AN INVESTIGATION OF EFFECTS OF HUMAN RESOURCE OUTSOURCING ON PERFORMANCE OF SELECTED PARASTATALS IN KENYA

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REG: D53/CE/10789/06

A Research Project Report Submitted in Partial Fulfilment of the Requirement for Masters in Business Administration (Human Resource Option) School of Business
Kenyatta University

April, 2010

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An investigation of effects of human
DECLARATION

This research project report is my original work and has not been presented for a degree in any other university or for any other award.

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Supervisors’ Declaration

This research project has been submitted for examination with my approval as the University Supervisor.

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MR. DOMINIC NGABA
DEDICATION

To my wife Cecily, my daughter Lynn, and my son Ian who sacrificed companionship and allowed me to take up the assignment.
ACKNOWLEDGEMENT

I wish to acknowledge the entire School of Business of Kenyatta University for the immense knowledge in the world of business I have acquired since I enrolled. I am particularly very grateful to my supervisor Mr. James Owuor for the guidance he gave me as I undertook the project. I am indebted to Mr. Shadrack Bett my correction supervisor for the suggestions he gave to improve the proposal.

I wish to acknowledge Dr. Stephen Njoka for the insights and encouragement he has given me since I started this programme. Mr. A.D. Bojana deserves gratitude for editorial contribution. I am greatly indebted to Mr. Samuel Kariuki the Principal St Christopher Mixed Secondary School who has been very understanding and allowing me to be out of the station on several occasions while I undertook the project.

Finally I wish to thank all the parastatal managers who availed the information during data collection not forgetting Mr. Martin Mbugua for his assistance in data analysis.
ABSTRACT
Globalization and competition have made organizations to come up with newer management strategies to save on costs and to improve effective use of available resources. Firms have reduced their employees in non-core functions and acquire the same from outside vendors in what is known as the human resource outsourcing. Past researches have concentrated on searching for risk and benefits of human resource outsourcing and the process of outsourcing. Little efforts have been put to find out how the outsourcing strategy has affected the performance of remaining employees and the firm in general. This research sought to find effects of human resource outsourcing on performance among some selected parastatals. The research will benefit outsourcing vendors and their clients to understand the effects of outsourcing on performance. Twenty five out of 126 parastatals were sampled but only 41 responses were received from senior managers in human resource department and those of corporate affairs of the parastatals who had been targeted in this descriptive research design. The questionnaires issued were analyzed using Statistical Package for Social Science (SPSS) to yield both qualitative and quantitative data which were then summarized in frequencies and measures of central tendency. The findings were classified according to study objectives. The study concluded that outsourcing improved the social responsibility and corporate image as well as productivity but did not reduce costs. The researcher recommended that outsourcing should be done in a benevolent way so that it does not affect the workers negatively. Areas for further research were proposed.
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OPERATIONAL DEFINITION OF TERMS

Business Outsourcing Firm
In the context of human resource outsourcing, this is the firm which substitutes use of its employees and engages services of another firm (external to the firm) to carry out some human resources functions.

Business Outsourcing Vendor
It is the firm which is engaged by the business outsourcing firm to provide services on its behalf. In the context of human resource outsourcing, the vendor provides some human resource functions of their behalf at a fee and based on an agreement.

Corporate Social Responsibility
It is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Service Level Agreement or Contract
It is an agreement signed between the outsourcing firm and the outsourcing vendors describing their working relationship, labour charges and responsibility of each party.
LIST OF ABBREVIATION AND ACRONYMS

ASP-Applications Service Providers
BPO- Business Process Outsourcing
CEO-Chief Executive Officer
CSR-Corporate Social Responsibility
DGIPE- Department of Government Investments and Public Enterprises
GoK- Government of Kenya
HR- Human Resource
ISO- International Standards Organisation
PRPC- Parastatal Reform Programme Committee
SMEs - Small and Medium Size Enterprises
SPSS - Statistical Package for Social Sciences
TKL- Telkom Kenya Limited
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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Globalization and competition have made stakeholders in the business world to be more creative in finding solutions that make them more competitive. In the last two decades, many businesses took to retrenchment in an attempt to acquire the right number of employees so that they can achieve efficiency and reduce wastage resulting from excess human resources they had engaged. Global financial crunch has made things more difficult and many firms are looking for ways to reduce operational costs.

The momentum has now been taken a notch higher whereby many firms have done away with all or part of human resources in some departments and have preferred to seek labour from external vendors in a process called human resource outsourcing. Elmuti (2003) defines outsourcing as a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers while Maiga and Jacobs (2004) recommend it as one way of keeping the firm competitive in the twenty first century.

Two models of outsourcing have been identified in the literature namely; Business Process Outsourcing (BPO) and Application Service Providers (ASP) (Osmond, 2000). In BPO model, major resources and assets are transferred to another firm. In the ASP model, vendors offer selected services to multiple clients. The outsourcing firms hence transfer a function they do not
view as core from internal production to an external vendor who specialize in that function as a core business. The two models can be offered within the country or a function can be got from a foreign country. If it is acquired outside the country, the process is known as off-shoring. This research however, restricts itself to human resource outsourcing (which falls under the ASP outsourcing) and therefore, the word outsourcing in the subsequent pages refers to this term.

Outsourcing literature has classified reasons for outsourcing into two categories namely, monetary and non-monetary (Khong, 2005). Monetary benefits include increased cost savings, productivity and profitability while non-monetary benefits will include improving customer service and the corporate image.

The success or failure of outsourcing strategy can lead to improved or reduced performance of the firm. For example, outsourcing has been reported to have an effect on the remaining employees' morale and productivity. A study conducted by Bolat and Yimaz (2009) revealed that outsourcing is a downsizing strategy which causes retrenchments and therefore, it causes negative impact on employees who remain. A research done in USA by Elmuti (2003) revealed that outsourcing improved productivity by 40%. The research further revealed that 69.7% of managers felt that human resource outsourcing improved the firm's overall performance. As corporate executives in Kenya work hard searching for ways of achieving cost reductions and competitive advantage through human resource outsourcing, there is no
empirical evidence to show how it can affect the firm’s performance. This study attempted to establish whether outsourcing of human resources affected performance of Kenya’s Parastatals. Many firms took a risk of retrenching skilled employees with a hope of benefiting from outsourcing which raised a question of whether they made the right decision owing to scarce information on the area (Harland et al., 2005; Stroh & Treehuboff, 2003).

1.2 Kenya's Parastatals Background

Parastatals or state owned enterprises are firms established under acts of parliament. They were formed after independence to aid in decolonization, promote rapid economic development and participate in production and trade (Muindi, 2000). They offer a wide range of services mostly in areas that would be expensive for individuals or private firms to offer; social and economic services, areas that are of strategic to national interest while others offer regulatory services. In 1980s, it was evident that they had operational losses and inadequate returns on investments. Most of them fell into inefficiency due to mismanagement, a fact that the government acknowledges (GoK, 2000). Some of the reasons given for the inefficiency include; tribalism, corruption and political manipulations which turned them into national liabilities (Nwankwo & Richards, 2001). An action had to be taken to reverse this trend. It was also done in the light of Structural Adjustment programs prescribed by World Bank and International Monetary Fund (Nwankwo and Richards, 2001). In 1982, the Working Party on Public Expenditure recommended that the government should reduce its role in business and increase participation of
private sector activity (Muindi, 2000). In 1991, the President of Kenya formed the Parastatal Reform Programme Committee (PRPC) and Department of Government Investments and Public Enterprises (DGIPE) to supervise and coordinate the parastatal reform programme, including privatization (World Bank, 2001). Out of 240 parastatals, the government designated 33 of them as strategic (those that provide essential services or play a key role from the viewpoint of national security, health or protecting the environment) and 207 were regarded as non-strategic and hence they were earmarked for divestment (Muindi, 2000; World Bank, 2001).

By 2000, the government had fully or partially divested or closed 168 enterprises. Fifty four were divested through pre-emptive rights; 22 through receiverships; 16 through liquidation; 16 through competitive bidding; 10 through public flotation; one through a management buy-out; and 29 tea factories were sold to tea farmers. Eleven enterprises were partially divested (GoK, 2000).

