

**MODERATING EFFECT OF SERVICES OUTSOURCED ON THE
RELATIONSHIP BETWEEN MOTIVES OF HUMAN RESOURCE
OUTSOURCING AND PERFORMANCE OUTCOMES AMONG MOBILE
TELECOMMUNICATION FIRMS IN KENYA**

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ABSTRACT

Purpose: Outsourcing is one of the delivery mechanisms adopted by organizations to ensure competitiveness by enabling them invest time, money and human resources into core activities and letting other parties do the other functions more competently on their behalf. This study sought to examine the moderating effect of services outsourced on the relationship between motives human resource outsourcing and performance outcomes among mobile telecommunication firms in Kenya.

Methodology: A descriptive survey design of cross-sectional nature of three mobile telecommunication firms was conducted. The target population was all three hundred and twelve (312) managers in three mobile telecommunication firms operating in Kenya. Data was analyzed using descriptive statistics, correlation analysis and logistic regression analysis aided by Statistical Package for Social Sciences (SPSS).

Results: The study found that services outsourced partially moderated the relationship between motives of human resource outsourcing and performance outcomes.

Policy implication: The results of this study are significant to all telecommunication firms in Kenya as it will provide valuable information on how services outsourced influence the relationship between motives of human resource outsourcing and performance outcomes.

Keywords: *Services Outsourced, Motives of Human Resource Outsourcing, Performance Outcomes, Mobile Telecommunication Firms and Kenya*

1.0 INTRODUCTION

Globalization, competitive markets and mergers and acquisitions are the primary stimuli for BPO. Organizations need to make investments in markets, competition, government regulations, financial conditions and technologies, which are not only costly, but also risky. Vendor companies make such investments on behalf of many clients significantly reducing risk borne by one organization. The organizations need to concentrate on their core activities and outsource all the peripheral activities (Žitkienė & Blusytė, 2015). This leads to lean business structures, and ultimately improvement in bottom line and good corporate performance. Outsourcing has emerged as a new economic strategy for HR. Further the changing business scenario with many mergers, acquisitions, layoffs have made the road clear for HR outsourcing (Tseng, 2011).

Major classifications of HR outsourcing include Business Process Outsourcing, Professional Employer Organizations, Application Service Providers, Software as a Service, Recruitment Process Outsourcing or classification by the type of activity HR service providers deliver, such as consultancy, operative service provider and technology enabler. It is important to understand HR outsourcing within contextual factors (Mohapatra, 2012). The political, economic, social and legal landscape that a business operates in defines the scope of actions that can be taken and shapes the direction of decisions. There are trends in the market and certain patterns emerge in business practice but organizations have different objectives, targets, business plans and strategies to follow hence outsourcing deals are diverse and the related decisions dependent on the situation (Cicek & Ozer, 2011). Therefore, every outsourcing deal is unique to a business and multifaceted consideration should be made before opting for this solution, which makes the practice increasingly complex in its nature (Beregszaszi, & Hack-Polay, 2012).

The development of a large scale telecommunication infrastructure in Kenya capable of delivering efficient and affordable info-communications services is recognized as a critical prerequisite for the country's economic growth. The Communications Authority of Kenya (CAK) is responsible for developing and coordinating the policies and strategies with respect to development and operation of Telecommunication services in Kenya. It licenses telecommunication operators and service providers and monitors their performance on a continuous basis to ensure they discharge their obligation as stipulated in their licenses, in keeping with the provisions of the Kenya Communication Amendment Act, 2009, and Kenya Communication Regulations. The commissions mandate includes telecommunication licensing, effective competition, consumer protection, promotion of investment and provision of international transit services, universal transit obligations and tariff regulation (CAK, 2014). According to Lange (2014), a price war that is threatening profitability has characterized Kenya's mobile sector in recent years, following the market entry of the third and fourth network. This has led to accelerated subscriber growth as well as presenting challenges to the profitability of operators forcing them to streamline operations and develop new revenue streams in an environment of falling average revenue per user.

