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THE EFFECTS OF HUMAN RESOURCE OUTSOURCING ON ORGANISATIONAL PERFORMANCE
(A CASE STUDY OF POST BANK KENYA LTD.)

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ABSTRACT
The study finds out that outsourcing has become a strategic human resource approach in our current competitive business environment. Companies involved in the practice need to stick to their core competencies and go for strategic outsourcing to reduce cost and become more effective in their customer service. A company’s business success could be determined on how well it manages its outsourcing relationship. In general, organizations outsource to achieve cost reductions and/or to be able to focus on their core business. They also resort to outsourcing as a way to achieve more efficient, effective and competent functions in their processes. One of the fastest growing changes currently adopted by organizations is to outsource non-essential but critical functions to a large scale service provider, which is commonly referred to as Business Process Outsourcing or BPO. As the trends in outsourcing are evaluated, it is realized that the benefits of outsourcing far outweigh its disadvantages. Even as profits from the organization activities and Return on Investments increase year after year, it cannot solely be attributed to outsourcing. Other factors like commitment, team work, reward recognition and employee involvements all play a critical role in the overall performance of the organizations. Institutions that integrate these factors with outsourcing achieve performance enhancement.

KEYWORDS

BACKGROUND OF THE STUDY
Every workplace today is in a state of transformation with contemporary issues such as customer service, competitive advantage, revenue and expenditure, organizational culture, technological advancement, global markets, diverse customer needs, and need for effective workforce with a global mind-set penetrating every aspect of the organization (Burke and Cooper, 2004). Effective workforce is crucial as it is the organization’s primary player in accomplishing goals and delivering services. Most, if not all, firms are in business for the purpose of making profit. They then put measures in place to reduce costs in order to increase profits. According to (Bearden, Ingram and Lafarge, 2013) A common strategy that is commonly used for this purpose which has brought some debate in both academia and professional practice is outsourcing; a common trait of business-to-business firms. Some companies believe that this is more cost effective; as it allows them to concentrate on their core competencies and to purchase the products or services from expert companies than to produce in-house. For a long time, different companies in the world have been taking advantage of the external providers of general company services, while spending money and trusting them to offer cost effectiveness and efficiency in internal organizational procedures as provided by (Vega, 2013). This is particularly important for organizations, which are considered as important players in the financial sectors (Post Bank) in any country because of the economic benefits they provide in their economic environment. In other words, when an organization pursues efficiency, it will afford management to concentrate on activities that yield more results at minimum costs to the units and to clients. Hence, attention will be given to the designing of correct product lines, effective market strategy, good targeting efficiency and gradual removal of bottlenecks in supply.

While making the decision of HR outsourcing (external providers of services), organizations needs to analyse and consider the effects of outsourcing these functions on the organization’s productivity. For this purpose, (Finn, 2012)suggests that the organizations need to differentiate between “core” and “non-core” activities of their functions. Some academic researchers have investigated empirically in which manner decisions of outsourcing are made, how these decisions are put into practice, how the effectiveness of the outsourcing is measured and the implication of these outsourcing decisions function on different groups in the organization. In general, there has been a lot of research done on outsourcing but there is a little academic-oriented research on issues related to HR outsourcing. In Pakistan, the concept of HR Outsourcing is in its inception stage. Organizations know the concept of HR outsourcing but it is not very much in practice. Organizations are outsourcing Human Resource but only the activities and functions, which are very much essential to be performed. Most of the Organizations are unaware from the factual essence of this idea that it is very cost productive and helps to gain competitive advantage.

The business of these organizations is highly dependent on the work force that has the ideas organized, produce and market a product. In the long term, the application of specific outsourcing strategies has been found to be related with the productivity of the organization. Moreover, where appropriate outsourcing...
Outsourcing practices affect organizational outcomes, whether some practices have stronger effect than others, and whether complementary or synergies among such practices can further enhance organizational performance. Some other firms also outsource because they need to improve their quality and speed of software maintenance and development. Others also believe that outsourcing is now offering much value than it previously did. Initially, the concept of outsourcing was more popular among the companies found in the manufacturing sector. The business functions that are commonly outsourced are information technology (IT) and human resources.