The divestiture programme continued and the latest has been Telkom Kenya Limited (TKL). TKL retrenched the workforce by fourteen thousand one hundred and thirty eight (14,138) from seventeen thousand two hundred and eighty eight (17,288) to three thousand one hundred and fifty (3,150) employees which was said to be the largest retrenchment in Kenya’s corporate history (Omondi, 2008). TKL just like many other parastatals adopted human outsourcing strategy to replace the retrenched labour-force in the non-core functions.
1.3 Statement of the Problem

Many firms have adapted human resource outsourcing strategy to acquire their labour requirements. The number of firms taking up outsourcing is increasing by day. For instance, a survey carried by Buck Consultants estimates that firms carrying out human resource outsourcing in USA since 1996 has been growing at a rate of 23% (Stroh & Treehuboff, 2003). It is reported that in USA outsourcing was approximately a $60 billion business in 2001 and is expected to rise to $100 billion per year (Bates, 2002). Shelgren (2001) in a survey found that 90% of US companies with 50,000 or more employees outsourced some HR activities. Although data collected in Kenya on the same are not available, the above statistics shows that outsourcing is a global phenomenon and many firms are taking to it.

Outsourcing comes with both risks and benefits which a firm needs to be wary of since they affect the firm’s performance. Past studies have revealed that outsourcing has both risks and benefits to the firm seeking external labour (Franceschini et al., 2003; Greer, et al., 1999; Harland et al., 2005; Journal of Management Development (JoMD), 2000; McLvor, 2003; Webb, 2005; Zhu, et al., 2001). Most of these studies dealt with process of human resource outsourcing, its risks and benefits without showing how it can affect the performance of the remaining employees and the firm by extension.

This is also confirmed by Jiang et al., (2006) who analysed researches done in the field of human research outsourcing and he noted some weaknesses where
most researches have concentrated on reasons for outsourcing and process of outsourcing with little done on impact of outsourcing. This study was specifically concerned with finding out the effects of human resource outsourcing on performance of some selected parastatals in Kenya.

1.4 Objectives of the Study

1.4.1 Main Objective

To investigate the effects of human resource outsourcing on performance of some selected parastatals in Kenya.

1.4.2 Specific Objectives

The research had the following specific objectives:

1. To find out the effect of human resource outsourcing on corporate image and corporate social responsibility.

2. To examine the extent to which human resource outsourcing affected the morale and motivation of the employees.

3. To establish the extent to which human resource outsourcing affected the employees' productivity and quality of service provided.

4. To determine the effect of human resource outsourcing on remuneration of employees and cost reduction.

1.5 Research Questions

1. How has human resource outsourcing affected corporate image and corporate social responsibility of parastatals in Kenya?
2. To what extent has human resource outsourcing affected the morale and motivation of the employees in Kenya's parastatals?

3. To what extent has human resource outsourcing affected the employees' productivity and quality service provision in Kenya's parastatals?

4. What is the effect of human resource outsourcing on remuneration of employees and cost reduction?

1.6 Assumptions of the Study

It was assumed that human resource outsourcing affects performance of both employees and the firm.

1.7 Benefits of the Study

The findings from the research will provide evidence and better understanding to the firms on the effect of outsourcing on performance. If this was not investigated, firms might find it difficult to improve performance as a result of loosing important in-house skills or acquiring new ones on a belief that outsourcing will improve efficiency. The findings from the research can be beneficial to the potential and existing investors vending HR outsourcing to offer services to their clients which can assist them to improve performance.

1.8 Limitation of the Study

Human resource outsourcing is a relatively new concept in Kenya and there was scanty empirical research literature in this field. Secondary data available are from other countries and do not address the Kenyan context limiting a
detailed study. Another limitation was that some information on outsourcing might be regarded by the informants as classified or of strategic importance hence they may have failed to give all the required details. The parastatals chosen had inadequate ‘hard data’ for example, in form of financial reports which can be used to assess the impact of outsourcing since its implementation in terms of savings in costs and profitability, outsourcing has been done only for a short period of time. The data collected were based on self-perceptions of the respondents hence it was difficult to assess whether the information correlates to the actual performance. Lastly, some of the parastatals provide services to the public without the intention of making profits hence the variable on profitability will not be tested yet it is an important measure of business performance.

1.9 Scope of the Study

The study involved a pilot study to purposively select parastatals which outsource human resources from where a population of firms to be studied was got. A sample population was drawn from this population. Human resource managers and corporate affairs department managers provided the information through the research instruments.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the literature related to the study. The researcher got this from secondary sources such as research journals, textbooks, newspaper articles and relevant websites. The literature was reviewed in order to identify opinions, findings and information from various studies and people towards human resource outsourcing and its effect on performance. An analysis of the literature revealed knowledge and information gaps which the research sought to fill.

2.2 Critical Review of Literature

The literature under review is mostly to what has been done in the last ten years (1999-2009). This is because outsourcing gained impetus in 1990s and most of the current literature was established at the same period (Jiang & Qureshi, 2006). This literature is classified into two broad sections: Human resource outsourcing and effect of human resource outsourcing on performance.

2.2.1 Human Resource Outsourcing Literature

This is further divided into four sections namely: Historical perspective of human resource outsourcing; factors considered in determining the business function the firm will outsource its labour for; benefits of outsourcing; risks of outsourcing.
2.2.1.1 Historical Perspective of Human Resource Outsourcing

The term outsourcing has many different meanings depending on the context. It is procuring something that was either originally sourced internally or could have been sourced internally notwithstanding the decision to go outside (Gilley & Rasheed, 2000). A firm can outsource partial manufacturing or processing of its products, human resource functions or information technology to be used by the firm.

Different scholars have come up with different definitions of human resource outsourcing. Armstrong (2005) defines human resource outsourcing as acquiring human resources that would previously have been regarded as a business own responsibility to manage, routinely from external vendors. It can also be taken to mean “having a third-party service provider or vendor, furnish on an ongoing basis, the administration of an HRM activity that would normally be performed in-house” (Cook, 1999:4). Greer et al., (1999:85) refer to HR outsourcing as “the performance, by outside parties on a recurring basis, of HR tasks that would otherwise be performed in-house”.

The international business arena is changing and the global trends indicate that outsourcing is an alternative method of procuring the human resource requirements being adapted by both private and public enterprises to improve effectiveness and efficiency. Human resource outsourcing appears to be an irreversible move which will continue in the foreseeable future. An analysis of literature revealed that the concept of outsourcing has theoretical foundations
in transactional costs theories and resource-based view (Williamson, 1981). Williamson argues that low cost transactions are purchased from outside (outsourced) while high cost transactions are produced in-house. This is after the firms initially doing vertical integration get concerned with the increased costs of doing business. Porter (1988) found that majority of such firms started vertical disintegration. Decisions on whether to 'make' or 'buy' had to be made by many firms. Outsourcing is also based on resource based-view theory of a firm. Williamson (1981) suggests that competitive edge is achieved when a firm is able to acquire material and non-material resources which are difficult to substitute and hard to imitate. Firms therefore, maintained those functions which could bring them competitive advantage. They sold out some of the departments and business units and started buying some of the non-core functions from outside vendors.

Jiang and Quareshi (2006) are of the view that this tool of management grew to find a more efficient way to address organizational competitiveness. More firms in Kenya are increasingly taking up this strategy to procure labour needs in many sectors for example, East African Breweries in manufacturing sector; Kenyatta University in Education sector; Kenya Commercial Bank in banking sector and Telkom Kenya in the communication sector to mention a few.

2.2.1.2 Factors Considered in Determining the Outsourcing Needs.

Human resource outsourcing is about contracting specific human resource functions from an external vendor rather than acquiring the function from the in-house staff. The greatest challenge here is to determine what the firm
regards as core and non-core so that the firm can outsource non-core functions. Armstrong (2005) suggests four questions that a firm needs to ask:

- Is the function core or non-core? What contribution does the function make to the qualitative and financial well being of the firm? How is the function being run currently? How are the other firms managing the function?

