

OUTSOURCING OF HUMAN RESOURCE MANAGEMENT SERVICES AMONG LARGE FLOWER FIRMS IN KENYA.

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Management research project presented as part of the requirements for Master in Business Administration (MBA) degree, School of Business, University of Nairobi.

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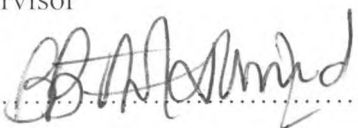
DECLARATION

This research project is my original work and has not been submitted for a degree in any university.

Signed.....  Date 25/10/18

Agure Michael Yugi

This research project has been submitted for examination with my approval as the University Supervisor

Signed.....  Date 26/10/06

Mr. George Omondi

DEDICATION

This is dedicated to my dear family

Evelyn Yugi, my wife;

Children Maya and Tanya Yugi. My Dad and Mum

who were patient with me

during my demanding times. They provided

me with resolve to complete the course.

ACKNOWLEDGEMENT

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ABSTRACT

The principal objective of this study was to investigate outsourcing of human resources management services in large flower farms in Kenya. Despite being a relatively new concept, outsourcing of human resource management services is gradually taking root in large flower firms in Kenya; this was authenticated by the fact that all the respondents outsource at least one human resource management services.

A questionnaire was administered as the major tool for data collection and the respondents gave the answers on reasons for outsourcing; nature of outsourcing; criteria for selection of vendors; and the benefits of outsourcing of human resource management services. The results indicated that 87.9% of large flower farms outsource human resource management services irrespective of ownership and it was considered to be a strategic management tool in these farms.

The respondents cited several reasons/benefits for outsourcing; however, the most mentioned was to improve company efficiency and the need to keep the company focused on its core activities and purpose.

The respondents noted certain risks emanating from outsourcing of human resource management services. There is therefore, a need for a deliberate effort to develop comprehensive framework before initiation of and supervision of the process.

CHAPTER ONE

INTRODUCTION

1.1.0. Background

The current economic climate is forcing organizations to explore tactics to remain competitive. Business process outsourcing of certain functions is an increasingly popular way to improve basic services while allowing human resources professionals time to play a more strategic role in their organizations. Tremendous structural changes are taking place in most organizations, which leads to a greater demand for outsourcing. These include; shrinking budgets, diminishing in-house staff, which is mainly attributed to downsizing. There is also increase in specialized new knowledge that needs to be imparted to employees on a frequent basis. Outsourcing is not just on the rise. It may well be the wave of the future (Bachler, 1997).

The argument is that all activities contributing to the value chain need to be subjected to a critical scrutiny in order to establish whether greater value could be obtained by conducting transactions through an external agent. The extreme version is that all transactions contributing to the value chain should be conducted by specialists' agents, linked together in some form of holding and co-coordinating network- a particular interpretation of the virtual organization (Ashton, 1998)

MacLean's (1989) article indicates that the term 'outsourcing' was coined in 1989, when Eastman Kodak Co. handed over its information technology department to three providers. The message to the market was this: "why manage information technology in house when it can be done better, cheaper, outside"? (Wells, 2001).

Harkins (1996) indicate that outsourcing means, "Having an external vendor provide, on a recurring basis, a service that would normally be performed with the organization.

Outsourcing is increasingly taking root as a strategic option to service delivery. It is viewed as a means to reduce costs, improve customer satisfaction, and provide enhanced

efficiency and effectiveness (Pricewaterhouse Coopers 1999). On the whole, outsourcing focuses on areas of major capital and revenue expenditure such as in-house training centres.

Businesses that outsource human resource activities are typically small to midsize firms with between 25 and 1,500 employees. These businesses view Human resource outsourcing as a strategic tool that relieves them of Human Resource responsibilities and enables them to focus on what they do best. In addition to allowing you to concentrate on your core business activities, outsourcing provides some key benefits, including:

Providing you with skilled professionals who are focused specifically on Human resource, helping you reduce and manage operating costs and improving employee relations (Grupe, 1997)

Strong human resources practices have the potential to increase your company's productivity and profitability, but you can't just toss a hodgepodge of HR strategies at your employees. You need to know which practices to focus on for your success.

Future magazine (2001) states the today's companies face unprecedented pressure from markets that squeeze out inefficiencies and deliver records to companies who carry out essential business more effectively and at a lower cost than any one else. Outsourcing of non-core business process is an obvious choice as a strategy. Increasingly learner organizations identify "what we are best at", and more significantly "what generates profits", financial management responsibility for non-core functions becomes less appealing (Byham, 2001).

Pricewaterhouse Coopers (2002), in supporting this assertion, confirm that at least eight out of ten America's fastest growing companies outsource at least one non-core function, delegating its day-to-day management to outside providers. The flower industry is no exceptions to these challenges and has therefore been forced to restructure their process and systems so as to remain competitive and profitable. This has been exacerbated by the competitive trend created by Ethiopia, a fast growing flower industry country.

1.1.1. The Flower Industry in Kenya

The Kenyan economy in the past years has witnessed minimal growth; however the flower industry has expanded significantly at the rate of 200 ha per year. This growth has faced a number of challenges the major ones being stiff competition and high production costs.

