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OUTSOURCING IN INDIAN BANKING SECTOR, A COMPETITIVE PRESSURE AND CUSTOMER SATISFACTION: A CRITICAL ANALYSIS

Dr. Dipankar Baidya.*

ABSTRACT:

Within the frame of corporate management in today's ever- changing financial world, there is the delicate task of taking firm decision or commitments. One of such is that of a firm concentrating efforts on particular skills or core business activities or service and letting others provide non-core services. A study of the situation in India provides an understanding of fear of the unknown or better still insecurity. Though, at the same time, commercial banks recognize some comparative advantage and cost benefits. Just like any other industry in India, Banking Industry is also influenced by the buzzword "Outsourcing". Banks use of third party service providers is a business strategy that is being considered more frequently by financial institutions as they respond to an increasingly competitive marketplace. Bank which is outsourcing its financial services will have an impact on various parameters such as earnings, solvency, liquidity, funding, capital, customer satisfaction and risk profile. Due to fast developments in information technology, the Indian banking sector is outsourcing a good portion of their routine activities. Typically outsourced financial service include document processing, investment management, marketing and research, supervision of loans, data processing and back office related activities etc. Fully automated banking transactions are the outcome of the outsourcing initiatives in banking. In the run for more profits and productivity, banks try to reduce cost through outsourcing. Right from mobilization of deposits to the disbursal of loans, banks engage outsourcing agencies in different degrees. Given the scale and prevalence of these types of

* **Assistant Professor,Department of Commerce,Nowgong College, Nagaon.**

arrangements, outsourcing raises potential supervisory concerns. The failure to manage these risks can lead to financial losses/reputational risk for the bank and could also lead to systematic risks within the entire banking system in the country. It would therefore be imperative for the bank to outsourcing its activities to ensure effective management of these risks. This paper seeks to identify the reasons of competitive pressure and customer satisfaction in outsourcing particular to commercial banks in India, and its effects and what future directions might be. This study is a theoretical framework for decision making in outsourcing and further research on outsourcing and for improvement of knowledge.

Keywords: Outsourcing, Corporate Management, Information Technology, Banking, Customer,

INTRODUCTION:

Concentrating on core business has been the trend in many industries. This means that those activities that are not core to the business have to be outsourced to specialized providers. Outsourcing or the use of third- party service providers is a business strategy that is being considered more frequently by financial institutions as they respond to an increasingly competitive market place. While not new, many of the activities currently being outsourced, such as information systems, business processes and internal audit are integral to the functioning of the organization, vital to supporting core businesses and create dependencies upon service providers. The Indian banking industry is witnessing robust growth under the influence of a changing regulatory environment, rapid technological advancements, heightened competition and customer satisfaction. This changing landscape in the banking industry is driving banks to explore the outsourcing option to achieve efficiencies. The world over, banks are increasingly using outsourcing, as a means of both reducing cost and accessing specialist expertise, not available internally and achieving strategic aims. In recent years, the need for flexibility which has been forced on management by the new competitive environment has given rise to the development and spread of outsourcing. In spite of its general use, we think that on occasion it has been used incorrectly and to a lesser degree as a simplistic tool for reducing staff. The objective of this paper is to have a critical look at outsourcing along the following lines. Firstly, we look at the effect of technological change and of the globalization of markets on the new competitive environment, customer satisfaction by providing various services and the reaction of firms adopting a more flexible organizational structure. From this base, we develop the concept of outsourcing and its process of implementation and its treatment in the literature. Our study is a critical analysis of the series of internal and external problems posed by outsourcing in firms which have introduced it but have not up to now taken advantage of its full scope. The final sections give a summary of main conclusion of the paper.

OBJECTIVES OF THE STUDY:

The objective of the study has been undertaken are as follows:

a) To study the current outsourcing trend in the Banking sector due to benefits and reasons of outsourcing.

b) To study the motivation of banking sector to outsource more essential parts of their business due to competitive pressure and customer satisfaction.

c) To study the effects that outsourcing exerts on the architecture of the Banking sector and on the countries involved.

METHODOLOGY OF THE STUDY:

The present study is an attempt to obtain a comprehensive description and analysis to identify the rational and benefits of outsourcing in banking sector and outsourcing activities in Indian Banks due to competitive pressure and customer satisfaction. The study therefore designed to provide for the collection of all necessary information keeping the above significance in mind.