The management needs to evaluate the firm’s vision, mission and goals. This way, they will find their key competencies and functions of their business. Competencies in this regard refer to the set of distinguishing activities in comparison with the competitors hence they should be maintained (Franceschini et al., 2003). Hamel and Prahalad are pioneer scholars in the field of core and non-core competencies recommend three tests which a core competence must meet (Hamel & Prahalad, 1994). First, it must enable a company to provide “fundamental customer benefit” which add to the customer’s perceived value. Second, it must offer competitor differentiation which should be competitively unique and superior to the competitors and third, it must be extendable so that it can offer new products and services in future for both existing and new markets.

These key competencies give the firm a competitive edge and are therefore, maintained while the firm leases out other processes which they will have an edge if they acquire them from other suppliers. Scholars have argued that outsourcing has evolved from classical or traditional outsourcing to strategic outsourcing (Franceschini et al., 2003). Traditional outsourcing according to them is where outsourcing is done to areas that are considered not critical to
the organization and such an activity does not require specific competencies such as canteen services or cleaning services. Strategic outsourcing is where a firm outsources everything except those activities in which unique competitive edge could achieved.

Whether outsourcing is done based on traditional or strategic approach, it is clear that proper identification of core and non-core area of business is critical for the success of the whole process. Understanding the core areas of a business and highlighting them in the vision and mission of a firm can even reduce conflicts with trade unions who may feel that some of the workers are being retrenched unfairly and being replaced with outsourced labour. (Franceschini et al., 2003) further argue that after identifying the non-core areas to outsource labour for, one decides whether to outsource from a single client (who will lease all HR functions), multiple clients (each of whom will lease out only one HR function), or from an integrated supplier (who will get the contract to supply all outsourced HR functions and sublet other vendors to provide the functions but supervise the sub-contracted vendors).

2.2.1.3 Risks of Outsourcing

Several risks have been highlighted in the literature including:

It is difficult to decide whether to outsource all or part of the activity due to the risk of loosing key competencies which can be useful in the firm (Franceschini et al., 2003; Zhu, et al., 2001). This is where the firm retires or retrenches the employees who posses some skills and later seeks a vendor to provide the services. Eyaa (2006a) adds that by outsourcing, the firm loses a
measure of control in that function which can affect the success of a business especially if the work is not done well.

Another risk is that some of the firms are unable to identify their core and non-core functions. It is not easy to know how close to the core one should outsource (Franceschini et al., 2003); they therefore, end up outsourcing core competencies for short-term cost advantages. This view has also been echoed by Harland, et al., (2005) who warn that short-term gains should not blind the outsourcing firm at the expense of hidden costs.

Another risk is that it can lower the employees' morale (Armstrong, 2005; JoMD, 2000; Webb, 2005). The random policy of outsourcing can cause job insecurity, which makes the workers to start worrying over which will be the next function that the management will declare non-core and subsequently outsource. This can lead to high labour turn-over, stress at work hence reducing the motivation of the staff. Eyaa (2006a) advises that there should be open communication between the suppliers and the employee of the firm acquiring outside services lest such employees start feeling threatened for viewing the supplier as the one out to make them lose their jobs.

It can interfere with the organization culture (Hindle, 2005; Webb, 2005); outsourcing requires that vendors and outsourcing firms merge their organizational culture which is challenging. One party may impose working conditions which the other party may not be used to. Additionally, “adapting to the rigorous processes required by an outsourcer may be difficult in some
corporate cultures” (Perkins, 2003). It is, therefore, important for a firm to outsource labour from a firm where there is cultural ‘fit’.

Leaking of confidential information may be another risk (Eyaa, 2006b; Franceschini et al., 2003); the vendor may get access to highly confidential information in the event of working and leak it to unauthorised people especially the competitors. Information can be a source of strategic advantage in business and therefore, expectation on handling internal information should be addressed in the contract. Leakage of such information can also occur at a point after the firm has retrenched the workers in order to start outsourcing. The exit plan should be fair to avoid such a pitfall.

Harland et al., (2005) bring forth another argument that outsourcing in public sector leads to “privatization by stealth” where some private firms silently take over many of the functions that should be provided by the government. Government firms are, therefore, “privatized” silently without being sold in an open way. It can also be argued that the stockholders expect the management to carry out the task of running the firm and may be against a move to pass on the task to a third party (the vendors).

It is difficult to quantify the requirement of outsourcing in the service level agreement. This can end up compromising quality of customer care, levels of control, and contact with customers (Franceschini et al., 2003; Kavčić & Tavčar, 2008). The outsourcing firm and the vendor must agree and
understand what is expected of each other in the service level agreement (The Los Angeles Times, 2002).

Lastly, it is difficult to assess all the costs (Franceschini et al., 2003). There could be some hidden costs which a firm may not realise for example, the cost of managing the outsourced labour. Eyaa (2006b) adds that more firms are seeking to outsource increasing the demand for the service. Vendors have increased their prices up and this can increase cost of outsourcing instead of lowering it. A proper analysis of all costs needs to be undertaken before making the decision to outsource.

2.2.1.4 Benefit of Outsourcing

A review of literature on HR outsourcing reveals that many scholars are in agreement that outsourcing has benefits to the outsourcing firms. A view held by many scholars is that through outsourcing the costs of providing a service are reduced due to economies of scale, unique expertise and competencies offered by the vendor. This reduces and stabilizes the costs (Armstrong, 2005; Franceschini et al., 2003; Hilde, 2005; Jiang & Qureshi, 2006; JoMD, 2000).

Second, it releases the management, in-house staff and the other resources of the firm to concentrate on the strategic issues of the firm which lead to better efficiency and effectiveness (Armstrong, 2005; Franceschini et al., 2003; Greer, et al., 1999; Hindle, 2005; Human Resource Management {HRM}, 2004; Jiang & Qureshi, 2006; JoMD, 2000; McIvor, 2003). Outsourcing vendor will deal with issues not giving the firm any competitive edge when
done internally while the in-house staff and management concentrate on the core competencies.

Third, Moshi (2006) argues that through outsourcing, the firm saves on time and efforts on planning for training the employees since this work is transferred to the vendor. The vendor is left with the responsibility of training and developing his or her own employees.

The fourth benefit of outsourcing is that the employer can dispense with the employees as soon as the assignment at hand is over (Chabbra, 2005). This means the firm will not be tied to employees and paying them benefits when they are not contributing to the revenues of the organization. Amiti and Wei (2004) add that a firm can outsource those functions that are subject to fluctuations and seasonal demand. This saves costs when business is low.

Fifth, outsourcing human resources according to Chabbra (2005) frees the firm from the worry of industrial relations as they are taken on lease from the provider. This reduces chances of employees taking any industrial action against the outsourcing firm since they are not directly employed by the firm but by the vendor. Any new changes in the organisation which would have led to resistance among the in-house staff are implemented without resistance and therefore, the vendor acts as an agent of change.

A sixth reason for outsourcing has been identified as risk control. One of the reasons why firms outsource is that provision of such services is complex and of low efficiency and therefore, it makes sense to outsource such a service to
reduce the risk (Franceschini et al., 2003; Galanaki & Papalexandris, 2005). The expected quality of service of outsourcing is clearly expressed in the contract with the financial penalties and any legal redress hence it is legally binding and this is not possible to implement among the in-house staff.

A seventh reason for outsourcing is that it reduces on the need for manpower planning. Chabra (2005) points out that the outsourcing firms need not plan for their human resources in advance since they can get their human resources requirements on lease from the vendors in time and quantity required. Simmonds and Gibson (2008) argue that the firm is saved from upsizing and downsizing the labourforce any time the labour demand changes.

Lastly, scholars argues that profitability of the firm is boosted through avoiding paying expensive benefits and even the small firms can afford to rent the skilled labour for a short period of time (Quinn, 1999; Simmonds & Gibson, 2008).

