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Akinyi Bethsheba Effie, Dr. Benjamin Mulili & Ms. Christine Mwanzia

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*¹Akinyi Bethsheba Effie, ²Dr. Benjamin Mulili & ³Ms. Christine Mwanzia

¹Student, Human Resource Management, School of Business, Catholic University of Eastern Africa

²Lecturer, School of Business, Catholic University of Eastern Africa

³Lecturer, School of Business, Catholic University of Eastern Africa

*Email for the author: shebaeffie@gmail.com

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Abstract

This research explored the impact of outsourcing human resource activities on the effectiveness of the human resource function in HR departments in firms registered with the Institute of Human Resource Management (IHRM) in Nairobi, Kenya. The study was anchored on The Transaction Cost Economic theory which emphasizes minimization of resource cost either through concentrating on core competencies and subcontracting other non-core areas of operation or subcontracting even their primary activities to others that can perform them less resource costly thereby earning some returns which is in form of the difference between the value of the contract and the cost of its execution. The target population of the study was 259 HR departments of firms registered with IHRM. Non-probability purposive sampling was used in selecting the respondents who are HR department's representatives. A sample size of 72 organizations. The data was analyzed using both descriptive and inferential statistics through computer based Statistical Package for Social Sciences (SPSS). The study findings showed that training & development outsourcing and compensation outsourcing had significant and positive effect on the effectiveness of the HR function. However, recruitment outsourcing had insignificant effect on the effectiveness of the HR function. In addition, the vendor characteristics moderates the relationship between recruitment outsourcing and Effectiveness of the HR function ($\beta = .314, \rho < .05$), relationship between training outsourcing and Effectiveness of the HR function ($\beta = .550, \rho < .05$), relationship between compensation outsourcing and Effectiveness of the HR function ($\beta = 0.419, \rho < .05$). Thus, the study concludes that training & development outsourcing and compensation outsourcing are vital HR outsourcing activities in improving the effectiveness of the HR function. Therefore, the study recommends that firms should do a thorough cost-benefit analysis before outsourcing recruitment as the impact was not significant.

Keywords: *Human Resource Outsourcing, Human Resource Function, Human Resource Management, Recruitment, Compensation.*

1.0 Background of the Study

Outsourcing refers to an agreement by which one company contracts a different company to do its own internal activity such processing of payroll, recruitment activities, claims processing and non-core functions (Nyameboame & Haddud, 2017). In struggling to meet the demands of customers and shareholders, an organization may look for approaches to achieve comparative advantage. With the expanded globalization, outsourcing has turned into a significant methodology in the business condition and the company's competitive advantage might be picked up as the administration or item are created all the more productively and adequately by the outside sourced providers (Davari & Rezazadeh, 2015). Outsourcing allows the firm to prioritize its core competencies and reduction of operation cost which presents it as the right strategy (Akewushola & Elegbede, 2013). As much as outsourcing has been in practice for quite a long time, most of outsourcing until the late 1990's focused more on the information technology outsourcing with a restricted objective being to achieve operational efficiencies (Achonjo, 2014). At first, it was the manufacturing sector practicing outsourcing, then the service sector took it up to market products and services. Now outsourcing is domineering in the service sector with much emphasis on the ability to reduce cost, add value and the corresponding impact on the company's financial performance (Yeboah, 2013). Overall global trade in outsourcing services currently makes up 21 per cent of all trade and over the next decade is estimated to rise to 25 per cent of all global trade (World Bank, 2020).

Market research conducted by Statista Research Department, 2020, indicated the global returns of business process outsourcing and information technology outsourcing added up to around 92.5 billion U.S. dollars in 2019, more than half of this was generated in the Americas. The region with the largest portion of businesses practicing, or planning to practice business process outsourcing was Southern Europe, Latin America and South Africa also had high shares. According to business executives, the driving motive, in 2016, for using outsourcing services worldwide, was to cut costs. Other drivers included, enabling focus on core business and solving capacity issues. (Statista Research Department, 2020). In Africa, East Africa can be categorized as one of outsourcing Business Process Outsourcing destinations in Africa. Kenya has also grown into a comparative advantage nation due to its low labor rate for quality services. Kenya has numerous growing companies registered in the outsourcing sector (Achonjo, 2014). Nairobi, Kenya's capital hosts East Africa's BPO giants. Horizon, Ison, Kendall, Sam source and SimbaTech in Southern Nairobi, Techno Brain in Upper Hill and Digital Divide Data (DDD) and Cloud Factory are in Westland's. (Melia, 2020). The rise in outsourcing activities across various sectors in Kenya has been remarkable, many industries are sticking to their core businesses and outsourcing the rest. Kiptum (2014) gives the example of East African Breweries that has stuck to its core business of brewing while it outsources non-core services such as transportation and distribution of beer. It also contracts the farmers to produce the raw materials. He goes on to observe that Kenyan state corporations primarily outsource cleaning services, disposal of refuse, and training and development. Mburu and Rotich (2017) note that the telecommunication sector has also adopted outsourcing.