Descriptive research is performed to find out specific purpose, for this collection of data through secondary sources. Newspapers, Magazines, Relevant Books, Research journals and information from different relevant websites are included in these sources. The paper is descriptive-analytical in nature and simple statistical tool has been used.

According to the depth requirement of investigation of the prospect of the customer services and competitive pressure associated with it, the study is to ‘explore’ the general subject by counseling various publications and other secondary materials on outsourcing services by bank available in websites, some crucial circulars, etc. taken under consideration.

RATIONAL FOR OUTSOURCING

Information technology outsourcing is the main type of outsourcing in commercial banks in India. This is because it adds more value than any other form of outsourcing here. According to uniqueness and value adding competences are the business drivers of the future. What has been realized in India is that outsourcing decisions reflect at least one of three main rationals:

1. Technological change and the new competitive environment

Technological development induces and subsequently is affected by changes in the economic environment. As history has shown, technology is the key factor in the creation or disappearance of a business, as a result of new products replacing older ones, the opening of new markets, and radical changes in production, sales, consumption and customer satisfaction; in other words, significant changes in the process of added value. Therefore, technological change appears as a social process, whose sphere of influence is as much within the firm (acquisition and development of know-how, learning patterns or management models), as it is on the environment in which its business activities take place (institutional changes which affect market regulation, tangible and intangible public infrastructure, services which satisfies customer, etc.)

Presently, technology is changing the competitive environment. It is characterized by two sets of interrelated factors. On the one hand, technological and organizational innovations foster cost reductions in communications and transportation permitting decentralization; while on the other, institutional changes facilitate liberalization of financial and commercial markets.

Indian Banking Organization tries to respond to this complex situation by using a growing ability to adapt. The increase in commercial deregulation places a premium on rapid response to these changes because of greater ease of entry to wider markets and the shorter time frame in which to take advantage of the resulting competitive edge. The outcome is a qualitative change in the manner in which the Bank carries out its services towards customers. A consequence is the appearance of new service models based on the interaction of their components, which include the development of differentiated services, anticipated responses to the market, a multi-faceted workforce, and flexible customer services which yield cost reductions while maintaining levels of quality.

In the new competitive environment, customer satisfaction becomes a key factor in defining the strategy and the structure of the Indian banking organization. The rapid changes in technology and the speed with which new services are introduced into the market force on banks a process of adaptation in order to be able to respond to the strategic moves of their competitors.

2. Customer satisfaction:

Customer service is the differentiator, but banks are still behaving as if they are not offering commoditized services. It is no surprise that service providers have very low levels of loyalty. Today things are dramatically different. Technological advances have enabled banks to develop and execute many transactions remotely with no face-to-face contact. Computer systems instantly analyses each customer's situation and automatically carry out the programmed action. Overriding the systems' recommendations is typically frowned upon, much of this progress' was in response to client demands for easier access and faster service and to shareholder demands for higher returns, yet along the way the professional bond between banker and client fell by the wayside. Clients have become customers and bankers have become salespeople. Retail banking has become a commodity. Experienced providers of commoditised services (telecommunications providers, Pc manufacturers, hotel chains) have long understood that. While a few might compete on price, feature or function, for many the only competitive differentiator is customer service. There is a growing gap between the level of service most customers expect and the service that banks provide. Banks know they must put customers at the core of strategy, but the banking sector lags other industries in implementing a customer-centric business model, even the more proactive banks have discovered the gap between what they offer and what customers expect. Banks compete in a world where customers are well informed about competing products and services. In fact, they may know more about their relationship with their bank than the bank's own customer services team. 'Banks should focus on providing banking services and must look at what allows them to achieve this. Technology change is a must, as most systems and processes within banks are good at containing information related to specific products but not at sharing information across the enterprise. This may cause to outsource banking services to service provider

Banking executives say that when the issue of poor customer service comes up, customers cite offshore teams as the primary reason for their dissatisfaction. Yet when Research surveyed banking institutions in July 2017, we found that only 35 percent of them had outsourced customer service functions. This suggests that customer dissatisfaction may reside in the process, not the delivery location.

3. Institutional Framework:

The financial sector is one of the most regulated sectors in the economy. It is the principal sector in policy formation responsible for stimulating growth. This has led to a lot of regulation. As such bankers do not make outsourcing decisions base only on the merits of the cash, but also on perceived regulatory changes. The political climate is stable now but with some uncertainty for the future. This influences very much business decisions in general, and commercial bank outsourcing decisions are no exception.

