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FINANCIAL MOTIVE OF HUMAN RESOURCE OUTSOURCING AND PERFORMANCE OUTCOMES AMONG MOBILE TELECOMMUNICATION FIRMS IN KENYA

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Abstract

The political, economic, social and legal environment that businesses operate defines the scope of actions that can be taken and shapes decisions. Outsourcing is one of the delivery mechanisms adopted by organizations to ensure competitiveness by enabling them invest time, money and human resources into core activities and letting other parties do the other functions more competently on their behalf. This study sought to examine the link between financial motive of human resource outsourcing and the performance outcomes among mobile telecommunication firms in Kenya. A descriptive survey design of cross-sectional nature of all mobile telecommunication firms was conducted. The target population was all three hundred and twelve (312) managers in three mobile telecommunication firms in Kenya. Data was analyzed using descriptive statistics, correlation analysis and logistic regression analysis aided by Statistical Package for Social Sciences (SPSS). The study is significant to all telecommunication firms in Kenya as it will provide valuable information on financial motive of outsourcing and performance outcomes. The study found negative and an insignificant relationship between financial motive of human resource outsourcing on performance outcomes. The study recommends that financial motive should not be the main driver of human resource outsourcing as there seems to be no direct relationship between the financial motive and performance outcomes.

Key Words: *Human Resource, Outsourcing, Financial, Telecommunication Firms in Kenya*

INTRODUCTION

Today's knowledge and service-based economy offers great opportunities for well-run companies to increase profits through outsourcing. Competitive pressures and the need for enhanced financial performance are driving an increase in the nature, scope and scale of outsourcing across industries worldwide (Ghodeswar & Vaidyanathan, 2008). Profitability is arguably the most important criterion of evaluating the performance of a firm. Profitability metrics measure the return that the firm's owners receive from their investments. When used properly; outsourcing can boost profitability in many ways. Woodall *et al.,* (2009) found that the primary driver for the decision to outsource is based upon cost savings. In theory, outsourcing for cost reasons can occur when suppliers' costs are low enough that even with added overhead, profit, and transaction costs suppliers can still deliver a service for a lower price.

Outsourcing for cost reduction assumes the existence of supply chain partners who possess significant production scale economies, volume leverage with multiple suppliers or operational efficiencies as specialized market agents (Brewer *et al*., 2012). As outsourcing increases, costs may decline and investment in facilities, equipment, and manpower can be reduced. Outsourcing for cost reduction can also reduce fixed investments in internal processes and facilities (Kotabe *et al*., 2008; Diaz-Mora & Triguero-Cano, 2012), and allow for capital to be invested in higher-productivity areas within the firm, thus driving costs even lower (Nayak, Sinha, Guin, (2007).

With outsourced solutions a whole host of employee related costs such as overtime, recruitment and training expenses can be reduced, the size of the function can be shrunk and cheaper substitutes applied, hence the overall payroll expenditure can decrease (Marchington & Wilkinson, 2008). By utilizing external services, the know-how is delivered by external staff, avoiding investments of financial capital and consequently leading to economies of scale (Beregszaszi, & Hack-Polay, 2012). Davidson (2005) affirms that virtually every company that entered an HRO arrangement reported significant reduction in HR costs through greater economies of scale, lower technology-investment costs, efficient HR processes and headcount reductions.

In Kenya, Business Process Outsourcing (BPO) includes call centers, animation, software development, knowledge processing, data processing and transcription (Wahome, 2008). Telkom Kenya recently retrenched more than ten thousand employees. Those with unique specialized skills in telecommunications were asked to form companies from which the corporation could outsource the services it needed (Gachunga, 2012). Safaricom, a mobile telephone service provider in Kenya, which have also spread into the East African region, have also made a strategic decision to outsource their call centers and concentrate on the core business (Safaricom Records, 2008). London based business analysis group Data monitor says that Africa would see the fastest growth in the number of call centers for the rest of the decade and singled out Egypt, Botswana, Ghana and Kenya for particularly rapid expansion. The business analysis group also notes that Kenya, Botswana and Ghana were all British colonies and have the sort of linguistic skills and education systems that make them well placed for call centers. Few academic researchers have analyzed how determinants of human resource outsourcing influence outsourcing outcomes.

