

**A SURVEY OF THE OUTSOURCING OF HUMAN RESOURCE
MANAGEMENT SERVICES AMONG MANUFACTURING FIRMS
IN NAIROBI**

UNIVERSITY OF NAIROBI
LOWER KUSTE LIBRARY

BY


KAUR TARLOCHAN

**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN
PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTERS OF BUSINESS ADMINISTRATION (MBA),
FACULTY OF COMMERCE, UNIVERSITY OF NAIROBI.**

SEPTEMBER 2001

DECLARATION UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

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



Signed..... Date..... 2.11.2001

Kaur Tarlochan

This research has been submitted for examination with my approval as the University supervisor.



Signed..... Date..... 2.11.2001

Mr. George Omondi
Lecturer, Department of Business Administration
Faculty of Commerce, University of Nairobi

**My soul is an oak tree
Deeply rooted in it's values
Thirsting for Knowledge
Never faltering
Staying strong and firm**

Mathew Schiff

UNIVERSITY OF NAIROBI
LOWER KABETE LIBRARY

DEDICATION

To my dear Parents,

Santokh Singh and Partap Kaur

For being two anchors to my small ship

Which now cannot be rocked

By the strongest of waves

ACKNOWLEDGEMENT

I am deeply indebted to all those people who contributed in their own ways to the successful completion of my project.

I am forever in debt to God for giving me a good life, supportive parents, family and friends. He has been a great Guide and has never failed me. Thank you.

I am profoundly grateful to my Parents for their undying emotional, financial and other support. To my Brothers who themselves sacrificed a lot to make my dream turn into reality. Appreciation also goes to the rest of my family, for encouraging me to set precedence. I could never repay you all only but with prayer.

Great appreciation goes to my supervisor and mentor Mr. George Omondi for his support, ideas and especially his patience all through the project.

Lastly, but not least many thanks go to my lecturers, colleagues and friends especially the 'Dream Team'. With whom we learnt the greatest lesson there is to learn about teamwork. "TWO IS BETTER THAN ONE". Special appreciation also goes to Pam for being a good friend.

ABSTRACT

The Primary objective of this study is to investigate the extent of outsourcing of Human Resource Services in the manufacturing sector for firms based in Nairobi.

Outsourcing here has been studied as a technique whose main objective is to let management concentrate on a firms core business.

To facilitate this study, the population of manufacturing industries in Nairobi was studied.

Respondents giving information on benefits, risks, reasons for or for not outsourcing the selected Human Resource Services through a questionnaire.

The results indicate that 42.2% of manufacturing firms of all sizes. Outsource Human Resource Services.

The main reason for outsourcing being to focus on more strategic initiatives. And that for not outsourcing being that all Human Resource Services are considered strategic.

These results should be interpreted considering that firms of all sizes were sampled but the highest positive responses came from mainly from large companies.

TABLE OF CONTENTS

	Page
CHAPTER ONE: INTRODUCTION	1
1.1 Statement Of The Problem	6
1.2 Objectives Of The Study	8
1.3 Importance Of The Study	9
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Outsourcing of Human Resources	12
2.2 Reasons for Outsourcing	12
2.3 Making the Decision to Outsource	14
2.4 Areas for Outsourcing	17
2.5 Benefits of Outsourcing	19
2.6 Selection of Vendors	24
CHAPTER THREE: RESEARCH METHODOLOGY	28
3.1 Research Design	28
3.2 Study Population	28
3.3 Sample and Sample Design	29

3.4 Data Collection	29
3.5 Data Analysis	30
CHAPTER FOUR: ANALYSIS AND FINDINGS	32
CHAPTER FIVE: CONCLUSION	43
5.1 Summary and Discussion	43
5.2 Recommendation	44
5.3 Limitations	45
5.4 Areas for Further Research	45
Appendix	
• Questionnaire	46
• List of Manufacturing Firms	55
References	56

TABLES

TABLE

NUMBER	DESCRIPTION
2.1	Areas for Outsourcing
3.1	Considerations in the selection of vendors
4.1	Summary of respondents and non-respondents
4.2	Summary of responses by ownership
4.3	Summary of responses by reason for manufacture
4.4	Chi-Square results of observed and expected frequencies based on size
4.5	Chi-Square results of observed and expected frequencies based on ownership
4.6	Human Resources services outsourced
4.7	Reasons for outsourcing Human Resources services
4.8	Benefits of outsourcing Human Resources services
4.9	Difficulties of outsourcing
4.10	Risks of outsourcing
4.11	Attributes considered in the selection of a service provider
4.12	Reasons why manufacturing firms do not outsource

1. INTRODUCTION

Organizations can be regarded as systems. As such, their effectiveness in the process of transforming inputs into outputs is achieved by integrating the various parts of the system within the organization's internal environment and by developing a fit with its external environment, Armstrong (1999).

For a long time now the role of the Human Resources department in almost any organization has been continuously changing and several practitioners as well as academics are trying to bring out the value of this department and for the organization as a whole.

Organizations are seeking more strategies to cope with the highly turbulent business environment surrounding them. Firmbuilder.com (2001)

They are now in a supersonic pace looking at and implementing strategies that call for cost reduction both in the short run and in the long run. These strategies more often than not result in the formulation of policies, which have to be adhered to by all units of the organization, human resources included.

The issue (prevalent in Kenya) of cost cutting then comes up with more force than ever. All departments are then required to devise ways of reducing their annual expenditure as clearly reflected in the yearly budgets. Kinyua (2000). So that the current role of the HR department expands to accommodate the new requirements. In order for the HR

department to cope with these demands it has to devise objectives through whose achievement the unit helps meet in part those of the firm. Organizations and their specific departments have been forced to re-organize their processes.

Re-organization around processes has led many organizations to develop a clearer sense of their own identities. As increasingly leaner organizations identify “what we are best at” and more significantly “what generates profits”, financial and management responsibility for non-core functions becomes less appealing. Byham (2001).

As organizations sharpen their focus on core competencies, a new trend is in the making. Management consultants have raised the battle cry ‘Do only what you do best and outsource the rest’. Byham (2001)

Fortune magazine (2001) mentions that today’s companies face unprecedented pressure from markets that squeeze out inefficiencies and deliver rewards to companies who carry out their essential business more effectively and at a lower cost than anyone else. For this reason, large numbers of companies are turning to third parties to manage their non-core business processes, whether to streamline them, to cut costs, or to free up tightly stretched internal resources for the mission-critical tasks.

PricewaterhouseCoopers (2000), 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.

Similar sources say that these companies have shown a significant improvement over the year 1999, growing their revenues by 23%, compared to 20.4% for non-outsourcers. They add that the future shows an equally positive increase in revenue where a further 1.4% is the expected rise as compared to the 0.5% for the outsourcers and non-outsourcers respectively.

While major service firms preparing to provide human resource services on an outsourced basis include system integrators, payroll firms, financial services firms, accounting firms as well as software vendors. On the increase are temporary firms which will offer other organizations the most radical proposition: **'....you don't want to own employees-just lease them from us and we will take care of all human resources'** Spencer (1995).

A **manufacturing industry** has been defined by the Kenya Institute of Research and Development (KIRDI 1997) as the sector of the economy concerned with the production of goods from raw materials using organized labor and production systems with the aid of machinery.

Dilworth (1992) defines manufacturing as the operations where chemical and physical processes are performed. These include weaving, sewing, welding, grinding, blending, refining or assembling to transform their raw materials into tangible products.

Manufacturing organizations are complex combinations of social and technical features. Contemporary research into the management of these organizations has increasingly emphasized the need to find a 'fit' between the social, technical or technological aspects Delbridge (1997)

A model of contemporary manufacturing 'Best practice' by Delbridge et al (1993) indicates that there are three important items that a manufacturing firm should consider in order to be successful. First, that technical systems must be in place these include just in time quality management systems. Secondly, that should try to increase efficiency and lastly that a firm must have the drive towards improvement and innovation of products.

