

**FACTORS INFLUENCING HUMAN RESOURCE OUTSOURCING AT SOUTH
NYANZA SUGAR COMPANY LIMITED**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT FOR THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS ADMINISTRATION, AT THE
UNIVERSITY OF NAIROBI, SCHOOL OF BUSINESS**

2015

DECLARATION

STUDENT'S DECLARATION

I declare that this project is my original work and that it has never been submitted to any other university or institution of higher learning for any award.

Signature í í í í í

Date í í í í í í í í í í ..

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SUPERVISOR'S DECLARATION

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

Signature í í í í í í í í

Date í í í í í í í í í í í í í

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DEDICATION

I dedicate this project to my late dad Joseph Mola for his unwavering support and belief in me when he was still alive .To my dear husband Gerald, for his financial and moral support .To my son Humphrey Paul and four daughters; Belinder, Cynthia, Laura and Phiona for their understanding, support and encouragement in the midst of my tight schedule. May God bless you abundantly.

ACKNOWLEDGEMENTS

I sincerely thank the Lord Almighty for his care and providence which enabled me to undertake this research project that was involving in terms of time and resources.

I would also like to acknowledge and appreciate the assistance accorded to me by my lecturers in the School of Business, Kisumu Campus.

I wish to express my heartfelt appreciation to my classmates and friends, Evaline Asingo, to whom I remain indebted for her encouragement and tireless effort to help me at every stage: Julie Irene, Lynnet Indakwa ,Sata Banda for their encouragement and support throughout the course.

Finally, I would like to express my sincere thanks to my supervisor, Professor Peter K~~o~~Obonyo for agreeing to supervisor this research paper and his patience in reading the draft and occasionally guiding me, without which this research would not have been a reality.

God bless you all.

LIST OF ABBREVIATIONS

HRO	Human Resource Outsourcing
HR	Human Resource
HHRD	Head of Human Resource Department
TCE	Transactional Cost Economic
RBV	Resource Based View
SONY	South Nyanza

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ABSTRACT

The research project was undertaken by considering Sony Sugar Company in Migori County in current standard of HRO. Data was collected from a senior manager HRO and was analyzed using content analysis. To achieve the research objective, Primary data was used. The data was collected using questionnaire. The paper focused on HR Outsourcing and the factors which should be considered before a company goes for outsourcing of Human Resource functions. A review of available literature was done in order to understand how today's HR firms offer a wide range of services to companies that need to focus on their core-business activities and still established and maintained good HR policies and to explore the factors that influenced the HR decisions. The findings implicitly pointed out that the decision of HR outsourcing is contingent upon factors like flexibility, competency and cost saving, among others. The study established that HR Outsourcing improves company focus because whenever new products are developed, new market segment would be explored. It was also revealed that operating cost would be reduced by outsourcing non-core operations function areas. The study explains that organization would only outsource when suppliers demonstrate superior capabilities that would provide the content expert resource that supports the requirement effectively and efficiently. The research findings have proved that several factors are considered by management before undertaking HR Outsourcing. Further, this research has confirmed studies carried out by Mihir, Singh and Gupta (2009) on the increase of HRO in organizations. From the findings it is evident that Sony Sugar Company practice HR Outsourcing and there are eight factors that influence HRO to a very great extent, six factors influence to a great extent and two factors influence to a moderate extent and all of which are geared to profit making. However, the studies recommend the development of HRO policy framework for Sony Sugar Company that is competitive and comparable with other organizations.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The need to respond to market changes on a daily basis and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competences and capabilities (McIvor, 2008). With the increasing globalization, outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers (Yang, Seongcheol, Changi and Jawon, 2007). The act of outsourcing makes sense for firms that lack the necessary economies of scale, skills or technology to perform certain functions efficiently (Jacobs 2009). Tighter margins have pushed organizations of all sizes to consider the strategic implications of divesting more and more business functions thus the need to outsource decisively non-core functions. The world has embraced the phenomenon of outsourcing and companies have adopted its principle to help them expand into other markets. (Bender 1999). Outsourcing has drawn attention with regard to its role in achieving effective integration by which inter and intra firm activities are integrated to enhance customer satisfaction and competitive advantage. Human resource outsourcing as a strategic move, improves the quality and flexibility of one's work force while improving organizations ability to accommodate change and stay ahead of market force.

This study is founded on the resource-based and Transaction cost economic theories. The two theories address the key factors that would influence human resource outsourcing in most organizations. Resource based theory indicate that an organization would only outsource non-core business functions. A firm should specialize in producing products that it is good at, to achieve competitive advantage (Adams Smith 1776). On the other hand transactional cost Economic theory explains why we need firms in a market economy. It emphasizes that a firm as a hierarchy locates products by demand.