The mobile providers have concentrated their efforts in upgrading the platforms while leaving the non-core duties such as distribution of airtime vouchers and handsets to their agents. Outsourcing of customer service among mobile operators has been on the rise with 2 out of the 4 mobile operators in Kenya outsourcing the customer service element, i.e., Airtel and Orange. When

analyzing effectiveness, the focus question is “are we doing the right things?” it relates to the results of activities to the achievement of goals or objectives. On the other hand, efficiency relates the yield of outputs to the energy, time, or resources applied as inputs (i.e., “are we doing things right?”) (Drucker, 1974). When HR is a “full partner” in developing the business strategy, most of the time is devoted to contributing analytic support for business decisions, leading change management, actualizing data-based talent decisions and harmonizing the human capital strategy with the business strategy, HR effectiveness is realized (Lawler and Boudreau, 2012). HRO promises to rapidly transform the effectiveness and efficiency of the HR function's performance in terms of reducing costs, increasing flexibility, accessing advanced technology, and focusing on core activities (Alzhrani, 2020).

Elsaid (2013) also found that many companies were considering outsourcing as an efficient, cost-effective and time-saving strategy to recruit competent employees. Bansal (2014) found that outsourcing training services are effective in promoting the firm performance of small and middle-level companies. Abdul-Halim and Che-Ha (2011) found that outsourcing payroll reduces organizations’ time wastage and overhead costs. Effective HR organizations are more engaged in human capital and business strategy issues than less effective HR organizations, less time is consumed on record-keeping and controlling activities. The amount of time expended on HR roles relates significantly to HR effectiveness (Lawler, 2012). In looking at HR units in Kenyan organizations that are practicing HRO and have standardized their practices, it would be crucial to study organizations that are registered with the Institute of Human Resource Management (IHRM). IHRM is the professional association of Human Resource Management practitioners in Kenya. The Human Resource Management Professional Act No 52 of 2012 led to the establishment of the institute to advance and advocate for progressive human resource management practices for enhanced individual and organization performance. IHRM leads and guides the activities and interests of all qualified and registered Human Resource Professionals in Kenya. The majority of members of IHRM are individuals, with organizational membership spanning across all sectors of the Kenyan industries e.g. the manufacturing sector, ICT companies, finance sector etc. Registered Human Resource (HR) professionals have hit over 10,000 (Ngunjiri, 2018).

1.1 Statement of the problem

Institutions and businesses in Kenya are existing in an increasingly highly competitive environment. To survive the cut-throat competition, they find that they need to depend upon a strong competitive advantage and strategies that enable them reduce operational costs and improve effectiveness and efficiency of the organization. For the HR department to improve its performance and the overall performance of the organization, it should manage its functions and practices effectively, it needs to minimize the operational cost of its activities and the service given to internal and external customers should be exceptional. One of the strategies that is increasingly used is HRO. HRO is being used widely as a strategy in Kenya: In Nakuru county, flower farms in the horticultural sector have taken up recruitment outsourcing for increased flexibility in the way labour is employed. It frees up human and capital resources. (Kinyua & Kwasira, 2014); HR functions are outsourced in manufacturing firms as shown in Gitiye and Omondi’s study (2018) of Capwell Industries Limited in Kiambu county; and Maende (2010) who carried out a study of HRO among international Non-Governmental Organizations (NGOs) in Nairobi, among others.

However, if HR is to be a trailblazer and contribute more significantly to the business strategy, it must accept responsibility and stop pursuing passing whims and crazes. There is no validating proof of a HR function being more strategic after executing a total HRO contract. People could just do less, doing away with transactions does not automatically enable them to do strategic work. According to Igbinomwanhia *et al* (2013), HR outsourcing, despite its benefits is not without risks. Examples of the risks of HR outsourcing include strategic risk, contractual risk and operational risks. In addition, Maende (2010) in her analysis of HR outsourced practices in non-governmental organizations identifies loss of decision-making control as a major challenge towards outsourcing practices. Outsourcing sometimes elicits many negative emotions among staff, appearing as employee dissatisfaction, lowered working morale, if the remaining employees are afraid they will be next to go, the overall efficiency and employee spirits deteriorate (Agwu & Ohaegbu, 2015). These studies indicate that the HRO strategy has been widely used and therefore, a good understanding of its impact on the effectiveness of the HR function within HR departments and the expected outcomes is necessary to ensure that organizations fulfill their human resources functions in a manner that allows them to remain competitive in their respective industries. Maende (2010) in her study of HRO among NGOs advised that clarity of purpose at the get go by organizations and discipline in administering and coordinating the many facets of the outsourcing contract and relationship from beginning to end is important.

While these studies and others that the researcher will delve into in chapter two have provided insight on the impact of outsourcing and even Human resource outsourcing in particular and how it impacts on the organization's performance, there is a missing examination of the impact within the HR functions and its effectiveness within the HR unit. The success of the outsourcing decision is largely determined by the vendor providing the service and yet there has been very little focus on the vendor characteristics that a HR decision maker should review when choosing a vendor to ensure the outsourced activity is effective. These are the facts that motivated this study in order to contribute to evidence on HRO, especially, outsourcing of training, recruitment, and compensation and specifically on its impact on the effectiveness within the HR function. This study therefore, attempts to deepen the knowledge on HRO and provide firms operating in Kenya with much needed insight on the impact of taking it up as a strategy and its impact on effectiveness of the HR function within HR departments in the organization.