Outsourcing has been defined in various ways depending on the nature of the service offered. It has however been generally defined as a long term, results-oriented relationship with an external service provider for activities traditionally performed within the company. Outsourcing usually applies to a complete business process. It implies a degree of managerial control and risk on the part of the provider. Firmbuilder.com (2001)

Outsourcing refers to obtaining services from specialist bureaus or other companies rather than employing full time members of staff to provide them. Dictionary of HRM (1997)

Outsourcing could be also seen as a form of divesting a business unit where a company's less- than-stellar processes are contracted instead of wholly getting rid of the same Hammer (1996).

Organizations in Africa and especially in Kenya realize that what these businesses are effectively doing is getting the static out of their operations. By farming out management of operations that are not mission critical, they are better able to concentrate on growth, competition and profitability.

1.1 STATEMENT OF THE PROBLEM

The Kenya Association Manufacturers (98/99) sees the manufacturing sector as one with the potential for being the fastest growing sectors of the economy but note that there has been a decline in this growth over time with 1994 recording 3.9% dropping to 1.9% in 1997.

The challenge has really been for these firms to survive in a volatile environment. The Kenya Association of manufacturers Directory (98/99) emphasizes that the survival of Kenya's manufacturing industry will depend on their ability to create linkages with other major sectors of the economy. Efforts they say have to be made to promote linkages among industries in order to facilitate transfer of technology, skills and enable individual firms realize their economies of scale

Organizations facing similar conditions in USA and Europe have resorted to outsourcing some non-core activities to reduce costs and ensure focus on core activities. These companies outsourced from reputable vendors who offered a high quality service at a lower cost because of their specializations and high economies of scale Huber (1993).

There is a chance that since human resource activities for manufacturing firms are not necessarily core to them, and that manufacturing firms too need to cut down costs and add value to it's activities, then outsourcing would be a suitable way of doing this (create a linkage between manufacturing and other sectors of the economy in Kenya).

A survey conducted in May 2001 in USA by the outsourcing journal, revealed that the total budget for this service in organizations has hit the 'trillion' mark and that the budget for outsourcing has increased 25% (Firmbuilder survey May 2001)

Another survey conducted in USA indicated that 80% of large organizations are considering outsourcing most or all of human resources (Spencer 1995).

Human resource re-engineering is not cutting heads in the HR function according to Spencer (1995), HR rarely represents more than 0.9%-1.0% of a firm's total costs. The entire HR function could be eliminated without significantly improving most firms' cost structure.

Outsourcing of human resource services is seen therefore not only as an alternative in organizations to performing the same function at a cost not recommended as either practical or competitive, but taken as that process which assists in adding value to an organization by virtue of the fact that a company can concentrate on its core business.

There is evidence of the practice in Kenya as witnessed in the local dailies; the search for its existence is therefore unnecessary.

No study has been done in Kenya to find out the extent or the prevalence and the mode of outsourcing of human resource management services among manufacturing firms in Nairobi.

1.2 OBJECTIVES OF THE STUDY

Objectives of this study are:

- To investigate the extent of outsourcing of human resource functions among manufacturers based in Nairobi.
- To determine the reasons why firms outsource or don't outsource human resource services.
- To establish factors considered in selection of an outsourcing service provider (vendor) for those firms that outsource these services.

1.3 IMPORTANCE OF THE STUDY

Through this study local and international firms will be made aware of Human Resource services they can outsource and probably give an insight into the pros and cons of the reception of this services.

Human Resource and other Management consultants should benefit from the study by finding out the specific services sought out by organizations and gauge from the frequency of the responses that will be obtained on various activities know which services to outsource, how frequently and with what intensity.

The findings of this study maybe used by the academic fraternity as a research base on which future researches can be conducted. The results of this study are expected to stimulate interest among academicians and encourage further researches in this young field while at the same time add to the body of knowledge.

2. LITERATURE REVIEW

Outsourcing is said to be an outgrowth of human resources re-engineering which has been defined by Hammer and Champy (1997) as the fundamental re-thinking and radical re-design of an entire business system to achieve dramatic improvements in critical measures of performance (cost, quality, capital, service and speed) to sustain that competitive edge.

McManus (1997) reckons that the fact is whether your company is small, medium or large organizations in 1990's will need to demonstrate all of the following attributes to retain their competitive position:

- Customer focused
- Quality consciousness (potential to be the best in the market)
- Flexible to customer needs
- A willingness to take personnel ownership
- Few formal lines of demarcation between functional units
- Multi-skilled employees
- No bureaucratic managers (there is emphasis on facilitation)

In the process of re-engineering an important concept is to rethink work that is all businesses, products, services and the workflow activities needed to produce them should be re-thought. Concentration is first done to eliminate the non-essential and simplify the essential. In considering the process, Spencer (1995) has several alternatives in the following order: Eliminate, outsource, Automate/re-engineer. Eliminate low value services and activities.

Outsource services and activities that can be provided more cheaply or at a higher quality or both by outside vendors.

Re-engineer or automate activities that are too strategically important to outsource , in-order to cut down costs and improve quality. Outsourcing means doing anything that you can buy more cheaply and or at a higher quality from a vendor Spencer (1995).

Outsourcing relies heavily on the free market concept. External vendors of human resource services are every similar department's natural competitors and a readily available source of competitive cost, cycle time and quality data against which internal human resource services can be measured. When internal services slip beneath the competition on any of these metrics should be outsourced.

All firms should continually perform 'make' versus 'buy' versus 'ally' analysis and buy or ally for services that can be provided cheaper than if made in-house. Do not outsource or ally for a strategic strength or core competence like unique technology, information systems, supplier or customer relationships. Firms he says must retain and strengthen those competencies where they can create unique value and competitive advantage. It is argued that a firm's only competitive advantage is its people.

Company after company has come to the realization that investing in and maintaining large-scale in-house HR departments may not be an economical solution for rapidly growing companies. Instead, they have come to rely upon an outsourcing organization to provide a wealth of intellectual capital without investing in infrastructure
Armstrong(1999)

2.1 OUTSOURCING HUMAN RESOURCES

Some of the more administrative elements of HR have been outsourced for years, including payroll, temporary staffing, benefits and benefit plan design. Recently organizations have considered outsourcing large parts of the training and staffing functions. Byham(2000).

The HR magazine (1995) survey found that 91% of responding HR departments currently outsource one or more functions. About 40% of these organizations outsource less than \$100,000 annually in HR services, but 16% outsource more than \$1 million annually.

The survey also reports that an increasing number of HR professionals will outsource more in the future, many respondents indicating that one or more functions currently performed in-house are on the outsourcing list.

2.2 REASONS FOR OUTSOURCING

Increasingly, HR services that have previously been regarded as a business's responsibility are now routinely being purchased from external suppliers, outsourced.

Armstrong (1999) finds three reasons for outsourcing namely; cost saving, concentration of HR effort and obtaining expertise.

HR costs are reduced because the services are cheaper and the size of the function can be cut back. Members of the function are not diverted from the key tasks that add value and know-how as well as experience that is not available in the firm can be purchased.

According to the Outsourcing Institute, more and more companies are off-loading a variety of non-strategic functions to external service providers-so they can concentrate on more competitive business opportunities

The HR magazine survey (1995) found that the top reasons for outsourcing include:

- To use the expertise of specialists (88%)
- To save time (54%)
- To save money (41%)
- To save administrative costs (38%)
- To focus on more strategic initiatives (30%)
- To eliminate a function which is not part of the core business (26%)
- To re-distribute increased responsibilities (21%)
- To reduce liability (7%)

Contrary to conventional wisdom few indicated that they outsource for reasons related to downsizing.

Armstrong (1999) finds three reasons for outsourcing namely; cost saving, concentration of HR effort and obtaining expertise.

Automatic data processing (ADP) 2001, on their site reckons that outsourcing is a smart management practice that helps in the improvement of on organization business focus and enables it to take advantage of world-class providers.

ADP (2001) continues to point out it's importance that *"..... by leveraging our expertise, you can devote your internal resources and capital funds to profit-driven activities. The benefits of doing so are numerous, including access to instant and*

accurate HR information and access to world-class capabilities and technologies through an outsourcing partner.”

This explains the use of the consultancy firm and reflects the benefits that firms using this service can receive.