The production costs are generally high attributed to poor road infrastructure, high cost of power, high labour costs (increasing at 12% per annum) and high value of the shilling making farm inputs most of which are imported expensive (fertilizers and chemicals). Unlike the scene in Kenya, Ethiopia has developed incentives to encourage foreign investors in flower industry; the labour cost is generally low estimated at a third of Kenyan, the Government has provided tax relief for 7 years for new investors and the established good infrastructure at the sites set a side for flower growing, Kanyingi (2006)

These challenges have necessitated major reviews and reorganizations aimed at maintaining these companies' profits margins. The Fresh Produce Exporters Association of Kenya (FPEAK) estimates that the strong shilling cost the sector Shs 4 billion in 2005 with one flower exporter incurring losses of Shs. 400 million Mureithi (2006). During the period under review, many flower companies restructured their operations, and introduced the use of machines and outsourced a number of functions among other strategies to cut on the cost. However, this has resulted to redundancies and retrenchment.

Casual look of flower industry shows minimal outsourcing of activities due to low wages offered to the junior staffs against high cost demanded by the service providers. However, a critical view of the sector indicates widespread outsourcing of services most of which focuses on human resource functions. Most of the companies still have less developed or effective human resource departments; in a number of cases the Finance department or Managing Director's office performs the role. The trend has however been reversed with strong union which calls for professional human resource practitioners to counter the aggressive union Kanyingi (2004).

The profits have relatively dropped in the last two years largely due to low prices of the flowers at the auction attributed to increased supply to the European market. High cost of production, strengthening shilling, high freight cost among others Kamau (2006). Flower companies have had to reorganize their operational processes with a view to cutting down on costs, as outsourcing remained an outstanding strategy.

1.1.2. Statement of the Problem

Organizations have chosen various ways of achieving the objective of cost reduction and eventually improving on productivity and overall performance of the organization. The strategies that are commonly used to cut costs include; outsourcing, restructuring, retrenchment, and early retirement incentives (Laabs, 1996).

It is an apparent paradox that at a time when more and more attention is being given to the strategic significance of human resource development and the importance of ensuring that “intellectual capital” of an organization, the human resource department seems to be under threat. The profession is increasingly finding that what was traditionally its core business-the provision of classroom or workshop training- is being seen as peripheral to the core business of the organization and being handled outside the organization boundaries John Walton, (1999).

An increasing number of companies are outsourcing their human resource management services, particularly in the non-core business areas. Flower Industry is characterized by large workforce that primarily seasonal and casual workers based on the season. The cost of managing such a workforce is high yet it does not constitute the core business of the companies. Besides, their being short term relationship does not require long term investment in training them. Outsourcing is therefore viewed as a strategic management tool to cost reduction, improved customer satisfaction and enhanced efficiency and effectiveness.

In Kenya studies have been done on outsourcing of human resource management services in sectors such as banking (Serem, 2001), Public service (Komen 2004) and manufacturing sector (Kamau, 1999). However, no study has been done on this fast

growing sector employing over 700,000 workers (Mureithi, 2006); thus creating a need for the study. The industry is perceived to pay low salaries and wages to employees and would not consider outsourcing of human resource management services as it is viewed as 'cheaper' to manage in-house. Besides, some flower Firms still operate without substantive human resource department in a sector with a very active trade union; the Kenya Plantation and Agricultural Workers Union.

1.1.3. Objectives of the Study

- (i) To find out the nature of outsourcing of human resource management services by the large flower firms in Kenya.
- (ii) To determine the criteria that the organizations use to select the human resource management service providers.

1.1.4. Importance of the Study

This study is important to:-

- (i) Directors and Top management of the flower companies – focusing on cost-cutting measures in their organizations.
- (ii) Human resource managers who by virtue of their work have to from time to time evaluate the functions for outsourcing and the potential service providers.
- (iii) Human resource function service providers. The study will enable them assess their competitive advantage and business opportunities to explore.
- (iv) Researchers; The findings of the study will be a source of secondary data for future researchers in the area of outsourcing of human resource functions.

CHAPTER TWO

LITERATURE REVIEW

2.1.0. Introduction

Outsourcing can ordinarily be defined as getting someone else to do the work. In the modern setting, of course, there is far more to it than that; even so, outsourcing has been defined by one David Madison (HR Magazine, 2005) as work done for a company by people other than the company's fulltime employees.

However different authors have used different definitions; Breibart, (1999) suggests that outsourcing entails "the transfer of the management or administration of the process or function from in-house staff to an outside service provider. "Rothery and Robertson (1995) discuss outsourcing as "finding new suppliers and new ways to secure the delivery of raw materials, goods, components, and services. It means that you use the knowledge, experience and creativity of new supplies, which you did not use previously. "Kaathawala defines outsourcing as a management strategy by which an organization delegate's major non-core functions to specialized and efficient service providers Kaathawala & Elmuli (2000).

Organizations around the world are increasingly considering outsourcing as a Strategic Human Resource Management tool, which can be leverage to allow them to focus on their core competencies (Price Water House Coopers 1991).

An out-sourcing agreement usually allows the Provider Company (the outsourcer) to supply a customer with services or processes that the customer is currently supplying internally. Outsourcing is viewed as a means of reduced costs, improve customer satisfaction, and provide enhanced efficiency and effectiveness (Price Water House Coopers 1991). A recent Mori survey of 50 top executives in the USA exhibited 'extensive ignorance' of outsourcing despite the fact that more than 20% of them were already actively considering the option (Rothery and Robertson, 2006)

Traditionally, outsourcing initiatives were focused on headcount or cost reduction. Today, however, outsourcing is a more strategic decision, focusing on core competencies. Thus, it must have the full support of senior management, and all related goals and objectives must be articulated from the top.

