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ABSTRACT

This research examined the effect of human resource outsourcing on performance of Logistics Company in Mombasa County. Particularly, the study aimed at establishing whether outsourcing activities such as recruitment and staffing, training and development, payroll management, performance management and contract and casual employment management have effect on the performance of logistics companies in Mombasa County. The researcher applied descriptive cross-sectional survey research design in carrying out the study. The respondents were 128 heads of HR department in the 128 randomly selected logistics companies from a population of 425. Semi-structured questionnaires were distributed to the respondents via email and feedback also received via email. The quantitative data was analyzed by use of descriptive and inferential statistics by use of statistical package for social sciences (SPSS). Both the correlation and regression analyses were used in the analysis. The results indicated that recruitment and staffing, training and development and payroll management had a positive but insignificant relationship with the performance of logistics companies in Mombasa County. Performance management had a negative and insignificant relationship. Only contract and casual employment management had a positive and significant relationship with performance of the logistics companies in Mombasa County. Only contract and casual employment management had significant relationship with performance of logistics companies in Mombasa County, while all the other HR functions outsourced had a negative relationship with performance. The top management should be in the forefront to support the business by increasing the extent of human resource outsourcing through outsourcing several human resource functions. The study showed the outsourcing several human resource functions would spur the performance of the organization.

Key Words: Recruitment, Staffing, Training, Development, Payroll Management, Performance Management, Contract and Casual Employment

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INTRODUCTION

Outsourcing can no longer be ignored because it has become a major factor in the organization's performance (Tomas, 2010). The traditional HR function of hire and fire has grown to a more strategic function of profit making for the organization. The previous HR services which have been regarded as an organization's own responsibility to manage are now increasingly being routinely purchased from external suppliers. Turnbull (2002) observed that external service providers may have always been performing some elements of HR functions, but now it is with a new dimension of the financial driven idea of the organization saving money by connecting outsourcing to human resource management.

Human Resource Outsourcing is the process where an organization transfers its HR functions to another firm to allow it to focus on its core competencies. The nature of HR functions is often time consuming and complex, thus creating difficulty in managing the important areas (Ganta, Prasad & Manukonda, 2017). Benton (2010) defined HRO as people not employed in an organization doing work for that organization. Gil-Padilla and Espino-Rodriguez (2005) stated that outsourcing is a combination of two words "out" which refers to exterior and "source" that refer to the origin. HRO therefore is when certain HR functions are obtained outside the firm. Outsourcing is the process that involves two parties, where the client transfers an internal activity to an outsourcer who is an external body (Galalitiyane & Musa, 2011).

Organizational performance has been defined as the scope an organization achieves a set of its pre-defined targets which are unique to the mission of that organization. Organization performance can be attained through items such as piloting, quality, effectiveness and efficiency (Iuliana & Maria, 2016). Performance is a comparison between the outcome and objectives. Organizational performance is a complex concept that involves performance standards which include: quality, effectiveness,

productivity, profitability, work of quality and innovation (Rolstadas, 1998).

Logistic companies in Kenya hold the key to the country's economic development to a great extent. Kenya has extensive and wide network of paved and unpaved roadways. A significant development in logistics and supply chain systems in Kenya has been realized over the past few decades (Kamau, 2018). Logistics companies provide various integrated solutions on cargo by offering complete solution in every type of terrain, namely sea, air and land from the port of destination to the port of loading. The Mombasa based port is managed and operated by the Kenya Ports Authority (KPA). The port is a crucial hub for 6 international trades in the East and Central African region. Inland transportation from the port is provided by truck and train, and the Standard Railway Gauge (SGR) operates from the Port of Mombasa County to the dry port in Nairobi known as Inland Container Depots (ICD).

The logistics industry is segmented vertically, where large logistics companies take the largest clients because they have the ability to provide a range of logistics solution from packaging, warehousing, consolidation and imports/exports advisory services to goods inspection. Smaller logistics companies are often left with clients handling few consignments forcing them to limit their services to handling a few shipments per year and arranging transport for individual agents. There are a number of multinational firms, a good number of locally and foreign owned firms, and a bigger number of smaller domestic firms. 6 of the largest 16 logistics firms in Kenya have a significant foreign equity level (Arnold et al 2016).

The need for logistics solutions has been implied by the developments which were proposed in the port of Mombasa County. They include new developments for oil and gas docks and construction of a third container terminal. According to the Federation of East African Freight Forwarders Associations (www.feaffa.com), there are 425 registered logistics companies operating in

Mombasa County, Kenya. The efficiency of moving goods progresses through improved techniques and management principles in the logistics involved in transporting products, delivery speed, the cost of transportation and energy saving (Tseng & Yue, 2005).

Research Problem

HRO is a very crucial function in an organization due to its direct effect on the organization's operational activities. The increasing use of HRO arrangement and its unfamiliar complexity has suggested the need to know how to effectively utilize of this strategy. Logistics companies are constantly looking for new strategies and solutions to developing and improving their performance. HRO is one of the strategies which have been adopted by the logistics companies to attain competitive advantage. Logistics companies expect HRO would enable them focus on their core-competence as opposed to concentrating their resources on non-core activities, reduce their operational costs and get access to new technology. Despite many logistics companies engaging in HRO, there is scarce evidence of the effect of HRO on their performance.

