

**HUMAN RESOURCE OUTSOURCING PRACTICES AMONG  
INTERNATIONAL NON-GOVERNMENTAL ORGANIZATIONS IN  
NAIROBI**

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**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL  
FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION (MBA) SCHOOL OF  
BUSINESS, UNIVERSITY OF NAIROBI**

**NOVEMBER 2010**

## DECLARATION

This research project is my original work and has not been submitted for another degree qualification for this or any other University or Institution of Learning.

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## **ACKNOWLEDGMENT**

I wish to acknowledge my sincere gratitude and appreciation to the many individuals who cannot all be mentioned here, and who in one way or the other contributed the successful completion of this project

I am particularly grateful to my Supervisor, Florence Muindi, for her guidance and commitment throughout the project development.

My sincere gratitude also goes to Nicholas for his invaluable support and guidance during the final stages of the project.

Above all, I give thanks to the Almighty God, who made it all possible.

## **DEDICATION**

I wish to dedicate this project to my parents for instilling in me the value of continuous education and to my family for their encouragement and support. A very special dedication goes to Matt, for being such a pillar of joy and strength.

## **ABSTRACT**

Human Resource outsourcing is a term used more frequently as increasing numbers of organizations are exploring this as a potential option for some of their practices. It is an accepted management tool that challenges management to build a more flexible organization centered on the core competencies of the business. It involves the delegation of one or more human resource practice(s) to an external provider, who then owns, manages and administers the selected practices based on defined and measurable performance metric. Human Resource outsourcing has grown rapidly in the recent years with most organizations outsourcing major parts of their back office transactional services attributed to tougher competition and tighter margins.

The objective of this research was to study the human resource outsourcing practices among international non governmental organizations based in Nairobi. All the seventy international non-governmental organizations were the targeted population. The research design used was the census description survey and data was collected from sixty of these organizations which represented eight five per cent of the population. The respondents were comprised mostly of qualified human resource professionals with experience in various human resource practices. Questionnaires using semi structured questions were used to collect data. Primary data collected from the respondents was supplemented by secondary data from journals, magazines and supplements and analyzed using descriptive statistics such as frequencies, mean scores, standard deviations and percentages. The findings were presented in form of tables.

The study found that, human resource outsourcing is happening in human resource practices like employee/benefits administration, recruiting, training and development; payroll

administration/processing, contracts management, staff development and to a limited extent relocation services. Benefits administration was ranked the most outsourced practice followed by recruiting and training & development. Contract employee management and Staff development were also considered important. Practices that were rated low were human resource information system considered part of the internal information technology unit and relocation services attributed to the presence of larger percentage of local staff within the organizations.

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# CHAPTER 1: INTRODUCTION

## 1.1 Background

Reviews of business processes have led many organizations to decide that it makes business sense to sub-contract some or all non-core activities to specialist providers. Human Resource, as a non-profit centre, is an obvious candidate for outsourcing according to an article appearing in *Personnel Today* (2008). The growth in outsourcing human resource functions has taken organizations all over the world by storm and human resource management has reached a critical crossroads. A sea of change is taking place in the delivery of Human Resource services. Most organizations outsource major parts of their back office transactional services (Human Resources Association 2004). According to a recent study by global outsourcing and consulting firm (Hewitt Associates 2005), human resources is the second most frequently outsourced function, second only to information technology. And in 2007 in a survey on outsourcing, the same organization reported that organizations are ripe for human resources outsourcing as they increasingly seek standardization as part of a re-emphasis on strategic business initiatives. This survey of nearly 100 large organizations in United States representing two million employees found that the human resources pressures currently facing human resources executives are attracting, retaining and growing talent (67 percent); to being able to better support the business by focusing human resources on core capabilities (47 percent) and supporting business changes (41 percent).

In recent years, tougher competition and tighter margins have pushed organizations of all sizes to consider the strategic implications of divesting more and more business functions. As organizations seek to enhance their competitive positions in an increasingly global market place, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core business (Sinderman, 1995). The human resource function has grown from the traditional hire and fire role to a strategic partner at the table with finance, operations and other business centers that are not centers of profit for the organization. Increasingly, human resource services, which previously have been regarded as an organization's own responsibility to manage, are now routinely being purchased from external suppliers. Top management is faced with a challenge: 'Prove it can't be contracted' (Armstrong, 1999).

### **1.1.1 Outsourcing**

Outsourcing is generally viewed as ‘the delegation of one or more business processes to an external provider, who then owns, manages and administers the selected processes based on defined and measurable performance metric’ (Towers, 2005). Greer et al., (1996) refers to outsourcing as the performance, by outside parties on a recurring basis, of human resources tasks that would otherwise be performed in-house. Thus outsourcing is a contracting transaction through which one company purchases services from another while keeping ownership and ultimate responsibility for the underlying processes. The clients inform their provider what they want and how they want the work performed. So the client can authorize the provider to operate as well as redesign basic processes in order to ensure even greater cost and efficiency benefits (Turner & Crawford, 1992).

Although the above definition of outsourcing may seem very similar to contracting, it is to be said that contracting and outsourcing are in no way related. Generally in contracting the ownership or control of the operation or process being contracted is with the parent company, whereas in outsourcing the control of the process is with the third party instead of the parent company. In other words, outsourcing can be defined as phenomena in which a company delegates a part of its in-house operations to a third party with the third party gaining full control over that operation/process (Chartered Institute of Personnel Development, 2005).

Jathanna (1992) notes that outsourcing can be viewed as just a name for already existing practices. Services such as, bureau services, contract programming and project management have been outsourced for a long time. In its present meaning, however, outsourcing refers to a greater level of handing over ownership and/or managerial control than has before been the case. Alder (2003) sees outsourcing as a term that is being used more frequently as increasing number of organizations are exploring this as a potential delivery option for some of their activities. It is gaining momentum all over the world and is already a fixture of modern global business practice in both the private and public sectors. Serem (2003) notes that in Kenya, many studies done have shown that many private organizations are gradually adopting outsourcing as one of their cost-cutting measures.

As organizations redirect valuable internal skills and capabilities to high value adding activities, the outsourcing debate has moved from whether to outsource, to what and how to

outsource (Venkatraman, 1997). To become truly competitive, corporations have been through human resources downsizing, rightsizing, restructuring and re-engineering. Many of them are working towards the concept of dealing with the core or strategic activities, surrounded by a network of smaller companies and individuals (associates) providing a range of supporting ancillary services on a contracted basis (Daniels, 1998).

### **1.1.2 Human Resource Outsourcing**

Barney (1995) describes human resources outsourcing as entailing the application of different business models and techniques to new forms of activities or processes and radically redesigning them to create outputs of value for end users as customers or employees. Simply put, it is the transfer of ongoing human resources services to an external service provider. Greer et al., (1996) notes that companies turn to resources outside their organizational structure usually to save money and/or make use of the skilled professionals. For instance, a company might outsource its information technology management because it is cheaper to contract a third-party to do so than it would be to build its own in-house information technology management team. Or a company could outsource all of its data storage needs because it is easier and cheaper than buying and maintaining its own data storage devices. A business might also outsource its human resource tasks to another enterprise instead of having its own dedicated human resources staff.

The Corporate Research Forum (2006) views human resources outsourcing as a strategic tool aimed primarily at Chief Executives, Senior Managers and Human Resource practitioners. Though organizations may have different strategies and performance models, all will relate in some way to human resources outsourcing. These can involve capability for an organization where there is a need to either improve or acquire human resources capability; scale providing for large organizations with 50,000 or more employees well-delivered human resources administration and services and thirdly to justify the return on investment and technology for most organizations where technology can be acquired and leveraged through human resources shared services or outsourcing. The report states that human resources outsourcing providers use four main selling points that is, increased efficiency of human resources with estimated cost of savings of up to 50 percent; increased effectiveness of human resources through operational improvements; improved strategic focus from human

resources to business goals and the role of human resources outsourcing in transforming the performance of human resources and the business. While many human resources outsourcing users can point to improvements in the first two points, evidence is lacking for the impacts on strategic focus and business performance. This is a major problem for the Human resources outsourcing industry (The Corporate Research Forum, 2006).

Dessler (2003) in a survey on outsourcing reports that about 71% of respondents said they were outsourcing one or more human resources such as temporary staffing, recruiting, benefits and administration payroll and training. Turner & Crawford (1992) explain that within the context of human resources outsourcing, the specific processes that are included within any outsourcing arrangement will vary from organization to organization. Some organizations may outsource virtually all of their human resources processes while others select specific components such as payroll or resourcing. The most common component to be outsourced is payroll. The Workplace Employee Relations Survey (2004) suggested that outsourcing is often specific to certain activities and limited in extent – training, payroll, staffing and resourcing of temporary positions were most commonly outsourced. However, since this data was produced, there has been an increased interest in the use of outsourcing. Indeed high performing organizations seem to use a combination of outsourcing and in-sourcing as a way of trying to outpace the market. One area that has seen an increased focus in recent years is around the outsourcing of recruitment related activities (Institute of Personnel Association, 2004).

### **1.1.3 International Non-Governmental Organizations in Nairobi**

A Non-Governmental Organization is “a private voluntary grouping of individuals or associations not operated for profit or other commercial purposes but which have organized themselves nationally or internationally for the benefit of the public at large and promotion of social welfare, development, charity or research in the areas inclusive of, but not restricted to health, relief, agriculture, education, industry and supply of amenities & services” (Vincent Bowman & Silvio Brunner, 2007).

In Kenya there are over 600 non-governmental organizations located within Nairobi. Non – governmental organizations Coordination Board Register (2009). The different types of non

–governmental organizations include those which are religion based, Pan-African, National, local and International, all differentiated by the nature of activities that they undertake. Out of these, over 70 are classified as international non-governmental organizations based in Nairobi. The Non-Governmental Organizations Coordination Board is charged with the responsibility of streamlining the registration and coordination of non-governmental organizations. The Board was formed as a result of the recognition of the important role non-governmental organizations were playing in the overall development of the country. As a developing country, Kenya receives large amounts of foreign assistance, most of which is distributed through non-governmental organizations. Many of these non-governmental organizations have offices in Nairobi (<http://www.ngobureau.or.ke>).

Since International Non-Governmental Organizations are so varied in size and composition and operate in different issue areas, it is difficult to summarize their features in a few words, but in summary these features may include membership composition which includes individuals, national organizations, governmental agencies, and international regional groupings of organizations or any mixture of these. Second feature involves their activities whereby most international secretariats have little regulatory power, so the coordination usually takes the form of suggestions, exchange of information and views, and bargaining during organizational meetings (International Peace Research Institute, Oslo, 1975).

## **1.2 Statement of Problem**

Human resources outsourcing as an organizational strategy has increased substantially over the last decade. However the trend has attracted little academic attention regarding how outsourcing decisions are made, the manner in which these decisions are implemented, how outsourcing effectiveness is measured, and its impact on organizational performance. (Willey Periodicals Inc, 2005). The Society for Human Resources Management (2004) in a Human resources outsourcing survey found that in some cases human resource outsourcing led to a decrease in customer relationship, a less personal relationship with employees, and a decrease in employee morale. This information seems to indicate that a good understanding of the factors that drive human resources outsourcing and a good understanding of the expected outcomes is necessary to ensure that organizations fulfill their human resources functions in a manner that allows them to remain competitive in their respective industries.