2.1.1 Why Outsource Human Resource Management Services

Human Resource function is a critical component of employee well being in any business, no matter how small (Dataquest 2002). Any mess as regards its management issues may cause major legal problems in companies, as well as major employee demotivation. Besides, small businesses often don't have the staff or the budget to properly handle the nitty-gritty details of human resources. Consequently, more and more small businesses are beginning to outsource their HR needs. In fact, the HR outsourcing industry is expected to grow from \$13.9 billion in 1999 to \$37.7 billion in 2003, according to the market research firm Dataquest.

In most organizations the staff cost constitute over 30% of the total overhead cost. Therefore any cost measure strategy will have a meaningful impact if it addresses the human capital budget. There are multiple factors that have driven HR professionals to turn to outside services for a variety of tasks. These include;

Looking for Expertise; the fact is that major industries have come into existence to help human resource do its job, and it would be difficult and impractical for most human resource departments to match the skills and expertise that can be purchased elsewhere. For example, consulting firms now provide training services that can be used throughout entire industries. It makes sense to be able to call on consultant trainers with industry-wide expertise. The American Society for Training and Development estimates that, by early in the next decade, fifty percent of all trainers in the United States will work for consulting firms, to be tapped by companies on an as-needed basis. That is, as often as not, organizations will outsource their training functions (Walton, 2003)

Looking to Save Money; getting the job done well is clearly one of the motivators for turning to outside help with the critical HR functions. But ultimately, of course, HR must

answer to the CFO, and cost can be a primary factor in the decision to outsource. A major trend in recent years for pushing costs down has been the bundling of outsourcing services, commonly known Human Resources Business Process Outsourcing (HRBPO). According to one consultant, HRBPO can be defined as “the integrated delivery of five or more human resources products.” Another firm elaborates: “HRBPO is the outsourcing of an integrated group of HR processes to an external partner. Typically the contract combines systems, end-to-end processes, HR staff and infrastructure.” Since the major consulting firms that take on the HR burdens can service many companies, there are economies of scale. According to one provider, “Typically, in a BPO contract there is a guaranteed cost savings component. You look at the baseline of expenses that the employer has today, and the contract is guaranteeing a discount off that baseline (Walton, 2003).

Looking to Enhance the Role of Human Resources; As the functions traditionally handled by human resource have become much more complex, it has become clear that human resource professionals can become hopelessly mired in the details and the paperwork—and become confined by limited horizons. “Just in benefits administration you can see the scope of the problem,”

The human resource wants to deliver high-quality efficient service, expertise in following upon claims and specialized knowledge in legal compliance—but HR also wants to get out of the paper chasing business.” Which leads to another goal for HR that one consultant describes: “By taking the transaction work and moving it out to outsourcing providers, the HR department is going to see increased productivity and pushing HR toward a more strategic role in the organization.

In addition to the above, the following are some of the fundamental benefits that HR Outsourcing can deliver; and factors which may influence an organizations decision to outsource these services. Transferring risk and liability for people issues to other firms (service providers), bring in expertise in various areas of HR as needed most of which are done better by outsiders, gives the ability to partner with an experienced HR team which may be expensive to maintain in-house, gives the ability to have experts in all of

the different functional areas of HR without having to hire many employees, experts are always available to handle the legal aspects of human resource services, enabling businesses to focus on core operations, helping to create a stable, cost-effective operating platform, re-directing focus from internal processes to achievement of business goals and ensuring compliance with legal, regulatory and best practice requirements among others

2.1.2. Outsourced Human Resource Management Services

Some of the functions most commonly handed over to outside providers include payroll, benefits administration, background checks, drug testing, recruiting and training. Even small companies that might not get noticed much in big studies of outsourcing trends turn to outside services to help with such chores.

Payroll; this is the most out-sourced HR function. It is critical, tedious, specialized, and labor intensive for most firms. Furthermore, there are a number of quality payroll companies (e.g. AD, ADP, Paychex, Payroll Plus, White Buffalo) who are very automated, efficient, cost effective, and give good customer service, (Bureau of National Affairs, Inc., 2001).

Training is another human resource function mostly outsourced particularly in smaller companies, which in most cases do not have training departments. Yet research now clearly shows that companies who invest in employee training and development enjoy greater productivity, profitability, and better retain employees. Training & Development is now a \$50 Billion + industry. There are many training providers ranging from colleges to consulting firms offering both public seminar and on site training. (Bureau of National Affairs, Inc., 2001).

Staffing is also a function that is often outsourced. About 1/3 of all the work done in the US is done by a contingent workforce. American business could not function without temporary agencies and employment agencies. In many parts of the country, as many as half of all non-exempt positions are now filled on a "temp to hire" basis. Many workers in the West now prefer temporary work because of the flexibility it affords. In any case, many firms find it more cost effective and certainly faster to outsource staffing to an

agency of HR consultant who specializes in staffing, (Bureau of National Affairs, Inc., 2001). However, in Kenya and most developing countries the contrast is the situation.

