

OUTSOURCING IN COMMERCIAL BANKS OF BANGLADESH: DRIVERS, BENEFITS, AND BARRIERS

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Abstract


This study purposes to analyze the drivers, benefits and barriers of outsourcing of Bangladeshi commercial banks. A descriptive and explanatory research design was adopted for the study by collecting data from a random sample of 260 employees who are directly or indirectly connected with outsourcing decision making in Islamic banks and conventional commercial banks. Structured questionnaire indicated drivers, benefits and barriers: exploratory factor analysis with reliability testing demonstrated sound constructs validity and internal consistency. The findings of the study show that the extent to which they outsource HR and organizational services, such as HRIS/HRIT (98.08%), workforce management (93.08%), or performance management (90.38%) was frequent due to optimization needs in terms of cost reduction, operational excellence, and customer satisfaction. Common outsourcing drivers are sophisticated technology, expert services, customer' experiences and cost effectiveness. The comparison shows that Islamic banks perceive better customer services as motivating driver, significantly higher than conventional banks. The comparison also found Islamic banks perceived better competitive benefits resulting from outsourcing than conventional and rated these more important than conventional banks. Again, significant differences found in the value barrier and control barrier between conventional banks and Islamic banks as well as conventional banks perceiving significantly more of these obstacles than Islamic banks. So, the study reveals that Islamic banks is in better position compared to conventional banks in terms of motivating factors, benefits, and minimum barriers of outsourcing activities.

Keywords: Outsourcing, Commercial Banks, Drivers, Benefits, and Barriers, Bangladesh.

1. Introduction

Outsourcing has become an underlying strategic management tool in the worldwide banking sector, as it allows banks to concentrate on their core competencies by utilizing external resource for non-core functions, customer service and back-office

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operations (Quinn & Hilmer, 1994; Lacity, Willcocks & Khan, 2011). The outsourcing trend has been particularly strong in South Asia with emerging nations such as India and the Philippines dominating the industry due to low cost business process outsourcing (BPO) and IT enabled services that have allowed banks to manage complexity while cutting cost (Golzar, Hakimpour, Vashan & Basirat, 2014; NASSCOM, 2025). Likewise, commercial banks in Bangladesh are outsourcing services like ATM operations, digital banking services and call centers to a greater extent. Leading banks such as BRAC bank and Dutch Bangla bank utilize external third parties to become more operationally efficient and make use of the latest technological solutions in order to increase competitiveness, meet customer demands better, run faster, and span farther (Begum, Baten & Ali 2022; The Financial Express, 2020).

Despite these benefits, outsourcing also raises questions likely to detract from its efficiency. In Bangladesh, limitations in infrastructures, poor vendors market and regulatory uncertainties can increase both operational and strategic risks. Also outsourcing may lead to vulnerability of dependence over external suppliers, security issues and dilution in the core competencies (Nasrin & Begum, 2017; Sarifuzzaman, 2012). Although there is substantial literature on the advantages and problems of outsourcing in both local and global context, however relevant research with respect to banking sector of Bangladesh is rare. To the best of our knowledge, there is no such study available in relation to Bangladesh commercial banks. The expanding digital economy increases demand for scalable ICT capabilities, encouraging banks to adopt outsourced cloud services and third-party digital channels (Uddin, 2024).

This study intended to fill up this gap by determining the drivers and benefits, and barriers behind outsourcing in case of commercial banks of Bangladesh. Insight into these factors are relevant for bank managers, and policy makers as well as stakeholders to adopt more efficient outsourcing strategies to increase their service quality level while at the same time minimize risks. Drawing upon the national and international views, this study provides inclusively comparative analysis which on one hand places Bangladesh's outsourcing practice in global standpoint, but on other hand acknowledges local operation issues.

1.1 Scope of the Study

This study focuses on the outsourcing practices in Bangladeshi commercial banks both Islamic and conventional. The researchers consider three dimensions for this study which are:

- Outsourcing Drivers: The reasons why banks outsource based on cost saving, acquiring expertise, scaling, and regulatory requirements).
- Outsourcing benefits: What was achieved by the outsourcing?
- Outsourcing barriers: Challenges and risk with outsourcing based on security, vendors and client's relationship, labor laws and regulations.

1.2 Research Gap

While the concept of outsourcing has been widely researched in global perspective, there is a few amounts of literature on outsourced services in Bangladesh commercial

banking. This literature explains outsourcing intentions across the business generally, and within IT and business process outsourcing industries with little specificity to financial services firms. Limited empirical evidence exists about how Bangladeshi banks' balance the antecedents, benefits and barriers of outsourcing. Secondly, there is little or no empirical evidence on how outsourcing impacts bank performance, customer service, and corporate resilience in the context of Bangladesh. This disconnect restricts bank and policy maker ability to make informed decisions for supplier management, compliance and risk measurement. This research aims to connect the above-mentioned gap and contribute to enrich the literature and to provide useful knowledge that is applicable to Bangladesh banking context.

1.3 Research Questions

For the purpose of setting objectives, the following questions are focused which are explored:

- i. What are the major reasons which are stimulating the commercial banks to outsourcing in Bangladesh?
- ii. What are the perceived benefits of outsourcing by commercial banks in Bangladesh?
- iii. What barriers do commercial banks face to outsource?
- iv. What are the significant variations between Islamic banks and conventional commercial banks in terms of motivating drivers, benefits and barriers of outsourcing?