**STATEMENT OF THE PROBLEM**

Business is highly dependent on the workforce. An organization can have all the capital and resources in the world but without a workforce to have the ideas organized, produce and market a product, nothing will ever reach consumers (Bearden, Ingram and Laffage, 2013). In recent years, organizations have outsourced an expanding variety of activities including HR functions in an attempt to improve service and product quality, reduce production cycle times, lower costs, increase their focus on core competences, and in general, enhance organisational performance. Organisations appear to be focusing on a relatively narrow set of functions and are contracting with outside suppliers to perform the others. Substantial uncertainty remains, as to how HR outsourcing practices affects organizational outcomes, whether some practices have stronger effects than others, and whether complementary or synergies among such practices can further enhance organizational productivity (Milgrom and Roberts, 2013). As much as outsourcing is meant to increase the business efficiency, it may lead to some employees losing their jobs. It could also be difficult to break the outsourcing contracts which require a stipulated period, it will mean an organization incurring a lot of cost to reverse the situation and return the services in-house. Anecdotal evidence suggests that increased reliance on outsourcing may lead to reduced innovation, eventual competition from outsourcing partners and reductions in control of the tasks in question.

However, extensive research reveals outsourcing has become the preferred approach for improving quality and productivity in organizations as well as giving it a competitive advantage. (Eliot, 2014) notes that outsourcing practices have not been considered to be important elements of growth and productivity in many financial institutions. Post bank has been in operation since 1910. In the past, the bank had been ignoring outsourcing and which lead to poor performance of the company as a whole. This had limited its competitive advantage in the market. In the recent past, the assets and the net worth of the bank have increased tremendously. According to post bank website (2013), some of the major reasons for this improvement were employment of adequate skills in the banking sector through outsourcing which was started in the year 2010. This study seeks to assess the effects of incorporating HR outsourcing of some core human resource activities in Post bank Kenya Ltd to maximize the related benefits and also improve on competitive advantage as a result of outsourcing. HR outsourcing helps in minimizing cost. The activist,(Roberts, 2012) campaigned for outsourcing as considerably lowering the costs and risk, increasing the organizational flexibility, innovative capabilities, and opportunities for creating value-added stakeholder returns.

**MAIN OBJECTIVE**

To investigate the effects of human resource outsourcing on organizational performance (a case study of Post Bank)

**SPECIFIC OBJECTIVES**

1. To assess the effect of training on organisational performance in Post Bank Ltd.
2. To evaluate the effect of Recruitment and selection on organisational performance in Post Bank Ltd
3. To find out the effect of Human Resource Information System on organisational performance
4. To analyse the effect of Reward management on organisational performance in Post Bank

**RESEARCH QUESTIONS**

1. Does outsourcing Training programs in Post Bank affect the organization's Performance?
2. Does Recruitment and Selection Outsourcing have any impact on organization’s performance?
3. Does HRIS outsourcing affect performance in Post Bank?
4. Does Payroll Outsourcing have any effect on organization’s performance

**SIGNIFICANCE OF THE STUDY**

The study findings will be beneficial to the owners of the companies. This is because they will be able to get adequate knowledge concerning effects of outsourcing and its benefits. The findings also will be significant to several stakeholders. It will enable the management to concentrate on the work they are highly skilled at and maximize the benefits of expertise. Hiring the professionals that do various tasks on a daily basis permits you to take care of other things concerning your business. This is just one of the numerous advantages that a company enjoys when it hires a human resources outsourcing company.

It will also reduce stress on the organization in general. The management will also have a clear understanding of the role played by outsourcing activities in provision of the necessary services in the best way possible. It will also help organizations to estimate the relative cost of outsourcing to their companies. The study will also help outsourcing firms understand the main drivers of outsourcing decision in the manufacturing industry and how they can then respond to the available opportunities. This research will also serve as a resource base to other scholars and researchers interested in carrying out further research in this field subsequently.

**SCOPE OF THE STUDY**

This study on the effect of outsourcing human resource functions on organisational performance at Post Bank Kenya Ltd will cover human resource outsourcing approaches at post bank Kenya Ltd with a view of identifying its effect on organisational performance. The vision of the organization is to increase productivity and workers commitment by assuring them to identify with the mission and the objectives of the organization thereby increase and improve operations. The research will use questionnaires which will be administered by the researcher to selected middle level managers and specific employees in the bank.

**AGENCY THEORY**

This is one of the theories that have been highlighted by researchers as one of the most crucial theories in management. It explains the relationship between principals, such as a shareholders, and agents, such as a company's managers. In this relationship the principal delegates (or hires) an agent to perform work.

Others also believe that outsourcing is now offering much value than it previously did. Initially, the concept of outsourcing was more popular among the companies found in the manufacturing sector. The business functions that are commonly outsourced are information technology (IT) and human resources.
be resolved: 1) in what ways the desires or goals of the principal and agent differ and, 2) the difficulty that the principal has in confirming how the agent has performed (Eisenhardt, 1989).

