

Journal of Human Resource and Leadership (JHRL)

**Assessment of Role of HR Outsourcing on Employees' Satisfaction on
Organizational Performance in Multinational Companies**

Emmah Nyarangi



Assessment of Role of HR Outsourcing on Employees' Satisfaction on Organizational Performance in Multinational Companies

Emmah Nyarangi

Post graduate student, School of Business

University of Eastern Africa, Baraton

emmahnyarangi@gmail.com

ABSTRACT

Purpose: The study aim was to assess role of human resource outsourcing on employees' satisfaction on organizational performance in multinational companies. The study objective was to find out the role of HR outsourcing on employees' satisfaction on organizational performance in multinational companies

Methodology: The study used descriptive statistics research design. The descriptive study targeted 15 multinational companies in Nairobi. Stratified sampling technique was used to select 60 employees from the multinational companies in Nairobi and structured questionnaires administered. Descriptive statistical analysis was conducted: frequencies, percentages, mean and standard deviation. Further, inferential analysis was conducted on variables of interest at 95% confidence level

Results: The study's findings revealed that outsourcing temporary staff is more economical than handling them in house. Outsourcing did give time for the human resource department to concentrate on their core activities and improved overall organizational performance.

Unique contribution to theory, practice and policy: The study recommended that companies should outsource as it makes them flexible in meeting varied customers' and organizational needs. However, not all human resource functions should be outsourced owing to risk predisposition and vendors should be carefully chosen owing to risk involved.

Keywords: *Human Resource, Human Resources Outsourcing, Service Level Agreement*

1.0 INTRODUCTION

According to Banham (2011), Human Resource Outsourcing, though started as a cost reduction move for some companies, has expanded to become a driving force for creating business value. Other advantages are: increased efficiency; access to improved Human Resource information technology systems; improved management information (including human capital metrics); access to Human Resource expertise not available internally; increased flexibility and speed of response, reduced risk and, free HR resources to operate more strategically (Vosbergh, 2007).

According to McKinsey (2008), the global "addressable" outsourcing market was worth \$122 – \$154 billion, of which: \$35-40 retail banking, \$25-35 insurance, \$10-12 travel/hospitality, \$10-12 auto, \$8-10 telecoms, \$8 pharma, \$20-25 is finance, accounting and Human Resource and \$10-15 others. In terms of industry size, India is the leading outsourcing country all over the world, (why outsource to india.com) It has revenues of 10.9 billion USD from offshore outsourcing services. India thus has some 5-6% share of the total Business Process Outsourcing industry, but a commanding 63% share of the offshore component. Besides India, China is also developing as a Human Resource Outsourcing destination. Other locations like Eastern Europe, Phillipines, Morocco, Egypt and South Africa have also emerged to take a share of the outsourcing market (Adsit, 2009).

In Kenya, according to Okello, C.E.O of Consulting International, (Ciuri, 2012), BPO prospects are positive. He points out challenges facing the field in the country and they include; a skewed global market, poor brand recognition and lack of qualified personnel. Okello posits that mushrooming of outsource business and quacks claiming to be consultants have diluted and spoilt the Kenyan BPO market for the professionals who are trying hard to build a name and create trust in their clients. This creates a bad image and keeps investors and potential clients away. Rapid improvement in technology has played a key role in making outsourcing business in Kenya a realistic and profitable affair to many companies. Outsourcing in Kenya has been taken as key strategy to reinvent their business operations (Ngichiri, 2011).

Simiyu (2009) indicates that the competitive pressures on Kenya's organizations are the highest in Kenya's history and in order to continue to be competitive in the global economy the Human Resource function needs to contribute towards and enhance the competitive position of Kenyan organizations. The Kenyan Human Resource department specifically needs to retain, develop and nurture the human capital of an organization while at the same time significantly reducing the cost of Human Resource service delivery to ensure that this function not only contributes to the competitive position, but also creates a competitive advantage (Makhino, 2006).

However, while it may be advantageous, it introduces certain risks to an organization, including: loss of control; impact on the employer/employee relationship; loss of flexibility; failure to deliver cost benefits; legal or regulatory requirements; and, industrial relations issues (Lawler et al, 2004).