Benefits administration is the last major HR area frequently outsourced. Benefits have become very expensive, very complex, and much regulated. Plus, technology has made internal benefits administration largely obsolete. Other HR functions also out-sourced may include;- Employee counseling services, job evaluation review .Overseeing organizational structure and staffing requirements, recruiting, training and development , tracking department objectives, goals and strategies, employee orientation programs , employee compensation research and review, training needs analysis, executive compensation administration, employee communications, including human resources policy manuals and employee handbooks, recruitment-background interviews, screening and selection and exit interviews and specialized legal advisory services among others

Harkins et al (1995) conducted a national survey of human resources Executive in America. They received 121 responses. Their findings are as follows: Most HR departments are outsourcing at least one service; Practically every HR service or function is being outsourced, although not by one organization and human resource departments are outsourcing services and functions for many different reasons. The results indicated that 64% of respondents outsourced 'outplacement,' followed by: training delivery (46%), training development (40%), relocation services (31%) and compensation planning (31%), followed by pre-employment testing (23%), benefits administration (21%), organization development (19%), recruitment, employment & staffing (15%), health, safety & security (12%), Human Resource information systems (8%), training evaluation (4%), Human Resource administration (3%) and training administration (2%).

The Conference Board, HR Executive Review: Outsourcing Human resource Services (1994) found that more than eight out of 10 executives responding to a survey "have outsourced at least some human resources services, or are considering such action". The same study found that the order of most commonly outsourced HR services are savings plan administration, followed by EAP/fitness/willingness, relocation/career counseling,

benefits administration, management development, skills training, payroll administration, diversity programs, benefit planning, compensation, and finally, recruiting.

In 1995, the Hospital & Health Network Annual Survey reported that 67% of hospitals use outsourcing providers for at least one department within their operations; 90% of these hospitals use outsourcing providers for support services; 77% for clinical services; and 51% for business services (The Outsourcing Institute Web-page). Reporting on a 1994 Olsten Corporation survey of 400 corporations, the Outsourcing institute also indicates that 45% of executives surveyed outsource payroll management, while 38% outsource tax administration. Moreover, 35% outsource benefits administration, 34% outsource workers compensation, and “the number of executives using outsourcing as part of the flexible staffing strategy increased from 18% to 30% over the past year”.

The results of a survey of 303 multinational companies in North America and Europe were discussed in the September 1996 edition of MacLean’s Magazine. The results indicated that 85% contract out one or more functions, and 93% are likely to do so within three years. The article reports that most commonly outsourced functions are legal work, transportation, and information management. The number of organizations expecting to outsource some aspect of human resource is expected to increase from 10% to 25% (Wells, 1999).

According to a Hewitt Associates survey on outsourcing human resources (Hewitt Website, 1996), “93% of large employers reported outsourcing at least some part of human resources. As to the degree of outsourcing, 20% of Human Resource responsibilities were the most common amount cited by employers with only 12% of companies outsourcing more than 50% of the Human Resource function”.

2.1.3 Factors that Influence the decision to Outsource

Hakins et al (1996) suggest that Human resource leaders considering outsourcing, as an option should look for the potential to gain access to best practices, realize economies of scale, improve performance and stability, and improve their capacity to change.

Quinn and Hilmer (1994) indicate that: One of the great gains of outsourcing is the decrease in executive time for managing peripheral activities – freeing top management to focus more on the core of its business. Various studies have shown that when these internal transaction costs are thoroughly analyzed, they can be extremely high. (p. 44). The outstanding (Web-site, 1996) described a variety of reasons why companies outsource. The understanding of this issue has been broadened through “studies conducted since 1991, (including surveys of over 1,200 companies), work with its members, and ongoing reviews of other major studies”.

The institute offers the following reasons: to improve company focus; to gain access to world-class capabilities; to accelerate reengineering benefits; to share risks; to free up resources for other purposes; to realize a cash infusion (e.g. selling assets such as equipment to the provider); to reduce or control operating costs; the resources are not available internally (e.g., build a requirement such as a data-center from scratch); and the function is difficult to manage or out of control. (The Institute emphasizes, though, that this does not mean “abdication of management responsibility”)

Reporting on the results of another survey in *Why is Human Resource Turning to Outsourcing* (1993), Laabs discusses the reasons given for outsourcing the benefits function: to save time; gain expertise; reduce costs; reduce staffing requirements; minimize problems; avoid complexity; improve service; and concentrate on core business. The conference Board in *Human Resource Executive Review: Outsourcing Human Resource Management Services* (1996), refers to its survey results and indicates that, in descending order of importance, executives outsourced HR functions for the following reasons: access specialists; refocus on core activities; reduced non-labour costs; reduce costs through staff reduction; improve services consistency; and monitor use of services.

Pursuant to their survey, Harkins et al (1996) outlined the following reasons given (in descending order) for outsourcing HR services: to access expertise; save time; save money; save on administrative costs; focus on more strategic initiatives; outsource non-core business; respond to increases in responsibility; reduced staff; respond to budget cuts

and finally, to reduce liability. Hewitt Associates (Hewitt Web site, 1996) found the most popular reasons for outsourcing HR are: cost effectiveness; reduction of administrative costs; capitalization on technology and expertise; improvement of customer service, focus on core businesses, and redirection of HR's focus toward strategy and planning.

The Conference Board Canada's report "Getting the Most from your Training Dollar" (1996) outlined some reasons that organizations gave for outsourcing aspects of their training and development functions and the following reasons were given: highly specialized needs; lack of time (in-house staff unable to meet needs within specified time-frame); lack of in-house staff unable to meet needs within specified time-frame); lack of in-house expertise; better utilization of internal resources; availability of high-quality training outside the organization; generic needs (external programs already exist); saving money (cost of going outside considered favourable)

2.1.4 Advantages of Outsourcing of Human Resource Management Services

Forty five (45) organizations responded to PRC/TBS survey question asking why they outsourced some aspects of HR services and the benefits. The reasons given includes: improved company focuses, leaving operational details to the outside experts; reduced operating costs; increased customer satisfaction; re-allocation of internal resources to core activities; Access to world-class capabilities and services, without the need to build from the bottom up; reduced risk. Markets, competition, government regulations, financial conditions and technologies all changes extremely quickly. Outsourcing is a vehicle that enables the organization to share these risks with the outsourcing provider; improved cost, quality, service and cycle times; cash infusion. In some cases, outsourcing involves a transfer or sale of company assets to the provider; increased capital funds availability. Resources can be acquired through alternate methods rather than capital expenditure.