1.1 Statement of the Problem

Mobile telecommunication firms in Kenya are constantly seeking to grow, remain competitive and meet changing business conditions. The human resources function is under scrutiny to deliver value adding quality services to the business and reduce operating costs. Empirical studies indicate that increased competition, desire to gain access to leading-edge technology, remain focused on core activities, demand for cost savings, higher productivity, profitability, flexibility, etc. have put pressure on HR Managers to demonstrate efficiency and effectiveness of HR functioning thus the interest in HR outsourcing (Mohapatra, 2012).

The accelerating global competitive pressures have forced telecommunication firms in Kenya to seek ways to enable them concentrate on their core competences and utilize outsourcing to capitalize on others' expertise. However what constitutes core activities and competencies is not static. Organizations constantly reassess what constitute the core and non-core aspects of their business and readjust the way these activities can be sourced either in-house or externally.

Outsourcing seems to be a simple cost reduction option but there are challenges to getting it right. It is quite difficult to know what benefits to expect in the first instance and set measurable performance indicators for both the client and the outsourcer (Cicek & Ozer, 2011).

Human resource outsourcing can have both a negative and positive influence on a company. This is because attracting, retaining and developing workforce, and keeping abreast of the latest technology can prove difficult and costly for many organizations (Uttamkumar & Murugaiah, 2011). Implementing outsourcing decisions in practice generally entails change, risk and relationship management (Cicek & Ozer, 2011). Both service providers and outsourcing firms endure higher risk in making HRO decisions (Siew *et al*, 2016). Studies show that outsourcing is growing with respect to both the number of companies outsourcing and the number of functions outsourced. Preliminary studies indicated that telecommunication firms in Kenya are outsourcing but motives of human resource management outsourcing are not analyzed enough.

Despite existing gaps, the use of human-resource outsourcing is increasing (Beregszaszi & HackPolay, 2012; Zitkiene & Blusyte, 2015). The countless questions around HR outsourcing support a strong rationale for further studies. Very few researchers have examined the link between motives of human resource outsourcing and performance outcomes. Brewer, Ashenbaum and Ogden, (2013) recommend that future studies should consider richer models comparing mixed versus dominant outsourcing strategies and the various contexts, drivers and outcomes related to them. This study therefore sought to investigate how motives of human resource outsourcing affect performance outcomes among mobile telecommunication firms in Kenya.

1.2 Research Hypothesis

H₀₅ Services outsourced have no moderating effect on the relationship between motives of human resource outsourcing and performance outcomes.

2.0 LITERATURE REVIEW

2.1 Theoretical review: Goal setting theory

Goal-setting theory by Latham (2001) is particularly well-suited to this study as it connects the setting of a goal with specific performance outcomes. The core premises of goal-setting theory are that setting specific goals will lead to higher performance than setting none, and that given commitment, performance will rise with goal difficulty. Brewer *et al.* (2013) argue that the act of consciously and strategically considering the reasons to outsource an activity should enhance the likelihood of a successful outsourcing performance outcome. The set goal receives a high level of commitment and performance outcomes are realized at higher rates. When mobile telecommunication firms set clear goals within these drivers during their outsourcing ventures, they are more likely to achieve them.

2.2 Conceptual Framework

A conceptual framework is a hypothesized model identifying the concepts under study and their relationship. This study considered how outsourced services moderated the relationship between motives of HR outsourcing such as cost efficiency, expert service, HR flexibility and business improvement and performance outcomes are shown in the Figure 1.