2.3 MAKING THE DECISION TO OUTSOURCE

Before an organization decides to outsource all or part of Human Resources, it is essential that the management understand exactly what happens in that function. Though it may take a while to identify all of the activities associated with running a Human Resources department, not to mention what they cost, this information is central to any outsourcing decision. Once these have been identified, the organization can begin to determine which, if any, should be outsourced. Byham (2000)

The decision to outsource is said to originate from a two main factors, technology and competition Armstrong (1999).

Technology

The technology of the business exerts a major influence on the internal environment and how it is organized, managed and carried out.

Armstrong (1999) .The introduction of new technology may result in considerable changes to systems and processes he notes. The availability or the lack of technology in a firm may be the cause to outsource some HR functions. Consider a case where an organization is introducing a new software system into it so as to facilitate the processing

of documents. The HR department would have the responsibility of training the required staff on how to use this newly introduced piece of technology.

Or due to the organization's resource inability the cost of both introducing the software and training the necessary staff is neither appropriate nor in line with the firm's policies. On both occasions the organization would want to look at the existing options. It could either decide to or not to hire out the services of a professional to train its staff especially if cost is a major factor being considered and if the firm has put in place policies on the management of costs.

Competition

Competition is on the increase worldwide. Kenya is increasingly penetrating into the international markets and hence experiencing a great deal of pressure from competition. The need to survive has brought about urgency especially among once monopolistic institutions to cut down costs at all levels of the business and in all units of the same.

Armstrong (1999) explains that on the other hand customers are demanding more as new standards are reached through international competition. As a reaction to this competition organizations are becoming 'customer focused' speeding up response times, emphasizing quality and continuous improvement, accelerating the introduction of new technology, operating more effectively and 'losing cost'. He adds that the pressures for businesses are to be '**lean and mean**', downsize and cut out layers of management and supervision.

Organizations are reducing permanent staff to a core of essential workers and increasing the use of peripheral workers and **outsourcing** work to external service providers, thus reducing costs of employment and enabling the enterprise to easily increase or reduce the numbers available for work in response to fluctuations in the level of business activity.

Ravi Venkatesan (HBR 1992) reckons that a new method for making sourcing decisions consistent with a strategy of survival in highly engineered products follows three simple principles.

1. Focus on those components that are critical to the product and that the company is distinctively good at making.
2. Outsource components where suppliers have a distinct comparative advantage—greater scale, fundamentally lower cost structure, or stronger performance incentives.
3. Use outsourcing as a means of generating employee commitment to improving manufacturing performance.

In their article, Strategic Outsourcing Quinn and Hilmer (1994) feel that by outsourcing and emphasizing a company's core competencies, managers can leverage their firm's skills and resources for increased competitiveness. They continue to suggest ways to determine what those core competencies are and which activities are better performed externally.

They suggest two strategic approaches, when properly combined, allow managers to leverage their company skills and resources way beyond levels available with other strategies:

- Concentrate the firm's own resources on a set of 'core competencies' where it can achieve definable preeminence and provide unique values for customers.
- Strategically outsource other activities- including many traditionally considered integral to any company- for which the firm has neither a critical strategic need nor special capabilities.

2.4 AREAS FOR OUTSOURCING

The main areas for outsourcing as defined by the IPD (1998) are:

1. Training
2. Recruitment
3. Health and safety monitoring device
4. Employee welfare and counseling activities
5. Childcare facilities
6. Payroll management
7. Specialist legal advisory services and
8. Occupational health and fitness services.

Other functions include:

1. Performance appraisal facilitation
2. Retirements Benefits/Pensions Administration
3. Public relations
4. HR information systems (HRIS)

Each of these areas has within it specific activities which can be outsourced. These are shown in the table below:

FIGURE 2.1 Areas for Outsourcing

MAIN AREA	SPECIFIC AREA
Training	Training needs assessment Program designing Actual training/facilitation Evaluation of training
Recruitment	Human resource planning Job analysis information Actual selection
Health and safety monitoring device	Provision of health and safety devices Provision of health services
Employee welfare and counseling activities	Employee personal development Career development
Childcare facilities	Day-care center Child Health Education
Payroll management	Incentive and reward management Benefits administration General salary administration
Specialist legal advisory services	Legal advice Legal representation Employee relations management
Occupational health and fitness services	Provision of health and fitness facilities

2.5 BENEFITS OF OUTSOURCING

In their article, strategic outsourcing, Quinn and Hilmer (1994) show that a company's resources can be leveraged in the following ways:

1. Maximization of returns on internal resources by concentrating investments and energies on what the enterprise does best.
2. Well-developed core competencies provide formidable barriers against present and future competitors that seek to expand into the company's areas of interest, thus facilitating and protecting the strategic advantages of market share.
3. Full utilization of external suppliers' investments, innovations and specialized professional capabilities that would be prohibitively expensive or even impossible to duplicate internally.
4. This joint strategy is said to decrease risks, shorten cycle times, lowers investments and creates better responsiveness to customer needs.

If supplier markets were totally reliable and efficient then rational companies would outsource everything except those special activities in which they could achieve a competitive edge, i.e., their core competences Quinn and Hilmer (1994).

However most supplier markets are imperfect and entail some risks for both buyer and seller with respect to time, quality, price and so on.

Peter Bendor (2001) identifies several advantages and disadvantages of outsourcing in his web article '*The Dirty dozen*' and further proposes preventative measures.

He brings them out as the common mistakes vendors and buyers make while offering or receiving the service. These include:

Ignoring customer's unique needs

There are chances that a customer's unique needs are ignored. So that the services being offered appear to have been generalized among and not specific to an organization's needs. There is a tendency therefore for the provider to forget that all the customer wants is an outsourcing provider who can do the process better than they can-and cheaper than anyone else in the selection process. A buyer should be proactive and have contingency measures should he/she realize that his business needs are not being met.

Ignoring the importance of leverage

The use of leverage is considered important and it is where the supplier creates value for the buyer. Suppliers must structure their transactions to accentuate the value they create through leverage. It is said that suppliers must clearly explain the importance of leverage to their prospects hence giving them the access to resources that are scarce, the ability to substitute cheaper resources for expensive ones, process expertise and access to capital. Organizations can fall into a relationship that does not have or add any value to them and therefore lose more than benefit from outsourcing.

Avoiding accountability

Suppliers have been known to evade responsibility at the crucial moment. This is especially the case when the buyer refuses to make a flexible contract. And if the buyer is left to be accountable for any shortfalls then the outsourcing relationship can and are more often than not destroyed. The mere chance that this is likely to happen brings out yet another disadvantage of outsourcing.

Receiving a substitute team to manage the account.

Bendor notes keenly that “ After the ‘A’ sales team inks the sale and goes on to wooing the next prospect, the vendor sends it’s ‘C’ team to manage the new account.” It has been seen that historically, vendors have rarely invested in their top resources in the management of accounts. He adds that if customers are ignored, they will react with dissatisfaction and disappointment and most probably lead to animosity. So it can be noted that even after reaching upon a decision to outsource and further painstakingly and carefully selecting the vendor whom to obtain the service from, chances are that the service rendered is still below the expected standard. Since such decisions are sealed for a long time, it comes as a disadvantage to the buyer.

Relying too much on executive contact

Once they have decided to outsource, buyers are usually in a hurry to get the deal done. There is little or no involvement of the buyers various elements yet in outsourcing they are divesting a process they currently own which includes the transfer of both assets and

people. Executive contracts not done comprehensively may lead to poor service reception and probably cost even more than was being saved from the process.

Letting the supplier lead the process

‘The essence of outsourcing is that the buyer transfers the process and buys results’ Bendor explains that the quickest way for the buyer-supplier relationship to be destroyed is to dictate how the process is to be done. By definition the supplier should be an expert in the outsourced process and better at it than the buyer. *“When buyers tell their hired suppliers what to do, they are removing the ability of the supplier to add value to the process. And are erasing the supplier’s accountability. Thus resulting in higher costs and lower quality services. All these factors combine to make the relationship bad for both sides”*

Bendor proposes the best way for the buyer to fix the problem as to know exactly what he/she wants before starting the outsourcing negotiation process. The buyer could seek assistance from intermediaries whose main role is to align the interests of the buyer with those of the vendor.