Despite the increase in human resources outsourcing activity, to date, the empirical studies on outsourcing of human resources functions focus on the impact of organizational characteristics (Klass, McClendon & Gainey, 1999), the relationship between human resources department size and outsourcing activity and the rationale and consequences of human resources outsourcing (Greer, Youngblood & Gray, 1999; Lever, 1997). The question concerning when to outsource human resources practices based on internal and external forces driving the organization to consider outsourcing, however, has not been addressed.

International Non-Governmental Organizations operate around an activity/ies, whether they are business orientated, religiously motivated or funding local institutions to advocate for social issues, or sometimes implementing the projects themselves. In time, with success in the activity/ies and reputation established, the International non governmental organizations develops several projects, sometimes handled separately, and sometimes clustered into programmes. The pursuit of these projects and programmes are largely conducted through funds received from donors of one kind or another. The funding is typically allotted for a specific project. Herein lies the challenge for human resources. A project, by definition, has a beginning and an end. Staff appointments are therefore projectbased, contractual, and for specified periods. It is a purely informal understanding that a person has a place in the organization as 'a member of the family'. With such a heavy dependence on project funding, investment in human resources poses a challenge. These organizations are challenged with the need to create and maintain human resource training and support systems that are good or suitable for the countries where they work. They need to engage in hiring practices that ensure long term system sustainability. They are therefore faced with the challenge of how they can offer long-term employment with career paths to its staff, accepting the risk of projects not coming its way in the volumes desired (Prahalad et al., 1996).

A study by Chanzu (2002), found out that among private manufacturing companies in Nairobi, "Human Resource most outsourced service was in Administration of medical services with a rate of 87.5%, followed by Training 82.9%, and then Administration of retirement plans with 74.4%. The issue of which factors contribute to this trend does not feature. Nyarandi (2002) reports in a survey of implementation of outsourcing in private hospitals in Nairobi that studies that have been carried out in the past in Kenya focused mainly on the Commercial industry and no substantive work has been done in other industries. He goes further to report that most of the literature available on human resource

outsourcing is mainly from the developed countries. There is need therefore to have more research work in this area.

Serem (2002) in a survey of outsourcing of human resource services by banks in Nairobi states that is an evolving market in Kenya and more studies need to be carried out to establish its limitations and benefits as a strategic tool. Kanyi (2008) studied factors influencing human resource outsources decisions in Government Technical Training Institutions and noted that at least 67% of the Training Institutions in Nairobi practice human resource outsourcing to a moderate extent. Kinyuah (2000) asserts that outsourcing activities like other contractual activities are characterized with risks and rewards. To be successful, a company should have a portfolio of competencies rather than a portfolio of business. Companies need to conduct careful analysis before engaging in outsourcing. In Kenya, the practice has increased steadily over the years.

No study has been done in the area of human resources outsourcing among International non governmental organizations in Nairobi, hence my interest to investigate the practices as used in these organizations.

### **1.3 Objective the Study**

The objective of this study is to establish the human resources outsourcing practices among International Non-Governmental organizations in Nairobi.

### **1.4 Importance of the Study**

There is sufficient evidence to claim that human resources policies and practices do affect company performance. There is need therefore to understand better the process which link human resources practices to business performance.

The results of this study will directly benefit the following among others:

International Non Governmental Organizations – the study will avail pertinent information on Human Resource Outsourcing as a strategic tool as well as its benefits and limitations. The study will also provide additional information on whether Human Resources Outsourcing can



be applied by international non governmental organizations to aid them in making decisions that will increase efficiency and reduce their costs, hence improve their operations. The study will also provide data for comparative analysis on human resources activities that are widely outsourced and the factors contributing to the trend.

Management Consultants – This study will provide additional information for sharpening their expertise for their services in future and assist them in providing international non governmental organizations with improved focus on core business strategies for better performance. This information will enable them to evaluate and improve their competitive advantage in providing services to organizations/clients. Human Resource Practitioners in different sectors will benefit when they need to evaluate the possible human resources services for outsourcing and assessing suitability of service providers.

Researchers and Educators – it is expected that this study will generate more debate on the role of outsourcing and the future role of Human Resource practitioners as professionals. It is intended that this study stimulates lasting interest among academicians and encourage further research in the dynamic area of Human Resource Outsourcing. The study is intended to also add to the existing body of knowledge on outsourcing of human resource activities within the non-governmental Organizations sector.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 General Outsourcing Practices**

As part of the process of progressing up the value chain, organizations are striving to reduce costs and improve efficiency and thereby utilize a variety of arrangements. Success, defined by the ability to connect quickly and meaningfully with business partners and customers in order to rapidly improve the quality of goods and services, is becoming the competitive imperative. Consequently, companies are rapidly ‘devolving’ from self contained, vertically integrated organizations to more virtual entities that rely on business partners to fulfill major parts of their supply chain requirements (Mintzberg and Quinn, 1991).

Bajpal et al., (2004) describes outsourcing as an accepted management tool for restructuring and refocusing the way an organization does business. It challenges management to build a more flexible organization centered on the core competencies of the business. In essence, the organization is making a decision to send certain parts of the business out to a provider whose ‘core competency’ is that part of business. Koch (2004) asserts that in making the determination that a business has more to gain by having certain “non-core” aspects of the business outsourced to a third party service provider, the organization transfers responsibility for one or more activities or functions that would normally be performed in-house to a qualified vendor, for a specified period of time and at negotiated fee, in accordance with terms stipulated in a service level agreement. Corporate Research Forum (2006) report notes that outsourcing has moved on substantially since 1989 when the concept was first uttered by Eastman, Kodak’s Chief Executive Officer when he announced the outsourcing of the company’s computer operations. BP followed, stretching the concept of information technology outsourcing into its financial services. Consulting houses realized the potential of integrating the specific skills of re-engineering business processes with information technology.

These developments led to the emergence of business process outsourcing. Business process outsourcing is based on the principles of re-engineering, but also combines them with the ownership and management of processes on behalf of a client by an outside (hence

outsourcing) vendor. Greer *et al.*, (1996) concludes that typically using business process outsourcing improves services; overheads are reduced and many processes are automated – thus reducing people costs. This has been applied to many transactional processes that can be easily defined or ‘scaled’ and transferred to third party ownership with deeper expertise than them. Until recently, the management of information technology systems has been the major element of the outsourcing market. An ongoing debate concerns which business processes are ‘core’ to organizations – in the sense of core competencies that drive competitive advantage. Any non-core – or peripheral activities are/should be outsourced (Greer *et al.*, 1996).

## **2.2 Human Resources Outsourcing Practices**

Scott (2003) states that outsourcing is a term that is being used more frequently as increasing numbers of organizations are exploring this as a potential delivery option for some of its activities. Within the context of human resource outsourcing, the specific processes that are included with any outsourcing arrangements will vary from organization to organization. Some organizations may outsource virtually all of their human resource processes while others select specific components such as payroll or resourcing (Armstrong, 1999).

Scott-Jackson *et al.*, (2005) notes that outsourcing has become a topic of heat within the human resources community in the recent years. A burgeoning market has emerged which is, as yet, quite immature in respect of large-scale outsourcing. There is evidently considerable apprehension and suspicion about human resource outsourcing, particularly in the human resources community about issues like, its benefits and consequences, the robustness of the proposition, whether the reasons for considering major outsourcing are clear and an impression is created that human resource outsourcing is supplier-led rather than demand-led. Alder (2003) notes that the increasing focus on human resource’s contribution to the performance of the wider business has led to more emphasis on cost reduction. Human resource outsourcing has grown out of this debate – from re-engineering and cost reduction on the one hand to a potential transformational capacity on the other.

Human resource outsourcing has become a major part of human resource operations for the last few years. A 2004 joint study conducted by the Society for Human Resources Management and the Bureau of National Affairs found that two-thirds of human resource

executives surveyed say their human resource departments outsource at least one activity with this trend expected to increase. Proctor & Gamble, for instance, signed an agreement with IBM that took effect in January 2004 and led to the outsourcing of Proctor & Gamble's worldwide Human Resource services, valued at \$400 million to IBM. Despite the increased activity, however, there is recognition that careful planning should be employed before making the decision to outsource.

In a separate survey in 2004, The Society for Human Resource Management on human resource outsourcing found that in some cases human resource outsourcing led to a decrease in customer service (25% of respondents), a less personal relationship with employees (37% of respondents) and a decrease in employee morale (6% of respondents). The information contained in these two surveys seems to indicate that a good understanding of the factors that drive human resource outsourcing and a good understanding of the expected outcomes is necessary to ensure that organizations fulfill their human resource functions in a manner that allows them to remain competitive in their respective industries.

The Society for Human Resource Management survey report on human resources outsourcing released in June 2004, found that human resource functions that are entirely outsourced are generally background checking, employee assistance/counseling, and flexible spending account administration. The functions that are partially outsourced include administration of health care benefits, pension benefits administration, and payroll. Despite this increase in human resource outsourcing activity, to date, the empirical studies on outsourcing human resource functions focus on the impact of organizational characteristics (Klaas, McClendon & Gainey, 2001), the role of transaction costs (Gainey & Klaas, 2003; Klaas, 2003; Klaas, McClendon & Gainey, 1999), the relationship between human resource department size and outsourcing activity, and the rationale and consequences of human resource outsourcing (Greer, Youngblood & Gray, 1999; Lever, 1997).

In spring 2004, The Conference Board in USA, released its findings from a comprehensive survey regarding human resources outsourcing practices among major U.S. corporations. This in-depth study revealed a surprising level – and acceleration – of human resource outsourcing among large companies. For example, at least 76 percent of respondents

outsource one or more major human resource functions. Today 9 percent have ruled out the practice versus 23 per cent just one year before. Across all industries large firms are outsourcing multiple human resource functions, and none plan to take outsourced functions in house (The Conference Board, 2004).

At a time when the majority of companies are under increasing pressure to reduce costs due to weakened economy, human resource departments expect to maintain their current strategies towards outsourcing human resource services, according to *Hewitt's Human Resources Outsourcing Trends and Insights 2009 survey*. In fact, one-third of companies surveyed are more inclined to outsource today more than they were two years ago – likely because outsourcing solves a number of challenges, including reducing costs and improving efficiencies. From the survey results, it's clear that outsourcing does play an integral role in human resource's ability to deliver programs to employees. Overall 82 percent of companies said they realized the benefits they had hoped to gain by outsourcing (based on the respondents who were able to evaluate their outsourced programs). More specifically, when asked to assess the success of outsourced human resource services, at least 89 percent of respondents rated 25 of the 26 Human resources services as being effective or highly effective. Participants indicated that outsourcing continues to solve a number of operational challenges for companies, and they consider it an effective part of their human resources strategy. Furthermore, the demand for outsourcing is increasing, despite the bleak economy because it helps companies by reducing costs; gaining access to outside expertise; improving quality service and realigning/focusing on strategic human resources priorities.

