

**THE IMPACT OF OUTSOURCING HUMAN RESOURCES FUNCTIONS ON  
ORGANIZATIONAL PERFORMANCE CASE STUDY OF TANZANIA  
CIGARETTE COMPANY**

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**CERTIFICATION**

The undersigned certifies that she has read and hereby recommends for acceptance by the Open University of Tanzania a dissertation titled "**The Impact of Outsourcing Human Resources Function on Organization Performance**" in partial fulfillment of the requirements for degree of Master in Business Administration.

.....

Dr. S. E. Macha

(Supervisor)

.....

Date:

**DECLARATION**

I, Hawa Timbula Masawanga declare that, this dissertation is my original work and that; it has not been presented and will not be presented to any other university for a similar or any other degree award.

.....

Signature

.....

Date

## **DEDICATION**

This dissertation is dedicated to my parents, namely Mr and Mrs Said Timbula. The two laid a strong foundation of my entire life, created a good understanding and interaction with the entire society in terms of good morals and hence molded me to the person I am today.

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## **ABSTRACT**

This study explored the impact of outsourcing human resource function on organization performance, while focusing on Tanzania Cigarette Company (TCC). TCC was the company that was outsourcing Human Resources (HR) services from Erolink Company Limited. The methodology used was case study design and involved the use of questionnaire, interview and documentary review. The study also used secondary data concerning profitability of the TCC from 2001 to 2013. Data was analyzed by statistical package for social science (SPSS) in which descriptive analysis, chi-square test, t-test and regression analysis was performed. The study claimed that HR outsourcing program at TCC was somehow effective. The study founded that HR outsourcing has both pros and cons on organization performance. Some of the greatest pros were control of operating costs, correcting poor financial performances, improve company focus, improve efficiency and many more. Meanwhile most popular cons of outsourcing were staff dissatisfaction and demoralization, confidentiality leaks and loss of intellectual property rights, reduction of in-house technique and expertise. Furthermore some factors which could support effectiveness of HR outsourcing program at TCC were standardization of the HR functions, automation of the HR functions, availability of resources, sharing of information between Erolink and TCC while factors that could hinder effectiveness were lack of integration of TCC and Erolink management systems, lack of regular meeting between Erolink and TCC managers and lack of co-operation between TCC and Erolink in business process improvement and innovation. The study concluded that HR outsourcing has positive implication on organization performance since the program was associated with growth of the company.

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**LIST OF ABBREVIATIONS**

AT	Agency Theory
HR	Human Resource
HRFs	Human Resource Functions
HRO	Human Resource Outsourcing
ILO	International Labour Organization
JTI	Japan Tobacco International
IT	Information Technology
OUT	Open University of Tanzania
PSRC	Public Sector Restructuring Commission
RA	Resource Advantage
ROA	Return on Asset
ROE	Return on Equity
ROI	Return on Investment
RBT	Resource Based Theory
SPSS	Scientific Package for Social Science
TCC	Tanzania Cigarette Company
TCT	Transaction Cost Theory
UK	United Kingdom

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction and Background of the Study**

Human Resource Outsourcing (HRO) has been one of the much talk about agenda in many Human Resource (HR) forums and among HR circles. It is currently a popular trend in almost all countries in the world. Outsourcing of HR functions or services started many years ago but only recently that this strategy has taking shape in a manner that other functions in an organization has adopted outsourcing-as a way forward to improve business results. Also, due to the increase in number of companies outsourcing their Human Resource Functions (HRFs), the number of Human Resource Outsourcing (HRO) providers has also increased rapidly. For instance, International research indicated the volume of the outsourcing business stand around USD 1, 200 billion by 2006 (Rafter, 2005 cited in Wang et al., 2008). On other hand, it is estimated that this industry is currently worth more than £6.1 billion in the UK and Ireland (Berry, 2007). It could be said that outsourcing of HRFs is a significant trend affecting the future of human resource strategy.

Human resource agencies offer a wide variety of services to companies that need to focus on their core business activities (Wang et al., 2008). Many companies in developed countries have used outsourced services, such as salary accounting, pensions planning, recruitment and training of personnel for a long time. With the development of technology and appearance of customized HR-software it became easier to improve these operations and pass a significant part of HR activities for outsourcing (Edwards and Rees, 2005). According to the study by Armstrong (2013),

45% of executives in Australia admit to outsourcing payroll management. Similarly, 51% of private companies in the US outsource all or some HR activities because they cannot afford to employ talented part-time or fulltime employees across all areas of the organization's operations. A study conducted by KPMG (2006) found that 47% of companies in Japan either already outsource or plan to outsource. In India, 65% of companies either already outsource or plan to outsource their human resource functions (Gupta, 2012).

It is not surprising that human resources outsourcing is the fastest growing segment of the business process outsourcing sector. In developing world, particularly African countries, human resources outsourcing is booming this days just like in developed world. Whereby many businesses that do not have the time or the resources to manage HR functions, outsourcing has been seemed to be a cost effective alternative to hiring an in-house human resources staff (Gray, 2011). In one of the recent labour market research studies in 2014 by International Labour Organization forecasts that the African market for human resource outsource grows at the rate of 11% annually. This same study forecasts that the total human resource outsourcing market grows by 27% annually worldwide (ILO cited in Baldwin, et, al., 2014).

In Tanzania, HR outsourcing was introduced in the early 1990s after the privatization of public companies. By the end of the 1990 a total of 450 parastatal companies were privatized under the supervision of the then Public Sector Restructuring Commission (PSRC). Before privatization, all public companies performed their HR and related activities in-house and all employees enjoyed job security from their employer (Makoye, 2009). The privatized companies underwent various changes in

management and administration styles. Among the changes in management brought by privatization are changes in the way the privatized companies implemented their Human Resources functions such as; recruitment and selection, benefits management, training and payroll. The most significant change was outsourcing HR functions (Swai, 2012). Companies adopted Human Resource Outsourcing (HRO) to change the costs structure from fixed to flexible expenses and variable costs. One of the organizations that have embarked on the HRO is Tanzania Cigarette Company (TCC). TCC was incorporated in 1965 as the government limited company and in 1998 it was privatized to R. J. Reynolds Tobacco Co. before being acquired by Japan Tobacco International (JTI) in 1999. In 2007, TCC outsources its various HR functions to Erolink Co. Ltd (a prominent recruitment agency based in Dar es Salaam) in order to improve performance. Under the arrangement, some employees of TCC, specifically those in the production, general workers and distribution department have been placed under the payroll of Erolink. However, it is not clear to whether outsourcing of HR functions has helped to improve performance of TCC. Additionally, to the knowledge of researcher there are very limited studies conducted in this aspect-and those few have been conducted in services industry such as in financial institutions and telecommunication companies which have different performance indicators with manufacturing companies like TCC. This being the fact the researcher conducted this study in order to bridge the knowledge gap in this area.

## **1.2 Statement of the Problem**

A study conducted by KPMG (2006) found that HR outsourcing in African companies is not done properly-may result in poor performance of the organization. The reasons for poor performance were reported to be lack of knowledge and low



responsiveness among outsourcing providers. Sullivan and Duhamel (2003) concluded that outsourcing providers in Uganda have low performance standards. A study conducted by Mululi (2004) on perception of private sector employees towards HR outsourcing in Tanzania found that there is a lack of seriousness by the management on explaining in detail how HR outsourcing is conducted. The study also found that there is low level of awareness among middle and lower level employees on HR outsourcing.

Recently, there have been many complaints from employees of various private companies in Tanzania regarding outsourcing of human resources functions. The employers and human resource agencies are accused of engaging in exploitative arrangements that undermine the rights of employees. Under such arrangements, the employees are placed under the payroll of recruitment agencies. Among the complaints voiced by employees under outsourced arrangements is that the recruitment agencies offer them much lower salaries compared to the actual amount paid by their employers (Swai, 2012).

In Tanzania, it has been had from different media some employees recruited by human resource agencies claimed that their agencies are full of nepotism and only offers three to six-month renewable contracts to avoid employing them on full term basis. In the same line there are doubts that outsourcing of human resources functions may undermine the morale and performance of the employees; ultimately, affecting the performance of the companies they work for. Due to this it came to the understanding of researcher to conduct a study on the impact of HR outsourcing in Tanzanian private organization taking Tanzania Cigarette Company (TCC) as the case study.

### **1.3 Research Objectives**

Research objects are the reasons carrying out a given research and they are used in the formulation of research questions. Research objectives of this study are classified into general objective and specific objectives.

#### **1.3.1 General Objective**

The main objective of the study is to find out the impact of Human Resources (HR) outsourcing functions on performance of private companies by focusing on Tanzania Cigarette Company (TCC) as a case study.

#### **1.3.2 Specific objectives**

In order to a complete the main objective above the following specific objectives was considered.

- i. To find out the effectiveness of HR outsourcing practices at TCC
- ii. To find out the pros and cons of HR out sourcing at TCC
- iii. To find out factors hindering and enabling effectiveness of HR outsourcing at TCC
- iv. To assess performance implications of HR outsourcing at TCC

### **1.4 Research Questions**

The research questions are a logical statement that progresses from what is known or believed to be true to that is unknown and requires validation. In the study there was a general research question and specific research question.

#### **1.4.1 General Question**

The general research question of the study was: what are the impacts of outsourcing human resource functions in private organization performance?

### **1.4.2 Specific Questions**

The study answered the following specific questions.

- i. How effective are HR outsourcing practices at TCC?
- ii. What are pros and cons of HR outsourcing at TCC?
- iii. What are the factors hindering and enabling effectiveness of HR outsourcing at TCC?
- iv. What are the performance implications of Outsourcing?

### **1.5 Scope of the Study**

According to Kothari (2004) the scope of the study clarify the boundaries of the research, this help to clarify the boundary of the research and enable the researcher to deal only with tasks he or she focused to in order to make decisions about the changes required in the study. This study was based on the above discussion about impact of HR outsourcing in the performance of private companies in Tanzania. For that reason, the challenge of human resource outsourcing to the employees was not further examined. This means that the result of the study only intends to give an indication of what is central to the outsourcing human resource functions in organization performance and which areas are most central, in order to perform a reliable study as possible. However, the study was limited at TCC headquarter which is located in Dar es Salaam.

### **1.6 Significance of the Study**

The findings of the study help the administrators and/or the top management in private companies operating in Tanzania to become aware of the impact of the outsourcing human resource functions on the organization performance. The findings

of the study serves as a stepping stone for future researchers on the same or similar topics by providing them with a source of empirical literature review and add on the current knowledge on the subject. Last, successful completion of the study enables the researcher to partially fulfill the requirements for the award of a Master degree offered by The Open University of Tanzania (OUT).

### **1.7 Organization of the Report**

The structure of the final report was as follows:

**Chapter 1:** Is the introductory section, which contains the background of the study, statement of the problem, objectives, and research questions, scope of the study, significant of the study and the organization of the study.

**Chapter 2:** In this chapter the study covers the review of the literature work done by other researchers on the issues related to the impact of outsourcing human resource functions in and outside Tanzania; where it consists of the definition of key terms, related theories, empirical studies and the conceptual frame work.

**Chapter 3:** The methodology of data collection that was used in the study was discussed in this chapter with the focus on the description of research design and the justification of the collected data for the study.

**Chapter 4:** This is the main part of the study which discusses in detail and presents the findings from the investigation of the impact of outsourcing human resource in organization performance.

**Chapter 5:** This is the final chapter of the study bearing the conclusion from the research findings. In this chapter the implications of the study along with the recommendations was discussed.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Literature review can be referred to as the critical analysis of part of the published knowledge by summarizing, classification and doing comparison prior to research studies, it involve review of theories and related studies. According to Kirby *et. al.* (2006) literature review is the evaluation of the report of the studies done by other authors that are related to your study topic. The literature review enables the researcher to draw some conclusion and a guide for this study of the impact of outsourcing human resources functions on organization performance.

#### **2.2 Definition of the Key Terms**

In this section the meaning of key words that appeared most frequently in the study was provided. The most popular terms in this research were:- outsourcing, human resource and performance.

##### **2.2.1 Outsourcing**

Outsourcing is the art of delegating or transferring some or all functionalities such as decision making rights, business process, internal activities and services to external providers who develop, manage and administer these activities in accordance with the agreed terms based on deliverables, performance standards and outputs, as set forth in contractual agreement (Ruthankoon, and Ogunlana, 2003).

Mcgraw-hill (2007) defines an outsourced project as a goal-oriented undertaking of multiple tasks, often interdependent in nature, increasingly involving multiple

parties, including customer, principal supplier, supply-chain partners (subcontractors), and other third parties to develop or provide products, services, or solutions within a given period of time. Outsourcing can therefore be summarized as an undertaking involving multiple parties where activities are delegated to external providers to develop or provide product services or solutions within a given period of time based on agreed terms as deliverables.

### **2.2.2 Human Resource**

The term Human resources is defined as the available talents and energies of people who are working to an organization as potential contributors to the creation and realization of mission, vision, strategy, and goals of the organization. They can make the best use of all types of resources within the organization. “Finance and technology can bring advantage but are no longer capable of sustaining this advantage.” If the human resources are well functioning, employee productivity rises and customer service improves. The employee productivity rise but with lower cost, meanwhile, the customer service improves which raise the perceived value. Thus, human resources could enable the company to create more value (Hill and Jones, 2004). This is the result why it is vital to manage and develop human resources effectively in any organization (Priti, 2004).

### **2.2.3 Performance**

Performance can be referred as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In an organization, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

## **2.3 Theoretical Review**

There are various theoretical justifications for outsourcing. The most popular ones are Transaction Cost Theory (TCT), Resource Based Theory (RBT) and Agency Theory (AT). Other theories include Relation View theory, Concept of Core Competencies, Resource Dependence Theory, and Knowledge Based Theory as well as Social Exchange Theory. The study stood on the three theories which are Transaction Cost Theory, Resource Based Theory and Agency Theory.

### **2.3.1 Transaction Cost Theory**

Transaction Cost Economics is defined as the cost that is associated to trading. This could include the salary that is spent on the employees negotiating a trading contract or the money spent on setting up a strategy for adapting to changing economic conditions. The central argument of transaction cost theory, which is built on a behavioral foundation of bounded rationality and opportunism, is that firm boundaries are driven by the minimization of not only production costs, but also transaction costs (Williamson, 1985).

According to this theory, minimizing these costs is an important factor in organizational design where Williamson (1989) concludes that vertical integration is more likely to take place when transactions costs are high. Vertical integration is the make-or-buy decision that producers face in the process of developing and producing their products. Either they 'make' the part in-house or 'buy' the part from an external supplier. Each decision comes with transaction costs of their own. Williamson argues that make or buy decision depends on comparison of transaction cost of every approach. The determinant of transaction cost is asset specificity. An asset is

“specific” if it makes a necessary contribution to the production of a good and it has much lower value in alternative uses. There are various kinds of specificity including physical asset specificity, location specificity and/or human asset specificity.

A key concern is that if buying from an external supplier will involve high transaction costs an organization will prefer in-house production since it will give organization cost effectiveness valuable. And if in-house production seem to associate with high cost as its complexity will increase the transaction cost from decision making through staff meetings and so on, the organization will wish to buy from external supplier which is term as outsourcing. This is to say that whether to outsource (buying from external provider) or not depend on the transaction costs incurred by the organization in the process of acquiring such products (service/good). Always for the growth and expansion of the firm there is the great need of control transaction costs of every input in organization.

However, while using in-house supply on human resource functions such as recruitment, performance monitoring and customer relationship management may provide an organization a transaction cost-plus, there are still transactions costs involved in managerial mechanisms for internal coordination and control of human resource (Bozdogan et al., 2007). This is why some companies prefer to outsource some of the human resource functions.

Since the motive behind outsourcing is the transaction cost, this theory was useful in the study because through this theory the study was able to come up with the conclusion whether outsourcing policy in Tanzania Cigarette Company is cost



effective or not. While keeping in mind that if buying from the external supply exceeds the in-house production, firms will favor internal supply. Meanwhile, if transaction costs from the external supply are absent or low, economically firm will favor outsourcing strategy.