The theories address factors that influence outsourcing of human resource in organizations. The principles of human resource outsourcing at Sony Sugar Company limited aim at customer's satisfaction, service relocation, efficiency and cost reduction. Today, the outsourcing strategy is affected by many things among them technological advancement and quality management systems. Most companies are realizing that outsourcing practice is necessary as it drives a firm economically, strategically and environmentally to better performance and reduced operation costs. With organizations seeking to grow, remain competitive and meet changing business conditions, the human resource function, like other functions is under scrutiny to deliver value adding quality services to the business. Outsourcing has therefore become a powerful weapon which CEOs and human resource directors are adopting to make sure that the human resource function keeps pace with other changes in business (Serem 2002).

1.1.1 Concept of Outsourcing

Outsourcing is a process where an external vendor or service provider gives on a recruiting basis, services that would normally be performed in-house by the organization. As noted by Thompson and Strickland (2007), Outsourcing involves a conscious decision to abandon or forgo attempts to perform certain value chain activities internally and instead to firm them out to outsider specialists. Gupta and Gupta (1992) define outsourcing as the concept of hiring outside professional services to meet the in-house needs of an organization. It is the act of moving a firm's internal activities and decision responsibility to outside providers. The terms of the agreement are established in a contract. Jacobs and chase (2008). The process goes beyond the more common purchasing and consulting contracts because not only are the activities transferred but also resources that make the activities occur, including people, facilities, equipment, technology, and other assets. The responsibility of making decisions over certain elements of the activities is transferred as well. Human resource outsourcing involves delegation of one or more human resource practice(s) to an external service provider, who then owns, manages and administers the selected practices based on defined and measurable performance metric (Gupta, 1996).

Outsourcing aids companies to achieve their business objectives through operational excellence and a better market position. In outsourcing the firm leverage on third party service providers expertise to perform its non-core activities and focusing more on core ones to achieve competitive advantage for the business (Goolsby and Whitlow,2004). Barney (1991) advanced that human resource outsourcing is more of contractual agreement between an employer and an external third party provider whereby employer transfers responsibility for certain human resource, benefit or training-related functions or services to external provider. The current interest of many companies in making outsourcing a key component of their role strategy and their approach to supply chain management represents a big departure from the way the companies used to deal with their suppliers and vendors. The concept of outsourcing ñnon-coreö HR activities has been adopted by some organizations as a strategic management tool to assist them to have competitive advantage, Greer et al (1996). The productive capacity of all business depends on the capital resource, the physical resource and the human resource. This statement is significant because of the fact that of all the three resources; only the human resource possess the productive capacity for which the upper limits are not defined. So in order to utilize the true worth of employees to its fullest, organizations should outsource their non-core activities. While some firms have adopted outsourcing strategies in order to ensure greater cost and efficiency benefits, others have used it to gain competitive advantage, expand into other markets, and gain flexibility in decision-making Thompson and Strickland (2006).

1.1.2 Factors influencing Outsourcing of Human Resource

Research on outsourcing typically presents it as primarily a time-and-money saving strategy, as a way to obtain better services at cheaper rates Jeffay, Bohannon &Laspisa (1997). Human resource outsourcing co-operations are contextually varied and as such every organization has different reason to outsource or not to outsource human resource tasks. The factors that influence human resource outsourcing varies from one company to another. For instance, human resource expertise, flexibility, risk reduction and access to advance technology are some of the common factors considered in outsourcing of human

resource. Edler (2003) noted a review by the granter group the six factors considered by most organizations in decision of outsourcing. They include: dependency risk, spill risk, focus, relative proficiency, strategic capabilities and flexibility.

A 1998 survey conducted by the outsourcing Institute lists the top ten internal reasons companies give for contracting various functions; thus, to accelerate reengineering benefits, to gain access to world-class capabilities, to benefit from an infusion of cash, to free up resources for other purpose because a function is difficult to manage or out of control, to improve company focus and to make capital funds available internally. Besides the reasons mentioned, there is the desire to obtain a consistent, standardized menu of services, to take advantage of state-of-the-art technology and to expand program offerings. Mihir, Singh, Mishra and Gupta (2009) point out that organizations are increasingly taking up HRO as an opportunity to streamline processes, reduce costs, get access to the latest technology and tools, consistently achieve better quality and align human resources with overall business as quickly as possible.

1.1.3 Sony Sugar Company Limited

The word Sony is coined from South Nyanza, hence Sony Sugar Company. The company is located in Nyanza province, Migori County along Kisii-Migori highway. It is approximately 410 kilometers West of Nairobi. The company serves over 25,000 cane farmers in ten districts within the cane growing zones of Awendo, Migori, Homa-Bay, Transmara, Kuria, Uriri, Kisii South, and Ndihiwa. At its commissioning in 1976, the company was placed under the management of Metha Group International up to 1985 when the government then appointed UK consortium Booker Tate International to manage it. It was then reverted to a wholly Kenyan team in March, 2006. Today it is fully under the Kenya government with a total of 1,145 permanent employees and 850 contracted ones (<http://www.sonysugar.co.ke>). Its objective was to increase the National Sugar production so as to reduce dependence on importation, to create job opportunities and to enhance regional development. Since its inception, the company has continued to make remarkable achievements in spite of many challenges brought by liberalization of the economy today.

