

# EXPLORING THE RELATIONSHIP BETWEEN STRATEGIC OUTSOURCING AND ORGANIZATIONAL PERFORMANCE: A STUDY OF NIGERIAN INSURANCE COMPANIES

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## Abstract

*This study examines the relationship between strategic outsourcing and the performance of insurance companies in Nigeria with specific reference to the selected insurance companies. Purposive sampling technique was used to select top 10 best ranking insurance companies in Nigeria and five (5) staff members were select from each 10 insurance company, totaling 50 respondents as a sample size for the study. A structured closed ended questionnaire designed for the study was used to collect the data from the respondents. Data analysis was performed with the aid of frequencies, percentages and correlation analysis. Result reveals that strategic outsourcing has significant relationship with the performance of insurance companies in Nigeria. The finding also establishes that core functions are largely arranged internally while security services, advertising and marketing, recruitment services and catering services functions are fully outsourced by most companies in Nigeria. Finding also reveals that company's attachment to its brand and processes; inability to develop clear objectives; inadequate supporting infrastructure; absence of performance measures and lack of top management support are the major challenges confronting the implementation of strategic outsourcing in most of insurance companies in Nigeria. Subsequently, the study recommends that management should give maximum support for the implementation of the strategic outsourcing and enlightenment programme on the benefits of strategic outsourcing should be organized for all stakeholders to reduce chances of resistance.*

**Keywords:** Strategic Outsourcing, Insurance, Claims Processing, Commissions Management, Policy Issuance

## Introduction

The insurance sector plays important roles in the development of any nation by transferring risks from businesses and individuals. In many countries, especially **advanced** economies, insurance industry is actively playing an increasing role in the stability and efficient diversification of risks and thus contributing immensely to economic development. However, in the case of Nigeria, the insurance sector is playing a passive role in the economic development of the country lagging behind major policy reforms given the huge economic potential that remains largely untapped in the industry. The sector has been bedeviled for lack of skilled professionals, lack of infrastructure, poor risk management, poor market concentration, lack of innovation and poor patronage [1]. Consequently, the sector is notoriously defaulting in payment of claims which has adversely affected the publicity for the industry and the confidence in the industry by the prospective assured has been eroded. This action has stereotyped the industry as legal “419”. This accounts for the low patronage of insurance companies in Nigeria.

Globally, outsourcing is in the forefront of business executives’ minds in recent times as they look to utilize it as a business strategy that will enable their organisations create and sustain business value in the ever increasing global marketplace [2]. In this global competitive environment, Nigerian insurance companies must focus on lean management strategies in order to focus on the core issues of their businesses for the sake of staying ahead of the competitors through the process of outsourcing. This involves reviewing the various activities of the business to determine what is core and what is none core in order to arrive at make or buy decisions. In this way the organization is able to decide on what to handle in-house, what to accomplish through strategic partnerships and what to outsource to third party professionals or experts [3]. [4] **acknowledge that** the world has embraced the phenomenon of outsourcing and companies have adopted this principle to help them expand into other markets. According to [5],

outsourcing focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns. A study by [6] also posit that outsourcing is a strategic business decision that is likely to boost a company's performance. Outsourcing is the replacing of in-house provided activities by subcontracting it out to external agents. [7] observe that outsourcing avails organizations the opportunity to concentrate her core competencies on definable preeminence business area and provides a unique value for customers.

In spite of the increasing trend in outsourcing arrangements, there are inadequate studies on how outsourcing activities affect organization performance in insurance industry in Nigeria. In order to bridge that gap, this research seeks to study the effect of strategic outsourcing on organization performance in insurance companies in Nigeria.

## **Research Questions**

- i. What is the extent of strategic outsourcing by insurance companies?
- ii. Is there any relationship between strategic outsourcing and performance of insurance companies?
- iii. What are the challenges of strategic outsourcing faced by insurance companies?

## **Research Objectives**

The main objectives of this study are to;

- i. Determine the extent of strategic outsourcing by insurance companies.
- ii. Examine the relationship between strategic outsourcing and the performance of insurance companies.
- iii. Identify the challenges of outsourcing strategy faced by insurance companies in.

## **Research Hypothesis**

Ho: There is no significant relationship between strategic outsourcing and organizational performance of insurance companies.

Hi: There is significant relationship between strategic outsourcing and organizational performance of insurance companies.