2.2.2 Literature on Measuring a Firm’s Performance

Different scholars have come up with different measures to evaluate the firm’s performance. Cho et al., (2008) uses four measures namely; profitability, sales growth, overall performance and customer satisfaction. Jiang et al., (2006) uses cost efficiency, productivity and profitability. Bolat and Yilmaz (2009) have included effect on corporate social responsibility and corporate image. The researcher will also include employees’ morale and motivation. Cho et al., (2008) note that empirical data on performance may be difficult to get and
he therefore, recommends use of managers’ perception e.g. profits and market share which has shown some positive correlation with objective financial or market data.

2.2.2.1 Corporate Social Responsibility as a Measure of Firm’s Performance

Many firms have adapted Corporate Social Responsibility (CSR) as part of business strategy. It is the responsibility of the business to improve overall welfare of the society by refraining from harmful practices or by making positive effects to help the society. Some institutions have included CSR in their strategic plans for example, Kenyatta University (Kenyatta University, 2005).

Corporate social responsibility has been defined in various ways by different scholars. Johnson and Scholes (2002:20) define CSR as being concerned with ways which an organization exceeds the minimum obligation to stakeholders specified through regulation and corporate governance. Pearce and Robinson (2005:47) define it as the firm’s responsibility towards stockholders, creditors, employees, customers, suppliers, governments, unions, competitors, local communities and general publics. The World Business Council for Sustainable Development (WBCSD, 1999) defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”. The business is, therefore,
supposed to act responsibly to its shareholders, the general society, and towards the environment or what scholars call the triple baseline.

**CSR and Firm’s Performance**

CSR can improve the firm’s performance in the following ways:

First, according to Pearce and Robinson (2005), it makes a firm to have a sustainable competitive advantage which improves the firm’s reputation. A firm needs to take care of its stakeholders to create a lasting good impression. It is argued that a good name can enhance business in good times and protect it during a crisis (Smith, 2004).

Second, a research done by Derwall et al., (2005) found that firms with a higher rating in CSR have a better rating in the stock market than those with lower CSR rating. This can mean in the long run the shareholder’s wealth is maximized. This view is supported by BHP Bilton CEO Chris Goodyear who argues that ‘without our reputation as a corporate citizen contributing positively to our communities, there is no doubt that our profitability would be hampered and shareholders value destroyed’ (Goodyear, 2006). He further argues that CSR has the potential to establish a firm as company of choice giving it access to better markets and best employees which can improve profits and maximize shareholders value.

Third, globalization has led to enlightened consumers who demand for environmentally friendly products and firms try to achieve balanced growth across the regions where they operate (Pedrini, 2007). Globalization has led to
ecological concerns where processes bringing a greener environment have been given a priority. A firm cannot therefore, harm or destroy the environment that it exists in since its operations cannot be sustainable in the long run.

Other reasons given by Pedrini (2007) include meeting world certification and standardization requirements e.g. ISO 14001 (This is an international standard, voluntarily developed in 1996 in order to encourage an efficient system of environmental management); regulation by the government after some corporate scandals leading to laws like Sarbanes-Oxley Act of 2002.

A firm may need to show social responsibility towards the outsourced labour on cases of corruption. A study by Vaaland (2008) on Statoil Company showed that the firm has an elaborate system of protecting the whistle-blowers to report cases of corruption through a hotline number. In many firms, such employees are sacked or reprimanded. Pearce and Robinson (2005) list taking care of employees' economic, social and psychological needs as well as allowing operations of trade unions as part of what a firm can do as part of CSR. Prahland (1994) advises that during divestiture by the government, the employees should be given an opportunity to buy shares so that even if they do not get employed elsewhere, they can continue getting dividends from their shares.

Outsourcing may affect corporate image negatively. Eyaa (2006b) argues that if some thing goes wrong during outsourcing, the clients and public will not be
able to distinguish whether the mistake was done by the vendor or the outsourcing firm and this can dent the outsourcing firm’s corporate image.

Outsourcing can lead to job losses and the literature identifies some of the ways in which the outsourcing firm can reduce the negative impact on the outgoing employees as part of CSR. It is recommended that the former employees can bid for positions that are being outsourced; firms can assist the graduates to upgrade their knowledge so that they can take up more challenging roles in functions that are not being outsourced; or outsourcing can be done gradually so that it can reduce the impact on the exiting employees and at the same time firms can plan for outplacement schemes (Human Resource Management International Digest, 2005). It has been reported that although employees should take personal responsibilities for their careers, the assistance by the management suggested above has been declining over the years (Hemphill, 2004). It has been debatable in the literature reviewed whether outsourcing leads job losses or not. Some scholars argue that a worker could lose his or her job due to outsourcing but then he or an unemployed worker, may find a job in another firm within the broader industry classification (Amiti & Wei, 2004).

2.2.2.2 Employees Morale and Motivation as a Measure of Firm’s Performance

Shekhar (2008) argues that outsourcing is often associated with a possible loss of jobs in the existing organization and increased perception of job insecurity. The remaining employees are demoralised since their job security is
threatened. Webb (2005) posits that when outsourcing comes, some employees resist change and it is upon the management to make the change comfortable. Management needs to make the remaining employees feel comfortable since there is a close relationship between employees' morale or motivation and performance. Montes et al., (2003) are of the opinion that when workers have job satisfaction, they are able to perform well and subsequently remain in employment in the firm for a longer time. It can, therefore, be deduced that organizational commitment and employee retention can show how well a firm is performing. Bolat and Yılmaz (2009) posit that outsourcing can lead to a leaner organization structure that allows more delegation which in turn enriches their jobs. Job enrichment is known to improve the workers' motivation by giving the employee more responsibilities.

2.2.2.3 Productivity as a Measure of Firm's Performance

Productivity is a ratio to measure inputs and outputs. It measures how much output can be increased by adding an extra employee. Raa and Wolff (2001) in a study found a positive relationship between outsourcing and productivity. Elmuti (2003), however, found that outsourcing improved productivity by 5 to 10 percent. This is a very small percentage contrary to the expected increase as outlined in literature on perceived benefits of outsourcing.
2.2.2.4 Quality of Service and Customer Satisfaction as a Measure of Firm’s Performance

Customer service refers to how well the enterprise manages its customer service in terms of effectiveness, productivity and quality (Khong & Richardson, 2003). It is believed that outsourcing makes a firm to enjoy better quality services which can improve customer satisfaction since it will be a core business area for the vendor. Cho et al., (2008) investigated whether a firm outsourcing logistical services could benefit from improved customer satisfaction and found a positive correlation between the two variables. He found that goods reached the targeted customers within a shorter lead time and even connect well to other countries. Similar results were reported by Khong (2005) that outsourcing can improve customer service.

2.2.2.5 Cost Reduction as a Measure of Firm’s Performance

This is said by many scholars as the main reason for outsourcing costs (Armstrong, 2005; Franceschini et al., 2003; Hilde, 2005; Jiang & Qureshi, 2006; JoMD, 2000). Firms are able to save some money which they can invest in other productive activities. This is achievable when a firm outsources to a firm that enjoys economies of scale which also have the expertise to operate at lower costs (Jiang et al., 2006). Bolat and Yilmaz (2009) are of the opinion that when outsourcing is done the firm may get new sources of wages or start more non-wage programme which act to improve the remuneration of the remaining workers.
2.2.2.6 Profitability as a Measure of Firm’s Performance

Profitability is said to be the most important criterion of measuring the firm’s performance according to Jiang et al., (2006). Profitability determines by what the stock holders of the business will get as earnings. An increasing profitability shows a firm is improving in performance. Literature reviewed suggests that by outsourcing, profitability is improved through the following ways: by outsourcing, the firm is able to get the staff to use when and until they need them avoiding costly employment cost leading to profitability as well as enabling even the smallest of the firms to acquire experts to improve on profitability (Jiang et al., 2006).