### **2.3.2 Resource Based Theory**

The resource-based theory regards the firm as a set of resources and capabilities that are treated as the strengths that must be supported (Grant, 1991), and that can create a competitive advantage (Barney, 1991). From this theory, the core competences approach has evolved. According to this approach, firms should perform core activities in-house and outsource others that seem to be noncore activities (Prahalad and Hamel 1990). However, Weigelt (2009) put it that in human resource outsourcing or in any other outsourcing relationship context, service providers enter into partnership or relationship with their client organization so that they are better able to develop their services or solutions that are customized to the tastes and preferences of the individual client organizations.

In other studies, Hunt (2002) and Hunt (2004) explained outsourcing of some resource as a mechanism to make firms more competitive. They draw on resource advantage (RA) approach, which is a theory of competition that can provide a grounding framework for relationship marketing strategy. At its core, RA approach combines heterogeneous demand theory with a resource-based theory of the firm. RA approach viewed competition as a process that consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage. Thus, firms enter into human resource

outsourcing relationships with other firms and/or outsource some of the technological resources from external suppliers when such actions contribute to their competitiveness (Hunt, et al., 2006).

According to this theory we are becoming aware that there are some organization/business's activities which can be outsourced and some which are not supposed to be outsourced. Wherein, activities which give the impression to be core one in operation of the business are not supposed to be outsourced rather the one which are noncore activities should be subjected to outsource policy of the firm. However, for the outsourcing strategy to be effective it should support competitive strategies of the firm.

### **2.3.3 Agency Theory**

Agency theory is the theory based on the relationship between an agent and a principal (Donaldson and Toole, 2007). In the theory, the principal party delegates work to the agent party, who accomplishes the principal's orders. Examples of agent-principal cases can be organization and recruitment agent or customer relationship management agent. The party in the proposed study used as principal is Tanzania Cigarette Company (TCC) that hires human resource functions from the agencies and the party which used as the agent is the Human Resource Agency that provide human resource services to the TCC, where the agent needs to assure the principal's requirements.

Eisenhardt (1989) writes that the model of the principal-agent supposes two problems: the first one is a goal conflict between the two parties, a simple outcome to measure, and the second is where the agent has less risk capability than the principal.

These two problems can create dissatisfaction for the parties leading to a closure of the agreement. Theorists' believe that there is a reason for this and it is because the agents are putting their own interests over the principals, making it hard to perform as agreed (Abrahamson and Park, 1994). The proposed study was examining the relationship between the human resource agency and the TCC a company hiring the agency. This lead the study to examine in which ways TCC has been affected or benefited from the human resource agency relationship agreements and whether agency taking or not taking risks while providing the human resource services in TCC.

## **2.4 Empirical Review**

There are a number of researches, surveys and studies conducted in this topic. The studies have been conducted in varied dimensions and also across various sectors of learning. Here are some of the studies that were conducted by other researchers across the globe on the same problem.

### **2.4.1 The Pros and Cons of HR outsourcing**

Bratton and Gold (2007) noted that because HR suppliers are outside the organization, it is argued that they are more accountable, can take more objective view and gain a more complete understanding of performance. This is on the same line with the idea of Ulrich et al. (2009) who mentioned one more crucial advantage, which can improve the company's services: outsourcing vendors possess technology and the economies of scale that are up to date with new developments.

The study of Wang et al. (2008) develops a conceptual framework to examine the impact of HR functions outsourcing on firm performance. They study a sample of

120 companies with HR function outsourcing announcement from 1993 to 2003. Their research suggest that HR outsourcing firms have significantly higher SGAS (selling, general and advertising expenses/ net sales) and significant lower ROA compared with the non-outsourcing counterparts in year t+1 (one year after introducing HR outsource announcement in the firm) but there is no significant difference in ROA, ROE, ROI and other measures in the rest of the years.

Ping (2010) conducted a study on the IT outsourcing in America. The study used longitudinal cross-section design where 57 American banks having IT outsource announcement were compared with other 57 American banks having no IT outsource announcement, using accounting performance measures. The research results suggest that the inherent costs and risks brought by IT outsourcing exceed the positive effects so that IT outsourcing might not enhance banks' performance.

Gray conducted a study to examine advantages which outsourcing could bring companies planning expansion to the global market. In his study he concluded that resource outsourcing can provide infrastructure and services to support the processes while freeing up capacity, and ultimately allowing directors to focus on the operational side of expansion (Gray, 2011). He added that HR outsourcing is a considered a reasonable business model if it optimizes time, optimizes resources, brings new ideas and only concerns non-core functions.

On the other hand, Kumar and Eickhoff (2006) suggest that major drivers to outsourcing activities such as reduced labor cost are often overstated relative to others risks and issues such as intellectual property protection, quality, and supplier

capabilities. When looking to outsource, an organization should be careful not to farm out work related to the core competencies of the firm.

There are also a number of disadvantages to existing employees following employer's decision to outsource labour supply in an organization. Deery and Walch (2002) examined the effects of outsourcing on employee attitudes to work. Their research was conducted in the area of call centre services within customer care departments where there has been a substantial growth in the provision of external employees.

Findings supported the propositions that outsourcing creates work insecurity to the in-house employees. Due to this work insecurity customers care departments tend to have much higher in-house employees' turnover. In the research of Nelson et al., (1995), outsourcing, specifically, has been shown to evoke employees' fear of the unknown, anxiety over the future, nostalgia for the old days and resentment over the loss of identity.

A team of researchers at the US Air Force Institute of Technology (Kennedy, et. al., 2002) surveyed 469 low to mid-level Air Force engineering managers who performed a support function that was to be outsourced. The survey was designed to explore the participants' reactions to the outsourcing strategy given that their jobs were secure but job changes were expected as the strategy was implemented. Specifically, the questionnaire assessed job satisfaction, perception of outsourcing, and their career intentions. By testing a path model, results indicated that the technical manager's negative view of outsourcing reduced their job satisfaction and

subsequently correlated to an increased desire to leave the organization. Changes such as outsourcing can lead to lower morale, job insecurity and the erosion of motivation and loyalty. Kennedy, et al. (2002) viewed outsourcing in general, as a negative change, which therefore would create higher levels of dissatisfaction and increased likelihood of leaving their positions. Another study conducted by Walsh and Deery (2006) examined the effect of an outsourcing strategy on those who become employed as a result of that strategy. They found that the outsourcing contract created minimal job security for the new employees because the organization was not committed to these employees beyond the three-year contract. The study also found very limited opportunities for training and development, as well as promotions. With these notions in mind, Nelson, et al. (1995) longitudinally studied the effects of an outsourcing strategy on the members of a large public sector organization that outsourced certain human resources and scientific support functions. They found that the job satisfaction of managers, clerical workers, and manual workers fell as time went on. Further, the groups reported higher levels of mental health problems such as depression, anxiety, and low self-esteem. Nelson, et al.'s work is important to this review because it introduced a potentially important aspect of outsourcing that should be considered by organizational leaders as they make the decision to outsource. That is, as an outsourcing strategy is implemented, the job satisfaction among organizational members may go down.

#### **2.4.2 The Effectiveness of HR Outsourcing Practices**

The research of Dehning and Richardson (2002) developed the method of assessing the link between HR outsource and performance, which is named as Contextual Factors in their framework. The Contextual Factors refer to related firm or industry

attributes that can influence firm performance such as firm size, industry index, financial health of the firm, growth options and IT intensity. Other researchers (Farrell, 2004) have focused on successful implementation of outsourcing strategy which has been credited with helping to cut cost, increase capacity, improve quality, increase profitability, productivity, and improve financial performance and growth.

Seth and Sethi (2011) reviewed existing literature in order to identify different types of HR outsourcing and the factors which need to be considered before a company goes for outsourcing of human resource functions for the realization of outsourcing effectiveness. The findings of the study implicitly point out that the decision as well as indicators of effective HR outsourcing is contingent upon factors like flexibility, availability of adequate resources, affordability, reliability and acceptability (openness to information-sharing) etc. The study also suggests a systematic process and certain pre-requisites to successfully execute HR outsourcing. In fact, the emerging body of research (Sarifuzzaman, 2012) indicates that for outsourcing to be successful or effective the outsourcing decision needs to be informed to all stakeholders while quick response times to strategic opportunities and threats are essential.

In the similar tone, Barrett and Misiaszek (2007) argued that outsourcing will allow a company to more effectively utilize its assets by allowing its labor force to focus on their core competencies, whether manufacturing, design or consulting, and outsource those functions which are not to another company that has already proven to be an industry leader, such as information technology, end-user support, accounting or data management. Moreover, many writers (Wang et al. 2008; Kumar and Eickhoff,

2006) have argued that there is a wide variety of permissible and effective choices for outsourcing.

### **2.4.3 Factors Hindering and Enabling Effectiveness of HR Outsourcing**

Gonzalez et al (2006) conduct a literature review focused on HR activities outsourcing articles published in journals that enjoy high prestige in the manufacturing firms between 1988 and 2005. Their research find that the studies of outsourcing determinants and reasons why firms choose to outsource are the most frequently studied topics in the manufacturing field. Surprisingly, the studies concerning the factors hindering and enhancing effectiveness of HR outsourcing are not very well developed.

There are many factors that affect outsourcing decision and every company operates under different circumstances. A case study regarding HR function outsourcing in United Kingdom (UK) was conducted by Baldwin, et al in the year of 2001 and the main aim was to assess factors that affect large firms when making decision to outsource their HR functions. The empirical results suggested that firms' outsourcing decision is driven by a series of complex, interrelated motives in a bid to reduce the risks and uncertainties of managing business processes. However, Ang and Straub (1998) reported that outsourcing in large firms in UK and US is strongly influenced by production cost advantages offered by vendors/ HR agencies. This shows that transaction costs play a role in the outsourcing decision of large firms.

On other related study conducted by Hongyan and Joern (2006s) in Chine it was reported that technology enhances the value of Human Resource Outsourcing (HRO) from perspectives of enabling and leveraging the values of standardization,



automation, integration, flexibility and innovation. The study concluded that technological and communication advances help realize the wide-spread adoption of outsourcing concept, due to their quality and cost improvements. Technology applied in HR functions outsourcing through the adopted software, applications and platform has a substantial long-term impact on the whole process, affecting the quality, cost and associated risks of the operation of outsourced activities.

Suhaimi, et al (2007) wrote a paper on the motivations for HR activities outsourcing decision and its initial implementation at some of the top commercial banks in Malaysia. The views reported were from 40 interviews conducted among the staff, covering the management as well as non-management group. The paper indicated that the motivating or enabling factors of IT outsourcing are: the focus on core competencies, turning non-profit activities into profit-generating activities, and cost reduction.

Barako and Gatere (2008) who conducted a survey to forty Kenyan large companies found that firm's size measured as total asset is significantly associated with outsourcing decisions. Firm performance measured as Return on Assets (ROA) and Return on Investment (ROI) were not found to be statistically associated with outsourcing decisions. Similarly, firm's wage bill and total operational expenses are not significant determinants of outsourcing decisions.

There was the survey conducted by Gewald, et al (2006) on the influence of perceived risks on firm managers' intention to outsource HR functions. The study concluded that perceived risk has a significant impact on managers' attitudes towards outsourcing. Some research like the one by (Kessler, et. al., 1999), concentrated on

the idea that employees' perceptions of their treatment is the major factor with significant influence achievement of outsourcing strategy in the organization. This means that if employees feel that outsourcing will affect their position, the outsource procedure will not be achieved and vice versa.

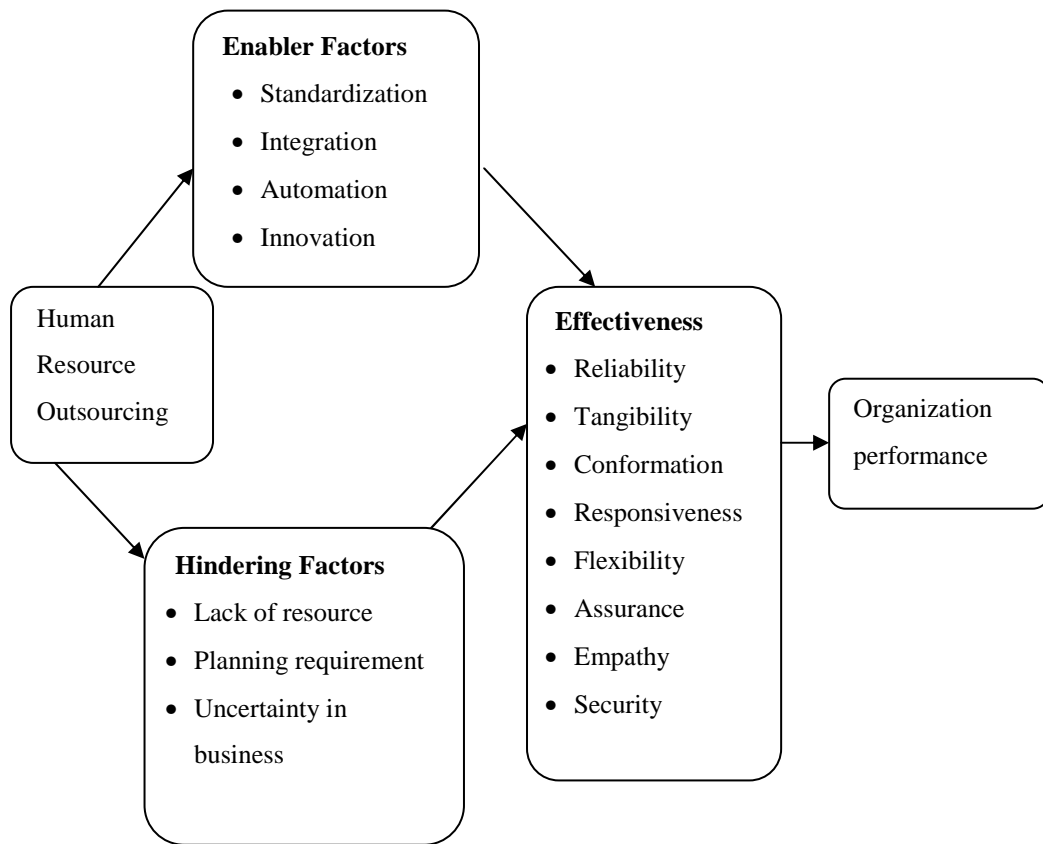
## **2.5 Conceptual Framework**

A conceptual framework is an abstract indication of how basic concepts and constructs are expected to interact in the actual setting and the experiences that form the foundation of the research study (Robson, 1993). Based on what have been reviewed in the previous section, different authors in this area have tried to point out that here some advantages and disadvantages of using external suppliers (outsource). However, they are condition for the organization to implement outsource policy in its business operations.

The designed conceptual framework for this study has four types of the variables which are background variable, input variables, operating variables and output variables. It shows that background variable is outsourcing of the human resource functions where the company reaches at the decision of outsourcing once the transaction costs of in-house producing become higher than getting from external suppliers, coupled by the trustiness of agency to meet the term and conditions stipulated on outsourcing agreement. Apart from willingness of the company to outsource as well as competent of agency to meet the agreed contract agreement there are other factors that can act as enablers of the outsource process and others as the hinders. These factors have been considered to be input variables in the model. They are factors such as lack of enough resources such as financial resources to pay

the agent, complexity of the planning requirement and other uncertainties in business case (hindering factors) together with standardization of processes, integrations, automation, and degree of innovations in the organization (enabling factors). The model/conceptual framework continues to show that if enabling factors out-power hindering factors, human resource outsourcing become effective and the following factors, operating variables, was the observed. These include reliability of the service offered by the agent (ability to perform the promised service dependably and accurately), tangibility which involve appearance of the physical facilities, equipment and appearance of personnel, responsiveness of the employees that can be observed through willingness to help customers and provide prompt service, assurance of workers which refers to the knowledge and courtesy of workers and their ability to inquire trust and confidence, empathy (caring, individualized attention the firm gives to the customers), flexibility of the work and security. With high degree of effectiveness of human resource outsourcing organization will perform better in the market.

In determining performance of the organization (TCC for the case of this study) the financial performance implications of outsourcing was studied. More specifically, profitability (net income of the company) was used as a performance metric, which is forward looking (Geyskens, et al 2002), less easily manipulated by managers than other financial measures and guides the decisions of top managers (Lehmann, 2004). It reflects the investors' best estimate of the change in the long-term value of the firm (Gielens et al. 2008). This is especially important in the context of outsourcing since the effects of outsourcing may take several years before fully translating into bottom-line performance.