Frequently, HR respondents reported that they did not have the internal capability such as expertise, time or resources to deliver a service effectively. Although organizations outsource for different reasons, many recorded similar benefits. The most commonly

cited benefits, from 45 respondents are as follows: Some respondents noted two other advantages to outsourcing; it enables the organization to focus on more strategic issues, while outsourcing more operational services; and it allows for the transfer of knowledge and skills to employees.

Human resource outsourcing can reduce costs by providing services less expensively due to cost economies from specialization developed by the service provider. This can be especially true of payroll and benefits administration. Outsourcing can increase a firm's access to specialized expertise that would not otherwise be available. Yet, in some other cases outsourcing acts to limit the development of organizational competencies or it can create inefficiencies due to the outsourcer's lack of knowledge of the organization. In all these processes, it is important to carry out cost benefit analysis and basically determine the best option that would allow a company to achieve its set objectives of remaining competitive and profitable.

2.1.5. Limitations of Outsourcing of Human Resource Services

The potential disadvantages of outsourcing Human Resource services are loss of control and possible higher initial direct costs. More subtly, sometimes employee loyalty may be less directed to the employer. You cannot outsource your firms' corporate neither culture nor employee relations. In addition, outsourcing can generate new risks such as: the loss of critical skills or developing the wrong skills, the loss of cross-functional skills, and the loss of control over supplier (Quinn and Hilmer, 1994; Dombeger, 1998)

Routinely, the literature on outsourcing discusses the potential risks involved. A poorly conceptualized, developed or maintained outsourcing arrangement could mean loss of control, less flexibility, quality control problems, information security problems, problems with the provider, HR management problems, and the loss of skills (Harrison, 1996; Quinn and Hilmer, 1994). An outsourcing initiative must be carefully thought out and implemented to avoid problems of this nature.

Further survey carried out by PRC/TBS revealed the following limitations: Twenty-five respondents indicated that they had experienced some problems as shown; Low quality of

work (14 times), lack of understanding of organizational culture on the part of the contractor(12 times); unmet timeframes (10 times); high cost(17 times); and difficulty in identifying competent contractor (5 times)

One respondent, explains that “The contractor was unable to produce required deliverables... some time frames were not met...HR advisors had to complete the task”. Other examples of low quality of work given were: poor writing skills and products that were inconsistent with terms of reference agreed-upon.

Furthermore, another respondent said too much time was spent “orienting the private supplier to the department’s infrastructure”. Another respondent suggested, “Human resource outsourcing is relatively new to federal employees who are not yet fully knowledgeable of identifying best external sources at best prices.” Finally, another respondent highlighted the necessity to understand the process and procedure for hiring an outside contractor and for managing the contract.

2.1.6. Selection of Human Resource Management Service Providers

The need to outsource human resource management services is clear, and this is a growth industry for consultants and vendors. But there is one piece of advice that can be offered to human resource professionals who are charged with shopping and making outsourcing decisions: Talk to colleagues in other organizations who have the experience with each function to be outsourced. Learn from the experience of others. A few suggestions to bear in mind:

Measure and Review; since the primary reasons for outsourcing include getting a job done well and within budget, it is vital to evaluate results and costs on a regular basis. You have to constantly watch, revisit and renew what you are doing—if not you may fall behind the curve. There are ways that you can measure the effectiveness of outsourcing—and you have to measure and re-measure.

One Step at a Time—Based on Your Needs and Culture; Enthusiasts for outsourcing—usually on the consulting side—may sometimes be too enthusiastic, and take the

outsource-everything-you-can approach. Bundling five or more functions in a HRBPO product is a way to move in this direction. Every organization, however, presents unique needs and should base outsourcing decisions on its own culture—and on knowledge of its employees and mission. An outsource everything approach probably will, in reality, fit very few organizations. One senior consultant reports that “my most successful project last year resulted in a hybrid of outsourcing. There were different sets of eyes both internally and externally, looking at the processes. Some of them were outsourced, but some of them were kept inside and reengineered and redesigned. You should not have the arbitrary fixed objective of outsourcing everything.”

Once the decision to outsource a particular service or function is made, there should be an organized process to evaluate and choose the best service provider for your needs. When dealing with a service provider it is often difficult to predict with certainty what may occur at contract renewal, what may be charged for adjustments or add-ons during the contract period or the effect service quality reductions may have where outcomes are not thoroughly specified. Indeed, a company often does not have expertise to judge the need for other services, as it does not have this expertise internally (Rothery and Robertson 1995)

According to Harkins et al (1996) and Rothery & Robertson (1995), when considering outsourcing, it is important to create an internal evaluation team. This team should lead the evaluation and selection process. The typical HR service has several dimensions – technical, operational, financial, legal, etc. Accordingly, a team offers a greater potential for making a decision that is informed from all angles. In choosing the team, think about including existing in-house providers in selecting the new external providers. They know the job better than anyone else.