2.2.3 Other Factors That Can Impact on the Performance of a Firm Apart From Outsourcing

Narver and Slater (1990) did a research on factors that may affect the firm’s performance and came up with the following variables: market growth; buyer power; supplier power; seller concentration; ease of entry, and technological changes. Baker and Sinkula (1999) added competitive intensity; market dynamism and government regulation as being other variables that can affect the firms’ performance. Since the research investigated the effect of human resource outsourcing on performance of parastatals the researcher bore in mind that the above can also influence the performance of the parastatals under the study outsourcing not withstanding.
2.3 Summary of Literature Review

There is agreement among the scholars that a firms need to evaluate themselves to determine what is core and non-core to decide which functions they can outsource. Scholars agree that outsourcing has both benefits and risks of outsourcing which need to be critically examined before outsourcing.

There is agreement among scholars and those in management practices that a firm needs to be responsive to the needs of the stockholders, employees, unions, the environment, consumers, the government and the general public. It can, therefore, be concluded that all firms engage in more than one type of CSR but in varying degrees.

The literature is in agreement that outsourcing of human resources can affect the employees' productivity, morale and ability to give quality services. It also affects the firm's profitability and ability to cut costs.

2.4 Summary of Gaps

Some gaps emerged in the literature review including the following:

It was not clear to what extent human resource outsourcing affected the corporate image and corporate social responsibility goals of publicly owned firms.

The literature cites that retrenchment can affect the motivation of the remaining employees. The literature has also suggested that there is a relationship between motivation levels and performance but the past studies have not yielded empirical evidence on the extent to which human resource
outsourcing has affected the morale and motivation of the remaining employees.

There is a contradiction between theories of why firms outsource and the reality by research findings on whether outsourcing increases or decreases the productivity and quality of services by the remaining employees. The research was to establish the extent to which human resource outsourcing affected the remaining employees' productivity and quality of service provision in the publicly owned firms.

There is a contradiction between theories of why firms outsource and research findings as to whether outsourcing reduces the cost. It is not clear whether outsourcing affects the remaining employees' remuneration and its overall implications on costs. This research sought to bridge this gap by establishing the effect of human resource outsourcing on remuneration of employees and cost reduction. It investigated whether the remaining employees' remunerations are improved to match that of the outsourced employees and whether outsourcing leads to improved efficiency which can translate to improved terms for the remaining employees. The variable on profitability was not considered in the study since a number of the parastatals are non-profit making hence it is difficult to measure their profitability.

The literature reviewed has been mostly conducted in hotel industry (Bolat & Yilmaz, 2009) and in some publicly traded firms (Jiang et al., 2006) and these
findings were compared against a cross-section of publicly owned firms in Kenya.

2.5 Conceptual Framework

Conceptual framework is an essential research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and communicate this (Kombo & Tromp, 49, 2006). The problem under scrutiny is how outsourcing of labour affects performance of a firm. The independent variable for the study was the decision to outsource human resources while the dependent variables were the results of outsourcing on performance. The study recognised existence of other intervening or extraneous factors that may interfere with achievement of performance. These include market growth, buyer power, supplier power, seller concentration, ease of entry and technological change which were suggested by Narver and Slater (1990) as affecting performance of a firm. Baker and Sinkula (1999) have also included competitive intensity, market dynamism, and government regulation as factors that can affect performance of a firm. This conceptual paradigm can be exemplified as shown in the following figure:
Fig 2.1: Conceptual framework of effect of outsourcing practices on firms’ performance (Source: Researcher, 2009)

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>Dependent variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision to outsource</td>
<td>affects performance</td>
</tr>
</tbody>
</table>

**Benefits of human resource outsourcing practices**
- Saving on costs
- Releases in-house staff and management to concentrate on strategic issues
- It saves time and effort to do manpower planning
- It helps to do away with employees as soon as a project or assignment is over
- It reduces worry of workers taking industrial action
- It reduces the risk of providing services which are complex and of low efficiency
- Small firms can be able to enjoy hiring of skilled labour

**Risks of human resource outsourcing practices**
- Losing key competencies
- Being unable to identify their core and non-core functions
- It can lower the employees’ morale
- Leaking of confidential information
- Interfering with the organization culture
- Privatization by stealth to private firms
- Some hidden costs
- which a firm may not realize

**Effects of human resource outsourcing on firms’ performance**

**Indicators of performance**
- Corporate image and corporate social responsibility
- Employees’ morale and motivational levels
- Productivity and quality of service

**Other factors that can affect firms’ performance**
- Market growth
- Buyer power
- Supplier power
- Seller concentration
- Ease of entry
- Technological change
- Competitive intensity
- Market dynamism
- Government regulation

**Intervening variables**
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction to Research Methodology

This chapter describes the methodological approach to the study. It focuses on study design which was used, study location, population under investigation, sampling techniques to be used, the sample size and sampling procedures which were followed. It also describes data collection tools, method of data analysis, tools for data analysis and procedure for data presentation.

3.2 Study Design

The researcher used a descriptive research design. This type of research design was suitable for this study since it described state of affairs as they exist, giving forth knowledge and solutions to existing problems (Kombo & Tromp, 2006: 71). Purposive sampling was used. Purposive sampling was done to obtain access or to whoever the researcher thought was the appropriate respondent to the question asked for practical reasons (Fisher, 2007:191). Twenty five parastatals were purposely selected after a pilot study to reveal parastatals that are outsourcing labour needs in non-core activities. A study on effects of outsourcing on performance of these 25 parastatals was done and this allowed generalization.

3.3 Study Location

The research was carried out in Nairobi which is the headquarters of many parastatals. The study location was purposely selected since major procurement decisions and human resource policy are done in the
Managers in the country-wide regions make use of procedures prescribed by headquarters procure outsourced human resources.

3.4 Study Population

A list of parastatals available from the government website gave a total of 123 state-owned corporations or parastatals (GoK, 2009). See appendix V attached. The decision to do HR outsourcing is very strategic and is done by board of directors and top management. The study targeted responses from the heads of human resource departments who supervise the outsourced labour and the corporate affairs department. This entailed a population of 246 managers.

3.5 Sampling Techniques and Procedures

Purposive sampling of 25 parastatals was done on the basis that they carry out human resource outsourcing. Proximity of the headquarters to the researcher was also considered due to limited resources and time. To achieve a balanced view, a group of human resource managers and corporate affairs managers were sampled to give a more heterogeneous group. Okoli and Pawlowiski (2004) argue that a heterogeneous group give more creative and balanced answers than using a homogenous group.

A group of 50 managers out of the total of 246 managers were purposively chosen since their departments deal with outsourced human resources directly making them the best informed people to give the data, information and
opinions on effects of outsourcing on firms' performance. Out of these, 41 questionnaires were received back for analysis.

3.6 Sample Size

A total of 50 managers were chosen as a sample population which represents a 23% sample size. These filled in the questionnaires to give the data on effects of outsourcing.

3.7 Data Collection

Data were collected from both primary and secondary sources. Managers from the parastatals chosen above gave the primary data through the questionnaires and these data were subjected to both qualitative and quantitative analysis. Secondary data were collected to compliment the responses given by the managers.

3.7.1 Data Collection Techniques

The primary data were collected using questionnaires (See Appendix II) which had both open-ended and close-ended questions. Some of the responses given were confirmed by observations and personal interviews. Secondary data were collected from journals, internet, books, and company reports.

3.7.2 Data Collection Procedure

The researcher personally administered the questionnaires to the sampled managers of the 25 parastatals. A visit was made to the parastatals offices to develop rapport with the managers and give them instructions on how to fill in the questionnaires and issue the data collection instruments.
3.7.3 Piloting and Validity

A pilot study was done to determine parastatals carrying out human resource outsourcing as well as validity and reliability of the questionnaires before they are issued out to the respondents. At first, piloting was done with assistance of the university supervisor. Later, it was done among two firms in the population sample but not among the sampled firms. This helped to clarify and remove questions which were ambiguous or unclear.

3.8 Data Analysis

The research generated both qualitative and quantitative data. Descriptive statistics included frequencies and measures of central tendency. Data collected from questionnaires were analyzed using Statistical Package for Social Science (SPSS). The data were analyzed to show central measures of tendency such as mode, frequencies and percentages. Summaries of the data were classified according to the objectives and related categories. The findings were summarized and were presented using tables, pie charts and histograms.
CHAPTER FOUR
DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the findings of the research. A total of 25 parastatals were targeted as the sample and from each parastatal, two managers were to fill in the questionnaires. A total of 21 firms provided the information. Among the twenty one of these firms, two respondents filled the questionnaire while in one firm, only one respondent availed. This brought a total of 41 questionnaires or 82% response. The data were analysed according to the background information and set objectives. This was summarized in frequencies, pie charts, histograms and tables.