Sony Sugar has a strategic plan which covers a period of five years that is 2010-2015. It provides the strategic direction of being a world class manufacturer of sugar and other associated products.

The strategic plan lays foundation for the company's contribution to the realization of Kenya vision 2030 and establishes the strategic framework for business level planning, implementation and performance monitoring (Sony Sugar strategic plan 2010-2015). The plan defines the company's strategic direction for ensuring delivery of tangible results to all stakeholders through vision and mission statements, corporate objectives, strategies and strategic activities as well as corporate organizational and structural framework. For effective implementation of the plan, adequate resources will be acquired, realigned and utilized effectively and efficiency (<http://www.sonysugar.co.ke>). The company management is under the board of directors responsible for the strategic objectives and business performance. The chairperson, besides other responsibilities guides eleven board members whose membership comprises the representative of the institutions such as the ministry of agriculture, ministry of finance, inspectorate of state corporations, engineering, accountancy, marketing, public relation, security and other diversities. To translate the value into action the managing director is supported by management committee of 10, heading various operational and service departments. The success of the company is measured by not only just financial target but also the positive contributions made to lives, communities and the environments in the region (<http://www.sonysugar.co.ke>).

1.2 Research Problem

Increased competition and environment turbulence has led to the need of public organizations to seek ways and means of becoming profitable and to handle emerging HR issues to protect the employees and the company image (Porter, 1980). Human resource outsourcing as an organizational strategy has increased substantially over the last decade; the trend has attracted many academic research with regard to how outsourcing decisions are made, the manner in which such decisions are implemented, how outsourcing effectiveness is measured and most importantly the factors influencing human resource outsourcing in companies (Cook and Gildner, 2005).

In the last decade, Sony sugar remained a leading sugar producing company in the region. However, in the recent past the company has faced low production hence a huge loss in terms of profit despite the availability of expertise, skills and technology. This calls for the review of human resource outsourcing strategies to facilitate the improvement of its credibility and image.

Human Resource Outsourcing Studies have been done among organizations in Kenya and beyond. Studies conducted in Europe, North America and India: the global top decision makers on business found out that outsourcing is working very well. For instance, a survey of the outsourcing of human resource services by banks in Nairobi (Serem 2002) found out that 61.22 per cent of commercial banks outsource human resource services and all respondents cited the benefits of reduced administrative costs and focus on business as some of the factors that influenced their decision to outsource. Makhino (2006) conducted a study to establish the benefits and challenges of Human resource outsourcing in commercial Banks in Nairobi Kenya. In the research it was established that although 50 per cent of banks surveyed had benefited from Human Resource Outsourcing, they also faced challenges in the process. However, the benefits outweighed the challenges and the researcher thus recommended outsourcing of human resource activities.

A study of all manufacturing industries in Nairobi by Chanzu (2002) found out that firms outsourced various activities and this was most prevalent in departments like human resource, finance and information technology. There was greater drive towards the use of outsourcing as a strategy to cut costs, to pursue the core business activities and outsource the non-core or strategic activities. Kirui (2001) in his study of outsourcing non-core logistics activities at British American Tobacco Kenya (BAT Kenya) noted that outsourcing was triggered by the need to eliminate duplication of roles, effort and the dysfunction existing within the organization. Outsourcing at BAT was as well prompted by the need to have a clearly defined process and logistics function that is aligned to core company business. This contributed to reduction in the logistics operating cost and improved working capital management.

Barako and Gatere (2008) in their study on outsourcing practices in the Kenya banking sectors found out that the most outsourced services by banks was automated teller machines (ATM) at 67% ,card processing at 58% ,internal audit at 16% and the least outsourced service was customer account processing. The study further found out that 67% of the respondents cited cost reduction and focuses on core competence as the benefits driven from outsourcing .However, the above studies did not address the issues the researcher seeks to address on the underlying factors that influence outsourcing of human resource at Sugar Company. This study will therefore fill the research gaps in knowledge by analyzing the factors influencing human resource outsourcing at Sony Sugar Company. The study seeks to answer the following question; what are the factors influencing human resource outsourcing at Sony Sugar Company limited?

1.3 Research objective

To establish the factors influencing human resource outsourcing at South Nyanza Sugar Company Limited.

1.4 Value of the study

This study arose from the necessity of a research focusing exclusively on factors influencing outsourcing of human resource within the Sony Sugar company. The study will be important to the management of Sony Sugar Company in increasing service quality, reducing costs, addition of expertise and variability of staffing. This will increase organizational performance making it more competitive in the region.

The policy makers especially the ministry of labor will be sensitized to have a better understanding of the factors that would influence outsourcing of human resource services. The ministry can come up with policies to outsource the right human resource for better quality service.