**Figure 2. 1: Conceptual Framework of the Study**

Source: Researcher Own Development Model (2015)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

Kothari (2004) defines research methodology as the way to systematically solve research problem. It may be understood as a science of studying how research is done scientifically. This chapter contains detailed information on methodological approach used in this study. The chapter dealt with research design, study area on which the study was conducted and the reason for selection, study population, sampling (sampling procedures, sample size and instrument), and the method of data collection used and lastly how data was analyzed.

#### **3.2 Study Strategy and Design**

##### **3.2.1 Study Strategy**

According to Kothari (2006) research strategy can be defined as the structure of research that holds all the elements in research project together. Furthermore, Naoum (1998) defined research strategy as the way in which the research objectives can be questioned. He also noted two types of research strategies which are the qualitative research and quantitative research. Qualitative research is the research approach which seeks to gain insight and to understand people's perception of the world, whether as individuals or group (Fellows and Liu, 2003). Moreover, Creswell (2003) observes that the qualitative research approach takes place in natural settings. It requires the researcher to go to the study area of the respondents and gather detailed information about actual experience. Whereby quantitative research is the type of research approach which seeks to gather factual data and to study the relationship

between facts and how such facts and relationships accord with theories and the findings of any research executed previously (Fellows and Liu, 2003).

Since the study shown relationship between human resource outsourcing and organization's performance as well as connecting the results with the existing theories-quantitative approach/strategy was employed in the study. On other hand, the study will looked for the advantages and disadvantages of human resource outsourcing from the respondents' points of views therefore qualitative approaches was also involved in the study.

### **3.2.2 Study Design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). A research design can be thought as the structure of research. It is the glue that holds all of the elements in a research project together (Blaiki, et al, 2009). Due to the nature of this study that aimed to find out the impact of outsourcing Human Resources (HR) functions on performance of companies, and that Tanzania Cigarette Company (TCC) has been selected to be the unit of study, a case study research design was adopted.

A case study design involves in-depth study and detailed description of a single individual or several individuals, a single place or several places (Gravetter and Forzano, 2009). It is meant to capture the uniqueness of a particular place on the investigated area (Shuttleworth, 2008). The selection of this research design based on the fact that it helps to secure a wealth of information about the unit of study which

may provide clues and ideas for further researches (Krishnaswami, 2003). Also, case study focuses on a particular situation or phenomenon, making it possible to investigate problems in their natural setting in other words case study design provides the possibility of capturing real life situations as experienced by the respondents. Thus the research was able to investigate pros and cons of human resource outsourcing together with its impact in the performance of company.

### **3.3 Study Area and Population**

#### **3.3.1 Study Area**

The study was conducted at TCC headquarter located in Dar es Salaam. The reason of conducting this study at headquarter/head office of this organization is because all decision concerning business operation are done at head office. However, it was easy to obtain all information needed for this study. The information obtained at head office of TCC presents other TCC's office in the country. Also the researcher is working at TCC head office therefore data collection was easily accessible.

#### **3.3.2 Study Population**

According to Babbie (2004) population can be referred to as entire group of individuals, events or objects that have a common observable characteristic. It refers to all elements that meet certain criteria for inclusion in a study. In this study there were two types of populations which are individual population and object populations. Individual population comprises staff of TCC and staff of Erolink Co. Ltd (i.e. the selected number is given in the next few sections). Staff of TCC was responsible in identifying effectiveness of HR outsourcing practices together with pros and cons of HR outsourcing in TCC, while staff of Erolink Co. Ltd was

included in order to discover factors for hindering and enabling effectiveness of HR outsourcing. Object population in the study includes profitability or net income of TCC. Concern with population size, researcher discovered that at TCC there was 28 managers and at Erolink there was 22 managers. Therefore, sample frame comprised of 50 individuals.

### **3.4 Study Sample**

#### **3.4.1 Sample Design**

According to Kothari (2004), sampling is defined as the selection of some parts of aggregate of the totality based on which a judgment or inference about the aggregate or totality is made. Kothari (2006) also defines sample as a collection of some parts of the population to be a true representative of the population; this allows for study results to be generalized. As already mentioned above the study had two types of populations which are individual populations and object population. Individual population considered staff of the TCC and Erolink Co ltd, all from management level. The reason of selecting managers of these organizations was that managers are the one responsible of ensuring all organization's operations are well moving to the better performance of organization. Also, they are the one to decide whether or not to outsource HR function. At the time of collecting data the researcher selected only those who were present at the study area and were willing to take part in the study. Priority was given to managers (of both TCC and Erolink) who have worked in the mentioned organization for more than five.

On the other hand, the study selected profitability statistics (net income) of TCC from 2001 to 2013. It should be noted that Erolink Co. ltd started to provide human



resource services at TCC in the year of 2007. Therefore the study wanted to compare profitability of TCC in the six years periods before (2001-2006) and after (2008-2013) outsourcing HR functions from Erolink Co. Ltd. This helped the researcher to understand evidently the impact of HR outsourcing to the performance of organization.

### **3.4.2 Sampling technique**

According to Kothari (2006), sample procedure is defined as the process of selecting some part of the aggregate of the totality based on which a judgment or inference about the aggregate or totality is made. Being a process of selecting a group of people, objects, events, behavior, or other elements with which to conduct a study it is also involved in selection of technique to be used in the selection process. The choice of a sampling technique depend in a situation whether a sampling frame is available or not, that is, a list of the units comprising the study population.

There are two types of sampling procedures namely probability sampling and non-probability sampling. Oppenheim (2004) defined probability sampling as that type of sampling which includes all types of elements of the population. In probability sampling each element has an equal and independent chance of being selected in a sample while in non-probability sampling is the one which does not based on the theory of probability. If sample frame is available the researcher is advices to use probability sampling techniques such as simple, stratified and cluster random sampling techniques. And if it is not available the researcher has to use non-probability sampling techniques such as purposive, convenience and snow ball sampling techniques. For the case of this study, since total number of population was

known researcher used simple sampling technique. The selection of these techniques also based on the merits that this sampling technique is simple and cheap to use.

### 3.4.3 Sample Size

Kothari (2006) defined a sample size as the number of items to be selected from the universe to constitute the sample. According to Bailey (1994) sample size is the number of respondents selected to participate in the study from targeted population. It depends on the accuracy needed, population size, population heterogeneity whether the sample is subdivided or not and resources available. The sample size of this study included managers of TCC and Erolink.

From the result of pilot study, the study identified that at headquarter of TCC and that of Erolink there was 28 and 22 managers of TCC and Erolink. Therefore, the study had to make sample of these two groups of potential respondents using a sampling formula provided by Yamane (1967) as illustrated below. Where 'n' is the sample size, 'N' is the population size or sample frame and 'q' is the degree of precision that the selected population is the right one. The sample was calculated at 90% level of confidence. Therefore 'q' = 0.9. Nevertheless, due to the time limit the study did not manage to obtain exactly required number of respondents. Table 3.1 below show required sample and obtained sample in the field.

$$n = \frac{N}{1 + N(1 - q)^2}$$

$$n(TCC) = \frac{28}{1 + 28(1 - 0.9)^2} = 21.87 \approx 22$$

$$n(Erolink) = \frac{22}{1 + 22(1 - 0.9)^2} = 18.03 \approx 18$$

**Table 3. 1:Sample Size of the Study**

Organizations	Population Size (N)	Required sample size (n)	Obtained Sample size
Officers of TCC	28	22	16
Officers of Erolink	22	18	15
TOTAL	50	40	31

Source: Field Data (2015)

### **3.5 Methods of Data Collection**

According to Sekaran (2003) data collection methods describe the specific approaches used for gathering data which depend on the research objectives and questions to be addressed. Data collected for this study comprises of primary and secondary information. Data was collected by researcher and research assistant including pre-testing of the instruments. Collected information was checked on a daily basis by the researcher for accuracy and any problems identified were discussed in order to maximize the quality of the data generated.

#### **3.5.1 Primary Data**

This is defined as gathering data that does not actually exist until and unless it is generated through the research process (Oppenheim, 2004). The primary data for this study was collected using questionnaires and interview guides.

#### **3.5.2 Secondary Data**

These are accounts offered by the second part, those who did not actually see the object or event but obtained information and provided descriptions of what they taught (Krishnaswami, 2003). They are usually seen as text that is produced much later than the events being studied, offering an interpretation and conversion of the primary data into an account that may be consulted by others (Rwegoshora, 2006).

This study collected and generated secondary data through documentation of reports. The secondary data was used to supplement primary data. To some extent, the kind of instrument used in data collection depends upon how the data would be collected (Krishnaswami, 2003). The study employed a variety of methods to facilitate the cross-checking of the accuracy of information collected from the field. The use of more than one method is aiming at obtaining adequate, original and relevant data about the study from a variety of respondents. The methods included the following.

#### **3.5.2.1 Questionnaire**

Two set of structured questionnaire were prepared and administered, first to the staff of TCC and second set to the staff of Erolink ltd. structured questionnaire is that questionnaire, which poses definite, concrete, and preordained questions, that they are prepared in advance (Rwegoshora, 2006). The questionnaire to the staff of TCC contained information on the possible advantages and disadvantages of outsourcing human resource functions as well as effectiveness of HR providers in offering HR services in private organization. While questionnaire to the staff of Erolink ltd aimed at solicit factors affecting performance of HR providers in offering their HR services in private organizations. Respondents were given enough time to fill in their answers and researcher collected the filled questionnaire from respondent after the period of two to three weeks from the day of distributions.

#### **3.5.2.2 Interview**

Interviewing is basically about asking questions and receiving answers. It is a way of accessing people's perception, meaning and definitions of situations and construction of reality (Margaret, 1982). In depth face to face interview was conducted to solicit

more information from the respondents. Therefore, the aim of using interview was to capture what questionnaire could not capture.

Definitely at the time of conducting questionnaire, researcher tried to identify some of the respondents who was seem to have more knowledge which need to be fetched through interview and set appropriated time and place for conducting interview with those respondents selected for interview purpose. An interview guideline was structured and submitted to the interviewee prior to conducting interview. Nevertheless, researcher recorded all interview argument using MP3 recorder.

### **3.5.2.3 Documentary Review**

In addition to questionnaires and interviews, data were generated from documents and records which are non-human sources made available, often at low cost, and being factual (Babbie, 2004). Data obtained by this method enabled the researcher to cross-check the consistency of the data generated through questionnaires and interviews. Margaret (1982) added that document search is used by the researcher in order to gain insights into the context underlying the events. In the proposed study, documentary review was conducted specifically for the reason of obtaining profitability of the TCC within the period mentioned previously. This enabled to identify impact of HR outsourcing in organization performance. Documentary data was obtained from office records and documentation including annual reports, minutes of the meetings, letters, reports and the administrative files and other related records. Other data was obtained from various books, journal and article relating to the issues of human resource outsourcing and performance of private organizations. These documents also used to shape the direction of this research.

### **3.6 Methods of Data Analysis**

Data analysis is the application of reasoning to understand and interpret the data that has been collected. It involves editing, coding, classifying and tabulating the collected data. In the study the researcher used qualitative and quantitative data analysis technique. The use of both methods enables effective interpretation of both data in numbers, figures as well as narrative and in depth information was provided. Therefore, data interpretation considers whether data was qualitative or quantitative.

#### **3.6.1 Qualitative Data Analysis**

In case of qualitative data analysis, it involved three concurrent activities: data reduction, data display and conclusion drawing (Zikmund, 2003). Data reduction was concerned with the process of selecting, simplifying, abstracting and transforming the data so that they can be made intelligible in terms of the issue being investigated. Data display goes a step beyond data reduction to provide an organized assembly of information that permitted conclusion. Drawing conclusion involves stepping back to consider what the analyzed data was meaning and accessing its implication to the research questions. This analysis is known as thematic analysis. However, qualitative information was obtained from interview and documentation. Analyzed qualitative data was help in gain more insight understanding about the topic as emphasized by Saunders, et al., (2007) while providing richer and deeper understanding on the research topic.

#### **3.6.2 Quantitative Data Analysis**

It is better to know that quantitative research focuses on analyzing numerical data. Accordingly quantitative data was analyzed by SPSS (Version 16). The SPSS has the

incredible capabilities and flexibilities of analyzing huge data within seconds and generating an unlimited gamut of simple and sophisticated statistical results including simple frequency distribution tables, polygons, graphs, pie charts, percentages, cumulative frequencies, binomial and other distributions. In analyzing quantitative data, data was coded, investigated for integrity, analyzed and presented in useful outputs, such as tables and graphs for easily drawing of conclusions and to make recommendations regarding issues which were arise in the study. Descriptive analysis was used in calculations of percentages and arithmetic mean of collected data as well as showing existing correlation between variables in order to come up with valid conclusions concerning the impact of HR outsourcing in the performance of private organization.

Regression analysis was used to establish relationship between dependent variable and independent variables. Meanwhile, for the regression analysis researcher used a multilinear regression equation with regression coefficients stratified across the independent variables. The general form of regression equation used was:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \dots \beta_nX_n + \varepsilon$$

Where:

Y = predicted average value of the dependent variable in the regression model

$\beta_0$  = intercept (predicted value of Y when all other X values are zero);

$X_1$ -  $X_n$  = values of independent variables in the regression model

$\beta_1$  to  $\beta_n$  = standardized regression coefficients for independent variable  $X_1$  to  $X_n$ , respectively; and

$\varepsilon$  = residual error.

### **3.7 Validity and Reliability of the Study**

#### **3.7.1 Validity of the Study**

Sweet and Martin (2008) explained that validity is the extent to which the research data and methods used obtain considered precise, correct and accurate findings. The definition also reflects on questions of how well the findings reflect on the truth, reality of the main questions. There are three kinds of validity as noted by Saunders, et. al., (2007) that is constructing, internal and external validity. Construct validity refers to the process of establishing the correct operational measures for the studied concepts. The researcher ensures construct validity in this study by re-examining data entered in the analytical software (SPSS) before perform any analysis, this was hand in hand with repetition of analysis procedures to ensure that the answer(s) is correct. Internal validity refers to the extent to which a researcher can prove that only the independent variable caused the dependent variable; it looks at the approximate truth about inferences regarding cause-effect or causal relationships. Internal validity was not ensured in this study since the study did not test any hypothesis. External validity is aimed at determining if a study's findings are possible to generalize beyond the immediate case study. Since the study was conducted at the headquarter of TCC which is the administrator office of TCC branches in Tanzania, therefore, the information obtained at this head office presents the rest of TCC branches in the county.

#### **3.7.2 Reliability of the Study**

The reliability of a measuring instrument is established by determining the association between the scores obtained from different administrations of the instrument (Joppe, *ibid*). An instrument is considered reliable if the degree of



association is high. The methods frequently used to test reliability are test-retest, split-half, equivalent-form and the Cronbach alpha (Amin, 2005). In this study, the Cronbach alpha coefficient was used to calculate the internal consistency (reliability) of the measuring scales. The Cronbach alpha indicate the extent to which a set of test items can be treated as measuring a single latent variable (Amin, 2005) and is more accurate and careful method of establishing the reliability of a measuring instrument.

The Cronbach alpha reliability coefficient ranges from 0 to 1 (Sweet and Martin, 2008), the closer the alpha coefficient is to 1.0, the greater the internal consistency of the items in the scale. According to George and Amin (*ibid*), a Cronbach alpha coefficient of 0.70 or more is considered ideal. Other studies, however, regard a Cronbach alpha coefficient of 0.50 as acceptable for basic research (Tharenou, 1993 cited in Lawshe, 2005). A Cronbach alpha of 0.70 means that 70 percent of the variance in observed scores (the actual scores obtained on the measure) is due to the variance in the true scores (the true amount of the trait possessed by the respondent). In other words, the score obtained from the measuring instrument is a 70% true reflection of the underlying trait measured. Therefore, the measures of the variables were conducted as follow.

Human resource functions outsourced by TCC from Erolink: the variables used were port and customs procedures, health safety, administration assistance such as driver general workers and labourer, training of employee, security services, human resource planning, performance appraisal, acquisition of employee, recruitment and selection, payroll, pre- employment test, legal aspect of human resource, benefit administration, employee engagement survey, personnel management, carrier

planning and job evaluation. Reliability check revealed a Cronbach alpha of 0.891, which shows that the measure was reliable.

