

**Outsourcing as a strategy to develop banking services: case of the
External Bank of Algeria**

BOUDIA Mounya^{1*}

¹ Université de Mohamed Boudiaf M'sila (Algérie) ,
boudia_mounya@hotmail.fr

Received:25/04/2025

Accepted:02/08/2025

Published:01/09/2025

Abstract:

The development of banking activities and the evolution of customers need have led banks to outsource part of their activities. Thus it becomes a necessity, especially in specialized areas.

The purpose of our research is to identify the impact of outsourcing on the functioning of Algerian banks, its motivations and its limits. The results of our study, based on an empirical study, where we conducted interviews with employees of the External Bank of Algeria, show that despite the disadvantages generated by outsourcing, the latter improves the quality of banking services.

Keywords: subcontracting, Algerian bank, banking services.

JEL Classification: M55 ; G21.

Introduction

The changing economic, financial, and social environment, as well as global competition in the technological field, has forced banks to focus more on the operation of their businesses.

Whether geared toward the use of their own resources or through the rationalization of their capital, using external services to entrust the management of their activities has become a new strategy for banks. They are placing increasing importance on outsourcing, which has become an essential outsourcing contract for their tasks to be able to carry out their main activities and objectives, in order to align with the requirements of financial performance that continue to grow worldwide, especially in the banking sector. Thus, to carry out their activities, banks entrust certain operations to other parties who ensure their operations.

A strategy that aims to improve activities and develop the economic world, outsourcing has become a signal to invite banks to innovate in the banking and financial field and offer a competitive range of products in the face of a devoted global financial market of constantly evolving banking products and services, thus attracting the attention of several researchers on the subject.

Although outsourcing is not a new approach in banking, it has become widely used worldwide, including in Algeria, in recent years. With a view to progress and innovation, outsourcing helps banks carry out their activities and improve their performance while meeting certain constraints. In this context, we attempted to answer our question, which can be formulated as follows:

"What is the impact of outsourcing on banking activities in Algeria?"

To answer our question, we formulated the following hypothesis:

Outsourcing Improves the Operation of Banking Activities

Our study aims to deduce the advantages and disadvantages of implementing outsourcing in Algerian banking. Given that it is a strategy that has gained momentum in the banking sector, we will attempt to position the role of this strategy and highlight its motivations and advantages.

To achieve the objectives of our study, we used a descriptive and analytical approach to describe the concept of outsourcing and to identify some research conducted on the subject in Algeria and abroad. We attempted to

enrich our research and highlight the benefits of outsourcing contracts in Algerian banks and the main risks that can reduce the implementation of outsourcing, through a qualitative study by using interviews within the employees of the External Bank of Algeria (M'sila branch).

1- Outsourcing: definition and importance

Outsourcing means entering into an independent alliance with one or more entities or companies to perform carefully selected operations and routine functional processes that were previously performed internally (BENLOULOU & TOUIL, 2011).

Outsourcing is therefore a relationship between two or more companies, the purpose of which is to perform tasks or functions that the company previously performed using its own personnel and resources.

According to the French Association for Standardization (AFNOR), outsourcing is defined as the operation by which a contractor entrusts, through a subcontractor and under its responsibility, to another person called a subcontractor, all or part of the execution of the contract or public procurement contract concluded with the project owner (INSEE, 2019).

It is also a contract that transfers responsibility for carrying out part of its operations from the outsourcing company, also known as the "project owner," to another company, known as the "subcontracted." This responsibility allows the latter to assume the work assigned to it in the contract concluded between the two parties and to act accordingly to meet the subcontractor's requirements.

Outsourcing most commonly refers to the outsourcing of a business process to a third party, with or without participation in a separate organizational unit (KAŹMIERCZYK & MACHOLAK, 2014). This definition refers to a strategy employed by companies to carry out some of their activities using resources and personnel external to their own resources.

If the contracting company lacks the specific skills required to meet its growth or changes in work organization, it then calls upon an external entity capable of producing "custom-made" services for it . (TINEL, PERRAUDIN, THÉVENOT, & VALENTIN, 2007)

In the absence of experience or professional qualifications among its employees, the company is often forced to ask another party to take on

activities to meet market and competitive demands in specialized fields. Indeed, a company lacking the knowledge or expertise in a specialized field will call upon experienced and qualified service providers or technicians to help it carry out operations for which it lacks the capacity or expertise.

