



## **Outsourcing Strategies and Human Resource Performance in Tea Manufacturing Companies in Rwanda: A case of Ekaterratearwanda Limited**

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# Outsourcing Strategies and Human Resource Performance in Tea Manufacturing Companies in Rwanda: A case of Ekaterratearwanda Limited

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## Abstract

The objective of this research was to study the human resource outsourcing practices among tea manufacturing companies in Rwanda. With specific objective being, To determine the influence of outsourcing strategies and recruitment process on human resource performance at Ekaterra Tea Rwanda Limited, to assess how outsourcing strategies on employee benefits management influence human resource performance at Ekaterra Tea Rwanda Limited and To establish how outsourcing strategies influences employee relations and human resource performance at Ekaterra Tea Rwanda. All the tea manufacturing companies were targeted population of 100 respondent from the factories. The research design to be used was description survey and data was collected from one of the tea manufacturing company operating in Rwanda called Ekaterra Tea Rwanda Ltd. The respondents were comprised mostly of Management team and supervisors with experience in various departments. Questionnaires using semi structured questions were used to collect data. Primary data were collected from the respondents and were supplemented by secondary data from journals, magazines and supplements and analyzed using descriptive statistics such as frequencies, mean scores, standard deviations and percentages. The findings were presented in form of tables. The sample population of 80 determined using Slovin's formula were used. Simple random sampling were used to identify the people to answer questions. At Ekaterra tea manufacturing company, study used purposive sampling method to interview top managers of the project in order to get detailed information of the subject matter. Data were collected by using questionnaires, interviews and documentary sources. Using the statistical package for social sciences (SPSS), the collected data was presented using tables and figure while interpretation and analysis were done based on percentages, mean and frequencies of respondents views. The data was also analyzed using correlation techniques and regression technique. In summary, the information provides key statistics to assess the performance of a regression model. The  $R^2$  value indicates that the model explains approximately 28% of the variance in the dependent variable, and the adjusted  $R^2$  adjusts for the number of predictors. The standard error of the estimate provides information about the typical prediction error in the model. These statistics help in understanding the model's goodness of fit and its ability to explain the variation in the dependent variable.

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**Keywords:** *Outsourcing, Human resource management, Outsourcing Strategies, Recruitment process, Employee's benefits, Employee's relations.*

## 1.0 Introduction

According to a recent study by global outsourcing and consulting firm (Hewitt Associates 2015), human resources is the second most frequently outsourced function, second only to information technology. And in 2017 in a survey on outsourcing, the same organization reported that organizations are ripe for human resources outsourcing as they increasingly seek standardization as part of a reemphasis on strategic business initiatives. This survey of nearly 100 large organizations in United States representing two million employees found that the human resources pressures currently facing human resources executives are attracting, retaining and growing talent being able to better support the business by focusing human resources on core capabilities and supporting business changes. In recent years, tougher competition and tighter margins have pushed organizations of all sizes to consider the strategic implications of divesting more and more business functions. As organizations seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core business (Sinderman, 2015).

## 1.1 Statement of the Problem

Outsourcing involves a conscious decision to abandon or forgo attempts to perform certain value chain activities internally and instead outsource them out to outside specialists and strategic allies. The factors that influence the adoption of outsourcing strategies have varied from one company to another. While some firms have adopted outsourcing strategies in order to ensure greater cost and efficiency benefits, other have used it to gain competitive advantage, expand into other markets, and gain flexibility in decision-making (Thompson & Strickland, 2006). Ekaterra Tea Rwanda Limited operate in Rwanda, is a business oriented and the first priority is to maximize profits and wellbeing of their employees. Ekaterra Tea Rwanda Limited has different activities including land preparation, nursery preparation plucking and team processing, there is a greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or strategic activities, this will be triggered by the need to eliminate duplication of roles, effort and the dysfunction existing within the organization.. This contributed to reduction in the operating costs and improved working capital management. However at Ekaterra Tea Company outsourcing strategies help in cost reduction and focuses on core competence as the benefits driven from outsourcing. There is a growing trend towards outsourcing various functions of the business, including human resources. This practice has the potential to significantly impact the performance of the human resources department and, consequently, the overall performance of the organization. However, there is a lack of comprehensive research and understanding regarding the specific influence of outsourcing strategies on human resource performance in this industry.