1.2. Problem Statement

Modern as well as traditional multinational corporations, large and small-sized, pushed by pressure from shareholders for better financial performance, are now trimming down their employees from their payroll, and thus Human Resource Outsourcing (HRO) is slowly becoming the new buzzword.

According to Wright et al (2004), even in the best of outsourcing situations problems are likely to arise. Despite the role that HRO plays in the contemporary organizations, in Kenya few studies have been done on HRO. Makhino (2006) in a survey study on benefits and challenges of Human Resource outsourcing in commercial banks established that over 50% of banks surveyed have benefited from Human resource outsourcing. However, the benefits outweigh the challenges.

From the foregoing discussions, the findings are very limited to give comprehensive knowledge on how HR outsourcing influences organizational performance of multinational companies in Kenya. The purpose of this study was to investigate the perception of Human Resource outsourcing on organizational performance of selected multinationals in Nairobi.

1.3 Objective of the Study

The major objective was to establish the role of HR outsourcing on employees' satisfaction on organizational performance in multinational companies

2.0 LITERATURE REVIEW

2.1 Theoretical Review

Social Exchange Theory

Social Exchange Theory (SET) has been used extensively by marketing scholars to explain business-to-business relational exchange (Robert, et al., 2005). Social Exchange Theory exists in many forms today, but all of them are driven by the same central concept of actors exchanging resources via a social exchange relationship, where social exchange is the voluntary transfer of resources between multiple actors. Over time, each party in the exchange relationship compares the social and economic outcomes from these interactions to those that are available from exchange alternatives, which determines their dependence on the exchange relationship. Positive economic and social outcomes over time increase the partners' trust of each other and commitment to maintaining the exchange relationship (Perunović&Pedersen, 2007).

The need for social exchange is created by the scarcity of resources, prompting actors to engage one another to obtain valuable inputs. According to Das and Teng (2002), social exchange can be defined as voluntary actions of individuals who are motivated by return they are expected to bring and typically, in fact, bring from others.

Goal Setting Theory

Hastings (2011) stated that clear goals and appropriate feedback motivates employees. He also went on to say that when employees worked towards a goal, it spearheaded a major source of motivation within the employees to actually reach the goal. Locke's study also threw light on the relationship between goals and performance. According to his study, specific and difficult goals conduced to better results and performance as compared to vague, randomly set or easy to do goals. Hastings (2011) suggests that not only does the assignment of specific goals result in enhanced performance but that, assuming goal acceptance, increasing the challenge or difficulty of goals leads to increased motivation and increases in performance.

2.2 Empirical Literature Review

Metty (2006) believes that BPO needs to contribute to the organization's competitive advantage, for it to be successful. According to her a significant benefit is realized when a BPO agreement ensures that organizations have access to the early adoption of new technology. Pearson and Lyons (2003) believe a key benefit that should be sought from any form of outsourcing is that all aspects of the value chain are globally competitive as a result of the outsourcing.

Aldisert (2002) suggests that outsourcing enables companies to focus their development initiatives on developing employees in the organization's core competencies, leading to the growth in the competencies that are critical to the organization's competitive position.