This study will also be beneficial in adding to the body of knowledge especially to human resource scholars. They will be able to perceive the right strategies organizations may adopt during human resource outsourcing and identifies factors influencing HR outsourcing. Findings of this study will contribute to the field of human resource outsourcing in particular. It will serve as a guide for outsourcing service providers to meet their clients' needs and expectations and service buyers to identify their needs and make the best decision when selecting a human resource service provider (HROSP).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature review is an account of what has been published on a topic by accredited scholars and researchers. Its focus is to summarize and synthesize the arguments and ideas of others without new contributions. The literature review in this study will cover theoretical foundation and the factors influencing human resource outsourcing at Sony Sugar Company.

2.2 Theoretical Foundation of the study

The study was guided by transaction cost economics and resource based theories.

2.2.1 Transaction Cost Economic Theory

Outsourcing is commonly linked with Williamson's (1975) transaction cost theory. The Transaction Cost Economy (TCE) model proposes comparison of the costs incurred by internal production and by buying from the market. Williamson claims that in order to comply with cost-conscious corporate governance strategies, the choice of buying should be considered with regards to price as it could offer cheaper solutions than preparing internally. The theory can assist an organization in assessing the relative difference and competitive advantages between market cost and production cost. Outsourcing decisions based on TCE are likely to focus on the economies of scales and specialist skills available via vendors, although the effect of these benefits are likely to diminish as the service becomes more bespoke and frequently produced.

This approach highlights the need for a detailed and specific contract between the client and vendor in order to avoid opportunism and performance measuring problems (Lacity and willcocks, 1998) and (zenger, 2002). According to cost perspective, organizations focus on securing the most efficient form of organizing an activity. Outsourcing is

appropriate when the organization achieves lower cost by transacting with external vendors rather than building the internal capacity (Mathis, 2003). Williamson (1979) assumes the TCE will always seek to chase the most economic governance structure. He explains that in transactions the *make* versus *buy* choice is composed of three elements: the degree of certainty, frequency of transaction and investment.

2.2.2 The Resource –Based view

The theory focuses on the quality of the human resources available to the organization as key resource that can be used for competitive advantage. Thus, Barney (1991) contends that firms can only gain competitive advantage when they possess rare resources internally, that are hardly substitutable. These capacities constitute the core competencies of the firm (Prahalad and Hamel, 1990). According to RBV, a firm may outsource all activities other than its core competence (Quinn and Hilmmer, 1994). Apart from all types of tangible and intangible assets, these resources include human assets that seamlessly meet the above outlined criterion of being imperfectly imitable and specific to the organization. This also implies however, that internal resources are inevitable for securing sustained competitive advantage and that it is unlikely that those can be purchased externally. Thus, the resources that are critical to achieve success are already with the firm and the function itself is path dependent (Cool and Diericx, 1989 and Barney, 1991). The theory directs organizations to focus their resources on those services and products that facilitates some gains .It is the possession of certain resources and capacities that defines what the organization will do and what it can obtain from outside parties (Venkatesan, 2002).

2.3 Human Resource Outsourcing

Outsourcing is a conscious decision to do without performing certain value chain activities Internally and instead serve them to outside specialist and strategic allies (Thompson, 2007). He further notes that outsourcing has often been used by organizations that prefer to work on the core activities and are surrounded by the network of smaller companies and individuals doing a range of auxiliary services on contractual basis. Further, Outsourcing

can broadly be defined as the transfer to an outside provider of a function previously performed internally (Finlay and King 1999; Lepak et al. 2005). Many organizations realize the importance of outsourcing and begin to expand their practice to many of their business operations. In fact many researchers posit that outsourcing encompasses a wide spectrum of activities from manufacturing operations to research and development, logistics and marketing, information technology, HRM and accounting (Gilly, McGee and Rasheed 2004; Morgan 2003; Wahrenburg, Hackethal, Friedrich and Gellrich 2006).

However, outsourcing HR functions is the practice of turning over all or part of an organization HR functions to an external provider (Adler 2003; Pelham 2006). Outsourcing activities initially entailed small segments of HR functions particularly non-core functions such as payroll and benefits administration (Adler 2003; Fisher et al. 2008), and has gradually grown to many HR functions including core such as HR planning and development (Lepak et al. 2005; Demotte and Sels 2008). Thus, Companies due to the unpredictability of markets are often forced to re-examine their activities and to be reoriented towards their core occupation. According to the Harvard Business Review, outsourcing is one of the most important management ideas and practices for the last 75 years. Moreover, it appears that 90% of American companies outsource at least one of their activities. During the outsourcing World Summit organized by the Dam & Bred street group in 1999, sectors in which this practice developed the quickest were those related to the management of human resources, the media, new information technologies, consumer services and marketing. So far, outsourcing is speeding particularly in Western Europe, in China, in Taiwan and in Australia (Hay 1999). It is no longer the privilege of only huge multinational organizations, even the public sector and government undertakings as well as medium size or start-up companies are also in the race of outsourcing their many HR related activities.