## **Justification of the study**

This study is justified on the premise that strategic contracting has become a trending phenomenon in financial institutions in Nigeria. It is currently used by various financial institutions to deliver a wide array of products and services to reduce the costs and boost organizational performance. There are plethora of studies on the effect of outsourcing on organizational performance in both developed and developing countries, but in Nigeria, to the best of the researchers' knowledge, no research has been carried out especially in insurance. This study will serve as eye opener to insurance companies on how strategic outsourcing could be applied in the area of insurance policy management, claims processing, commissions management, insurance agency management and policy issuance. Also, the findings would be useful to business and industry leaders, government agencies, religion organizations, and non-governmental organisation (NGO's) when considering the option of outsourcing.

## **Literature Review**

### **Concept of Strategic Outsourcing**

The concept of outsourcing could be traced to the time of the Industrial Revolution that took place between 1750 and 1900 across Europe. The period witnessed a mass production of goods,

a widening market and spiraling profits like never seen before. Unable to handle all the functions that were demanding serious attention all at once, many companies wisely began contracting with third parties to take care of essential but tedious works like accounting, legal work, insurance to firms specializing in them [8]. In 1990s, the concept became popular and more and more businesses began to be aware of how much they could benefit from outsourcing, the next stage was outsourcing support services [9]. According to [10], outsourcing is a fast-growing phenomenon. Author notes that in 2000, the global outsourcing market was estimated to be worth about \$232 billion, this already amounted up to \$443 billion in 2008. This implies that most organizations in both developed and developing countries take part in the outsourcing trend.

According to [11], outsourcing is a process of transferring the responsibility for a specific business function from an employee group to a non-employee group. [12] defines outsourcing as the transfer of service provision from the public to an external organization. Moving these functions from the public to the private sector requires a fair and open process in the public's best interest [13]. According to [2], outsourcing can be undertaken to varying degrees, ranging from total outsourcing to selective outsourcing. Total outsourcing may involve dismantling entire departments or divisions and transferring the employees, facilities, equipment, and complete responsibility for a product or function to an outside vendor. In contrast, selective outsourcing may target a single, time consuming task within a department, such as preparing the payroll or manufacturing a minor component that can be handled more efficiently by an outside specialist.

### **Benefits and Risks of Strategic Outsourcing**

Prior studies reveal that outsourcing offers numerous advantages and the potential benefits include cost savings, efficiency gains, improved flexibility, access to world-class expertise and

focus on core competencies. However, outsourcing also poses numerous risks that must be managed in order for outsourcing to be successful. For example, [13] states that strategic outsourcing leads to cost reconstruction, improvement in quality, commodification and risk management. In another study, [2] confirms that strategic outsourcing assists to free the entrepreneur from tedious and time-consuming tasks, improves a company's cash flow and to gain access to new technology and outside expertise. In a similar study, [14] argues that strategic outsourcing reduces and controls operating costs, improves company focus, gains access to world-class capabilities, free internal resources for other purposes and makes capital funds available and also improves the company's competitive position and avoid labor issues

However, the studies of [15], [16] and [14] note that the major risks of strategic outsourcing are hidden costs; losing touch with new technological opportunities for product and process innovations; privacy risks; unqualified supplier; communication and coordination problems; and cognitive distance between suppliers and firm therefore makes it more difficult to align decisions and exchange knowledge.

## **Theoretical Review**

This study anchors on Core competency theory because the theory is relevant to this study. The core competency theory explains how to coordinate diverse production skills and integrate multiple streams of technologies for organizations in order to have competitive advantage in global competitive environment. This theory suggests that firm activities should either be performed in house or by external service providers. It is based on make or buy decision. Non-core activities should be considered for outsourcing to the best suited service providers who are experts in that field.

However some few non-core activities which have a big impact on competitive advantage should be retained in house [17]. According to [18], core competency can take various forms, including technical/subject matter know-how, a reliable process and/or close relationships with customers and suppliers. It may also include product development or culture, such as employee dedication, best human resource management (HRM), good market coverage etc. Core competencies are particular strengths relative to other organizations in the industry which provide the fundamental basis for the provision of added value. Core competencies refer to the collective knowledge of the production system concerned in particular knowledge of procedures and how to best integrate and optimize them [19].

## **Empirical Review**

There are plethora of studies on the effect of strategic outsourcing on organizational performance but their findings are inconclusive and conflicting. For instance, [20] examines the effect of outsourcing strategy on organizational performance with specific reference to fast moving consumer goods (FMCG) manufacturing industry in Kenya. The study was conducted in the period between September 2015 and April 2016. Result reveals that outsourcing has significant effect on organizational performance. In similar study, [21] study the effects of outsourcing on organization performance in manufacturing sector in Kenyan firms. The study establishes that positive relationship exist between outsourcing and organization performance.