Weatherly (2006) states that the human resource outsourcing market is in transition. Until recently, the market followed a relatively predictable path, with the majority of human resources outsourcing engagements conforming to conventional transaction-focused, single process arrangements with individual third-party providers (e.g. payroll services, pension plan administrators, temporary staffing agencies etc.). Weatherly continues to say that human resources outsourcing vendors have begun to partner and acquire other firms hence broadening their service capabilities to include organizational and people development, employee data management, workforce planning and deployment, and human capital services.

## **2.3 Drivers of Human resource outsourcing practices**

Esen (2004) asserts that companies of all sizes and industries are outsourcing parts of their Human resources business processes in record numbers to effect improvements in efficiency, service and cost. Vendors are driving away this shift from the traditional human resources delivery model with promises of increased access to better technology and systems, at a reduced cost, in conjunction with improved levels of quality and service to the customer. Whitehead (2004) continues to state that between the dynamic challenges employers face and the intense competitive pressures in the vendor community, it would appear that human resource outsourcing has, in fact, evolved to give employers more choice and an increasingly flexible, creative and comprehensive of services.

### **2.3.1 Time & moneysaving strategy**

According to Shock (2004) research on outsourcing typically presents outsourcing as primarily a time-and moneysaving strategy, as a way to obtain better services at cheaper rates. Yet, as the research indicated, companies outsource for a variety of both financial and non-financial reasons. Many different costs are evaluated before making the case for or against outsourcing. Harney (2004) identifies these costs as one-time and ongoing fees, as well as internal costs and savings associated with freeing up space and technology. Outside agencies are able to spread the cost of training their staff over their many clients, enabling these agencies to charge comparatively lower rates to individual clients. Just because an organization uses an off-the-shelf program does not mean that that program will not have other costs associated with using it later on. The extent to which the organization chooses to outsource will impact how much savings are realized. And, as with any outsourced service, to be truly cost efficient, high levels of quality must be maintained. (Swart, 2007)

Laabs (2002) notes that too often companies decide to outsource as a quick way to cut costs, based on too little information. Kinyua (2000) also cautions that although a major goal of outsourcing is to reduce cost, it is not always essential to have the apparent cost advantage but sometimes simply breaking even is attractive as it is not necessary to spend energy doing

something that is not vital to the core business. However, consideration should be made on availability of skills in-house and the cost of training and maintaining the skills versus cost of outsourcing. Human resource outsourcing decisions are frequently a response to an overwhelming demand for reduced costs (Greer et al., 1999).

The Hewitt's Human Resources Outsourcing Trends and Insights 2009 Survey identified reducing costs as one of the top factor why most organizations outsourced their services. In fact 65 per cent of organizations indicated cost saving as a primary outsourcing objective and reported that they achieved their cost reduction targets. A 1998 survey conducted by the American Outsourcing Institute listed the goal of reducing operating expenses as one of the top 10 internal reasons why companies give for contracting out various functions.

### **2.3.2 Increased domestic and international competition**

Scott-Jackson et.al., (2005) notes that increased competition, both domestic and international emphasizes the value-added role of products and services. If human resource departments are to be responsive to both internal and external customers, they must look for ways to improve the quality and responsiveness of their services. Proponents argue that outsourcing offers human resource an option to satisfy competing demands for improved service and responsiveness at a reasonable cost. Firms are for example choosing to outsource benefits administration with a vendor that provides the latest in automated technology. Competitive forces-downsizing, rapid growth or decline in the business industry, globalization, increased competition, and restructuring—may also contribute to the decision. (Greer et al., 1999)

### **2.3.3 Strategic focus on Human Resource Function**

Harney (2004) notes that human resources departments often lack a clear strategy focus because they are pre-occupied with operational activities. Outsourcing non strategic activities therefore permits the departments to move away from routine administration towards a more strategic role. Adler (2003) notes that a review by the Gartner group listed six factors that are important in outsourcing decisions: dependency risk, spillover risk, trust, relative proficiency, strategic capabilities, and flexibility. The first four of these are classified as short-term factors, whereas the last two can be considered more long-term or strategic. However, no clear formula exists that identifies when outsourcing is most efficient and

effective. Managers therefore attempt to restructure their organizations by identifying activities that are not strategically critical and outsourcing them (Pearce & Robinson, 1997).

Walton (1999) notes that there are also very few empirical studies that examine the performance implications of make or buy decisions. Rather, studies seem to concentrate on the reasons organizations outsource, how to outsource, or the impact of outsourcing on the organization and its employees. Notably absent from the literature is the question of when outsourcing is most appropriate or under what circumstances an organization should outsource to increase human resources performance. In other words, internal and external forces that are conducive to human resources outsourcing are not addressed. If these forces can be identified, they may provide some clues concerning the appropriate action to take when outsourcing is being considered.

A survey of literature on human resources outsourcing by Tremblay *et al.*, (1999a) on the motivations for outsourcing found two theoretical bases upon which one can build an understanding of the decision to outsource. One is organizational factors, guided by the fact that firms will outsource the activities that are not 'strategic' and keep in-house those that are closely linked to their core business. Secondly transaction-specific factors which include asset specificity, measurability, complexity, predictability of volume, firm size, relative production costs and experience and contracting costs all determine reasons why an organization may decide to outsource.

The Hewitt's *Human Resources Outsourcing Trends and Insights 2009* reported that gaining access to outside expertise indicated that companies wanted to be relieved of the burden of making large investment in technology to main in-house systems and dedicating resources to meet challenging guidelines. Improving service quality was considered the most common measure of success for outsourcing, 81 per cent of respondents indicated that they met or exceeded their service quality targets. The report also showed that realigning/focusing on strategic human resources priorities was considered an important factor – outsourcing helps remove the day-to day administration of managing human resources programs so human resources can focus delivering the business strategy and has more time to work with management on solving important business challenges.



### **2.3.4 Impact of Globalization**

Pearce and Robinson (1997) asserts that significant changes within many segments of businesses have encouraged the use of outsourcing practices. These challenges include globalization, changes in technology, diversification etc. They continue to say that in order for organizations to achieve their goals and objectives, they have to constantly adjust to their environment. The environment is turbulent, constantly changing and so makes it imperative for organization to adapt their activities in order to survive. Organizations that do not adequately adjust to meet environmental challenges will experience a strategic maladjustment.

Patry *et al.*, (1999) indicates that there are a number of drivers influencing the application of human resources outsourcing as a strategic management tool within the international non-governmental organizations. These include the pressure from some government funding agencies to achieve economies of scale within international non-governmental organizations' programs. This is occurring within an environment where funding policing and practices do not meet the full costs (administration/infrastructure costs) of service delivery; the related perception that government agencies prefer to fund large organizations, which are seen to be more cost effective; the increasing contract and compliance costs faced by international non governmental organizations relative to their funding.

This dynamic tends to force international non governmental organizations to seek ways to streamline their accountability requirement; the skill level required of employees to meet these increasing contract and compliance demands; the challenges of recruiting and retaining workers in the sector, particularly in a tight labour market when wages and conditions in the public and private sectors are far more attractive; and the changing needs of clients and the desire to provide 'a wider, more coordinated and consistent range of services' (Cairns et al, 2003,5).

### **2.3.5 Partnership between clients and vendors**

Weatherley (2006) states that in the past, human resource outsourcing was thought of as hiring a vendor to provide a service. With the new focus on outsourcing, there is more of an opportunity to partner with the vendor to provide the service on a longer term basis rather than just a one-time contract. Lawler et al., (2005) states that human resource outsourcing can include: Discrete services, where one element of a business process is outsourced to a third-party administration. Examples of discrete services could include the annual open enrollment process, flexible spending accounts or employee background check. The second type is multi-process services where the complete outsourcing is done for one or more functional human resource processes. The outsourcing of either health and welfare benefits administration or defined retirement plan would be an example. Total human resource outsourcing represents the transfer of the majority of human resources services to a third party, to include recruitment, payroll, Human Resource Information System, benefits, compensation and communications, as well as the transition of human resource management and staff. However, human resource executive management would normally remain in place within the organization, along with strategic planning related to people management and other key human resources functions at the discretion of the management (Lawler *et al.*, 2005).

## **2.4 Benefits of Human resource outsourcing practices**

There are several benefits of human resource outsourcing to an organization compared to either doing the services internally, or sub-contracting them out to a consulting firm. These benefits include enhanced flexibility as a result of avoiding fixed costs and bureaucratic processes and increased focus on core business processes. Moreover, there is increased speeds (efficiency), and improved service quality (effectiveness) for the outsourced services (Jathanna, 1992).

Because firms outsource to increase performance, human resources outsourcing should lead to increased human resources performance such that the practice acts as a mediator between supplier competition and human resources performance. The potential for outsourcing human resources services to deliver cost savings is proven beyond doubt. British Telecom (BT) in 2002 outsourced human resources functions covering the entire employee lifecycle, from recruitment to exit and alumni administration. BT is not alone in its support for human

resources outsourcing. A recent study of *Fortune* 500 companies by The Conference Board (2004) confirmed the strong demand. Two-thirds of all companies surveyed were in fact outsourcing one or more of their human resources functions, with cost issues of paramount importance. Companies were looking for guaranteed savings across the board, both in the human resource functions they outsource and even in those they retain.

Ulrich (1998) identified the several benefits of human resource outsourcing: Outsourcing enables organizations to concentrate on core business. Back office operations of a company require high maintenance and specialized attention. Yet most of them are critical for the company's everyday activities. By outsourcing their back office operations businesses can concentrate on their core competencies while their back office operations are being managed smoothly by a specialized third party company. Outsourcing enables an organization experience world-class technology at lower rates - investing in new technology is very costly and often risky. As the technology market develops rapidly, it is difficult to keep up with latest innovations and solutions. Thus outsourcing to companies that have the resources, expertise and desire to continuously update their technological solutions, offers a true advantage of outsourcing. Skilled and trained manpower at extremely low rates leads to an increase in productivity as well as cost savings. By outsourcing a company saves on recruitment, training and other human resource costs it would otherwise have to maintain internally. Another advantage of outsourcing is that a company is able to utilize the kind of expertise it could not internally provide.

Mintzberg and Quinn (1991) note that internal costs and time delays frequently drop as long-standing bureaucracies disappear and political pressures for annual increments to each department's budget decrease. All this leads to a more compact organization with few hierarchical levels. It also leads to a much sharper focus on recruiting, developing and motivating the people who create most value in those areas where the company has special competencies. Jathanna (1992) asserts that the presence of an outside contractor reminds employees about the yardstick that is clear and visible. Employees therefore have to make sure they deliver in the most efficient and efficient way to keep their jobs. Perhaps the greatest benefit of outsourcing human resource activities is the full utilization of external supplier's investments, innovations and specialized professional capabilities that otherwise would have be prohibitively expensive to replicate (Chanzu, 2002).