Paying By Problem Resolution

Customers who push to pay their suppliers by problem are taken to be ‘short sighted’. Bendor (2001) reckons that buyers paying only to fix problems are giving the supplier no economic incentive to correct the systemic, underlying causes of those problems. A case of *‘A physician treating the symptoms but ignoring the disease’*. A better

compensation plan is to pay the supplier for specific service, it encourages them to get to the root of the problem.

Interfering with the process

Buyers won't transfer the ownership of the process to their outsourcing suppliers. They want to keep control and tell the supplier how to do things. This gives the vendor no opportunity to enjoy leverage and scale, their main advantages in the relationship.

Too Long A Contract Term

Suppliers are said to prefer long-term contracts because the commitment allows them to invest their own capital in the process. Shorter contracts require amortization periods. Bendor 2001 advises the buyers to develop long-term relationships but sign short term contracts.

Improper governance

The right person for the job should be approached to manage the process, and the assumption that since it has been outsourced the process will be smooth. The best person is one who understands the process and is a businessperson who can focus on the results.

Lack of accountability

Hold the supplier accountable for the areas of responsibility assigned to them but at the same time do not look for ways to punish them. Proper management of the whole process is vital and with everyone doing their job such problems can easily be avoided.

Forgetting the Supplier is A Business Asset

Suppliers should be regarded not as commodity provider but also as a creator of value. Their wealth of knowledge should be used as it may add significant value. In addition to this compensate them adequately for the value they have added by maybe:

- *Helping them win more business in the organization*
- *Helping them win business in the marketplace*
- *Extending their contract*
- *Relaxing a service level that is insignificant to the buyer but costly to them.*

Bendor notes that reinforcing their value encourages them to do more.

2.6 SELECTION OF VENDORS.

The outsourcing market is competitive; suppliers have to compete not only with each other but also with existing in-house services (Large 1999).

Outsourcing entails unique transactional costs searching, contracting, controlling and re-contracting-that at times may exceed the transaction cost of having the activity directly under management's in-house control Quinn & Hilmer (1994).

The key issue in in-sourcing versus outsourcing is whether a company can achieve a maintainable competitive edge by performing an activity internally-usually cheaper, better, in a more timely fashion-or with some unique capability-on a continuing basis Quinn & Hilmer (1994).

For any activity considered for outsourcing, Quinn and Hilmer (1994) suggest answers to three key questions. First, what is the potential for obtaining competitive advantage in this activity, taking account of transaction costs?

Second, what is the potential vulnerability that could arise from market failure if the activity is outsourced? Third, what can we do to alleviate vulnerability by structuring arrangements with suppliers to provide appropriate controls yet provide for necessary flexibilities in demand?

At each point, the question is not then just to make or buy, but how to implement a desired balance between independence and incentives for the supplier versus control and security for the buyer.

Jathanna (1992) gives important considerations in selection of vendor as

1. Going concern of the vendor-the vendor's life should be seen as stable in the future.
2. Particular skills-the vendor should have the particular skills required to perform the activities to be outsourced.
3. Sole Supplier-if the vendor is the sole supplier of a particular skill, firms have to be careful when assessing risks involved in such a situation-they may be attending to our competitors.
4. Size of vendor-a vendor whose staff numbers are small may have strong skills vested in one person leaving the firm vulnerable.

The Outsourcing Institute conducted a survey and came to a conclusion that there are several essential factors in vendor selection. These are summarized in figure 1

FIGURE 2.2 Considerations In The Selection Of Vendors.

RANKING	CONSIDERATION
1	Commitment to quality
2	Price
3	Reputation
4	Flexible contract terms
5	Scope of resources
6	Additional value added capability
7	Existing relationship

Source: James Brian Quinn & Fredrick Hilmer (1994) Sloan Management Review

There are two main approaches used in the selection of vendors; these are namely sole sourcing and procurement through request for proposal.

In sole sourcing, a client firm approaches a vendor and upon negotiation, appoints it to perform a service instead of going out to competitive bidding Young (1999).

Sole sourcing not only eliminates the amount of work involved in sorting out proposals in competitive bidding but also can be done in confidentiality.

Young advises firms to follow the three R's-References, Relationships and Reputations if sole sourcing is to be beneficial.

On the other hand, Request For Proposal (RFP) grasps a traditional approach used in competitive bidding among potential vendors. A RFP is created using no conventional standard and distributed to several service providers or placed in the public information system Campbell (1999).

Service providers give a response, the client firm does an evaluation, shortlists the candidates, visit the vendor's facilities and reference sites and finally make a selection.

This approach has been criticized as very expensive and time-consuming Young (1999)

The client anticipates favorable response from the vendor assuming that he/she understands what the RPF requires.

3. RESEARCH METHODOLOGY

3.1 RESEARCH DESIGN

This was an exploratory research study that aimed at explaining the process of outsourcing as understood and practiced in manufacturing firms in Nairobi. This design is useful in describing the characteristics of companies and determining the frequency of key attributes studied.

3.2 STUDY POPULATION

The population of the study consisted of all manufacturing firms located in Nairobi. There are at least 400 organizations in the manufacturing industry (Central Bureau of Statistics 2001) in Nairobi alone. These organizations are categorized into small, medium and large on the basis shown below.

SIZE OF FIRMS

SIZE CLASS CODE	NUMBER OF EMPLOYEES
A	5 – 19
B	20 – 49
C	50 – 99
D	100 – 199
E	200 – 499
F	Over 500

Source: Kenya directory of Manufacturing Industries, KIRDI, 1997

3.3 SAMPLE AND SAMPLE DESIGN.

A sample of 60 organizations was studied these cutting across all sizes of firms (small, medium and large).

Given that the numbers of organizations varied from category to category, stratified sampling would have been the best method to be employed, however the two extremes of company categories A&F tended to have very small numbers to be surveyed and in addition the firms which fell into categories B, C, D and E had almost similar numbers. An equal number of firms for all categories have therefore been chosen using judgmental sampling.

Where A&B represent small manufacturing firms

C&D represent medium sized manufacturing firms and

E&F represent large manufacturing firms

[A-10, B-10] [C-10, D-10] [E-10, F-10]

Giving the total sample size of 60 manufacturing firms selected from a list given by the Central Bureau of Statistics (2001).

3.4 DATA COLLECTION

This study used primary data, which was collected using a questionnaire having both open and close-ended questions.

Respondents to the questionnaire were the Chief Executive Officer and /or the Human Resources /personnel managers of the companies.

This instrument has been divided into three sections as follows.

A – General information about the organization

B- Information on whether the organizations outsource any of the human resource services as well as reasons for outsourcing or not

C- Information on the specific functions of HR outsourced, vendors of these HR services, questions to reflect whether satisfaction was achieved or not and reasons for dissatisfaction.

Difficulties and risks involved in outsourcing and key attributes of good HR service vendors.

The questionnaires were administered on a **drop and pick later** basis so as to ensure a higher proportion of useful responses and a higher return rate.

3.5 DATA ANALYSIS

Before processing the responses the completed questionnaires were checked for completeness and consistency. The data was then coded to enable the responses to be grouped into categories mentioned.

To summarize the data, the following tools were used:

- Frequencies-mode, median and mean.
- Percentages and proportions.
- Tables
- Graphs / charts

The frequencies, percentages or proportions were used to establish the number and proportion of firms outsourcing human resource services. Tables, graphs and charts have been used to show the main reasons why firms outsource while at the same time bring out in order of importance the factors considered in the selection of an outsourcing service provider.

That factor with the highest tally from the responses given is placed first all the way to that with the lowest tally.

The chi square analysis with the help of the Statistical Package for Social Sciences has been used to further the study to find out whether significant relationships exist between size and ownership versus the outsourcing of human resource services in Nairobi.

4.ANALYSIS AND FINDINGS

This chapter contains analysis and findings of the research study. It is divided into three main sections. First general characteristics of the various manufacturing firms, second findings about firms that do or do not outsource and finally findings on the vendors selected.

4.1 SAMPLE CHARACTERISTICS

Study response

A total of 55 questionnaires were distributed to the firms selected from the list issued by the central bureau of statistics (2001). The other 5 firms had been rendered either closed down or had transferred base from Nairobi to another part of the country. Of these 33 were returned representing a response rate of 60%. This was considered adequate for the purpose of this study.