Effectiveness of the Human Resource Outsourcing: the variables used were tangibility of the service, conformation, assurance in providing the service, reliability of the HR provider, task flexibility of the HR provider and responsiveness of HR provider. The response mode of for these instruments (variables) had a 5-point Likert-scale and reliability check revealed a Cronbach alpha of 0.794, which shows that the measure was reliable.

Pros and cons of human resource outsourcing: the variables used were control operating costs, correcting poor financial performances, improve company focus, improve efficiency and establish competitive advantages, improve service levels, improve customer service, minimize operating risks, provide resources not available internally, achieve world class capabilities, new skills and ideas brought into the organization , reduces possibility of favoritism, improve employee morale and stay competitive, access to technology that would be too expensive to duplicate internally, replace outdated systems, eliminate inventory risk and centralize and increase on timely delivery. The response mode of for these instruments (variables) had a 5-point Likert-scale and reliability check revealed a Cronbach alpha of 0.923, which shows that the measure was reliable. Factors hindering and enabling effectiveness of HR outsourcing: the variables used were integration of TCC and Erolink management systems, regular meeting between Erolink and TCC managers, sharing of information between Erolink and TCC, co-operation between TCC and Erolink in business process improvement and innovation, standardization of the HR functions,

automation of the HR functions and availability of resources. The response mode of for these instruments (variables) had a 4-point Likert-scale and reliability check revealed a Cronbach alpha of 0.797, which shows that the measure was reliable.

### **3.8 Ethical Consideration**

Ethical refers to the standards of behavior that guide researchers' conduct in relation to the rights of those who become the subject of research, or are affected by it (Saunders, Lewis & Thornhill, 2012). In this study, the researcher ensured that data collection tools were taken to the research supervisor and hence an approval was provided that gave the researcher a go ahead to collect data without causing any unethical issues to the respondents. Before collecting the data, respondents were informed the purpose of the study and the way the results were used for. In addition the Researcher ensures confidentiality of the data provided by respondents and anonymity of the participants were observed. The obtained data will be destroyed after completing the study hence observing ethical matters of the respondents

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the findings of the study. It also analyses and discuss the findings of the study in line with the objectives of the study in chapter one. The chapter begins by providing demographic profile of the respondents. It then presents the findings followed by analysis and discussion of the findings.

#### 4.2 Demographic Profile of the Respondents

This section provides the profile of the respondents in terms of gender, age, education and working experience of the respondents.

##### 4.2.1 Gender of the Respondents

The findings in the Table 4.1 below were generated using Cross tabulation in order to explore the distribution of the respondent categories by their gender. The results show that there was no significant difference between numbers of male and female working in the two sampled companies since p-value was 0.739 which is greater than recommended p-value for the significance condition to exist.

Generally, the results show that percentage of male were large than that of female. This indicated that there was more male working in these companies compare to female. But since the study has both male and female respondents it can be said that the results of this study contain the views of both male and female respondents. Specifically, the finding shows that 75.0% officers at TCC were male while at Erolink male were 80.0%. Total percentage of male for both company were 77.4%.

Result further shows that 25.0% of officers at TCC were female while at Erolink were 20.0% and total percentage of female in both company were 22.6%.

**Table 4. 1: Cross tabulation of Gender of Respondents**

				Company categories		Total
				Officers of TCC	Officers of Erolink	
Gender of Respondents	Male	Count	12	12	24	
		% within Company categories	75.0%	80.0%	77.4%	
		% of Total	38.7%	38.7%	77.4%	
	Female	Count	4	3	7	
		% within Company category	25.0%	20.0%	22.6%	
		% of Total	12.9%	9.7%	22.6%	
Total	Count	16	15	31		
	% within Company category	100.0%	100.0%	100.0%		
	% of Total	51.6%	48.4%	100.0%		
$X^2 = 0.111$ $df = 1$ $p = 0.739$						

Source: Field data (2015).

#### 4.2.2 Level of Education of Respondents

The results from table 4.2 were generated using cross tabulation analysis to explore education levels of respondents. The reasons why levels of education were recorded was to show that the result come from people of different level of understanding. The results show that there was significant different between employees of TCC and Erolink in term of education qualification since  $p < 0.0001$ .

**Table 4. 2: Cross tabulation of Respondents Level of Education**

Variables		Company category		Total	
		Officers of TCC	Officers of Erolink		
Respondents level of Education	Diploma	Count	2	13	15
		% within Company category	12.5%	86.7%	48.4%
		% of Total	6.5%	41.9%	48.4%
	Bachelor Degree	Count	7	2	9
		% within Company category	43.8%	13.3%	29.0%
		% of Total	22.6%	6.5%	29.0%
	Master Degree	Count	7	0	7
		% within Company category	43.8%	.0%	22.6%
		% of Total	22.6%	.0%	22.6%
Total	Count	16	15	31	
	% within Company category	100.0%	100.0%	100.0%	
	% of Total	51.6%	48.4%	100.0%	
$X^2= 17.831$		df= 2	p= 0.000		

Source: Field data (2015)

The results (table 4.2) revealed that significance numbers of TCC's employees were holding degrees where both bachelor degree and master degree holder had the same percentage representative of 43.8%. But, majority of Erolink's employees (86.7%) were holding diploma level of education. However, based on results majority of

respondents had diploma level of education (48.4%), followed by those with bachelor degree level of education (29.0%) and respondent that hold masters qualification who presented 22.6% of all respondents. The study indicated that respondents were educated people who are able to think and give objective answers.

#### 4.2.3 Working Experience of Respondent

The study assessed the working duration of the respondents in their jobs. Respondent were told to rate their working duration on their respective companies. The aim was to assess their experience in their company.

**Table 4. 3: Cross tabulation showing Respondents Working Experience**

			Company category		Total
			Officers of TCC	Officers of Erolink	
Working experience of Respondents	Below 2years	Count	0	1	1
		% within Company category	.0%	6.7%	3.2%
		% of Total	.0%	3.2%	3.2%
	2-5years	Count	5	5	10
		% within Company category	31.2%	33.3%	32.3%
		% of Total	16.1%	16.1%	32.3%
6-9 years	Count	5	5	10	

	<b>% within Company category</b>	<b>31.2%</b>	<b>33.3%</b>	<b>32.3%</b>
	<b>% of Total</b>	<b>16.1%</b>	<b>16.1%</b>	<b>32.3%</b>
<b>10-13 years</b>	<b>Count</b>	<b>3</b>	<b>3</b>	<b>6</b>
	<b>% within Company category</b>	<b>18.8%</b>	<b>20.0%</b>	<b>19.4%</b>
	<b>% of Total</b>	<b>9.7%</b>	<b>9.7%</b>	<b>19.4%</b>
<b>14 years and above</b>	<b>Count</b>	<b>3</b>	<b>1</b>	<b>4</b>
	<b>% within Company category</b>	<b>18.8%</b>	<b>6.7%</b>	<b>12.9%</b>
	<b>% of Total</b>	<b>9.7%</b>	<b>3.2%</b>	<b>12.9%</b>
<b>Total</b>	<b>Count</b>	<b>16</b>	<b>15</b>	<b>31</b>
	<b>% within Company category</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
	<b>% of Total</b>	<b>51.6%</b>	<b>48.4%</b>	<b>100.0%</b>
<b>X<sup>2</sup>=1.970      df= 4      p=0.741</b>				

Source: Field data (2015)

The results of the table 4.3, clarify that in the study sample there is no significant difference between employees of TCC and Erolink in term of their working experience ( $p=0.741$ ). Specifically, the statistics have revealed that 3.2% of the respondents have working experience of below two year followed by those who had worked for the period of 2-5 years which is 32.3%. Moreover; it was shown that 32.3% have working experience of 6-9 years. Further it was revealed that 19.4% had

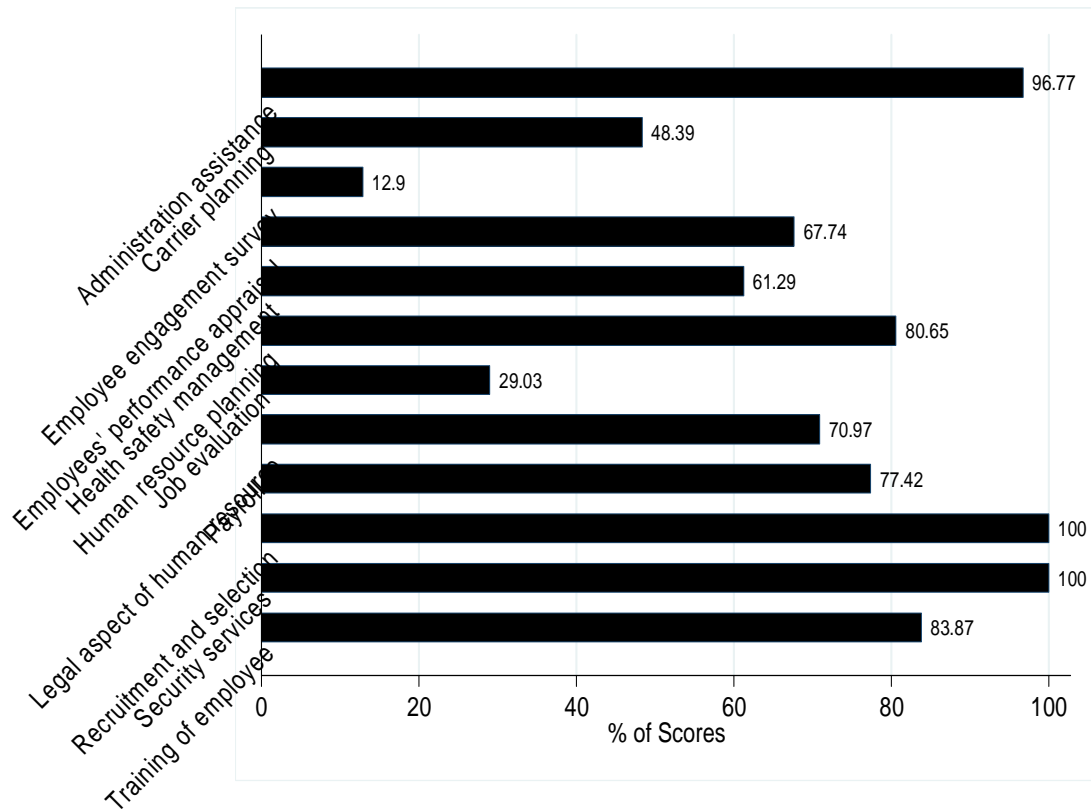


working experience of about 10-13 year. Furthermore, 12.9% of sampled respondents had working experience of above 14 years. In general the result shows that the largest percentage of respondents had worked in their respective organization for long time.

### **4.3 Human Resource Functions Outsourced by TCC**

The study first assessed human resource functions outsourced by TCC from the Erolink. Questionnaire was used to capture respondents opinions on which human resource functions are outsourced by TCC from Erolink. The motive also was to make respondents more aware of the general aim of this study while enables the researcher to know the kind of human resource functions purchased by TCC from Erolink.

From the results (Figure 4.1) it can be shown that respondents were more aware that TCC outsource the following services: recruitment and selection of employees (100%), security services (100%), administration assistance (96.77%), training of employee (83.87%), human resource planning (80.65%), payroll (77.42%), legal service (70.97%), employees' performance appraisal (67.74) and health safety management to the employees (61.29%). but they were little aware that TCC also outsource employees' carrier planning (48.39%) job evaluation (29.03%) and employee engagement survey (12.9%). Apart from security service (which was outsource from Ultimate Security company) and legal services (which was outsource from any law firm when need arise) the remaining services could be outsourced from Erolink Co ltd.



**Figure 4. 1: Showing Human Resource Function Outsourced by TCC**

Source: Field Data

#### 4.4 Presentation of Results to the Research Objectives

This section presents analysis of the results of the study obtained from the primary data as well as discussion arose during interview and document reviews. To start analysis and make the reader more aware of the discussion, a reader can go back to chapter one and review objectives of this study. During analysis stage researcher used mean scores, standard deviation and Chi-square values to explain the results of specific objectives of the study. It must be noted that the mean is the average value of response for each item on the Likert scale. This is simply the sum of the values divided by the number of values. The implication is that the item with the highest mean is the one which most respondents chose or rated highly and vice versa.

Standard deviation is however a measure of variation. This uses all the observations, and is defined in terms of the deviation ( $xi-\mu$ ) of the observations from the mean, since the variation is small if the observations are bunched closely about their mean, and large if they are scattered over considerable distances. This means an item on the Likert scale with the smallest standard deviation implies that respondents gave a similar answer to that item compared with the others.

#### 4.4.1 Effectiveness of the Human Resource Outsourcing

The first specific objective was to assess effectiveness of HR outsourcing practices at TCC. The researcher used service quality dimensions as the variables to perform thereof. These dimensions are: tangibility, conformation, assurance, reliability, flexibility and responsiveness. The respondents from TCC were given questionnaires with 5 Likert points ranging from (1) strongly disagree (2) disagree (3) neutral (4) agree to (5) strongly agree and told to rate how they would agree the extent to which the variables have been stipulated by human resource provider in the human resource outsourcing contract. However, frequency, mean scores and standard deviation were employed to compute the effectiveness of HR outsourcing at TCC and the results have been shown in the table 4.5.

**Table 4. 4: Effectiveness of the Human Resource Outsourcing (Descriptive Analysis)**

Variable	N	Scale					Mean	STD	Rank
		1	2	3	4	5			
HR provider(s) provides HR services with enough physical facilitates, equipment and	16	0	2	5	9	0	3.44	0.727	1

<b>personnel (Tangibility)</b>									
<b>HR provider(s) meets established standards (Conformation)</b>	<b>16</b>	<b>0</b>	<b>2</b>	<b>6</b>	<b>8</b>	<b>0</b>	<b>3.38</b>	<b>0.719</b>	<b>2</b>
<b>HR provider(s) has enough knowledge, courtesy and high ability to inquire trust and confidence (Assurance)</b>	<b>16</b>	<b>0</b>	<b>2</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>3.38</b>	<b>0.806</b>	<b>3</b>
<b>HR provider(s) has required ability to perform the promised service dependably and accurately (Reliability)</b>	<b>16</b>	<b>0</b>	<b>2</b>	<b>7</b>	<b>7</b>	<b>0</b>	<b>3.31</b>	<b>0.793</b>	<b>4</b>
<b>HR provider(s) is flexible when it come to the adjustment of the contract (Flexibility)</b>	<b>16</b>	<b>0</b>	<b>2</b>	<b>8</b>	<b>5</b>	<b>1</b>	<b>3.31</b>	<b>0.793</b>	<b>5</b>
<b>HR provider(s) is willing to help and provide prompt service (Responsiveness)</b>	<b>16</b>	<b>0</b>	<b>5</b>	<b>3</b>	<b>8</b>	<b>0</b>	<b>3.19</b>	<b>0.911</b>	<b>6</b>
<b>AVERAGE MEAN</b>	<b>3.34</b>								
<b>Interpretation of mean</b>									
4.21-5.00 =Very effective									
3.41-4.20=Effective									
2.61-3.40= Somehow/moderate effective									
1.81-2.60= Ineffective									
1.00-1.80= Very ineffective									

Source Data: Field Data (2015)

The results of the table 4.5 revealed that tangibility of human resource provider at TCC was effective with the mean of 3.44. The results continue to show that TCC employees perceived human resource provider was somehow effective in guaranteeing conformation (Mean 3.38), assurance in providing the service (Mean 3.38), reliability (Mean 3.31), task flexibility (Mean 3.31) and responsiveness (Mean 3.19). Moreover, the average mean was calculated and found to be 3.34 which imply that human resource outsourcing at TCC was somehow/moderate effective.