4.2 Background Information

The first question sought to find out which were the most common services that were outsourced. Training and cleaning emerged as the most commonly outsourced services while property management being the least outsourcing. This can be summarized as follows:
The second question sought to find out when the firms began outsourcing to gauge the ability to assess the impact of outsourcing on performance.

All the firms answered that outsourcing had begun before 2006. They have been outsourcing for more than three years hence they have realized its impact on performance.
The third question asked what the firm did with employees who were doing the tasks which are currently being outsourced. There were ten firms which responded that they started outsourcing from their inception while ten firms said that they deployed their staff to other departments that were not outsourcing. There was no single firm which had taken the option of out-placing the employees to outsourcing firms. The responses given are as follows:
The respondents were required to give the mode of acquiring the outsourced labour and they responded as follows: From one vendor who offers a particular service to all branches in the whole country 76.2%, each branch gets its own vendor independently 23.8%, from one vendor countrywide who then sublets to other vendors 0%. This is shown in the following figure:
This question sought to find out how the firms outsource their labour. Ten firms said that they outsource without maintaining the internal staff while ten others said that they partly maintained their staff to work closely with the outsourced labour. Two firms said that they outsourced fully in some departments while maintaining some staff in some departments. This is represented by the following pie chart:
For those firms who still partially outsource and still maintain in-house staff, a question was asked whether they are likely to revert to fully use in-house staff in case outsourcing arrangement failed. The responses were as follows:
Fig 4.5: Whether firms which partially outsource can do away with outsourcing in future and use in-house staff.

| Can the firm revert to use of in-house staff if outsourcing is not successful? |
|-------------------------------|-------------------|
| Yes                           | 8%                |
| No                            | 92%               |

4.3 Effect of Human Resource Outsourcing on Corporate Social Responsibility and Corporate Image

A question was posed whether outsourcing of human resources had improved the corporate social responsibilities and corporate image of the firm. It was further revealed that 30 out of 41 (73.17%) of the responses had noted an improved corporate image and social responsibility. The rest (26.83%) responded that it did not have any effect. This is represented in the following figure:
On the issue of whether outsourcing has led to leakage of confidential information to unauthorized persons, thirteen responses were yes (31.7%) while the rest were no (68.3%). This can be exemplified as follows:
Fig 4.8: Has outsourcing led to leakage of confidential information to unauthorized persons?

The respondents were asked whether the outsourced employees were able to fit in the organisation culture and the majority (92.8 %) of the respondents said that they were able to fit the rest said they did not fit (7.2 %). Thirteen responses were not included in the tally since the respondents were not decided. This is shown by the following table:

Table 4.1: Whether outsourced labour was able to adapt to the organisational culture of the firm

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>5</td>
<td>17.8 %</td>
</tr>
<tr>
<td>Agree</td>
<td>21</td>
<td>75 %</td>
</tr>
<tr>
<td>Disagree</td>
<td>1</td>
<td>3.6 %</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>1</td>
<td>3.6 %</td>
</tr>
<tr>
<td>Total</td>
<td>28</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.4 Effect of Human Resource Outsourcing on Morale and Motivation of Employees

When asked whether outsourcing reduced the morale of the remaining employees, 19.51% of the respondents said it reduced while the remaining respondents (80.49%) said it did not affect the workers.

Fig 4.9: Whether outsourcing reduced the morale of the remaining employees

For those who said that outsourcing reduced the morale of the remaining employees, a question was asked about the extent to which it did. Twelve and a half percent of the respondents said it was very great, 50% said it was great, 25% said it was moderate while 12.5% said it was low. This is shown by the following figure:
This question sought to find out whether after outsourcing began, some employees may have changed jobs fearing that their departments would also start retrenching. The results are as follows:-

Out of the 41 respondents, 9 were undecided (not sure). These were left out in the tally. Those who agreed were 34% while those who disagreed were 66%.

This is shown in the following histogram:
The respondents said that after outsourcing was done, remaining employees were given more tasks to carry out which enriched their jobs. This has been identified in the literature as factor that can increase productivity. Nine respondents were not sure and their tally has been left out. The responses were as follows: strongly agree 15.6%, agree 53.1%, disagree 18.7% while those who strongly disagreed were 12.5%.
Fig 4.12: Whether outsourcing improved job enrichment of the remaining employees

Did outsourcing improve job enrichment of the remaining employees?

An open-ended question was asked on the respondents' opinion on how they intend to keep employees' morale and motivation high in case they decide to outsource in non-core departments which are currently not outsourcing. Ten firms did not have responses for this question since they have only employees in core business. The most common response among many of the respondents
was that there should be open dialogue between employers and employees. Reponses were got from 22 respondents and they are as follows:

Table 4.2: Measurers that can be taken to ensure that employees’ morale is not affected by outsourcing

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open communication with employees on time</td>
<td>16</td>
<td>32%</td>
</tr>
<tr>
<td>Retraining to fit in any other department not outsourcing and encouraging employees to have continuous career development to face future challenges</td>
<td>11</td>
<td>22%</td>
</tr>
<tr>
<td>Offering the exiting employees a better send-off package</td>
<td>7</td>
<td>14%</td>
</tr>
<tr>
<td>Outplacement programmes to other firms requiring their skills</td>
<td>6</td>
<td>12%</td>
</tr>
<tr>
<td>Better supervision of remaining employees with well-defined job descriptions</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Educate them that outsourcing is inevitable and should be ready for changes</td>
<td>5</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.5 Whether Human Resource Outsourcing Has an Effect on Productivity and Quality of Work

When asked whether they had reduced the number of workforce, the following responses were given, no 57.1% and yes 42.1%. This is because some firms started outsourcing immediately they were formed while others redeployed their workers in core departments. This is shown in the following figure:
Fig 4.13: Whether firms reduced the number of employees when outsourcing began

Did the firm reduce the number of employees after outsourcing began?

- Yes 42.9%
- No 57.1%

For those whose response to the above question was 'Yes' a question was asked whether the remaining employees do the same amount of work. It was found that those who responded that they did not reduce the number of employees are mostly the same firms who started outsourcing from the inception of the firms.
Table 4.3: Whether the employees do the same amount of work after outsourcing began

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>3</td>
<td>33.3%</td>
</tr>
<tr>
<td>More work</td>
<td>2</td>
<td>22.2%</td>
</tr>
<tr>
<td>Less work</td>
<td>4</td>
<td>44.4%</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>100%</td>
</tr>
</tbody>
</table>

When respondents were asked to rate the quality of work done by the outsourced labour, they responded as follows: extremely good 5%, good 70% and average 25%. This is shown by the figure below:

Fig 4.14: How respondents rated the quality of work after outsourcing began

```
How do you rate the quality of work after outsourcing began?

- Extremely good: 5%
- Good: 70%
- Average: 25%
```

Three possible reasons why productivity may have improved were given and the respondents were told to chose the most important as pertains to
their firm. Expertise of the vendor was ranked by more respondents than other reasons. The following answers were obtained.

Table 4.4: The most common factors that may have led to improved productivity

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The outsourced vendor has more expertise in doing the outsourced work than when it was being done in-house</td>
<td>20</td>
<td>48.8%</td>
</tr>
<tr>
<td>The outsourcing vendor is able to supervise the employees more efficiently</td>
<td>11</td>
<td>26.8%</td>
</tr>
<tr>
<td>The outsourcing vendors enjoy the economies of scale</td>
<td>10</td>
<td>24.4%</td>
</tr>
<tr>
<td>Total</td>
<td>41</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.6 Effect of Human Resource Outsourcing on Remuneration and Cost Reduction

Majority of the respondents (80.95%) said that outsourcing did not reduce the labour costs. The rest (19.05%) said that they had noted a reduction. This contradicted commonly held tenet by outsourcing scholars that outsourcing is commonly done to reduce costs (Armstrong, 2005; Franceschini et al., 2003; Hilde, 2005; Jiang & Qureshi, 2006; JoMD, 2000).