In another study, [22] examine the effect of enterprise outsourcing strategies on marketing performance of fast food industry in Lagos State, Nigeria. Results reveal that outsourcing strategies have significant effect on marketing performance. Also, [23] carries out to study personnel outsourcing and corporate performance. In carrying out this study, the researcher used AGIP Oil Company in Port Harcourt, Nigeria as a case study. The study establishes that

there is a significant effect of personnel outsourcing on corporate performance. In same vein, [24]examine the effect of Information Technology Outsourcing (ITO) practices on the performance of banking sector in Kenyan. The study further revealed that ITO has a positive and significant effect on financial performance, learning and growth, customer satisfaction and internal processes.

[25] find out that outsourcing works better for international markets where labor and cost of doing business is lower. [26] also asserts that outsourcing of some value chain activities can generate operational efficiency by reducing capital investment and commitment as well as ensuring maximum utilization of the existing resources in a way that generates maximum value from the least possible inputs

However, findings of[27] and [28]are contrary to the previous studies. Their studies did not support the claim that strategic outsourcing has significant effect on organization performance.

## **Methodology**

**Research Design:** This study makes use of survey research in order to assess thoughts, opinions, and feelings of participants through structured closed ended questionnaire. Survey research was employed because is an efficient way of gathering data to help address a research question and one can collect unbiased survey data and develop sensible decisions based on analyzed results [29].

**Sampling technique and Sample Size:** Purposive sampling technique was used to select top 10 best ranking insurance companies in Nigeria (ACEN, ADIC, AAIC,AIICO, A&G, Consolidated Hallmark insurance, Continental Reinsurance, Cornerstone insurance, Crusader insurance and



Custodian insurance), and five (5) staff members were select from each selected insurance company, totaling 50 respondents as a sample size for the study.

**Data Collection Instruments:** A structured closed ended questionnaire designed for the study was used to collect the data from the respondents.

**Reliability and Validity of the Instrument:** The reliability and validity of the questionnaire have been tested by presenting the questionnaire to some arbitrators specialized in the management field. Their constructive suggestions have been used to amend the questionnaire and introduce it in its present form.

**Method of Data Analysis:** The research data was statistically analyzed by means of the Statistical Product and Service Solutions – SPSS, an IBM software. Data analysis was performed with the aid of descriptive statistics using frequencies, percentages and Pearson Product Moment Correlation Coefficient (PPMCC).

## **Data Analysis, Results and Discussion**

### **Extent of Outsourcing**

The study seeks to establish the extent to which various functions are outsourced by insurance companies in Nigeria. The respondents were required to rate the functions whether they are fully, partially or not outsourced at all. The findings are presented in Table 1 below.

**Table 1: Extent of Outsourcing**

Statement	Fully	Partially	Not outsourced
Insurance Policy Management	1(2%)	11(22%)	38(76%)
Claims Processing	2(4%)	12(24%)	36(72%)
Commissions Management	1(2%)	18(36%)	32 (64%)
Insurance Agency Management	3(6%)	17(34%)	30(60%)
Policy Issuance	5(10%)	10(20%)	35(70%)
Loss Runs Processing	4(8%)	12(24%)	34(68%)
Catering services	35(70%)	10(20%)	5(10%)
Security services	40(80%)	8(16%)	2(4%)

Advertising and Marketing	38(76%)	11(22%)	1(2%)
Cash management services	2(4%)	10(20%)	38(76%)
Recruitment services	39(78%)	10(20%)	1(2%)
Training of employees	4(8%)	28(56%)	16(32%)
Information technology applications	1(2%)	21(42%)	28(56%)

Table 1 depicts that respondents have agreed about the four functions which are fully outsourced by insurance companies in Nigeria. The first is security services (80% of the respondents agree), the second is advertising and marketing (76% of the respondents agree), the third is recruitment services (78% of the respondent confirm), the fourth is the catering services (70% of the respondents agree). The findings from the study further reveal that there are seven functions that are internally managed by most of insurance companies. These are: insurance policy management (76% of the respondents confirm), claims processing (72% of the respondents agree), and commission's management (64% respondents confirm). Other functions are that are largely internally managed by most insurance companies in Nigeria are insurance agency management, policy issuance, loss runs processing and cash management. This confirms that core functions of the insurers are internally managed. In line with this finding, [2] asserts that every insurance company needs an insurance outsourcing firm to perform their back-office operations, but due to lack of trust level, they do resist from revealing their confidential tasks to the outsourcing firms.