## 1.2 Research Objectives

- i. To determine the influence of outsourcing strategies and recruitment process on human resource performance at Ekaterra Tea Rwanda Limited
- ii. To assess how outsourcing strategies on employee benefits management influence human resource performance at Ekaterra Tea Rwanda Limited.
- iii. To establish how outsourcing strategies influence employee relations and human resource performance at Ekaterra Tea Rwanda

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- iv. To determine the influence of outsourcing strategies on employee relations of Ekaterina Tea Rwanda.

## **2.1 Theoretical Framework**

### **2.1.1 Contingency Theory**

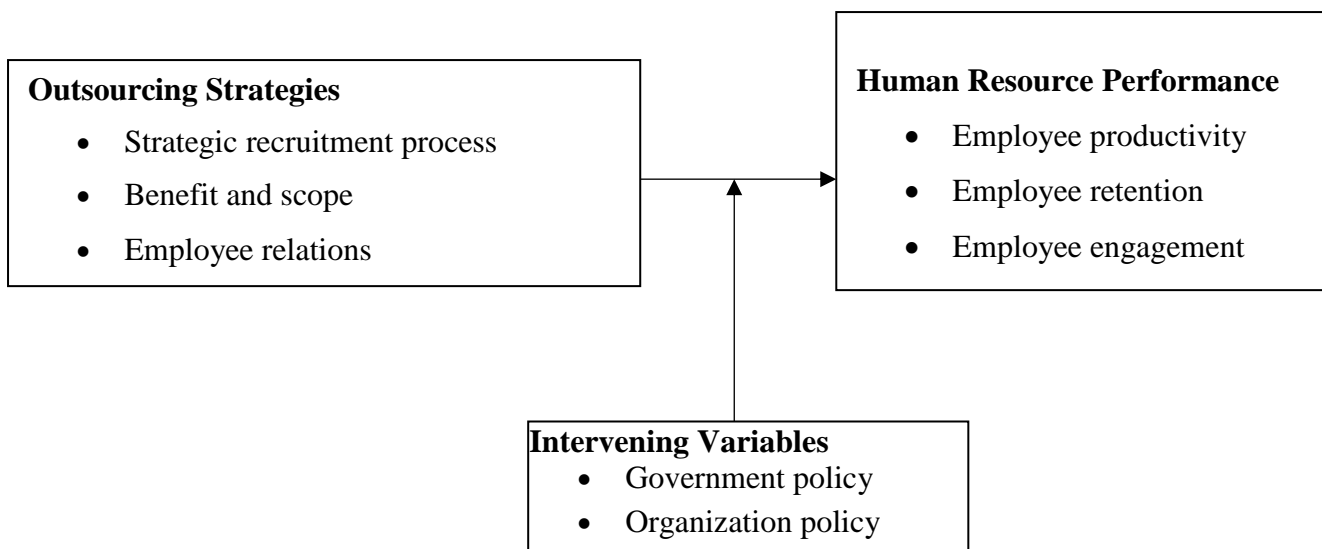
According to Rodriguez E. and Robaina P. 2006 the term outsourcing was first used in the 1980's and described the contracting out of information system. Other terms like make or buy decisions or integration vs disintegration are used in the literature to describe similar situations. Today the concept of outsourcing is no longer limited to information systems but is known in combination with all possible business functions that are feasible for contracting them out to an external provider. It is however not only the information technology function that is outsourced by many companies.

Europe's business process outsourcing market was worth 38 billion US Dollars in 2003 and continued to grow in the past years (Woche, W.2003). Thus next to information technology function, managers consider whether it is beneficial to outsource other business functions such as accounting, logistics, or personnel administration. Overall outsourcing is one of the big issues managers nowadays have to deal with and which represents a phenomenon widely studied but not yet clearly understood by academics. 75 billion US dollar of annual worldwide turnover in 2005 (Heise online, 2006) is the summary of what outsourcing stands for. It is about making money by those who sell the service and take over the functions of other companies that are not willing to perform any longer and it is about saving money and freeing up capacity for those firms who outsource parts of their business.

### **2.1.2 Transaction cost Economic Theory**

Outsourcing is commonly linked with Williamson's (1975) transaction cost theory. The Transaction Cost Economy (TCE) model proposes comparison of the costs incurred by internal production and by buying from the market. Williamson claims that in order to comply with cost-conscious corporate governance strategies, the choice of buying should be considered with regards to price as it could offer cheaper solutions than preparing internally. The theory can assist an organization in assessing the relative difference and competitive advantages between market cost and production cost. Outsourcing decisions based on TCE are likely to focus on the economies of scales and specialist skills available via vendors, although the effect of these benefits are likely to diminish as the service becomes more bespoke and frequently produced.