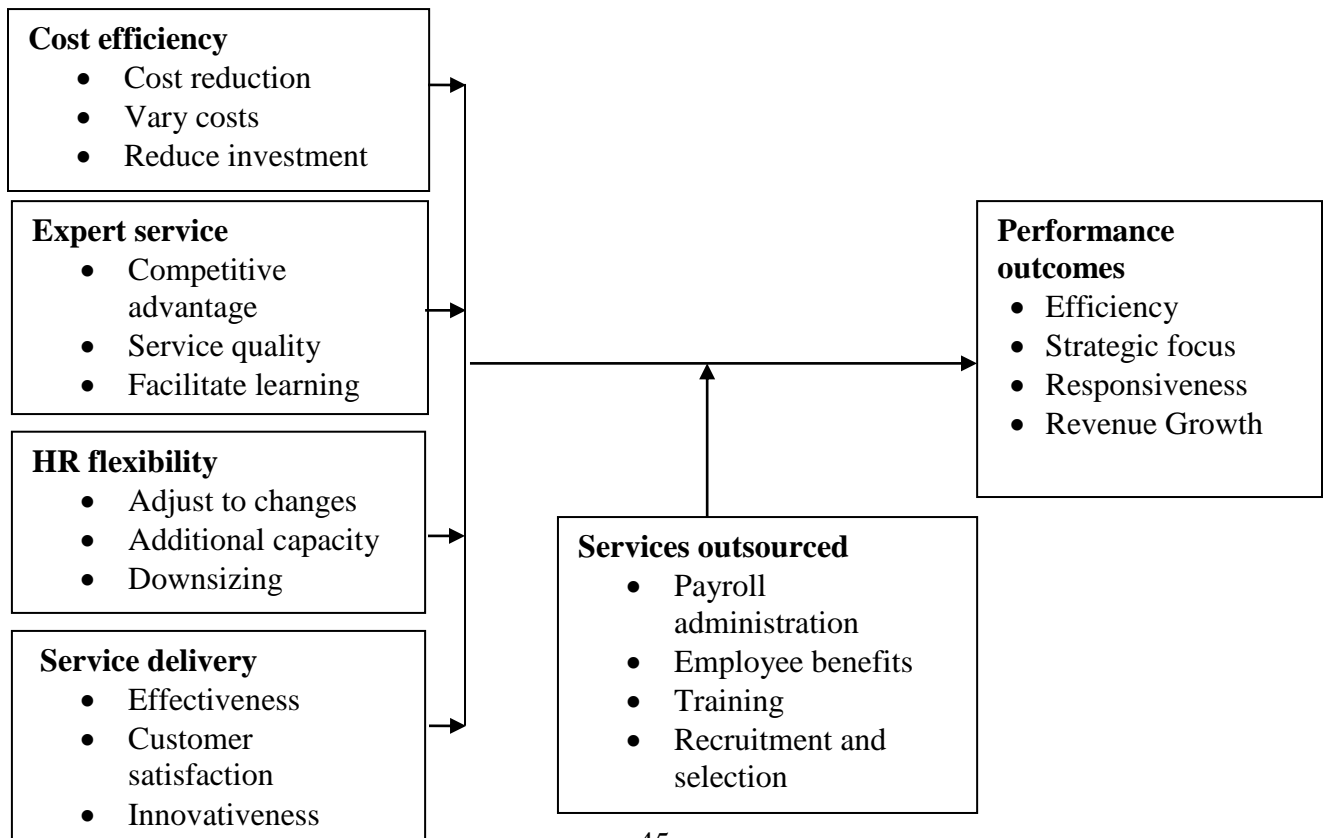


Figure 1: Conceptual framework

2.3 Empirical Literature Review

Some of the outsourced activities include; building maintenance and cleaning, computing services, security, payroll, transport and training, temporary employment, printing, catering, and general recruitment (Woodall, Scott-Jackson & Newham, 2009)). Three main HR-outsourcing industry segments have emerged: consultants, administrative-service providers and technology enablers. HR information technology system, recruitment, training and development- especially outdoor trainings-, and administrative jobs (catering, cleaning, employee transportation, security) are the most common outsourced HR practices (Cicek & Ozer, 2011).