Statement of the problem

Organizations are constantly seeking to grow, remain competitive and meet changing business conditions. The human resources function, like other functions is under scrutiny to deliver value adding quality services to the business, coupled with the drive to reduce operating costs. Traditionally HR managers are responsible for updating the policies and procedures affecting their companies, selecting, hiring, training and compensating the workforce. However, today's HR managers are expected to be more flexible, responsive and efficient, and contribute to the strategic decisions of their companies. HR managers have responded to this shift in paradigm by turning to outsourcing as a way of meeting these demands (Abdul-Halim and Che-ha 2010,).

The accelerating global competitive pressures have forced organizations to seek ways to enable them concentrate on their core competences and utilize outsourcing to capitalize on others' expertise. However what constitutes core activities and competencies is not static. Organizations constantly reassess what constitute the core and non- core aspects of their business and readjust the way these activities can be sourced either in-house or externally. Even though Outsourcing may seem to be a simple cost reduction option, there are challenges to getting it right. It is quite difficult to know what benefits to expect in the first instance and set measurable performance indicators for both the client and the outsourcer (Cicek & Ozer, 2011).

Outsourcing alienates and "deskills" employees which can lead to the disintegration of an organization's culture through diminished employee commitment (Woodall *et al,.* 2009). The success of a HR services outsourcing relationship depends on finding a supplier with the right cultural fit, defining the contract precisely, obtaining senior management buy-in, clarifying roles and educating employees, and installing a layered governance structure. In most cases managers have difficulty expressing and describing in detail what they require from the vendor a problem that could be attributed to lack of experience in managing outsourcing relations (Galanaki & Papalexandris, 2005). Successful companies in outsourcing work often have clear understanding of their core-activities, have done adequate research and planning and most importantly have developed clear objectives, goals and expectations of outsourcing activities (Maelah, Aman, Amirruddin, Auzair, & Noradiva, 2011).

HR services vendors lack the experience and actually learn on-the-job, with the project they are asked to carry out. This is due to the fact they usually hire young graduates to carry out projects that require significant experience because of difficulty recruiting experienced professionals for consultants' positions. Smaller companies on the other hand usually expect consultants to offer expertise on every possible matter and this places great demands on them especially those of older age. At the same time, increased expectations by companies make them reluctant to accept younger consultants who lack maturity of the HRM outsourcing market (Galanaki, & Papalexandris, 2005).

There are claims that the failure rate of outsourcing relationship is high due to the high risk associated with it. Dissatisfaction has remained surprisingly high among clients, according to numerous surveys of business executives involved in outsourcing relationships. The majority claim that outsourcing does not deliver the benefits promised by the media and outsourcing vendors and thus an increasing number of outsourcing deals are being terminated and back sourced or re-outsourced (Barney, Low & Aurum ,2009).

Outsourcing, being a strong trend in business today, still needs the rigor and due diligence to ensure the right decisions are made. Organizations choose to outsource various activities based on certain considerations by their managers. Very few researchers have examined the link between motives of human resource outsourcing and the performance outcomes. This study therefore sought to investigate the relationship between financial motives of human resource outsourcing and performance outcomes among mobile telecommunication firms in Kenya.

Study Objective

To examine the relationship between financial motive of human resource outsourcing and performance outcomes among mobile telecommunication firms in Kenya.

THEORETICAL BACKGROUND AND LITERATURE REVIEW

This study examined theoretical and empirical literature relating to the financial motive of human resource outsourcing and performance outcomes. The link between financial motive of human resource and performance outcomes was examined and new research questions developed to help in the understanding of concepts under study.

Resource based view (RBV)

Resource-based view views the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage (McIvor, 2008).The resource-based perspective holds that the possession of certain resources and capabilities defines what the organization will do and what it can obtain from outside parties. This view suggests that to gain competitive advantage, an organization must focus on those activities that constitute the core competencies and outsource the more peripheral activities (Karhunen & Kosonen, 2013). Core activities are transformational work that creates unique value for employees, customers, and investors. Non-core activities are standard routine transactional work easily duplicated and replicated. This perspective helps to identify those core activities that the organization must perform in-house.

According to the RBV, only those HR activities that could not meet the criteria of deliverability, inimitability, durability and non-substitutability should be outsourced. Core competencies that are intrinsic to the organization should be identified, nurtured and retained in-house. Externalization can provide internal coherence, by allowing a concentration upon core competences. This implies that the selection of HR activity for outsourcing would be contingent upon sustaining the core competences of the organization and in certain circumstances this might preclude a consideration of outsourcing (Woodall *et al.,* 2009).