The cloudy economic environment and shifting priorities are key influencers of current HR outsourcing as businesses seek cost-effective ways to focus on core competencies, growth and talent management. Many companies have found that outsourcing some of their HR functions make these goals a reality. The trend in the business world today is no

longer directed toward the simple acquisition of technology. Achieving a balance between up-front and on-going costs and reaping the benefits of these investments by cultivating employee growth, is the ultimate target. Among the main goals identified by HR departments, the most commonly cited include stabilizing costs, lowering their risks and increasing employee productivity (www.adptotalsource.co). In terms of the key advantages they saw by outsourcing certain HR functions, they highlighted alleviating their staff's administrative burden, the expertise provided by their external partners, meeting their compliance requirements and allowing their internal staff to focus more on core business and strategic issues (HR service delivery and technology research report 2012). Apparently those in outsourcing are not always completely satisfied, therefore the executive must learn more about using outsourcing to boost productivity (Heizer and Render, 2008).

The need for high quality services are enhanced by the outsourcing of services to the experts who are more inclined to deal with the technicalities of the issues involved in the making of the work provided easier and be done in a much more professional and high quality standards (Shrim 2002). This will enhance efficiency and yield outputs at a higher capacity rate making it easier to compete with other organizations in the same industry. Outsourcing helps to overcome space limitation and lack of technical content expert and support infrastructure internally. These are highly important in the conducting of the industry needs especially when the resources are highly priced and also require well trained personnel to do the job (Kessler et al., 1999). HR Outsourcing is very important when companies are operating at capacity and do not have additional staff to handle increased activity. Because such levels of business will eventually decline, companies may prefer to outsource some activities rather than hiring more staff. HR outsourcing enables executives to cope with time-sensitive issues and competing demands while the risk and uncertainty is absorbed by the HR vendor, especially where rapid changes in technology or regulatory issues occur.

2.4 Factors influencing Human Resource Outsourcing

The reasons why companies decide to outsource vary greatly. Generally, Outsourcing allows firms to focus on activities that represent their core competencies. Nevertheless, they differ in the implementation of this increasingly important practice. Thus, some organizations may make little use of HR outsourcing whereas others rely heavily on the use of external vendors to perform HR functions. The main departments outsourced by most organizations are: human resource, finance and marketing (Jacob and Chase, 2008). Human resource leaders considering outsourcing as an option should look for the potential to gain access to best practices, realize economies of scales, improve performance and stability and improve their capacity to change (Harkins, 1996). Outsourcing has a long-established feature of cost effective business practice. The necessity to review what to remain in house and what would be contracted to external vendors has been dramatically increased over time by two factors: the thrust for competitive advantage in the global economy and successful business focus on its core competencies (Ward, 2004).

One of the greatest gain of outsourcing is decrease in executive time for managing peripheral activities, freeing top management to focus more on the core of its business (Quinn 1994). According to Hiezer and Render (2008), companies outsource for five main reasons, thus; cost saving, outside expertise gain, improvement of operations and services, core competencies focus and outside technology gain. Although several manufacturing firms that outsource use different factors to decide whether or not to outsource the human resource, there are common bases and disciplines that are used altogether; the size of the organization and the maturity level of the management. When making decisions to outsource HR activities, executives need to recognize that performance is typically the most important consideration. Many issues related to competitive advantage are also significant factors whenever an organization considers outsourcing especially relating to core competency, work load implication, workforce flexibility, cost and time efficiencies.

2.4.1 Cost

Cost is the major influence in the decision to outsource. As Klass (2003) points out economies of scale make it difficult for SMEs (small and medium size enterprise) as well as large scale enterprises, to maintain a professional HR staff to internally develop required HR programs and services. So in the first instance it can be argued that employee expectations of service may force employers to outsource service that they could not (cost effectively) develop with their own resources. As provision of specialized "transactional" (Klass, McClendon and Gainey, 1999), HR services such as payroll and pensions have become easy to administer electronically; their market value has dropped. So in many ways traditional "personal" services have become more expensive relative to the market. Without outsourcing the overall cost of an organization would therefore rise relative to the competitive. Beyond simple development costs or market comparisons. HR departments may also be seen as expensive if one accepts a narrow definition of "core capabilities" As Barney (1999) argues that core capabilities play an important role in defining the boundaries of the firm. In this narrow definition, the "core" of the firm is that which is its unique contribution to the market place and therefore should be the focus of all management's attention. Thus if it is more costly to develop a capability (in terms of management time) then the value of this ability (in unique competence) the firm will not gain any competitive advantage by doing so (Gilley and Rasheed 2000).

2.4.2 Organizational Capacities

While cost is at the forefront of thought western economies (arguably due to the link between market value senior management compensation), it is far from proven that outsourcing has a direct benefit on the overall performance of an organization (Gilley and Rasheed, 2000). To extend the argument and the drivers of outsourcing HR, it is also important to consider organizational capabilities. HRM departments should deliver in-house those services that are core to their organization's competitiveness and outsource those service that are considered peripheral (Klass et al. 2001; Lepak et al, 2005). Organizations tend to outsource when suppliers demonstrate superior capability. Leiblein and Miller (2003) point out, in an ever changing market economy there may be some services that are either so new, or so infrequently used, that a firm of any size may not be

familiar with the activity. In this case, a specialized external provider is almost the de-facto choice.