Outsourcing is defined as the provision to a credit institution by another entity of services and facilities that are part of the business processes necessary for the provision of banking or other financial services (ECB, 2004).

Outsourcing increasingly covers a variety of areas, whether it is a transfer of responsibility for the production of goods or the provision of services, all of which are subject to the payment of fees and financial charges related to the outsourcing contract.

Outsourcing is the transfer of direct management responsibility, but not accountability, to an unaffiliated third-party service provider that performs services previously provided by internal staff and management (Federal Reserve Bank, 1999). However, it should be noted that the responsibility assigned to the executing company only relates to the actions performed by the latter and is under no obligation to report or describe what was established by the company itself.

Outsourcing is an obligation of means, meaning that a company decides to subcontract part of its activities due to a lack of capacity or know-how (BOUKRIF & AMGHAR, 2020)

Outsourcing is therefore perceived as a consent between two parties, the first of which is the client and the second of which is the party executing the request expressed by the first. This contract between these two parties, one of which feels the need to carry out one or more operations, services, production, or installation, and which, due to a lack of time, capacity, resources, tools, equipment, technology, human capital, or skills, entrusts its execution(s) to a subcontractor, who is able to meet the needs and conditions expressed by the client.

2- Strengths and weaknesses of outsourcing:

Several studies have addressed the positive and negative effects that outsourcing can have on business operations.

In Qian, Aisaata, and Miao's study, UBA Bank (Guinea) employees interviewed indicated that one of the main reasons the bank adopted

outsourcing was the bank's desire to ensure a reduction in operating costs (QIAN, AISAATA, & MIAO, 2019). When a company considers outsourcing a service, production, or other secondary activity, it benefits from a reduction in the costs associated with its execution. Indeed, certain tasks, especially in specialized areas, are subject to resources or qualifications that the company does not have in-house, which can result in higher costs compared to outsourcing them.

For Wamba and Sebigunda, the quality of accounting documents improves with the use of outsourcing accounting services to professional service providers and is presumed satisfactory when the company has a qualified accountant (WAMBA & SEBIGUNDA, 2014). It is also important to delegate specialized tasks such as accounting to competent and experienced individuals in the field who practice and have expertise to ensure better quality reports and accounting statements, as they are of major importance since they reflect the company's image and financial situation to stakeholders.

Highly specialized subcontractors are more efficient in their production processes, which they perform at a lower cost than contractors. Furthermore, the search for high-quality, highly reliable products in an increasingly sophisticated environment is driving companies to outsource (BENLOULOU & TOUIL, 2011).

The search for qualified skills and services that meet the needs of its customers, or the use of complex techniques or highly developed equipment, leads companies to outsource their activities to fill the skill gaps among their employees and adapt to the requirements and needs expressed by their customers and the constantly evolving environment. The goal is to address this lack of specialists that the company does not have among its staff. Consequently, the company seeks high-level knowledge, know-how, and experience and enters into contracts with them to address this lack of experience and skills.