In a study of State Corporations in Kenya, Anyango (2014) found that State Corporations are practicing HRO and that the overall performance of the State Corporations improved through customer satisfaction, the enhanced product quality, increased operational efficiency, reduced turnover, created good image and innovative practices. The study was carried out in State Corporations in the County of Nairobi; hence the findings may not be applicable to State Corporations in other counties. The private sector where logistics companies fall into was also not covered in the study and yet they offer different services from those offered by the public sector. Matolo and Iravo (2018) did a study on how HRO impact the performance of public universities in Kenya and found that outsourcing reduced cost hence enhanced the financial position of the universities. The study also found out that outsourcing allowed the university to concentrate on the core business of universities and therefore

created competitive advantage. However, the results of the study may not apply to logistics companies due to operational differences.

Boison et al. (2018) studied how HRO impact the organizational performance in Vodafone, Ghana. They found that outsourcing reduced the cost and number of employees; promoted sharing of risk, enhanced access to external capabilities and reduced capital expenditure. However, the benefits were closely matched with risks such as stagnant growth, concerns of quality, lead time problems, erosion of competency, hidden costs and increased employee turnover. The study showed mixed results on the effect of HRO in that particular firm. The findings can however, not be generalized to all other organizations in the same industry, other sectors and even countries because they are for a particular organization. Deloitte Consulting (www.deloitte.com) reviewed HRO in 25 large organizations and found that 70% were dissatisfied with the surprise additional hidden cost which was a very strong negative in HRO.

Even though there are many studies in relation to HRO, very few have been on the effect of HRO on performance of logistics companies. According to the author's knowledge, there exists scarce empirical evidence on HRO in logistics companies, and yet logistics is an area seeking ways of continuous improvement, cost saving, flexibility and remaining competitive in the market through HRO. Studies done on the effect of HRO on organizational performance show mixed results, like in the case of Vodafone, Ghana. This study has given an answer to the following question: What is the effect of human resource outsourcing on performance of logistics companies in Mombasa County?

Research Objective

The objective of this study was to establish the effect of human resource outsourcing on the performance of logistics companies in Mombasa County.

LITERATURE REVIEW

Theoretical Foundation

Transaction Cost Theory

A British economist called Ronald Coase came up with the theory of transaction cost in 1937 and later an American economist called Oliver Williamson refined it in 1975. The theory explains transactions between an organization and vendor. The transaction cost theory explains the grounds on which the decisions of making or buying are made. The theory has been extensively utilized in explaining strategies adopted by corporations such as franchising, vertical integration and internationalization (Boison et al, 2018). OECD defined transaction cost as the cost that is incurred in foreign market exchange. The costs consist of the costs of establishing the prices in the market and the cost of contract writing and enforcement. The theory ultimately assists in assessing the costs and the risks that are involved in outsourcing of internalized activities. The theory plays a role assisting organizations make a decision of either outsourcing HR functions or not. It also helps in explaining the transactions between the organization outsourcing its HR function and the firm offering outsourcing services.

Agency Theory

Barry Mitnick (1975) is the proponent of the agency theory after developing on Stephen Ross (1973) agency theory of economic. The agency theory tries to address the problems that occur in organizations due to separation of owners of the business and managers engaged by the owners and emphasizes on the reduction of the problem. This theory has been used to explain the situation in which one party delegate's responsibility for a task to another party (Fama, 1980). The party that is delegating the work is called the principal and the one to who tasks are delegated to be the agent. The original purpose of formulating the agency theory was to define and manage the relationship and behavior that exists between the principals (shareholders) and their agents (directors or managers employed by shareholders) in organizations (Boison et al.

2018).The agency theory has been used in this study to illustrate the relationship between two inter-firm subjects, outsourcer (the principal) and outsources/vendor (the agent).

Human Resources Outsourcing and Organizational Performance

Manisha and Deepa (2011) raised concerns about the future purpose and contribution of HR professionals because some functions will be transferred and the strategic and management complexities of HRO deal. Outsourced practices consist of sales and marketing, security services, manufacturing, logistics, transport, HR, research and development, IT, management services and administration, customer support, cleaning and catering (Chanzu, 2002). Outsourcing practice for the intended of this study was HR.

A study conducted by Greev, et al. (1999) established that organizations outsource HR for both strategic and operational purposes. Their findings recommended the following guidelines of HRO: vendor selection, outsourcing transition management, vendor relations management and vendor performance monitoring. Outsourcing happens in HR functions include training & development, recruitment, payroll management, employee benefits administration and management of short term contracts (Maende, 2010). Mumbi (2012) stated that recruitment, training & development, job description, job evaluation and employee relation are the most outsourced HR functions by many organizations in Kenya.

According to Manisha and Deepa (2011), organizations engage in human resource outsourcing due to the following reasons: the cost reduction, technology adaptation, risk diversification and to increase productivity. Successful HRO arrangements start with carefully examining aspects such as stock taking of the internal processes of the HR department, developing realistic and achievable goals and sourcing for a vendor that will fit the organization's

