

Effect of Outsourcing Human Resources and Organizational Performance in Public Universities in Kenya

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Abstract

The paper outlines the relationship between outsourcing Human Resources and the performance of the organizational performance. It focuses on the public universities in Kenya. According to research done, Human Resource Outsourcing improves efficiency (Sang, 2010). The independent variables are reduction of cost, access to technology, allowing HR Personnel to focus on the strategic functions and focusing on the core competences. The research concludes by indicating that there is an overall benefit in terms of organizational performance when organizations outsource their Human Resources thus creating competitive advantage.

Keywords: Outsourcing, Human Resource Management, Performance, Public Universities in Kenya.

1. Background of the Study

Outsourcing, also referred to as contracting, according to Domberger (1998), is the process of searching for and appointment of contractors for the provision of goods and services and the execution of the contractual relations needed to support such activities. Research done by Sang (2010) found out that Human Resource Outsourcing improves efficiency.

A number of firms outsource routine administrative HR activities to release their in-house HR team for a strategic role. However, a minority of others have opted to outsource the entire package, including the design of HR systems that are likely to have a fundamental impact on organizational culture and performance (Klaas, McClen- don, & Gainey, 2001). The popularity of outsourcing also subjects HR practitioners to growing pressure to measure their performance. This emerging trend raises a number of questions like what HR activities should then be outsource. In the current situation, stiff competition has made the Public Universities in Kenya managements feel concerned about other parameters like employee productivity, profitability, shareholders' value and so on. Deregulation, economic reforms and large-scale technology adoption has brought in competition in the Higher Education sector, and at the same time exposed the inherent weaknesses universities and has threatened their performance. Kenyan Universities, both public and private, have embarked on a rapid expansion of their programmes and decentralization of campuses leading to rising enrolment rates despite diminishing financial resources. Public universities are state universities funded by the exchequer while private universities are those started by and fully run by private and/or religious organizations. The first university in Kenya, University of Nairobi founded in 1970, started as the Royal Technical College of East Africa in April 1952 (Ogechi, 2009). At present, there has been an increase of private and public universities (Ogechi & Nyameino, 2010). Over the years, the government has placed great emphasis on education whose role in promoting socio-economic and political development cannot be gainsaid whatsoever (Sifuna, 1998). Indeed, that is why the government has been keen in expanding universities, which as a result in the recent past posed serious challenges to the leaders and managers of the universities (Ogechi & Nyameino, 2010). However, as Cheboi (2004) observed, the government has been facing constraints in funding the universities and foreign partnerships and financing have played a crucial role in alleviating the universities' financial shortcomings (Kiptoo, 2004).

Nevertheless, financial limitations still remains the universities' main challenge but at the same time, it is an expectation that they provide quality education to their clients (students) whose population has been growing rapidly. Limited finances and large student numbers have brought about challenges not only of maintenance of the number but also of improving the quality of their services. It is because of this situation that some universities in their attempts to be frugal in expenditure, have considered "outsourcing" as an option in their efforts to cut costs, improve efficiency and meet the demands for greater accountability. The "outsourcing" focuses on some services previously provided and managed by the university itself.

1.1 Statement of the Problem

Outsourcing is a very crucial function in an organisation because it directly affects the firm's operational activities. HR outsourcing as an organizational strategy has increased substantially over the recent years in the corporate world. The increasing use of outsourcing arrangements, as well as the unfamiliar complexity, suggest the need to know more about utilization of this strategy effectively. In recent times, environmental and contextual changes presents a number of competitive challenges to organizations with new trends and patterns emerging and giving rise to a new economy influenced by the new factors that are changing the work system. With high competitiveness, new and innovative organizations springing up, organizations are being pushed to improve their performance to achieve a competitive advantage. Benefits of HR outsourcing are some of the opinions divided as being potential. For example, some authors see HR outsourcing as beneficial in terms of both service delivery and the enhancement of the strategic position of HR (Brenner, 1996; Laabs, 1993; Switser, 1997). Others consider HR outsourcing a concession that the HR function no longer has any strategic significance (Baker, 1996; Caldwell, 1996). Still others consider it as a way of reducing costs, access to expertise not available within HR, increased flexibility and speed of response, and freeing up to focus on more value-adding activities (Armstrong, 2009). Arising from the observed shortcoming identified above, a critical review of outcomes of outsourcing human resources need to be researched to see if they actually improve the performance of the organizations and its focus being in the Kenyan Public Universities. The area of outsourcing researched on in the past has not been adequately in the public universities and especially outsourcing Human Resources. This paper will dwell on the gap of HR outsourcing and its role on the universities performance.