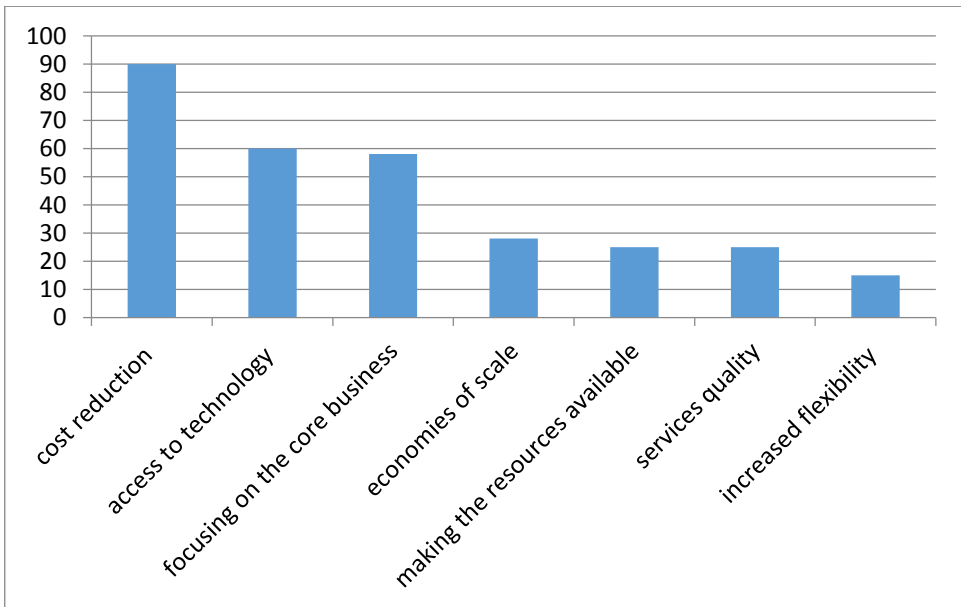
Some researchers have emphasized the fundamental importance of striving to improve service quality. However, interviews with banking recruiters show that the main driver of outsourcing in Poland continues to be cost reduction. Only senior managers and directors of cooperative banks emphasized that the most important factor was improving service quality (KAŹMIERCZYK & MACHOLAK, 2014).

While some see the main factor as reducing the costs generated by banking operations, others focus more on performance and work efficiency. Since any company or bank strives to achieve its goals of maximizing profits and reducing costs and expenses, and strives to achieve maximum profit with the lowest cost, it will always strive to expand its services while reducing expenses.

According to BOURAHLA, technology is one of the reasons why companies need to outsource. The use of ICT, the reduction of response times to customer expectations, and the enhancement of professions by both the company and the staff it employs (BOURAHLA, 2015). This emphasizes the importance of new technologies, which reach all fields and thus reach all horizons, but which are not available in all companies, whether in terms of staff qualifications or IT resources, which pushes companies to use external services to integrate technology into their activities and benefit from the advantages provided by its use.

The results of the research presented above are confirmed by the research conducted by the ECB presented in the figure below.

Figure number (01): Reasons for outsourcing



Source: ECB (2004), Report on EU Banking Structure, nov.

According to ECB (European Central Bank) research, the main motivation for outsourcing is cost reduction, which is one of the company's objectives

for improving profitability. Information technology and refocusing on the core business come in second and third place, in order.

In fact, the motivation for an organization to outsource an activity or a business is mostly to minimize its expenses and charges relating to the execution of this activity, especially when the company doesn't get a suitable means and qualification inside its dispositive, or if a new process needs a special skill to carry out, for example, which require more spending to hire new employees or organize special training to develop their in-house skills.

Then, we can say that the use of new technologies presents challenges for most companies, and they therefore turn to highly qualified ICT services to overcome these challenges and continue operating their businesses.

Since we see that the core business represents the main activities that cannot be outsourced, by outsourcing secondary activities, the company will focus on these activities and achieve growth in its field.

Others reasons could, by the way, incite the company to outsource, as well as, to enjoy economies of scales, make resources available (whether financial and human resources, or materials), enhance the quality of its services or even increase flexibility, to avoid the work overload in the workplace atmosphere.

While the study conducted at Danone in Algeria showed that, through its outsourcing and outsourcing approach, it cultivates a different policy that, as its executives repeatedly emphasize, falls under corporate social responsibility (BOUKRIF & AMGHAR, 2020),

Far from the motivations of cost reduction or quality improvement, we observe that other managers are considering new motivations and strategies for outsourcing. Another reason motivates companies to outsource their activities, instead of carrying them out themselves, is for social reasons; in other words, it is a matter of investing in the appreciation of their image through the assistance they provide to other companies with financing and in mobilizing financial resources adapted to their needs.

Although outsourcing is beneficial for the national and international economy, it can present some risks that could have a negative impact on the functioning of companies and the smooth running of their activities.