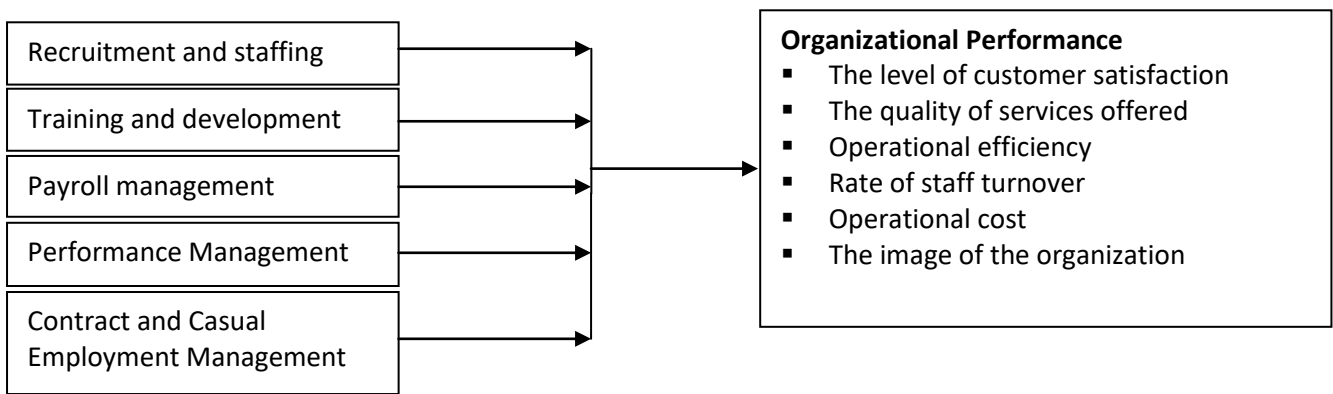
culture. Most organizations use pricing a factor of selecting vendors.

Lawal (2000) stated that an organization is considered to be performing when it has the ability of achieving its desired goals, that is measurable in terms of profit, growth, surviving in a competitive environment and the ability to adopt to environmental changes. He further stated that the qualities of the top level management team, stability of executives, availability of resources, enabling environment and strategies adopted contribute to the success of organization. Osuagwu

(1999) is of the view that strategic factors (the strategic planning process and the content of strategic plans) are essential to the survival and growth of organizations.

Conceptual Framework

For this study, human resource outsourcing was represented as the independent variables while the performance of the organization the dependent variable. Independent variable elements included recruitment and staffing, training and development, payroll management, performance management, contract and casual employment management.



Independent Variables

Dependent Variable

Figure 1: Human Resource Outsourcing Functions and Organizational Performance

METHODOLOGY

Descriptive cross – sectional survey was used in this study. The target population for this study was all logistics companies based in Mombasa County and according to the Federation of East African Freight Forwarders Associations (www.feaffa.com), there are 425 companies operating in Mombasa County. The researcher used a sample size of 30% which represented 128 logistics companies in Mombasa County. Mugenda and Mugenda (2003) stated that for a population of less than 500, a sample of 30% is sufficient. Simple random sampling was used for this study. The researcher used a questionnaire as the instrument for collecting primary data. Questionnaire was more appropriate because it was able to reach a large number of respondents, respondents were able to open up without fear of

victimization since they were not be required to reveal their identity. The respondents were heads of human resource department from the selected 128 logistics companies in Mombasa County. The completed questionnaires were thoroughly reviewed and edited to ensure accuracy, completeness, uniformity and consistency through data coding and data tabulation and keyed in Statistical Package for Social Sciences (SPSS). Means and standard deviations were used to establish the existence and the extent of human resourcing outsourcing practices.

A multiple linear regression was used to analyze the collected data with organizational performance as the dependent variable and HRO as the independent variable. Linear regression analysis

offered estimates of values of the dependent variable which were summarized by use of tables and percentages. A multiple linear regression was used to test the relationship between HRO and the organizational performance in logistics companies in Mombasa County. The equation is represented as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Where:

Y = Organization Performance

A = Constant (Intercept)

B1, B2, B3, B4 & B5 = Regression Coefficient for the five Variables

X1 = Recruitment and Staffing

X2 = Training and Development

X3 = Payroll Management

X4 = Performance Management

X5 = Contract and Casual Employment Management

ϵ = Error term

Table 1: Frequency (%) of Responses

| HR Practice | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|------------------------|-----------|---------------|-----------------|--------------|-------------------|------|----------------|
| Job advertisement | 8.8% | 16.5% | 34.1% | 27.5% | 13.2% | 3.20 | 1.137 |
| CV screening | 12% | 20.9% | 30.8% | 30.8% | 5.5% | 2.97 | 1.110 |
| Testing and assessment | 7.7% | 22% | 36.2% | 24.2% | 9.9% | 3.07 | 1.083 |
| Interviews | 7.7% | 25.3% | 32.9% | 25.3% | 8.8% | 3.02 | 1.083 |
| Background check | 8.8% | 25.3% | 35.1% | 23.1% | 7.7% | 2.96 | 1.074 |

The recruitment and staffing activities scored the following; job advertisement (mean 3.20 and standard deviation 1.137), CV screening (mean 2.97 and standard deviation 1.110), testing & assessment (mean 3.07 and standard deviation 1.083), interviews (mean 3.02 and standard deviation 1.083), and background check (mean 2.96 and standard deviation 1.074). With a mean of 3.20, it is evident that job advertisement is most outsourced recruitment and staffing activity in

FINDINGS AND DISCUSSIONS

Human Resource Outsourcing

The five HR functions considered for the study were recruitment & staffing, training & development, payroll management, performance management and contract & casual employment management. The respondents were requested to state the extent to which their company has used the HR outsourcing practices in a five Likert scale, where 1 represented no extent, 2 to a little extent, 3 to a moderate extent, 4 to a great extent and 5 to a very great extent.

Recruitment and Staffing

The study desired to realize the extent to which logistics companies are outsourcing recruitment and staffing function. Heads of human resource department were requested to state the extent to which the activities displayed in table 1 were outsourced.

logistics companies in Mombasa County. The companies preferred using recruitment firms to advertise their job vacancies.