Harkins et al (1996) also discusses the importance of conducting a thorough investigation of each vendor before reaching any conclusion. Do not move too fast; take your time; this is a high stakes venture. The vendor will be key to its success. At the point of developing the Request for Proposal (RFP), keep in mind your objectives and make sure they are reflected. The RFP is the document used to communicate and state the level and

quality of service desired; establish a formal and measurable evaluation procedure that meets your objectives; Schedule meeting with the vendors during which you should. Permit vendors to ask questions about the RFP. In turn, interview the vendors about the proposal details. It important that this face to face interaction be fully utilized: Find a partner with whom you share values and principles. Strategic objectives should be explained clearly to the prospective service provider in order to build up a healthy outsourcing relationship (Corbett, 1994; Peish, 1995; Perry et al, 1997; and Harkins et al 1996); Check reputation, references, certification for an industry –accepted standards model (e.g. ISO 9000) and personal interaction as a way to identify the right partner; and create healthy competition among multiple vendors.

Before outsourcing a business function therefore, management should develop a strategy detailing the organization's outsourcing intentions, the strategic rationale for outsourcing and key issues to be addressed. These may include: Objectives for outsourcing; Relationship of outsourcing to the overall corporate strategy; Strategic forces driving the organization into an outsourcing relationship; Processes to be outsourced; Links between the outsourced processes and the organization's core competencies; Scope of coverage or extent of out-sourcing; Critical factors under consideration; Expected duration of the relationship; and Expected benefits and its limitations

CHAPTER THREE

RESEARCH METHODOLOGY

3.1.0. Research Design

The study adopted the descriptive survey method to determine the nature of outsourcing human resource management services in flower industry. Gay (1983) describes survey as an attempt to collect data from members of a population in order to determine the status of that population with respect to one or more variables.

3.1.1. Population

The population of study consisted of all the 32 flower firms in the country most of which are in Naivasha, but have their headquarters in Nairobi.

3.1.2. Sample

Of the 32 flower companies, 16 are classified as large with over 500 employees' according to Agricultural Employers Association (AEA)

3.1.3. Data collection

The main tool of data collection was a structured questionnaire, which consisted of both open and close-ended questions. Respondents were Human Resources Management practitioners of the Farms (Appendix 3).

3.1.4. Data analysis

Data collected was qualitative in nature. Content analysis was used to analyse the data. This helped to explain how the organizations conduct outsourcing of human resource management services. Frequencies, percentages, proportions were used to establish the number and proportion of flower companies outsourcing human resource activities. Studies by (Sarah 2002), (Kirui, 2003) and (Komen, 2004) used similar techniques.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1.0. Introduction

This chapter presents an analysis and findings of the study. Accordingly it covers general information on characteristics of flower firms in Kenya; nature of outsourcing of human resource management services and the criteria used in selecting service providers.

4.1.1. Demographic Characteristics

A sample of 16 large flower firms was chosen to represent the entire population of large flower farms. However, only 14 responded. This provides 87.5% of the sample and 43.75% of the industry.

Distribution of the respondents is represented in the table below.

Table 1: Farm Staff Numbers

Farm Staff No.	No. of Firms	Responses	Percent (%)	Non-Responses	Percent (%)
< 100	0	0	-	-	-
100 to 200	-	-	-	-	-
Over 500	16	14	87.5	2	12.5
Total	16	14	87.5	2	12.5

From table 1 above, no response was received from both medium and small firms. However, 14 out of the 16 large flower farms targeted responded constituting 87.5%.

4.1.2. Farm Ownership

Out of the Firms that responded to the questionnaire, 42.9% were locally owned, 21.4% were jointly owned while 35.7% were foreign owned. The response is presented in the table 2 below.

Table 2: Farm Ownership

Ownership	Percentage (%)
Local owned	42.9
Foreign owned	35.7
Foreign and local	21.4
Total	100

As shown in the table 2, the flower industry in Kenya is characterized by three (3) types of ownership namely: Locally, foreign and jointly owned. This presents a diverse and useful background against which the research findings can be interpreted. It is apparent that, most of the large flower firms are locally owned since they constitute 42.9% of the total population of the Firms, while the foreign and jointly owned firms, constitute 35.7% and 21.4% respectively.

4.1.3. Outsourcing Practices and Trends in Large flower Firms in Kenya

The findings indicate that most of large flower firms outsource one or more human resources management services. From the results of the respondents, type of ownership and the size of the firms do not seem to affect the decision as to whether or not to outsource Human Resource management services. Thus regardless of the form of ownership, and the size, large flower firms in Kenya outsource at least one human resource management services. This is against the perceived knowledge that outsourcing is foreign and therefore should be a preserve of foreign owned farms.

4.1.4. Nature of Outsourcing of Human Resource Management Services

The respondents indicated that staff training (35.7%), and Human resource information systems (57.1%) are largely, the most outsourced human resource activities, while annual employee compensation (92.9%) and recruitment (92.9%) are least outsourced human resource management services in the sector. This is against the general feeling in the industry that the flower farms undertake a lot of in-house training and have a minimal allocation for external training. The results further confirm that the flower farms like other companies in most industries outsource human resource information system.

4.1.5. Reasons for Outsourcing of Human Resource Management Services

The suggested reasons are ranked in order of: Strongly Disagree; Disagree; Agree; Fairly Agree and Strongly Agree. Responses obtained from the above ranking scale indicates that the need to improve company focus (35.7%) and efficiency (57.1%) are the most cited reasons for outsourcing human resource management services by large flower farms as respondents strongly agreed with these reasons.