2.3: Conceptual Framework

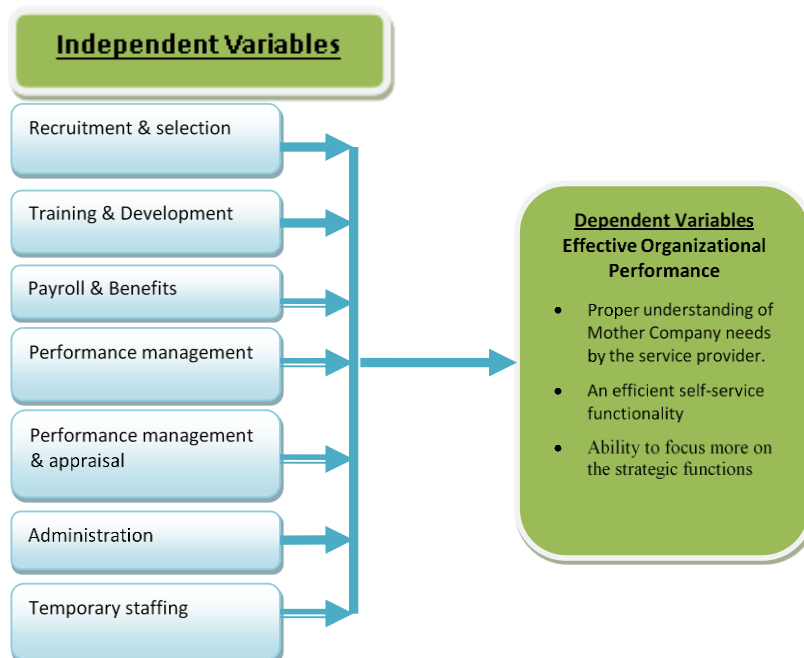


Figure 1: Conceptual framework

3.0 RESEARCH METHODOLOGY

Descriptive research design was used to conduct the study in 15 multinational companies in Nairobi. The population was 410 employees. Sampling was not done at the organizational level but rather at the employee level. A sample of 60 was selected using a stratified systematic sampling technique.

Table 1 Target Population

Stratum	Population(N)	Sample
HR Department	90	30
Finance Department	320	30
Grand Total	410	60

Questionnaires were used to collect data, Qualitative data was obtained through open-ended questions. Prior to the actual data collection a pilot study of 30 subjects was conducted pre-testing the research instrument. From the results, clarity of the instrument's items was enhanced so as to ensure instrument's validity and reliability besides enabling researcher's familiar with administration procedures of the instrument. The questionnaire was validated by Professor E. Role, reliability of the study was tested using Cronbach Alpha after a pilot study of 30 subjects not included in the sample. This was determined against a Cronbach's Alpha threshold of 0.6; values above the threshold signified reliability (Nunnally, 1978). The Statistical Package for Social Sciences (SPSS) was used as a tool to generate the frequencies and percentages that were used in excel tabulations. The data was presented using data tables and charts.

4.0 RESULTS AND DISCUSSIONS

4.1 Demographic Characteristics

4.1.1 Number of Years Worked

The respondents were asked to indicate the number of years they had worked for their current employers. Figure 2 which presents the findings shows that: 50% of the respondents had worked in their current companies for 1 to 4 years; 32% of the respondents had worked for 5 to 10 years; 11% had worked for over 10 years; and, 7% had worked for less than a year. This implies that majority of the respondents (61%) had worked for at most 4 years.

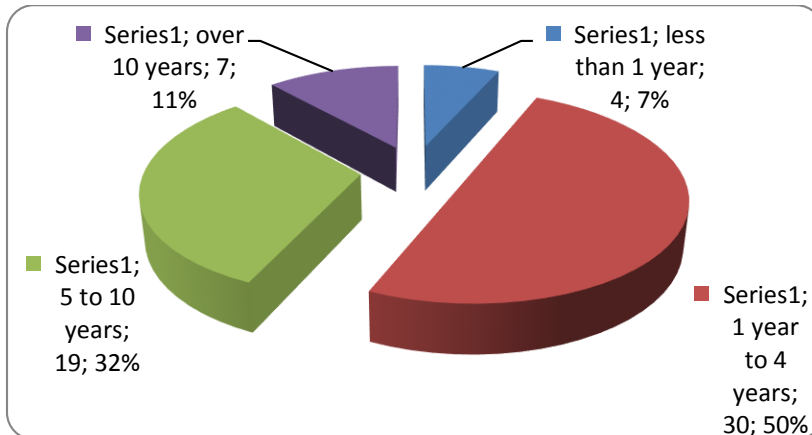


Figure 2: Number of Years Worked

4.1.2 Number of Employees

The study sought to establish the number of employees that were in each sampled multinationals' Nairobi branch as a proxy for the size of each. From the findings presented in Figure 3, 46% of the multinationals had 51 to 100 employees and 27% had below 50 employees. Additionally, 10% of the multinationals had more than 200 employees and 5% had 101 to 150 employees. This illustrates that majority (73%) of the multinationals had under 100 employees of which most had at least 50 employees.