1.2 Objectives of the Study

- i. To examine the impact of recruitment outsourcing on the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya.
- ii. To examine the impact of staff training and development outsourcing on the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya.
- iii. To examine the impact of compensation outsourcing on the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya.
- iv. To investigate the intervening effect of vendor characteristics on the relationship between HRO and the effectiveness of the HR function

1.3 Research Questions

- i. How does recruitment outsourcing impact the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya?
- ii. How does staff training and development outsourcing impact the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya?
- iii. How does compensation outsourcing impact the effectiveness of the function in human resource departments of firms registered with IHRM in Nairobi, Kenya?
- iv. How do vendor characteristics intervene on the impact of HRO on the effectiveness of the HR function?

2.1 Theoretical Framework

The section presents the theories that include; transaction-cost theory, resource based view (RBV) and systems theory and systems resource approach.

2.1.1 Transaction-Cost Economic Theory

Transaction Cost Economics (TCE) provides a theoretical framework for evaluating the options of keeping activities in-house or seeking outsourced alternatives. First developed by Williamson in 1979, this view argues that organizations seek to select the 'most economical governance structure' (Williamson, 2012). In this model, the decision to in-house or outsource a product or service depends on relative production and transaction costs. i.e., comparing the costs of coordinating and managing different governance models related to the purchase of goods/services through market mechanisms, (Williamson, 2012). Transaction cost analysis combines economic reasoning and management theory to establish whether a firm will produce or purchase a particular product or service. Williamson described three aspects of the process that influence who produce most efficiently: If the process has low asset specificity; uncertainty is low; and rarity-transactions which are performed less frequently. When a process has low asset specificity, low uncertainty and high frequency market exchanges are more likely (Willcocks *et al.*, 2017). The TCE theory was relevant to this study because it proposes to minimize costs by focusing on core competencies and subcontracting other secondary tasks, or by subcontracting core activities to others who can perform them more cost-effectively thus obtaining some return in the form of the difference between the value of the contract and the cost of its execution.

2.1.2 Resource Based View (RBV) of the firm

The theory was proposed by Barney's in 1991. Hossain *et al* (2011) summarized that an organization has a sustainable competitive advantage if it implements a value-adding strategy that is not concurrently implemented by current or potential competitors and those other companies cannot replicate the benefits of that strategy. RBV primarily assumes that if resources (and skills) are valuable, scarce, unique, and irreplaceable, they can be a source of competitive advantage. (Kannan, 2011). From an RBV perspective, outsourcing is a strategic decision that describes the extent to which a company's activities can use the company's resources and capabilities. An important question to consider is whether a company can achieve lasting competitive advantage by operating internally or externally. Processes that lack the necessary resources or skills in-house can be outsourced. Focusing on core functionality therefore goes hand in hand with outsourced

shared services logic. Organizations are motivated by the need to outsource non-core processes when they cannot achieve a superior performance position. (McCracken & McIvor, 2013) The RBV theory was relevant for this study as it helped to understand how organizations optimize on the resources of vendor firms whose core competency is providing the services and the resources which the main firm does not have and is not competent in, therefore advancing the talent and technology they have access to from vendors.

2.1.3 Systems Theory and Systems Resource Approach to Effectiveness

The work Bertalanffy (1968) recognized that all organizations must interact with their external environment, they must operate in open rather than closed systems in order to survive. This approach has been adapted by organizations for efficiency and effectiveness in a dynamic and changing environment. Organizations that are not sensitive to their surroundings are unlikely to survive in today's world. Ludwig theorized that technologies, social phenomena, economic phenomena, etc., are not static, but constantly changing, and that organizations must adapt to survive. By interacting with the external surroundings, an organization obtains inputs in the form of raw materials, labor, processes them, and finally provides them to the environment as outputs for sale or capital investment. (Bertalanffy, 1972). The System theory and model were relevant for this study as they explained the need for an organization to interact with its external environment and get input from the external environment through outsourcing to enable it to be effective and efficient as effectiveness in this case is achieved through the organization's propensity to attract resources e.g., advanced technology.

2.2 Empirical Review

The section presents the literature review from the study variables that include; effectiveness of HR functions, outsourced HRM activities; recruitment, training and compensation, outsourcing of recruitment and effectiveness, outsourcing of training effectiveness, outsourcing of compensation and effectiveness and vendor characteristics and HRO.

2.2.1 Effectiveness of HR Functions

Organizational effectiveness, the achievement of organizational goals is the extent to which they are achieved. In this view, to what extent is the organization able to achieve its goals and how effective is it? (Cicek & Demir, 2015). HRM effectiveness is the management and implementation of HRM practices in a manner that achieves HRM goals, achieves the strategic goals of the organization, delivers the best possible service to meet the needs of internal customers, and improves HRM results. (Madanat & Khasawneh, 2018). The effectiveness of the HR function is assessed based on relative productivity and cost effectiveness. It focuses on value-added HR practices such as staffing, cost and compensation, absenteeism and retention, hiring, training and development, in terms of the value they add to business performance. (Walters, 2009). Associations have been established between human resource management effectiveness and productivity, cash flow and market value (Pandita & Mahato, 2016). Lawler and Boudreau (2012) revealed that the amount of time spent on HR roles relates significantly to HR effectiveness. On one hand, spending huge amounts of time on maintaining records, auditing, and providing services does not equate effectiveness while time spent as a strategic business partner ensures HR effectiveness.