Table 4.5: Whether outsourcing reduced labour costs

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>4</td>
<td>19.05%</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>80.95%</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100%</td>
</tr>
</tbody>
</table>

When asked whether the outsourced labour were paid less than what the in-house staff were paid, 71.4% of the respondents said they were paid less while the rest said they were being paid more. This is shown in the following pie-chart:
Fig 4.15: Whether outsourced labour was paid less than what was paid to in-house staff

When the respondents were asked the extent to which the remuneration was reduced, they responded as follows: very great 13.3%, great 46.7%, moderate 33.3% and low 6.7%. This is shown in the following figure:
Fig 4.16: Extent to which outsourcing reduce labour costs compared to what was paid to in-house staff

To what extent did outsourcing reduce labour costs compared to what was paid to the in-house employees?

Great 46.7%
Moderate 33.3%
Very Great 13.3%
Low 6.7%

On being asked whether outsourcing has reduced the overall cost of the firm, the response given was as follows: strongly agree, 9.5%, agree 19%, disagree 38.1% and strongly disagree 33.3%. This is shown in the following table:
Table 4.6: Whether outsourcing reduced the overall costs of the firm

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>2</td>
<td>9.5%</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>19%</td>
</tr>
<tr>
<td>Disagree</td>
<td>8</td>
<td>38.1%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>7</td>
<td>33.3%</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>100%</td>
</tr>
</tbody>
</table>
CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTIONS

This chapter presents a summary of findings from the data analysis from the previous chapter. Conclusions and recommendations are given.

5.2 Findings

It was established that cleaning and training were the most commonly outsourced services among the parastatals while property management was the least outsourced service. All the firms investigated have been outsourcing the services for more than three years and hence have realized some of the effects of outsourcing.

There were ten firms which responded that that they started outsourcing from their inception while ten firms said that they deployed their staff to other departments that were not outsourcing. There was no single firm which had taken the option of outplacing the employees to outsourcing firms.

Forty three percent of the firms under the research partly outsourced while 57% of the firms fully outsourced. Of those who partly outsource 92.3% felt that they are not likely to go back to use of in-house staff even if outsourcing is unsuccessful while only 7.7% said they are likely to go back to in-house staff if outsourcing fails; 73.17% of the firms felt that outsourcing had improved social responsibility and corporate image while the rest felt that it had no effect. It was established that the extent of improving corporate image
ranged from great to moderate. It was found that outsourcing had freed the remaining employees to do more CSR activities and the outsourced labour had enabled the firm to acquire expertise who made the firms to improve the corporate image.

On whether outsourcing had led to leakage of confidential information to unauthorised persons, 68.3% said no while the rest said yes it did. It was established that management of outsourced services determined whether leakage occurred or not; 98.2% of the respondents said that the outsourced labour was able to adapt to the organisational culture. It was established that those firms who responded that the workers did not fit in the organisational culture were mainly those firms who outsourced security services and the guards had nothing to do with day to day running of the firms.

On whether it reduced morale of remaining workers, 19.51% said it did while 80.49% said it did not. This confirmed Bolat and Yimaz (2009) findings who had said that outsourcing may to an extent negatively affect remaining employees. It was further established that most of the respondents who have only workers in the core functions said that their workers’ morale was not affected by outsourcing. This is because they do not expect any of their workers to be retrenched in future. The ones with workers who were redeployed to other departments were the ones who said that outsourcing reducing the morale of the remaining workers. The research revealed that majority of the firms employees’ retention was not affected by outsourcing. They are not likely to move to other firms hence they may be regarding their
employer as reliable. It was also established that 68.7% of the respondents felt that the employees of the firms outsourcing enjoyed forms of job enrichment after outsourcing began. This can be attributed to more tasks they were put in charge after outsourcing began; 42.9% of the respondents said that after outsourcing began they reduced the number of employees. The rest did not reduce the number. For those who reduced the number of employees, 33.3% did the same amount of work, 22.2% did less work while 44.4% did less work than before. This shows that outsourcing made the workers do same or less amount of work which is likely to explain why 75% of the respondents rated the quality of work done by outsourced labour as ranging between good and extremely good. This is in line with what Elmulti (2003) and Raa and Wolff (2001) that there is a positive relationship between outsourcing and productivity.

On whether outsourcing reduced the labour costs, it was established that the majority (80.95%) of respondents said it did not reduce the labour costs. 71.4% of the respondents felt that outsourced labour are being paid less than what the in-house staff were being paid. On the extent to which the individual labour cost was reduced by outsourcing, the larger number of respondents (60%) ranged from great to very great; 71.4% of the respondents felt that outsourcing reduced the overall cost while the rest felt that it had not reduced the costs. They mostly said that outsourcing helped the firms to be more efficient and enjoy expertise in their non-core functions but not to reduce the costs.
5.3 Conclusions

The research has concluded that outsourcing has been adapted among many of the parastatals in Kenya more firms prefer to fully outsource. Outsourcing has improved performance of social responsibilities and corporate image and many firms have achieved a cultural fit with the vendors. It is also clear that when well managed, outsourcing does not reduce the morale of the workers or reduce the retention of the workers but it does lead to job enrichment and improved productivity.

Contrary to the commonly held belief that outsourcing reduces labour cost due to reduced salaries to the outsourced employees, the research established that outsourcing may have led to the same labour costs and same overall costs to the firm. Although the outsourced employees are paid less than what in-house staff were being paid, many firms did not make any savings.

5.4 General Recommendations

The researcher therefore recommends that unless the firms evaluate other non-monetary benefits of outsourcing, they should not outsource with the aim of reducing the costs. Second, the firms should consider the option of outplacing the workers to external vendors as part of the social responsibility which can also reduce the negative effect of retrenchments associated with outsourcing. Third, the researcher recommends that where possible it is important to consult with trade unions on the options available before outsourcing is done so that if there are some departments which can make use of the released
labour, training can be offered to the employees. This has been tried in many firms studied and it boosted the morale of the employees since they were not retrenching.

5.5 Recommendations for Further Research

1. The researcher recommends that further research be done on impact of outsourcing on profitability and on stock price of the firms.

2. The study recommends that a similar study be replicated on the privately owned firms to find out if the results would be similar to those of the government owned firms.
REFERENCES


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**Websites**


APPENDIX I: COVER LETTER

Alex Karani Nyaga
P.O Box 1814,
Embu (60100)

Through’
The Chairman
Department of Business Administration,
Kenyatta University,
P.O. Box 43844-00100,
Nairobi -Kenya

To the Head of Corporate Communication,
P.O. Box,
Nairobi

Dear Sir/Madam,

Ref: Permission to collect data from your firm.
I am a second year student in Kenyatta University taking a degree in Master of Business Administration. I am currently taking a research project entitled ‘An investigation of effects of human resource outsourcing on performance of selected parastatals in Kenya.’

I am therefore, requesting the organization to grant me permission to collect data from your departmental heads in the following departments:

- Human resource
- Corporate affairs

The information collected will be treated with utmost confidentiality and will be used for research purposes only.

Thank you in advance.

Yours faithfully

Alex Karani Nyaga
D53/CE/10789/2006
APPENDIX II: QUESTIONNAIRE FOR THE MANAGERS OF PARASTATALS

The questionnaire seeks to find out whether human outsourcing practices among the parastatals affect the performance of state owned corporations in Kenya. Answer all the questions as honestly as possible.

Part A (General information)

1. Name of the department that makes use of labour acquired through outsourcing. Please put a tick (J) in the box next to the correct answer.