Increased productivity by employing skilled manpower in larger numbers at lower costs companies can really increase the organization's productivity. This in turn would result in better customer satisfaction and increased profitability. Competition can be beaten in today's fast paced global economy where a company needs to provide high-quality services to its customers in order to retain them, as well as provide the services for cheap prices. Outsourcing in this case can help the company maintain lower rates with better service solutions, thereby giving them a better market position or even a competitive advantage. Tax benefits can be experienced by selecting the right vendors, companies can save up on taxes in turn saving on costs. (Ulrich, 1998)

According to the journal by the Academy of Management Executive (1996) on Human Resource outsourcing, the reasons why organizations outsource their Human resources activities can be classified under different categories as shown in the table:

**Table 1: Human Resource outsourcing – Reasons and Benefits**

<b>REASON</b>	<b>BENEFIT</b>
Organizationally Driven	<ul style="list-style-type: none"> <li>• Enhance effectiveness by focusing on what you do best</li> <li>• Increase flexibility to meet changing business conditions, demand for products and services and technologies</li> <li>• Transform the organization</li> <li>• Increase product and service value, customer satisfaction. And shareholder value</li> </ul>
Improvement Driven	<ul style="list-style-type: none"> <li>• Improve operating performance</li> <li>• Obtain expertise, skills, and technologies that would not otherwise be available</li> <li>• Improve management and control</li> <li>• Improve risk management</li> <li>• Acquire innovative ideas</li> <li>• Improve credibility and image by</li> </ul>
	Associating with superior providers
Financially Driven	<ul style="list-style-type: none"> <li>• Reduce investments in assets and free up these resources for other purposes</li> <li>• Generate cash by transferring assets to the provider</li> </ul>
Revenue Driven	<ul style="list-style-type: none"> <li>• Gain market access and business</li> </ul>

	<p>opportunities through the provider's network</p> <ul style="list-style-type: none"> <li>• Accelerate expansion by tapping into the provider's developed capacity, processes, and systems</li> <li>• Expand sales and production capacity during periods when such expansion could not be financed</li> <li>• Commercially exploit the existing Skills</li> </ul>
Cost Driven	<ul style="list-style-type: none"> <li>• Reduce costs through superior provider performance and the provider's lower cost structure</li> <li>• Turn fixed costs into variable costs</li> </ul>
Employee Driven	<ul style="list-style-type: none"> <li>• Give employees a stronger career path</li> <li>• Increase commitment and energy in non-core areas</li> </ul>

**Source: Human Resource Management outsourcing: The make or buy decision. The Academy of Management Executive (1993), Vol.13 No.3**

## **2.5 Outsourced Human Resource Practices**

Benefits administration is the most widely outsourced function in human resources. A survey conducted by Buck Consultants in 2000 indicated that many firms have been outsourcing defined benefits plans, health and welfare programs, and retiree benefits administration for more than 10 years (Jackson, 2000). A possible reason for this high use of outside agencies for these functions is that payroll and benefits administration are not typically profit-producing or core business missions. Using an outsourcing agency that has particular human resource functions, such as payroll or benefits administration, as its core business enables an organization's human resource professionals to be more focused on creating business strategies that will positively impact the bottom line (Laabs, 1993). Organizations need to consider the key drivers behind the decision to outsource benefits administration to ensure that their goals are met. Because several departments are involved in benefits administration, human resources is not the only group that is likely to benefit from outsourcing this function. For example, when benefits programs are outsourced, in-house employees do not need to be as familiar with the guidelines of each benefits program, giving them more time to concentrate on other strategic issues (Switser, 1997).

Outsourcing benefits administration has particular advantages for not-for-profit organizations. Since compensation tends to be lower than in profit-making companies, nonprofits need to work especially hard to attract and retain valuable people. Outsourcing is a very cost-effective way for these organizations to gain access to a wide variety of high-quality benefits and other services (Willey, 1993). Moreover, outside agencies are often better at communicating about benefits accurately and effectively, which in nonprofits may be especially important in retaining employees. The need for effective communication about benefits is more critical as increasing numbers of corporations relocate employees nationally and globally (Willey, 1993).

Research conducted by Lever (1997) indicates that the five primary reasons that companies outsource training and development is because (1) there are a wide variety of vendors to choose from; (2) training practices and procedures are changing frequently; (3) the company's training needs are unpredictable; (4) the training required is specific to the hiring organization; and (5) employee training is necessary for the organization to reach its goals. Greer *et al.*, (1999) favor keeping training in-house when the focus is on company-specific issues, such as informing employees about company products. Training is often the first function to suffer when a company needs to downsize or shave money off a budget. Not surprisingly, then, the number-one reason companies turn to outsiders for training is to achieve cost savings. However, as with outsourcing in general, non-financial considerations may also be important. For example, management may think the training department is not advancing the strategic goals of the organization or producing results benefiting the company. Outsourcing can give training the competitive edge it needs to maintain its ranking with other departments.

Organizations that outsource training generally have several goals they hope to achieve, including lowering their costs, increasing the quality of the training they offer, offering training that better matches the company's business strategy, and providing better methods of trainee evaluation. Organizations are more likely to achieve these goals by outsourcing than by offering in-house training, because outsourcing tends to cost less than administering training in-house; outside agencies are more likely to have up-to-date technology; and outside agencies are constantly modifying their programs and administration of those programs to meet clients' needs (Institute of Personnel Association Model, 2005). Another attraction of going outside for training is that firms with training as their core function usually employ

more training experts than do their client companies. This ensures access to specialized trainers on an as-needed basis, perhaps as infrequently as two or three times per year. The outside agency is also likely to be more advanced technologically than the client organization. Unless the client's core business rests on being up to speed technologically, an outside provider is likely to have far more sophisticated training programs. Thus, the client gains access to the latest developments in training without having to research, purchase, and implement them (Greer et al., 1999).

Recruiting is another function that can be outsourced because filling open positions is a never-ending burden for human resources departments, so outside suppliers help ease the burden. Pressure to keep businesses operating efficiently involves filling open positions in a timely manner. Even the best training cannot make up for bad hiring decisions or the lack of effective recruitment. Organizations also need to be prepared to deal with legal and cultural implications of considering applications from across the globe. Now, more than ever, organizations also need to be prepared to deal with the legal and cultural implications of considering applicants from across the globe. Utilizing an outsourcing agency already employing recruiters with global knowledge can be more cost and time efficient than training in-house employees in this area. All too often, human resources generalists are responsible for recruiting, as well as for a wide variety of other activities, and can devote only part of their time to the recruiting process according to Harney, (1999). He continues to say that, increasingly, the pressure is on to keep businesses running efficiently, which involves filling open positions in a timely manner. For these reasons, the idea of outsourcing recruiting has been gaining adherents.

Other companies that are likely to save both time and money by outsourcing recruiting are those that do not routinely recruit. These companies often end up having to train in-house employees in such tasks as conducting and assessing phone interviews. Hiring an outsourcing agency with expertise in this area reduces the time needed before the recruiting process can begin according to Klass *et al.*, (2001). While hiring an outside agency to do recruiting is clearly an attractive option for many companies, it is important to note that, because recruiting is often such a key organizational function, it is sometimes done best in-house. In-house staff are far more familiar with the culture and values of an organization than any outsiders and therefore are often better at recruiting employees who will fit in to the company as well as fulfill the duties required of the job. Where outside agencies are often useful is in

getting candidates in the door. In some organizations, outside agencies are also taking an active role in retaining employees by ensuring they are provided with a well-structured, well-administered benefits package (Klass *et al.*, 2001).

One major consideration in determining the need to outsource recruiting is the size of the organization. While one might expect smaller firms to rely on outsiders for help in this area, larger firms rely on outside agencies more for help in recruiting and selection than do smaller companies (Klass, McClendon, & Gainey, 2001). A possible explanation for this finding is that, in addition to hiring outsource agencies for help in finding temporary staffers, outsourcing is now used more than ever for help in filling higher-level positions. Companies need highly skilled employees, giving rise to the need for specialized recruiters and, ultimately, greater reliance on outsourcing. Outsourcing has its advantages for companies large and small. However, maintaining the company culture needs to be a priority (Institute of Personnel Association Report, 2005).

In most organizations, relocation comprises only 10% of the human resource department's functions (Turner, 1992). Yet, as companies are establishing more operations globally, their needs for information about foreign countries, and for help in managing foreign-based staff, are increasing. As with other human resource functions, outsourcing agencies with expertise in this area often take up the slack. Organizations also look to outsourcing services for assistance with such matters as selling homes for employees who are relocating and finding them new accommodations.

Digby (2005) suggests that when done successfully, outsourcing relocation-related activities should lead to decreases in the failure and turnover rates of relocated employees. Research suggests that companies should also realize increases in the number of employees willing to transfer. Ensuring that the whole family adjusts to the new location is extremely important for a relocation to be successful. Having to deal with adjustment problems, especially when the move is to another country, can greatly affect an expatriate's productivity (an outsourcing agency can provide assistance with such family-related concerns as helping a spouse find a job and finding appropriate schools for children). Rare indeed is the company that can provide these services in-house (Swart, 2007).



As with any decision to outsource, one of the underlying questions that needs to be asked is whether performing relocation activities is the best use of the human resources professional's time. Marie Howard of Proctor & Gamble, for instance, questions how productive it is for human resources people to become involved in the house-hunting process. As with other services that companies outsource, in determining the kinds of activities they should outsource, organizations need to identify their core competencies and weigh them against what can be bought on the open market (Institute of Personnel Association Report, 2005).

## **2.6 Process of Outsourcing**

The Accenture Report (2005) describes seven steps that need to be followed to ensure the process of outsourcing is successful when carried out both internally and externally. For internal purposes, the first step is to assess the risks involved then an announcement regarding the initiative is made to staff. This announcement will lead to formation of a project team and engage advisers to guide the process. This team then needs to be trained; acquisition of other resources is important to address issues like resource management, information management and project management. Next step involves setting the objectives to guide the focus of the process which will lead to understanding of the organization's vision, core competencies, structure, transformation tools, value chain and strategies. Then it becomes important to determine the decision rights, contract length and termination date. This initiative must be aligned to the set objectives of outsourcing. The costs and performance must be analyzed in terms of cost of poor performance, project failure costs and measure activity costs. Benchmark costs must also be taken into account.

Certain actions and decisions must be made when selecting a suitable outsource provider. First it is important to understand the existing human resources service provision, for example cost base, responsibilities, level of service etc. this allows for comparing provider offerings and costs. Understand the organization's future requirements like in terms of level and type of service Then, it is important to establish a shortlist of preferred suppliers; consult with other organizations that providers have contracts with to assess level of satisfaction and consider the 'fit' with provider organization which might include cultural as well as geographical factors. This should be followed by the identification of the 'actual' person to be the key relationship manager which will lead to the determination of the preferred contract length. Building of contractual flexibility where possible should be explored while staying

involved in the contracting process without abdicating everything. Identification of metrics (including benchmarks of what is unacceptable and acceptable ranges) should be included as part of the service level agreement. The decision to outsource is taken at a strategic level and normally requires board approval. A Request for Proposal is issued to the shortlist suppliers requesting a proposal and a price (Human Resources Guide: Human Resources outsourcing, 1997 – 2007).