The core idea is that each agent in a relationship has a tendency to place their own interest above that of the joint objectives or task. There is goal incongruence between a vendor of a service and the client such as we see in the purchase and supply of the outsource services. Put simplistically (as an example) the delivery of a service is measured within the vendor organization based on long term margin evolution whilst the client organization is more concerned with services delivered at an effective cost thus at a fundamental level the parties seem to pursue different objectives from the same contract. The point of the lack of assurance that the principal’s goals are not maximized is central to the theory as is the differing perspective on risk. Briefly whilst the principal may be more or less neutral to the exchange the Agent on the other hand are assumed to be more risk adverse in its decisions towards the client firm due to the risk to personal wealth (or profit) resulting from the performance of the work.

Indeed as one of the key drivers of the HR outsourcing decision still tends to be concerned with delivering cost savings as the prime driver this sort of distinction is still very important. The issue as far as managing this situation is in the nature of the measurement problem (verification and information asymmetries) and the differing risk appetites of the parties. What the approach (Agency Theory) is concerned with is the monitoring and control processes that need to be in place, specifically contracting, and searching for the most (cost) efficient mechanisms that can be structured to control the relationship given assumptions about people behavior (bounded rationality, opportunism etc.) in order to perform to the clients requirement and organization. It is these two points that we now briefly consider.

CONCEPTUAL FRAMEWORK

TRAINING

Training outsourcing is a constant transfer of the organization and implementation of one or more entire training processes to an external services provider, this is according to (IDC) India. Training outsourcing is of two types. Select training outsourcing – In this type selected training activities are outsourced, Comprehensive total training - In this type, the entire training function is outsourced Although delivery of training has long been outsourced by companies, the level of outsourcing is increasing rapidly, which is based on two facts: training boosts organisational productivity, and outside training providers increase an organisation’s ability to train more people faster and more cost-effectively than in-house staff. Driving the increase in outsourcing of training activities has been the rise in the number of training projects and the nature of those projects. (Friedman, 2015) and (Gainey and Klass, 2014) highlighted strategic importance of outsourced training in their study. The researchers apply to view of transaction cost economics, social exchange theory, the resource-based view to identify factors thought to impact client satisfaction with external training vendors. Findings show that socially-oriented trust and contractual specificity mediate the relationship (Norman, 2009).

RECRUITMENT AND SELECTION

Outsourcing is relatively a new phenomenon which is becoming very popular in modern organizations. Outsourcing Recruitment process is mainly used to increase the efficiency of the organization through managerial time saving along with the cost (Corbett, 2014). Recruitment Process Outsourcing is a form of business process outsourcing (BPO) where an employer transfers all or part of its recruitment processes to an external service providers. Recruitment and selection process outsourcing has a long history and is growing rapidly. A natural outgrowth of mass purchasing of recruiting services, Recruiting Process Outsourcing (RPO) has matured in terms of size, scope and duration of contracts. RPO taps into two core reasons for outsourcing; gaining needed expertise and lowering costs (Norman, 2009). The selection process consists of several critical steps in ensuring that the organization don’t only attract the best capacity in the industry, but it provide them with most exciting and challenging environment to work in.

Recruitment process outsourcing (RPO) lets Talent Acquisition easily scale recruiting capacity to meet demand, better understand recruitment costs, and resolve the tensions associated with peak, valley, and even equilibrium requisition demand cycles. RPO also provides fast-changing organizations with a scalable, more cost-effective way to manage recruitment resources.

Global and domestic regulatory changes place an intense pressure on financial institutions’ capital requirements. As a result of the rising regulatory cost burdens they’re facing, a growing number of banks and financial services companies are turning to recruitment process outsourcing to improve the quality of their hires, to elevate the success rate of the employee training programs and to increase employee retention rates. Partnering with a provider with proven expertise can enable banks and other financial companies to reach new heights of enterprise productivity and efficiency (Prater, 2014). Without forgetting that recruitment specialists have more advanced techniques, including multiple sourcing channels, web-sites and recruitment software which can easily find thousands of applicants, thereby increasing the probability that the best person for the job will be found (Maidment, 2011).