Training and Development

The study desired to realize to what extent are logistics companies outsourcing training and development activities. The heads of human resource department were requested to state to what extent the activities displayed in table 2 were outsourced.

Table 2: Frequency (%) of Responses

| HR Practice | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|-------------------------|-----------|---------------|-----------------|--------------|-------------------|------|----------------|
| Training needs analysis | 16.5% | 28.6% | 35.2% | 14.3% | 5.5% | 2.64 | 1.091 |
| Training program | 3.3% | 15.4% | 37.4% | 31.9% | 12.1% | 3.34 | 1.991 |
| Training material | 5.5% | 25.3% | 36.3% | 24.2% | 8.8% | 3.05 | 1.037 |
| Training delivery | 1.1% | 12.1% | 38.5% | 34.1% | 14.3% | 3.48 | 0.923 |
| Training evaluation | 8.8% | 23.1% | 40.7% | 19.8% | 7.7% | 2.95 | 1.047 |

The training and development activities scored the following; training needs analysis (mean 2.64 and standard deviation 1.091), training program (mean 3.34 and standard deviation 1.991), training material (mean 3.05 and standard deviation 1.037), training delivery (mean 3.48 and standard deviation 0.923), and training evaluation (mean 2.95 and standard deviation 1.047). With a mean of 3.48, it is evident that training delivery is the most outsourced training and development activity in logistics companies in Mombasa County. The

companies prefer having external trainers train their staff.

Payroll Management

The study desired to realize to what extent logistics companies are outsourcing payroll management activities. The heads of human resource department were asked to indicate the extent to which the activities displayed in table 3 were outsourced.

Table 3: Frequency (%) of Responses

| HR Practice | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|----------------------|-----------|---------------|-----------------|--------------|-------------------|------|----------------|
| Statutory deductions | 0% | 24.2% | 42.9% | 23.1% | 9.9% | 3.19 | 0.918 |
| Statutory remittance | 2.2% | 20.9% | 44% | 27.5% | 5.5% | 3.13 | 0.885 |
| Salaries deposit | 9.9% | 9.9% | 36.3% | 23.1% | 20.9% | 3.35 | 1.205 |
| Pay slip issuance | 0% | 25.3% | 42.9% | 19.8% | 12.1% | 3.19 | 0.953 |
| Salary reports | 6.6% | 23.1% | 45.1% | 20.9% | 4.4% | 2.93 | 0.940 |

The payroll management activities scored the following; statutory deductions (mean 3.19 and standard deviation 0.918), statutory remittance (mean 3.13 and standard deviation 0.885), salary deposit (mean 3.35 and standard deviation 1.205), pay slip issuance (mean 3.19 and standard deviation 0.953), and salary reports (mean 2.93 and standard deviation 0.940). With a mean of 3.35, it is evident that salary deposit is the most outsourced payroll

management activity in logistics companies in Mombasa County.

Performance Management

The study desired to realize to what extent logistics companies are outsourcing their performance management activities. The heads of human resource department were requested to state to what extent the activities displayed in table 4 were outsourced.

Table 4: Frequency (%) of Responses

| HR Practice | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|--------------------------|-----------|---------------|-----------------|--------------|-------------------|------|----------------|
| Targets and goal setting | 23.1% | 20.9% | 23.1% | 18.7% | 14.3% | 2.80 | 1.368 |
| KPI | 19.8% | 20.9% | 23.1% | 17.6% | 18.7% | 2.95 | 1.393 |
| Performance tools | 13.2% | 17.6% | 23.1% | 30.8% | 15.4% | 3.18 | 1.270 |
| Appraisal system | 5.5% | 23.1% | 39.6% | 9.9% | 22% | 3.20 | 1.185 |
| Performance monitoring | 15.4% | 18.7% | 26.4% | 17.6% | 22% | 3.12 | 1.365 |

The performance management activities scored the following; target and goal setting (mean 2.80 and standard deviation 1.368), key performance indicators (mean 2.95 and standard deviation 1.393), performance tools (mean 3.18 and standard deviation 1.270), appraisal system (mean 3.20 and standard deviation 1.185), and performance monitoring (mean 3.12 and standard deviation 1.365). With a mean of 3.20, it is evident that appraisal system development is the most

outsourced performance management activity in logistics companies in Mombasa County.

Contract and Casual Employment Management

The study desired to realize to what extent logistics companies are outsourcing their contract and casual employment management activities. The heads of human resource department were requested to state to what extent the activities displayed in table 5 were outsourced.

Table 5: Frequency (%) of Responses

| HR Practice | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|------------------------|-----------|---------------|-----------------|--------------|-------------------|------|----------------|
| Attendance monitoring | 17.6% | 4.4% | 35.2% | 26.4% | 16.5% | 3.20 | 1.284 |
| Employee relations | 6.6% | 18.7% | 36.3% | 17.6% | 2.9% | 3.27 | 1.184 |
| Performance evaluation | 8.8% | 6.6% | 46.2% | 18.7% | 19.8% | 3.34 | 1.137 |
| Leave management | 13.2% | 13.2% | 36.3% | 17.6% | 19.8% | 3.18 | 1.270 |
| Injury treatment | 6.6% | 5.5% | 34.1% | 37.4% | 16.5% | 3.52 | 1.047 |

The contract and casual employment management activities scored the following; attendance monitoring (mean 3.20 and standard deviation 1.284), employee relations (mean 3.27 and standard deviation 1.184), performance evaluation (mean 3.34 and standard deviation 1.137), leave management (mean 3.18 and standard deviation 1.270), and injury treatment (mean 3.52 and standard deviation 1.047). With a mean of 3.52, it is evident that injury treatment for contracted and

casual employees is the most outsourced activity in logistics companies in Mombasa County.