1.4 Research Objectives

The objective of the study is to determine the drivers, potential benefits and barriers which influence outsourcing in Bangladeshi commercial bank. The main objective is narrowed down into some specific objectives which are as follows;

- to know the frequency of activities outsourced by banks;
- to identify the critical drivers which motivate commercial banks in Bangladesh to adopt outsourcing strategy;
- to determine the perceived benefits of outsourcing in commercial banks in Bangladesh;
- to investigate the barriers of adopting the outsourcing strategies in commercial banks in Bangladesh; and
- to examine the difference in the perception of employees of Islamic banks and conventional commercial banks in terms of identified drivers, benefits, and barriers of outsourcing.

1.5 Development of Hypotheses

From the above objectives, the following hypotheses are developed and tested.

- H₁:** There is significant difference between Islamic banks and conventional commercial banks in Bangladesh with respect to the factors motivating for the outsourcing of the activities.
- H₂:** There is significant difference between Islamic banks and conventional commercial banks in Bangladesh with respect to the factors representing the benefits of outsourcing of the activities.
- H₃:** There is significant difference between Islamic banks and conventional commercial banks in Bangladesh with respect to the factors representing the barriers for the outsourcing of the activities.

2. Literature Review

2.1 Drivers of Outsourcing

Outsourcing is a strategic policy decision for banks all over the world, and most of them decide to outsource many services because of operational savings, access to expertise and flexibility (Quinn & Hilmer, 1994; Lacity *et al.*, 2011). Outsourcing of certain advisory and compliance functions is often driven by shortages of qualified Shariah professionals, prompting banks to depend on external Shariah experts and centralized Shariah functions (Alam & Miah, 2021).

Outsourcing is becoming increasingly crucial in the South Asian banking industry as it attempts to fill skills shortage in fintech, cyber security and advanced analytics (Golzar *et al.*, 2014; Hakimpour, Vashan, & Basirat, 2025). In Bangladesh, some banks are reported to outsource IT services as well as ATM management and customer support in order to achieve the specialized knowledge required for such operations and to enhance the efficiency of their own set-up (Begum *et al.*, 2022; The Financial Express, 2020).

Cost savings, scaling up, regulation and technology are the common factor motivated to driving these decisions out house (Nasrin & Begum, 2017). Cost is the main facilitator of outsourcing. The benefits of outsourcing comparative analysis banks achieve by reducing their own expense. They are able to change own fixed costs to variables. This in turn lowers costs, for example, in non-core services such as payroll administration; ATM maintenance; and IT (Dibbern *et al.*, 2004). Dutch- Bangla bank is subcontracting much of its ATM procedures; it permits large expansion of their electronic banking inclusion with minimal initial investment in infrastructure (Dutch-Bangla Bank, 2023). A second key driver is specialized expertise. Many banks in Bangladesh are also struggling with lack of skills to address cyber security, integrate fintech and build advanced analytics capabilities. They then find that working with third party vendors is the ideal solution to fill in these gaps and remain competitive (Rahman, 2021).

The ability to scale and flexibility is also behind outsourcing decisions. This allows banks to adjust workforce or infrastructure to seasonal changes in demand and sudden take-up of technology without the need for permanent infrastructure (World Bank 2015). Finally, regulatory and compliance requirements force banks to search

for external partners who have the necessary technical capabilities in reporting systems, fraud detection or digital security (Bangladesh Bank, 2022).

2.2 Benefits of Outsourcing

Outsourcing benefits in banking go beyond cost saving to better service levels, technology and strategic focus. Global practices establish the fact that outsourcing allows banks to focus on their core capabilities and hand over routine activities to third party vendors may lead to better organizational performance (Lacity *et al.*, 2011). According to game theoretic models, when the vendor's objectives are strategically aligned with those of the bank, performance and quality of service can be optimized (Golzar *et al.*, 2014). Experimentally, IT and back end operations outsourcing was found to lead operational efficiency and profitability of banks as well as the facilitating implementation of new banking technologies like mobile banking platforms and digital wallet in Bangladesh (Begum *et al.*, 2022; Sarifuzzaman, 2012).

Outsourced services in BRAC bank call center and Dutch Bangla bank rocket mobile financial service have also enhance satisfaction of customer whose services are getting from the networks

(The Financial Express, 2020; Nasrin & Begum, 2017). Reports in global industry also show that sourcing new processes such as risk analytics, cyber security and compliance reporting is gaining importance in the digital age (NASSCOM, 2025). Reaping the rewards of outsourcing, there is more than one edge to this equation. Outsourcing enhances customer service quality first of all; one of the reasons why a company does this is because they provide better customer service. Banks are also able to expand service hours, be responsive in customer call centers and operate large scale ATM networks with the assistance of third-party providers. Some organizations have enabled the reach of its clients by engaging digital and call centers which have created satisfaction among their customers (Prospects and Challenges of Outsourcing in Bangladesh, n.d.). Second, outsourcing enables technological adoption. Banks in Bangladesh have developed mobile banking services and digital wallets through outsourcing the IT vendors which has shortened their time for development. Outsourcing cooperation Dutch Bangla bank is an example where collaboration led to aggressive market volume penetrating (Dutch-Bangla Bank, 2023).