2.4.3 Nature of HR activity

An important outcome of the "organizational capabilities" argument for those considering Outsourcing HRM is an understanding of the need to examine nature of HR activities. Before outsourcing a function, organizations might consider whether or not it is likely to contribute to the organization's core competency, or instead takes up management time better spent on core activities. Lepak et al. (2005) argue that the delivery (internally or externally) mode is determined by contingent factors of the HR activity. They draw on Carrig (1997) who suggests that HR practices may be viewed as "transactional, traditional or transformational". In this vein payroll administration might be considered transactional, recruitment as traditional and strategic planning as transformational. Following the core-competency argument, a major advantage of outsourcing transactional HR tasks is that HRM can become strategically focused.

According to Hendry (1995), efficiency is the prime goal of outsourcing, but learning which depends on culture and community, is equally essential for longer term survival. This conflict with the demands of motivation will ensure the tasks are carried out effectively: in a way that is appropriate and beneficial to the organization.

2.4.4 Organizational Culture

Every organization has a culture. A firm's culture is a set of values, beliefs and norms of behavior shared by its members that influences employee preferences and behaviors. It thus sets the context in which relations among members develop, and it provides the basis for implicit contracts (Roberts, 2004). Besanko et al. (2007) contend culture creates values for firms in three ways: Culture reduces information processing demands on individuals within the firms; it complements formal control systems; and reduces the cost of monitoring individuals. In addition, culture shapes the preferences of individual towards a common set of goal.

Corporate cultures define such factors as whether it is fun work environment, the hours that employees work per day, the dress code, how employees work and interact together

and more (Carili, 2002). Organization should examine factors such as their characteristics, including size, budget, environment, and culture when making outsourcing decisions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the description of the design to be used during the research. It highlights the research design, data collection method and finally how the data will be analyzed.

3.2 Research Design

A case study approach was adopted. The method is appropriate because it allows an in-depth understanding of the study (Kombo and Tromp, 2006). The design provided the researcher with a deep understanding of the factors that influence the decision to outsource HR.

3.3 Data Collection

The study used Primary data. A semi-structured questionnaire was used to collect data. It consisted of two sections; Section A was used to collect data on the personal profile of the respondent and the organization while section B was used to obtain data on factors that influence Human Resource outsourcing in the company. The respondent was the head of human resource department. The questionnaire was handed over to the respondent by the researcher personally then later collected as was agreed upon.

3.4 Data Analysis

The content was analyzed because of its qualitative nature and given that it is a case study. The feedback from the questionnaire on the factors that influence human resource outsourcing decisions in the company formed the basis of content analysis.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of this study based on the formulated objective. The research was a case study aimed at determining factors influencing Human Resource Outsourcing at Sony Sugar Company Limited. Personal interview was conducted for the HR head of department using interview guide. The respondent in this research was a senior manager in the Human Resource Department where she had worked for more than six years. Academically, she owns Bachelor Degree. She was picked because of her knowledge on strategic options in the department and she was well conversant with the reason behind any option.

4.2 Factors influencing Human Resource Outsourcing Decisions at Sony Sugar Company.

The chapter analyses the data collected using content analysis tool and discusses the results. The levels of agreement with the statement applicable to the organization are discussed into three sub-categories which the respondent rated out of the five levels; 5-to a very great extent, 4-to a great extent, 3-to a moderate extent, 2-to a limited extent, 1-to a very limited extent. The respondent was in agreement that Human Resource outsourcing is very essential to business owners and managers. In this study, sixteen factors were established to have influence on HR Outsourcing at Sony Sugar Company. Through content analysis, the findings of the study in relation to the objective is summarized in the table below

Table 4.1 Extent of factors influence on HRO

Extent of factors Influence on HRO	Extent of factors Influence on HRO in %
Avery great extent	50%
A great extent	37.5%
A moderate extent	12.5%
Total	100%

Source: Field results

A greater percentage, that is, 50% of the factors were found to influence Human Resource Outsourcing at Sony Sugar Company to a very great extent, 37.5% had great influence while 12.5% had moderate influence.

4.2.1 Factors with the greatest influence on HR Outsourcing decisions.

The research instrument used in this study was a semi- structured interview guide. The respondent was asked to use a five pointed likert type scale to rate the extent to which the following factors influenced HR Outsourcing at Sony Sugar Company Limited, the factors are; greater competence/efficiency, Cost saving, access to better technology and systems, lack of internal capability, improve service quality, bring in experts in various areas of service, free resources for other purposes and access to skilled man power at affordable prices.

A company like Sony Sugar Outsources HR for greater competence and efficiency because the organization may lack optimal use of its own resources. Efficiency can be translated into cost saving of which always a factor is considered by profit making organizations. Cost saving factor may imply that the organization inputs are costly. Human Resource Outsourcing Reduces operating cost forcing the company to measure the capital investment, overhead and fixed cost and space. Access to better technology and system explains the state of the equipment in the company. Either there is lack of know how in using the new equipment or they are obsolete. Better technology and system means that suppliers are the best in class specialist (latest) and high efficiency technology. This is accomplished through relevant HR Outsourcing.