Concentration risk arises from the fact that the number of external service providers is sometimes limited and the market is relatively concentrated. This situation is common in the banking sector, particularly in the transport of funds or check processing (BOURDEAUX, 2008). The limited number, or even the unavailability, of certain services in the same country leads to a new form of dependency and monopoly, which can lead to increased costs or even inefficiency of outsourced services in the event that the outsourcer fails and the choice of providers is minimal.

In addition to the risk of dependency on service providers who, in certain specialized areas, are minimal or rare, other challenges add to banks' fears of the outsourcing initiative, such as data inaccessibility or the deterioration of company information and data or its relationships.

This was demonstrated by the ECB study. Nearly 75% of the banks surveyed saw a potential risk related to the loss of control over outsourced activities or services or an undesirable dependence on the provider (ECB, 2004). This risk calls into question banks' willingness to outsource part or all of an activity and to consider early solutions to protect themselves against these risks and address the challenge of insufficient data security. This security is considered more likely to be breached with the outsourcing of its activities, which risks reducing the efficiency of the work carried out by the service provider.

Another risk factor is the unique concerns that arise from giving third parties access to confidential data. The potential for confidentiality breaches by the service provider's employees contributes to operational, legal, and reputational risks (Federal Reserve Bank, 1999). Data confidentiality is a strategic issue for businesses; it is the key to building trust between the company, its employees, and its various relationships to be able to exchange information and work flexibly, a trust that any interaction requires to build professional relationships worthy of reliability and morality. It is in this context that companies fear the disclosure of confidential information by opting for outsourcing.

3- Research Methodology and Presentation of the External Bank Of Algeria (M'sila Branch):

3-1- Research Methodology:

To address our research question and identify the importance of outsourcing in the banking sector, we conducted an empirical study at an Algerian bank.

The study uses a qualitative method based on semi-structured interviews with employees of the External Bank of Algeria (BEA) - M'sila branch 047- during 2023. Five semi-structured interviews were conducted at the bank branch over a one-month period within foreign service and customer service.

Based on the responses collected by the interviewees, we were able to analyze their content to draw conclusions on the benefits of outsourcing.

3-2- Presentation of the Msila Branch (BEA):

The External Bank of Algeria is an Algerian bank in which the Algerian state is a 100% shareholder. It is subject to commercial law. Its main activity is banking production and financing various sectors of activity.

The BEA M'sila 047 branch was established in March 1989. It is a branch that reports to the Sétif regional directorate. It aims to perform several tasks, namely:

- Attract as many customers as possible by improving the quality of services offered.
- Meet customer needs as quickly as possible.
- Improve the performance of banking products and services.
- Grant a variety of bank loans and manage payment methods.
- Facilitate the procedures and formalities for opening accounts and obtaining bank loans.

4- Results and Discussion

To conduct our research, we interviewed employees at a bank branch (the BEA M'sila branch). The selection of these employees is explained by the higher hierarchical levels within this branch.

Although the majority of respondents lacked sufficient knowledge of the areas in which the bank uses outsourcing, they nonetheless acknowledged that it is essential for carrying out banking activities. "Outsourcing is a practice that helps banks focus on their core operations by outsourcing their secondary activities to other companies," stated one of the research officers.

The interview conducted at the BEA M'sila branch focused primarily on three dimensions:

- The reasons that push the bank to outsource its activities
- The functions outsourced by the bank
- The disadvantages and risks of outsourcing

4-1- The reasons that push the bank to outsource its activities

The main reason for outsourcing is technological and information technology (IT) development. Indeed, a specialized IT company is better equipped to manage the bank's IT operations, as the recruited staff lacks the necessary expertise to perform certain complex IT operations.

We attempted to summarize the responses of the bank's employees we interviewed regarding the advantages of outsourcing some of its activities. The results of our study show that outsourcing at the External Bank of Algeria is primarily motivated by cost reduction.

"Using a company that handles cash transport, for example, represents less expense for the bank than doing it yourself," says one of the department heads. All the more so since the lack of means and equipment to carry out specific operations, the acquisition of which generates high costs and expenses for the bank, requires the use of subcontractors who ensure the functioning of these operations and whose prices to be given away are less than the price of the installation of these materials, according to one of the customer service representatives: "the bank does not have the means to manufacture magnetic cards, so we place orders with specialized companies to meet the needs of our customers."