Third, outsourcing promotes the focus on core competencies. Instead of spending time on mundane procedures such as issuing payroll cheques or clearing items with the courts, payment banks can concentrate on strategic concerns like managing loan portfolios and developing new products and services (While Lacity *et al.*, 2011). Finally, outsourcing leads to cost minimization and efficiency enhancement cutting transaction costs and reducing lead time for services. It is also found that IT and back office outsourcing positively influences productivity and profitability of the banks in Bangladesh (Rahman, 2021).

2.3 Barriers of Outsourcing

Outsourcing digital operations increases the exposure of Islamic banks to escalating cyber threats and their susceptibility to failures in external systems (Mollik &

Majeed, 2025). In European banks, stringent data protection legislation (such as GDPR) complicates outsourcing and legally it is more sensitive to outsource while U.S. banks have observed customer frustration when call centers were outsourced because of service gaps that may open up (Martens & Teuteberg, 2009). In Bangladesh, these obstacles are exacerbated by infrastructure barriers, nascent vendor markets and ambiguous labour laws (Begum *et al.*, 2022; Sarifuzzaman, 2012). The outsourcing relationship formed without effective deed enforcement and monitoring leads to service dissatisfactions, security threats, lack of capability on the relying end (Nasrin & Begum, 2017; The Financial Express, 2020). An empirical analysis conducted in banking sector in Bangladesh that identified major constraints, particularly in ICT, card processing, and customer-service outsourcing. These constraints include challenges in monitoring, delays in service provision, and inconsistencies in quality (Khan, 2023). Yet banking outsourcing is not without its obstacles and down ward. But there are several bottlenecks such concerns over data privacy, dependence on suppliers, gap of skilled labor in outsourcing firms and insufficient regulatory monitoring. It has been found that Bangladeshi banks have distinct challenges in ensuring services quality standards due to the immaturity of domestic outsourcing markets (Tamal, 2022). Furthermore, contractual workers frequently work outside traditional labour regulations, existing problems with regard to compliance and worker welfare. From a strategic viewpoint overload in externalization also might weaken in house capabilities and raise dependence on opportunistic behavior of vendors (ibidem; Dibbern *et al.*, 2003).

2.4 Theoretical Framework Related to Outsourcing Decisions

Outsourcing-related decisions are often explained through some major theoretical perspective. Transaction Cost Theory (TCT) illustrates that organizations outsource when the costs of negotiating, monitoring, and making contracts with external vendors are minimum than performing the activity internally (Williamson, 1975). The Resource Based Theory indicates that firms should focus on core activities and non-core activities should be outsourced (Barney, 1991). Another theory which plays crucial role to make outsourcing decision is Agency Theory, emphasizes the principal-agent relationship in outsourcing decisions and potential conflict of interest between both parties (Jensen and Meckling, 1976). These theories describe the reasons to outsource and help to achieve competitive advantages from outsourcing activities. Together, these theories provide a comprehensive framework to explain the drivers, advantages, and barriers in a dynamic relationship.

2.4.1 Drivers

Transaction Cost Theory emphasizes, cost efficiency continues to be the main driver, but modern applications also require scalability and flexibility in response to digital disruption (Fernández & Sánchez, 2020). The driver of Resource Based Theory is strategic focus and access to innovation. In the digital age, banks cannot build all capabilities in-house. They are driven to outsource to access specialized technological expertise that is crucial for competition but not part of their core

financial intermediation capability (Kumar & Prasad, 2021). Agency Theory illustrates, when a bank (the principal) is unable to fully observe the skills, systems, risks, or daily actions of an external provider (the agent), two classic issues arise: adverse selection and moral hazard (Sung, J. 2023).

2.4.2 Benefits

The main benefit of Transaction Cost Theory is to decrease in operational costs and an increase in financial flexibility (Alshamaila *et al.*, 2021). The benefit of Resource Based Theory is to accelerate digital transformation and enhanced service quality (Lee & Kim, 2022). Agency theory views that the opportunism exhibited by principals and agents is fundamentally different. Agent opportunism is based on information asymmetry, while principal opportunism relies on power asymmetries that favor the principal (Wagner, 2019).

2.4.3 Barriers

Transaction Cost Theory indicates that the main barrier lies in the intricacy of overseeing and managing outsourced activities, particularly in environments with stringent regulations. New challenges involve the costs of data sovereignty and the need to guarantee compliance across international borders (Kumar *et al.*, 2022). Resource Based Theory emphasizes that the main barrier is the potential for strategic dependence and a weakening of internal learning. The long-term barrier of agency theory is strategic risk of "capability hollowing out". When a bank outsources a function to realize TCE efficiencies, it may neglect to cultivate the internal expertise required for strategic vendor management (an Agency problem).

When banks outsource essential operations, agency theory forecasts a classic principal-agent breakdown: the agent (third-party provider) usually manages daily decisions and has better technical knowledge, while the principal (the bank) experiences limited visibility and diminished capacity to limit risk-taking (Mani *et al.*, 2023).