Apparently, lack of time (50%), high operational risks (53.33%), lack of in-house expertise (50%) and poor customer service (64.2%) were not recognized as major reasons that influence outsourcing as most respondents strongly dismissed them as having insignificant influence in the process of making decisions to outsource. As a whole, efficiency, focus on core business and leadership styles stand out as major drivers behind outsourcing. Although most people believe that cost cutting and time saving are the most important reasons for outsourcing, the results indicated otherwise, instead it pointed at company focus and efficiency as the principal reasons for outsourcing in flower farms.

4.1.6. Benefits of Outsourcing Human Resource Management Services

The responses presented shows that benefits associated with outsourcing constitutes part of the reasons why firms would want to outsource human resource management services. The percentage indicates proportions of firms that strongly agreed with the statements; Enables firms to focus on core business (42.9%); Reduces administrative costs (64.3%);

Reduces staff numbers (57.1%); Better utilization of internal resources (50%); and Increases customer satisfaction (40%).

From the response reduction in operation risk and poor customer service were not strongly considered as consequential reasons for outsourcing. However, the same came out strongly as benefits of outsourcing. This implies that reasons given for outsourcing may not necessarily translate into benefits accruing. It can be inferred therefore, that outsourcing can result into cost cutting as well as increased customer service.

4.1.7. Risks associated with Outsourcing of Human Resource Services

It is generally thought that outsourcing by large flower firms presents a risk in at least each factor mentioned. From the respondents it is observed that the risks associated with outsourcing of human resource management are present as much as the benefits. Loss of control in decision making (57.1%), Loss of command on outsourced services (50%), loss of employee loyalty (42.9%) were the most prevalently cited risks in relation to outsourcing of human resource management services. Other risks mentioned include; over reliance on external parties (42.9%) and loss of confidentiality (35.7%).

It is evident that disintegration of internal competence and low quality of work are not perceived as major risks associated with outsourcing as opposed to loss of decision making which is strongly supported by 57.1% by the flower companies. This is evidenced by the fact that 7.1% and 35.7% respectively strongly disagreed with the statement that the two are among the risks associated with outsourcing. This confirms the general knowledge that farms do not outsource because fear for lack the skills and competence to do the work, but because they want focus on core areas of the organization and enhance the loyalty of the staff in an organization.

4.1.8. Selection of Human Resource Management Service Providers

The research seeks to find information on criteria used by large flower firms to select service providers. From the respondents it was found that before selecting a service provider, flower firms consider a wide range of attributes. Experience of the service provider (50%), Professionalism (45.7%), cost (42.9%) and contractual terms (35.7%) form part of the key attributes considered. Other important attributes that are considered include: Accessibility (35.7%), Compatibility (28.6%), past performance (28.6%) and flexibility (28.6%), among others.

4.1.9. Satisfaction with Outsourcing

The research further sought to find out the extent of satisfaction with the services outsourced. A summary of the responses indicates that the level of satisfaction varied among different service attributes. The greatest satisfaction was indicated as efficiency (50%). This was followed by quality of service (28.6%), flexibility (21.4%), work performance (14.3%) and effectiveness (14.3%) in that order. This generally confirms the known fact that outsourcing improves efficiency in service delivery.

4.1.10. The Future of Outsourcing of Human Resource Management Services

All respondents agreed that there is possibility of them outsourcing more areas in the future as outsourcing gains root in the business environment. Potential areas of outsourcing in the future that were suggested by the flower farms include: Training, recruitment and job evaluation. Accordingly, considering the fast changing business environment due to information technology, outsourcing will gain immense popularity in the flower industry. From the findings of the study, this is attributed to: Declining profits, Shift in technology, Competition, high cost of labour and very active trade union. Outsourcing is viewed as an alternative to flextime schedules. Outsourcing is also considered a moderate option largely necessitated by automation and globalization.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1.0. CONCLUSIONS

The finding of the study indicates that outsourcing of human resources services is minimally practiced in the flowers farms in Kenya. Outsourcing if well practiced will benefit many flower farms and will be able to reduce their cost consequently higher profit margins. Outsourcing of human resources management services will reduce time spent on non-core business activities hence allow the farms to concentrate on core business. Some of the human Resource management services outsourced include: training, recruitment, job evaluation, among others.

It is observed, however, that flower farms view human resource management services as strategic and critical aspect in mapping out business strategies hence unwillingness to let go of its functions. Besides, the salaries paid to the staff are relatively low and there it is cheaper to manage most of these services in-house. This has slowed down the process of outsourcing and the popularity of the concept in general and specifically in the industry.

Outsourcing as a practice is adopted for various reasons, the most outstanding being the organizations deliberate effort to focus on core business. As organizations focus on core business they concentrate their effort and resources on what it is best at hence achieve considerable efficiency and effectiveness. Although outsourcing presents immense benefits as indicated above, if it is not properly and strategically implemented it may create problems such as loss of employee loyalty, loss of control of outsourced services and loss of confidentiality. It is therefore important to critically evaluate and choose the right vendor who demonstrates attributes such as: professionalism, cost implication, past performance, flexibility, contract terms, capability, among others.

Despite relatively being a new concept, the findings of the study shows that the flower companies are slowly starting to adopt it. This is an indication of immense potential for

its growth and adoption by flower companies. Similarly, the benefits attributed to it present good prospects for the industry.

5.1.2. Recommendations for further Research

In as much as outsourcing has its benefits, there are associated risks. It is imperative that outsourcing of human resource management services be undertaken on well thought out programme and strategy. This will ensure that flower farms gain from benefits attributed to the practice and avoid the obvious pitfalls.