Manufacturing companies according to the KIRDI Directory (1997) were divided up by size, which in turn is determined by the number of skilled workers. There were either small firms as category A & B, medium firms as category C & D and large firms as category E & F. The highest response came from

TABLE 4.1 Summary Of The Responses And The Non-Responses.

GROUP	No.of companies	Responded	Percent %	Didnot respond	Percent %
A	10	3	9.1	7	26.0
B	10	10	30.3	0	0
C	10	6	18.2	4	14.8
D	10	4	12.1	6	22.2

E	10	4	12.1	6	22.2
F	10	6	18.2	4	14.8
Total		33	100.0	27	100.0

Source: Research data

4.2 OWNERSHIP

The study established ownership pattern of respondent companies. Most of the companies that responded to questionnaires were wholly locally owned (60%), jointly owned companies (21%) followed and the smallest numbers of respondents were foreign owned (19%). Table 2 gives a summary on the type of ownership of the respondent firms.

TABLE 4.2 Summary Of Responses (By Ownership)

OWNERSHIP IN NUMBERS							
GROUP	FOREIGN	%	LOCAL	%	JOINT	%	TOTAL
A	0	0	2	67	1	33	3
B	0	0	7	70	3	30	10
C	1	17	4	67	1	17	6
D	1	25	3	75	0	0	4
E	1	25	3	75	0	0	4
F	2	33	3	50	1	17	6
Total	5	15	22	67	6	18	33

Source: Research data

4.3 REASON FOR MANUFACTURE

Three reasons for manufacture were established as for Export, Local consumption or both. The table below will show the reasons for manufacture as collected from the respondents.

TABLE 4.3 Summary of responses (by reason for manufacture)

GROUP	REASON						TOTAL
	EXPORT	%	LOCAL CONSUMPTION	%	BOTH	%	
A	0	0	0	0	3	100	3
B	1	10	2	20	7	70	10
C	0	0	1	17	5	83	6
D	0	0	1	25	3	75	4
E	0	0	0	0	4	100	4
F	0	0	1	17	5	83	6
Total	1	3	5	15	27	82	33

Source: Research Data

4.4 PRACTICE OF OUTSOURCING

A Chi-square test of independence was carried out to establish whether there exists any relationship between industrial classification and practice of outsourcing.

Ho: There exists no association between size and outsourcing

HA: There exists an association between size and outsourcing

Table 4.4 gives observed and expected frequencies (in brackets). Expected frequencies were determined as product of totals of column and row cells divided by the total observations made.

TABLE 4.4 Chi-square results of observed and expected frequencies (based on size)

GROUP	OUTSOURCE	DO NOT OUTSOURCE	ROW TOTAL
A	(1.3) 0	(1.7) 3	3
B	(4.2) 3	(5.8) 7	10
C	(2.5) 0	(3.5) 6	6
D	(1.7) 1	(2.3) 3	4
E	(1.7) 4	(2.3) 0	4
F	(2.5) 6	(3.5) 0	6
COLUMN TOTAL	14	19	33

Source: Research data

At 2% significance level and with five degrees of freedom, the critical chi-square value is 20.617. The calculated value of 21.5 is more than the critical value; therefore we reject the null hypothesis. The conclusion arrived at is that there **exists** an association between firm size and the practice of outsourcing.

4.5 COMPANY OWNERSHIP

The Chi-square test of independence was carried out seeking to establish if any relationship exists between company ownership and the practice of outsourcing. Two questions regarding this were asked in the questionnaire whereby one sought to find out the general ownership (i.e. foreign, locally or jointly owned) and the other either a Partnership, a private limited or a public limited company.

H₀: There exists no relationship between company ownership and the practice of outsourcing

H_A: There exists a relationship between company ownership and the practice of outsourcing

The table below gives Chi-square results of observed and expected frequencies.

TABLE 4.5 Chi square results of observed and expected frequencies (based on company ownership)

OUTSOURCE?	OWNERSHIP			TOTAL
	FOREIGN	LOCAL	JOINT	
YES	(2.5) 4	(8.9) 9	(2.5) 1	14
NO	(3.5) 2	(12.1) 12	(3.5) 5	19
TOTAL	6	21	6	33

Source: Research Data

At 5% significance level and 2 degrees of freedom, the critical value is 9.837

The calculated value of 3.075 is less than the critical value; therefore we accept the null hypothesis. There **exists no** significant relationship between ownership and outsourcing.

4.6 OUTSOURCING PRACTICE IN MANUFACTURING FIRMS IN NAIROBI

This section captures the main objectives of this study; the extent, reasons for outsourcing or not outsourcing and factors to consider in vendor selection.

The extent of outsourcing in Nairobi

Findings of this study reflect that only 42.42% manufacturing firms of all sizes in Nairobi outsource human resource services. Of these:

- Small firms categorized into groups A & B constituted 21.4%,
- Medium firms in groups C & D firms constitute 7.1% and
- Large firms falling under categories E & F constitute 71.4%

Those firms with relatively low numbers of skilled employees had equally low percentages in terms of those who outsourced human resource services.

Those with large numbers of employees had large percentages in terms of outsourcing of human resource services.

Table 4.3 gave a summary of the result.

4.7 HUMAN RESOURCE SERVICES OUTSOURCED

Of all the manufacturing firms that responded positively to outsourcing any human resource service non outsource either performance appraisal or human resource information systems. Training had the highest percentage of outsourcing followed by the acquisition of specialist legal advisory services as well as the use of health and safety monitoring devices. Next is the retirement benefits /pensions administration. Occupational health and fitness and industrial relations salvaged a smaller percentage than the ones mentioned while recruitment, childcare facilities and payroll management recorded the smallest percentage of all.

TABLE 4.6 Human resource services outsourced

OUTSOURCED SERVICES	YES %	NO %
TRAINING	27.3	72.7
RECRUITMENT	3.0	97.0

HEALTH & SAFETY DEVICES	24.2	75.8
EMPLOYEE WELFARE AND COUNSELLING	6.1	93.9
CHILDCARE FACILITIES	3.0	97.0
PAYROLL MANAGEMENT	3.0	97.0
SPECIALIST LEGAL ADVISORY SERVICES	24.2	75.8
OCCUPATIONAL HEALTH AND FITNESS	6.1	93.9
PERFORMANCE APPRAISAL	0	100
RETIREMENT BENEFITS/PENSION ADMINISTRATION	21.2	78.8
INDUSTRIAL RELATIONS	6.1	93.9
HUMAN RESOURCE INFORMATION SYSTEMS	0	100

4.8 REASONS FOR OUTSOURCING

Question 11 sought to acquire the reasons for outsourcing. These reasons are ranked in order of the most agreeable to the least agreeable on a five point Likert scale (strongly agree, fairly agree, agree, fairly disagree and strongly disagree) and were assigned weights of 1,2,3,4 and 5 respectively. The main reason for outsourcing was established as to focus on more strategic initiatives. Other regarded as averagely important were to eliminate a function not part of the core business and to redistribute increased responsibilities. Other reasons were not rated as very important. Table 8 below gives a summary of reasons why firms outsource human resource services.

TABLE 4.7 Reasons Why Firms Outsource Human Resource Services

REASON	MEAN	RANKING	MODE	RANKING
To use the expertise of specialists	2.64	Agree	3	Agree
To save time	3.18	Agree	3	Agree

To save money	2.91	Agree	3	Agree
To save administrative costs	2.64	Agree	3	Agree
To focus on more strategic initiatives	1.82	Fairly Agree	1	Strongly Agree
To eliminate a function not part of the core business	2.82	Agree	2	Fairly Agree
To eliminate increased responsibility	3.36	Fairly Disagree	2	Fairly Agree
To reduce liability	2.55	Agree	3	Agree

Source: Research data

4.9 BENEFITS OF OUTSOURCING

Question 12 aimed at addressing the benefits accrued to outsourcing. Table 9 below gives a summary of how the benefits were seen to accrue to the firms. Organized also on a 5 point Likert scale the benefits were summarized as follows.

TABLE 4.8 Summary of the benefits of outsourcing.