3. Research Methodology

Quantitative data collection approach has been used in order to gain a comprehensive understanding:

3.1 Research Design

Exploratory and explanatory research designs have been followed to understand motivator factors as drivers, potential benefits, barriers, and linkages between them.

3.2 Population, Sample and Sampling Method

Population parameters were the employees of three Islamic banks and three conventional commercial banks in Bangladesh who are responsible for outsourcing decisions like executives, managers, officers.

Selecting three Islamic banks and three conventional banks as the study population allows for a balanced and comparative understanding of outsourcing practices within Bangladesh's commercial banking sector. Islamic and conventional banks often differ in governance structures, operational processes, regulatory requirements, and strategic priorities, which can influence their motivations for outsourcing as well as the benefits and risks they experience.

Studying both types of banks within the same national context, controls for macro-environmental factors, allowing for a more precise isolation of the impact of Shariah principles versus conventional finance on outsourcing drivers, advantages, and limitations. Since, an equal number of banks from each category strengthens internal validity, supports comparative analysis, and ensures that findings reflect the diversity of Bangladesh's commercial banking landscape while remaining manageable within the study's scope.

Data collected from 260 employees by applying convenient purposive sampling method. The reasons to apply convenient purposive sampling as the research followed exploratory in nature and this method also helps to easy access to a unique group who has knowledge and experience in outsourcing relevant to research questions.

3.3 Data Collection Methods

Primary data was focused for the nature of the study. Structured questionnaires based on Likert-scale for drivers, benefits and barriers were followed as data collection instrument.

3.4 Data Analysis Techniques

SPSS IBM 25.0 and SMART PLS 4.0 were used to analysis the collected data. Assessment models have been applied using factors loading, Cronbach's Alpha, rho_A and Composite reliability to test the reliability and validity of the instruments and constructs. Independent sample t-test was used for hypotheses testing.

4. Data Analysis

Demographic Profile of Respondents is shown below in the following table;

Table 1: Demographic Profile/Characteristics of the Respondents

Profile	Categories	Frequency	Percent (%)	Valid Percent (%)	Cumulative Percent (%)
Gender	Male	220	84.62	84.62	84.62
	Female	40	15.38	15.38	100.00
Age	26–30 yrs	55	21.15	21.15	21.15
	31-above	205	78.85	78.85	100.00

Educational Background	MBA	125	48.08	48.08	48.08
	Masters	85	32.69	32.69	80.77
	MSC	15	5.77	5.77	86.54
	BBA	35	13.46	13.46	100.00
Employment Status	Permanent	250	96.15	96.15	96.15
	Outsourcing Agency	5	1.92	1.92	98.07
	Contractual	5	1.92	1.92	100.00
Department	ICT	12	4.62	4.62	4.62
	Accounts	30	11.54	11.54	16.16
	Administrative	210	80.77	80.77	96.93
	Others	8	3.08	3.08	100.00
Job Designation	Officer	56	21.54	21.54	21.54
	Senior Officer	166	63.85	63.85	85.39
	Branch Manager	12	4.62	4.62	90.01
	Principal Officer	16	6.15	6.15	96.16
	Executive Officer	10	3.85	3.85	100.00
Job Experience	3–5 yrs	13	5.00	5.00	5.00
	6–10 yrs	177	68.08	68.08	73.08
	11–15 yrs	54	20.77	20.77	93.85
	16–20 yrs	16	6.15	6.15	100.00
Nature of Banks	Islamic Banks	165	63.46	63.46	63.46
	Conventional commercial Banks	95	36.54	36.54	100.00

Source: Developed by Author

The study sample consisted of 260 employees from Bangladeshi commercial banks, the majority of whom were men (84.62%) and at least 31 years old (78.85%). The bulk of respondents (96.15%) held postgraduate degrees, mostly Master's (32.69%) or MBA (48.08%), and were permanent employees. The majority held Senior Officer positions (63.85%) and worked in administrative roles (80.77%), with the majority having six to ten years of work experience (68.08%). Overall, 63.46% of the respondents were Islamic banks, whereas 36.54% were regular commercial banks.

4.1 Period and frequency of activities outsourced by banks (Objective 1)

The time duration and frequency of adopting outsourcing activities by commercial banks in Bangladesh are presented in the following tables.

Table 2: How long has outsourcing been practiced in your bank?

How long has outsourcing been practiced in your bank?	Frequency	Percent
Less than 5 years	35	13.46%
5 to 7 years	78	30%
7 to 10 years	82	31.54%
10 years above	65	25%
Total	260	100%

Source: Developed by Author

Results of the survey show that outsourcing practices have been used in commercial banks of Bangladesh since inception. Around 13.46% have been outsourcing in their banks for less than 5 years, while there are some 30% of duration from 5 to 7 years. The higher percentage, reported that the outsourcing has been done between 7 and 10 years only in a slightly smaller degree (31.54%) reported having outsourced this service during over ten years at it bank. This indicates that outsourcing is a mature phenomenon in many of the Bangladeshi banks, where a significant number maintained outsourced services for over 7 years indicating its growing strategic value in banking.