### **Tangibility**

According to respondent opinion it was revealed that ability of HR provider to provide service with enough physical facilities, equipment and personnel is effective. It was further elaborated that “Erolink try very well in their human resource provision to ensure that all necessary equipment and personnel are there for completion of their duties.” It was further argued that one of the factors that made Erolink to with the contact at TCC was its great number of man power. Abrahamson and Park (1994) wrote that before a firm or company choose for an agency to which they can outsource their human resource activity it is necessary for a firm to be aware of how long outsourcing vendor has been in the outsourcing business, know how the company is organized in terms of staffing, and other necessary equipment. Sarwar and Iram (2013) wrote that nowadays many companies outsourcing human activity to save cost of operating business or company but some of the challenges have been listed to affect the quality of HR services from many HR-providers are insufficient manpower and equipment preparation towards the jobs.

In providing quality service in particular field skills and knowledge to particular field is very important however (Sarwar and Iram, 2013) identified that lack of proficiency to manage HR outsourcing is among of the challenges that is associated with human resource outsourcing, it was further narrated by Wang *et. al.*, (2008) that some of the HR-providers performing human resource activity they are not competent on skill and knowledge area hence lead to provision of poor service to the purchaser (company). Furthermore, the study argued that most of the times human resource functions in some companies, particularly Tanzanian companies, are outsourced to HR-providers who are not well specialize in this field. It is also common to find HR-

provider has weak equipment and technical expertise than the ones at the outsourcing organization. This is, in turn, lead to the poor completion of tasks as well as delivery of substandard services.

### **Conformation**

According to respondent opinion it was revealed that ability of human resource provider to meet the established standard was somehow effective. Mostafa (2010) wrote that in choosing human resource service providers, ability of HR-provider to outsourced services should be considered first. This will enable the tender to meet requirement. Therefore, references on the ability of the HR-provider to deliver according to the discussed standards should be obtained before a contract is drawn up and agreed.

However, the contract should be very clear about services, cost and the basis upon which it can be terminated. The understandable terms and conditions will enable HR-providers to deliver services according to the expectation of their customers. This will also create upward communication between the two parts and sufficient business relationship. It should be also noted that the success of any outsourcing program hinges on the relationship between the company and HR-provider/ vendor.

This consistent with Bunoge (2012) who conducted a study in water and sewage service in Kigoma region poor quality of service was blamed by customers and this is because the human resource providers hired by Kigoma Urban Water Supply and Sewerage Authority (KUWASA) failed to meet the established standard. It was further narrated that lack of knowledge on amount of service demanded by Kigoma

community, proper model of supplying and rely more on benefit gaining had led to poor service provision and fail to attain the standard issued by the KUWASA

### **Assurance**

According to responded TCC employees' opinion the ability of HR-providers to inquire trust and confidence was somehow effective also the HR-provider was said to be somehow effective in knowing/understanding the kind of services was supposed to be provided. Belcourt (2006) and Sriwongwana (2009) recommend that human resource provider to become effective they should have enough knowledge on their work and on company into which they provide the service. Therefore, TCC and other companies which want to outsource their human resource functions should ensure those HR-providers are aware of the services need to be outsourced; the depth of their knowledge on both present and future needs should be measured. Relating to this Abrahamson and Park, (1994) comment that an outsourced employee may not have the same understanding and passion for an organization as a regular employee. There is the potential that an outsourced employee will come in contact with customers and not be as knowledgeable of the organization, resulting in a negative customer experience. This being the fact the company should make efforts to ensure that employees outsourced/brought by HR-provider are knowledgeable and easy to adopt culture of the company.

### **Reliability**

It was revealed that according to the responded TCC staffs ability of the Erolink (HR-provider) to perform promised service dependably was somehow effective. It was argued that at low extent Erolink could need some extra facilitations of TCC

which are not on the agreement contract in order to perform their tasks. The HR-provider was very well equipped with material and/or instrument necessary for human resource service provision. This is why responded TCC staff accepted Erolink is somehow effective in executing agreed services dependably. It should be noted that it is barely from many HR –providers to provide services without depending highly on the equipment/assets of the outsourcer.

### **Flexibility**

Flexibility refers to ability of accepting changes when it is needed. According to responded TCC employees 'point of view workers/employees of human resource provider were somehow effective when flexibility is required. It is should be know that each company has its own methodology of delivering the services depend on the industry in which the company is operating and change of the seasons. Different methods of operating as well as different product designs can be adopted at any time in order to produce the products needed by the customers Therefore, it is better for the human resource provider to be aware of the methods used by company at any time and be ready to change according to the request of the company when the need to do so comes.

Walter (2006) elaborated that it is good for the HR-providers to be aware of methodologies used by their clients-company and how well they are used. One of the responded managers of TCC put it that the Erolink management (HR-provider) provides services as specified in the contract. But if there is the need of changes, for instance, the need of adding new features or enhancing or reducing something in the contact the management is flexible to change the service contracts.



It was further noted that flexibility is one of the challenges that the companies encounter when outsourcing their services to HR-providers Company. Manisha and Deepa (2011) highlighted that some HR-providers fail to retain their contracts because they are inflexible when the issue of adjustment of contract comes. They agree only if they see there is an increase in benefit earning but if not they are not ready to change for the benefit of their client-companies. The researcher has argued that inflexibility of HR-providers can cost the companies which outsource their human resource services since human resources are the greatest assets in companies, especially manufacturing companies like TCC. This inflexibility of HR-provider can make the company incur more cost which may lead to losses and sometimes can lead to the closure of the business due to bankruptcy.

### **Responsiveness**

Responsiveness is referred to the willingness to help and provide prompt service. It is better for the HR-providers to be responsible to their duties. On the contrary, Manisha and Deepa (2011) highlighted that responsiveness in any business is the root cause of quality product delivery, responsiveness saves money and time, and frees human resource time for core functions. According to the opinions of TCC's staff it was revealed that responsiveness of Erolink's employees was somehow effective.

After conducting descriptive analysis of the results the study went ahead and performed multiple linear regression analysis to test how much dependent variable (effectiveness of human resource outsourcing) changes when independent variables (tangibility, reliability, conformation, responsiveness, assurance and flexibility)

change. The summary of regression analysis of effectiveness of human resource outsourcing is presented on the table 4.6. The result show that (Adj R square = 0.431) which means 43.1% of the variance of the effectiveness of human resource outsourcing is attributed to tangibility, reliability, conformation, responsiveness, assurance and flexibility ( $\beta= 3.452$ ,  $t= 4.689$ ,  $p= 0.001$ ).

The results continue to show that Except for the assurance ( $\beta = 0.717$ ,  $t= 1.74$ ,  $p=0.026$ ) which was found to be significantly predict effectiveness of human resource outsourcing at TCC the rest of the studied factors of serves qualities which were tangibility ( $\beta=0.030$ ,  $t=0.091$ ,  $p=0.930$ ), reliability ( $\beta = 0.177$ ,  $t= 0.549$ ,  $p=0.599$ ), conformation ( $\beta=0.150$ ,  $t=0.753$ ,  $p=0.471$ ), responsiveness ( $\beta= 0.165$ ,  $t= 1.017$ ,  $p=0.313$  and flexibility ( $\beta= 0.517$ ,  $t= 1.740$ ,  $p=0.116$ ) do not significantly predict effectiveness of human resource outsourcing at TCC.

**Table 4. 5: Effectiveness of Human Resource Outsourcing (Regression Analysis)**

		R Square= 0.658		Adj R Square= 0.431		
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.	
		B	Std. Error	Beta		t
1	(Constant)	3.452	.736		4.689	.001
	Tangibility	-.030	.334	-.040	-.091	.930
	Reliability	.177	.324	.229	.545	.599
	Conformation	-.150	.199	-.198	-.753	.471

<b>responsiveness</b>	<b>-.165</b>	<b>.154</b>	<b>-.276</b>	<b>-1.070</b>	<b>.313</b>
<b>Assurance</b>	<b>.777</b>	<b>.292</b>	<b>1.152</b>	<b>2.658</b>	<b>.026</b>
<b>Flexibility</b>	<b>-.517</b>	<b>.297</b>	<b>-.754</b>	<b>-1.740</b>	<b>.116</b>

**a. Dependent Variable: Effectiveness of HR outsourcing practices of TCC**

Source: Field data (2015)

The study has concluded that assurance of the service provided by HR-provider matter a lot in human resource outsourcing contact at TCC since it has been found to be significant service quality factor which determine effectiveness of the HR-providers in this company. Erolink has been able to hold HR-contract with TCC because of satisfactory assurance Erolink has shown to the TCC. Therefore Erolink should know that TCC consider assurance as the most important factor in measuring effectiveness of HR-provider.

#### **4.4.2 Pros and Cons of Human Resource Outsourcing**

The second specific objective was to assess pros and cons of HR outsourcing at TCC. Questions were prepared in the form of Likert scales with 5 respond mode ranging from 1=strongly disagree, 2=disagree, 3= neutral, 4=agree and 5=strongly agree. They were told to rate the extent to which they could agree with the questions provided. The questions aimed at understanding their opinions on what have been the advantages (pros) and disadvantages (cons) of outsourcing human resource functions in TCC-company. In other words the extent to which TCC have benefited from outsourcing HR functions in one hand; and the extent to which the company have been harmed from outsourcing HR functions in other hand. In the analysis process

descriptive analysis method was used in which mean and standard deviation was used to rank the results according to the order of priority. The ranking process started from the either most advantageous or most disadvantageous factor to the least factor. The results have been shown in the table 4.7.

The results in table 4.7 show that outsourcing of human resource function at TCC has show high advantage in term of operation cost control as well as correcting poor financial performances, with the highest mean of 3.94 and 3.75 respectively. To the remaining factors, outsourcing of human resource functions at TCC was found to have brought moderate advantage. These were improvement of company focus (Mean 3.38), improvement of efficiency and establish competitive advantages (Mean 3.38), improvement of service levels (Mean 3.31), improvement of customer service (Mean 3.25), minimize operating risks (Mean 3.19), provide resources not available internally (Mean 3.19), achievement of world class capabilities (Mean 3.13), new skills and ideas brought into the organization (Mean 3.12), reduces possibility of favoritism (Mean 3.06), improvement of employee morale and stay competitive (Mean 2.94), access to technology that would be too expensive to duplicate internally (Mean 2.81), replace outdated systems (Mean 2.81), eliminate inventory risk (Mean 2.69) as well as centralize and increase on timely delivery (Mean 2.68). The average mean was found to be 3.16 which were interpreted as somehow advantageous, meaning that outsourcing of human resource functions in TCC has brought some moderate advantage.

**Table 4. 6: Pros of Human Resource outsourcing at Tanzania Cigarette****Company (Descriptive Analysis)**

Variables	N	Scale					Mean	STD	Rank
		1	2	3	4	5			
Control operating costs	16	0	1	3	8	4	3.94	0.854	1
Correcting poor financial performances	16	0	1	7	3	5	3.75	1.0000	2
Improve company focus	16	0	2	6	8	0	3.38	0.719	3
Improve efficiency and establish competitive advantages	16	0	1	9	5	1	3.38	0.719	4
Improve service levels	16	0	3	6	6	1	3.31	0.873	5
Improve customer service	16	1	1	8	5	1	3.25	0.931	6
Minimize operating risks	16		3	8	4	1	3.19	0.834	7
Provide resources not available internally	16	0	2	10	3	1	3.19	0.750	8
Achieve world class capabilities	16	0	1	12	3	0	3.13	0.500	9
New skills and ideas brought into the organization	16	3	1	4	7	1	3.12	1.258	10
Reduces possibility of favouritism	16	0	4	8	3	1	3.06	0.854	11
Improve employee morale and stay competitive	16	0	4	9	3	0	2.94	0.680	12
Access to technology that would be too expensive to duplicate internally	16	0	7	5	4	0	2.81	0.834	13

<b>Replace outdated systems</b>	<b>16</b>	<b>3</b>	<b>2</b>	<b>7</b>	<b>3</b>	<b>1</b>	<b>2.81</b>	<b>1.167</b>	<b>14</b>
<b>Eliminate inventory risk</b>	<b>16</b>	<b>0</b>	<b>6</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>2.69</b>	<b>0.602</b>	<b>15</b>
<b>Centralize and increase on timely delivery</b>	<b>16</b>	<b>0</b>	<b>5</b>	<b>7</b>	<b>3</b>	<b>0</b>	<b>2.68</b>	<b>0.743</b>	<b>16</b>
<b>AVERAGE MEAN</b>	<b>3.16</b>								
<p>Interpretation of the Mean</p> <p><b>4.21-5.00 = very high advantageous</b></p> <p><b>3.41-4.20= highly advantageous</b></p> <p><b>2.61-3.40=somehow/moderate advantageous</b></p> <p><b>1.81-2.60= low advantageous</b></p> <p><b>1.00-1.80= very low advantageous</b></p>									

### **Control Operating Costs**

One of the greatest advantages of outsourcing human resource at TCC according to respondents' point of view was control of operating costs. The study argued that access to the outside provider's lower cost structure, which may be the result of a greater economies of scale or some other advantage based on specialization, is clearly and simply one of the most compelling advantage of outsourcing. It was added that companies that try to do everything themselves may incur vastly higher expenses; outsourcing helps to reduce burden to the organization. There are many empirical evidences indication that outsourcing may contribute to cost reduction by providing improved economic of scale (Smith, 2012). These cost savings are likely to be especially in the delivery of administrative and transactional activities. In addition, Smith (*ibid*) highlighted that by allowing the firm to purchase only the amount of consulting support needed, outsourcing can enhance flexibility as well as improves cost efficiency by turning some fixed costs into variable costs.

### **Improvement of Company Focus**

Study found that HR outsourcing in TCC have led to the improvement of company focus. The study argued that HR outsourcing lets the company focus on broader business issues while keeping the core function of the business at place. It was further explained that through outsourcing human resource managers get enough time to perform more strategic roles which can contributing to establish the company's future goals and plan to achieve them rather than spending time on staff payrolls or keep checks on absence records.

For many companies, the single most compelling reason for outsourcing is that several issues are siphoning off huge amounts of management's time and attention on the core function of the company. Too often, this creates financial and opportunity costs that affect the profitability of the company.

Sarwar and Iram (2013) wrote that most company prefers to outsource their activity so that to achieve the core company focuses. Also Sriwongwanna (2009) had noted that outsourcing is an organization-shaping management tool, which can lead to a clearer more effective focus on meeting the customers' needs. Surely, companies want to spotlight their core competencies; they avoid getting entangled and wasting time performing task disadvantageous to those competencies therefore outsourcing some of the company activities are critical for the company's everyday activities.

Increasingly, outsourcing can enable an organization to accelerate its growth and success through expanded investment in the areas that offer it the greatest competitive advantage and improve time to market.

### **Improvement of Efficiency and Establish Competitive Advantages**

Study found that improve efficiency and competitive advantages have also been realized in TCC following outsourcing of HR functions. There different studies put stressed on the issue that human resource outsourcing system can provide competitive advantage to the firm. The researcher has argued that in the case of HR outsourcing a firm is availing more specialized services probably from a different environment with different expertise and the knowledge proficiency can help an organization achieving a competitive advantage over it competitors. In similar manner, Kluge (2004) claimed that outsourcing helps to attain sustained competitive advantage by improving performance as well as freeing up of internal resources for core competencies. This is because the program stimulates higher levels of innovation throughout business practices and technology; it enables companies to utilize their resources to better promote their competitive advantage and become more aggressively in the market place.

### **Improvement of Service Levels**

According to study results it was found that HR outsourcing have lead to the improvement of service levels at some average level. It was mentioned that quality performance of the products had become high since the company started to outsource HR functions than may be possible with internal employees.

### **Improve customer service**

A further advantage of outsourcing human resource in TCC is the improvement of customer service. It was said that HR-provider has brought experts to deal with short term issues that divert company attention away from resolving customers'



complaints. Examples of such issues are delay of the product delivering, unfavorable product test and so on. In light of this fact Viming and Globerman (1999) cited in Weatherly (2015) noted that since outsourcing provides in-house staffs with additional time, improved customer service is an ancillary benefit. Therefore, with the help of outsourced employees, it can be accepted that company get enough time to recognize and respond to the dynamics of customer requirements. Questions are answered expeditiously and issues are addressed promptly. Companies avoid being targets of repetitive disputes and deductions and, as a result, customers are treated equally (big or small).

From most literature reviewed, it is obvious that significant number of authors consider human resource outsourcing very important in creating customer loyalty.