2.2.2 Outsourced HRM Activities: Recruitment, Training and Compensation

Growth strains an organization's staffing capacity, and outsourcing can provide a quick way to get additional support for HR functions that are under pressure to serve large organizations. (Lawler, 2012). When making HRO decisions, an organization should consider the impact that outsourcing these activities may have on the organization's performance. To do this, it may be necessary to distinguish between "core" and "non-core" activities. Bagga (2015) suggested that the core activities are the transformational work that tends to create the unique value for employees, investors and consumers of the company's products and services. On the other hand, non-core tasks are transactional work, which is routine and standards can be easily duplicated and replicated, making technology development critical. Many companies outsource their regular HR management activities to free up their in-house HR teams for more strategic roles. However, there are also a few companies who have chosen to outsource the entire package. Coming closer home, Kibe (2017) and Gitiye & Omondi (2018) found that Post Bank and Capwell Industries Ltd respectively, outsourced recruitment, training, payroll and HRIS and explored the outcome of outsourcing these processes on organizational performance. The reasons for outsourcing these processes were to reduce costs, increase productivity, increase efficiency, and focus on core activities. Benefits of outsourcing, Igbinomwanhia *et al* (2013), are summarized the: Focus on Core/Strategic HRO can have some drawbacks: a possible indirect downside of outsourcing HR activities is lower employee satisfaction and engagement as a result of changes in service quality or attitudes towards HR providers. Outsourcing inappropriate HR activities can result in quality losses that are challenging to measure when monitoring contracts, but are still felt by employees and managers. (Norman, 2009).

2.2.3 Outsourcing of Recruitment and Effectiveness

Companies are considering outsourcing as an efficient, cost-effective and time-saving strategy to recruit competent employees (Elsaid, 2013). Recruiters are more sophisticated, with multiple sourcing channels, websites, and recruiting software that can easily find thousands of applicants, so they are more likely to find the right person for the job (Maidment, 2003). Recruitment process outsourcing is mainly used to save administrative time and costs to increase organizational efficiency as stated by Corbett (2004). This further compliment the research done by Norman (2009) that states that outsourcing the recruitment process leverages two main reasons for outsourcing: get the expertise the organization needs and reduce costs. Bansal (2014) also concurs, stating that outsourcing the recruitment process is an effective strategy used by many organizations around the world to help save costs, time and improve the quality of recruitment. In Kenya, Kibe's (2017) study, Post Bank managers were in favour of RPO in improving organizational performance. Gitiye (2018) on his study of Capwell Industries Limited, Kenya used the services of recruitment agencies in order to save time and costs. However, Quartey (2013) argues that outsourcing recruitment processes and HR activities has a profound and dramatic impact on employee morale and job satisfaction. Johnson *et al.* (2014) focus on the degree of effectiveness of the RPO strategy and emphasize the importance of the quality of employees and their contribution to the success of the organization, these are the most important factors when considering the impact of the RPO process.

2.2.4 Outsourcing of Training and Effectiveness

In her paper on Training Process Outsourcing, Bansal (2014) concluded that outsourcing of training services has been found to be effective in promoting firm performance of small and middle level companies worldwide. In Kenya, Kibe's (2017) study of Post bank Kenya found that rather than hiring its own instructional designer, it chooses to outsource the training. Outsourcing employee training and development makes financial and business sense, based on the company profile. The organization reduced their total annual training costs per learner by 31% over companies that provided training in-house. In terms of staff involved in training activities, outsourcing companies have 26% employees per 1,000 learners than companies that manage all training in-house. Friedman (2015) and; Chaudhuri and Bartlett (2014) highlighted the strategic importance of outsourced training in their studies. They stated that training improves an organization's productivity and performance, and external training providers increase an organization's ability to train more people faster and more cost-effectively than its own employees. In Kenya, Kibe's (2017) study of Post Bank found that outsourcing of training services from vendors improved the organization's performance and brought in new ideas from outside trainers. Gitiye (2018) found that outsourcing training services improved employee competence, training consultants that were outsourced offered specialized services that would otherwise not be available from the internal trainers, hence improving firm performance.

2.2.5 Outsourcing of Compensation and Effectiveness

Payroll is probably the most transactional routine HR activity and the most commonly outsourced HRM activity. (Norman, 2009). Ahmed *et al.* (2016) observed that outsourcing payroll reduces organizations' time wastage and overhead costs. Kibe (2017) noted that outsourcing payroll systems to an experienced provider not only buys time to focus on other activities, but also helps the organization to report on time and accurately to the government and avoid penalties for errors, omissions, or late filing of payroll tax returns, which can be costly. In HRO however, compensation outsourcing is one of the functions that has revealed the most contrary findings. Gitiye and Omondi's (2018) found that while outsourcing payroll was positively associated with firms' performance, compensation administration was viewed as being integral to the organization and should therefore, not be outsourced at any given time. Payroll outsourcing was seen as counterproductive as it may use internal departments instead and companies may not focus on core business functions to increase profits. In other words, outsourcing payroll undermines the employee's own productivity, making it seem like the organization is solving one problem while creating another.