1.2 Justification of Study

Public Universities play a crucial role in the development in the country. Due to increase of competition from self-sponsored private sector universities, the public universities have faced challenges that are forcing them to explore new ways of practicing HR for its improved performance. It has been an assumption that organizational performance depends largely on the performance of the employees to the organization. Universities expect outsourcing would help them focus on their "core-competencies" rather than concentrating their energies on non-core activities, help them getting access to new technology and reduce their cost of operations. HR outsourcing as an organizational strategy has increased substantially over the last decade. However, this trend has attracted little academic attention regarding how outsourcing impacts on organizational performance. Empirical evidence on the role of outsourcing of human resources is fragmented and inconclusive and thus the purpose of the study.

1.3 Objective of the Study

The main objective of the study is to establish the role of outsourcing on organizational performance in public universities in Kenya.

2. Literature Review and Theoretical Framework

Contemporary studies in the field of Human Resources Management has shown that the concept of outsourcing is multifaceted thus there are so many contribution to the definition of this concept. Gibson (1996) defined outsourcing as "submitting activities and routine functions to external units". According to Adeyemi and Salami (2008), outsourcing is the transferring of activities previously performed within the organization to external suppliers due to high transaction costs and risks, allowing the company to benefit from the supplier's higher production economies, such as scale and specification.

Outsourcing human resource is a trend that creates its own momentum because the more outsourcing that occurs, the larger and better the providers become, making increasing proportions for more organizations (Torrington, Hall & Taylor, 2005).

Human resource in the organization is well positioned by aligning strategic human resource to the core business to make it more efficient, more effective and more profitable by concentrating on core activities and by letting specialists service providers run the rest (Financial Time, 2009).

Over the recent years, HR activities have been increasingly outsourced by companies (Adler, 2003; Galanaki and Papalexandris, 2005; Lilly *et al.*, 2005). In 1999, Federal Reserve University of New York conducted survey on Education industry practices for outsourcing arrangements. Findings suggest that Public Universities will benefit from outsource human resource services for a number of reasons, such as, enhanced performance; costs reduction; access to superior expertise; and strategic reasons. In addition, the study indicates that although there are many benefits derived from outsourcing of HR services, the arrangement give rise to potential risks. The risks identified being strategic, reputation, credit, compliance, transaction and country risk. The study highlights the roles of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale leading to improvement in synergies, achievement of diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility.

As with US studies and the European studies, reveals several risks associated with outsourcing, namely, operational, legal, strategic risk, and country risk reputational risk, loss of flexibility, loss of control and cultural/social problems. Pujals, G. (2004) conducted a study on offshore outsourcing in the European Union financial services industry. Results of the study indicate that Education institutions may choose to outsource certain activities for various motives. Some of the motives cited are cost reduction, access to new technology, focus on core activities, improvement of quality of services and greater flexibility. In addition, the study identified the following risks associated with outsourcing of financial services: loss of control over service, operational risks, loss of internal skills, loss of flexibility, cultural and social problems, technical constraints, decline in quality and competitive advantages. An important feature of all the prior research studies documented in the preceding section is the exclusive focus on the Western developed economies. Thus, this study, with its primary focus on outsourcing practices in a developing country (Kenya) is an important extension of the outsourcing research and valuable addition to literature. Study of literature reveals that there are number of factors, both at strategic and operational levels, which influence HR outsourcing decisions of companies. The findings point out that increased competition, desire to gain access to leading-edge technology, remain focused on core activities, demand for cost savings, higher productivity, profitability, flexibility, etc. have put pressure HR Managers to demonstrate efficiency and effectiveness of HR functioning.. In general, employers consider using outsourcing for a number of (overlapping) perceived benefits (Shen, Cooke, & McBride, 2004; see Table I). The table below shows the Perceived Benefits and Potential Adverse Consequences of outsourcing:

Table I

Perceived Benefits	Potential Adverse Consequences
Concentration on in-house expertise	Discontinuity of skill supply
Specialist supplier's economies of scale	Loss of in house knowledge and capacity
Numerical flexibility	Higher total cost
Shift burden of risk	Loss of employee morale
Competitive tendering process	Loss of long-term competitiveness
Organizational learning from specialist provider	

Source: Shen et al. (2004).

2.1 Conceptual Framework

The conceptual framework of this study has four independent variables that influence organizational performance in the Public University sector, which is the dependent variable (outcome) as shown in the diagram below figure 1. The findings from literature review, benefits of HR outsourcing are as summarized in Figure 1 below:

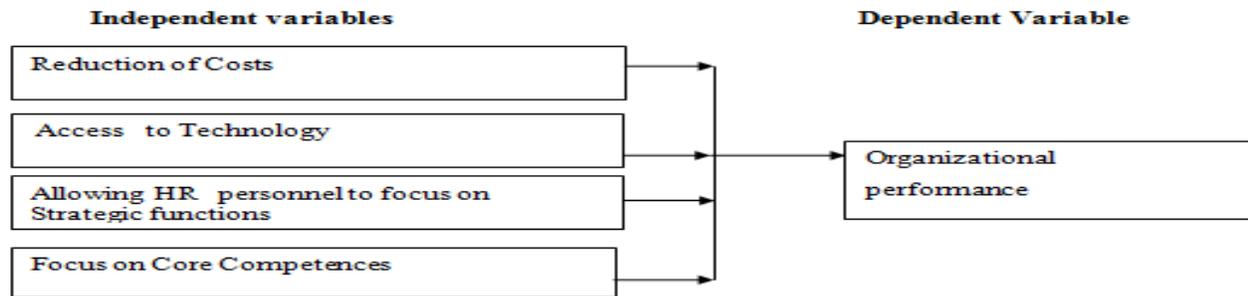


Figure 1

2.1.1 Reduction of Cost

Outsourcing provides firms with greater flexibility and productivity by using temporary subcontractors to cover fluctuating demands for labor (Cooke, 2001). This “just-in-time” deployment of human resources also brings other advantages of saving direct costs (reducing headcount and overtime working) and indirect costs (e.g., cutting administration and backup costs, saving recruitment and training costs, saving absenteeism costs, and reduced industrial relations problems).

Cost savings is one of the key drivers for HR outsourcing in organizations. Outsourcing enables firms to reduce future costs by selecting the right vendor through the process of competitive bidding (Demerger, 1998). Intense competition has forced HR heads to find ways to provide more value at lower cost (Adler, 2003; Yeung *et al.*, 1994), increase return on Investment (ROI) (Insinga *et al.* 2000, John, 2005, Skip, 2003). HR outsourcing provides firms with greater flexibility and increases productivity by using third party service providers to cover fluctuating demands for labour (Cooke, 2001). Damodar and Satish (2009) conducted a study on outsourcing in the automotive parts manufacturing industry in the state of Michigan and the Ontario provinces of Canada. They found out that firms that outsourced their HR activities were financially stronger and had higher employee productivity than those that did not outsource.

2.1.2 Access to Technology:

Innovative technology and knowledge/skill recognized as competitive weapons are unfortunately expensive to acquire and at the same time, successful results are often elusive when implemented internally (Lever, 1997, Belcourt, 2006; Scott-Jackson *et al.*, 2005, Seth *et al.*, 2011). Therefore, gaining specialized HR expertise, achieving flexibility and reducing risks are the main motivating factors for the managers to go for HR outsourcing (Belcourt, 2006; Lever, 1997; Scott-Jackson *et al.*, 2005).