The Overall Performance of the Logistics Companies in Mombasa County

The respondents were requested to state the extent of performance of their companies on a rating in a five Likert scale; where 1 represented no extent, 2 to a little extent, 3 to a moderate extent, 4 to a great extent and 5 to a very great extent.

Table 6: Response Rate (%) on the Performance of Logistics Companies in Mombasa County

| Performance Level | No extent | Little extent | Moderate extent | Great extent | Very great extent | Mean | Std. Deviation |
|----------------------------------|-----------|---------------|-----------------|--------------|-------------------|-------------|----------------|
| Customer satisfaction | 0% | 0% | 41.8% | 40.7% | 17.6% | 3.76 | 0.735 |
| Quality of services | 1.1% | 0% | 50.5% | 28.6% | 19.8% | 3.66 | 0.833 |
| Operational efficiency | 1.1% | 6.6% | 36.3% | 39.6% | 16.5% | 3.64 | 0.876 |
| Reduced staff turnover | 1.1% | 14.3% | 30.8% | 31.9% | 22% | 3.59 | 1.022 |
| Operational cost | 1.1% | 12.1% | 30.8% | 47.3% | 8.8% | 3.51 | 0.861 |
| Organizational image | 0% | 0% | 17.6% | 50.5% | 31.9% | 4.14 | 0.692 |
| Average Performance Level | | | | | | 3.72 | 0.837 |

The study findings revealed that the overall performance of logistics companies in Mombasa County is above average given that it scored a mean of 3.72 and standard deviation of 0.837 implied that there was insignificant difference on level of performance among companies. The elements scored the following; customer satisfaction had a mean of 3.76 and standard deviation 0.735, quality of service had a mean of 3.66 and standard deviation 0.833, operational efficient had a mean of 3.64 and standard deviation 0.876, staff turnover reduction had a mean of 3.59 and standard deviation 1.022, operational cost had a mean of 3.51 and standard deviation 0.861 and organizational image had a mean of 4.14 and standard deviation 0.692.

Relationship between Human Resource Outsourcing and Performance of Logistics Companies in the County of Mombasa

The objective of the study desired to establish the effect of human resource outsourcing on the performance of logistics companies in the County of Mombasa. The relationship was investigated using correlation and multiple regression analysis.

Correlation Analysis

Correction among variables was used to show the magnitude and direction of the relationship between variables. From table 7, it is evident that there were both positive but insignificant correlation and significant and positive correlation between HR outsourcing and performance of logistics companies in Mombasa County. Significant correlation coefficient implies that the independent variable has an effect on the dependent variable while insignificant correlation coefficient implies that the independent variable has no effect on the dependent variable. There was a positive but insignificant correction between recruitment & staffing and organizational performance ($r=0.104$, $P>0.05$), training & development and organizational performance ($r=0.065$, $P>0.05$), and payroll management and organizational performance ($r=0.045$, $P>0.05$). Performance management had a negative and insignificant correlation with organizational performance ($r=-0.147$, $P>0.05$). Contract & casual employment management had a positive and significant correlation with organization performance ($r=0.302$, $P<0.05$).

Table 7: Correlation among Variables

| | Performance Level | Recruitment & Staffing | Training & Development | Payroll Management | Performance Management | Contract & Casual Management |
|---|-------------------|------------------------|------------------------|--------------------|------------------------|------------------------------|
| Performance Level | | | | | | |
| Pearson's Correlation | 1 | 0.104 | 0.065 | 0.045 | 0.147 | 0.302** |
| Sig. (2-tailed) | | 0.327 | 0.540 | 0.669 | 0.164 | 0.004 |
| N | 91 | 91 | 91 | 91 | 91 | 91 |
| Recruitment & Staffing | | | | | | |
| Pearson's Correlation | 0.104 | 1 | 0.658** | 0.016 | -0.0576 | -0.018 |
| Sig. (2-tailed) | 0.327 | | 0.001 | 0.882 | 0.594 | 0.862 |
| N | 91 | 91 | 91 | 91 | 91 | 91 |
| Training & Development | | | | | | |
| Pearson's Correlation | 0.065 | 0.658** | 1 | -0.050 | -0.001 | -0.004 |
| Sig. (2-tailed) | 0.540 | 0.001 | | 0.635 | 0.996 | 0.969 |
| N | 91 | 91 | 91 | 91 | 91 | 91 |
| Payroll Management | | | | | | |
| Pearson's Correlation | 0.045 | 0.016 | -0.050 | 1 | 0.233* | 0.054 |
| Sig. (2-tailed) | 0.669 | 0.882 | 0.635 | | 0.026 | 0.613 |
| N | 91 | 91 | 91 | 91 | 91 | 91 |
| Performance Management | | | | | | |
| Pearson's Correlation | 0.147 | -0.057** | -0.001 | 0.233* | 1 | 0.276** |
| Sig. (2-tailed) | 0.164 | 0.594 | 0.996 | 0.026 | | 0.008 |
| N | 91 | 91 | 91 | 91 | 91 | 91 |
| Contract & Casual Management | | | | | | |
| Pearson's Correlation | 0.302** | -0.018 | -0.004 | 0.054 | 0.276** | 1 |
| Sig. (2-tailed) | 0.004 | 0.862 | 0.969 | 0.613 | 0.008 | |
| N | 91 | 91 | 91 | 91 | 91 | 91 |

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Regression Analysis

A multiple regression model was used to establish the relationship between HR outsourcing and performance of logistics companies in the County of Mombasa. The information used to understand the relationship between the explanatory variables and

the response variable. The response variable was organizational performance while explanatory variables included; recruitment & staffing, training & development, payroll management, performance management, and contract & casual employment management.