2.2.6 Vendor Characteristics and HRO

HRO, despite its benefits is not without risks (Igbinomwanhia *et al.*, 2013), Operational Risks, problems such as declining levels of service quality, unexpected cost overruns, or business interruptions can seriously undermine the potential benefits of outsourcing. Successful HR outsourcing starts with careful consideration of the following aspects: An inventory of the HR department's internal processes; looking for providers who set realistic goals and fit the culture. For some companies, cost is the determining factor when choosing a provider. Others look for cultural fit and a commitment to certification. Considerations when assessing a business include: Variety of services provided, industry expertise, general HR experience; understanding of priorities; its available resources; and contract flexibility (Seth & Sethi, 2011). Rono (2019)

submitted that, ultimately, businesses should choose vendors based on proven track record, industry knowledge, relevant skills, compatibility, and primarily, cost. After completing the selection process, companies should facilitate communication with their chosen vendors to resolve any unforeseen future issues that may arise. One of the aspects that influence outsourcing decisions is technical expertise, it is important that potential vendors understand standard knowledge management processes and training programs. Alzhrani (2020) postulates that specialized providers are more effective as their training staff and R&D costs can be spread over multiple users. Professionals also reduce corporate risk and liability. Specialists know the law better than anyone and can ensure that all corporate practices are covered by the law.

2.3 Conceptual framework

The conceptual framework depicts the independent variables, which include recruitment outsourcing, training and development outsourcing, and compensation outsourcing, as well as the mediating variable vendor characteristics and the dependent variable effectiveness. Figure 1 shows an illustration of the variables.