2.1.3 Allowing HR Personnel to Focus on Strategic Functions

Outsourcing is not just about cost cutting or re-engineering; rather it is about redesigning organizational processes and change in work culture so as to fulfilling the strategic mission of the organization. Research found out that in many organizations internal employees, very often are, bogged down with normal routine works and get less time to engage themselves in consultative activities. Companies outsourcing HR functions have greater flexibility and they can free their internal staff from routine functions and engage them in strategic roles (Greer, *et al.*, 1999, Turnbull, 2002, Cooke, 2001, Jennings, 1996, Bettis *et al.*, 1992, Seth *et al.*, 2011). In turn, the nature of the activities change. For example, HR activities are becoming more complex, more compartmentalized into relatively self-contained areas (Tyson, 1987), and more prone to being performed by expert consultants (Torrington, 1989).

2.1.4 Focus on Core Competences

In the context of accelerating global competitive pressures, organizations ought to concentrate on their core competencies and utilize outsourcing to capitalize on others’ expertise (Domberger 1998; Porter, 1990; Prahalad & Hamel, 1990). However, what constitutes core activities and competencies is not static. Organizations are constantly reassessing what constitutes the core and noncore aspects of their business and readjusting the way these activities can be sourced, in-house or externally (Cooke, 2003). Organizations like to focus on their core activities since these activities create unique value for employees, customers, and investors (Ulrich, 1998).

Therefore, managers prefer to outsource non-core activities so that their internal employees can focus on the core functions (Jennings, 1996, Prahalad and Hamel, 1990). A study by Kinange and Murugaiah (2009) on HR outsourcing by IT companies in the state of Karnataka reveals that organizations always try to retain their core HR functions. These are soft skills, behavioral training, high value decisions, strategic functions, culture building, organization design, framing business rules, etc. with their internal HR Department and engage third party service providers for non-core activities. According to Hesketh (2005), organization should focus on core and outsource the rest. The quality, type and nature of the services to be provided by the outsourcing consultancy firm are usually determined by the service level agreement signed (Torrington et al., 2005).

Finally, Kraker (1995) reported that outsourcing is finding new methods for using new good and service suppliers to use their knowledge and experience in our activities. Burnes and Anastasiadis (2003) reported that outsourcing is more effective and successful in public sector than private. Moreover, with their comparative studies, Domberger (1998) and Burnes and Anastasiadis (2003) found that North American countries, England, France, Germany, Japan and Australia have increasingly tended to use outsourcing and have applied it in both private and public sectors. China, as a case pacing through development quickly, by using outsourcing in public and private sectors, has become one of the best countries in this field. The basis of outsourcing concept relies on the fact that organizations using outsourcing are trying to capture experts to whom they assign a series of their functions and use their knowledge and experience in those actions (Embleton and Wright, 1998:2).

2.2 Risks of Outsourcing

As noted in Table I, despite the rising popularity of outsourcing organizational activities, the practice is not without pitfalls. One of the most serious is maintaining the continuity of skill supply and the retention of in-house knowledge and expertise. Firms, seek outsourcing to save training costs, assuming that someone else will carry out the training to ensure the delivery of key skills. Skill loss can have damaging effects on competitiveness. As Prahalad and Hamel (1990, p 84) point out, “outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are needed to sustain product leadership.” Another major concern with outsourcing, particularly for those firms that operate in the upper end of the product market, is the loss of quality. Employees often judge service quality by comparing their expectation of the resulting service under the proposed change with their view of what the services should be or with the services that they used to have.. Potential Risks abound for organizations taking up outsourcing these are: unrealized savings with a potential for increased costs. Alexander and Young (1996), (Journal of Accountancy, 1996), employee morale problems. Story (2000), over dependence on a supplier Krizner (2000), lost corporate knowledge and future opportunities McIvor (2000a), and dissatisfied customers Kakabadse and Kakabadse (2000a). It is also noted that outsourcing may fail because of inadequate requirementsdefinition, a poor contract, lack of guidance in planning or managing an outsourcing initiative, or because of poor supplier relations.

