EFFECTS OF HUMAN RESOURCES OUTSOURCING ON THE SUSTENANCE OF THE SMALL AND MEDIUM ENTERPRISES (SMEs) IN KENYA

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ABSTRACT

Internally an organization can vary in tasks with the organization’s own workforce and in addition organizations can also hire specialists from the external environment. The SME sector is quite significant to national economy, and its sustenance is desired since its collapse would lead to adverse effects to the economy. This research was set out to explore the effects of these Human Resources outsourcing in the SMEs in Kenya. This study used a descriptive research design. This study only focused on the tourism based SMES who are members of the Kenya Association of Tour Operators (KATO).

Key Words: workforce, SME, Human Resources, Outsourcing, Kenya Association of Tour Operators
Introduction

An SME can be defined as: “an independent business, managed by its owner or part-owners and having a small share of the market (Wong & Aspinwall, 2004).” According to the European Union guidelines, an SME has less than 250 employees. Managers of SMEs act mainly on operational level and the degree of specialization among employees is often low. An organization’s possibility to adapt its workforce to changes required from both external environment and internal environment encloses the concept labour flexibility. Organizations can apply labor flexibility in different ways. They can choose to focus on being able to vary the tasks performed within the organization (Grossman & Helpman, 2005). Many SME face limited growth as a result of their owners’ lack of experience in some functional areas of the firm. Outsourcing is an alternative solution to this problem that leads not only to costs reductions but also to SME growth.

Statement of the Problem

The SME business sector development in Kenya has been identified as one of the key elements to Kenya’s engine of growth (Sessional Paper No. 2 of 2005) and has become an issue of priority even though many SME(s) are struggling with establishment and doing business. According to the Kenya Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation, while those that succeed take many years to generate sufficient revenues to provide a lucrative return to investors (KNBS, 2007).

This failure according to the Ministry of Trade Strategic Plan 2008-2012, is attributed to factors such as poor market access, restrictive legislation and regulation, unaffordable finance, poor
infrastructure and poor access to land, limited skills, poor market linkages between small and large enterprises and inadequate market information. The results of the poor managerial skills lead to unpreparedness to problems and changes facing the business sector, which can collapse the SMEs. Lack of sustenance of operation is caused by inadequate and ineffective human resources as Bowen, et al (2007) concluded in their research that indeed, lack of planning, improper financing and poor management are causes for the collapse of the sector as the entrepreneurs lack the business knowledge and training to manage their newly founded businesses, with recommendations that human resource outsourcing as a strategic resolve should be considered. In addition, Nyaga (2012) concluded that outsourcing improved the social responsibility and corporate image as well as productivity but did not reduce costs. As a result, SMEs increasingly are outsourcing HR activities to professional employer organizations. The SMEs are unable to provide comprehensive training programs for these entrepreneurs because the training cost would prevent them from realizing their own targeted profits, which would make them sustainable.

As with many developing countries, there is limited research and scholarly studies about the SME sector in Kenya. The 1999 National Baseline Survey conducted by Central Bureau of Statistics, ICEG and K-Rep Holdings provides the most recent comprehensive picture of SMEs in Kenya. Mead (1998) observes that the health of the economy as a whole has a strong relationship with the health and nature of micro and small enterprise sector. For instance, of the 503,000 jobs created in 2010, 80.6 per cent, or 440,400, were in the SMEs. Currently, the SME sector in Kenya contributes 18% of the country’s GDP. Notably, the SME sector is quite key to national economy, and its sustenance is desired since its collapse would lead to adverse effects to
the economy. Therefore, this study sets out to determine the effects of human resource outsourcing in the sustenance of the SMEs in Kenya.

**Specific Objectives**

Specifically, the objectives of this research are:

i. To find out the effects of HR outsourcing on the cost of tour operators in Kenya.

ii. To investigate the effects of HR outsourcing on the skills of employees of tour operators in Kenya.

iii. To establish the effects of HR outsourcing on improvement of market share of tour operators in Kenya.

iv. To find out the effects of HR outsourcing on shareholder value of tour operators in Kenya.

**Significance of the Study**

With globalization and business process reengineering, a lot of outsourcing initiatives have been developed by many public and private organizations. A formal process of information gathering, collation and analysis needs to be done to understand and evaluate the Human Resources outsourced by SMEs in Kenya. This study, therefore sought to understand these outsourced services, enumerate their strategic intent, analyze the benefits and highlight the challenges.

To the tourism based SMEs, the study would provide an insight into the gains of the human resource outsourcing. The study will also provide information on how tourism based SMEs can adopt human resource outsourcing to improve market share, shareholder’s value, skills of employees and cost.
To the government of Kenya and policymakers, the study will provide information on how human resource outsourcing can be used to improve the performance of tourism based SMEs. This information can be used to formulate policies to help tourism based SMEs to implement human resource outsourcing.

Scholars and researchers were also used these research findings for comparative analysis of the human resource outsourcing in tourism based SMEs and other sectors that have been previously studied. Additionally, the scholars and researchers can use the research findings to build case studies which can be used to showcase good human resource management practices amongst the struggling SMEs in Kenya.