This approach highlights the need for a detailed and specific contract between the client and vendor in order to avoid opportunism and performance measuring problems (Lacity and Willcocks, 1998) and (Zenger, 2002). According to cost perspective, organizations focus on securing the most cost-efficient form of organizing an activity. Outsourcing is appropriate when the organization achieves lower cost by transacting with external vendors rather than building the internal capacity (Mathis, 2003). Williamson (1979) assumes the TCE will always seek to chase the most economic governance structure.



**Figure 1: Conceptual Framework**

**Source:** Research (2021)

### 3.0 Research Methodology

In this study, researcher used a descriptive research design with two mixed methods such as quantitative and qualitative approaches. The target population by senior managers and junior staff involved in operation of tea manufacturing companies in Rwanda. It will comprise 80 officials from different categories. The study used Slovin’s formula to calculate the sample size. The level of precision or sampling error is 5% and 95% confidence level, total population (N) is 80, sample size is selected using Yamane formula.

Qualitative data obtained were analyzed using the thematic analysis technique; where opinion, ideas, beliefs, attitudes, statements or arguments of the respondent were discussed. This was done within the context of interpretation of research finding. Quantitative data were analyzed using the Statistical Package for Social Sciences (SPSS), whereby the collected data were presented using tables and figures. Data interpretation and analysis were done based on percentages, means and frequencies. The data was analyzed using correlation techniques to determine the relationship between the variables and degree to which the independent variable affects the variation in the dependent variable. These responses was later be given codes to ease data entry and analysis.

### 4.0 Findings and Discussion

Results also indicated respondents to a Neutral (mean 2.85) agreed that out sourcing companies has positive influence in recruitment process. To a Neutral (mean 2.58) respondents indicated that the Outsourcing has helped to increase transparency in recruitment process. This implies that out sourcing strategies and recruitment has helped a lot in the performance of the human resources management practices. The aggregate mean score for project planning was 3.57 and standard deviation was 1.382. The aggregate mean score round off to a score of 4 on the five point Likert scale adopted by the study. The findings are in agreement with those of Taylor (2016) who found that outsourcing and recruitment is a very important practices in the companies. It is a creative and demanding activity of working out what has to be done by whom



and when it remains the heart of human resources performance thus gives the summary of the study as

The majority of the participants surveyed were Human Resource directors/department heads/managers and most of them having been with the same organization for the last five years. The study revealed that the emerging trend is that the number of job opportunities within organizations for entry-level human resource professionals are on the decline, while the demand for strategic human resource expertise is being emphasized. Although organizations represented in the study varied in size and type, classification showed that larger organizations with over one hundred employees tended to outsource more particularly the commercial or business orientated ones. The large organizations indicated that their reason for outsourcing was an attempt to free up the time of their human resource staff to focus more on core competencies as a cost-time saving strategy. Many of the professionals indicated that human resource outsourcing was likely to increase in the next five years.

### **Outsourcing strategies on employee benefits management influence human resource performance at Ekaterra Tea Rwanda Limited**

This implies that respondents strongly agreed that Employees benefit has been well managed after tea Rwanda out sourced. The respondents to a strongly agree (mean 2.55) agreed that there Outsourcing companies has helped in realization of employee benefits and to a strongly agree (mean 2.21) agreed that there Employees benefit has been increased by out sourcing companies. This implies that to a strongly agree respondents agreed that there were clear records in human resource performance. Most organizations have been operating in Rwanda for more than ten years with a higher number business orientated organizations responding to the questionnaire. This could be an indication that the general business environment favors human resource outsourcing primarily as a competitive strategy to cut costs while taking advantage of expertise service and concentrating on their core business. The most common human resource practices being outsourced by organizations surveyed for. This study were benefits and medical administration, recruiting, training & development, contracts management and staff development. Since all these practices are typically non-profit-producing or core business centres, the use of a vendor who has them as core business enabled the organizations to focus more on creating business strategies that positively impact on the bottom line. Practices that were less popular were human resource information system since it was considered part of the internal information technology department and relocation services since most of the employees are local staff hence do not require the service.

### **Outsourcing strategies influences employee relations and human resource performance at Ekaterra Tea Rwanda**

Results in shows that to a strongly agree (mean 2.53) the respondents agreed that Outsourcing companies involvement has read to positive employees relation. The respondents to a strongly agree (mean 2.51) also agreed that Involvement of outsourcing companies lead to improvement of production with a standard deviation of 1.32. The respondents to a strongly agree (mean 2.47) also felt that most of the Employees relation has been affected negatively after outsourcing companies. Results also indicated that respondents to a strongly agree (mean 2.60) agreed on the fact that Outsourcing companies has led to better employees relation. The aggregate mean score for project implementation was 1.32. The mean score round off to a score of 3 on the five point Likert implies that to a strongly agree the respondents agreed that the Outsourcing companies has led to better employees relation.