- Training □
- Canteen □
- Investigative services □
- Pensions management □
- Garage services □
- Fleet management □
- Cleaning □
- Security □
- Marketing □
- Property management □
- Others/specify


2. When did the firm start procuring labour through outsourcing?

1. Before 2006 □
2. 2006 □
3. 2007 □
4. 2008 □
5. After 2009 □

3. What did the Organization do with the former employees who were offering the services before outsourcing began?

a) There were no employees to retrench. □

b) They were retrenched. □

c) They were out-placed to the vendors. □

d) They were retrained and posted to other departments which are not outsourcing. □
4. How do you get the outsourced labour from the vendors?
   e) From only one vendor who offers a particular service to all branches in the whole country. 
   f) From only one vendor who then sublets the services to other vendors in the whole country. 
   g) Each branch gets its own vendor independently. 

5. I) How do you outsource the labour?
   a) Partly outsource and maintain fewer employees. 
   b) Fully outsource without any in-house employees. 
   II) If your answer to the above question is a) do you feel that the organization can revert to in-house employees if the outsourcing process is not successful in future? Yes No 

Part B (Effect of human resource outsourcing on corporate social responsibility and corporate image)

1. Has human resource outsourcing in your firm improved the corporate image and social responsibility of the parastatal? 
   Yes No

2. If the answer to question 1 above is yes, to what extent?

3. Has outsourcing by your organization led to leakage of confidential information to unauthorized people? 
   Yes No

4. Do you feel that the outsourced labour has been able to adapt to the organisational culture of the firm?
   1. I strongly agree 2. I agree 3. I am not sure 4. I disagree 5. I strongly disagree
Part C (Effect of human resource outsourcing on morale and motivation of the employees)

Did outsourcing reduce the morale of the remaining employees?

Yes □  No □

1. If your answer to the above question is yes, to what extent do you feel that outsourcing has reduced the morale of the remaining in-house staff?

1. I strongly agree □  2. I agree □  3. I am not sure □

4. I disagree □  5. I strongly disagree □

2. Do you agree that outsourcing may have reduced the retention of remaining employees?

1. I strongly agree □  2. I agree □  3. I am not sure □

4. I disagree □  5. I strongly disagree □

3. Do you agree that outsourcing has led to job enrichment for the remaining employees?

1. I strongly agree □  2. I agree □  3. I am not sure □

4. I disagree □  5. I strongly disagree □

4. If you decide to outsource labour for the other department which are currently not outsourcing in future, what measures will you put in place to ensure that it will not reduce the employees’ morale and motivation levels?

Part D (Effect of human resource outsourcing on productivity and quality of work)

1. Did you reduce the number of employees after you started outsourcing?

Yes □  No □
2. If your answer to the above question is yes, are the employees doing the same amount of work?

   Yes  □    More  □    Less  □


4. The following factors may have led to more productivity and improved quality of work. Which of the three is the most important as regards your firm?

   I) The outsourcing vendors enjoy economies of scale.
   II) The outsourcing vendors have more expertise in doing the outsourced work than when it was done in-house.
   III) The outsourcing vendor is able to supervise the employees more efficiently

   1. □

**Part E (Effect of human resource outsourcing on remuneration and cost reductions)**

1. Did outsourcing reduce the labour cost?

   Yes  □    No  □

2. Did outsourcing reduce individual worker remuneration compared to what was paid to in-house staff?

   Yes  □    No  □

3. If the answer to question 2 above is yes, to what extent?


4. Do you feel that you have reduced the overall cost of the firm by outsourcing?

   1. I strongly agree  □  2. I agree □  3. I am not sure □  4. I disagree □  5. I strongly disagree □

Thank you for your cooperation
APPENDIX V: LIST OF KENYA’S PARASTATALS

1. Agricultural Development Corporation
2. Agricultural Finance Corporation
3. Agro-Chemical & Food Company Ltd
4. Athi Water Services Board
5. Bomas of Kenya Ltd
6. Capital Markets Authority
7. Catchment Area Advisory Committee
8. Catering Tourism and Training Development Levy Trustees
9. Central Water Services Board
10. Chemilil Sugar Company Limited
11. Coast Development Authority
12. Coast Water Services Board
13. Coffee Board Of Kenya
14. Coffee Research Foundation
15. Commission for Higher Education
16. Communication Commission of Kenya
17. Consolidated Bank of Kenya
18. Cooperative College of Kenya
19. Council for Legal Education
20. Deposit Protection Fund Board
22. Egerton University
23. Ewaso Ng’iro South Development Authority
24. Export Processing Zone Authority
25. Export Promotion Council
26. Gilgil Telecommunications industries
27. Higher Education Loans Board
28. Horticultural Crops Development Authority
29. Industrial and Commercial Development Corporation
30. Industrial Development Bank
31. Investment Promotion Centre
32. Jomo Kenyatta University of Agriculture and Technology
33. KASNEB
34. Kenya Agricultural Research Institute
35. Kenya Airports Authority
36. Kenya Anti-Corruption Commission
37. Kenya Broadcasting Corporation
38. Kenya Bureau of Standards (KEBS)
39. Kenya Civil Aviation Authority
40. Kenya College of Communication & Technology
41. Kenya Dairy Board
42. Kenya Electricity Generating Company
43. Kenya Ferry Services Limited
44. Kenya Forestry Research Institute
45. Kenya Industrial Estates
46. Kenya Industrial Property Institute
47. Kenya Industrial Research & Development Institute
48. Kenya Institute Of Administration
49. Kenya Institute of Public Policy Research and Analysis
50. Kenya Literature Bureau
51. Kenya Marine & Fisheries Research Institute
52. Kenya Maritime Authority
53. Kenya Meat Commission
54. Kenya National Assurance Company
55. Kenya National Examination Council
56. Kenya National Library Service
57. Kenya National Shipping Line  
58. Kenya National Trading Corporation Limited  
59. Kenya Ordinance Factories Corporation  
60. Kenya Pipeline Company Ltd  
61. Kenya Plant Health Inspectorate Services  
62. Kenya Ports Authority  
63. Kenya Post Office Savings Bank  
64. Kenya Power and lightning company  
65. Kenya Railways Corporation  
66. Kenya Re-insurance Corporation  
67. Kenya Revenue Authority  
68. Kenya Roads Board  
69. Kenya Safari Lodges & Hotels  
70. Kenya Seed Company Ltd  
71. Kenya Sisal Board  
72. Kenya Sugar Board  
73. Kenya Sugar Research Foundation  
74. Kenya Tourist Board  
75. Kenya Tourist Development Corporation  
76. Kenya Utalii College  
77. Kenya Water Institute  
78. Kenya Wildlife Service  
79. Kenya Wine Agencies Limited  
80. Kenyatta International Conference Centre  
81. Kenyatta University  
82. Kerio Valley Development Authority  
83. Lake Basin Development Authority  
84. Lake Victoria South Water Service Board  
85. Local Authority Provident Fund  
86. Maseno University  
87. Moi University  
88. National Aids Control Council  
89. National Bank of Kenya  
90. National Cereals and Produce Board  
91. National Council for Law Reporting  
92. National Environmental Management Authority  
93. National Hospital Insurance Fund  
94. National Housing Corporation  
95. National Irrigation Board  
96. National Museums of Kenya  
97. National Oil Corporation of Kenya Ltd  
98. National Social Security Fund  
99. National Water Conservation and Pipeline Corporation  
100. National Co-ordinating Agency for Population and Development  
101. New K.C.C  
102. NGO's Co-ordination Bureau  
103. Numerical Machining Complex  
104. Nyayo Tea Zones Development Corporation  
105. Nzoia Sugar Company  
106. Pest Control Products Board  
107. Postal Corporation of Kenya  
108. Pyrethrum Board of Kenya  
109. Retirement Benefits Authority  
110. Rift Valley Water Services Board  
111. School Equipment Production Unit  
112. South Nyanza Sugar Company  
113. Sports Stadia Management Board  
114. Tana and Athi Rivers Development Authority  
115. Tea Board of Kenya  
116. Tea Research Foundation of Kenya  
117. Teachers Service Commission  
118. Telkom (K) Ltd  
119. University of Nairobi
120. University of Nairobi Enterprises & Services Ltd

121. Water Resources

122. Water Services Regulatory Board
123. Western University College of Science and Technology