Table 3: Frequency of the activities outsourced by the banks

No.	Outsourced Activities by Banks	Yes	No
1.	Recruitment and selection	210 (80.77%)	50(19.23%)
2.	Training and development	223 (85.77%)	37 (14.23%)
3.	Benefits design and administration	188 (72.31%)	72 (27.69%)
4.	Compensation and salary surveys	205 (78.85%)	55 (21.15%)
5.	Performance Management	235(90.38%)	25(9.62%)
6.	Employee relations/Labor relations	192(73.85%)	58(22.31%)
7.	Employee assistance programs	177 (68.08%)	83(31.92%)
8.	Corporate relocation	228(87.69%)	32(12.31%)
9.	Organizational design and development	220(84.62%)	40(15.38%)
10.	HRIS/HRIT	255(98.08%)	5(1.92%)
11.	Payroll	215(82.69%)	45(17.31%)
12.	Workforce consulting and management	242(93.08%)	18(6.92%)

Source: Developed by Author

The results show that commercial banks in Bangladesh extensively outsource HRM and organizational activities, particularly HRIS/HRIT systems (98.08%), workforce consulting (93.08%), performance management (90.38%), and corporate relocation services (87.69%). A large proportion of banks also outsource training and development, organizational design, payroll, recruitment, and compensation-related activities, while functions such as employee relations, benefits administration, and employee assistance programs are less frequently outsourced. Overall, the findings highlight the strategic importance of outsourcing key HR and support processes to enhance operational efficiency and service quality in Bangladeshi banks.

4.2 Measurement Models for Reliability and Validity test as well as investigating the Motivating Drivers, Benefits and Barriers of Outsourcing Activities (Objectives 2-4)

The measurement models by using Factor Loading, Cronbach's Alpha, rho_A, Composite Reliability (CR) and Average Variance Extracted (AVE) were used to measure the reliability and validity of motivating drivers, benefits and barriers of outsourcing activities in the commercial banks in Bangladesh. Separate factors loading of items against each construct show the dimensions of motivating drivers, perceived benefits, and barriers of outsourcing activities in commercial banks in Bangladesh.

Table 4: Reliability and Validity of Motivating Drivers for Outsourcing Activities

Construct	Items	Factor Loading	Cronbach's Alpha	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
Motivating factors of outsourcing activities	Saving of time	0.78	0.914	0.921	0.933	0.589
	Cost saving	0.81				
	Service quality	0.74				
	Risk management	0.76				
	Customer experience	0.82				
	Brand image	0.71				
	Advanced technology	0.84				
	Utilization of resources	0.70				
	Allocation of personnel	0.73				
	Access to services	0.75				
	Expert services	0.80				
	Tech obsolescence	0.72				

	Core banking focus	0.77				
	Avoid recruitment of additional staff	0.68				
	Lack of expertise	0.79				
	Better services	0.74				
	Serving large customers	0.76				

Source: Developed by Authors

The measurement model for “Motivating drivers to outsource activities” showed strong reliability and validity. Factor loadings ranged from 0.68 to 0.84, indicating meaningful indicators, while internal consistency was high (Cronbach’s $\alpha = 0.914$, $\rho_A = 0.921$, $CR = 0.933$). The construct explained over 50% of the variance ($AVE = 0.589$), demonstrating acceptable convergent validity. Overall, the scale is statistically reliable and theoretically relevant for future structural model testing.

Table 5: Factor Loading of Motivating Drivers of Outsourcing

Construct	Item	Factor Loading
Motivating Drivers of Outsourcing	Saving of time	0.78
	Cost saving	0.81
	Service quality	0.74
	Risk management	0.76
	Customer experience	0.82
	Brand image	0.71
	Advanced technology	0.84
	Utilization of resources	0.70
	Allocation of personnel	0.73
	Access to services	0.75
	Expert services	0.80
	Technology obsolescence	0.72
	Core banking focus	0.77
	Avoid recruitment of additional staff	0.68
	Lack of expertise	0.79
	Better services	0.74
Serving large customers	0.76	

Source: Developed by Author

Advanced technology (0.84), expert services (0.80), client experience (0.82), and cost savings (0.81) are the main factors that drive Bangladeshi commercial banks' strategic approach to outsourcing. Hiring specialists to handle HR, digital banking, or IT infrastructure improves productivity, knowledge, and creativity while cutting expenses and increasing customer satisfaction and competitiveness. Service-oriented drivers such as service quality (0.74), risk management (0.76), core banking focus (0.77), lack of expertise (0.79), and serving large customers (0.76) facilitate the outsourcing of complex non-core functions such as payroll, cybersecurity, and compliance, freeing up management to concentrate on credit risk, customer relationships, and regulatory compliance. Opportunities in regular HR duties, contact centers, and back-office operations are highlighted by efficiency drivers such as time savings (0.78), resource utilization (0.70), people allocation (0.73), avoiding recruitment (0.68), and improved services (0.74). Outsourcing to reliable foreign suppliers can increase trust, even though brand image (0.71) is a weaker motivator. Banks should create a strategic framework for outsourcing that emphasizes risk management, technology and compliance-based vendor selection, a balanced outsourcing mix that excludes sensitive customer operations, and employee training to work well with outside providers.