Supplier competition or locally known as tendering process is initiated - A competition is held where the client marks and scores the supplier proposals. This may involve a number of face-to-face meetings to clarify the client requirements and the supplier response. The suppliers will be qualified out until only a few remain. This is known as *down select* in the industry. It is normal to go into the due diligence stage with two suppliers to maintain the competition. Following due diligence the suppliers submit a "best and final offer" for the client to make the final down select decision to one supplier. It is not unusual for two suppliers to go into competitive negotiations.

The negotiations take the original application, the supplier proposals, "best and final offer" submissions and convert these into the contractual agreement between the client and the supplier. This stage finalizes the documentation and the final pricing structure. Contract finalization - At the heart of every outsourcing deal is a contractual agreement that defines how the client and the supplier will work together. This is a legally binding document and is core to the governance of the relationship. There are three significant dates that each party signs up to the contract signature date, the effective date when the contract terms become active and a service commencement date when the supplier will take over the services.

The transition will begin from the effective date and normally run until four months after service commencement date. This is the process for the staff transfer and the take-on of services. Termination or renewal is normally near the end of the contract term when a decision will be made to terminate or renew the contract. Termination may involve taking back services (insourcing) or the transfer of services to another supplier (Braun Consulting Group, 2005).

## **2.7 Recommended Best Practices**

Certain practices are recommended as vital in ensuring that outsourced function meets the generally accepted standards. It is critical to check the prospective provider's credentials to ensure proven success and experience in similar human resource outsourcing function - effective sourcing that attracts and recruits top-tier talent needs to be a core competency, not a secondary skill. Secondly it is vital to ensure that the provider's technology is user-friendly and seek centralized accountability from outsourced partners. Thirdly it is important to work together with the chosen provider to look at trends, measure business impact and seek progressive levels of performance. Focus on metrics that demonstrate the tangible impact on the business, such as increased revenue and productivity, not just cost-per-hire and time-to-fill. It is prudent to take a holistic approach – seek transformational relationships in which outsourced providers are sufficiently equipped to view and manage the talent lifecycle in a holistic way. Ensure recruiting efforts match the company culture - there should be alignment between the organization's and the provider's culture. Providers should be able to articulate and embody the organization's culture well enough to ensure positive and strong candidate experience. Lastly but not least, an organization should always actively govern the relationship – have a clear governance structure that raises accountability (Human Resources Guide: Human Resource Outsourcing, 1997 – 2007).

The Outsourcing Institute (1998) conducted a survey of the top 10 factors attributed to successful outsourcing among companies that outsource in USA and tabulated the results in the following table.

**Table 1: Top 10 factors for successful outsourcing**

<b>Ranking</b>	<b>Factor for successful outsourcing</b>
1	Understanding the company's goals and objectives
2	A strategic vision and plan
3	Selecting the right vendor
4	On going management of the relationship
5	A properly structured contract

6	Open communication with affected in-groups
7	Senior executive support and involvement
8	Careful attention to personnel issues
9	Near term financial justification
10	Use of outside expertise

**Source: Survey of current and potential outsourcing end users. The Outsourcing Institute Membership (1998)**

## **2.8 Challenges and Risks of Human Resource outsourcing practices**

The Corporate Research Forum (2006) report notes that human resource outsourcing requires human resource directors to understand and manage risks that are critical to the organization in general, and especially their functions. Neil McEwen, in an article for human resources outsourcing in a Europe Magazine, cites the risks that were especially prevalent during the early days of human resource outsourcing. One is the initial claims for potential cost reduction and improved effectiveness which were sometimes exaggerated and unrealistic. Second, people often failed to appreciate the effort required to make human resource outsourcing work as it affects employees served by human resources and the human resources community at large. Thirdly, some companies thought that, by outsourcing an organizational mess, they could make it someone else's problem, but chances could be the human resources supplier sometimes experienced the same intractable issues.

An article published in 2003 by Fortune magazine advocated abolishing human resource department. The piece criticized the traditional human resource department as bureaucratic and unable to quantify its contributions. Fortune argued that many of the services provided by traditional human resources departments could be better handled by outside service organizations that offer economies of scale, often reducing risks while improving service. The challenge is how human resource can drive efficiency and effectiveness. This is the question that human resources leaders face as they strive to deliver real business value through enhanced human performance, while they are challenged with constant pressure to drive down the cost of their "back office" operations. Even in these times of plunging stock prices, declining revenues in terms of donor funding, corporate restructurings and other

economic events, organizations cannot simply continue to cut human resource services to cut human resources costs. They still need to retain and grow their valued employees and be ready to re-launch the war for talent when the economy turns around. The good news is that over the last decade, human resource outsourcing has risen to the challenge and emerged as a truly viable solution to the human resource conundrum (The Learning Outsourcing Research Report, 2005).

Serem (2002) in a survey on outsourcing of human resources services by banks in Nairobi reported that outsourcing is increasingly becoming a threat to the survival of the human resources function. The survey showed that although an increasing number of organizations are outsourcing their human resources activities, particularly the non-core business areas, the strategy is just beginning to gain momentum in Kenya and little is known about why organizations are outsourcing, the extent and which specific resource functions are typically outsourced, the limitations and benefits. A separate issue concerning the current outsourcing research is the absence of studies looking at the human resource function in organizations. Although there are numerous theoretical and empirical studies on outsourcing organizational functions such as information systems and accounting, the academic literature on outsourcing the human resource function is almost non-existent (Lever, 1997).

Smith (2006) notes that strategic debates around human resource outsourcing are ongoing among user – or prospective buyer – organizations, providers, human resources outsourcing advisors and academics. These involve the future purpose and contribution of human resources because of the possibilities of functions being transformed, or part-outsourced, through human resource outsourcing deals; the strategic and management complexities of human resource outsourcing deals; deciding what is ‘core and ‘non-core’ in human resource – the critical competencies to be retained versus peripheral activities that might be outsourced; The difficulty that human resource has in assuming more strategic or value adding roles after implementing human resource outsourcing; The position of offshoring as it affects human resource outsourcing decisions and raises emotive issues such as job losses and redeployment and the challenges of trying to manage human resource process delivery on a global scale and across different cultures. Barney (1995) raises important questions over the future of the human resources profession. Career trajectories are becoming increasingly blurred, as human resource practitioners find themselves expected to shift from being reactive and administrative problem-solvers to become more proactive, value-based business partners.

A number of challenges therefore affect the development and implementation of human resource outsourcing in the Non-Governmental Organizations' sector, one of them being the underlying hesitation of some organizations about the initial investment in the process; the issue of privacy and confidentiality which is perceived to be compromised, and the challenge of fostering staff (and community) to the ownership of the new process, which can be experienced as something happening to them, rather than something they are actively involved in conflicts which easily arise in any new arrangement (Council of Social Services of North South Wales, 2007).

Although there are several reasons in favor of outsourcing, international non-governmental organizations must also consider the risks arising out of the process of the process. There are risks that need to be analyzed whenever a company embarks on a new business venture. Kaathawal (2000) cautions that since the contracts for outsourcing are often long term (5-10 years), the provider needs to understand current and future business strategy or else this can lead to unfavourable contractual arrangements; loss of knowledge and processes which instead reside with the provider. Standardisation of the process will be provider friendly not the organizations. This could lead to conflict of interests in the long term. Fragmentation of the service provided means that day to day operations are split from strategy and policy direction. There is need to constantly review the success of the outsourcing arrangement against specified metrics. Outsourcing carries with it the danger of negative repercussions. Consequently, before deciding to outsource, several broad issues must be taken into account (Prahald et.al., 1996).

Employees are likely to have their morale affected. Whether employees view the decision to outsource positively or negatively can have a profound effect on their relationship with the organization. Terra (2004) found that several factors influence employees' attitudes about outsourcing, including their views on whether the organization made the decision to outsource carefully. If in-house management of the function was poor and the decision to outsource is seen as providing better opportunities for employees, they may well view the decision to outsource positively. However, if the outsourcing agency fails to meet expectations, reactions are likely to be more negative. Maintaining open communication with in-house employees affected by the decision to outsource is critical to how that decision will be received (Terra, 2004).

There is likely to be some loss of in-house expertise. Pearce II (1997) notes the importance of maintaining some in-house expertise in every area because "giving an outsourcing organization total control can leave a company in quite a quandary if the outsourcing firm does not work out and the hiring company has no internal expert on the outsourced activity." Research by Sweezy (1997) indicates that in some cases maintaining almost total in-house control of the outsourced activity will be necessary. In other cases, the outside agency will be responsible for administrative tasks, such as tax filings and system maintenance, while the organization will retain access to data so it can make strategic decisions. Over time perhaps, the company may find that relinquishing greater control is an option.

The importance of maintaining the company's values and culture, especially when considering outsourcing services for employees who are or will be relocating is critical. The danger that employees will lose sight of the company's culture and values appears to increase the more control over a function a company relinquishes. Expatriates, in particular, need a first line of touch with the home office. Marie Howard of Procter & Gamble (2005) notes, as another example, that retirees want to discuss benefits and such with someone who understands how things were done when human resource people in the organization handled benefits. Many retirees also want reassurance that the corporate culture they knew has not totally disappeared. By way of summarizing this concern, Howard noted that "at Proctor & Gamble, our employees want to have a Proctor & Gamble person that they can talk to if they have an issue or concern. They want someone who knows the Proctor & Gamble culture. To overlook this is a huge mistake." The staff turnover of employee who originally transferred to the outsourcer is a concern for many companies. Turnover is higher under an outsourcer and key company skills may be lost with retention outside of the control of the company. This inhibits the build-up of employee knowledge and keeps quality at a low level.

Company knowledge. Outsourcing could lead to communication problems with transferred employees. For example, before transfer staff have access to broadcast company e-mail informing them of new products, procedures etc. Once in the outsourcing organization the same access may not be available. Also to reduce costs, some outsource employees may not have access to e-mail, but any information which is new is delivered in team meetings. (Quinn et al., 1994)

Qualifications of outsourcers. The outsourcer may replace staff with less qualified people or with people with different non-equivalent qualifications. Standpoint of labor - From the standpoint of labor within countries on the negative end of outsourcing this may represent a new threat, contributing to rampant worker insecurity, and reflective of the general process of globalization (see Krugman, Paul (2006). "Feeling No Pain." *New York Times*, March 6, 2006). While the "outsourcing" process may provide benefits to less developed countries or global society as a whole, in some form and to some degree - include rising wages or increasing standards of living - these benefits are not secure. Further, the term outsourcing is also used to describe a process by which an internal department, equipment as well as personnel, is sold to a service provider, who may retain the workforce on worse conditions or discharge them in the short term. The affected workers thus often feel they are being "sold down the river."

Before outsourcing an organization is responsible for the actions of all their staff and liable for their actions. When these same people are transferred to an outsourcer they may not change desk but their legal status has changed. They no-longer are directly employed or responsible to the organization. This causes legal, security and compliance issues that need to be addressed through the contract between the client and the suppliers. This is one of the most complex areas of outsourcing and requires a specialist third party adviser (Accenture Report, 2004).