Current Trends of Outsourcing activities in Banking Sector:

The core activities presently being outsourced by Indian banks include: hardware and software maintenance, hosting, management of data centers, outsourcing of data center operations, application support, disaster recovery, facilities management, comprising network management and monitoring, maintenance of websites, and maintenance and management of links at ATMs. While these are the more popular activities, some of the emerging outsourcing opportunities exist in areas of e-banking initiatives, e-commerce outsourcing services, complete outsourcing of the IT function and outsourcing the entire ATM set-up and operation to a third party.

As far as BPO is concerned, presently it is only the low-end staff-related and non-core banking operations that are being outsourced. It will take another 3-4 years before core banking outsourcing gains significant volumes in the Indian Banking segment. For instance, outsourcing activities in banks are largely happening till the mid-level in terms of IT services and at very early – levels on business process outsourcing front. Besides, MNC banks are the leaders in outsourcing – some of them already outsource a significant part of business processes too. Within IT Enabled services outsourcing, the opportunities exist in areas like call centres, help desk support, outsourcing of customer complaints, credit card processing and printing, cheque processing, clearing and printing, ATM cash replenishment, cheque box clearing and collection, payroll and pensions, loan servicing, data processing of day-to-day clearing instruments like draft and dividend warrants and payment and reconciliation. Currently, IT Enables Services outsourcing is not happening in a big way, with many banks –especially Public Sector Units – wary of it. ATM outsourcing seems to be the front-runner in future of IT outsourcing. RBI relaxations pertaining to the setting up of a common ATM infrastructure for multiple banks by a service provider will make ATM outsourcing activities feasible as players can set up a common ATM infrastructure and thereby bring gain from economies of scale. This will also help banks, since they do not need to make huge up- front investments, but rather pay on a per – transaction basis. Smaller private and co-operative banks and banks with ATM branches in smaller cities where the volume of transactions is not very high will also gain from such initiatives.

The lifeblood of the financial services sector is transactions. This is a core banking function; a bank which lost the ability to perform transactions would collapse within days, if not hours. While crucial to bank's existence, this type of administrative function or process is not strategic. It doesn't provide an opportunity for competitive advantage, revenue growth or new income streams. In fact, the administrative aspects of banking represent significant costs, which impact IT budgets and management resources without creating any differentiation or business benefit for the organization.

SOME DATA ON THE USE OF OUTSOURCING

No precise data exists which would permit us to accurately quantify the volume of economic activity that outsourcing operations have reached, nor the sectors nor principal activities in which it is being used. Nevertheless, a few studies and some partial estimates permit us to see the main trends. An empirical study published in the News paper, Journal, websites etc. contains the conclusions of a survey of global businesses. The results showing that outsourcing is widely used in an extensive range of activities by major Indian Banks.

ARGUMENTS IN FAVOUR OF OUTSOURCING

Outsourcing may be restricted to the banks information technology system or it may encompass entire business processes. We consider the first case where banks outsourcing their information system have set up long term contracts with providers. There are many arguments in favour of outsourcing being considered by commercial banks.

Table 1. Arguments in favour of outsourcing

Arguments	Rationale
1. Lower upfront cost and increase control of fixed cost. Outsourcing often comes with lower cost provided the provider provides the same services as the banks IT department	* IT services are insufficiently standardized. * IT services usually overspend.
2. Increasing flexibility. Most outsourcing initiatives provide more upside production capabilities with fewer aches and pain. Companies may decide to change from one information services platform to another. Such flexibility is needed to maintain their competitive positions.	* The IT department is unable to improve the Level of their services temporarily (e.g. by keeping counter services longer when new applications are introduced.
3. Realizing a strategic focus on central competences. By outsourcing non-core aspects of your business, you can simply concentrate on your business.	* Strategy includes focusing on central competences. * IT services are not part of the banks central competences.
4. Improving companies' financial ratios Outsourcing may improve financial ratios without influencing the company's primary Processes.	* The number of staffs in relation to the banks turnover is high in comparison with that of other banks. * The bank's cash position must be improved.
5. Achieving a technology shift.	* IT departments lack sufficient knowledge to implement new technologies. * IT department lack capacity to implement new technologies while keeping current systems working.
6. Shortening time to-market for new IT services. IT departments have to react quickly to the dynamic markets. This is very difficult	

and makes it better for an external supplier, who as a rule have many more clients, and are cost effective	* IT department is unable to deliver on time the IT services that the business wants.