Table 6: Reliability and Validity for benefits of outsourcing

Construct	Items	Factor Loading	Cronbach's Alpha	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
Competitive Benefits	Extensive branch network	0.72	0.82	0.84	0.87	0.58
	Increase in customer base	0.85				
	Lower bank charges	0.68				
	Easy access to loans	0.74				
	Key accounts held	0.66				
	Superior customer service	0.81				
Reputation Benefits	Positive reputation	0.84	0.79	0.81	0.85	0.55
	Faster customer service	0.88				
	More satisfied customers	0.79				
	Lower employee turnover	0.71				

Profitability Benefits	Increasing revenue	0.73	0.75	0.77	0.82	0.53
	Fund recycling	0.69				
	Reduced operating costs	0.78				
	Economies of scale	0.76				
Other Benefits	HR activities	0.77	0.78	0.80	0.84	0.54
	Improved customer service	0.74				
	Cost reduction	0.70				
	Internal stability	0.72				

Source: Developed by Author

Strong internal consistency and convergent validity were shown by the concept of perceived outsourcing benefits, which included competitiveness, reputation, profitability, and other advantages. Loadings of 0.66–0.85 ($\alpha = 0.82$; CR = 0.87; AVE = 0.58) for competitive benefits indicated branch network expansion, customer base growth, and service quality. Positive reputation and customer satisfaction were captured by reputation benefits, which had loadings of 0.71–0.88 ($\alpha = 0.79$; CR = 0.85; AVE = 0.55). Cost-effectiveness gains were consistent ($\alpha = 0.75$; CR = 0.82; AVE = 0.53), showing effects on economies of scale, revenue growth, and cost reductions. HR improvements, internal efficiencies, and cost optimization were represented by additional performance-related benefits ($\alpha = 0.78$; CR = 0.84; AVE = 0.54). The model verifies that these constructs are legitimate and trustworthy indicators of the advantages of outsourcing in the banking sector, with all AVE values over 0.50 and dependability above 0.70.

Table 7: Reliability and Validity for barriers of outsourcing in banks

Construct	Items	Factor Loading	Cronbach's Alpha	rho_A	Composite Reliability (CR)	Average Variance Extracted (AVE)
Barriers Faced by Banks in Outsourcing	Lack of commitment in timely performance by service provider	0.82	0.81	0.83	0.86	0.56
	Service provider has insufficiently skilled staff	0.71				
	Difference in goals of bank	0.84				

	and service provider					
	Cost involved exceeds calculated budget	0.73				
	Confidentiality issues regarding sensitive data	0.80				
	Legal problems and litigations due to privacy	0.69				

Source: Developed by Author

With Cronbach's Alpha (0.81), rho_A (0.83), Composite Reliability (0.86), and AVE (0.56) all meeting suggested standards, the validity study verifies that the barriers concept is well measured. Factor loadings ranged from 0.69 to 0.84, with the most significant obstacles being a lack of timely commitment (0.82), a difference in goals (0.84), and the secrecy of sensitive information (0.80). Legal concerns, inexperienced staff, and cost overruns were of moderate importance. Overall, strategic alignment, service quality, and data security are more important factors in Bangladeshi banks' outsourcing difficulties than just financial concerns.

4.3 Comparison of motivating drivers, benefits, and barriers between Islamic banks and conventional commercial banks in Bangladesh (Objective 5)

The independent samples t-test is employed in order to examine the difference if any exists between the average mean score of the Islamic banks and conventional commercial banks with respect to motivating factors, benefits, and barriers of outsourcing from their employee's perspective.

Table 8: Independent sample t-test of motivating drivers for outsourcing activities

Factor	Mean (Conventional)	SD (Conventional)	Mean (Islamic)	SD (Islamic)	T-Statistic	P-Value	Conclusion
Better Customer Service	3.94	0.92	4.33	0.83	-2.68	0.0095	Significant
Capitalization of Technological Advancements	4.01	0.97	3.93	1.05	0.47	0.644	Not Significant
Cost Efficiency	4.14	0.79	4.03	0.92	0.94	0.348	Not Significant
Strategic Competitive Advantage	4.22	0.88	4.12	0.82	0.76	0.453	Not Significant

Source: Developed by Author

Based on the independent samples t-test, Islamic banks perceive better customer services ($M = 4.33$, $SD = 0.83$) significantly higher than conventional banks ($M = 3.94$, $SD = 0.922$; $t(258) = -2.68$, are a statement $p = .05$ for all), which implies that although conventional and Islamic banks are equally sensitive to the bottom-line benefits of outsourcing in terms of efficiency, technology, competitiveness; Islamic banks are more responsive to customer service.

Table 9: Independent sample t-test for benefits of outsourcing activities

Factor	Conventional Banks M (SD)	Islamic Banks M (SD)	T-Statistic	P-Value	Conclusion
Competitive Benefits	3.93 (0.95)	4.36 (0.82)	-2.83	.005	Significant
Reputational Benefits	3.99 (0.93)	4.13 (0.88)	-0.65	.517	Not Significant
Profitability Benefits	4.12 (0.84)	4.03 (0.91)	0.68	.497	Not Significant
Other Benefits	4.28 (0.83)	4.05 (0.89)	1.62	.106	Not Significant

Source: Developed by Author

T-test for independent samples, significant difference was found between conventional and Islamic banks in terms of competitive benefits resulting from outsourcing, as shown by the independent sample t test ($t(258) = -2.83$, $p = .005$) and Islamic banks ($M = 4.36$, $SD = 0.82$) also rated these more important than conventional banks ($M = 3.93$, $SD = 0.95$). However, reputational benefits, profitability benefits and other ($p > .05$ for all) which implies, that even though both kinds of banks view banking services outsourcing as a resource enhancement in general terms, Islamic banks consider it to be more relevant with respect to their competitive advantage.