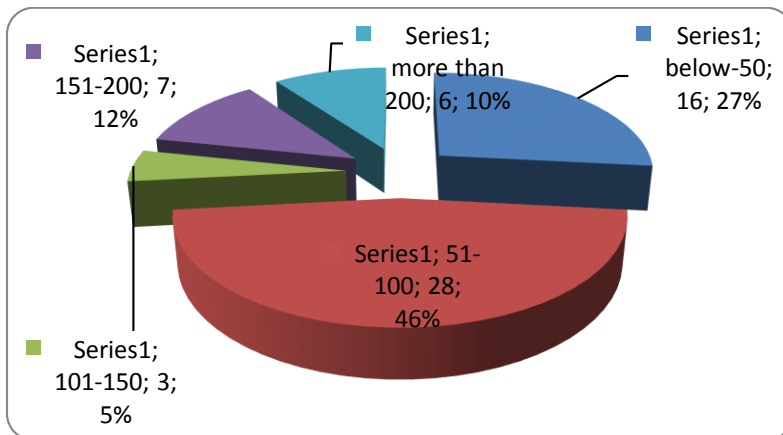


Figure 3: Number of Employees

4.1.3 Level of Education

The respondents were required to indicate the highest level of education they had attained and the results presented in Figure 4. From the findings, 48% of the respondents had master degrees, 47% had bachelors and 5% were diploma or certificate holders. This depicts that majority of the respondents were at least graduates.

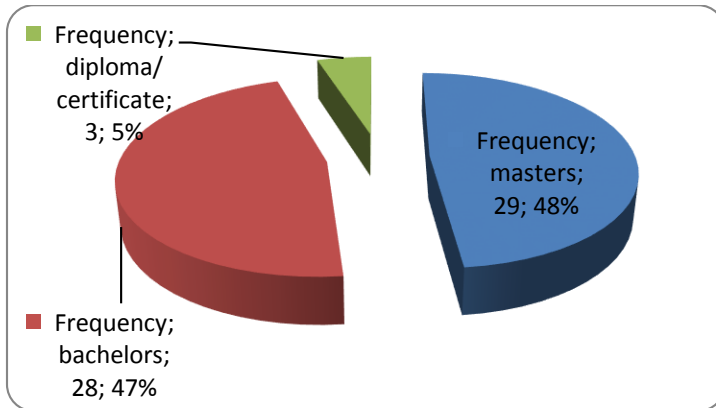


Figure 4: Level of Education

4.1.4 Geographical Area

The respondents were required to indicate the geographical area or niche that the multinationals served. From findings presented in Figure 5, 87% served international markets while 13% served regional market. Thus, majority of the multinationals served the international market; that is, were not limited to regional market. This depicts that most of the multinationals have a wide geographical coverage.

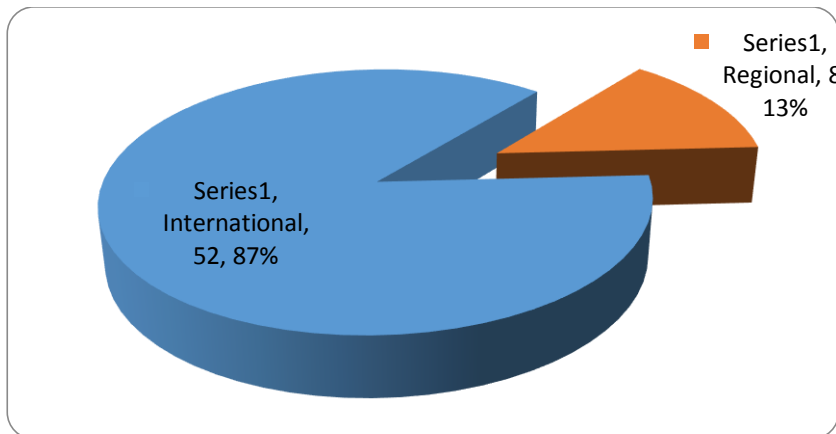


Figure 5: Geographical Area

4.2 Descriptive Statistics

4.2.1 Employee Satisfaction with HR Outsourcing

The respondents were required to indicate their levels of satisfaction with the HR activities currently outsourced. A 4-point Likert scale was employed in the analysis; very dissatisfied was accorded 1 point, dissatisfied 2 points, satisfied 3 points and very satisfied was accorded 4 points. The analysis results are presented in Table 2.

On the ability to have internal staff focus more on strategy, 45.0% of the respondents were satisfied, 15.0% were very satisfied, 35.0% were dissatisfied and 5% of the respondents were very dissatisfied. The study established a weighted mean of 2.7 which signifies that the multinationals were generally satisfied with the ability to have internal staff focus more on strategy. Gupta (2008) states that pressure from dynamic market conditions and market uncertainty have caused Multination organizations to focus on core competencies and outsource functions in which they that lack expertise in order to show profitability maintain effective cost structures and improve on accomplishing the strategic aspect of the business.