HUMAN RESOURCE INFORMATION SYSTEMS (HRIS)

HRIS is a systematic way of storing data and information for each individual employee to aid planning, decision making and submitting of returns and reports to the external agencies. According to (Baum, 1990) he defined Human Resource Information System (HRIS) as a technology based system used to acquire, store, manipulate, analyze, retrieve and distribute pertinent information regarding organization of human resources. (Porter, 1990), suggested that management of human resource is most critical. Effective management of human resource in an organization set up requires timely and accurate information systems, on current employees and potential employees in labor market. With evolution of computer technology meeting these information requirements has been greatly enhanced through creation of Human Resource Information Systems. The increased complexity and turnover of information in the HR area is widely managed by external experts. Human Resource Information Systems (HRIS) together with other HR software plays a very important support role in managing people (Stone, 2016) Stone confirms the fact that HRIS has become a very important mechanism that helps organizations improve productivity and retain a competitive advantage. Furthermore, he argues that HRIS can integrate vital HR information and organization strategy.
PAYROLLS

In order for a company to run steadily and implement ambitious HR strategies, paying everyone in the organization and on time is a basic requirement. Payroll can prove to be costly and complex which requires companies to assess payroll-related processes in order to decide on the most relevant strategy and keep this critical function under control. Payroll processing involves perhaps the most transactional, routine activity involving HR and is the most frequently outsourced HRM activity (Norma, 2007). Rapid change in internet technology and its availability has enabled complex processes such as payroll to be outsourced because the organization and the vendor are in touch 24/7/365.

RESEARCH DESIGN

Research design is a plan, structure and strategy of investigation to obtain answers to research questions and control variance. It is a program that guides the researcher in the process of collecting, analyzing and interpreting an observation (Ogula, 2013). The purpose of this study was to analyze the effects of HR outsourcing on performance. This study will focus on the use of descriptive survey design method. According to (Kathari, 2015) descriptive research studies are those studies which are concerned with describing the characteristics of a particular individual, or a group. This is where a large amount of information and data will be gathered via three data collection methods i.e. interviewing, questionnaires and secondary sources.

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

TRAINING

Based on the results from the respondents, 71% of the staffs which adds to 32, supported the outsourcing of training services from vendors, there reasons could be attributed from improved organizational performance and bringing in of new ideas from outside trainers, while the remaining 29% of the total staff which added to 13 were against the outsourcing of training activities arguing that training in-house helps to improve employee performance and enhancing and promoting organizational culture. Since most of trainers sourced within the organization seem to have a good knowledge of the organizational structure and culture this helping in maintaining the strengths of the current processes.

RECRUITMENT

The number of respondents who supported outsourcing online recruitment and selection was 60% basing their argument that recruitment is a non-core activity in the organization so undertaking it within the organization may be more costly thus leading their concern may be outsourced outside the organization to experts and organizations performing recruitment as one of their core activity. The number of respondents who did not support outsourcing of online recruitment and selection were 40% basing their arguments that recruitment should be done within the organization because the managers or the senior management responsible for the recruitment are in a good position to understand the required type of individual for the gap within their organization, thus conducting the interview themselves will be most favorable because from the applicants they will be able to select the best they think will best fit their requirements.

HUMAN RESOURCE INFORMATION SYSTEMS (HRIS)

The findings on outsourcing human resource information systems seemed to have a larger number respondents siding on the outsourcing of HRIS activities. The number of respondents who agreed on HRIS outsourcing is 77% of total staff researched which are 35. They based their arguments on; the HRIS are complicated and require much expertise than know how. This requires outsourcing information technology experts who are conversant to the systems. They also argued that there is the need of having some parts of HRIS done in house and the other from outside. This involves like outsourcing the system and the installation crew then looking for an expert who will be working and maintaining the system within the organization.

The number of respondents who declined the outsourcing of HRIS is 10 equal to 23% of the total number of staff researched. Basing their argument on that HRIS is very a very confidential system within an organization. Outsourcing of experts to work on HRIS is risky in that it may lead to information espionage to the competitors and thus making an organization lose it competitive secrets to its competitors.

PAYROLL SYSTEMS

Going by the results of the data collection it was found out that a majority of the respondents indeed acknowledged that payroll systems should be outsourced, giving them a percentage of 65% arguing that outsourcing this system to expert vendor will not only make up time to concentrate on other activities but it will also help the organization avoid penalties for errors, omissions or late payroll tax fillings which can be costly. And report timely and accurately to the government. The other 35% who did not support payroll outsourcing based their argument on the fact that outsourcing payroll systems to an external provider will involve transmitting confidential employee information to the latter which will compromise security and confidentiality. They also stated inconsistencies in quality of work since the external vendors are motivated by profit and some of them provide outsourcing services to quite a number of companies making quality of services they give not their main concern as long as they deliver.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

SUMMARY OF MAJOR FINDINGS

This research investigated the effects of outsourcing (whether there was an overall negative outcome or positive outcome), the services outsourced and performance based on respondents from both employees and management staff. The corporate social performance was based entirely on the data collected from employee respondents on important factors. There was also an investigation into the form of outsourcing that the companies were involved in from management.