## **CHAPTER 3: RESEARCH METHODOLOGY**

### **3.1 Research Design**

This research used a census descriptive survey. Descriptive survey statistics are used to describe the basic features of the data in a study as they provide simple summaries about the population and the measures. Together with simple table analysis, they form the basis of virtually every quantitative description in a manageable form. In this study the objective was to establish the why's and how's considered as measures of the human resource outsourcing practices among international non-governmental organizations, therefore this design was deemed suitable as it enabled the measurement of a large number of people and the data and enabled the reduction of the data into simpler summaries. Descriptive Survey portrays an accurate profile of persons, events or situations (Robson, 2002). Surveys allow the collection of large amount of data from a sizable population in a highly economical way. It allows one to collect quantitative data which can be analyzed using descriptive and inferential statistics (Saunders et al., 2007). Therefore the census descriptive survey was deemed the best method to fulfill the objective of this study.

### **3.2 Target Population**

The data was collected from the target population which were all the 70 registered International Non-Governmental Organizations (see attached Non-Governmental Organizations Coordination Board 2009 Annual Register) based in Nairobi. 60 out of the 70 organizations responded to the questionnaire.

### **3.3 Data Collection**

Primary data was collected from Heads of Human Resource Departments using semi structured questionnaires. The questionnaire was divided into 2 sections, A & B. Section A required general information about the organizations while Section B sought to establish factors leading to adoption or non adoption of the human resources outsourcing practices, the benefits and challenges facing its implementation. The questionnaires were administered on a 'drop and pick later' basis. This method together with follow up on telephone was

effective. Primary data collected was supplemented by secondary data from magazines, supplements, journals and other write ups on the organizations.

### **3.4 Data Analysis**

The data collected was analyzed using descriptive statistics such as frequencies, mean scores, standard deviations and percentages. The findings were presented using tables. The scores and percentages were used to determine the ranking of the various factors in all the sections of the questionnaire. Frequencies aided in analyzing demographic information, of size, type and years of experience of organizations.

## **CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS**

### **4.1 Introduction**

The objective of this research was to study the Human Resource Outsourcing Practices among International Non-governmental organizations in Nairobi. The target population was all the 70 international non-governmental organizations based in Nairobi. 60 out of the 70 organizations completed the questionnaire which represented 85% of the total population. This was considered adequate for the purposes of analyzing a representative proportion of the population.

### **4.2 Demographic characteristics of the Respondents**

This section sought to establish the name of the organization, the position that the respondent occupied in the organization and the length of period the respondent has been in employment in the said organization.

#### **4.2.1 Title of Respondents**

Out of the 60 participants who answered the Respondent's Profile section on this survey, 30 (50%) act as Human Resource managers, 12 (20%) are Human Resource supervisors, 5 (8%) indicated their current job title to be Human resource Director/Human resource Department Head, 5 (8%) are Human Resource Specialists or Officers, and 1 (2%) was an Human resource assistant. Other job titles mentioned by the participants were Human Resource Associate, 4 (7%), and Human Resource Coordinator, 3 (5%). This represented an assortment of human resource professionals whose perspectives represented a variety of opinions in the results.

**Table 1: Title of Respondents**

<b>Title</b>	<b>Percentage</b>
Human Resource Manager	50
Human Resource Supervisor	20
Human resource Associate	7
Human resource Coordinator	5
Human Resource Director or Human Resource Department Head	8
Human Resource Specialists/Officers	8
Human Resource Assistant	2
<b>Total</b>	<b>100</b>

The human resource professional background was found to be diverse. 83% confirmed they have a ‘pure’ Human Resource background which represented a good response from qualified professionals in the field of human resource management. 7% of respondents confirmed that they had occupied a range of business positions prior to their role in human resource like in Administration and Finance. This reflected the reliability of the information gathered from qualified professionals. This could as well imply that fewer internal human resource roles will be available in the coming years for entry-level human resource professionals to gain in-house experience.

#### **4.2.2 Years of Service in the Organization**

24 respondents (40%) had been with the same organization for at least 2 to 5 years while 22 (37%) had been with the organization for less than a year. Those who had been with the organization for 6 years and above were 14 (23%). This reflected the reliability of the information gathered in the survey since all the respondents had some experience with the organization and were thus familiar with human outsourcing practices within their organizations.

**Table 2: Years of Service in the Organization**

<b>No. of Years</b>	<b>Percentage</b>
1 year and below	37
2 -5 years	40
6 years and above	23
<b>Total</b>	<b>100</b>

### **4.3 Demographic characteristics of the Organizations**

This section sought to establish the types/classifications of organizations that fall under the international non governmental organizations sector.

#### **4.3.1 Classification of organizations**

Out of the 60 organizations which completed the survey, 29 (48%) were Business orientated, 20 (33%) are Environment orientated, 9 (15%) are Religious orientated, and 2 (3%) fall under others which were Government operated non-governmental organizations and Quasi-autonomous organizations which deal with issues of International standards of operations.

**Table 3: Classification of the Organizations**

<b>Classification</b>	<b>Percentage</b>
Business orientated	48
Environment orientated	33
Religious orientated	15
Government operated/Quasi autonomous	3
<b>Total</b>	<b>100</b>

A higher percentage of commercial based or business orientated organizations represented a higher percentage of all organizations which responded to this question. These are organizations that operate for profit and their primary concern would be to save costs, and that could explain why their response was generally higher. Since all the classifications of

the international non-governmental organizations were represented in the study, the results can be generalized to reflect general practices among the various organizations.

#### **4.3.2 Years of operation**

Out of the 60 organizations that participated in the survey, 28 (47%) have been operating for more than 10 years in Nairobi, 25 (42%) have been operating between 6 - 10 years and 7 (12%) have been operating between 1 – 5 years in Nairobi as shown in the table on the next page. This meant a higher percentage of the organizations have been operating in Nairobi for a period longer than 10 years indicating their stability in the business. Any organization making a significant commitment to human resource outsourcing makes a decision with far-reaching implications – not just for human resource, but for the entire organization hence the importance of organizational stability and experience.

**Table 4: Years of operation**

<b>No. of Years</b>	<b>Percentage</b>
1-5 years	12
6 – 10 years	42
10 years and more	47
<b>Total</b>	<b>100</b>

#### **4.3.3 Number of employees in organizations**

Out of the 60 respondents, 37 (61%) have employees between 101 and 500, 16 (27%) indicated their organization have 50 to 100 employees, and 7 (12%) have over 500 employees.

**Table 5: Number of employees in the organizations**

<b>No. of employees</b>	<b>Percentage</b>
50-100	27
101-500	61
Over 500	12
<b>Total</b>	<b>100</b>

The findings indicate that large organizations are more likely to outsource compared to smaller organizations.

## 4.4 Human Resource Outsourcing Practices

In this section the respondents were asked to identify extent of human resource practices that are outsourced within their organizations and the second part sought to establish the factors that influence the human resource outsourcing practices within their organizations.

### 4.4.1 Outsourced Human Resource Practices

The respondents were asked to rate the extent of outsourcing of human resource practices within their organizations on a Likert scale of 1-5 with 1 being “not at all” and 5 being to a “large extent” and results are summarized in Table 6.

**Table 6: Outsourced Human resource practices**

<b>Factors influencing HR outsourcing practices</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Recruiting	4.00	0.844
Training & Development (T&D)	3.90	0.858
Benefits Administration (BA)	4.45	0.611
Relocation services	2.53	1.268
Payroll processing	3.75	1.361
Contract employee management	3.77	1.198
Human resource information system	2.78	1.263
Staff Development (SD)	3.65	1.132

<sup>1</sup>In this study, the scale was 1= Not at all; 2=To a small extent; 3= To a moderate extent; 4=To a great extent; 5= To a very great extent.

Among the most widely human resource practices being outsourced by organizations represented in the study were benefits administration which ranked highest with a high mean score of (4.45) and recruiting with a score of (4.00). Other moderately rated practices that are outsourced by the organizations included training & development with a mean score of

(3.90), contract employee management (3.77), payroll processing (3.75) and staff development (3.65).

Human resource information system with a mean score of (2.78) and relocation scores with a mean score of (2.53) were the lowest scores. Human resource information system is considered part of the information technology department hence the reason for the low score while relocation services outsourcing is not common among the organizations since a large proportion of the employees are national staff.

In conclusion, benefits administration and recruiting are highly outsourced while training and development, contract employee management, payroll processing and staff development are moderately outsourced. Human resource information systems and relocation services are outsourced but to a fairly small extent.

#### **4.4.2 Factors influencing Human resource outsourcing practices**

The respondents were asked to rate the factors that influence implementation of human resource outsourcing practices within their organizations on a scale of 1-5, 1 being “Strongly disagree” and 5 being “Strongly agree”. Table 7 shows the full range of factors identified by the respondents in the study.

**Table 7: Factors influencing outsourced human resource practices**

<b>Factors influencing HR outsourcing practices</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Cost	3.30	1.598
Competition	3.38	1.427
Strategy	3.60	1.440
Globalization	3.40	1.575
Partnership	4.05	1.126
Outsourcing activity is considered ‘non-core’	4.57	0.500
Access to expertise available	4.58	0.497
Outsourcing costs considered low	4.57	0.500
To avail time for other activities	3.55	1.443



To improve efficiency	4.38	0.804
Lack of in-house expertise	3.92	1.250
To improve organizational focus	4.22	0.993
Business environment	3.93	1.326

<sup>1</sup>In this study, the scale was 1= strongly disagree, 2=disagree 3= not sure, 4=agree, 5= Strongly agree.

The main factors shown by the study that influence human resource outsourcing practices among international non-governmental organizations were identified as access to expertise service scored a mean score of (4.58) which was ranked highest. Outsourced practice/activity is considered non-core and outsourced costs are considered low were other key factors identified each with a mean score of (4.57). To improve overall efficiency was considered important with a score of (4.38) and improvement of organizational focus with a mean score of (4.22). Another equally highly rated factor was partnership with the vendors with a score of (4.05).

Factors such as business environment (3.93), lack of in-house expertise (3.92), strategy (3.60), availing time for other activities (3.55), globalization (3.40), competition (3.38), and cost (3.30), were all moderately rated hence are considered important when outsourcing decisions are made in the organizations.

The findings indicate that organizations that are outsourcing seek a reduction in human resource operating costs and an improvement in human resource service quality and efficiency at the same time. Access to expertise service, outsourced practice is considered 'non-core', the costs of outsourcing are low, overall improvement in efficiency, improvement in organizational focus and partnership with external vendors were highly rated. Factors like business environment, lack on in-house expertise, strategy, to avail time for other activities,

globalization, competition and cost were all moderately rated which means they also play an important role.

#### **4.5 Factors considered in selection of an external human resource outsourcing vendor**

The respondents were asked rate the important factors that are considered when selecting a human resource outsourcing vendor or supplier on a scale of 1-5, 1 being “Not important” and 5 “Most important”. Table 8 summarizes the findings.