One of the prescriptions of the resource-based view is that strategic tasks, which are part of the company's core competencies, should generally be performed in-house while outsourcing may offer a chance to access the core competencies of other firms subsequently leading to higher levels of service quality. (Braun, Pull, Alewell, Stormer, & Thommes, 2011).The Resource based view supports the fact that organizations outsource to gain expertise but does not support the idea of financial gain therefore the Transactional Cost Economics theory is introduced.

Transaction cost economics (TCE)

Outsourcing is commonly linked with Williamson's (1985) Transaction Cost Theory (TCE) which emphasizes that a company will make the outsourcing decision on the basis of reducing production and transaction costs (Cicek & Ozer, 2011). The model proposes comparison of the costs incurred by internal production and by buying from the market. Williamson claims that in order to comply with cost-conscious corporate governance strategies the choice of buying should be considered with regard to price as it could offer cheaper solutions than preparing internally. TCE is valuable because it identifies the factors that should be considered when decisions about outsourcing are made (Greenberg, Greenberg & Antonucci, 2008).

Transaction cost theory states that there are economic costs involved in the transactions between two or more entities that include billing cost, operation cost, coordination cost and overhead cost. Therefore, organizations need to choose between producing and making their own or outsourcing that activity. Producing internally means there is the risk of being unable to achieve the economics of scale versus outsourcing that will incur a transaction cost (Hatonen & Erickson, 2009).

In a bid to secure the most efficient form of organizing an activity, organizations focus on two types of costs that must be minimized: the production cost and transaction or coordination cost. Outsourcing is appropriate when the organization achieves lower costs by transacting with external agents rather than building the internal capacity for a service. This suggests that the human resource activity most likely to be outsourced was that which was most unlikely to incur high costs due to uncertainty, the threat of opportunism, asset specificity, frequency, and ease of measurement (Woodall *et al*., 2009).

Braun *et al*., (2011) have observed that while transaction cost theory concentrates on the non-production costs of different kinds of sourcing, it remains almost silent on the relationship between outsourcing and service quality. What it has shown, however, is that if a personnel function is rather specific, the costs of market transaction will be high because an external provider would first have to gain firm-specific knowledge, which would, in turn, make switching providers more difficult later on. If, in such a situation, outsourcing is chosen, a quality reduction may result – especially if the external provider does not manage to acquire the necessary knowledge and the level of service provided does not meet the needs of the company (Klaas, McGlendon, & Gainey, 2001). But even if the requirements are met, its quasi-monopolistic position may result in a hold-up situation, where it has an incentive to reduce service quality. The Transaction Cost Theory supports the view that organizations outsource for financial gain. Outsourcing can help an organization secure the most efficient form of organizing an activity. Workforce flexibility practices are also aimed at reducing costs as organizations deal with fluctuations in demand for labour.

Empirical Review

Researchers have focused on three types of performance measures as necessary components in any outsourcing performance measurement system: strategic measures; financial measures; quality measures and additional dimensions of market performance like costs savings, cycle time, customer satisfaction, and productivity to measure the effectiveness of outsourcing strategy (Kotabe *et al*.,2012). The predominant performance enhancement sought through outsourcing is cost reduction. Firm goals include reducing production costs, capital investment, fixed costs, overhead, and downsizing. Firms often also seek quality improvements through outsourcing, a performance measure better tied to core competence strategies (Wallenburg *et al*.,2010).

Additional areas of enhanced performance sought through outsourcing include improved delivery metrics, increased learning and acquiring of new skills, improved innovation, and increased access to international markets and materials (Zacharia, Sanders, & Nix, 2011). Competitive advantage can be gained when the most appropriate business processes are performed more effectively and efficiently by external suppliers. Organizations consider outsourcing nearly all the services they need –printing, legal services, accounting and book-keeping, telecommunications, vehicle maintenance, security, payroll, recruitment and many others, thus restricting their own employees to the core functions that define the organization’s business.