Rapid changes in the business environment require senior management to adopt strategies that focus on both current success and to invest in those activities that will promote a competitive advantage for future success (Tamer & Ozgur, 2009). Managers control the innovation novelty path by selecting among those ideas to be advanced into innovations, with an underlying dependence on the firm's strategy to stick to existing competences and resources or to take risks in new areas. Many managers view Outsourcing as the only way to keep a business competitive into the twenty-first century thus, they pursue competitive actions and deploy resources in a way consistent with their mental models of the firm's capabilities and with the competitive threats they believe it faces (Yang, 2011).

The decision to outsource is often influenced by size of firm, sector, company objectives, strategy, availability of specific skills, organizational changes and other factors such as restructuring, rapid organizational growth, changing technology and the need for greater flexibility to manage demand swings (Beregszaszi & Polay, 2012).

Based on the various outsourcing functions, the capabilities have been classified in eight groups, namely, HR services, knowledge and decision services, operation support services, back office transaction processing, marketing services, customer interaction services, IT and software, and finance and accounting services. Knowledge and decision services encompass content solutions, e-learning and education solutions, project management, supply chain management, decision support systems, data warehousing, Operation support services include critical services for re-engineering, facilities management, global delivery and sourcing and logistics and dispatch

services. These capabilities are directed towards improving efficiency of the operations in the host organization.

Back office transaction processing an important sector in shared services is responsible for performing prime tasks such as ATM and transaction processing, payment processing, forms management, general transaction processing and accounts receivables processing. Service providers handle large volumes for multiple clients in the shared facility and thus provide the client with economies of scale, process maturity, higher quality and faster turnaround times. The host organization acquires capabilities to drive their front-end tasks by a powerful back office engine (Ghodeswar & Vaidyanathan, 2008).

Divesting administrative activities is a helpful way of increasing the strategic edge of the human resource function which is often accused of being rather operational and lacking strategic focus. HR functions include Payroll administration (producing checks, handling taxes, dealing with sick time and vacations), employee benefits (Health, Medical, Life insurance, cafeteria, etc), human resource management (hiring and firing, background interviews, exit interviews and wage reviews), risk management (workers' compensation, dispute resolution, safety inspection, office policies and handbooks) and others (Beregszaszi, & Hack-Polay, 2012).

Payroll processing involves perhaps the most transactional, routine activity involving HR and is the most frequently outsourced HRM activity (Norman, 2009). Executive compensation is often done by consultants. One advantage of outsourcing the salary survey process that is unique to this HRM activity is the issue of being charged with conspiring to set prices with other organizations. The employing organizations often avoid getting too deeply involved in collecting market data on pay rates by subcontracting this activity (Cicek & Ozer 2011). Recruitment process outsourcing (RPO) has a long history and is growing rapidly. A natural outgrowth of mass purchasing of recruiting services, 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).

Today firms are using temporary workers as part of their competitive strategy to improve bottom lines and avoid unfair dismissal claims if employees have to be laid off. A key advantage in using temporary workers is the reduction of recruitment costs. The strategic use of temporary workers may, therefore, involve the reduction of wage costs achieved by employing temporary workers who are paid substantially less, either in direct wages or benefits, than permanent employees. Firms may also improve their performance by means of temporary employment. Contract work employment mode enhances coordination flexibility so that firms can efficiently adjust the number or types of skills in the firm to cope with fluctuations in product or service demands (Seth & Sethi 2011).

Furthermore, managers have greater flexibility to deal with fluctuations in customer demands by assimilating a part of their labor costs as variable rather than fixed costs, firms may increase labor productivity and reduce costs by using temporary employment to screen potential workers for regular full-time positions. Temporary workers are used as a means of accessing valuable knowledge for new services and for high quality products, which is reflected in increased revenues. According to Sanchez, Jamenez, Carnicer and Perez (2007), highly skilled professionals and technical experts in temporary employment create new and specific knowledge within the organizations that engage them; this knowledge would not otherwise be developed internally, and is especially valuable in dynamic and competitive industries.

