revenue
3. Improvement in customer service
4. Betterment of brand building
5. Better marketing of bank products
6. Easier introduction of new products
7. Better utilization of new technology
8. Reduction in capital investment
9. Effective recycling of funds
10. Focus of core competence
11. Access to specialized vendors
12. Importance of reduction of morale of employees
13. Better use of in house personnel

The measurement of **satisfaction** of bank executives includes the following dimensions:

1. Cost reduction
2. Provision for better service
3. Better match of resource to supply
4. Access to better technology
5. Better use of in-house personnel
6. Access to services unavailable in-house
7. Access to better/more skills/expertise
8. Reduction in risk of technology obsolescence
9. Enhanced economies of scale in technological resources
10. Enhanced economies of scale in human resources
11. Enhancement of banks IT competence
12. Refocus of core banking business

1.14 SCOPE OF THE STUDY

Outsourcing could be considered an inevitable development of the banking industry, a trend based on the labour market and the economic conditions. The present study seeks to identify the factors that impact the decision to outsource banking activities, identify what factors affect bank executives’ attitudes regarding the outsourcing decision and discuss how these attitudes impact banking organisational outcomes. This empirical research was undertaken to serve two primary purposes. The first was to identify the current framework of outsourcing practices in Indian banks. The second purpose was to identify the risk involved and to measure the level of performance and satisfaction due to outsourcing.

Therefore, this study focused on the risks perception of outsourcing of banking activities on the one side and the actual performance results of the outsourced activities on the other. The bank executives were asked to give their opinions about the importance of the outsourced activities and whether the quality of work done by the service provider matched with the expectations. This will help a growing number of analysts in the banking sector and academics in relevant research fields who are keen to learn more about outsourcing scene in the Indian banking industry.
This study has focused on Indian banks for the empirical investigation. It also attempts to investigate the challenges and impacts for banking organisations with regard to outsourcing processes, the drivers for outsourcing and the way banks deal with them to create potential benefits. Therefore, it is hoped that this present study will enhance the current knowledge on outsourcing, with significant value addition for banks in India.

1.15 OBJECTIVES OF THE STUDY

This present study focuses on outsourcing by banks in India with special emphasis on risks faced and the work quality of the outsourced work while outsourcing their activities. The main purpose of this study is to advance our theoretical and practical understanding of outsourcing, thereby contributing to the knowledge on the execution of outsourcing.

Further, this study builds on the knowledge and research on outsourcing by examining in detail the themes of outsourcing satisfaction and benefits realization and processes and practices as they relate to India. The main aim is to further substantiate on the current research into bank outsourcing in the Indian context, in particular, the reasons for outsourcing being considered successful or not. It is also important to note that this study is primarily concentrated on risks and satisfaction of outsourcing, based on “perception research” on outsourcing literature (Downing et al.)83. The present study is focused on the perceptions of bank executives on different dimensions of outsourcing the activities of banks. The major objectives of this study are given below:
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 examine 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.

1.16 THE SPECIFIC HYPOTHESES OF THE STUDY:

Based on previous literature review and information gathered from initial interviews, the following important hypotheses were formulated for the purpose of the present study:

1. $H_0$: There is no relationship between risk in outsourcing and gap in performance and satisfaction due to outsourcing.

$H_1$: There is significant relationship between risk in outsourcing and gap in performance and satisfaction due to outsourcing.
2. $H_0$: There is no relationship between satisfaction and risks in outsourcing and Gap in performance.

$H_1$: There is significant relationship between satisfaction and risks in Outsourcing and gap in performance.

3. $H_0$: There is no relationship between the gap in performance and risks in outsourcing and satisfaction due to outsourcing.

$H_1$: There is significant relationship between the gap in performance and risks in outsourcing and satisfaction due to outsourcing.

4. $H_0$: There is no significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions of risk in outsourcing.

$H_1$: There is a significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions of risk in outsourcing.

5. $H_0$: There is no significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions about importance of outsourcing.

$H_1$: There is significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions about importance of outsourcing.