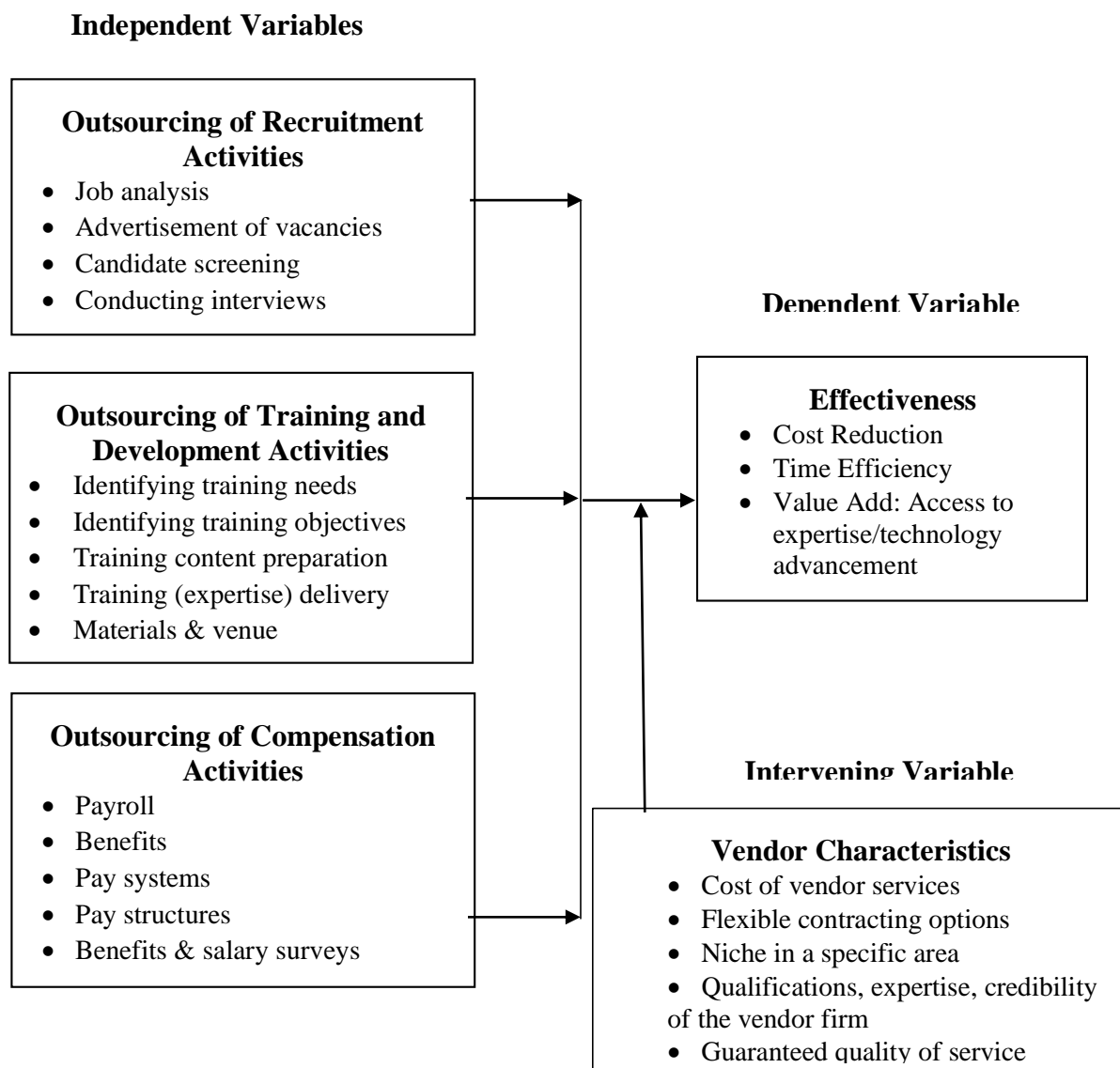


Figure 1: Conceptual Framework

3.0 Methodology

The study employed descriptive research design. The target population was firms registered with the IHRM who outsource their HR activities. The total population was 259 firms. The sample size was 72 firms sampled from the population and the firms were represented by the HR departments. The higher limit for coefficient of variation and standard error was used to ensure low variability in the sample and minimize the degree of error.

$$\frac{259(0.3)^2}{0.3^2 + (259 - 1)0.03^2} = 72$$

<https://doi.org/10.53819/81018102t3055>

This study used primary data collected through questionnaires. The questionnaire was split into six parts. First section dealt with demographic and background information, part two on recruitment outsourcing, part three on training & development outsourcing, part four on compensation outsourcing, part five on vendor characteristics and part six on effectiveness of the HR function. The questionnaire comprised questions which focused on various areas relevant to current HR outsourcing practices. The questionnaire instrument was designed with closed and open questions. The main advantage of this type of question is that it helps respondents to express themselves without restricting their answers. The researcher used a Likert Scale of five levels, with 5 indicating that the respondent strongly agreed and 1 indicating the respondent strongly disagreed or 5 indicating impact at a large extent and 1 indicating no extent. The collected data were sorted, coded, and entered into SPSS version 25 statistical analysis software before starting data analysis.

4.0 Findings and Discussion

A total of 72 structured questionnaires were distributed to HR departments of the 72 firms. Out of the 72 questionnaires, 51 questionnaires were filled and returned. This translates to 70.8% of the respondents and 29.2% of the respondents did not participate. Out of the 51 participants, 16 (31.4%) act as Human Resource managers, 12 (23.5%) are Human Resource officers, 11 (21.6%) indicated their current job title to be Human Resource specialists, 2 (3.9%) are Human resource assistants. Other job titles at 10% mentioned by the participants were operations manager, administration manager, payroll & benefits officer, training officer and recruitment officer. Majority of those who responded were from the services sector 18 (35.3%), Industrial 9 (17.6%), Finance and Investment 13 (25.5%), Agricultural 7 (13.7%) and others 4 (7.8%) from NGOs, out of the 51 organizations that participated in the survey, 28 (54.9%) have been operating for more than 10 years in Nairobi, 14 (27.5%) have been operating between 6 - 10 years and 9 (17.6%) have been operating between 1 – 5 years in Nairobi.

a large extent.

4.2 Correlation analysis

The study conducted correlation analysis to test the relationship strength between the research variables. Correlation analysis are generally performed to assess the degree to which, depending on the situation, two variables intersect or diverge in order to determine their importance. The Product Moment Correlation Coefficient of Pearson is usually used for the calculation of the current relationship between two variables. The findings of Pearson correlation are shown in Table 1.

Table 1: Correlation analysis

	Effectiveness	Recruitment Outsourcing	Training Outsourcing	Compensation Outsourcing	Vendor Characteristics
Effectiveness	1.000				
Recruitment Outsourcing	0.076	1.000			
Training Outsourcing	.732	.463	1.000		
Compensation Outsourcing	.706	.361	.243	1.000	
Vendor Characteristics	.581	0.069	.552	.453	1.000

Table 1 show that recruitment outsourcing has an insignificant relationship with effectiveness of HR function, $\rho = 0.076$, $p > 0.05$ meaning that effectiveness of HR function does not change with increase or decrease of recruitment outsourcing. Results also revealed that training and development outsourcing have a positive and significant relationship with effectiveness of HR function, $\rho = 0.732$, $p < 0.01$ and this means that there is a probability of 0.732 that effectiveness of HR function will increase with increased training and development outsourcing. The findings also show that compensation has a positive and significant relationship with effectiveness of HR function, $\rho = 0.706$, $p < 0.01$ indicating that there is a 0.706 probability that effectiveness of HR function will increase with increase in training and development outsourcing. Finally, vendor characteristics has a positive noteworthy association with effectiveness of HR function, $\rho = 0.581$, $p > 0.01$ meaning that with change in vendor characteristics, there is a probability of 0.581 that effectiveness of HR function will change. Assessment of inter-factor correlations revealed a positive and significant relationship between the independent factors. These findings provide enough evidence to suggest that there was linear relationship between recruitment outsourcing (RO), training outsourcing (TO), compensation outsourcing (CO) and vendor characteristics with effectiveness of HR function.