The study found that organizations considered outsourcing primarily to improve quality of service. Other key motives included gaining access to outside expertise, the opportunity for cost savings and a desire to focus on issues vital to the business. The availability of a variety

of vendors to choose from makes the process flexibility to meet the needs of the organization at any given time. Moreover, since there are a variety of vendors to choose from to suit the training practices and procedures which change frequently, and filling open positions is a never ending burden for human resource departments, outside suppliers ease the burden. The risk of losing institutional knowledge and/or control, organizational resistance, and internal information security threats were the most commonly cited risks when considering

## **5.0 Conclusion**

After a rigorous analysis of the findings of this study and based on the specific objective for this study As in-house human resource practices shift to human resource outsourcing providers, it may ultimately become more common for entry-level human resource professionals to gain their initial human resource experience in an human resource outsourcing work environment, that is, new entrants to the human resource profession may have the opportunity to work for multiple clients from different industries at the same time. This diversity of experience may prove beneficial from a career perspective over the long term, as human resource practitioners assume senior strategic leadership roles in organizations within the human resource outsourcing industry and in private and public sector organizations.

Human resource outsourcing is not just about cost savings. Human resource outsourcing practices, is, in many ways, forcing a change in how human resources does business by making human resource business leaders refocus on what is important to the organization. Human resource staff can now have more time to focus on core business functions and can utilize internal resources more effectively and efficiently. Within the Human resource department, there is a wide variety of practices that are candidates for outsourcing. Any organization making a significant commitment to human resource outsourcing makes a decision with far-reaching implications for the entire organization. For this reason, it is crucial that all stakeholders involved in the process from the outset and there is clarity in relation to the goals and objectives that the organization expects to achieve.

The outsourcing decision should only be made after thorough examination and planning and after an in-depth investigation into the qualifications and experience of the vendors under consideration. The most common concerns among these organizations when making human resource outsourcing decisions are the loss of institutional knowledge and or control, organizational resistance and internal informational security threats. The vendors should demonstrate whether proof of return on investment has, in fact, been realized—all without any dilution in company culture, loss of data security and in compliance with confidentiality and privacy requirements. This study attempted to evaluate the extent of outsourcing in the organizations, the benefits and drawbacks of the process and to explore the considerations that lead to the decisions to outsource. The message from this study for human resource business leaders is that human resource outsourcing demands an extensive ongoing working relationship with the vendor and cannot be perceived by the organization as a simple handoff. The organization must be clear about its goals and objectives upfront and disciplined about managing all aspects of the outsourcing contract and relationship from beginning to end.

## **6.0 Recommendations**

Human resources should be viewed as a strategic partner. Strategic human resource management is not just a function of the human resources department—all managers and executives need to be involved because the role of people is so vital to a company's competitive advantage. When organizations enable, develop, and motivate human capital, they improve accounting profits as well as shareholder value in the process. The most successful organizations manage human resources as a strategic asset and measure human performance in

terms of its strategic impact. The organization considering human resource outsourcing as part of their strategy should evaluate the human resource practices and tasks and classify them as core or administrative. Literature review carried out suggests that outsourcing administrative functions or tasks since they do not add value to the organization. Also, a cost-benefit analysis should be done in order to evaluate if the organization should outsource the human resource practices identified in the first step.

The fundamental belief system held by most organizations is that cost savings are delivered mostly through the vendor's ability to achieve economies of scale, followed by capabilities and knowledge/experience. The findings also reflect that outsourcing is still highly driven by cost savings as an expected benefit, cost savings as a key driver of outsourcing and cost savings as a primary criterion for choosing a vendor. Choosing the right vendor is a critical step by either developing request for proposals or by buying service agreement. One thing is certain, the organization considering human resource outsourcing should be clear on the objectives for outsourcing and that they meet the corporate strategy, what they expect from their vendor and the performance measurement by which they evaluate their providers. Once a contract is established, a good relationship between the organization and the vendor must be built to strengthen a proper communication between the parties for high quality service delivery. This can also be done by considering the vendor to be more of a strategic partner, inviting them to management meeting and other forums. Some experts recommend having an in-house team or person in charge of helping the vendor familiarize with the day to day operations of the organizations and to ensure fulfillment of the contract agreement.

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