6. $H_0$: There is no significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with the perceptions of actual quality of outsourced work.
H$_1$: There is a significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with the perceptions of actual quality of outsourced work.

7. H$_0$: There is no significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions on satisfaction levels of the outsourced work.

H$_1$: There is a significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions on satisfaction levels of the outsourced work.

8. H$_0$: There is no significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions on gap in performance in outsourcing.

H$_1$: There is a significant association between the number of years of service in the banking sector, gender, age of the respondents, and their educational level with their perceptions on gap in performance in outsourcing.

1.17 METHOD OF RESEARCH

The present research endeavour is empirical in nature. Hence, Survey method through structured questionnaire was adopted for this study. This method was used as a tool for data collection because this method assists to increase response rate of respondents selected for the study. (Saunders et al 2000)84.
1.17.1 Sample Size and Data Collection Procedure

The primary data required for the study were collected through questionnaires issued to five hundred bank executives, who constitute the sample for the study. They represent a wide spectrum of Public sector banks and Private sector banks located in the city of Chennai in Tamilnadu State. The banking executives who responded were at different levels like senior management, managers and middle and junior level of officers working in branches.

For this empirical study, the leading banks from different categories from banking sector have been selected. These are nationalized public sector banks and private sector banks. These have been selected from Chennai only with the assumption that the behaviour of banks executives and practices adopted relating to banks are mostly similar across India, particularly with respect to outsourcing operations.

Ary et al. (2006) define sampling as the process of selecting participants from a population of interest. To suit the objectives of the study, convenience sampling method was adopted considering the availability and approachability of the bank executives for the purpose of data collection.

Five hundred questionnaires were distributed through personal contacts to various bank executives after necessary official permission. Completed questionnaires received were 403 which represented 80.6% of response rate. 310 questionnaires complete in all respects were used for statistical data interpretation.
1.17.2 Data Collection Period:

The questionnaires for the sample survey of executives were distributed during March 2012 to June 2012 and the filled in questionnaires from respondents were collected up to January 2013. Thus, it took nearly 7 months to distribute the questionnaires and collect data from the respondents.

1.17.3 Research Instrument:

The questionnaire is schematically designed to meet the requirements of the research and was used as research instrument for this study. It was designed to obtain a comprehensive view of IS/IT outsourcing practices in India. The present research has two major directions. On the one hand, it focuses on the analysis of the outsourcing process and its specific elements like, reasons for outsourcing, benefits and risks involved, the outsourcing decision process and choosing a service provider etc. On the other hand, it seeks to outline the overall assessment of outsourcing based on the perceptions of bank executives/officers.

Hence, the questionnaire for the study was designed to serve two primary purposes. The first was to identify the current framework of outsourcing practices in Indian banks. The second purpose was to establish the risk involved and the level of performance and satisfaction due to outsourcing. The questionnaire consisted of six main parts with mainly closed ended questions.
1.17.4 Questionnaire Design and Measurement

The PART A consists of items dealing with the identification of personal data of bank executives to understand the demographic characteristics of respondents, such as gender, age, educational qualification and number of years of service in their banks.

The PART B consists of one statement under the heading of outsourcing strategy. It deals with the activities that are being outsourced by banks, such as opening of bank accounts, call centre for customer queries, software development maintenance, ATM maintenance etc.

The PART C consists of items that were ranked with regard to reasons for outsourcing, with the following dimensions:

1. Competitive advantage
2. Cost Reduction
3. Improvement in quality of customer service
4. Avoid recruitment of additional staff
5. Lack of internal expertise (ex: Network management, software development etc.)