4.3 Regression Analysis

Regression analysis was used in this study. Therefore, this section presents the regression results on the effects of outsourcing on the effectiveness of HR functions. Results are presented in Table 2.

Table 2: Regression analysis

Model Summary					
R	R Square	Adjusted R Square		Std. Error of the Estimate	
.796a	0.633	0.601		0.46639	
ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.268	4	4.317	19.846	.000b
Residual	10.006	46	0.218		
Total	27.274	50			
Coefficient of Estimates					
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.525	0.26		2.02	0.049
recruitment outsourcing	-0.029	0.088	-0.034	-0.328	0.745
Training Outsourcing	0.349	0.146	0.370	2.39	0.000
Compensation Outsourcing	0.313	0.123	0.342	2.552	0.000

The R value (multiple correlation coefficients) was at 0.633 for indicating that 63.3% variation in effectiveness of the HR function is accounted for or explained by HR outsourcing (recruitment outsourcing; training & development outsourcing and compensation outsourcing). The model fitness of effects of HR outsourcing on the effectiveness of the HR function was tested using analysis of variance (ANOVA) and the findings are presented in the model. Evidence of F (4, 46) ratio of 19.846 with $p < 0.001$. The prototype was appropriate to predict effectiveness of the HR function using recruitment outsourcing; training & development outsourcing and compensation outsourcing. All unstandardized beta coefficients were significant, indicating a positive effect of all the independent variables to the dependent variable. Results showed that recruitment outsourcing had an insignificant effect on effectiveness of the HR function, and is this is insignificant at 5% level ($\beta_1 = -0.034, p = 0.745 > .05$), this infers increase of one unit of recruitment outsourcing has no change on effectiveness of the HR function.

The second question study was “How does staff training and development outsourcing impact the effectiveness of the HR function in firms registered in the IHRM?” Results from Table 2, results revealed that training & development outsourcing has a positive effect on the effectiveness of the HR function, and is this is significant at 5% level ($\beta_2 = 0.370, p = 0.021 < 0.05$). This implies increase in one unit of training & development outsourcing on effectiveness of the HR function increases with .370. Thus, training and development outsourcing increases HR function increases. This

could be because outsourcing enabled the organizations to cut down on costs, take advantage of external and current expertise and make employees more competent. The third question study was “How does compensation outsourcing influence the effectiveness of the HR function in firms registered in the IHRM?”. Results from Table 2, results revealed that compensation outsourcing has a positive effect on the effectiveness of the HR function, and is this is significant at 5% level ($\beta_3=0.0342$, $p=0.014<0.05$). The relative contributions of the explanatory variables (recruitment outsourcing, training outsourcing and compensation outsourcing) on the outcome variable (effectiveness of the HR function) are shown in Table 2.

Assuming the error term ε to be zero and substituting the unstandardized coefficients β values, the estimated multiple regression equation takes the form of:

$$Y = -0.761 + 0.501 X_2 + 0.366 X_3 + \varepsilon$$

Whereby; Y = effectiveness of the HR function (the dependent variable)

X₂ = Training Outsourcing

X₃ = compensation outsourcing

The fourth objective of the study was to establish the intervening effect of vendor characteristics on the relationship between HR Outsourcing and Effectiveness of the HR function within HR Departments.

Table 3: Intervening variable

	Model 2	Model 3	Model 4	Model 5	Model 6
	B(Se)	B(Se)	B(Se)	B(Se)	B(Se)
(Constant)	0.001(.042)	0.006(.038)	0.006(.155)	(-.012)(.036)	(-0.006)(.035)
Zscore(RO)	0.226(.057)	0.151(.053)	0.053(.838)	0.08(.062)	0.079(.06)
Zscore(TO)	0.352(.068)	0.219(.065)	0.181(2.764)	(-0.139)(.105)	0.05(.115)
Zscore(CO)	0.29(.067)	0.197(.062)	0.156(2.479)	0.155(.061)	(-0.081)(.089)
Zscore(VC)		0.38(.057)	0.229(2.874)	0.039(.092)	(-0.031)(.091)
Zscore(RO*EHR)			0.314(2.674)	0.214(.117)	0.22(.113)
Zscore(TO*EHR)				0.550(.144)	0.25(.164)
Zscore(CO*EHR)					0.419(.118)
Model Summary					
R	0.817	0.855	0.861	0.871	0.88
R Square	0.667	0.731	0.741	0.759	0.775
Adjusted R ²	0.656	0.721	0.73	0.748	0.763
Std. Error	0.587	0.528	0.520	0.502	0.488
Change Statistics					
R ² Δ	0.639	0.064	0.010	0.019	0.015
F Δ	121.464	45.116	7.152	14.528	12.541
df1	3	1	1	1	1
df2	190.000	189.000	188.000	187.000	186.000
Sig. F Δ	0.000	0.000	0.008	0.000	0.001

a Dependent Variable: Z-score (FE)

**p<.01, *p.05

RO= recruitment outsourcing, TO=Training outsourcing, CO=Compensation outsourcing=Vendor characteristics and EHR= Effectiveness of HR function

First, the study standardized all variables to make interpretations easier afterwards and to avoid multicollinearity; Second, the study fitted a regression model (model 3) predicting the outcome variable Effectiveness of HR functions (EHR) from the HR Outsourcing (recruitment outsourcing, training outsourcing and compensation outsourcing). The effects as well as the model in general (R²) should be significant; Third, the study added the interaction effect (EHR*RO) to the previous model (model 4, 5 and 6) and check for a significant R² change as well as a significant effect by the new interaction term. If both are significant, then moderation is occurring. If the predictor and moderator are not significant with the interaction term added, then complete moderation has

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occurred. If the predictor and moderator are significant with the interaction term added, then moderation has occurred (Marsh et al, 2013), however the main effects are also significant.