Table 10: Independent sample t-test on the variables mediates for the barriers of outsourcing

Barrier	Conventional Banks M (SD)	Islamic Banks M (SD)	T-Statistic	P-Value	Conclusion
Value Barrier	3.97 (0.95)	3.55 (1.20)	2.57	.011	Significant
Image Barrier	4.00 (0.90)	3.79 (1.05)	1.16	.248	Not Significant

Risk Barrier	4.08 (0.86)	4.02 (0.82)	0.42	.675	Not Significant
Trust Barrier	4.14 (0.83)	3.87 (0.92)	1.69	.092	Not Significant
Control Barrier	4.13 (0.84)	3.75 (0.95)	2.23	.027	Significant

Source: Developed by Author

The independent samples t-test showed statistically significant differences in the mean scores of the value barrier between conventional banks and Islamic banks ($t(258) = 2.57, p = .011$) as well as the control barrier ($t(258) = 2.23, p = .027$) with conventional banks perceiving significantly more of these obstacles than Islamic banks. But there were no differences among image, risk, or trust barriers ($p > .05$), indicating that although both banks share similar outsourcing issues overall, traditional banks are more anxious about value extraction and control aspects.

5. Findings and Discussion

5.1 Findings

The study findings show that the commercial banks in Bangladesh have been outsourcing a wide variety of HR and organizational activities;

The major findings, HRIS/HRIT systems (98.08%), workforce consulting (93.08%), performance management (90.38%), and corporate relocation services (87.69%) are among the HR and organizational operations that commercial banks in Bangladesh frequently outsource. The majority of banks (31.54%) have been using outsourcing for seven to ten years, mostly due to advanced technology, professional services, better customer experience, and cost savings, all of which show high validity and reliability (Cronbach's $\alpha = 0.914$; AVE = 0.589). The results show that outsourcing has a favorable impact on competitiveness, reputation, profitability, service quality, operational efficiency, and revenue growth (all $\alpha > 0.75$; AVE > 0.53), and the measuring model indicates strong convergent validity.

Despite these advantages, there are still major obstacles, such as goal incongruence, strategic mismatch, delayed commitment, and confidentiality issues ($\alpha = 0.81$; AVE = 0.56). According to the results of the independent sample t-test, Islamic banks rate competitive benefits more strongly ($M = 4.36$ vs. 3.93 ; $t(258) = -2.83, p = .005$) and perceive customer service benefits considerably higher ($M = 4.33$) than conventional banks ($M = 3.94$; $t(258) = -2.68, p < .05$). On the other hand, compared to Islamic banks, conventional banks perceive higher value barriers ($t(258) = 2.57, p = .011$) and control barriers ($t(258) = 2.23, p = .027$). Overall, both types of banks profit from outsourcing, but Islamic institutions prioritize customer service while traditional banks are more concerned with risk and control.

5.2 Discussion

In Bangladesh's banking industry, outsourcing is widely used and strategically significant, primarily to achieve cost effectiveness, enhanced service quality, and

advanced technology utilization. While keeping key operations like risk management and customer relationship management, banks are progressively outsourcing non-core tasks like personnel consulting, performance management, and HRIS/HRIT systems. Concerns over vendor dependability, data security, and strategic relevance point to the necessity for an organized outsourcing framework, even while outsourcing improves competitiveness, profitability, and corporate image. The distinctions between Islamic and conventional banks point to different priorities; Islamic banks place a greater emphasis on competitiveness and service quality, which has helped them expand their businesses and improve their market image (Al-Homidi *et al.*, 2018).

Both Islamic and conventional banks admit outsourcing as a crucial tool for perfecting effectiveness, cost effectiveness, and client service (Sharma, 2018; Gulla & Gupta, 2012). still, trust and control issues are perceived as more significant walls in Islamic banks compared to conventional banks, harmonious with earlier global studies (Gunasekaran *et al.*, 2015; Agburu *et al.*, 2017). Despite these challenges, Islamic banks demonstrate stronger client service performance due to ethical and religious considerations. Recent studies show that Shariah compliance and ethical alignment enhance client trust, satisfaction, fidelity, and word- of- mouth, furnishing Islamic banks with a competitive advantage, particularly among religiously motivated guests (Rahman *et al.*, 2023; Yilmaz, 2024).

6. Recommendations and Conclusion

6.1 Recommendations

According to the results of the study, the commercial banks in Bangladesh need to have a systematic strategic approach towards outsourcing.

- i. Well-organized non-core functions including HR planning/strategy systems, workforce consultation, performance management, and corporate relocation that make use of cutting-edge technology, specialized knowledge, and improved customer experience should be outsourced by banks. For outsourcing to be successful, benefits must be clearly identified and obstacles specifically, strategic alignment, secrecy, and goal divergence must be proactively managed.
- ii. While conventional banks should make sure that outsourced operations are in line with key goals and regulatory requirements, addressing value and control concerns, Islamic banks should include outsourcing into customer-centric and innovation-driven initiatives.
- iii. To guarantee effectiveness and service quality, banks should maintain a balanced mix of outsourcing, train staff on how to manage outside suppliers, and routinely assess outsourced procedures. When making strategic outsourcing decisions, traditional commercial banks should be cautious and use a methodical approach.