BENEFITS	MEAN	RANKING	MODE	RANKING
Outsourcing enables firms to focus on core business	2	Fairly Agree	2	Fairly Agree
Outsourcing reduces overall cost	2.27	Fairly Agree	2	Fairly Agree
Outsourcing reduces number of staff	2.18	Fairly Agree	2	Fairly Agree
Outsourcing frees up management to perform other functions	2.09	Fairly Agree	2	Fairly Agree
Outsourcing helps to improve overall efficiency	2.27	Fairly Agree	2	Fairly Agree
Outsourcing reduces activity level	2.55	Agree	3	Agree
Better performance from outsourcing vendor	2.73	Agree	3	Agree

4.10 DIFFICULTIES IN OUTSOURCING

Question 13 was directed towards achieving this objective. It sought to find difficulties encountered by organizations in evaluation of the decision to outsource or not. The most difficult tasks indicated were staff's resistance to change and the cost evaluation between outsourcing and in-sourcing. Drawing a contract and identification of human resource services to outsource were tasks not considered very difficult.

TABLE 4.9 Difficulties in outsourcing

DIFFICULTIES	MEAN	RANKING	MODE	RANKING
Identification of human resource services to outsource was difficult	3.82	Fairly Disagree	4	Fairly Disagree
Staff was resistant to have a change	3.45	Agree	3	Agree
Cost of evaluation on whether to outsource or not was difficult	3.55	Fairly Disagree	3	Agree
Drawing a contract with the vendor was easy	2.82	Agree	3	Agree

Source: Research data

4.11 RISKS OF OUTSOURCING

Question 14 helped to bring out Risks associated with outsourcing.

There is an overall agreement that outsourcing for manufacturing firms poses a risk in at least each factor mentioned below. The highest risk being that of the loss of command on the outsourced service.

TABLE 4.10 Risks of outsourcing

RISK	MEAN	RANKING	MODE	RANKING
There is a loss of control on the decision making process	3.18	Agree	3	Agree
There is loss of command on the outsourced service	3.73	Fairly Disagree	3	Agree
Information leakage occurs from vendor	2.45	Fairly Agree	3	Agree
There is growth of over reliance on external parties	2.36	Fairly agree	3	Agree

Source: Research data

4.12 VENDOR SELECTION

Different attributes are considered in evaluation of vendors. Question 15 brought out the key attributes to be considered. Using a 4-point Likert scale categorizing the attribute as either very important, fairly important, important and not important assigned weights of 1- 4 respectively. Those ranked as very important include commitment, price reputation, ability to have flexible contract terms and also a vendor's additional value added capacities. Those termed as fairly important include existing relationships and the scope of resources a vendor has.

TABLE 4.11 Attributes considered in the selection of a vendor

ATTRIBUTES	MEAN	RANKING	MODE	RANKING
Commitment	1.18	Very Important	1	Very Important
Price	1.55	Fairly Important	1	Very Important
Reputation	1.36	Very Important	1	Very Important
Flexible contract terms	2.0	Fairly Important	1	Very Important
Scope of resources	2.0	Fairly Important	2	Fairly Important

Additional value-added capacities	1.73	Fairly Important	1	Very Important
Existing relationships	1.91	Fairly Important	2	Fairly Important

Source: Research data

4.13 REASONS FOR NOT OUTSOURCING

67% of manufacturing firms do not outsource human resource services. These firms agree that outsourcing is expensive, and that HR services are considered strategic. In addition to this they appreciate the presence of suitable vendors in the market but find outsourcing unnecessary.

They strongly disagree that they are unaware of what outsourcing and it's potential benefits and also disagree that the market lacks a suitable vendor.

TABLE 4.12 Reasons why manufacturing firms do not outsource

REASON	MEAN	RANKING	MODE	RANKING
The firm is unaware of what outsourcing is	4.55	Strongly Disagree	5	Strongly Disagree
The firm is unaware of the potential benefits of outsourcing	4.64	Strongly Disagree	5	Strongly Disagree
Outsourcing is expensive	3.32	Agree	3	Agree
The firm finds outsourcing unnecessary	2.86	Fairly Agree	3	Fairly Agree
The market lacks a suitable vendor	4.14	Fairly Disagree	4	Fairly Disagree
All HR services are considered strategic	2.59	Agree	3	Agree

Source: Research data

5.CONCLUSION

This chapter offers inferences gained from the study and contains four sections.

5.1 SUMMARY AND DISCUSSION

The results of this study indicate that the practice of outsourcing is not a new concept to the manufacturing firms in Nairobi. Firms that do not outsource indicated having general awareness of what the practice is and know it's potential benefits while those outsourcing reflecting the use of the practice by outsourcing some of the human resource services like training, health and safety monitoring, recruitment, pensions administration, industrial relations to name but a few.

However the low percentages recorded for each service outsourced cannot be said to be adequate. A larger proportion of the manufacturing firms do not outsource any human resource service. And the **extent** of outsourcing for human resource services by manufacturing firms on average is said to be low at **33.3%**

From the findings a conclusion that the main reasons for outsourcing (for firms practicing it) are mainly so as:

- To focus on more strategic initiatives,
- To eliminate a function not part of the core business and
- To redistribute increased responsibilities

The main reasons for not outsourcing (for firms not practicing it) amount to the following:

- The firm find outsourcing unnecessary
- Outsourcing is expensive
- All Human Resource services are considered strategic

The main factors considered in the selection of a service vendor include:

- Commitment of the vendor
- Price being offered by vendor or cost of receiving a service
- Reputation of the vendor
- Flexible contract terms offered by the vendor and
- Additional value adding capacities of the vendor

Practice of outsourcing is *dependent* upon the size of the manufacturing firm. On the other hand it is *independent* of the ownership of the manufacturing firms.

5.2 RECOMMENDATIONS

Outsourcing engagements like other contractual agreements are characterized by both risks and rewards. Studies by PwC (barometer surveys.com) and the Outsourcing Institute highlighted major risks of the practice. The poor use of the practice can be attributed to these risks having being perceived by especially manufacturing firms as major or critical to business.

However of importance is the fact that outsourcing looked at in depth is more of a strategic tool which aims at freeing up management time to focus on the company's unique competencies through by concentrating more resources around key strengths.

Firms that do not outsource are recommended to evaluate between the costs of having some functions done by outsiders versus the opportunity cost of management focusing on activities other than what is core.

Those outsourcing on the other hand should be convinced after thorough analysis that they are actually reaping benefits from the service provider. Terms of contract should be re-looked and ways to accommodate flexibility into the contract sought.

The performance level of external service providers should be researched upon in good time, track records should not be ignored. This does not however mean that the young and upcoming service providers (without track records) should not be considered it is known that these firms have an especially creative way of doing things and are better positioned to use up to date technology to beat already existing competition. In addition to this, they have better policies regarding flexibility in their terms and conditions and this will be vital for the manufacturing firms to know.

5.3 LIMITATIONS

The major limitation was time. It restricted the study from being conducted outside Nairobi and also to the service industry within and without Nairobi.

5.4 AREAS FOR FURTHER RESEARCH

This study being the first in the area of human resources management in Kenya, is in it's initial stages and offers a basis through which many other studies can be conducted.

A replicate study can be conducted on manufacturing firms outside Nairobi and/or on firms in the service industry in the country.

A study could also be done on the growth of outsourcing in Kenya. This can be used as a basis of comparison with institutions in other parts of the world.

This study was restricted to a single business process function. It is my recommendation that similar studies be conducted in areas like productions and operations management and sales and marketing.

QUESTIONNAIRE

SECTION A-General Information

- 1) Is your company,
Wholly foreign owned []
Wholly locally owned []
Jointly owned []
- 2) How long has your firm been in Kenya?
.....Years
- 3) What is the size of staff in your firm?
A 5-19 employees []
B 20-49 employees []
C 50-99 employees []
D 100-199 employees []
E 200-499 employees []
F over 500 employees []
- 4) What form of ownership is your firm? (Please tick one)
A sole proprietorship []
Partnership []
Private limited company []
Co-operative society []
Public limited company []
Others please specify.....
- 5) Select the sector in which your firm falls.
Agricultural []
Industrial and Allied []
Finance and Investment []
Commercial and Services []
- 6) Do you manufacture for,
Export []
Local consumption [] or
Both []

SECTION B- Practice of outsourcing human resource activities

7) Does your company outsource any service?

Yes [] No []

Please explain.....
.....
.....