### **Minimize Operating Risks**

Study noted that with the help of human resource outsourcing program TCC has enabled to minimize operation risks such as inventory loss, product damage, absenteeism of employees and so on. The same result was found by Roberts (2001)cited in Gupta (2012) who noted that HR outsourcing considerably lowering the business costs and risks. He added that HR outsourcing increasing the organizational flexibility, innovative capabilities, and opportunities for creating value-added stakeholder returns. Obviously, many organizations preferred to outsource due to the cutting down cost of production. Nevertheless, these reasons are not without challenges. Some of the challenges have been listed as quality of HR services from vendors (HR-providers), insufficient employee preparation towards the jobs, and lack of proficiency to manage HR outsourcing (Kluge, 2004).

**New skills and Ideas Brought into the Organization**

According to respondent opinion new skills and ideas have been realized in TCC in the cause of human resource outsourcing. This is also what was concluded by Kluge (2004) who put it that one of the advantages of HR outsourcing is to obtain skilled manpower. One manager of TCC put it out that following HR outsourcing contact TCC has obtained new employee management systems which was not there before- currently Information Technology (IT) applications are used to monitor performance of the TCC employees, their holidays, provision of incentives and other fringe benefits. Therefore, leads to ultimately increase productivity and low cost of production. Ping (2010) wrote that HR outsourcing help the company to utilize the kind of expertise that could not be produced internally. Furthermore, Armstrong (2013) put it that internal operations can be reduced by outsourcing if not the company will maintain it internally with higher costs.

**Access to technology that would be too expensive to duplicate internally**

Likewise, human resource outsourcing at TCC has resulted to the accessibility of technology that would be too expensive to duplicate within the company without third part player.

It was said that through outsourcing the company have been able to get modern security system that has reduced stolen of the products and revenue collected. Now everything process of production is well organized compare than before. Products are marketed in and nearing countries through technological channels and products are distributed in a well-organized supply chain. It was said that Erolink has enabled TCC to acquire distributors in Zambia, Rwanda, Mozambique and Burundi. And

these distributors are receiving TCC products as well as paying for the products without coming to the TCC offices.

After conducting descriptive analysis of the advantages of human resource outsourcing in TCC the study went ahead and conduct t-test in order to identify factor(s) which is the significant advantage of HR outsourcing at TCC. Therefore, one sample t-test was performed in which the test value was the average mean obtained previously in the table 4.7. However, the results of the t-test have been given in the table 4.8.

**Table 4. 7: Pros of Human Resource out sourcing at Tanzania Cigarette**

**Company**

Variables	Test Value = 3.16					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Achieve world class capabilities	-.280	15	.783	-.035	-.30	.23
Minimize operating risks	.132	15	.897	.027	-.42	.47
Control operating costs	3.642	15	.002	.777	.32	1.23
Provide resources not available internally	.147	15	.885	.027	-.37	.43
Improve efficiency and establish competitive advantages	1.196	15	.250	.215	-.17	.60
Improve company focus	1.196	15	.250	.215	-.17	.60

Access to technology that would be too expensive to duplicate internally	-1.666	15	.116	-.348	-.79	.10
Improve employee morale and stay competitive	-1.309	15	.210	-.223	-.58	.14
Correcting poor financial performances	-1.640	15	.122	-.410	-.94	.12
Improve customer service	.387	15	.704	.090	-.41	.59
Replace outdated systems	-1.191	15	.252	-.348	-.97	.27
Improve service levels	.699	15	.496	.152	-.31	.62
Centralize and increase on time delivery	-1.529	14	.149	-.293	-.70	.12
Eliminate inventory risk	-3.139	15	.007	-.473	-.79	-.15
New skills and ideas brought into the organisation	-.111	15	.913	-.035	-.71	.64
Reduces possibility of favouritism	-.457	15	.654	-.098	-.55	.36

Source: Field Data (2015)

The result of the t-test indicate that advantages of human resource outsourcing at TCC has significantly been realized in control of operating costs ( $t=3.642$ ,  $p= 0.002$ ,  $95\%CI= 0.32$  to  $1.23$ ) and in elimination of inventory risk ( $t=-3.139$ ,  $p= 0.007$ ,  $95\%CI= -0.79$  to  $-0.15$ ). Therefore, the study has concluded that significance pros of human resource outsourcing at TCC are control of operating cost and elimination of inventory risk.

Next was analysis of the cons/disadvantages of human resource outsourcing at the said company. Twelve variables were used to assess cons of HR outsourcing that have been identified by staff/employees of TCC. In the same manner questionnaire



<b>Staff dissatisfaction and demoralization</b>	14	1	5	3	3	2	3.00	1.240	1
<b>Confidentiality leaks and loss of intellectual property rights</b>	16	3	2	6	4	1	2.88	1.204	2
<b>Information leakage</b>	15	4	2	4	2	3	2.87	1.506	3
<b>Reduction of in-house technique and expertise</b>	16	3	4	5	2	2	2.75	1.291	4
<b>Unexpected costs of production</b>	16	4	3	5	2	2	2.69	1.352	5
<b>Loss of strategic flexibility and innovativeness</b>	16	4	3	6	1	2	2.63	1.310	6
<b>Increased difficulty and risk associated with recruitment and selection process</b>	16	4	5	2	3	2	2.63	1.408	7
<b>Poor quality of service by HR services supplier</b>	16	0	2	6	5	3	2.56	.964	8
<b>A loss of internal coherence</b>	15	4	4	4	2	1	2.47	1.246	9
<b>Longer training and induction periods needed</b>	16	0	4	5	5	2	2.44	1.263	10
<b>Loss of core activities and critical knowledge</b>	16	5	3	6	2	0	2.31	1.078	11
<b>Lack of supplier responsiveness</b>	16	6	2	5	3	0	2.31	1.195	12
<b>AVERAGE MEAN</b>	2.63								

<p>Interpretation of the Mean</p> <p><b>4.21-5.00 = very high disadvantageous</b></p> <p><b>3.41-4.20= highly disadvantageous</b></p> <p><b>2.61-3.40=somehow/moderate disadvantageous</b></p> <p><b>1.81-2.60= low disadvantageous</b></p> <p><b>1.00-1.80= very low disadvantageous</b></p>
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Source: Field Data (2015)

Statistics in the table 4.9 continue to show that HR outsourcing could cause some low disadvantage to TCC in term of poor quality of service provided by HR services supplier (Mean 2.56), a loss of internal coherence (Mean 2.47), longer training and induction periods needed (Mean 2.44), loss of core activities and critical knowledge (Mean 2.31) and lack of supplier responsiveness (Mean 2.31). The average mean was calculated and found to be 2.63 which indicate that generally human resource outsourcing program at TCC has caused some disadvantages (i.e. neither high nor low disadvantages; it is just moderate).

However, if you can recall back in table 4.7 the average mean regarding advantage of HR outsourcing in TCC was 3.16 which was also indicating that HR outsourcing have brought somehow advantage in TCC. Comparing these two average mean (3.16 for the advantage and 2.63 for disadvantage) it can be assumed that the benefits of HR outsourcing program in TCC outnumber its shortcomings. Therefore, the study has concluded that outsourcing of human resource function in TCC and other companies in the similar industry can be used as the tool for business improvement. After discovered that HR outsourcing have brought business improvement to the TCC the study went ahead to calculate the proportion of the observed improvement. The following formula was used in performing such calculations.

$$\% \text{ of Improvements} = \frac{\text{Average Mean. Advt} - \text{Average Mean. Disadvt}}{\text{Maximum response point}} \times 100\%$$

$$\% \text{ of Improvements} = \frac{3.16 - 2.63}{5} \times 100\% = 10.6\%$$

From above calculation it can be assumed that HR outsourcing have contributed 10.6% of general business improvement to the TCC. In other wards it can also be said that 10.6% of business performance in TCC is contributed by Erolink. Next is the discussion of some cons/disadvantages of HR outsourcing identified in this study, it should be noted that discussion involves respondents' opinions which was captured during interview, researcher opinions and arguments of other authors/researchers in the field of HR management, particularly HR outsourcing.

### **Staff Dissatisfaction and Demoralization**

Staff dissatisfaction and demoralization was the number one problem of HR outsourcing noted in this study. The discussion put it that outsourcing of HR is a form of restructuring that always results in displaced existing employees in a company/organization. Usually, company provides employees with a sense of identification and feelings of security and belonging. But once HR outsourcing concept is introduced in such company these feelings are threatened and/or disrupted, therefore, employees, may feel offended and corrective. Outsourcing of HR can lead to the disintegration of an organization's culture. Instead of empowering and valuing employees, an outsourcing decision alienates and deskills employees. This has been supported by Elmuti and Kathawala (2000) cited in Swai (2012) who found that when company management thinks of outsourcing HR about one-third of staff could



resist outsourcing because of the risk of losing their jobs or being forced to work for a HR provider who will reduce their benefits as well as fire them when in the leg of poor performance. In the interview process with one of the responded staff of TCC she accepted that outsiders (outsourced employees) are more competent than inside employees.

Concentrating on this discussion it can be accepted that human resource outsourcing leads the employees to feel frustrated and unimportant to the company which often results in reduced morale among employees and leads to dissatisfaction. Most of time, HR-providers do not form personal relationships with staff of outsourcer-company and find it difficult to resolve HR-related disputes in a timely fashion. This frustrates the staff/employees of outsourcer-company, since they may not be able to communicate properly with the outsourced employees directly over business issues.

Babcock(2004)cited in Bratton and Gold (2007) asserted that in an HR outsourcing arrangement, existing employees of the company can be transferred to the authority of the outsourced firm/ HR provider, transferred internally to other functions, outplaced, and/or offered voluntary retirements. In some circumstances redundancies and layoffs of staffdo occur. The study argued that in certain cases, the service provider employs the entire displaced workforce but may either negotiate higher fees from the company or reduce the salaries/wages of the employees to accommodate what is perceived to be surplus or inefficient labor.

### **Information Leakage**

Study found that leakage of confidential information is also another disadvantage of HR outsourcing in TCC. Responded staff of TCC was on the view that at some

extent some sensitive information of the company such as organization structure, financial records, production formulas and strategies as well as other virtual workings information might have been released out through outsourced employees. In reality, the life-blood of any business is the information that keeps it running. Always these information is sensitive and confidential and when they are released to the outside companies there is a risk that the confidentiality may be compromised and used by competitors to defeat the company.

Even if the outsourced partner is thoroughly tested for their internal security processes there is always the risk of data getting stolen or fraud being committed leading to loss of reputation and client confidence. It is through this fact that the researcher recommended that if the HR outsourcing program involves sharing proprietary company data or knowledge such as business processes and safety measures undertaken so that the outsourced partner is able to execute the task in hand much care is needed to make sure that the data is protected and contract has penalty clause if an incident occurs. Moreover, Cooke (2004) cited in Ping (2010) wrote that a major downside to outsourcing is that the business has to forego some degree of privacy over its core business secrets.

### **Reduction of in-house Technique and Expertise**

This was also voted to be somehow disadvantageous of HR outsourcing. It was argued that at the time when Erolink got the contract some of the experienced staff was forced to resign since their positions were taken by other authority while others voluntarily decided to quit the job since they were not happy with the program. Norman (2009) commented that hollowing out of the HR function reduces the

amount of knowledge about the workforce controlled and owned by the organization. Moreover, a sharp cut in the number of HR positions may reduce the ability to attract high quality workers. It was also narrated that currently in TCC there some positions which do not have in-house employees with the skills needed to handle the position; the works are performed by out-house employees. Consequently, if Erolink decides to terminate the contract abruptly surely the TCC-company will fall down. Actually, transferring an HR activity to the HR-provider can take a year or more and the switching costs may make it very difficult and costly to return the activity in-house.

Further, Sarifuzzaman (2012) wrote that when knowledgeable staff people are eliminated or absorbed by the HR provider, the accumulated know how and business knowledge goes with that staff member. Attempts in the future to return the process in-house will not have the benefit of key personnel with the needed knowledge on staff. It was furthermore elaborated that because knowledge is non-quantifiable, organizations fail to value this asset when thing to bring some other program that directly affect in-house employees such as HR outsource program. The retention of corporate wisdom should be taken into account when considering the issue of outsourcing. Norman (ibid) narrated that the major risk of outsourcing is that the company may not be building its value in terms of personnel, in-house knowledge, and infrastructure. In this case, the value of an outsourcing agreement with a provider becomes less effective than produce by using an internal department.

### **Unexpected Costs of Production**

The study noted that unexpected cost of production was perceived by TCC's staff to be somehow disadvantageous of HR outsourcing. It was argued that HR provider

knows that part of the business outsourced better than the outsourcer and will ensure that the contract is carefully (and advantageously) worded which can be disadvantageous to outsourcer company. In the discussion with some colleague, who shown interest in this topic, the discussion had a far stronger suggestion that human resource outsourcing is associated with hidden cost. Potential hidden/indirect costs include a reduction in staff satisfaction and engagement which leads to a sense of distance between staff and the company which in turn lead to the reduction of business performance. In the discussion with one of the experts in the field of HR management, Mr. Mwelele Steven, he complained that company may sign a contract with the HR provider that will cover the details of the service that they will be provided. Anything not covered in the contract will be the basis for company to pay additional charges. Additionally, outsourcer-company experience legal fees to retain a lawyer to review the contracts signed written by outsourced-company.

### **Loss of strategic flexibility and innovativeness**

At some extent loss of strategic flexibility and innovativeness is the disadvantage of human resource outsourcing in the company. The study argued that the contract agreed upon by the outsourced and outsourcer companies should be flexible enough to support contingencies and at the same time rigid enough to ensure that the outsourcer company's interests are protected because the contract is the key to loss of business control.

Without addressing issues in the service level agreement such as successful job/project completion rate, response time and without clear guidelines bearing terms and conditions of the contract proper control of the contract and well as business in

general cannot be maintained. Therefore, to ensure continuation strategic flexibility and innovation in both companies (outsourced and outsourcer-companies) there should be effective communicate and establishment of a mutually beneficial partnership promotion.

### **Provision of Poor Quality of Service by HR provider**

The study found that at low extent HR outsourcing program have been associated with poor qauality of the human resource services at TCC. Essentially, it was noted that HR outsourcing could have low disadvantages in TCC in term of quality of the service provided. It was argued that many human resource providers supply their services at limited costs in order to maximize profit; however, decreased costs of serving often result in decreased quality of the service provided which in turn lead to the reduction of business performance in the side of outsourcer-company. Moreover, since the contracts fix the price, the only way for HR providers to increase profit is to decrease expenses.

This is online with the results of the study conducted by Chowdhury (2012) who found that 46 percent of the sampled outsourcers-companies felt that the services were provided by their HR providers did not help to improve their business performance. Berry (2007) noted that HR providers do not provide HR services in a single company-they usually search for more and more companies to which they can offer their services. They one provider might be catering to the needs of several companies, therefore, will not be able to give each of their outsourcer-companies 100% attention hence lead to poor quality of HR service delivery. On the other hand Mululi (2004) wrote that unless a contract specifically identifies a measurable

process for quality service reporting, there could be a poor service quality experience.

### **Loss of Core Activities and Critical Knowledge**

The loss of core activities and critical knowledge in the cause of HR outsourcing was rated negligible in TCC. However, the study discussion noted that after outsourcing human resource function to a provider, the company management may give up too much control over the company's human resource functions or the company may become too dependent on the HR provider. Dependency and loss of control create the risk of the business not being able to operate successfully if outsourcing is no longer an option for the company or if the provider changes the terms of the contract.

Moreover, outsourced employees may not have the same understanding and passion for an organization as regular employees. There is the potential that outsourced employees will come in contact with customers and not be as knowledgeable of the organization, resulting in a negative customer experience. Further, outsourcing lead into losing of management control of business functions mean that company may no longer be able to control operations and deliverables of activities that they outsource. No matter how dedicated an outsourced team is, it rarely happens that they can exercise the same degree of dedication that an in-house team under the constant and watchful eye of the management can.

After conducting descriptive analysis of the variables for assessing cons of HR outsourcing the study went ahead and conducted t-test analysis. The reason of conducting this test was to identify factor(s) that could be significantly shortcoming

of HR outsourcing program in TCC. The results of t-test have been given in the table 4.10 below.