On the level of improvement in self-service functionality, 53.3% of the respondents were satisfied, 6.7% were very satisfied and 40.0% of the respondents were dissatisfied. A weighted mean of 2.67 was established. This depicts a general satisfaction with the level of improvement in self-service functionality. Many agencies nowadays have a standardized mode of service for all their contractors and clients. This has been made possible by automation of processes that have made these employee services self-service. E.g. leave authorization, holiday requests, online pay-slips, online appraisals and reviews etc. they are all done at a click of a button from anywhere as long as you are logged into the system. This has reduced paperwork and tedious processes and long waits for approval signatures as well as improving on accuracy.

On the change in service quality to employees, 50.0% of the respondents were satisfied, 5.0% were very satisfied and 45.0% of the respondents were dissatisfied. A weighted mean of 2.6 was established. Thus, the respondents were satisfied with the change in service quality to employees. According to Lawler et al (2004) Employees react to how something is handled, as well as to the result. In some cases, the how is more important than the what. A person might get the service he or she needs yet be very unhappy with the manner in which it was given. Both the process and result are employee satisfaction issues.

Table 2. Employee Satisfaction with HR Outsourcing

Statement	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Mean
Ability to have internal staff focuses more on strategy	5.0%	35.0%	45.0%	15.0%	2.7
Level of improvement in self-service functionality?	0.0%	40.0%	53.3%	6.7%	2.67
Change in service quality to employees?	0.0%	45.0%	50.0%	5.0%	2.6
Reduction in direct costs?	18.3%	66.7%	13.3%	1.7%	1.98
Reduction in indirect costs?	18.3%	55.0%	21.7%	5.0%	2.13
OVERALL impact on the organization?	0.0%	35.0%	60.0%	5.0%	2.7
Organization does not outsource any HR practices	15.0%	18.3%	51.7%	15.0%	2.67
Average Likert Mean					2.49

Employees feel left out if just a section of them are outsourced; feel like they lost a sense of belonging', the findings to this statement show that 55.0% of the respondents agreed, 28.3% of the respondents strongly agreed, 15.0% of the respondents disagreed and 1.7% of the respondents strongly disagreed. A weighted mean of 3.1 was established. Thus, employees do feel left out if just a section of them are outsourced. Business news Daily, (2010, July 13) talks about how outsourcing and temps make for grumbling workers. If a section of employees are outsourced to an agency that does not give them services that match up to the services the in-house employees are receiving, they tend to have a sense of dissatisfaction and lack the feeling of belonging to the mother company. The outsourcing trend affects employees through the loss of permanent employment and results in an increasing number of part-time and contract workers who are not happy with the state of affairs, typically earning less pay than permanent workers and without health, life, short- and long-term disability, and retirement benefits Charara, (2004).

To the statement 'performance increases once employees are placed under a professional service provider' the findings show that 46.7% of the respondents agreed, 3.3% of the respondents strongly agreed and 50.0% of the respondents disagreed with the statement. A weighted mean of 2.53 was established which implies that performance increase once employees are placed under a professional service provider is neither here nor there. This concurs with the Research executive summary series by the Chartered Institute of Management Accountants Vol.4 Issue 3; which says that as much as outsourcing is an increasingly popular method of achieving performance improvement, the results have been mixed. Some organizations have not been able to achieve their anticipated benefits from the outsourcing initiative and have instead experienced outsourcing failure, whereas there are those that have reaped the benefits of outsourcing

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Outsourcing increases efficiency of HR department and functions and employee performance, this is owed to cost optimization from HR outsourcing, and the quality and efficient services offered by the vendor due to their specialization. Employees are motivated by professional services offered by outsourcing agents and their performance increases once placed under a professional service provider.

It can therefore be concluded that outsourcing enhances performance of the multinationals as they only concentrate on their core business and functions. Outsourcing temporary staff is more economical than handling them in house.

5.2 Recommendation

The study therefore recommends a clear understanding of the nature of the processes before they embark on the outsourcing process for a supplier successful performance management .Detailed requirements analysis will allow an effective service level agreement to develop, and this can be used to measure supplier performance.