Outsourcing yields many performance benefits in theory, for example, Nayak et al. (2007) found that outsourcing was successful in enabling product quality improvement, speed to market, increased sales, improved buyer supplier relationships, and a focus on core competencies. On the other hand, a study by Booze Allen Hamilton (reported in the April 3, 2006 edition of Fortune) found that only 12 percent of outsourcing deals were considered successful from the customer's perspective. Gottfredson et al. (2005) found that about half of the outsourcing efforts of the organizations in their sample fell short of expectations, with only 10 percent being highly satisfied with the cost reductions achieved and only 6 percent being satisfied with the overall outsourcing experience.

Logistics outsourcing research indicated that often low labor costs are offset with transportation and inventory costs (Kumar and Kopitzke, 2008) and that service provider fees and international costs were often under estimated (Selviaridis and Spring, 2007). Some studies indicate that there is no direct relationship between outsourcing and performance, but that the benefits of outsourcing are transmitted through the impact they have on the organization's competitive capabilities (Bustinza et al., 2010).

Gewald (2010) also found that perceived benefits play an important role in intention to use BPO among senior management. HR outsourcing is viewed as an effective way to improve efficiency by gaining access to experts in HR areas. Outsourcing providers bring extensive world-class resources to meet the needs of their customers. They can offer access to new technology, tools and techniques lacking in the organization; more structured methodologies, procedures and documentation; and a competitive advantage through expanded skills. Outsourcing enables the organization to consistently perform functions better that its competitors and continually improve on the activity as markets, technology and competition evolves (Ghodeswar & Vaidyanathan, 2008).

A survey conducted by Accenture and the Economist Intelligence Unit found that two-thirds of the respondents – all of whom had been outsourcing a major business process for at least two years – agreed that outsourcers who know how to manage the process can enhance their company's performance and achieve a high level of satisfaction with the results. Other studies indicate that there is a U-shaped relationship between performance and the level of outsourcing, indicating that there is an optimal level of outsourcing and that deviating from this optimal level in either direction will result in poorer performance. Thus, there appears to be some ambiguity concerning the connection between outsourcing implementation and the expected performance improvements (Brewer *et al*., 2012, Kotabe et al., 2012; Kotabe and Mol, 2009).

Decisions to source services externally are shaped by many factors depending on contexts. HR deliverables are hard to quantify and consequently its output is difficult to measure even within similar organizational settings. This limitation is amplified when the task or task-sets shift to an external provider over whom only limited control can be exercised. The intention of freeing up internal staff to focus more on strategic issues is argued to be below anticipations since only some firms are able to increase strategic focus and do not devote less time to the old responsibilities either (Beregszaszi & Hack-Polay, 2012).

RESEARCH METHODOLOGY

Research methodology refers to the method, techniques and procedures that are employed in the process of implementing the research design or research plan as well as the underlying principles and assumptions that underlie their use (Babbie & Mouton, 2009).

This study adopted the positivism philosophy. This is a practice of research which emphasizes the search for universal laws of human behavior (Babbie & Mouton, 2009). A deductive approach usually associated with quantitative data was used (Orodho, 2009). Theory developed from academic literature was be subjected to a rigorous test through a series of propositions.

According to Babbie and Mouton (2009) a research design is a plan or structured framework of how you intend conducting the research process in order to solve the research problem. A descriptive survey design of cross-sectional nature was adopted. A cross-sectional survey of managers in the three mobile telecommunication firms in Kenya was conducted.

Both primary and secondary data was obtained. While questionnaires were used to collect primary data, secondary data was obtained from the internet, journals and books.

Study Population

A study population is that aggregation of elements from which the sample is actually selected, (Babbie & Mouton, 2009). The study population was all 312 managers in three mobile telecommunication firms in Kenya (Table 1), namely A, B and C for confidentiality purposes.

Data Processing and Analysis

The descriptive statistics such as mean scores and standard deviation helped the researcher to describe the data. Inferential statistics were used to aid in testing hypothesis and drawing conclusions about the larger population. The results were presented in tables. A multiple logistic regression analysis was done to determine the relationship between motives of financial outsourcing on performance outcomes among mobile telecommunication firms in Kenya.

SUMMARY OF THE FINDINGS

The objective of this study was to examine the relationship between financial motive of human resource outsourcing and performance outcomes among mobile telecommunication firms in Kenya.