Lack of internal capacity is a reflection of low remuneration or lack of training (no capacity building) in the organization. Outsourced HR will enhance staff competency. HRO improves services because the systems may be slow or the management is very inefficient. By outsourcing HR, the organization will tap new knowledge and experiences from the expertise with superior knowledge. Outsourcing HR to get free resources implies that the company does not want losses and tries to avoid taxation. Access to skilled manpower at affordable price would enable the company save cost and make more profit.

4.2.2 Factors with great influence on Human Resource

Outsourcing Decisions.

The research instrument used in this study was a semi structured interview guide. Respondent to each of the five items was rated using a 5- point likert scale with anchors labeled: 5 - to a very great extent 4 -To a great extent 3- To a moderate extent 2- To a limited extent 1- To a very limited extent. This section explains findings attributed to factors Influencing HR Outsourcing to a great extent. They include ability to focus on core business, consolidation of business process across division or locations, compliance with legal regulatory best practices, making capital funds available cash infusion and culture match.

Outsourcing HR to enable the organization to focus on core business indicates lack of preference target in the company. There can also be fluctuation in productivity or incompetency within the management. Sony Sugar has opted to outsource HR to enable the organization focus on core business to gain competitive advantage. Consolidation of business process explains harnessing of capability or it can be a reflection of management gaps. For an efficient flow of business process related functions should be integrated, this will call for outsourcing of non-core to allow an organization to concentrate on consolidated business process using available funds. Compliance with legal regulatory best practice would make the company to identify the gaps, benchmark with superior organizations and keep pace with challenges.

Sony Sugar Company might have been experiencing liquidity problem or some cash flow issues, Outsourcing HR enhances stability in cash flow and cash infusion will help the company to remain a float. Culture match creates healthy competition, it also enhances peer influence. Management should ensure the new hires fit in the company's corporate culture because HR functions play a very important role in creating and shaping corporate culture.

4.2.3 Factors with moderate influence on Human Resource Outsourcing Decisions.

Limited internal resources and inadequate space for expansions are the major constituting factors to this extent. Limited internal resources appears a big challenge at Sony Sugar since the Company depletes its own resources to meet the customer's needs. The internal resources available are even in adequate and the Company is compelled to outsource HR to enable them keep a braze. Production and local space limit would be a constrain. By contrast, Sony Sugar Company's acreages contradict the need for expansion. The little spaces in the company's environs commonly known as nucleus are spared for seed demonstrations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study aimed at establishing factors influencing Human Resource Outsourcing at Sony Sugar Company Limited. The chapter will provide a summary of the findings from the study, conclusion and recommendations based on the findings. It will also provide suggestions for further research on factors influencing HR Outsourcing.

5.2 Summary

This study aimed at establishing factors influencing HR Outsourcing at Sony Sugar Company Limited. In respect to the objective, the study found out that Sony Sugar has been very proactive in its outsourcing strategies and especially in the Kenya market. As stated in the literature review, a number of business enterprises have found it useful to focus more narrowly on certain value chain activities and rely on outsiders to perform the remaining activities (Thompson and Srickland 2003). Human Resource was not left out and HHR was quick to mention that. The study found out that various factors contributed to the decision to outsource Human Resource at Sony Sugar Company. These factors included, but not limited to: greater competence/ efficient, cost saving, ability to focus on core business, access to better technology and system, consolidation of business process, lack of internal staff capability, improve service quality, bring in expertise in various areas of service, help to ensure compliance with legal regulatory best practice, free resource for other purposes, unavailability if resources internally, making capital funds available, cash infusion, possible limited space for expansion, culture match, and access to skilled manpower at affordable prices. The respondent was a married middle aged lady and was the head of Human Resource department where she had served for more the six years. She had a university Education, a requirement of heading a department. She was aware of human Resource operations that the company had and was conversant with the reasons behind any strategic option.

In this study it was found out that the Company would do better if internal efficiency is in place. It was also clear that the staff competency and training is below par. The study also established that some of the internal systems should be modernized to enhance internal efficiency. The study deduced that Outsourcing HR should be practiced since it keeps the organization relevant, productive and financially balanced. It was realized that through HR Outsourcing, the organization will be able to fill management lapses that may cause unwarranted fluctuation in production. It is deduced that Sony Sugar Company should remain relevant by aligning most of her trainings with industry best practice benchmarks.

The study found out that there are eight factors that influenced HR Outsourcing at Sony Sugar Company to a very great extent, six factors influenced HRO to a great extent and two factors influenced HRO to a moderate extent respectively. Cost is a major influence in the decision to outsource at Sony Sugar Company and that the department would only outsource services that they could not develop with their own resources. Operating cost will be reduced by outsourcing noncore operations function areas, inevitably, some portions of capital investment could be saved and investment funds could be diverted to core business investment to bring in more revenue to the company. It was also found out that organization would only outsource when suppliers demonstrate superior capabilities, they would be able to provide the content expert resource that would support the requirement effectively and efficiently as deemed specialist.