Management staff made available information on reasons for choosing an outsourcing vendor, the general outcome of outsourcing (beneficial in terms of cost saving, neutral effect or incurred costs). For online recruitment it was accepted by employees citing their reasons as; recruitment is not an all-time activity in an organization so undertaking it within the organization may result to be more costly thus leading to their concern that it should be outsourced outside the organization by outsourcing to experts and organizations performing recruitment as one of their core activity. For HRIS it was accepted by employees citing their reasons as; the HRIS are complicated and require much expertise than know how. This requires outsourcing information technology experts who are conversant to the systems. They also argued that there is the need of having some parts of HRIS done in house and the other from outside. This involves like outsourcing the system and the installation crew then looking for an expert who will be working and maintaining the system within the organization.

Payroll Outsourcing was also accepted by employees citing their reasons as: outsourcing this system to expert vendor makes up time to concentrate on other core activities, it will also help the organization avoid penalties for errors, omissions or late payroll tax fillings which can be costly and report timely and accurately to the government. The researcher agreed with the above findings about outsourcing of training, recruitment processes, payroll systems and Human Resource Information Systems. This is in line with the Agency Theory by (Eisenhardt, 2003) which states that outsourcing is concerned with is the monitoring and control processes that need to be in place, specifically contracting and searching for the most (cost) efficient mechanisms that can be structured to control the relationship given assumptions about people behavior (bounded rationality, opportunities etc.) in order to perform to the clients requirement and organization. He also went on and concluded that the implications of agency theory led to the development of the assessment of several HRM activities with respect to their level of firm-customization (asset specificity), level of interdependence, and creation of organizational capital for the employee.

Under objective 2 the finding shows that there are some substantial problems in the current performances of HR functions. These problems showed in other words the reason for outsourcing should be incorporated within the organization. Some reasons like; cost effectiveness, reduced administrative costs, improved customer service, focus on core business, insufficiency staff and redirecting HR focus towards strategy or planning. This is in line with Under objective 3 the findings shows that there are cost effectiveness derived from outsourcing process. The researcher agrees with this as also explained by the approach (Eisenhardt, Agency Theory, 2003) which states that outsourcing is concerned with the monitoring and control processes that need to be in place, specifically contracting and searching for the most (cost) efficient mechanisms that can be structured to control the relationship given assumptions about people behavior (bounded rationality, opportunities etc.) in order to perform to the clients requirement and organization.
Outsourcing has become a strategic human resource approach in our current competitive business environment. Companies involved in the practice need to stick to their core competencies and go for strategic outsourcing to reduce cost and become more effective in their customer service. A company’s business success could be determined on how well it manages its outsourcing relationship. In general, organizations outsource to achieve cost reductions and/or to be able to focus on their core business. They also resort to outsourcing as a way to achieve more efficient, effective and competent functions in their processes. One of the fastest growing changes currently adopted by organizations is to outsource non-essential but critical functions to a large scale service provider, which is commonly referred to as Business Process Outsourcing or BPO. As the trends in outsourcing are evaluated, it is realized that the benefits of outsourcing far outweigh its disadvantages. Even as profits from the organization activities and Return on Investments increase year after year, it cannot solely be attributed to outsourcing. Other factors like commitment, team work, reward recognition and employee involvements all play a critical role in the overall performance of the organizations. Institutions that integrate these factors with outsourcing achieve performance enhancement.

FUTURE OF OUTSOURCING

The subject of outsourcing is creating endless discussions and many sleepless night among workers whose jobs are, or may be in danger of, or already been outsourced. Managers see it as the savior of businesses raked by high employees costs while the ordinary working class person also sees it as a practice that is destroying the livelihood of many working middle class workers. Outsourcing is continually growing as a corporate strategy for stakeholders to increase their returns on investments (ROI) by constantly lowering overall expenses of their organizations [Economist, Rogule, 2008]. Many organizations are using outsourcing as the single biggest operational cost reduction approach. It is the most likely candidate for reducing wage and salary costs.

AREAS FOR FURTHER RESEARCH

The researcher discovered the areas, which need to be researched further. The area on how to outsource human resource services in an organization. This is because many human resource managers don’t know the best ways of outsourcing HR services which leads to making the mistakes by hiring the wrong people to do the job. The other area was on the factors leading to outsourcing HR activities. This area needs to be researched further because many HR managers in many organizations don’t know what can lead them to outsource HR services.

REFERENCES

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