

## Chapter 4.21

# Business Process Onshore Outsourcing within the Community Banking System: An Investigative Study

**B. Dawn Medlin**

*John A. Walker College of Business, Appalachian State University, USA*

**Adriana Romaniello**

*Universidad Rey Juan Carlos, Spain*

### **ABSTRACT**

Business processes refer to the activities that are performed within an organization that are used in order to produce value for the organization and its customers. Through the use of onshore outsourcing, banks as do other industries expect several benefits such as cost savings and reduction in overhead. Using knowledge management concepts, banks can better understand their firm's performance as well as their own needs. This knowledge may also lead to the increase of employees' skill sets. This study surveyed members of the North Carolina Bankers Association in order to determine what if any of their business processes they selected to outsource.

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### **INTRODUCTION**

Outsourcing is often defined as an organization that hires another company to provide services that had been previously handled by internal employees. Onshore outsourcing is conducting business within the same country, while offshore outsourcing is the transfer of labor from workers in one country to workers of another country.

Two of the most common types of sourcing used by banks today are insourcing or outsourcing (Chakrabarty, 2007). The use of business process insourcing requires that a bank would execute their own business processes, while business process outsourcing would require a bank to establish a contractual relationship with a third party vendor

and delegate the responsibility of executing the business processes to that vendor (Evans, Martin, Poatsy, 2009).

Business processes are activities that can provide identifiable output and value to the organization (Coyle, 2009). For banking institutions, business processes may be used in order to enhance their noncore backroom functions such as human resources, IT services, billing, as well as other internal operations. Consequently, as banking institutions must focus more on their core processes such as customer satisfaction, some or all of their noncore functions are ideal candidates for opportunities.

When a bank decides to outsource its business processes, two basic strategies are (1) the “option to reverse” strategy where business processes are outsourced to a vendor, but it also takes into account the possibility of bringing the outsourced business processes back in-house whenever needed, and (2) the “divest completely” strategy where business processes that are perceived to be best managed by a vendor are outsourced permanently (Wibbelsman & Maiero, 1994, as cited in Dibbern et al., 2004, p. 11).

Outsourcing decisions can be both rational and political in nature. Although most of the literature gives the illusion that the process is essentially rational including legitimate goals such as cost efficiency and effectiveness (senior management evaluating the alternatives, apply a low cost criterion, and then select the most efficient option; Allison, 1971) we need to consider the political aspects of this subject which are present not only during the outsourcing decision but during the entire life of the relationship. In this situation, reference must be made to the conflicts and compromises involved during the development of this relationship.

Although recent studies have examined the relationship between outsourcing and firm performance, this research stream continues to be hampered by the lack of a widely accepted conceptualization of managerial outsourcing com-

petence (MOC). The resulting body of research still continues to be contradictory.

During the outsourcing process, organizations may use this time and opportunity to improve their knowledge concerning themselves and in addition augment their employees’ skills and competences. Therefore, it is necessary that management begin by resolving any organizational conflicts while at the same time concentrating of the adoption of an organizational structure that can respond with flexibility. Another activity relates to ex-post outsource decision-making which involves the managing of relationships with third party vendors and necessitates the monitoring of contracts and the building of high-quality relationships. Concurrently, the organization should continue to develop a deeper understanding of its business strategy which would allow for the possibility of maintaining a competitive advantage in the marketplace. Therefore, it is our recommendation that the organization develop new competencies as a result of the outsourcing decision-making process and that these competencies will spill over throughout the knowledge management process (KMP).

The basic contention of this paper is the fact that outsourcing decisions alone, may not necessarily improve firm productivity or profitability. It is plausible that additional competencies are more important in order to achieve this aim. By developing managerial outsourcing competence and using it to leverage knowledge management processes, firms are in a better position to enhance their performance.

## **THEORETICAL DEVELOPMENT**

Emerging empirical evidence has shown that outsourcing does not necessarily create a competitive advantage and that there is no significant direct connection between outsourcing and performance (Barthélemy & Quélin, 2006; Gilley & Rasheed, 2000). In fact, a current review of the literature

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