**Conceptual Framework**

A conceptual framework is a hypothesized model identifying the concepts under the study and their relationship. It is a diagrammatic presentation showing the relationship between the dependent and the independent variables (Mugenda & Mugenda, 2003). According to Kothari, (2004) the dependent variable is one that depends upon other variables or is as a consequence of other variables. The conceptual framework aims at explaining the relationship between the variables. When researchers use the conceptual frameworks to guide their studies, one can expect to find system of ideas synthesized for the purpose of organizing, thinking and providing direction. The conceptual framework would provide an outline of the preferred approach in the research. It outlines relationships and the desired effects, forming independent and dependent variables respectively. In this study, the independent variables will be HR outsourcing, while the dependent variables will be the sustenance of SMEs using cost reduction, employee skills, market share and shareholder value as indicators.
Empirical Framework and Critique of Existing Literature

Several Research studies have been conducted in relation of human resource outsourcing. Eleanna & Nancy, (2005) conducted a study on outsourcing of human resource management services in Greece. Outsourcing is gaining considerable popularity in the field of business services and management.

Simms (2006) did a study on outsourcing for grown-ups to look at why human resource outsourcing fails and advises on how to do it effectively. The study used quotes from human resource practitioners and human resource service providers about the ways in which human resource outsourcing has been mishandled by UK companies and on how to handle it properly. The study established that many failures are caused by the firm that wanting to outsource its human resource management, not taking enough responsibility for specifying the nature and quality of the services it is contracting out.

Hasliza & Norbani (2010) conducted a study on HR outsourcing among Malaysian manufacturing companies to investigate the trend of human resource (HR) outsourcing among manufacturing companies in Malaysia. The findings suggest that only 49 percent of manufacturing companies engage HR outsourcing. This implies that the trend of HR outsourcing is still a relatively new practice, but is increasing considerably.

Trying to summarize and provide generalizations of the prevailing research regarding HRM practices of MSMEs is difficult. This is because of the differences in definitions for micro, small, and medium sized enterprises as it relates to the number of employees and other factors.
Research Gaps

Several research studies have been conducted in relation to human resource outsourcing and how it influences business performance. Globally, Hasliza & Norbani (2010) conducted a study on HR outsourcing among Malaysian manufacturing companies; Jeroen (2008) did a study on HR outsourcing: threat or opportunity. Locally, Mukiri (2011) did a study seeking to find out factors influencing outsourcing of services in selected state corporations in Kenya and Nyaga (2002) did an investigation of effects of Human Resource outsourcing on performance of selected parastatals in Kenya. However, none of these studies have been conducted on the effects of human resource outsourcing in the sustenance of the SMEs is Kenya, research gap.

Research Design and Methodology

This study used a descriptive research design. The target population comprised tourism based SMES who are members of the Kenya Association of Tour Operators (KATO). According to the KATO Kenya Safari Operators Guide 2012-13, there were 363 registered tour operators in Kenya. The sampling frame of this study was the top level management in all the 363 registered tour operators in Kenya. The top level management comprised of finance manager, operations manager, marketing manager, general manager and human resource manager. The target population of their study was therefore 1815. Stratified random sampling was used in this study to select 10% of the respondents from each stratum pooled to form a random sample. The sample size for this study was therefore 181 respondents. According to Mugenda & Mugenda (2003) a sample size of between 10 to 30% is a good representative of the population. The study used primary data that was collected by using questionnaires. This data collection instrument was communicated what is intended and elicits responses in terms of empirical data necessary for analysis. Using questionnaires, the research objectives were translated into questions which bring
an association between the research questions and research results. This method is convenient as it allows anonymity and eliminates bias and interference by the researcher.

Research Findings and Discussion

Human resource Outsourcing

The research found out that most tour operation organizations were outsourcing finance and accounting, executive development and coaching, HRIS development, payroll administration, health care services, employee communication plans/strategies. The study also found that training and management development, recruitment and selection, outplacement, health and safety, quality initiatives, job evaluation, and reward strategies and systems were the likely HR activities to be outsourced, either because they were considered noncore or because the organization lacked the expertise to handle them internally.

Cost Reduction

The study found that human resource outsourcing reduces the cost of an organization. It was also clear that the more innovative a firm is, the more likely to outsource the firm will be and that if customers value low costs, service, convenience, speed or innovation they expect it even at lower costs, easier, faster and state of the art innovative products and features (De Kok, Uhlamer & Thuriki, 2003). It was also found that that tour operators had realized cost reduction with both in-house staff and outsourced staff. Here, the study concluded that human resource outsourcing improves organization’s productivity, which means fewer people will be hired in the future to get the same output.
Employee Skills

The study found that human resource outsourcing affects the skills of the employees. These findings are in line with Greer et al., (1999) argument that the need to outsource HRM functions can be partially explained by the growing complexity of human resource issues and the consequent need for professional expertise. The study also revealed that most of the tour operators outsourced employment and recruitment services. According to Cooke, Shen & McBride (2005) a natural outgrowth of mass purchasing of recruiting services, RPO has matured in terms of size, scope, and duration of contracts. It was clear that the performance of human resource management and the viewpoints of employees about outsourcing have critical importance to improve a convenient strategy. The study also revealed that recruitment companies were very thorough in selection of employees and hence the qualified individuals were highly skilled and that outsourcing of recruitment services helped in elimination biasness with the organization and hence the employed employees were selected due to their qualifications in terms of education and skills.