Outsourcing is attractive to senior management because it improves some of the dimensions of organizational performance for example reduced costs, reduction in overheads, quality improvement, and focus on core competencies. Resources are typically redirected to the organization's core functions where they make the greatest positive impact. Other drivers of the trend to outsourcing include: downsizing of internal staff, rapid growth or decline, increased competition, and restructuring, demands for increased productivity, profitability and growth.

Core functions include top-level strategy, HR policies and HR planning while non-core functions comprise of specialist activities such as training and recruitment and personnel administration e.g. payroll, Human Resource Information System and pension (Cicek & Ozer, 2011). Woodall *et al.* (2009) study on making the decision to outsource HR, found that Influence from elsewhere in the business and the prior experience of HR directors had great influence on the final decision.

The study therefore established whether Services Outsourced moderates the relationship between motives of human resource outsourcing and performance outcomes.

3.0 RESEARCH METHODOLOGY AND RESULTS

3.1 Hypothesis testing for the Moderating effect of Services Outsourced

The objective of the study was to determine the moderating effect of services outsourced on the relationship between motives of HR outsourcing and performance outcomes. A regression model was first run before including the moderating variable (services outsourced).The regression equation is as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where,

X_1 = Cost efficiency

X_2 =Expert service

X_3 = HR flexibility

X_4 =Business improvement

Regression results before moderation revealed that cost efficiency, expert service, HR flexibility and business Improvement, explained 29.4% of the performance outcomes as shown in Table 1.

Table 1: Model Fitness

Indicator	Coefficient
R	0.542
R Square	0.294
Adjusted R Square	0.279
Std. Error of the Estimate	0.68893

The results of the regression coefficients before moderation are presented in Table 2.

Table 2: Regression of Coefficients

Variable	B	Std. Error	t	sig
(Constant)	2.192	0.304	7.217	0.000
Cost efficiency	-0.462	0.318	-1.456	0.015
Expert service	1.306	0.23	5.679	0.000
HR Flexibility	0.261	0.078	3.339	0.001
Business Improvement	0.354	0.112	3.168	0.002

Optimal model before moderating,

$$\text{Performance outcome} = 2.192 - 0.462X_1 + 1.306X_2 + 0.261X_3 + 0.354X_4$$

A regression model was then run after including the moderating variable (services outsourced). The regression equation is as follows;

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \mu$$

Where,

X_1 = Cost efficiency

X_2 =Expert service

X_3 = HR flexibility

X_4 =Business Improvement

X_5 =Interaction of all of the independent variables and services outsourced (mediator)

Regression results after mediation revealed that cost efficiency, expert service, flexibility motive, and business improvement, explained 40.3% of the performance outcomes as shown in Table 3.

The improvement of R^2 from 29.4% (before moderation) to 40.3% (after moderation) shows the moderating effect of the services outsourced.

Table 3: Model Fitness

Indicator	Coefficient
R	0.635
R Square	0.403
Adjusted R Square	0.386
Std. Error of the Estimate	0.62311

In Table 4 the interaction between the independent variables and moderating variable is statistically significant (0.000), therefore services outsourced is a moderator variable, thus moderation is supported.

Table 4: Regression of Coefficients

Variable	B	Std. Error	t	Sig
(Constant)	3.084	0.323	9.547	0.000
Cost efficiency	-1.34	0.329	-4.071	0.000
Expert service	0.708	0.239	2.964	0.003
HR flexibility	0.196	0.072	2.718	0.007
Business Improvement	0.247	0.102	2.41	0.017
Interaction term	0.85	0.162	5.254	0.000

Further test was conducted so as to check if the moderator variable supported partial moderation or full moderation. The results are presented in Table 5.