**Table 4. 9: Cons of Human Resource out sourcing at Tanzania Cigarette company (T-Test)**

	Test Value = 2.63					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Loss of core activities and critical knowledge	-1.178	15	.257	-.317	-.89	.26
Loss of strategic flexibility and innovativeness	-.015	15	.988	-.005	-.70	.69
Reduction in in-house technique and expertise	.372	15	.715	.120	-.57	.81
Lack of supplier responsiveness	-1.062	15	.305	-.317	-.95	.32
Poor quality of service by HR services supplier	-.280	15	.783	-.067	-.58	.45
A loss of internal coherence	-.508	14	.620	-.163	-.85	.53
Confidentiality leaks and loss of intellectual property rights	.814	15	.428	.245	-.40	.89
Unexpected costs	.170	15	.867	.058	-.66	.78
Staff dissatisfaction and demoralization	1.116	13	.285	.370	-.35	1.09

<b>Increased difficulty and risk associated with recruitment and selection process</b>	<b>-.014</b>	<b>15</b>	<b>.989</b>	<b>-.005</b>	<b>-.76</b>	<b>.75</b>
<b>Longer training and induction periods needed</b>	<b>-.610</b>	<b>15</b>	<b>.551</b>	<b>-.192</b>	<b>-.87</b>	<b>.48</b>
<b>Information leakage</b>	<b>.609</b>	<b>14</b>	<b>.552</b>	<b>.237</b>	<b>-.60</b>	<b>1.07</b>

Source: Field Data (2015)

The results of the table 4.10 reveal that all observed cons/disadvantages of HR outsourcing were most significantly disadvantages. This is because probability value of each factor was greater than recommended maximum value of 0.05 for the significance condition to exist. Additionally, to confirm that they were not significance disadvantageous, the confidence interval of each of the analyzed variables at 95% was greater passing through zero (i.e. ranging from negative side to the positive side).

#### **4.4.3 Factors Hindering and Enabling Effectiveness of Human Resource**

##### **Outsourcing**

The third specific objective was to assess the factors hindering and enabling effectiveness of HR out sourcing. Questions were prepared and sent to the respondents of Erolink to give their perceptions on which factors are either hindering or enabling their performance in providing human resource services at TCC. The response mode of the question was in the Likert scale ranging from 1=agree, 2=disagree, 4=good, 5=excellent. The researcher used two statistical indices, namely individual content validity index (ICVI) test and content validity index for scale (SCVI) test. Normally these indexes are calculated to items' relevance or



applicability of the items and utilized frequency data. So, these testes are the applications or extensions of frequency analysis in statistical term. Therefore, an ICVI was computed for each of the variable to understand which factors hinder and which factors enable effectiveness of Erolink's employees at TCC. The ICVI test was computed using the individual content validity ratio developed by Bloom (1975) on the bases of the following formula:

$$ICVI = \frac{E - N/2}{N/2}$$

$$SCVI = \frac{\text{Sum of ICVI}}{\text{Total number of ICVI}}$$

Whereby,

E=represents number of respondents who agreed that the item was relevant;

N=the total number of respondents to that particular item.

The ICVR results range between -1 and +1 with positive value an indication of relevance. In this analysis the results of ICVI were interpreted in two levels, "hindering factor or obstacle" and "enabling factor or supporter". The SCVI was calculated as the proportion of items within a domain given a rating of relevance by all respondents. The results are shown in table 4.11 below. In interpreting the results of index analysis, the negative value indicates hindering factor and the positive value indicates enabling factor while zero indicates neither hindering nor enabling factor.

**Table 4. 10: Factors Hindering and Enabling Effectiveness of Human resource Outsourcing**

Variables	N	Scale				ICVI	SCVI
		1	2	3	4		
Integration of TCC and Erolink management systems	15	1	8	5	1	-0.20	0.13
Regular meeting between Erolink and TCC managers	15	1	7	6	1	-0.06	
<b>Sharing of information between Erolink and TCC</b>	14	1	6	4	4	0.14	
Co-operation between TCC and Erolink in business process improvement and innovation.	15	2	8	3	2	-0.33	
Standardization of the HR functions	15	1	5	7	2	0.20	
Automation of the HR functions	15	1	3	7	4	0.46	
Availability of resources	13	0	1	6	5	0.69	

The results of the table 4.11 show that factors that were perceived to be supporting Erolink in providing effective HR services were availability of the required resources (ICVI was 0.69). Furthermore this can also be interpreted that resources needed to provide effective human resource services were available to employees brought by Erolink in TCC at 69% and therefore the deficit of important resources was at 31% which is not so big to cause problem. This result reflects the result of the table 4.5 where the staff of TCC responded that tangibility (i.e. enough physical facilitates, equipment and personnel) of Erolink was high and therefore Erolink was effective as regarding to the tangibility of HR services executed. The results of the table 4.11 continue to show other factors that were supporting Erolink/HR provider in providing effective HR services at TCC to be standardization of the HR functions (ICVI 0.20), automation of the HR functions (ICVI 0.46) and sharing of information between Erolink and TCC (ICVI 0.14).

On the other hand factors that seemed to deprave effectiveness of Erolink in providing HR services at TCC were perceived by employees of Erolink to be lack of integration of TCC and Erolink management systems (ICVI -0.20), lack of regular meeting between Erolink and TCC managers (ICVI -0.06) and lack of co-operation between TCC and Erolink in business process improvement and innovation (ICVI -0.33). But the general results revealed positive SCVI of 0.13 which implies that enabling factors outweigh hindering factors and therefore the study concluded that outsource employees at TCC have been provided with conducive environment/conditions for them to work better.

#### **Standardization of the HR function/activities**

According to respondents' opinion it was revealed that there was the proper standardization of HR activities at TCC and this was among of the factor which enabling the effectiveness of HR outsourcing. It was argued that TCC management has been maintaining strategic responsibility to ensure standardization human resource functions and maintain the relationship with Erolink. It was further discussed that operational issues are handled at various levels, but do not delegate the alignment of company interests with its HR provider. It was also said that relationship between TCC and Erolink is well structure in which the plan are made well under top-down approach model. Armstrong (2013) reported that for the effective HR outsourcing contract meeting agendas, meeting schedule and performance reports need to be defined and designed.

#### **Automation of the HR functions**

Study revealed that automation of HR services which was done with the help of ICT applications to monitor the progress and performance of the worker was among the

factors enabling Erolink to provide effective human resource services. It is well known that automation at work helps to save time and costs of performing work. In these days of modern technology there are many information systems to manage human resource in an organization, these Human Resource Information Systems (HRISs) address HR needs with respect to planning, employee information access, and employer regulatory compliance. Corbett (2004) wrote that the internet and new generations of software have revolutionized HR information systems, significantly improving HR productivity, increasing control of employee benefits, streamlining compliance efforts, facilitating the management of payroll functions and lowering the cost of recruiting.

#### **Availability of Resources**

According to respondents' opinion it was revealed that there are enough resources (i.e. physical equipment, manpower) for the Erolink to perform HR functions properly. The discussion in this study accepted that Erolink is well prepared in terms of resources required by any HR-firm in provision of proper HR-function. It was further mentioned that apart from having enough computer and human resource management soft-wares, Erolink also has three big buses to assist transportation of its employees who are working at TCC.

In the morning the buses pass along the major roads and collect Erolink's employees who are going to work at TCC. Likewise in the evening once they have done with their daily works the buses carry them from the TCC place and distribute them to their residential areas. It was said that these buses have been of great help to the Erolink's employees since there is the biggest transport service problem within the City of Dar es Salaam.

### **Sharing of information between Erolink and TCC**

Study found that the exchange of information between Erolink and TCC was low provided. This being the case inadequacy of information sharing between the two parts was regarded as the factor that obstacle effective provision of human resource services by Erolink at TCC. The study argued that one of the principles of business performance between two parts/companies that are working together in any form of association is setup of system which allows a continuous exchange of information between two parties. However, as already noted early in section 4.3.2 fearing of sensitive information leakage is the one of the biggest issue that hinders the willingness of company to share information with the HR provider.

### **Integration of TCC and Erolink Management Systems**

Incorporation of the two systems between outsourcer-company and outsourced-company is very important since it enable simplification of the work performed by HR provider. In spite of that study found that one of the factors that undermine effectiveness of human resource provider was lack of integration between TCC and Erolink Management System. It was argued that TCC managers were not willing to integrate their systems with that of Erolink for the fear of information leakage.

### **Regular meeting between Erolink and TCC Managers**

Study found that insufficient number of regular meeting between TCC and Erolink managers could be among the factors undermine performance of Erolink in providing HR service at TCC. It should be noted that holding regular meetings between the management of outsource-company and outsourced-company is very important to maintain management relationship. Knowing that the business world is competitive in nature, business people need regular personal interaction more than ever. Although

telephone and online communication allow for a convenient and quick means of interaction and provide an avenue for quick sharing of ideas but negotiations are actually best dealt with personal physical meetings. The researcher argued that managers of both side should get together periodically to iron out any issues. Through meeting they can discuss different thing concerning performance of the activities whether there is somewhere need amendment, correction to taken immediately to prevent company loss.

#### **4.4.4 Performance implications of HR outsourcing at TCC**

After analyzing factor enhancing and hindering the effectiveness of human resource outsourcing the study went further and analyzing performance implication of human resource outsourcing at TCC. For that reason the study analyses company growth intern of the profitability for six years period (2001-2006) before outsourcing HR functions from Erolink and six year period (2008-2013) after starting outsourcing human resource functions. It should be noted that TCC started outsourcing human resource functions from Erolink in the year of 2007.

**Table 4. 11: Profitability of TTanzania Cigarette Company**

<b>Year</b>	<b>Profitability/Net Income (TZS' Millions)</b>	<b>Change of Profitability</b>	<b>% Change of Profitability</b>
<b>2001</b>	<b>21600</b>		
<b>2002</b>	<b>22100</b>	<b>500</b>	<b>2.31</b>
<b>2003</b>	<b>24700</b>	<b>2600</b>	<b>11.76</b>
<b>2004</b>	<b>25600</b>	<b>900</b>	<b>3.64</b>
<b>2005</b>	<b>25800</b>	<b>200</b>	<b>0.78</b>

<b>2006</b>	<b>26900</b>	<b>1100</b>	<b>4.26</b>
<b>Mean before HR outsourcing</b>	<b>24450</b>	<b>1060</b>	<b>4.55</b>
<b>2008</b>	<b>31063</b>		
<b>2009</b>	<b>46028</b>	<b>14965</b>	<b>48.18</b>
<b>2010</b>	<b>60200</b>	<b>14172</b>	<b>30.79</b>
<b>2011</b>	<b>70942</b>	<b>10742</b>	<b>17.84</b>
<b>2012</b>	<b>85941</b>	<b>14999</b>	<b>21.14</b>
<b>2013</b>	<b>78058</b>	<b>-7883</b>	<b>-9.17</b>
<b>Mean after HR outsourcing</b>	<b>62038.67</b>	<b>9399</b>	<b>21.76</b>

Net income data were picked from the annual reports of TCC over the aforementioned periods and analyzed to determine growth rate of the company in term of its profitability. From the results (table 4.12) it can be noted that profitability trends of TCC in both two periods (before and after starting outsourcing HR functions) from the Erolink were waving upwards. The mean profit before outsource HR function was found to be TSH 24450 Million and the annual change of the profit was at the average of 4.55%. On the other hand the mean profit after outsource human resource function was 62038.67 Million while annual change of the profit within this period was at the average of 21.76%. This implies that there was high increase of the profitability year after year in the period after starting outsourcing human resources functions from the Erolink.

The study went ahead and calculated the growth rate of profitability in both two periods. The calculations were performed as follows

**Growth Rate Before**

$$A1 (1+g)^n = An$$

$$21600(1+g)^6 = 26900$$

$$(1+g)^6 = 26900/21600$$

$$g = 0.037 = 3.7\%$$

**Growth Rate After**

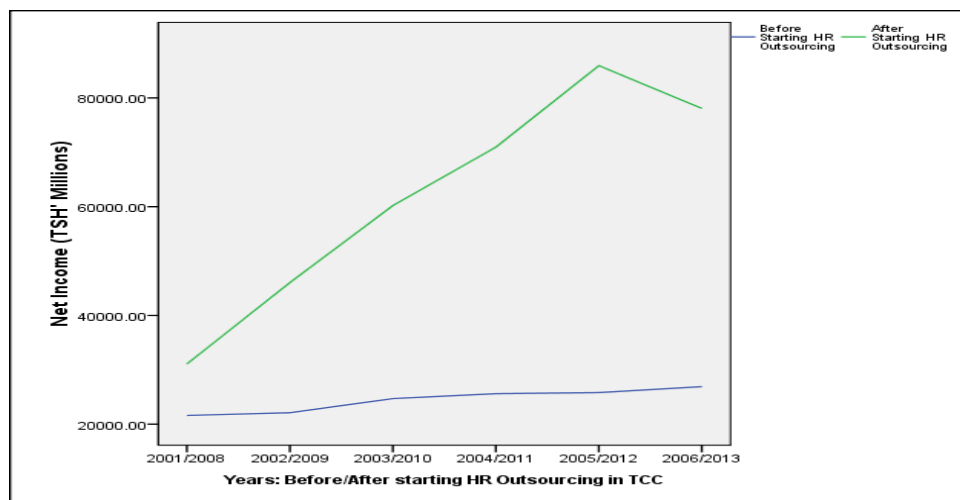
$$A1 (1+g)^n = An$$

$$31063(1+g)^6 = 78,058$$

$$(1+g)^6 = 78058/31063$$

$$g = 0.165 = 16.5\%$$

According to the calculation above the study noted that TCC growth rate of the profitability in the six years period just before starting outsourcing human resource was 3.7% which is lower compare to the growth rate in the six years period just after starting outsourcing human resource where the profitability grown by 16.5%. Now this tells us that outsourcing of the human resource functions have associated with high rate of company growth in term of profitability. The percentage change of the profitability or company growth is 12.8% (16.5%-3.7%). This clarify what was found in the previous section 4.3.2 of this study where it was found from the respondents' point of views that HR outsourcing program have brought business improvement to TCC worth 10.2%. However, figure 4.2 shows that trend of profitability in TCC in both two periods under review.



**Figure 4. 2: Trend of Profitability in Tanzania Cigarette Company**

Source: Secondary Data (2015)



Conversely, it may be not only outsourcing program which have induced this high growth rate other factors might have been changed either within the TCC-company or within the economic sector and favor profitability of TCC in the production period of 2008-2013. Therefore, the researcher wants other researcher to examine what other factors apart from the outsourcing HR from the Erolink have persuaded high growth of profit in TCC.

#### **4.5 General Discussion of the Findings**

In this section the researcher provided general discussion of study findings. This discussion come from the conclusion of the study derived from the analysis of the study findings, ideas contributed by respondents during interviews, ideas of researcher and other peoples who shows interest in this study and contribute their views, accordingly, in one way or another. Also, findings of other researchers in this area were included to justify the results of present study.

The study has accepted that human resource outsourcing brings positive performance in an organization. This conclusion was also attained by Farrell (2004) how noted that human resource outsourcing have been helping in cutting operation cost, increase capacity of organization, increase quality of the products which eventually lead to the increase of profitability. However, the study argued that the debate that human resource brings organization performance is becoming more critical in today's increasing conditions of competition. Just like it was narrated by agency theory human resource provider (agent) has the ability of making Outsourcer Company (principle) perform better or poorly. Incase human resource provider performs the work better the outsourcer company might be able to lower production

cost at significant amount. This has also been explained by transaction cost theory. In the same line Edwards and Rees, 2005) wrote that besides performing the administrative services such as catering, cleaning, employee transportation, and security as outsourcing, operations of some human resource practices like training and payroll via outsourcing contribute the desired performance positively by means of only true strategy while organizational culture shaping the strategy.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter reviews the study background and objectives, and summarizes the researcher findings and gives conclusion of the study. Also, recommendations are provided to suggest possible solution to the impact of outsourcing Human Resources (HR) functions on performance companies.

#### **5.2 Summary of the Study**

The intention of the study was to examining the impact of outsourcing Human Resources (HR) functions on performance of private companies by focusing on Tanzania Cigarette Company (TCC) as a case study. The study posed four investigative questions in order to attain its objectives. The questions were: How effective are HR outsourcing practices at TCC? What are pros and cons of HR outsourcing at TCC? What are the factors hindering and enabling effectiveness of HR outsourcing at TCC? And lastly what are the performance implications of Outsourcing. The results obtain in the study to answer the above question can be summarized as follow.