REFERENCES

- Adler, P. (2003), '*Making the HR Outsourcing Decision*'; MIT Sloan Management Review, Vol 45, No 1, 53-59, Fall
- Anthony, W.P. Kacmar, K.M. &Perrewé, P.L. (2002). *Human Resource Management: a Strategic Approach*. Orlando: Harcourt College Publishers.
- Arbaugh, J.B. (2003). *Outsourcing Intensity, Strategy, and Growth in Entrepreneurial Firms*, Journal of Enterprising Culture, 11(2)
- Avagliano, T. (2004) *what you should know about BPO*. Outsourcing Essentials, Vol.2 No.1 Spring / 2004.
- Banham, R. (2011). *Forecast 2012: HR experts offer their opinions*. HRO Today, 10(10), December.
- Boninelli, I., & Meyer, T. (2004), *Building Human Capital: South African Perspectives*. Knowledge Resources

- Business News Daily; (2010 July 13) Outsourcing and Temps Makes make for Grumbling Workers;www.businessnewsdaily.com/51-outsourcing-and-temps-make-for-grumbling-workers.html retrieved on 14th July 2012
- Charara, J. (2004). Impact of outsourcing 'lasts years.' People Management, 2(4), 15-18.
- Chartered Institute of Management Accountants; Research executive summary series Vol.4 Issue 3
Christensen, R. (2006) Roadmap to Strategic HR. New York: Amacom.
- Collis, D.J. & Montgomery, C.A. (2005) Corporate Strategy. New York: McGraw-Hill / Irwin.
- Cook, M. & Gildner, S (2006) Outsourcing Human Resource Functions: How, why, when and not to contract for HR services; Society of Human Resource Management.
- Gilley, M., & Rasheed, A. (2000), Making More by Doing Less: An Analysis of Outsourcing and its Effects on Firm's Performance. Journal of Management, 26(4).
- Gupta, A (2008) Outsourcing and Offshoring of Professional Services: Business Optimization in a Global Economy: London: IGI Global
- Grobler, P. Warnich, S., Carrel, M.R., Elbert, N.F. & Hatfield, R.D. (2006) Human Resource Management in South Africa. London: Thomson.
Hatfield P. (2005) BPO: Career Maker or Breaker? Tech Decisions. December 2005. P.28-29.
- Hakala, D. (2008, May 25) How to be sensitive to Cultural and Religious Differences;
www.hrworld.com/features/cultural-religious-sensitivity-052108/
- Khanna, S. & New, R.J. (2005). A HR Planning Model for Outsourcing. Human Resource Planning, 28.4 p 37-43.
- Kimball, G. (2003). Outsourcing Business Processes: Building Successful Contracts. The Licensing Journal. March 2003. p. 13-16.
- Klaas, B., McClendon, J.A. and Gainey, T. (1999) *HR Outsourcing and its Impact: The role of Transaction Costs*, Personnel Psychology, 52, 113-136

- Kodwani, A.D. (2007). Human Resource Outsourcing: *Issues and Challenges*. The Journal of Nepalese Business Studies. Vol. 4 Issue No. 1
- Kruse, G., & Berry, C. (2004). Outsourcing: *The "How-To" Guide*. *IEE Manufacturing Engineer*. August / September 2004. p. 36-39.
- Koulopoulos, T.M. (2006). *Driving Innovation and Growth through Outsourcing*. Avon, MA: Platinum/Adams Media.
- Lawler, E. Ulrich, D., Friz-enz, J., & Madden, J. (2004) *Human Resources Business Process Outsourcing*. San-Francisco: Jossey-Bass Inc.
- Stone, L. (2005) *Take BPO-Specific Factors into Account When Evaluating Outsourcing Relationships*. Gartner. G00127639.
- Wright, P.M., Snell, S.A & Jacobsen, P.H.H. (2004) *Current Approaches to HR Strategies: Inside-Out versus Outside-In*. *Human Resource Planning*. 27 (4). p. 36-46.
- Craig, M. *Why HR still isn't a strategic partner*; <http://blogs.hbr.org/cs/2012/07> (July 5th 2012)
- Yankee Group (2005). Breakthrough Findings in Latest HR BPO. *BrandMonitor* Study, November 14, 2005