Table 5: Moderation

Variable	B	Std. Error	t	Sig.
(Constant)	2.256	0.535	4.217	0.000
Independent variables	0.274	0.108	2.536	0.012
Services outsourced (moderator)	0.338	0.366	0.923	0.357
Interaction	0.752	0.151	4.977	0.000

The results in Table 5 above revealed that services outsourced moderate the relationship between motives of HR outsourcing and performance outcomes since the results of the interaction of the independent variables and the moderator on the performance outcomes is significant (p=0.000) while that of the moderator on the performance outcomes is not significant (p=0.0357). The

moderation effect of the independent variables alone on performance outcomes is significant ($p=0.012$) meaning that the type of moderation that occurs in this case is partial moderation (Awang, 2014). For easier interpretation, this effect is plotted on the diagram below to enable visual interpretation using a template from www.jeremydawson.com/slopes.htm.

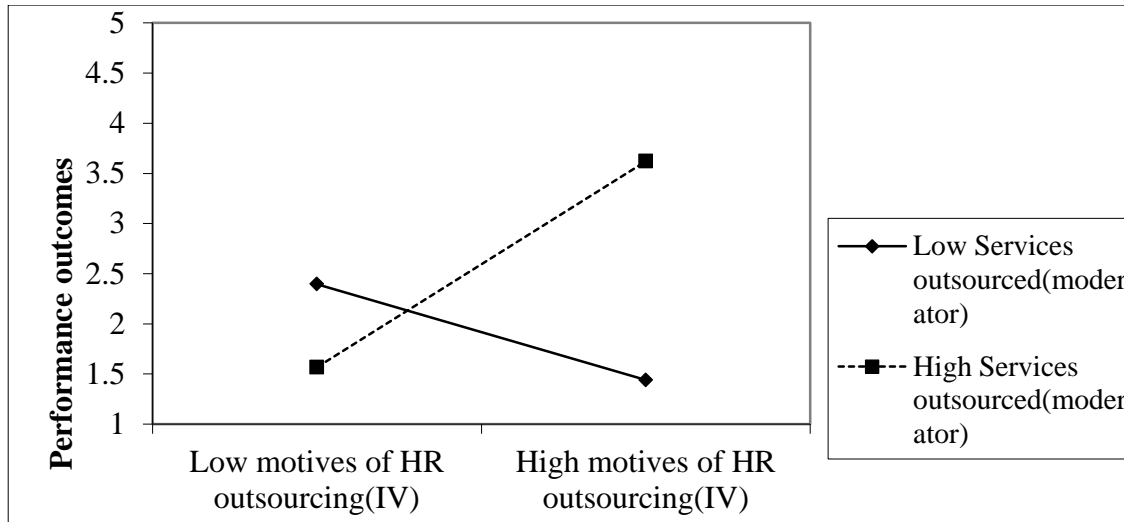


Figure 2: Moderating effect of services outsourced on the motives for HR outsourcing – performance outcomes relationship

Figure 2 demonstrates that the relationship between motives of HR outsourcing and performance outcomes is positive for high services outsourced and negative for low services outsourced. High services outsourced are associated with greater performance outcomes while low services outsourced is associated with negative performance outcomes.

4.0 CONCLUSION

The objective of the study was to determine the moderating effect of services outsourced on the relationship between motives of HR outsourcing and performance outcomes. The regression results revealed that, the services outsourced moderate the relationship between motives of HR outsourcing and performance outcomes since the results of the interaction of the independent variables and the moderating variable on the performance outcomes is significant. The study concluded that services outsourced moderate the relationship between motives of HR outsourcing and performance outcomes.

5.0 RECOMMENDATION

The study recommends that telecommunication firms should outsource human resources as it allows the firms to enhance expertise and improve service quality as well as providing competitive advantage. HR outsourcing enables organizations to gain access to expertise that would otherwise be difficult and expensive to acquire and sustain. However, telecommunication companies need to be careful when outsourcing the expertise since the loss of expertise and skills can have an adverse impact on organizational competitiveness, increase its dependency on external parties and reduce the ability to maintain internal synergy and creativity.

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