Firms should first conduct a SWOT (strengths, weaknesses, Opportunities and Threats) and cost benefit analysis of the process. Besides, the organizations need to develop clear criteria on the choice of service providers. This will limit problems associated with outsourcing, which often prove counterproductive. Past experience should be a guiding tool. The organization need to enter in to well written contract with the service providers which clearly spells the performance and service level required.

Outsourcing of human resource management services being a relatively new concept, the findings of this study is not fully exhaustive and there is a need to carry out further research on the long term effects of the practice.

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APPENDIX ONE

1. Sher Agencies
2. Oserian Flowers limited
3. Homegrown Kenya Limited
4. Sian roses
5. James Finlay
6. Panda Flowers
7. Karen Roses
8. Magana flowers
9. Zena Roses
10. Penta Flowers
11. Redlands Flower
12. Mt. Elgon Flowers
13. Sophia Roses
14. Ravine roses
15. Winchester Kenya limited

Source; Kenya Flower Council Bulletin 2006

QUESTIONNAIRE

SECTION A

GENERAL INFORMATION (please tick as appropriate).

1. Is your flower company

Purely local owned

Purely foreign owned

Both local and foreign owned.

2. How long has your company been operating in Kenya

1-3 years

3-5 years

5-10 years

Over 10 years

3. What is the size of your company in hectares?

Small company (less than 10 hectares)

Medium –sized company (10-59 ha)

Large company (over 60 ha)

4. What is the size of staff in your flower company?

Less than 100

100-199 employees

200-499 employees

500 and above

5. Does your company have Human Resource department?

Yes

No

6. (a) If answer in question 5 is yes, what is the staff compliment in the department?

(b) If the answer is no, how do you run Human Resource Management activities?

SECTION B

7. To what extent does your company outsource any of the following human resource management activities? (please tick as appropriate)

Not At All	1	Less Extent	2
Moderate Extent	3	Large Extent	4
Very Large Extent	5		

	[1]	[2]	[3]	[4]	[5]
Annual compensation program review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Job evaluation review	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Annual employee total compensation programmes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Human resource information systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Industrial relations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Staff development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Recruitment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Any other (specify)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION C

8. Rate the extent to which you agree or disagree with each of the following statements as a reason for your companies outsourcing of Human Resource services (please tick as appropriate).

5-Strongly Agree 4-Agree 3-Fairly Agree 2- Disagree
1- Strongly Disagree.

	(1)	(2)	(3)	(4)	(5)
Lack of in-house expertise	[]	[]	[]	[]	[]
High administrative costs	[]	[]	[]	[]	[]
To improve company focus	[]	[]	[]	[]	[]
High Operational risk	[]	[]	[]	[]	[]
Lack of time	[]	[]	[]	[]	[]
To improve on efficiency	[]	[]	[]	[]	[]
Poor customer service	[]	[]	[]	[]	[]
Transfer to knowledge & skills to					
Employees	[]	[]	[]	[]	[]
Management style	[]	[]	[]	[]	[]
Leadership style	[]	[]	[]	[]	[]
Organization culture	[]	[]	[]	[]	[]
Past history	[]	[]	[]	[]	[]
Any other reasons (please specify)					
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]

9. What in your opinion are the benefits of outsourcing of Human resources activities in your organization?

	[1]	[2]	[3]	[4]	[5]
Reduces staff number	[]	[]	[]	[]	[]
Eases workload	[]	[]	[]	[]	[]
Enables firms to focus on core business	[]	[]	[]	[]	[]
Reduces administrative costs	[]	[]	[]	[]	[]
Better utilization of internal resources	[]	[]	[]	[]	[]
Accesses world-class capabilities and services	[]	[]	[]	[]	[]
Increased customer satisfaction	[]	[]	[]	[]	[]
Reduces operational risks	[]	[]	[]	[]	[]
Results in cash infusion	[]	[]	[]	[]	[]

Any other reasons (specify)

_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]

10. To what extent do you agree with each of the following statements as risks of outsourcing?

	[1]	[2]	[3]	[4]	[5]
Loss of control in decision-making	[]	[]	[]	[]	[]
Loss of command on outsourced services	[]	[]	[]	[]	[]
Loss of employees' loyalty	[]	[]	[]	[]	[]
Disintegration of internal competence	[]	[]	[]	[]	[]
Limited flexibility	[]	[]	[]	[]	[]
Low quality of work	[]	[]	[]	[]	[]
Loss of confidentiality	[]	[]	[]	[]	[]
Over reliance on external parties	[]	[]	[]	[]	[]

Any other risks? (Please specify)

_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION D

11. To what extent do you use each of the following criteria in selecting a service provider?

- Least Extent **1**
- Less Extent **2**
- Moderate Extent **3**
- Large Extent **4**
- Very Large Extent **5**

	[1]	[2]	[3]	[4]	[5]
Qualifications	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Professionalism	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Competence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Experience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Past Performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Compatibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accessibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contract terms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Any other criteria? (Please specify)

_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. To what extent are you satisfied with the services outsourced in your company using the parameters indicated?

Least Extent	1	Less Extent	2
Moderate Extent	3	Large Extent	4
Very Large Extent	5		

	[1]	[2]	[3]	[4]	[5]
Efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality of service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Work performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Effectiveness	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Based on your past experience and involvement what is the future of outsourcing of human resource services in your company?

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