Market Share

From the findings, the study found that human resources outsourcing affects the sale volume of tour operators in Kenya. The study also found that since their organizations were focusing on marketing strategies rather than recruitment, accounting and administration they got more clients and hence an increase in sales volume. The study found most of the organizations competition performance in the tourism industry was good. It was also clear that the respondent indicated that their organizations had achieved a competitive advantage in the tourism industry through the use of human resource outsourcing. The study also found that that human resource outsourcing
enhance operational and strategic performance in the market, helps them to deliver more value-added services at a lower cost and also to reexamine if some functions of human resource are required, gives them an option to satisfy competing demands for improved services and responsiveness at a reasonable cost.

**Shareholder Value**

The study found that human resources outsourcing affect the shareholders’ value. Mol (2005) had earlier indicated that outsourcing occurs under conditions of low asset specificity, low uncertainty and a low frequency of transactions and that subcontracting arrangements can be interpreted as one of the devices to save transaction costs. The study indicated that there was a clear link between effective HR outsourcing and an increase in shareholder value and hence increases a possibility of getting dividends. It was also clear that HR outsourcing increases shareholders values through reduction in cost of production and it also guarantees viability which assures their sustenance. From the findings, the study indicated that sources of capital was from shareholders or directors, bank loans and from revenues and from other sources which include debentures and funds from donors.

**Regression Analysis**

The regression analysis shows a strong relationship $R= 0.853$ and $R \text{ Square}= 0.763$, which means that only 76.3% of the human resource outsourcing factors can be explained by all the predictor variables jointly. A further test on the beta coefficients of the resulting model, the coefficient $\beta_1= 0.978$, $\beta_2=0.965$ $\beta_3=0.783$ and $\beta_4=0.654$ are all significantly greater than 0 with p values 0.265, 0.076, 0.186 and 0.199 respectively which are all less than p=0.05.
The regression equation holds as \( Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 \)

Whereby \( Y = \) HR outsourcing

\( X_1 = \) Cost reduction

\( X_2 = \) Employees skills

\( X_3 = \) Market share

\( X_4 = \) Shareholders value

After substituting the beta values in to equation 1;

\[ Y=1.314+ X10.978 + X20.965 + X30.783 + X40.654 \]

The study established that human resource outsourcing reduces the cost of organization. The study also established that human resource outsourcing reduce the cost in organizations to a great extent. These findings concur with De Kok, Uhlaler & Thuriki (2003). Faems et al. (2005) argues that employees ability to do something well; expertise. The study also established that human resource outsourcing affects the skills of the employees which are in line the findings of Greer et al., (1999). The study also revealed that the initiative, teamwork formation, productivity, stress and conflict, quality of work of employees employed through outsourcing was good.

The study established that human resource outsourcing affect market share to a great extent. The study also revealed that human resources outsourcing affects the sale volume of tour operators in Kenya. Belcourt (2006) earlier indicated that companies use HR outsourcing for both operational and strategic reasons that can enhance the HR value chain as well as support the development of human resources as a business partner and strategic contributor to the organization’s goal. The study revealed that their organizations were focusing on marketing strategies rather than recruitment, accounting and administration they got more clients and hence an increase in sales volume. The study further revealed that effects of human resource outsourcing on the
shareholders’ value in their organizations. The study also established that human resource outsourcing reduces an organization’s cost and hence improvement in the shareholders’ value.

**Conclusion**

The study concludes that there is a positive correlation between human resource outsourcing and cost reduction. Tour operators had realized cost reduction with both in-house staff and outsourced staff. In addition, human resource outsourcing improves organization’s productivity, which means fewer people will be hired in the future to get the same output.

The study also established that there is a positive correlation between employees’ skills and HR outsourcing. The study revealed that most of the tour operators outsourced employment and recruitment services. The study also revealed that the initiative, teamwork formation, productivity, stress and conflict, quality of work of employees employed through outsourcing was good.

The study further concludes that there is a positive association between market share and HR outsourcing. The study also revealed that human resources outsourcing affects the sale volume of tour operators in Kenya.

The study also concludes that there is a positive association between shareholders value and HR outsourcing. The study also established that most of the organizations offer dividends to their members. The study also established that human resource outsourcing reduces an organization’s cost and hence improvement in the shareholders’ value to a great extent.

**Recommendations**

This study recommends that organizations should outsource their human resource activities so as to achieve cost reduction. The study also recommends that tour companies should outsource marketing functions so as to reduce cost involved in marketing. This study also recommends that
organizations should outsource their selection and recruitment functions so as to improve the employees skills and knowledge. This study also recommends that organizations should outsource their functions so as to focus on their strategic plans and goals which would subsequently lead to increase in sales volume and market share. The study also recommends that so as to increase profitability and shareholders’ value, organizations should adopt human resource outsourcing in most of its functions.

References