Table 8: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of Estimate |
|-------|--------------------|----------|-------------------|------------------------|
| 1 | 0.731 ^a | 0.538 | 0.324 | 0.745 |

Table 8 displays results indicating that R is 0.731, which means that there was a fairly strong linear relationship between independent variables and dependent variable. R square was 0.538. The results imply that the independent variables contributed to 53.8% variation in the performance of logistics

companies in the County of Mombasa and other factors had 46.2% which is the error term. The value of adjusted R square was 0.324. The standard error of the regression indicates that observed values fall an average range of 0.745 units from the regression line.

Table 9: ANOVA

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|--------------|----------------|-----------|-------------|-------|--------------------|
| Regression | 15.276 | 5 | 3.055 | 5.504 | 0.001 ^b |
| Residual | 47.186 | 85 | 0.555 | | |
| Total | 62.462 | 90 | | | |

The fitness of the model was established by analysis of variance (ANOVA). Table 9 showed that the F-ratio (F=5.504, P<0.05) was statistically significant. The findings imply that it was not by chance that HR outsourcing predicted the performance of logistics

companies in the County of Mombasa. The multiple regression model presented in chapter three meets the test of goodness of fit. This means that the use of the regression model was appropriate.

Table 10: Regression Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|------------------------------|-----------------------------|------------|---------------------------|--------|-------|
| | B | Std. Error | Beta | | |
| Constant | 2.680 | 0.422 | | 6.350 | 0.001 |
| Recruitment and staffing | 0.080 | 0.090 | 0.122 | 0.892 | 0.375 |
| Training & development | -0.010 | 0.097 | -0.014 | -0.099 | 0.921 |
| Payroll management | 0.008 | 0.077 | 0.010 | 0.099 | 0.922 |
| Performance management | 0.045 | 0.067 | 0.074 | 0.670 | 0.505 |
| Contract & casual management | 0.200 | 0.075 | 0.283 | 2.659 | 0.009 |

Regression coefficients and the associated regression outcomes are given in table 10. From the table, results showed that regression constant was $\beta=2.68$, $t=6.35$, $P<0.05$. It also shows that the effect of recruitment & staffing on performance was also insignificant ($\beta=0.080$, $t=0.892$, $P>0.05$), training & development was equally insignificant ($\beta=-0.01$, $t=-0.099$, $P>0.05$), payroll management ($\beta=0.008$, $t=0.099$, $P>0.05$), performance management was also insignificant ($\beta=0.045$, $t=0.67$, $P>0.05$), and contracts & casual employment management was significant ($\beta=0.2$, $t=2.659$, $P<0.05$).

The results showed a positive but insignificant relationship between recruitment & staffing and organizational performance, a negative and insignificant relationship between training & development and organizational performance, a positive but insignificant relationship between payroll management and organizational performance, a positive but insignificant relationship between performance management and organizational performance, and a positive and significant relationship between contracts & casual employment management and organizational

performance. The findings show that keeping all other variables constant, an increase of a unit in the level of outsourcing contract & casual employment management will result to an increase in performance of logistics companies in Mombasa County by 0.2.

With the dependent variable being organizational performance (Y), the independent variables were

recruitment & staffing (X1), training & development (X2), payroll management (X3), performance management (X4), and contracts & casual employment management (X5). The regression equation obtained from the regression coefficient table was therefore:

$$Y=2.68+0.2X5+\epsilon$$

Table 11: Regression Results for the Influence of Human Resource Outsourcing on Organizational Performance

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|--------------|-----------------------------|------------|---------------------------|-------|-------|
| | B | Std. Error | Beta | | |
| Constant | 2.871 | 0.390 | | 7.364 | 0.001 |
| HR Functions | 0.045 | 0.021 | 0.227 | 2.199 | 0.030 |

Dependent Variable: Organizational Performance

Table 11 was used to demonstrate the direction and magnitude of relationship between the coefficients of the combined independent variables (outsourced HR functions) and dependent variable (organizational performance). The results show that regression constant was $\beta=2.871$, $t=7.364$, $P<0.05$ and HR functions was $\beta=0.045$, $t=2.199$, $P<0.05$. The results therefore indicated a significant and positive relationship between human resource outsourcing and organizational performance. The findings showed that keeping all other variables constant, a unit increase in the level of HR outsourcing functions will lead to an increase in performance of logistics companies in the County of Mombasa by 0.045.

$$Y=2.871+0.045X+\epsilon$$

Discussion of Results

The study was to realize the effect HRO on the performance of logistics companies in Mombasa County. The HR outsourced functions in the study were recruitment & staffing, training & development, Payroll management, performance management and contract & casual employment management.

Outsourcing of Recruitment and Staffing to Organizational Performance

The findings of the study have shown that most respondents indicated that their organizations are engaged in outsourcing of recruitment and staffing. Job advertisement was the most outsourced recruitment activity among logistics companies in Mombasa County, with a mean score of 3.20. Outsourcing of recruitment and staffing had a positive but insignificant relationship with performance, hence doesn't affect performance of the organization ($r=0.104$, $P>0.05$). Regression coefficients of ($\beta=0.008$, $P>0.05$) indicated a positive but insignificant relationship between recruitment & staffing and organizational performance. Therefore, recruitment and staffing did not have a significant contribution to the performance of logistics companies in Mombasa County. Most respondents felt that recruitment & staffing could be handled internally by the HR department for career growth of the existing staff and also for the purpose or succession planning.