**Table 8: Factors influencing selection of an external vendor**

<b>Criteria</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Expertise	4.45	0.594
Professionalism	4.31	0.793
Quality of Service	4.65	0.481
Cost	4.60	0.494
Qualifications	4.48	0.504
Past performance	3.85	1.273
Credibility	4.08	1.094
Size of vendor firm	3.98	1.186
Contract terms	4.19	1.991
Flexibility	2.70	1.629

<sup>1</sup>In this study, the scale was 1= Not important; 2=Less important; 3= Not sure; 4=Important; 5= Very important

The key factors identified by the respondents as influencing the selection of an external human resource outsourcing vendor was quality of service with a mean score of (4.65) which was ranked highest, followed by cost with a mean score of (4.60) and qualifications of the vendor with a mean score of (4.48) almost at par with expertise service at (4.45). Other factors which scored equally high mean scores were professionalism (4.31), contract terms (4.19), and credibility with a mean score of (4.08).

Size of vendor firm as a factor scored (3.98) and past performance scored (3.85) which is an indication that these factors are also considered important when selecting a human resource outsourcing vendor.

Flexibility of the vendor firm was rated low with a score of (2.70) when selecting an external vendor.

The findings confirm that quality of service, cost, qualifications and expertise of the vendor, contract terms and professionalism are highly rated as factors influencing the selection of a human resource outsourcing vendor. Moderately rated factors include size of the vendor firm and past performance. Flexibility of the vendor firm is scored lowest indicating that it is not the most important factor considered when selecting a vendor.

#### **4.6 Benefits of Human Resource Outsourcing Practices**

The respondents were asked to rate the benefits of human resource outsourcing practices within their organizations a scale of 1-5, 1 being “strongly disagree” and 5 being “strongly agree”. Table 9 shows the full range of benefits identified by the participants in the study.

**Table 9: Benefits of Human Resource outsourcing practices**

<b>Benefit of outsourcing human resource activity</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Focus on core business	3.67	1.394
Reduction of overall administrative costs	3.92	0.962
Improvement in quality service and reliability in delivery	3.60	1.368
Improves overall efficiency	4.10	1.053
Ensures sufficient flexibility	3.13	1.420
Responds to market conditions	3.55	1.478
Access to expert service at lower cost	4.62	0.585
Enhances job security	2.37	1.461

Productivity is improved	3.58	1.319
Enables formation of business partnerships	3.08	1.608

<sup>1</sup>In this study, the scale was 1= strongly disagree, 2=disagree; 3= Not sure; 4=agree, 5= strongly agree  
The key benefits of human resource outsourcing identified by the respondents were access to expertise service at lower costs with a mean score of (4.62) which was the highest score; improvement in overall organizational efficiency was second with a mean score of (4.10).

Benefits that were moderately rated included reduction in overall administrative costs with a mean score of (3.92); focus on core business (3.67); improvement in quality service and reliability in delivery (3.60); general productivity is improved (3.58); is a response to market condition (3.55), ensures sufficient flexibility (3.13) and enables formation of business partnerships with a score of (3.08). The lowest rated benefit was enhancement of job security which was rated with a mean score of (2.37).

The results show that gaining access to greater expertise and improving service quality were the highly rated factors considered in terms of benefits of human resource outsourcing practices. Reduction in overall administrative costs, focus on core business, improvement in quality service and delivery, responds to market conditions, productivity is improved, enables formation of business partnerships, ensures sufficient flexibility were all rated moderately. Employee job security is enhanced scored lowest hence is not considered as a major benefit.

#### **4.7 Challenges of Human Resource Outsourcing practices**

The respondents were asked rate the challenges of human resource outsourcing practices within their organizations on a scale of 1-5, 1 being “strongly disagree” and 5 being “strongly agree. The findings are summarized in Table 10.

**Table 10: Challenges of Human Resource Outsourcing practices**

<b>Benefit of outsourcing human resource activity</b>	<b>Mean score</b>	<b>Standard Deviation</b>
Compromises confidentiality	4.43	0.500
Loss of decision making control	3.87	1.214
Threat to Human resource function	3.18	1.432
Affects organizational culture	4.38	0.585
Affects employee morale	4.25	0.437
Impacts on staff turnover	3.60	1.330
Loss on in-house expertise	4.03	1.248

<sup>1</sup>In this study, the scale was 1= Strongly disagree; 2=disagree; 3= Not sure; 4=agree; 5=strongly agree

The main challenges that face human resources outsourcing practices among the organizations was that it compromises confidentiality of organizational matters with a mean score of (4.43), followed by the affects employees morale at a mean score of (4.38) and the effect on organizational culture at a mean score of (4.25). The loss on in-house expertise was rated high with a score of (4.03). Other challenges identified were loss of decision making control (3.87), impact on staff turnover (3.60) and threat to human resource function (3.18). All these were moderately rated.

Compromise on confidentiality, effect on organizational culture, effect on employee morale and loss on in-house expertise were highly rated as challenges facing the human resource outsourcing practices within the organizations. Loss of decision making control, Impact on staff turnover and threat to human resource function were moderately rated hence can be considered as main challenges. Loss of data security and concerns with confidentiality and

privacy are regarded as major challenges notwithstanding the dilution on the organizational culture and effect on employee morale.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

In this chapter, the summary and conclusions arrived at from the research are discussed in the light of the objective of the research project which was to study the Human Resource Outsourcing Practices among International Non-Governmental Organizations based in Nairobi. 60 out of the targeted 70 organizations responded to the questionnaire, which represented more than 80% of the targeted population.

### **5.2 Summary**

The majority of the participants surveyed were Human Resource directors/department heads/managers and most of them having been with the same organization for the last five years. The study revealed that the emerging trend is that the number of job opportunities within organizations for entry-level human resource professionals are on the decline, while the demand for strategic human resource expertise is being emphasized.

Although organizations represented in the study varied in size and type, classification showed that larger organizations with over one hundred employees tended to outsource more particularly the commercial or business orientated ones. The large organizations indicated that their reason for outsourcing was an attempt to free up the time of their human resource staff to focus more on core competencies as a cost-time saving strategy. Many of the professionals indicated that human resource outsourcing was likely to increase in the next five years.

Most organizations have been operating in Nairobi for more than ten years with a higher number business orientated organizations responding to the questionnaire. This could be an indication that the general business environment favours human resource outsourcing primarily as a competitive strategy to cut costs while taking advantage of expertise service and concentrating on their core business.

The most common human resource practices being outsourced by organizations surveyed for this study were benefits and medical administration, recruiting, training & development, contracts management and staff development. Since all these practices are typically non profit-producing or core business centres, the use of a vendor who has them as core business enabled the organizations to focus more on creating business strategies that positively impact on the bottom line. Practices that were less popular were human resource information system since it was considered part of the internal information technology department and relocation services since most of the employees are local staff hence do not require the service.

The study found that organizations considered outsourcing primarily to improve quality of service. Other key motives included gaining access to outside expertise, the opportunity for cost savings and a desire to focus on issues vital to the business. The availability of a variety of vendors to choose from makes the process flexibility to meet the needs of the organization at any given time. Moreover, since there are a variety of vendors to choose from to suit the training practices and procedures which change frequently, and filling open positions is a never ending burden for human resource departments, outside suppliers ease the burden.



The risk of losing institutional knowledge and/or control, organizational resistance, and internal information security threats were the most commonly cited risks when considering outsourcing of human resource activities.

### **5.3 Conclusions**

After a rigorous analysis of the findings of this study and based on the specific objective for this study which was to study human resource outsourcing practices among international non-governmental organizations based in Nairobi, the following conclusions are presented:

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

Human resource outsourcing is not just about cost savings. Human resource outsourcing practices, is, in many ways, forcing a change in how human resources does business by making human resource business leaders refocus on what is important to the organization. Human resource staff can now have more time to focus on core business functions and can utilize internal resources more effectively and efficiently.

Within the Human resource department, there is a wide variety of practices that are candidates for outsourcing. Any organization making a significant commitment to human

resource outsourcing makes a decision with far-reaching implications for the entire organization. For this reason, it is crucial that all stakeholders involved in the process from the outset and there is clarity in relation to the goals and objectives that the organization expects to achieve.

The outsourcing decision should only be made after thorough examination and planning and after an in-depth investigation into the qualifications and experience of the vendors under consideration. The most common concerns among these organizations when making human resource outsourcing decisions are the loss of institutional knowledge and or control, organizational resistance and internal informational security threats. The vendors should demonstrate whether proof of return on investment has, in fact, been realized—all without any dilution in company culture, loss of data security and in compliance with confidentiality and privacy requirements.

This study attempted to evaluate the extent of outsourcing in the organizations, the benefits and drawbacks of the process and to explore the considerations that lead to the decisions to outsource. The message from this study for human resource business leaders is that human resource outsourcing demands an extensive ongoing working relationship with the vendor and cannot be perceived by the organization as a simple handoff. The organization must be clear about its goals and objectives upfront and disciplined about managing all aspects of the outsourcing contract and relationship from beginning to end.

## **5.4 Recommendations**

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

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

The fundamental belief system held by most organizations is that cost savings are delivered mostly through the vendor's ability to achieve economies of scale, followed by capabilities and knowledge/experience. The findings also reflect that outsourcing is still highly driven by cost savings as an expected benefit, cost savings as a key driver of outsourcing and cost savings as a primary criterion for choosing a vendor.

Choosing the right vendor is an critical step by either developing request for proposals or by buying service agreement. One thing is certain, the organization considering human resource outsourcing should be clear on the objectives for outsourcing and that they meet the corporate

strategy, what they expect from their vendor and the performance measurement by which they evaluate their providers. Once a contract is established, a good relationship between the organization and the vendor must be built to strengthen a proper communication between the parties for high quality service delivery. This can also be done by considering the vendor to be more of a strategic partner, inviting them to management meeting and other forums. Some experts recommend having an in-house team or person in charge of helping the vendor familiarize with the day to day operations of the organizations and to ensure fulfillment of the contract agreement.

## **5.5 Limitations of Study**

The first limitation identified in this study is the lack of research available addressing human resources outsourcing practices in Kenya. The majority of the studies found were done in other countries namely United States, Canada, China and India.

The second limitation was in regard to the data collected. In several cases the contact information provided was incorrect, this made the collection of data a long and arduous process. Some respondents also took a long time to complete the questionnaires, which resulted in delays.

The third limitation was the financial constraints which made the research only cover organizations based in Nairobi, hence the findings cannot be regarded as truly representative of all international organizations in Kenya.

## **5.6 Suggestions for further Research**

Further studies in Kenya should focus on the way companies assess their operations before finally deciding to outsource any human resource function, the contracting process, the vendor evaluation or contract monitoring and the legal implications.

A study on the cost-benefit analysis of human resource outsourcing activities in an organization is suggested as a possible area of further research. Since organizational resistance has been identified as the second major challenge facing human resource outsourcing practices, additional research on how these practices impact on human resources such as redundancies and staff motivation, organizational culture and loss of in-house knowledge can also be investigated in deeper perspectives.

From the vendors' point of view, research on new human resource outsourcing service trends can be an interesting research area. This way more reference on the human resource outsourcing market could be provided, information that can serve as a guide for organizations on the best human resources outsourcing practices.