The study further established that HR Outsourcing improves company focus because whenever new products are developed, new market segment would be explored; the research found out that by outsourcing noncore space and capacity flexibility for the company to support the core functions would be created. The study established that efficiency is the prime goal of outsourcing, but there was need to consider whether it would contribute to the core competency of the company. Service quality will be realized by outsourcing skilled labor and expertise in various areas. However, inadequacy of key skills and incompetency forced the organization to venture into new technology that enabled it to realize quality output.

5.3 Conclusions

This research findings have proved that there are several factors that are considered by management before undertaking HR Outsourcing. Alongside this the research has actually confirmed previous research as was carried by Mihir, Singh and Gupta (2009) on the increase of HRO in organizations such as Sony Sugar to streamline processes, reduce cost, to access modern technology and align HRO within the overall business. From the findings the study concludes that there is HR Outsourcing at Sony Sugar Company and there are eight factors that influence HRO to a very great extent, six factors to a great extent and two factors to a moderate extent and all of which culminate in profit making.

5.4 Recommendations

5.4 .1 Recommendations for Policy

The study therefore recommends the development of Human Resource Outsourcing policy framework for Sony Sugar Company Limited that is competitive and comparable with other organizations. This will ensure competitive advantages and high productivity due to stability at work. HR Outsourcing is a very fundamental issue within the study to a very great extent therefore more researchers should further pursue this research in the context of county government, and how it relates to National government. As a very important key in both profit and nonprofit making organizations, scholars should consider comparing HRO in public and private sectors.

5.5 Limitations

Having adopted a case study, it is difficult to generalize the findings of this study, thus it was impossible to infer to other organizations. Further, these findings cannot be taken as the actual representation of the situation within the Sugar industry in Kenya as they are organizational specific. Time for the research was also so limited that the researcher was not able to interview other people in the Departments.

5.6 Suggestions for further studies

A further research on factors influencing Human Resource Outsourcing may be considered, taking into account the following: a similar study but interviewing other departmental heads and employees of Human resource Department, a similar study that covers different areas within the organization.

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APPENDICES

APPENDIX 1

LETTER OF INTRODUCTION

University of Nairobi,

Department of Business Administration,

P. O. Box 30197,

Nairobi.

Date: 02/10/2015

Dear Respondent,

RE: REQUEST FOR RESEARCH DATA

I am a Master of Business Administration student at the University of Nairobi, specializing in Human Resource Management. As part of the degree, I am required to conduct an interview on **Factors influencing Human Resource outsourcing at Sony Sugar Company**.

You have been chosen to participate in the Study and I will greatly appreciate your input in responding to all the items in the attached interview guide. The study is purely academic. Kindly rest assured that all your responses shall be kept completely anonymous with utmost confidentiality.

Thank you in advance

Yours sincerely,

Juliter Adhiambo Mola
MBA student
University of Nairobi

APPENDIX I1

QUESTIONNAIRE

Human Resource Outsourcing

This questionnaire is a research instrument whose main objective is to establish the factors that influence human resource outsourcing.

SECTION A : Demographic information about the organization and the respondent

1. Indicate your age in years

Less than 20 [] 31-40 [] 41-50 [] Above 50 []

2. State your gender

Male [] Female []

3. Indicate your marital status

a) Single []

b) Married []

4. Years of service in this organization

0-5.1 [] 6-10 [] 11-15 [] 16-20 [] 21-25 [] over 25 []

5. Level of education

a) Primary []

b) Secondary []

c) College []

d) University []

6. Approximately how many employees does your organization have on payroll?
- 50 or less employees 101
- 51 to 100 employees 101
- to
- 200 employees 201
- to
- 500 employees 501
- to
- 1000 employees more
- Than 1000 employees

7. How many employees does the Human Resource department have?

- 5 or less employees
- 6 to 10 employees
- to 20 employees
- 21 or more employees

SECTION B: FACTORS INFLUENCING HUMAN RESOURCE OUTSOURCING

This section is arranged according to the respective objective of the study .Indicate to what extent does each of the statements below adequately describe the situation at Sony Sugar Company. Tick in the box against each statement that applies to your organization. If a statement does not apply to your organization, please do not tick against it.

5.-To a very great extent 4-To a great extent 3-To a moderate extent 2-To a limited extent
 1-To a very limited extent

Statement agreement	Level of				
	5	4	3	2	1

1 . Greater competence/ efficiency					
2 .Cost savings (reduction and control operating costs)					
3. Ability to focus on core business					
4. Access to better technology and systems					
5. Consolidation of business processes across divisions/ locations					
6. Lack of internal staff capabilities					
7. Improve service quality					
8. Bring in experts in various areas of service					
9. Help to ensure compliance with legal regulatory best practices requirement					
10. Free resources for other purposes					
11.Unavailability of resources internally					
12. Making capital funds available					
13. Cash infusion					
14. Possible limited space for expansion					
15. Culture match					
16. Access to skilled manpower at affordable prices					