##### **5.2.1 Effectiveness of HR outsourcing practices at TCC**

In consistent with the first study objective, it has been revealed that specifically the study reported that in terms of ensuring tangibility of the service HR provider was effective. But HR provider was somehow effective in term of guaranteeing conformation, assurance, reliability, flexibility and responsiveness. Generally effectiveness of human resource practice on performance of Tanzania Cigarette

Company (TCC) was just moderate neither high nor low. This is to say that Erolink is providing service at the medium level. The study also noted that assurance was the factor which was prediction/determines effectiveness of HR provider at TCC. Therefore Erolink has to put more consideration on the assurance of its HR services providing at TCC.

### **5.2.2 Pros and Cons of HR Outsourcing at TCC**

From the results of the descriptive analysis the study revealed that human resource outsourcing has both advantage and disadvantage on Tanzania Cigarette Company. According to respondents' point of view it was identified that HR outsourcing program have shown high advantage to TCC in term of operating costs control and correcting poor financial performance of the organization.

However, according to the order of importance, it was found that HR outsourcing has brought moderate advantage in TCC in term of improvement of company focus, improvement of efficiency and establish competitive advantages, improvement of service levels, improvement of customer service, minimize operating risks, provide resources not available internally, achievement of world class capabilities, establishment of new skills and ideas in organization, reduces possibility of favoritism, improvement of employee morale and stay competitive, access to technology that would be too expensive to duplicate internally, replace outdated system, eliminate inventory risk as well as centralize and increase on timely delivery of the products. But in general term the study concluded that human resource outsourcing have brought moderate advantage. Further results of t-test revealed that significant advantage of HR outsource in TCC was in control of operating costs and elimination of inventory risk.

Concerning disadvantage of HR outsourcing the study found the following, according to the order of priority, are the moderate disadvantages: staff dissatisfaction and demoralization, leakage of confidentiality and loss of intellectual property right, information leakage, reduction of in-house technique and expertise, unexpected costs of operation and loss of strategic flexibility and innovativeness. Factors which were noted to be also disadvantages of HR outsourcing were poor quality of service provided by HR provider, loss of internal coherence, long training and induction periods needed to train outsourced employees about the company culture, loss of core activities and critical knowledge and lack of HR supplier responsiveness. In general disadvantages of human resource outsourcing in TCC was noted to be also moderate but after conduct thorough analysis using t-test the study noted that all these disadvantages were not significant. So, the study concluded that disadvantages of HR outsourcing at TCC were powerless and they are just normal business weaknesses.

### **5.2.3 Factors Hindering and Enabling Effectiveness of HR Outsourcing at TCC**

With respect to the results of the study it was revealed that factors which were supporting effectiveness of HR provider at TCC were availability of the required resources such as physical facilities/equipment and personnel, standardization of the HR functions, automation of the HR functions and sharing of information between Erolink and TCC. Meanwhile factors which could debase ability of HR provider from providing effective HR services were lack of integration of TCC and Erolink management systems, lack of regular meeting between Erolink and TCC managers, and lack of co-operation between TCC and Erolink in business process improvement

and innovation. Moreover, analysis indicated that the strength of enabling factors was higher than that of hindering factors and therefore the study concluded that outsourced employees at TCC have been provided with conducive environment/conditions for them to work better.

#### **5.2.4 Performance implications of HR Outsourcing at TCC**

The aim was to test if HR outsourcing associate with the increase of the company growth. Therefore, profitability of TCC for the six year period just before outsource HR from Erolink and six year period just after starting outsourcing HR services were analysed. The results shown that profitability of TCC had grown by 3.7% over the six years period before outsourcing HR from the Erolink while percentage growth was 16.7% over the six years period after starting outsourcing HR from the Erolink. With these results the study concluded that there is positive implication of HR outsourcing in TCC.

### **5.3 Conclusion of the Study**

The study was all about the impact of outsourcing human resources functions on performance of private organizations. TCC (outsourcer) and Erolink Company (human resource provider) were included in the study wherein respondent came from the managerial positions of both two companies who were selected purposively. The study used inferential analysis (i.e. descriptive and ICVI), non-parametric analysis (i.e. t-test) and parametric analysis (i.e. regression analysis) to reach to the conclusion of the study. The study has concluded that outsourcing HR function has positive impact in the organization performance. However there are some factors which need to be present for the HR outsourcing contract to be meaningful in the organization. These factors are like those which were noted to be enabling factors for

the Erolink to provide effective HR services at TCC. It should also be known that assurance of HR provider/supplier is the greatest factor that determines effectiveness of HR service provided on the site of outsourcer-company.

#### **5.4 Recommendations of the Study**

Based on the findings of the study the following recommendations have been identified in order to improve impact/outcomes of the HR outsourcing function in the company. These are as follows;

- The TCC and other companies which have implemented HR outsourcing program in their daily operations should prepare more effective strategies in their contract to ensure the human resource activities offered by HR providers are very high efficient to enable the company to gain more profit and attain their goals.
- Also, Human resource providers such as Erolink should try on their level best to ensure that the services they are providing are quality so that it can enhance the performance of the outsourcer-company.
- Tanzania Cigarettes Company should ensure factor such as standardization of activity, automation of service and other enhancing factor are highly provided to create the favorable environment for human resource provider to provide efficient service. Also both TCC and Erolink companies should ensure those factors that hinder the provision of efficient HR services are rectified.
- The study also recommended importance HR-provider to invest much on the equipment and/or resources needed in the provision of human resource services. Acquisition of enough equipment guarantees assurance of the service which outsourcers are highly considering from the HR-providers.

### **5.5 Area for Further Study**

The researcher has recommended two more study to be conducted by other researchers

- (i) similar study but should consider other company apart from TCC in order to come up with the clear picture of the impact of outsourcing HR functions on the organization performance.
- (ii) Also more studies should be conducted on the challenges of human resource outsourcing to both company performance and job market/employees.



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## APPENDENCES

### Appendix I: Questionnaire to the Managers of TCC

This questionnaire aim at gathering information on THE IMPACT OF OUTSOURCING HUMAN RESOURCES FUNCTIONS ON ORGANIZATION PERFORMANCE, focusing at TCC, the information provided will be used purely for academic purpose as part of fulfillment of Master's Degree in Business administration. Any information given would not be disclosed, and the degree of confidentiality will be observed.

**Kindly tick (✓) the appropriate space or fill in the blank**

#### PART A: GENERAL INFORMATION

1. What is your gender

Male (1)	Female (2)
<input type="checkbox"/>	<input type="checkbox"/>

2. Your level of education

Diploma (1)	1st Degree (2)	Master (3)	PHD (4)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. How long have you been working at TCC?

Below 2 yr (1)	2-5 yrs (2)	6- 9 yrs (3)	10 -13 yrs(4)	Above 14 yrs (5)
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. The study wants to know human resource function outsourced in this organization. Select all applicable.

<b>S/N</b>	<b>Variables</b>	<b>Tick (√)</b>
i	Health services	
ii	Administration assistance such as Drivers, General Workers, Laborers	
iii	Training of employees	
iv	Security services	
v	Human Resources Planning	
vi	Performance Appraisal	
vii	Acquisition of employees	
viii	Recruitment and Selection	
ix	Payroll	
x	Pre-Employment Tests	
xi	The legal aspects of human Resources	
xii	Benefit administration	
xiii	Employees engagement survey	
xiv	Personnel management	
xv	Career planning	
xvi	Job evaluation	

#### **PART B: EFFECTIVENESS OF THE HR OUTSOURCING**

5. The study wants to assess effectiveness of the human resources (HR) outsourcing practices at TCC. Please, respond to all items given below by putting a tick (√) in the appropriate space using the give scale ranging from strongly disagree to strongly agree.

S/N	Thinking about human resource provider(s) in your organization together with the services provided. Please indicate the extent to which you agree or disagree with each of the following statements	Strongly disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly agree (5)
i	HR provider(s) provides HR services with enough physical facilities, equipment and personnel (Tangibility)					
ii	HR provider(s) has required ability to perform the promised service dependably and accurately (Reliability)					
iii	HR provider(s) meets established standards (Conformation)					
iv	HR provider(s) is willing to help and provide prompt service (Responsiveness)					
v	HR provider(s) has enough knowledge, courtesy and high ability to inquire trust and confidence (Assurance)					
vi	HR provider(s) is flexible when it come to the adjustment of the contact (flexibility)					

6. In general how would you rate effectiveness of HR outsourcing practices at TCC

<b>Very ineffective (1)</b>	<b>Ineffective (2)</b>	<b>Undecided (3)</b>	<b>Effective (4)</b>	<b>Very effective (5)</b>

### **PART C: PROS AND CONS OF HR OUTSOURCING**

7. The study wants to establish advantages of HR outsourcing in large organization in Tanzania. You have been given some of the pros of HR outsourcing that have been noted from other organizations in other parts of the world. Please show how you would indicate the extent to which the following factors have been assured in this organization as the result(s) of HR outsourcing.

<b>S/N</b>	<b>Rate the extent to which HR outsourcing has helped to perform the following in your organization</b>	<b>No extent (1)</b>	<b>Very small extent (2)</b>	<b>Small extent (3)</b>	<b>Large extent (4)</b>	<b>Very large extent (5)</b>
<b>i</b>	<b>Improve company focus</b>					
<b>ii</b>	<b>Achieve world class capabilities</b>					
<b>iii</b>	<b>Minimize operating risks</b>					
<b>iv</b>	<b>Control operating costs</b>					
<b>v</b>	<b>Provide resources not</b>					

	<b>available internally</b>					
<b>vi</b>	<b>Improve efficiency and establish competitive advantages</b>					
<b>vii</b>	<b>Access to technology that would be too expensive to duplicate internally</b>					
<b>viii</b>	<b>Improve employee morale and stay competitive</b>					
<b>ix</b>	<b>Correcting poor financial performances</b>					
<b>x</b>	<b>Improve customer service</b>					
<b>xi</b>	<b>Replace outdated systems</b>					
<b>xii</b>	<b>Improve service levels</b>					
<b>xiii</b>	<b>Centralize and increase on time delivery</b>					
<b>xiv</b>	<b>Eliminate inventory</b>					
<b>xv</b>	<b>New skills and ideas brought into the organization</b>					
<b>xvi</b>	<b>Reduces possibility of favoritism</b>					

8. Mention other advantages of outsourcing HR functions in this organization

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- 
9. The study wants to establish disadvantages of HR outsourcing in large organization in Tanzania. You have been given some of the risks of HR outsourcing that have been noted from other organizations in other parts of the world. Please show how you would indicate the extent to which the following factors have been appeared in this organization as the result(s) of HR outsourcing.

S/N	Rate the extent to which HR outsourcing has lead to the occurrence of these cons in your organization.	No extent (1)	Very small extent (2)	Small extent (3)	Large extent (4)	Very large extent (5)
i	Loss of core activities and critical knowledge					
ii	Loss of strategic flexibility and innovativeness					
iii	Reduction in in-house technique and expertise					
iv	Lack of supplier responsiveness					
v	Poor quality of service by HR services supplier					
vi	A fall in employee morale					
vii	A loss of internal coherence					
viii	Confidentiality leaks and loss of					

	<b>intellectual property rights</b>					
<b>ix</b>	<b>Unexpected costs</b>					
<b>x</b>	<b>Customer dissatisfaction</b>					
<b>xi</b>	<b>Increased difficulty and risk associated with recruitment and selection process</b>					
<b>xii</b>	<b>Longer training and induction periods needed</b>					
	<b>Information leakage</b>					

10. Mention other disadvantages of outsourcing HR functions you have encounter in this organization

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**PART D: PERFORMANCE IMPLICATIONS OF HR OUTSOURCING**

11. How would you rate your company growth rate before and after outsourcing HR functions?

	<b>Very low (1)</b>	<b>Low (2)</b>	<b>Moderate (3)</b>	<b>High (4)</b>	<b>Very high (5)</b>
<b>Before</b>					



<b>After</b>					
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- Do you have reasons for above rate? If yes provide the reasons and If No state why?

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12. How would you rate your company market share before and after outsourcing HR functions?

	<b>Very low (1)</b>	<b>Low (2)</b>	<b>Moderate (3)</b>	<b>High (4)</b>	<b>Very high (5)</b>
<b>Before</b>					
<b>After</b>					

- Do you have reasons for above rate? If yes provide the reasons and If No state why?

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13. How would you rate level of your organization net income before and after outsourcing HR functions?

	<b>Very low</b>	<b>Low (2)</b>	<b>Moderate</b>	<b>High (4)</b>	<b>Very high</b>

	(1)		(3)		(5)
<b>Before</b>					
<b>After</b>					

- Do you have reasons for above rate? If yes provide the reasons, and If No state why?

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14. How would you rate level of your organization return on investment before and after outsourcing HR functions?

	<b>Very low</b> (1)	<b>Low (2)</b>	<b>Moderate</b> (3)	<b>High (4)</b>	<b>Very high</b> (5)
<b>Before</b>					
<b>After</b>					

- Do you have reasons for above rate? If yes provide the reasons, and If No state why?

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*Thank for your time*

**Appendix II: Questionnaire to the Managers of Erolink Co. Ltd**

This questionnaire aim at gathering information on THE ISSUES OF  
 OUTSOURCING HUMAN RESOURCES FUNCTIONS ON ORGANIZATION  
 PERFORMANCE, focusing at TCC. As the HR provider of TCC you are duly  
 requested to provide your objective answers relation to the questions. The  
 information provided will be used purely for academic purpose as part of fulfillment  
 of Master's Degree in Business administratio. Any information given would not be  
 disclosed, and the degree of confidentiality will be observed.

**Kindly tick (√) the appropriate space or fill in the blank**

**PART A: GENERAL INFORMATION**

1. What is your gender

Male (1)	Female (2)

2. Your level of education

Diploma (1)	1st Degree (2)	Master (3)	PHD (4)

3. How long have you been working at TCC?

Below 2 yr (1)	2-5 yrs (2)	6- 9 yrs (3)	10 -13 yrs(4)	Above 14 yrs (5)

4. The study wants to know human resource function you provide at TCC.

Select all applicable.

<b>S/N</b>	<b>Variables</b>	<b>Tick (√)</b>
i	Health services	
ii	Administration assistance such as Drivers, General Workers, Laborers	
iii	Training of employees	
iv	Security services	
v	Human Resources Planning	
vi	Performance Appraisal	
vii	Acquisition of employees	
viii	Recruitment and Selection	
ix	Payroll	
x	Pre-Employment Tests	
xi	The legal aspects of human Resources	
xii	Benefit administration	
xiii	Employees engagement survey	
xiv	Personnel management	
xv	Career planning	
xvi	Job evaluation	

**PART B: FACTORS HINDERING AND ENABLING EFFECTIVENESS OF  
HR OUTSOURCING**

5. There some factors that enables HR provider to perform better hi/her services delivery process. Now the study wants to know how the following factors which have been indented to be helpful to the HR providers have been either formulated or provided to you for better performance f HR practices.

S/N	Enabling factors	Poor (1)	Fair (2)	Satisfactory (3)	Good (4)	Excell ent (5)
i	Willingness of the TCC managers to integrate your system and their system					
ii	Integration of management between yours and that of TCC					
iii	Sufficient number of personal contacts (regular meeting between you and TCC managers)					
iv	Better exchange of information between you and TCC (Willingness to share information)					
v	Co-operation in business process improvement and innovation.					
vi	Proper standardization of the activities in the TCC					
vii	Automation of the services in TCC					

6. What are the other enabling factors have accounted in your provision of services at TCC?

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7. What are the hindering factors have been letting down your performance at TCC. Indicate how the following factors have been obstacles to your performance.

S/ N	Enabling factors	Strongly disagree (1)	Disagree (2)	Undecided (3)	Agree (4)	Strongly agree (5)
I	Lack of enough resource					
ii	Complication of the planning requirement					
iii	Uncertainty in business					

8. What are the other hindrance factors for your performance in providing HR services at

TCC \_\_\_\_\_

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*Thank for your time*