Finally an interesting area of research would be the in the area of the continued relevance of internal human resources department in the light of organizations preferring to outsource most of the practices within the department. A question can be posed as to whether human resource outsourcing practices is indeed a threat to the survival of human resource management in modern day organizations.

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**APPENDIX I: Letter of Introduction**

Billiah Maende  
School of Business  
University of Nairobi  
P.O. Box 30197  
Nairobi

Dear Respondent,

I am a graduate MBA student of the University of Nairobi currently undertaking a management research project entitled “**HUMAN RESOURCES OUTSOURCING PRACTICES AMONG INTERNATIONAL NON-GOVERNMENTAL ORGANIZATIONS IN NAIROBI**”

Consequently, I kindly request you to assist by completing the enclosed questionnaire which shall provide data for analysis in order to achieve the objectives of the research. The information you provide shall be confidential and used exclusively for academic purposes. A copy of the report will be availed to you on request.

Your kind contribution is appreciated.

Thank you.

Yours faithfully,

-----  
**Billiah Maende**  
**MBA Student**  
**Reg. No. D61/70512/2008**  
**Tel: 0723-330258**

-----  
**Florence Muindi**  
**School of Business**  
**University of Nairobi**  
**Tel: (020) 2059162**

## **APPENDIX II: Questionnaire**

### **HUMAN RESOURCE OUTSOURCING PRACTICES AMONG INTERNATIONAL NON-GOVERNMENTAL ORGANIZATIONS IN NAIROBI**

*A study in partial fulfillment of the requirement for the degree of Masters in Business Administration (MBA), School of Business, University of Nairobi*

#### **SECTION A**

Please answer the following questions by placing the (✓) in the brackets or by giving the necessary details in the provided spaces.

#### **PART I RESPONDENT'S PROFILE**

1. What is the name of your organization.....
2. Title or position of respondent in the firm.....
3. How long have you been with this organization.....

#### **PART II ORGANIZATIONAL DATA**

4. How would you classify your organization?

Business oriented International NGO [      ]

Religious International NGO [      ]

Environmental International NGO [      ]

Other (Please specify)

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

5. For how long has your organization had a presence in Nairobi?

5 years and below [      ]

6 to 10 years [      ]

More than 10 years [      ]

6. Indicate the total number of employees in your organization.

50 - 100 [ ]

101- 500 [ ]

Over 500 [ ]

## SECTION B

### PART I HUMAN RESOURCE OUTSOURCING PRACTICES

7. For the last 5 years (2005 to date), tick the Human Resources areas your organization has outsourced or is currently outsourcing.

Key: Not at all [1]  
 Small extent [2]  
 Not sure [3]  
 Great extent [4]  
 Very great extent [5]

	[1]	[2]	[3]	[4]	[5]
Recruiting	[ ]	[ ]	[ ]	[ ]	[ ]
Training & Development	[ ]	[ ]	[ ]	[ ]	[ ]
Benefits Administration	[ ]	[ ]	[ ]	[ ]	[ ]
Relocation services	[ ]	[ ]	[ ]	[ ]	[ ]
Payroll processing	[ ]	[ ]	[ ]	[ ]	[ ]
Contract employee management	[ ]	[ ]	[ ]	[ ]	[ ]
Human Resource Information system	[ ]	[ ]	[ ]	[ ]	[ ]
Staff Development	[ ]	[ ]	[ ]	[ ]	[ ]

**Others (Please specify)**

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

8. To what extent does each of the following factors (statements) influence human resource outsourcing in your organization?

**Key:** Strongly disagree [1]  
 Disagree [2]  
 Not sure [3]  
 Agree [4]  
 Strongly Agree [5]

	1	2	3	4	5
Cost	[ ]	[ ]	[ ]	[ ]	[ ]
Competition	[ ]	[ ]	[ ]	[ ]	[ ]
Strategy	[ ]	[ ]	[ ]	[ ]	[ ]
Globalization	[ ]	[ ]	[ ]	[ ]	[ ]
Partnership	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing activity is considered 'non-core'	[ ]	[ ]	[ ]	[ ]	[ ]
Resources for outsourcing not available internally	[ ]	[ ]	[ ]	[ ]	[ ]
Access to expertise available	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing cost considered low	[ ]	[ ]	[ ]	[ ]	[ ]
To avail time for other activities	[ ]	[ ]	[ ]	[ ]	[ ]
To improve efficiency	[ ]	[ ]	[ ]	[ ]	[ ]
Lack of in-house expertise	[ ]	[ ]	[ ]	[ ]	[ ]
To improve organizational focus	[ ]	[ ]	[ ]	[ ]	[ ]
Business environment	[ ]	[ ]	[ ]	[ ]	[ ]

**Any other reasons:**

Please specify.....  
 .....  
 .....

## PART II SELECTION OF AN EXTERNAL VENDOR

9. Rate the importance of the following criteria in selecting an external vendor

**Key:** Not Important [NI]  
 Less Important [LI]  
 Not sure [NS]  
 Important [I]  
 Very Important [VI]

	<b>NI</b>	<b>LI</b>	<b>NS</b>	<b>I</b>	<b>VI</b>
Cost	[ ]	[ ]	[ ]	[ ]	[ ]
Professionalism	[ ]	[ ]	[ ]	[ ]	[ ]
Expertise	[ ]	[ ]	[ ]	[ ]	[ ]
Credibility	[ ]	[ ]	[ ]	[ ]	[ ]
Quality of service	[ ]	[ ]	[ ]	[ ]	[ ]
Past performance	[ ]	[ ]	[ ]	[ ]	[ ]
Qualifications	[ ]	[ ]	[ ]	[ ]	[ ]
Size of vendor firm	[ ]	[ ]	[ ]	[ ]	[ ]
Flexibility	[ ]	[ ]	[ ]	[ ]	[ ]
Contract terms	[ ]	[ ]	[ ]	[ ]	[ ]

**Any other reasons:**

Please specify.....  
 .....  
 .....

## PART III Benefits of Human Resources Outsourcing

10. To what extent do you agree with the following statements as benefits of Human Resources outsourcing in your organization?

**Key:** Strongly disagree [SD]  
 Disagree [D]  
 Not sure [NS]  
 Agree [A]  
 Strongly agree [SA]



	<b>SD</b>	<b>A</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
Outsourcing enables firm to focus on core business	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing reduces overall administrative costs	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing improves quality service and reliability in delivery	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing improves overall efficiency	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing ensures sufficient flexibility	[ ]	[ ]	[ ]	[ ]	[ ]
To respond to market conditions	[ ]	[ ]	[ ]	[ ]	[ ]
Outsourcing enables firm to access expert service at lower cost	[ ]	[ ]	[ ]	[ ]	[ ]
Job security for core employees is enhanced	[ ]	[ ]	[ ]	[ ]	[ ]
Productivity is increased	[ ]	[ ]	[ ]	[ ]	[ ]
Enables formation of business partnerships with vendors	[ ]	[ ]	[ ]	[ ]	[ ]

**Any other reasons:**

Please specify.....  
 .....  
 .....

## **PART IV CHALLENGES OF HUMAN RESOURCES OUTSOURCING**

11. As a result of Human Resources outsourcing, what is your response to the following statements?

**Key:** Strongly disagree [SD]  
 Disagree [D]  
 Not sure [NS]  
 Agree [A]  
 Strongly agree [SA]

	<b>SD</b>	<b>A</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
Outsourcing compromises Confidentiality	[ ]	[ ]	[ ]	[ ]	[ ]

Creates a loss of control in decision making process	[ ]	[ ]	[ ]	[ ]	[ ]
Is a threat to the Human Resources function	[ ]	[ ]	[ ]	[ ]	[ ]
Affects morale of employees	[ ]	[ ]	[ ]	[ ]	[ ]
Affects organizational culture	[ ]	[ ]	[ ]	[ ]	[ ]
Impacts on staff turnover	[ ]	[ ]	[ ]	[ ]	[ ]
Loss on in-house expertise	[ ]	[ ]	[ ]	[ ]	[ ]

**Any other challenges:**

Please specify.....  
.....  
.....

- 000 -

*Thank you very much for your cooperation.*

### **APPENDIX III: International Non-Governmental Organizations in Nairobi**

1. ActionAid International
2. Aga Khan Education Services
3. Aga Khan Foundation
4. Aga Khan Health Service
5. CARE International
6. DFID Eastern Africa - UK Department for International Development
7. Family Health International
8. FAO - Food and Agriculture Organization
9. Habitat for Humanity
10. HelpAge International Homeless Children International
12. Hope - Poverty Eradication Organization
13. ILO - International Labour Organization, EEP - Entrepreneurship Education Project
14. ILO - International Labour Organization, IYB - Improve Your Business
15. International Childcare Trust
16. International Committee of the Red Cross
17. International Community for the Relief of Starvation and Suffering
18. International Finance Corporation
19. International Organization for Migration
20. Ipas - Africa Alliance for Women's Reproductive Health and Rights
21. KaODA - Kommunalaktion Organisation for Development Assistance
22. KENWA - Kenya Network of Women with HIV/AIDS
23. Kenya AIDS and Drugs Alliance
24. Kenya AIDS Intervention/Prevention Project Group
25. Kenya AIDS NGO Consortium
26. Kenya Mission to U N E P
27. Kenya National Commission for UNESCO
28. Kenya Red Cross Society
29. National Council of NGOs
30. National NGO Coordinating Committee on Network of African People Living with HIV/AIDS
31. Oxfam GB
32. Oxfam-Quebec
33. Salvation Army
34. Save the Children
35. Society for Women and Aids in Kenya
36. Somali Women Development Group
37. SOS Children's Villages
38. Sudan Relief and Rehabilitation Association
41. The Rockefeller Foundation
42. UNA - Una Terra Mondo du Tutti / One Earth One World
43. UNAIDS - Joint United Nations Programme on HIV/AIDS
44. UNCHS / Habitat - United Nations Centre for Human Settlements
45. UNDP (Somalia)
46. UNDP - United Nations Development Programme
47. UNESCO - United Nations Educational, Scientific and Cultural Organization
48. UNHCR - United Nations High Commissioner for Refugees

49. UNICEF (Somalia) - United Nations Children's Fund
50. UNICEF - United Nations Children's Fund
51. UNIDO - United Nations Industrial Development Organization
52. UNIFEM - United Nations Development Fund for Women
53. United Nations
54. United Nations Centre for Regional Development
55. United Nations Development Programme
56. United Nations Office at Nairobi
57. United Nations Population Fund
58. United Nations Volunteers United Nations, Sudano-Sahelian Office
60. UNODC - United Nations Office on Drugs and Crime
61. UNON - United Nations Office for Project Services
62. US Peace Corps
63. USAID - US Agency for International Development
64. WFP - World Food Programme
66. WHO - World Health Organisation
67. Widows and Orphans Welfare Society of Kenya
68. Women Fighting AIDS in Kenya
69. World Bank
70. World Neighbours
71. Worldview International Foundation
72. World Vision
73. YWCA - Young Women's Christian Association

**Source: NGO Coordination Council 2009 Register**