The PART D has nine statements that bring out information about outsourcing vendors. The first question covers the factors that influence the selection of outsourcing vendors that has a ranking component. The next eight questions are closed ended questions getting information on service level agreements, audit of outsourced activities, managing and monitoring the outsourced arrangement etc. All these dimensions were incorporated in the study, based on extensive survey of previous research and banking industry observations.
The **PART E** consisted of two sections. The first consisted of statements asking the respondents to rank the risks related to outsourcing and the second section had statements based on the Likert’s 5 point scale starting from strongly agree to strongly disagree for different risks associated with outsourcing. It consisted of four dimensions of risks i.e. perceived risks, strategic risks, performance risks and financial risks. These are measured in 12 statements as follows:

<table>
<thead>
<tr>
<th>Sub dimensions</th>
<th>Statement Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Perceived Risks</td>
<td>A – B</td>
</tr>
<tr>
<td>2 Strategic Risks</td>
<td>A – D</td>
</tr>
<tr>
<td>3 Performance Risks</td>
<td>A – D</td>
</tr>
<tr>
<td>4 Financial Risks</td>
<td>A – B</td>
</tr>
</tbody>
</table>

The **FINAL PART** consisted of two sub variables, one finding out gap in overall assessment of outsourcing by the respondents and the second finding the satisfaction levels of the respondents.

The first sub variable consisted of 13 statements and carried the Five Point Likert scale to view the gap between how important the various dimensions were and the actual quality of performance. The dimensions for quality measurement taken up for the present study were as follows:

1. Reduction in cost
2. Increase in revenue
3. Improvement in customer service
4. Betterment of brand building
5. Better marketing of bank products
6. Easier introduction of new products
7. Better utilization of new technology
8. Reduction in capital investment
9. Effective recycling of funds
10. Focus of core competence
11. Access to specialized vendors
12. Importance of reduction of morale of employees
13. Better use of in house personnel

The scoring pattern was as follows:

To measure the perception of bank executives on importance of various dimensions in outsourcing, the following weights were assigned:

<table>
<thead>
<tr>
<th>Score Points</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>5</td>
</tr>
<tr>
<td>Important</td>
<td>4</td>
</tr>
<tr>
<td>Somewhat Important</td>
<td>3</td>
</tr>
<tr>
<td>Not very Important</td>
<td>2</td>
</tr>
<tr>
<td>Not Important at all</td>
<td>1</td>
</tr>
</tbody>
</table>

To measure the perception of the bank executives regarding the actual quality of work performed by service providers, the scoring pattern assigned were:
The second sub variable consisted of 12 statements based on Likert’s Five Point Scale covering the measurement of satisfaction of bank executives regarding their satisfaction levels of outsourced activities. The statements taken up for the present study are as follows:

1. Cost reduction
2. Provision for better service
3. Better match of resource to supply
4. Access to better technology
5. Better use of in-house personnel
6. Access to services unavailable in-house
7. Access to better/more skills/expertise
8. Reduction in risk of technology obsolescence
9. Has provided enhanced economies of scale in technological resources
10. Has provided enhanced economies of scale in human resources
11. Has enhanced our banks IT competence
12. Has enabled our bank to refocus on our core business

To measure the satisfaction levels of the bank executives the following scoring pattern was followed:

<table>
<thead>
<tr>
<th>Score Points</th>
<th>Excellent</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Good</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Fair</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Poor</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Very Poor</td>
<td>1</td>
</tr>
</tbody>
</table>
1.17.5 Pretesting and Pilot Study

The importance of a pilot study is highlighted by Mason and Zuercher (1995)\textsuperscript{87}, as follows:

‘Pilot studies can be "time-consuming, frustrating, and fraught with unanticipated problems, but it is better to deal with them before investing a great deal of time, money, and effort in the full study'.

Pilot studies are a crucial element of good study design. In order to improve on the content validity and reliability of the selected dimensions adopted for the study purpose, a preliminary survey is felt essential for this empirical work.

A pilot study was conducted to authenticate the content validity of the questionnaire and to confirm the reliability of the study. Hence, a draft questionnaire was given to bank executives belonging to different banks and to academicians in the field of commerce and management to obtain their views on the design and dimensions considered for the study. According to reviewers’ opinion the questionnaire was revised and modified.

The questionnaire was then distributed to 53 bank executives belonging to different banks in the city of Chennai. The Cronbach’s Alpha Co-efficient Criterion\textsuperscript{88}
was applied to the data obtained in order to test the reliability and found to be satisfactory for its conceptual clarity and content validity for statistical purposes.