8) Does your company outsource any of the following human resource services?

- | | | |
|--|---------|--------|
| Training | Yes [] | No [] |
| Recruitment | Yes [] | No [] |
| Health and safety monitoring devices | Yes [] | No [] |
| Employee welfare and counseling activities | Yes [] | No [] |
| Childcare facilities | Yes [] | No [] |
| Payroll management | Yes [] | No [] |
| Specialist Legal advisory services | Yes [] | No [] |
| Occupational health and fitness | Yes [] | No [] |
| Performance appraisal | Yes [] | No [] |
| Retirement benefits/pension administration | Yes [] | No [] |
| Industrial relations | Yes [] | No [] |
| Human resource information systems | Yes [] | No [] |

If yes or go to section C, if No, kindly continue with this section.

9) Rank the extent of agreement with the following statements with respect to why you do not outsource.

- SA - Strongly Agree
- FA - Fairly Agree
- A - Agree
- D - Disagree
- FD - Fairly Disagree
- SD - Strongly Disagree

SA FA A FD SD

The firm is unaware of what outsourcing is [] [] [] [] []

The firm is unaware of the potential benefits of outsourcing [] [] [] [] []

Outsourcing is expensive [] [] [] [] []

The firm finds outsourcing unnecessary [] [] [] [] []

The market lacks a suitable vendor [] [] [] [] []

All HR services are considered strategic [] [] [] [] []

Give any other reasons why the firm has decided not to outsource HR services.....

.....
.....
.....
.....

SECTION C- for firms Outsourcing HR Services

10) What HR services have you outsourced and since when?

a) Training

Training needs assessment []

Explain.....

Program design []

Explain.....

Actual training and facilitation []

Explain.....

Evaluation of Training []

Explain.....

Others, please specify.....

.....
.....
.....

b) Recruitment

Human resource planning []

Explain.....

Job analysis information []

Explain.....

Actual selection []

Explain.....

Others, please specify.....

.....

.....

.....

c) Health & Safety monitoring devices

Provision of health and safety devices []

Explain.....

Provision of health services []

Explain.....

Others, please specify.....

.....

.....

.....

d) Employee welfare and counseling activities

Employee personal development []

Explain.....

Career development []

Explain.....

Others, please specify.....

.....

.....

.....

e) Childcare facilities

Day-care center []

Explain.....

Child health []

Explain.....

Education []

Explain.....

Others, please specify.....

.....

.....

.....

f) Payroll management

Incentive and reward management []

Explain.....

Benefits administration []

Explain.....

General salary administration []

Explain.....

Others, please specify.....

.....

.....

.....

g) Specialist Legal advisory services

Legal advise []

Explain.....

Legal representation []

Explain.....

Employee relations management []

Explain.....

Others, please specify.....

.....
.....
.....

h) Occupational health and fitness

Provision of health and fitness facilities []

Explain.....

i) Performance appraisal []

Explain.....

j) Retirement benefits/pension administration []

Explain.....

k) Industrial Relations []

Explain.....

l) Human Resource Information Systems (HRIS) []

Explain.....

Others, please specify.....

.....
.....
.....

11) To what extent do you agree with the following statements as reasons why your company has outsourced some service?

- SA - Strongly Agree
- FA - Fairly Agree
- A - Agree
- D - Disagree
- FD - Fairly Disagree
- SD - Strongly Disagree

	SA	FA	A	FD	SD
To use the expertise of specialists	[]	[]	[]	[]	[]

- To save time
- To save money
- To save administrative costs
- To focus on more strategic initiatives
- To eliminate a function not part of the core business
- To redistribute increased responsibilities
- To reduce liability

Other reasons.....

12) Which of the following benefits accrue to your firm from outsourcing?

- | | SA | FA | A | FD | SD |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Outsourcing enables firms to focus on core business | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Outsourcing reduces overall cost | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Outsourcing reduces number of staff | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Outsourcing frees up management to perform other functions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Outsourcing helps improve overall efficiency | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Outsourcing reduces activity level | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Better performance of outsourcing vendor | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Others, please specify.....

13) Indicate the extent to which each of the following influences your decision to outsource or not to outsource.

SA FA A FD SD

Identification of human resource services

to outsource was difficult

Staff was resistant to have a change

Cost of evaluation on whether to outsource or not was difficult

Drawing contract with vendor was easy

Others, please specify.....

14) To what extent do you agree with each of the following as risks of outsourcing?

	SA	FA	A	FD	SD
There is a loss of control on the decision making process	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is loss of command on the outsourced service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information leakage occurs from vendor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
There is growth of over reliance on external parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

15) Rate the importance of each of the following attributes in selection of outsourcing vendor.

Very Important	VI			
Fairly Important	FI			
Important	I			
Not Important	NI			
	VI	FI	I	NI
Commitment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexible contract terms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Scope of resources

Additional value added

Capacities

Existing relationships

Other important attributes, please specify

.....

.....

.....

16) Is the vendor selected,

A local firm

An international firm

Government owned

Former employees

Others, please specify.....

.....

.....

.....

17) Please provide any other information you consider relevant to this study.

.....

.....

.....

.....

.....

.....

18) Would you wish to have a copy of the findings?

Yes No

THANK YOU FOR THE TIME AND CO-OPERATION

LIST OF MANUFACTURING FIRMS

Name Of Firm

Afri International
African Highland Produce
Africana Mnfrs
Ajay Garments Ltd
Anffi Ltd
Associated Stell Ltd
Avon Rubber Co.
Aziz Din Nabi Bux
Beta Healthcare International
Bizari Industries
Brother Shirts Factory
C. Dormans Ltd
C.P.C (K) Ltd
C.P.C. Industrial Prod.
Car & General Automotives
Carbacid (CO2) Ltd
Carbon Brushes
Central Glass Works
Chai Ltd
Charger Engineers
City Engineering Works
Concrete pipes and Products
Cosmic Megaplast
Cosmos Ltd
Datini Mercantile
Denamal Garments Fact.
Diamond Concrete
Dogra Engineering
E.A. Spectre Ltd
East Africa Paper bag Manufact (closed)
Eldema (K) Ltd
Ellam products
Elliot's Bakery
Elsons Plastic (K) ltd
Ely's Chem. Industries
Emco Steel Works (K) Ltd
Empire Match Co
Euromica Ltd
Evangel Publishing

Name Of Firm

Elgeyo Saw Mill
Autoparts E.A. Ltd
Orbit Chem. Industries
Twiga Chem. Industries
Stainless Steel Products
Warren Eng.
Silentnight (K) Ltd
Kenya Industries Plastics
Virani Curry Powder
Delta Radiators Ltd
Kenchic Ltd
Jagat Singh & Sons Ltd
Hymel Meters
Pan African Enterprises
National concrete
Farmers Choice
Jamnadas Ramji & Co. (closed)
B.D.F (E.A) Ltd
Crescent Investments
Malva Furniture House
Banbros Ltd
Regal Pharmaceuticals (Nrb)
Henkel (K) Ltd
Brollo Eng. Fabs
Reckitt & Colman
Universal Garments Factory
Cussons & company
Ezzi Vinyl Products
Brush Manufact Ltd
Kenya Paperbags MNFRS
Coats Bross (EA) Ltd
Mwea Rice Mills
Cosmos Plastics
Afri Packagings
Ceramic Manufacturers
Kenya Uniforms Ltd
Basco Paints co.
Labh Singh Harnam Singh
Treadsetters Ltd

UNIVERSITY OF NAIROBI
LIBRARY

Firestone (E.A) Ltd
Fulchand manek & Bros
Furniture International
General Motors
General Plastics
Glazo Wellcome (K) ltd
Gopitex Knitwear Mills
Haco Industries (K) Ltd
Haria Cash Stores
Harries LG & co.
Hartz & Bell
Hira Industries
Intern Flavours Ltd
Interproducts
Intersilk Garments
J. D. Sharma & Sons
Jaydee Knitting Factory
Johnson & Johnson
Johnsons Wax (EA) Ltd
K.C.C.
K.P.C.U
Kamco Eng. Works
Karibu Timber
Karirana Estate Ltd
Kartasi Industries
Kenpoly Manufacturers
Kenya canvas Ltd
Kenya Engineering Ind.
Kenya Litho
Kenya Sunshine Produce
Kenya Tents Ltd
Kenya Tread Ltd
Kerbrook Garments MNFRS
Khetshi Dharamshi
Labchem Ltd
Laoratory & Allied Ltd
Leather Industries of Kenya
Life Clothing Factory
London Distillers (K) Ltd
M/S Patco Industires
Madhu Paper Ltd
Malva Furniture
Mamson Hart (K) Ltd
Manchester Outfitters
Mann Manufacturers
Mareba Enterprises