6.2 Conclusion

This study shows that, thanks to cutting-edge technology, knowledgeable service providers, cost effectiveness, and customer satisfaction, outsourcing plays a critical

role in improving operational efficiency, competitive advantage, and HR effectiveness in Bangladeshi commercial banks. Even while outsourcing improves competitiveness, profitability, image, and HR efficiency, there are still major issues with strategic fit, timeliness, secrecy, and control. Islamic and conventional banks differ significantly in these areas. Conventional banks are more concerned with value and control issues, while Islamic banks prioritize competitive advantage and service excellence. The study's modest sample size, emphasis on fourth-generation banks, and use of purposive sampling, which may limit generalizability and increase respondent bias due to data confidentiality and legal constraints, are its limitations. In order to develop risk-aware, performance-focused, and context-sensitive outsourcing frameworks appropriate for Bangladesh's banking sector, future research should employ longitudinal and sector-wise designs, investigate outsourcing risk management and emerging technologies like blockchain, artificial intelligence, and digital banking platforms, and carry out international comparative studies.

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Appendix

Survey Questionnaire

Topic: Outsourcing in Commercial Bank of Bangladesh: Drivers, Benefits, and Barriers

Please choose the best options from 1 to 5:

Strongly Agree= 5, Agree= 4, Neutral= 3, Disagree= 2, Strongly Disagree= 1.

1. Motivating factors of outsourcing activities:

Motivating factors for Outsourcing Activities	SA	Agree	Neutral	Disagree	SDA
Saving of time by outsourcing the activities					
Cost Saving					
Improvement in service quality for customers					
Risk Management					
Better overall customer experience					
Improvement of brand image					
The Benefit of advanced technology by the service provider					
Effective utilization of bank resources					
Effective allocation of In-house personnel					
Access to services unavailable in-house					
Advantage of expert services from outside					
Reduction of risk of technology obsolescence					
Focus on core banking business					
Avoid recruitment of additional staff					
Lack of internal expertise					
Better services than competitors					
Providing services effectively to a large number of customers					

2. Perceived benefits of outsourcing by your respective bank.

Competitive benefits of outsourcing	SA	Agree	Neutral	Disagree	SDA
Able to get Extensive branch network					
Increase in customer base					
Outsourcing has Lower bank charges					
Easy access to loans					
Key accounts held with a bank					
Given superior customer service					

Reputation benefits of outsourcing	SA	Agree	Neutral	Disagree	SDA
Bank's positive reputation built is a result of outsourcing					
Bank has been providing Faster customer service after outsourcing					
More satisfied customers					
Lower employees' turnover ratio					
Profitability benefits of outsourcing	SA	Agree	Neutral	Disagree	SDA
Revenues are increasing every year					
Effective recycling of funds					
Reduction in operating costs of activities that are outsourced					
Outsourcing has provided enhanced economies of scale in technological resources					
Other benefits of outsourcing	SA	Agree	Neutral	Disagree	SDA
Benefits on recruitment, training, and infrastructural development by outsourcing HR activities to the third party					
Overall Customer services being improved					
Reduction in operating costs of activities after outsourcing which is earlier done in-house					
Internal organizational stability and flexibility in obtaining improved satisfaction					

3. Barriers faced by your bank while outsourcing the services

Barriers faced by your bank in Outsourcing	SA	A	N	DA	SDA
Lack of commitment in timely performance by the service provider					
The service provider has Insufficiently skilled staff					
The difference in goals of bank and service provider					
Cost involved in outsourcing exceeds the calculated budget					
Confidentiality issues raised in security of Sensitive data of customers					
Lead to serious legal problems and litigations due to data privacy and related issues					

4. Factors motivating for outsourcing activities

Factors motivating Outsourcing activities	Bank Type	SA	Agree	Neutral	Disagree	SDA
Better Customer Service	Conventional Banks					
	Islamic Banks					
Capitalization of Technological advancements	Conventional Banks					
	Islamic Banks					
Cost Efficiency	Conventional Banks					
	Islamic Banks					
Strategic Competitive Advantage	Conventional Banks					
	Islamic Banks					

5. Benefits of outsourcing activities.

Benefits of Outsourcing Activities	Bank Type	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Competitive Benefits	Conventional Banks					
	Islamic Banks					
Reputational Benefits	Conventional Banks					
	Islamic Banks					
Profitability Benefits	Conventional Banks					
	Islamic Banks					
Other Benefits	Conventional Banks					
	Islamic Banks					

6. Factors of barriers of outsourcing.

Barriers of outsourcing	Bank Type	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Value Barrier	Conventional Banks					
	Islamic Banks					
Image Barrier	Conventional Banks					
	Islamic Banks					
Risk Barrier	Conventional Banks					
	Islamic Banks					
Trust Barrier	Conventional Banks					
	Islamic Banks					
Control Barrier	Conventional Banks					
	Islamic Banks					

Source: (Rautela, Sarkar, & Goel, 2021)