The Cronbach’s results are as follows:

1. **Risks in outsourcing:**
   - Perceived risks scale .626
   - Strategic risks scale .816
   - Performance risks scale .826
   - Financial risks scale .747

2. **Gap in performance**
   - .770

3. **Satisfaction level scale**
   - .877

The above reliability coefficient is considered satisfactory. The final version of the questionnaire was then prepared and used for the study.

**1.18 FRAMEWORK OF DATA ANALYSIS:**

The data collected through the questionnaire were analysed by using the following statistical tools:

1. Mean scores, percentages, and standard deviations were calculated for overall analysis.
2. ONEWAY ANOVA (F-Test) and (T-Test) were used to identify the significant differences and association of attributes among bank executives on their perceptions of risk analysis and other variables connected with outsourcing.
3. T-test analysis was used to identify the significant differences in the perceptions of bank executives regarding risk involved in outsourcing and the actual quality of work results and the satisfaction levels of these executives based on their gender, marital status, education level and their age.

4. Chi square test was applied to find out the association between different demographic characters and the variables taken up for the study.

5. Karl Pearson’s Correlation analysis was used to determine the significant relationship among variables.

6. Stepwise regression was used to identify the relationship between a single dependent variable and other independent variables by rotation.

7. Factor analysis was applied to find out the most important variables in the study.

8. Cluster analysis was performed to examine the respondents’ perceptions on outsourcing operations.

1.19 LIMITATIONS OF THE STUDY:

The study has certain limitations:

1. The data for the purpose of the study is collected from bank executives in Chennai only with the hypothesized assumption that almost the operating system of banks is similar throughout India.

2. Outsourcing by banks is a relatively new concept and the questionnaire was distributed only to bank executives who knew about their outsourcing activities.

3. The main objective of the study is to examine the general perceptions of the bank executives on risks and the actual quality of outsourced work and their satisfaction level due to outsourcing of banking activities. Hence, this study does not focus on any individual banks.

4. The results of this research may be applied to participating banks only.
5. The study is limited with respect to certain identified dimensions, selected for analytical interpretation.

1.20 CHAPTER ARRANGEMENT:

The study has been presented in five chapters. A brief outline of the various chapters is as follows:

CHAPTER I: INTRODUCTION AND RESEARCH METHODOLOGY
This chapter contains an introduction to the thesis. It underlines the need for the study, significance of the study and also emphasizes on the scope of the study. The chapter throws light on the various research questions that have been addressed in the thesis. It highlights the descriptions of sampling i.e. types of respondents, number of respondents and technique of sampling. It also describes tools of data collection, content and constructs validity, reliability, tools of data analysis and research design.

CHAPTER II: REVIEW OF LITERATURE
This chapter contains an exhaustive and comprehensive literature review of the subject. It also discusses the various dimensions of the three variables of the study, namely, risks in outsourcing, various benefits of outsourcing and drivers for outsourcing and ends by providing the preliminary framework for this study.

CHAPTER III: ANALYSIS OF DEMOGRAPHIC VARIABLES AND PERCEPTION OF BANK EXECUTIVES ON OUTSOURCING
This chapter analyses the demographic profile of bank executives and their perceptions of the variables selected for the study, namely, risk perceptions of the
CHAPTER IV: ANALYSIS OF BANK EXECUTIVES’ PERCEPTIONS ON OUTSOURCING

This chapter intends to accomplish the first objective of the study i.e. to examine the extent of risk and satisfaction level of the bank executives. This chapter mainly deals with the data analysis, interpretation and discussion of respondents’ perceptions.

CHAPTER V: SUMMARY, FINDINGS AND CONCLUSION

This chapter presents the summary of the major findings of the study. It has provided the background and the overview of the study. It contains the methodology of the study and concludes with the implications of the study and suggestions for future research.
Chapter I - End Notes


2. Captain Raghu Raman; “De-risk outsourcing of banking operations”, 2011


41 Outsourcing Policy of South Indian Bank, Version Number 1.0 Dated 15th July 2009.


67. Chakrabarty, S. et al. op.cit.57