The hierarchical regression results are presented in Model 2 to 6 in Table 4.17. H04a specified that vendor characteristics moderates the relationship between recruitment outsourcing and Effectiveness of HR functions ($\beta = .314, p < .05$). This was also confirmed by $R^2\Delta$ of .010 which indicate that vendor characteristics moderates the relationship between recruitment outsourcing and Effectiveness of the HR function in HR Departments by 1%. This implies that vendor characteristics enhances the relationship between recruitment outsourcing and Effectiveness of the HR function within HR Departments.

The regression results showed a positive and significant moderating effect of vendor characteristics on the relationship between Training outsourcing and Effectiveness of the HR function in human resource departments of firms registered with IHRM in Nairobi, Kenya ($\beta = .550, p < .05$). This was also supported by change of R squared of 1.9% ($R^2\Delta = .019$) indicating that vendor characteristics moderates the relationship between training outsourcing and Effectiveness of the HR function in human resource departments of firms registered with IHRM in Nairobi, Kenya by 1.9%. This implies that vendor characteristics strengthens the relationship between training outsourcing and Effectiveness of the HR function within HR Departments of IHRM registered organizations.

The regression results showed that vendor characteristics positively moderated the relationship between Compensation outsourcing and Effectiveness of HR the HR Function ($\beta = 0.419, p < .05$), rejecting the null hypothesis. The moderating effect was also revealed by change in R squared ($R^2\Delta .015$) and F change ($F \Delta = 12.541$). This suggests that vendor characteristics facilitates the relationship between compensation outsourcing and Effectiveness of the HR Function.

5.0 Conclusion

After a rigorous analysis of the findings of this study and based on the general objective for this study which was to analyse the impact of outsourcing human resource activities on the effectiveness of human resource functions in HR departments in firms registered with IHRM in Nairobi, Kenya, the following conclusions are presented: From the findings on recruitment outsourcing, it was visible that the majority of firms were taking up outsourcing recruitment activities with the advertisement of vacancies having the highest uptake followed by job analysis, candidate screening and finally candidate selection. It was also visible that the impact of recruitment outsourcing on the effectiveness of the HR function was insignificant and therefore outsourcing the recruitment function did not improve the effectiveness of the HR function. From the findings on training and development outsourcing, it was evident that majority of firms were taking up outsourcing of organizing for training materials and venue for the meeting as much as identification of training objectives, followed by identification of training needs similar to developing of training content and lastly to gain technical expertise. It was also evident that the impact of Training and development outsourcing on the effectiveness of the HR function was considered higher in helping the organization access expertise, followed by reduction in costs, then achieving technology advancement and finally in improving time efficiency. Training and development outsourcing had a significant relationship with effectiveness of the HR function.

From the findings on compensation outsourcing, it showed that majority of firms were taking up outsourcing of provision of pay systems, followed by outsourcing of benefits administration, then carrying out of benefits & salary surveys with a neutrality on payroll administration. It also showed that the impact of compensation outsourcing on the effectiveness of the HR function was higher for improving of time efficiency, technology advancement, then access to expertise and finally reduction of costs. Compensation outsourcing had a positive significant relationship with effectiveness of the HR function. From the findings on vendor characteristics, it was seen that majority of the firms rated the vendor characteristics that have an impact on the vendor's service delivery and thus having an impact on the effectiveness of the HR function in the following order of most impactful: guaranteed quality of service, qualifications, expertise and credibility of the vendor firm, flexible contracting options, niche of the vendor in a specific area, cost of vendor services, recommendations from other companies and finally physical location of the vendor. It was also evident that vendor characteristics moderates the relationship between recruitment outsourcing, Training & development outsourcing, Compensation Activities outsourcing and Effectiveness of the HR function.

6.0 Recommendations

Having concluded that Compensation outsourcing and Training and Development outsourcing would improve the effectiveness of the HR function, it is recommended that organizations consider outsourcing their compensation and training and development activities to a business partner which focuses the organization on core functions that impact on the bottom-line objectives, reduces operational costs, advances the technology and improves on its time efficiency. Recruitment outsourcing did not reveal a significant relationship with the effectiveness of the HR function, even though it was favoured by a majority of the organizations that were studied, therefore it would be a prerogative of the organization based on its cost benefit analysis to outsource its recruitment activities. Vendor characteristics had a moderating effect on the relationship between HRO and Effectiveness of the HR function and should therefore inform the decision to outsource HR functions.

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