ARGUMENTS AGAINST OUTSOURCING

Banks must also realize there are negative consequences of outsourcing. It mainly on increased dependence on suppliers and also loss of knowledge and know-how.

Table 2. Arguments against outsourcing.

Arguments	Rationale
1. Increased dependence on providers. Contracting information services means dependence on provider which might be very risky.	* Banks performing their own information service can independently decide to invest in technology innovations specific to their situation. * Price changes during a particular period, may significantly affect banks total cost of ownership
2. Loss of knowledge and know-how. IT Outsourcing might transfer bank IT staff to the company providing services.	* Staff sent by service providers usually has a narrower technical expertise and much less knowledge of the bank.
3. Confidentiality risk. Essential bank information which most often is confidential might be disclosed to provider. 4. Difficulty in selecting the right service provider. This requires thorough selection	* Outsourcing while it improves the service providers competitive position, it may decrease the banks competitive power. * Future information needs are unforeseeable for service recipients. * Future mergers and acquisitions are unforeseeable.

5. Higher cost.	* Future changes in the service provider strategy are unforeseeable for service recipients. * Unlike internal departments, external service providers do have profit objectives. * Outsourcing of late does not appear to be the best way to cut cost. It is actually costing banks more in terms of revenue loss due to poor quality services.

CONCLUSIONS

The contemporary relationship of firms to their business surroundings are conditioned by the changes in technology and the economic environment. Banks face these alterations to their surroundings by making qualitative change in the way that they perform their activities and structure their organization. In this respect, the key concept is that of flexibility, defined as the premise of rapid adaptation to any kind of change in demand so as to maintain and expand the competitive position of the firm. The trend towards virtual corporations based on the relationship of co-operation among several firms starts with the identification and exploitation of the concept of core competences, in such a way that new advantages are obtained from specialization and that the customer receives added value superior to the levels previously offered. Strategic outsourcing is at the center of the process of organizational change tending towards the customer satisfaction.

Outsourcing has a series of advantages and disadvantages, which can be dividing for analytical purposes into those of a strategic and of an operational nature. The main strategic advantages are the creation of competitive advantages, the reduction of risks, an improved long-term cost structure and an increase level of customer satisfaction. In summary then, from a strategic standpoint, outsourcing allows the firm to concentrate its efforts on consolidating and expanding its core competences. On the other hand, among the operational advantages, we find an increase in efficiency as a result of activities being carried out by specialized firms and reductions in permanent staff, which then become variable costs related to the level of activity.

As for the disadvantages of a strategic nature, the most important are the lose of control of activity done through outsourcing, the transfer of sensitive information, the possibility of exorbitant price increases by the supplier at a future date, along with fluctuations in quality. The operational problems we have observed are difficulties related the making of the contract and arising from the effects on human resources. The main points of interest in the external area are related to the nature of the supplier-they are mainly large consulting firms who offer outsourcing as one of their many services- consequences of the established relationships (with the contradiction between an extremely detailed relationship which could lead to rigidities similar to those which existed before outsourcing and a looser one which could undermine the trust between the two parties), and the limitations inherent in the contract (which to a certain extent can be overcome by the desire of the supplier to maintain a level of trust in order to preserve his reputation in the marketplace).

With respect to problems of an internal nature, organizations have turned to outsourcing as a short-term solution to avoiding the rigidities caused by labour laws. These firms may limit themselves by viewing outsourcing merely as a simple way of freeing themselves of permanent staff. From this perspective, outsourcing could represent a phenomenon of opportunity, while labour legislation is being in accordance with the needs of firms for more flexible organizations and more professional and more motivated workers. The aspects related to the management of human resources are of crucial importance to the success of the organization. Therefore, detailed planning is imperative to the process of outsourcing, maintaining strict secrecy up until the moment that it is decided to put it into effect. This has a multiple objective: to guarantee the outsourcing of an activity has a smooth transition -identifying practical difficulties and proposing solutions- to set up and consolidate coordinating mechanisms between the customer and the supplier, to settle the problem of sharing information between organizations, and to maintain those aspects of the labor climate associated with employee morale.

In summary, outsourcing facilitates the transition to the new flexible organizational models leading to the virtual corporation using a process which is not free of some uncertainties which affect its conceptualization and empirical analysis and satisfies the customer needs & wants.

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