Outsourcing of Training and Development and Organizational Performance

The findings of the study have shown that the respondents indicated mixed feelings about their organizations being engaged in outsourcing of

training and development. Training delivery was the most outsourced training activity among logistics companies in Mombasa County, with a mean score of 3.48. Outsourcing of training and development had a positive but insignificant relationship with performance of the organization, hence doesn't affect performance of the organization ($r=0.065$, $P>0.05$). Regression coefficients of ($\beta=-0.01$, $P>0.05$) indicated a negative and insignificant relationship between training & development and organizational performance. Therefore, training and development did not have a significant contribution to the performance of logistics companies in Mombasa County. Most of the respondents were for the view that the line managers and supervisors were well placed to offer trainings as external trainers do not have hands on experience and therefore use generic training materials for training.

Outsourcing of Payroll Management and Organizational Performance

The findings of the study have shown that most respondents indicated that their organizations are engaged in outsourcing of payroll management. Salary deposit is the most outsourced payroll activity among the logistics companies in Mombasa County, with a mean score of 3.35. Outsourcing of payroll management had a positive but insignificant relationship with performance, hence doesn't affect performance of the organization ($r=0.045$, $P>0.05$). Regression coefficients of ($\beta=0.008$, $P>0.05$) indicated a positive but insignificant relationship between payroll management and organizational performance. Therefore, payroll management did not have a significant contribution to the performance of logistics companies in Mombasa County.

Outsourcing of Performance Management and Organizational Performance

The findings of the study have shown that the respondents indicated mixed feelings about their organizations being engaged in outsourcing of performance management. Development of appraisal system was the most outsourced performance management activity among logistics

companies in Mombasa County with a mean score of 3.20. Outsourcing of performance management had a positive and insignificant relationship with performance, hence doesn't affect performance of the organization ($r=0.147$, $P>0.05$). Regression coefficients of ($\beta=0.045$, $P>0.05$) indicated a positive but insignificant relationship between performance management and organizational performance. Therefore, performance management did not have a significant contribution to the performance of logistics companies in Mombasa County. Most respondents felt that performance could be managed by the line managers and supervisors in conjunction with the HR department. Outsourcing the function demoralized employees.

Outsourcing of Contract and Casual Employment Management and Organizational Performance

The study findings have shown that most respondents indicated that their organizations are engaged in outsourcing of contract and casual employee management. Performance evaluation was the most outsourced contract and casual employment management activity among logistics companies in Mombasa County with a mean score of 3.34. Outsourcing of contract and casual employment management had a significant and positive relationship with performance, hence affect performance of the organization ($r=0.302$, $P<0.05$). Regression coefficients of ($\beta=0.2$, $P<0.05$) indicated a positive and significant relationship between contract & casual employment management and organizational performance. A unit increase in contract and casual employment management will translate in a 0.2 increase in performance of the organization. Therefore, contract and casual employment management contributed significantly to the performance of logistics companies in Mombasa County.

The study findings have revealed that HRO has led to an overall performance level of a mean 3.72 which represents a 53.8% improvement on the performance of logistics companies in the County of Mombasa. The element performance scored the following means; customer satisfaction 3.76, quality

of service 3.66, operational efficiency 3.64, reduction in staff turnover 3.59, operational cost 3.51 and organizational image 4.14.

Matolo and Iravo (2018) did a study on effect of human resource outsourcing and organizational performance in public universities in Kenya. The independent variables were reduction of costs, allowing HR personnel to focus on strategic functions, access to technology and focus on core competences. The study established that access to technology and cost savings were not significant drivers for outsourcing HR in the public universities. Focus on core activities, allowing HR personnel to focus on strategic functions and streamlining HR functions had moderate impact on HR outsourcing driver for HRO in public universities. Although the independent variables in the two studies were different, HRO had positive effect organization performance in both studies, hence supporting findings of this study.

Kamanga and Ismail (2016) in their study on effects of outsourcing on organization performance in manufacturing sector in Kenya (case of Del Monte Kenya Limited), had cost, quality, technology adaption and risks as the independent variables. Cost reduction ($r=0.701$, $P<0.05$), quality improvement ($r=0.525$, $P<0.05$) and technology adoption ($r=0.67$, $P<0.05$) had a positive and significant relationship with organization performance. Risks from outsourcing had a positive but insignificant relationship with organization performance ($r=0.14$, $P>0.05$). Overall performance level had a mean of 2.96 which represented a 65% improvement on the performance of Del Monte Kenya Limited. The results of their study support the results of this study due to the fact that organization performance was positively impacted by outsourcing.

A study by Gitiye and Omondi (2018) on how HRO functions impact the performance of CAPWELL Industries Limited in Kiambu, had employee recruitment, training, payroll and human resource management information system as independent variables. The findings established a significant and

positive relationship between training and performance of CAPWELL Industries Limited ($r=0.47$, $P<0.05$), recruitment ($r=-0.548$, $P<0.050$) and payroll ($r=-0.487$, $P<0.05$) had a negative but significant relationship while HRMIS ($r=-0.246$, $P>0.05$) had a negative and insignificant relationship with organization performance. Overall performance level had a mean of 3.06 which represented a 54.7% improvement on the performance of CAPWELL Industries Limited. Findings of their study contrast those of this study in that training had a significant and positive relationship with organization performance in their study while in this study, it had a positive but insignificant relationship with organization performance, and both recruitment & payroll in their study had a negative but significant relationship with organization performance while both the 2 independent variables had a positive but insignificant relationship. However, in both studies, HRO positively affected the overall performance of the organization.