The number of questionnaires that were administered was 302 out of which 204 were properly filled, returned and found suitable for analysis. This represented an overall response rate of 67.54%. Majority of the respondents were male who represented 57% of the sample while 43% were female. Based on age of respondents, 57.3% were on age bracket of 35-44 years. 38.2% were on age bracket of 25-34 years, while 4.4% were between 45-54 years. Based on the company 43.6% worked for Safaricom, 28.9% were from Airtel while 27.5% were from Orange.

The majority (67.7%) of the respondents occupied middle level management, 21.6% indicated were in lower level management while 10.8% occupied top level management. This implies that the respondents had a good knowledge of the firm's operations since majority were in middle level management. Based on level of service, majority of the respondents who were 48.5% had worked in the telecommunication sector for 1-5 years, 32.8% had worked in the sector for 6-10 years, 12.7% had worked in the sector for 11-15 years, and 4.4% had worked for 16-20 years while only 1.5% had worked in the organization for above 20 years. Majority of the respondents had not served in the organizations for very long periods.

Majority of the respondents who were 61.2% had their highest level of education being degree, 30.9% of the respondents had their highest level of education being masters while 7.8% of the respondents had their highest level of education being diploma. This implies that the employees working in the telecommunication sector are educated and thus they are skilled for the job.

From the findings, based on outsourcing decisions, 36.3% indicated low, 31.4 indicated moderate and 21.6% indicated very low, 7.8% indicated high while only 2.9% indicated very high. This means that majority of the employees in telecommunication sector are not fully involved in the outsourcing decision.

The objective of the study was to determine the relationship between financial motive of human resource outsourcing and performance outcomes among mobile telecommunication firms in Kenya.

The results show that 78.8% agreed with the statement that the organizations outsourced to reduce investment on assets. 81.3% agreed that the organization outsources to free up resources for other purposes., 72.2% agreed that the organization outsources to minimize on salary expenditure, 87.2% agreed that the organization outsources to accelerate expansion by tapping into the providers developed capacity, processes and systems, 85.4% agreed that the organization outsources to reduce costs through superior provider performance and lower cost structure while 82.8% also agreed that the organization outsources to turn fixed costs into variable costs.

The overall mean of the responses was 0.81 which indicates that majority of the respondents agreed with the statements of the questionnaire. The standard deviation of 0.39 indicates that the responses were varied.

Descriptive results indicated that the majority agreed that the organizations outsource to accelerate expansion by tapping into the providers developed capacity, processes and systems, to reduce costs through superior provider performance and lower cost structure, and to turn fixed costs into variable costs. Correlation results indicated that overall, there was a negative and insignificant association outcome between financial motive and performance outcomes.

However, a drill down on specific attributes of financial motive using logistic regression revealed that some financial motives such as reducing investments in assets was positively and significantly associated with performance outcomes. Freeing up resources for other purposes was positively and significantly associated with performance outcomes, reduce costs through superior provider performance and the provider's lower cost structure was negatively and significantly associated with performance outcomes. Further, the results revealed that turning fixed costs into variable costs was positively and significantly associated with performance outcomes. The existence of both negative and positive effects may have confounded the overall effect thereby making the correlation results insignificant.

CONCLUSION

Based on the findings above, there seems to be no direct relationship between financial motive of human resource outsourcing and performance outcomes, therefore cost reduction should not be the only factor considered in the decision to outsource as the real payoff from HR outsourcing is not in reduced costs, but in improved quality. Apparently the effects of outsourcing on an organization's cost are not yet fully understood and perhaps the variables and their relationships are more complex than expected (Kremic *at al*., 2006). For success in outsourcing, companies need to have a clear understanding of their core activities, do adequate research and planning and develop clear objectives, goals and expectations of outsourcing activities (Maelah, Aman, Amirruddin, Auzair, & Noradiva, 2011). Managing and developing a complex web of relationships with internal and external HR providers requires substantial skill in supplier management, customer service and project management therefore managers need to be given specialized training to be able to handle these relationships.

However HR outsourcing is recommended if the motive is to reduce investments in assets, free up resources for other purposes or turn fixed costs into variable costs. These were found to have a significant and positive influence on performance outcomes.

RECOMMENDATIONS

Based on the conclusions and findings above, firms should not only focus on cost reduction in the decision to outsource as the real payoff from HR outsourcing is in improved quality. A longitudinal study should be carried out to establish if there are any financial benefits of HR outsourcing.

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