2.3 The Kenyan Public Universities Sector and HR Outsourcing Context

The surge in outsourcing in Kenya and indeed around the world is causing workers to lose their jobs, across every field from manufacturing to engineering and even marketing positions. Even when the jobs are not lost, out sourced workers become derided and humiliated in most cases. Although outsourcing is a global phenomena in employee relations and also the world been a global village, the methods of outsourcing core jobs to contractors thereby trivializing worker’s job security and their conditions of service does not amount to internationally accepted best practices. On top of that, these employees work under very harsh conditions, including longer hours without commensurate pay. This is supported by Robert (2001) who noted that the treatment of workers displaced through outsourcing is an important area of concern.

Public Universities today make use of poorly paid contract staff in most of their operations and allegedly fired with no benefits. This is unacceptable to any emerging economy like Kenya. Outsourcing and its alleged risks on employee relations in organizations have generated many worries particularly against the backdrop of rising unemployment rate. (Ogunrinola & Osabuohien, 2010).

3. Research Methodology

The findings were from the primary data from review of literature on Human resource outsourcing, observations, and the secondary data through the means of academic journals on outsourcing of human resource, online resources and websites.

4. Findings, conclusions and recommendations

The study focused on finding the drivers of HR outsourcing in Public Universities. The study reveals that HR outsourcing will have overall benefit for the organization. The most important driver for HR outsourcing in Public Universities is from reduction of internal staff. In face of cut through competition, Public Universities are under pressure to increase profitability and productivity. Manager's view that outsourcing will help the University to function with reduced staff strength.

Demands for increased productivity, profitability, and growth have forced organizations to examine their internal HR processes, resulting in a move toward strategic outsourcing services and away from discrete services. As Greer, Youngblood, and Gray (1999) observe, HR outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for HR services. Downsizing and tougher competition mean that the HR functions is under increasing pressure to demonstrate value, both in terms of efficiency and effectiveness (Roberts, 2001). Although some elements of the HR functions, as noted here. The study also finds that focus on core activities, allowing HR staffs focus on strategic functions and streamlining HR functions have moderate impact on HR outsourcing decisions. Focusing on its core business and creating a competitive advantage within the industry is an important driver for HR outsourcing in Public Universities. In recent years, HR functions in Public Universities have become more complex and varied and Public Universities have realized that for effective control and systematic management, these functions are streamlined.

The study found that cost savings and access to technology are not significant motivators for HR outsourcing in the Public Universities. Thus, cost reduction is not always the important factor for deciding HR outsourcing (Hesketh, 2005, Shelgren, 2004; Stroh and Treehuboff, 2003). In service sector like Public Universities the real payoff from HR outsourcing lays not in reduction of costs, but in improvement of quality (Beaman ,2004).

The study is limited to the extent that its focus is on the Education sector of a specific Country (Kenya). Given the rapid changes taking place globally in the Education and financial sector, the findings of the study that might hold good at the time of the study might be changed. This report from the beginning introduced and high-lighted the changing trends and patterns of the economy, organizations and human resource practice as well as the need for organizations to outsource part of their human resource. Although the results show that organizations are in favor of it, the risks associated with carrying out this practice in a developing economy like Kenya need to be addressed especially in the area of human resource. There is also, need for the National Assembly to enact employment legislation that would protect employees' rights at such work places. There is a growing understanding that the current labor laws do not significantly protect employees from abuse by their employers in Kenya and foreign firms have exploited the loopholes to 'maltreat' laborers. A situation where workers are easily dispensed, at the flimsiest of excuses dampens productivity with its attendant reduction of potential national output.

The study concentrated on the public universities in Kenya. A similar study on the private universities is therefore strongly recommended.

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