Phillips E. Lamps
Nestle foods (K) Ltd
E.A. Leather Fact.
B.A.T (K) Ltd
Eastern Rift Saw Mill
Colas (EA) Ltd
B.O.C (K) ltd
Khimji Clothwear
Didy Pharmaceuticals
Teita Estate (1972) Ltd
Crown Berger Paints
Coca Cola (A) ltd
Combined Industries Ltd
Abdul Quaid Framers
Shah Timber Marts
Nairobi Flour Mills
Kappa Oil Refineries
Kehar Singh & Co Ltd
East Africa Portland Cement
International Distillers
Kenya Trout & Salmoa Files
Sadolin Paints Co.
The Kenya Times
Sotik Highland Tea Estate
Maridadi Fabrics
Colgate Palmolive
Sunflag Spinning Mills
Bachelors Bakery Ltd
Mini Bakeries
Kenya Breweries
Clay Works Ltd
Wire Products
Burns and Blane Eng.
Premium Drums
General Printers
Ital products
Impala Glass Industries
R. H. Devani Ltd
Galaxy Paints Co.
Afro Press Ltd
Afro Plastics Ltd
Bonar (EA) Ltd
Wyco Paints
Colour Printers
Smithkline Beecham Ltd
Kenya Sweets Ltd

Marshal Fowler Eng.
Mecol Ltd
Metroxide (A) Ltd
Midco Textiles (EA) Ltd
Mrao Ltd
Nairobi Home Bakeries
Nairobi Trousers & Shirts
Nanak Body Builders
Nightrose Cosmetics
Nova Chemicals
Orbitsports Ltd
Oven Door Bakeries
Packaging Africa Ltd
Paper Converters Ltd
Pelican Signs Ltd
Pigeon Slide
Pleated Industries
Polythene Industries
Prudential Printers
Refractories Ltd
Regal Printers
Ritz Enterprises
Rolmill (K) Ltd
Rose Brothers Wholesalers
Rubani Eng. Works
Rubber Products
San Pack Ltd
Santowels Ltd
Shamco Industries Ltd
Shanty Perfumery
Signode Packaging Systems Ltd
Silentflow Exh. Manu.
Sing Retread Ltd
Slabs Systems Ltd
Solai Mawa Factory
Standard Ltd
Steel Africa Ltd
Steel woll (A) Ltd
Super Body Works
Synresins Ltd
Tarpo Industries Ltd
The Paper House
Tigra-Knit
Timsales Ltd
Tobina Ltd
Troika Ltd

House of Manji
Rhone Poulenc (K) Ltd
United Chemical Industry
E.A. Packaging Industries
Ganjivani Screw & Fasteners
D.L. Patel Press
Kenya Nat. Fed of co-op
Jambo Manufacturers
Fine Spinners Ltd
Canvas MNFRS Ltd
Dipco Garments
Ken Westfal Works Ltd
Taws Ltd
Werrot & Co.
Insteel Ltd
Bhupco Textile Mills
Sarco Co.
Galsheet (K) Ltd
Hari Singh & co
Ajit Clothing Factory
Plastic & Rubber Industries
Economic Housing Group
Indo Singh Gill
Elephant Soap Factory
T.S.S. Spinning & Weaving
Jambo Biscuits (K) Ltd
Jackaria Packers
Rasco Food Products
Optical Manufacturers
Paper Bags Ltd
Cadbury Schweppes
Fine Wood Works
E.A. Optical Co.
Chandaria Industries
Eveready (K) Ltd
Tee Pee Industries
Kiwi Brands Ltd
Premier Flour Mills
Harman Singh & Bros
Seracoatings (EA) Ltd
Associated Battery manufacturers
Brother Knitwear Factory
Mastermind Tobacco (K) Ltd
Mughal Eng
Allied Electronics
Setlact Manufat.

Troxex Garments MNFRS
Twiga Stationers & Printers
Umoja Manufacturers
Unga Feeds Ltd
Unga Ltd
Uniplastics
Uzuri Manfrs. Ltd
Vacuulug Tyre
Vajas Manufacts
Virji Vishram Patel and Sons
Vitafoam Products
Wambari Saw Mill
Wananchi Clothing
Westlands Baker
Wriggley (E.A) Ltd

Aurora Baking Co. Ltd
H. Young Ltd
Booth Manufacturers
Athi River Mining
Trufoods
Venepro Ltd
Premchand Mepa & co. Ltd
Project Furniture Ltd
E.A. Cables
Dawa Pharmaceuticals (Nrb)
Nation Printers
Nairobi Bottlers Ltd
Wood Cham
E.A. Metal Works
Long Horn (K) Ltd

**Freedom, define it for me if you can;
Is it just a word or does it have a plan?
Freedom, can you define it, can you tell me what it is?
Does it begin in the soul, in the heart or in the mind of men?
No, freedom is for everyone if they choose it to be
For no one is enslaved when in his mind he is free.**

Deborah Ann Coleman

REFERENCES

Armstrong (1999) **Human Resources Management** 7th Edition.

Kogan Page US Ltd. Dover, USA

Automatic Data Processing ADP (2001) In Kinyua 2000. An MBA Thesis

Barometer Surveys (2000) www.barometersurveys.com

Byham William (2000) '**The Outsourcing Question**' www.ddiworld.com

Campbell, S.J (1999) '**The Outsourcing RFP Process- We need a Change**'

www.outsourcingacademics.com

Central Bureau of Statistics (2001). Industry Division, Manufacturing Section. **List of Manufacturing Firms in Nairobi.**

Delbridge et al (1997) **Life on the line in contemporary Manufacturing. The workplace experience of lean production and the Japanese model.** Oxford University Press UK.

Firmbuilder Survey(2001) www.firmbuilder.com.

Hammer M. (1996) **Beyond re-engineering**. Harper Collins publishers London pp 204

Huber, R.L. (1993) **'How Continental bank Outsourced it's Crown Jewels'**

Harvard Business Review .January-February.

Human Resource Magazine (December,1995) pp 75 – 79 in www.ddiworld.com

Institute of Personnel Development Journal (1998) in www.ddiworld.com

Ivanovic I.A (1997) **Dictionary of Human Resources and Personnel Management**

Second Edition. Peter Collin Publishing Company

Quinn, J B and Hilmer, F (1994) **'Strategic Outsourcing'** Sloan Management Review

pp391-408

Jathanna, V (March 1992) **'Outsourcing'** Certified Management Accountant Magazine

in Kinyua (2000)

Kenya Association of Manufacturers (KAM Members) Directory Volume 98/99 pp 7-9

Kinyua (2000) **A Survey on Outsourcing of Selected Financial Activities by publicly**

Quoted companies in Kenya. MBA Thesis

Kenyan Manufacturer's Directory (1997) KIRDI

Large, J. (1999) '**Outsourcing : a new way to do business**' The Outsourcing Journal.

Pearce, J.A. and Robinson, R.B.(1997) **Strategic Management: Formulation, implementation and Control** 6th Edition

Peter Bendor (2001) '**The Dirty Dozen**' www.outsourcing-journal.com

Prahalad and Hamel (1990) '**The core competence of the corporation**'

Harvard Business Review. May-June

PriceWaterhouseCoopers(2000) '**Companies that Outsource grow faster, larger, and more profitably than non-outsourcers, Price Waterhouse Coopers finds...**'

www.barometersurveys.com

Ravi Venktesan (1992) '**Strategic Outsourcing: To make or not to make**'

Harvard Business Review. November-December

Spencer L. M. (1995) **Re-engineering Human Resources.**

John Wiley & Sons Inc. U.K pp 25, 82

Young K (1999) '**Sole Outsourcing can add value to Outsourcing**'

www.outsourcingacademics.com