### Challenges of Outsourcing

Table 2: Perceived Challenges of Strategic Outsourcing in Insurance Companies in Nigeria

Statement	Observation	Mean	Remark
Inability to evaluate functions to outsource	50	3.5	Accepted
Company's attachment to its brand and processes	50	4.5	Accepted
Failure to recognize outsourcing as a strategy	50	3.7	Accepted
Resource deficiency	50	3.2	Accepted
Absence of performance Measures	50	4.0	Accepted
Inadequate supporting Infrastructure	50	4.1	Accepted
Lack of top management support	50	3.9	Accepted
Resistance to change	50	3.8	Accepted
Inability to develop clear Objectives	50	4.2	Accepted
<b>Grand Mean</b>		<b>3.8</b>	

The mean was used to analyse data and the criterion mean of 3 was used for interpretation of mean. Criterion mean of 3 was generated by adding the total assigned values of the responses and dividing by the total number of responses ( $5+4 + 3 + 2 + 1 = 15/5 = 3$ ). Thus any mean score up to 3 and above was interpreted as acceptable by respondents while 2.99 and below is adjudged rejected by the respondents.

From Table 1, the grand mean of 3.8 (larger than the criterion mean of 3.0) shows that respondents agreed that the above listed items are the challenges that confront strategic outsourcing in most of insurance companies in Nigeria. In addition, a grand mean of 3.8 indicates the level of acceptance of the items as challenges to strategic outsourcing in Nigerian insurance companies. Furthermore, results show that company's attachment to its brand and processes; inability to develop clear objectives; inadequate supporting infrastructure; absence of performance measures and lack of top management support are the major challenges confronting the implementation of strategic outsourcing in most of insurance companies in Nigeria. Results are consistent with those reported by McIvor [30] stating that the major challenges facing strategic outsourcing lack of supporting infrastructures, lack of commitment by top management, and unclear development of objective performance criteria.

### Testing of Hypothesis

Ho: There is no significant relationship between strategic outsourcing and organizational performance of insurance companies in Nigeria

Hi: There is significant relationship between strategic outsourcing and organizational performance of insurance companies in Nigeria.

**Confident level:** 5%

**Decision rule:** Reject  $H_0$  if the significance value is less than the confident level. Otherwise, accept the alternative hypothesis  $H_i$ .

**Table 3: Chi-Square Test Results**

Statistical Test	Value	Degrees of freedom	Significance value
Pearson Chi-Square	245.030	4	0.000***

\*\*\*:1%, \*\*:10%, \*:5%

The result shown in Table 3 indicates that the result is statistically significant as the probability for  $\chi^2$  (245.03) = 0.000 < 0.05. Therefore,  $H_0$  would be rejected and we conclude that there is significant relationship between strategic outsourcing and organizational performance of insurance companies in Nigeria. The finding of this study corroborates with previous studies [18,20, 21, 23, 25] that strategic outsourcing has significant influence on organizational performance. This implies that strategic outsourcing is a strong predictor of organizational performance.

### **Conclusion and Recommendations**

Based on the findings, the study establishes that there are a number of functions that are largely arranged internally by insurance companies in Nigeria such as; insurance policy management , Claims processing, Commission's management, insurance agency management, policy issuance, loss runs processing and cash management. Study further reveals that security services, advertising and marketing, recruitment services and catering services functions are fully outsourced by most insurance companies in Nigeria. Study also confirms that company's attachment to its brand and processes; inability to develop clear objectives; inadequate supporting infrastructure; absence of performance measures and lack of top management support are the major challenges confronting the implementation of strategic outsourcing in most of insurance companies in Nigeria. The study therefore concludes that strategic outsourcing has significant relationship with organizational performance.

Subsequently, the study recommends that management should give maximum support for the implementation of the strategic outsourcing and an awareness/enlightenment programme on the

benefits of strategic outsourcing should be organized for all stakeholders to reduce chances of resistance.

#### COMPETING INTERESTS DISCLAIMER:

Authors have declared that no competing interests exist. The company names used for this research are commonly and predominantly selected in our area of research and country. There is absolutely no conflict of interest between the authors and companies because we do not intend to use these companies as an avenue for any litigation but for the advancement of knowledge. Also, the research was not funded by the company rather it was funded by personal efforts of the authors.

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