Mwangi (2017) did a study on effect of HRO on organizational performance (case study of Post Bank Kenya Ltd). The independent variables in the study were training, recruitment & selection, human resource information system and payroll. All the human resource functions had a significant and positive relationship with the performance of Post Bank Kenya Ltd as follows; training ($r=0.784$, $P<0.05$), Recruitment & selection ($r=0.612$, $P<0.05$), HRIS ($r=0.935$, $P<0.05$) and payroll ($r=0.673$, $P<0.05$). The findings of his study contrast this study because training, recruitment and payroll had an insignificant but positive relationship with performance of logistics companies in Mombasa County.

The transaction cost theory explains the grounds on which the decisions of making or buying are made. It helps organizations decide whether to outsource HR and prepare for forthcoming HRO arrangements or manage HR functions within. Based on the study findings which demonstrated contributions of outsourcing HR towards organizational

performance in logistics companies in Mombasa County ($\beta=0.045$, $P<0.05$), it is advisable for organizations to make a decision of outsourcing HR. The transaction cost theory is more applicable in the reconsideration phase of HR outsourcing process.

The agency theory illustrates the relationship between two inter-firm subjects, outsourcer (the principal) and outsources/vendor (the agent). It is noticeable from the findings of the study that human resource outsourcing is being practiced in logistics companies in Mombasa County (mean of 3.72). Therefore, the relationship between outsourcer (logistics company) and outsources/vendor (outsourcing agents) exists. The application of agency theory in the process HR outsourcing will be in the preparation stage, during vetting for vendors and describing the nature of the relationship.

CONCLUSION AND RECOMMENDATION

The study was designed to achieve an objective of establishing the effect of HR outsourcing on performance of logistics companies in Mombasa County. The findings of the study showed that HR outsourcing is practiced in logistics companies in Mombasa County. The study established that the extent of HR functions (recruitment & staffing, training & development, payroll management, performance management and contract & casual employment management) outsourced by logistics companies in Mombasa County vary among the logistics companies.

The independent variables had 53.8% determination on the performance of logistics companies in the County of Mombasa, while other factors contributed 46.2%. The correlation, R value of 0.731 indicated a high positive relationship between HR outsourcing and performance of logistics companies in Mombasa County. The study has confirmed that contract and casual employment management had the most effect on the performance of logistics companies in the County of Mombasa. This was indicated by the Pearson's

correlation ($r=0.302$, $P<0.05$) and regression coefficients ($\beta=0.2$, $P<0.05$).

From the above findings, the following deductions were observed. HRO has been practiced to varying extents by logistics companies in Mombasa County which are seeking to improve their performance. HRO is a common practice today making it unusual to find an organization that has not engaged HRO to some degree. Increased business competition, accelerated changes in technology and globalization effects have enabled the organizations to outsource some of its HR functions to enhance customer satisfaction, quality of service offered, operational efficiency, reduced staff turnover rate, operational cost and the image of the organization in order to improve their performance continuously. This has resulted to outsourcing of recruitment & staffing, training & development, payroll management, performance management, and contract & casual employment management. Based on the study results, the best outsourced HR function was contract & casual employment management.

It is highly recommended that the top management should spearhead the process and support the business through increasing the extent of HR outsourcing by outsourcing several HR functions because this would drive the organization's performance by allowing HR department to focus on its core competencies that they have the capacity to handle well. The nature of HR functions is often time consuming and complex, thus creating difficulty in managing the important areas.

The three major challenges encountered by the researcher include: COVID 19 protocols do not allow free mingling of people and emphasize on social distance and minimal physical interaction. This made it impossible for the researcher to physically distribute the questionnaire to targeted logistics companies in Mombasa County. The researcher had to use emails making it difficult to confirm if the respondents had received them or not. Some of the emails bounced back.

Some multinational logistics companies have data protection policy therefore being very confidential in nature. This forced the respondents to seek authority of the highest office in the organization for them to give feedback. This was a long process putting pressure on the time allocated to complete the project. Some authorization requests were declined and other respondents did not even attempt to seek authorization.

Finally, some respondents were not comfortable responding to the questionnaire because the completed questionnaires were to be sent back via email. This means that the respondents could not be unanimous as a result of existing email evidence for their feedback. The respondents from organizations with strict confidentiality policy were afraid to respond for the fear of being victimized.

Further Studies Suggestions

The study used only 5 HR functions (recruitment & staffing, training & development, payroll management, performance management, and contract and casual employment management) to realize the effect of HR outsourcing in logistics companies in Mombasa County. The study

therefore recommended for an in-depth study by including many HR functions.

The study confined itself in logistics companies in Mombasa County. This can be argued that the findings may not be generalized for other logistics companies in other regions within the country. It is therefore recommended that the study covers logistics companies in the entire country. This will give more general findings on the effect of HR outsourcing on the performance of logistics companies in Kenya.

It was recommended that the study be replicated in other sectors such as public and private organizations, parastatals, higher learning institutions (tertiary colleges, private and public universities), hospitality industry, financial institutions and non-profit making organizations. This would establish the extent of HR outsourcing and performance of the other organizations.

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