Managing transaction execution times also appears to be one of the reasons banks use third-party services. Indeed, certain tasks or processes can be time-consuming, or require extensive training for bank employees, whereas simply hiring a specialized company can complete the tasks in a short period of time.

Finally, respondents confirmed that a lack of staff qualifications is also one of the reasons banks opt for outsourcing. In some cases, more professional work is better handled by companies with experience in a particular field. This also allows the bank to respond to customer requests and requirements on time and benefit from the experience of subcontractors.

4-2- Functions outsourced by the bank

Based on the responses collected during interviews conducted at the bank, we were able to summarize the main functions that the bank outsources: hygiene, cash transportation, IT management, the acquisition and implementation of equipment and software licenses, and payment management. However, these functions represent secondary functions that the bank entrusts to service providers, while the primary functions are handled by its own staff. We were also able to identify some examples of companies with which the bank enters into outsourcing agreements.

Table number (01): Functions outsourced by the External Bank of Algeria

Outsourced functions	Outsourced companies
Cash transport	AMNAL
Electronic banking and payment management	SATIM, Monétique TUNISIE ...

Source: prepared by researcher using the responses collected during the interviews.

The responses collected during the interviews allowed us to gain more details on some of the outsourced activities. As we can see in the table above, the bank outsources cash transport to a company specializing in cash transporting called AMNAL. Therefore, the transportation of funds to and from the bank is always handled by this company. Indeed, the cash transport doesn't present a primary function for the bank but, require major security to deal with. So, instead of hiring a personal dedicated to transport funds, which will be paid monthly, or involving a team of its staff to do it each time, leaving his work, the bank chooses to outsource this activity and earns more by reducing its spending.

The interviewees told us also that the bank does not have sufficient resources to manage bank cards and process payment methods, electronic banking and payment management is an activity outsourced to other electronic banking specialist companies, such as SATIM and Monétique TUNISIE, to fill the skills gap and achieve its customer satisfaction objectives in the shortest possible time.

This allows the bank to perform these functions while focusing its resources on its core business, thus ensuring greater profitability.

4-3- The disadvantages and risks of outsourcing

Our study shows that outsourcing at the External Bank of Algeria is primarily hampered by concerns about the disclosure of personal and financial information.

"In an outsourcing contract, the bank entrusts its information to third parties, although confidentiality clauses govern this type of contract, but the disclosure of information is a threat to the bank". As stated by one of the employee banking.

This testimony emphasizes the importance of confidentiality, which is a crucial point in the banking sector. We can see that the risk of breaching customers' financial or personal information is a barrier to outsourcing.

Dependence on subcontractors can also be considered as disadvantage of outsourcing. This is what the respondents in our study told us.

To deal with this dependence, secondary plan must be developed, which outlines the steps to follow in the event of a disagreement or breach of contract to resolve this issue and avoid any disruption resulting from this impact.

We may also be overlooking another risk, which is a cultural and policy disagreement between the two contracting parties. Indeed, a culture transfer can impose a certain change in the culture of one of them, which proves difficult to adapt to in some cases.

Conclusion

Outsourcing has become an essential strategy to ensure the sustainability and progress of banks. The results of our research have shown that although outsourcing generates drawbacks and limitations, our research hypothesis is confirmed: outsourcing thus improves the operation of banking services.

It remains to be emphasized, however, that the Algerian government must make greater efforts to support outsourcing and develop regulations governing and protecting outsourcing contracts to stimulate the economic fabric, which contributes to economic growth and thus provides opportunities to create new businesses and startups to address the unemployment rate. Indeed, outsourcing primarily supports banks in carrying out their operations, by reducing the burden on banks to carry out

their secondary activities. In another respect, it helps create jobs and reduce the unemployment crisis. This ultimately contributes to improving the national economy.

Several limitations hampered our research. The first limitation lies in the research method we employed, which focused solely on a qualitative study and lacked quantifiable results. The second limitation is more related to the sample size. Our study was carried out at the level of a single bank and in a single branch, which did not allow us to generalize the results obtained in banks and this is justified by the temporal and spatial factor for carrying out these practical study.

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