

**EFFECT OF OUTSOURCING HUMAN RESOURCE FUNCTIONS ON PERFORMANCE  
OF MANUFACTURING FIRMS IN KENYA: CASE STUDY OF CAPWELL  
INDUSTRIES LIMITED KIAMBU COUNTY**

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**Abstract:** *The emergence of globalization has made outsourcing to become one of the widely embraced business strategies for delivering outstanding services to consumers in the manufacturing sector. However, in spite of the increasing trend in outsourcing arrangements, there are inadequate literature underpinnings on how outsourcing human resource activities affect performance of manufacturing firms. The main objective of this study was to investigate the effects of outsourcing human resource activities on performance of manufacturing firms in Kenya.*

**Guiding Theories:** *Four theories guided the study; Transaction Cost Economic (TCE) Theory, Resource Based View (RBV) Theory, Core competency theory and Contractual Theory.*

**Methodology:** *The study adopted case study research design. The study targeted employees in the rank of senior staff and middle staff in Capwell Industries Limited. A target population of 480 employees from which a sample of 145 respondents was taken was used. Purposive and stratified sampling technique was used in selecting the respondents.*

**Significance:** *The study covered the effect of outsourcing human resource functions on performance of manufacturing firms at Capwell Industries Ltd in Kenya. The study focused on human resource functions which are; recruitment, training, payroll and Human Resource Management Information Systems and how outsourcing of these activities affect the performance at CIL.*

**Findings:** *Findings of the study indicated that the practice of outsourcing employee recruitment services was found to result to a negative slope on firm performance. Respondents felt that outsourcing employee training was positively associated with employee competence, hence improving firm performance. The study also established that outsourcing employee payroll was viewed by respondents with skepticism and that it had significant negative effect on firm performance. Findings have shown that outsourcing HRMIS was negatively but insignificantly associated with firm performance. From the study findings, the researcher recommends the manufacturing firms to consider assigning recruitment functions to insider management or involve them fully in case of outsourcing..*

**Keywords:** *HRM outsourcing, Human Resource Management Information Systems, Recruitment Process Outsourcing*

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## 1. INTRODUCTION

Outsourcing has grown to be one of the globe's most common and widely adopted move with the increase in its expenditure annually implying that outsourcing is fast becoming a key strategic move for senior managers. Outsourcing has been a part of the business world for a long time, but transformed in the early 1990s with the onset of informational technology outsourcing. Before the onset of information technology outsourcing, the process focused solely on achieving operational efficiencies rather than manufacturing, product development and innovation. However, with the growth of Business Process Outsourcing, this changed with a new focus now being placed on long-term achievement of overall business goals and objectives while also placing a business in a competitive position in the market. Focus has also shifted to include improving stakeholder returns through Business Process Outsourcing. The rapid growth witnessed in outsourcing is set to continue as posits Cox (2014). Maku and Iravo (2013) assert that with the global market becoming increasingly competitive, manufacturing firms will pick up the trend set by their predecessors and outsource some of the key functions.

Countries in East Africa are striving to create or expand business activities by adopting outsourcing strategies. Functions or services majorly outsourced by Ugandan firms include information technology, human resource and facility management (Van der Linden & Hengeveld, 2012). Cooperatives in Tanzania also outsource various services (Sumari, Mori & Alfred, 2013). These entities adopted outsourcing strategies with the intent of reducing cost, improving delivery and reliability of services, in addition to accessing and making use of resources lacking in the organization.

Kenyan perspective on outsourcing was underscored in the Kenya Vision 2030 program which was unveiled in 2007. The initiative was seen as a principal pillar as well as driver of social and economic improvement by means of wealth and job creation. According to Manono, (2012) the aim of the Kenya government was to have development goals in the use of technology as well as emulating countries like India and China which have succeeded in outsourcing. The Kenyan government has further encouraged entrepreneurs to venture into outsourcing by introducing incentives that make investing in outsourcing businesses attractive. An example of an incentive that the government of Kenya has pledged to boost the BPO industry in Kenya is the provision of adequate budgetary allocation specifically for the purpose of establishing a 7,500 seat BPO park in Nairobi. This means that the park can accommodate 7,500 personnel who were engaged in BPO activities. The BPO Park is meant to attract investments and to enhance the outsourcing industry. Additionally, the park shall provide the necessary infrastructure and support services for businesses such as office space. Furthermore, the park will also facilitate technology transfer and thus will enhance competitiveness in the BPO industry (Manono, 2012). In addition, Kenya's BPO sector has also grown due to the country's ideal geographical positioning in comparison to other African nations which has improved its competitiveness in the BPO sector. Kenya is considered one of the top three BPO destinations in Africa (Wausi, Mgendi & Ngwenyi, 2013).

In Kenya there is contemporary evidence that outsourcing human resource activities is practiced in the banking sector (Barako & Gatere, 2008). Automated teller machine (ATM) services are the most outsourced function while customer account processing is the least outsourced function in the banking sector in Kenya (Barako et al., 2008). Delmonte Kenya Limited, a firm based in Thika town, Kenya has also been involved in outsourcing. The firm has benefited a lot from outsourcing. Some of the accruing benefits include access to best class technologies and reduced costs of operations (Maku & Iravo, 2013). State corporations in Kenya primarily adopt contracting as a form of outsourcing. However, there are other activities that are outsourced by these entities. These include cleaning services, disposal of refuse, and training and development

(Kiptum, 2014). Outsourcing allows firms to focus on their own core competences by relocating limited resources to strengthen their core product or service (Lee & Kim, 2010) and to strategically use outside vendors to perform service activities that traditionally have been internal functions (Bustinza et al., 2010).

### **Capwell Industries Limited, Kenya**

Capwell Industries Limited (*henceforth referred to as CIL*) started operations in 1997, when it set up a Modern Maize Mill, with an installed capacity of 150 MT of Milling per day. The Flagship Maize Meal Brand of "SOKO" was introduced, which became an instant success and a household name in the entire country. In 2004, CIL Increased the Milling Capacity to 220 MT per day, due to the increased demand of its high quality products. CIL was the first company to introduce a fortified Maize Meal in the year 2002, under the Brand Name of "PENDANA", to address the nutritional needs of the consumers. Many other Mills eventually followed in similar fortification.

In 2002, CIL ventured into Rice Milling by installing an Ultra-Modern Rice Milling Plant. CIL produces three Major Brands of Local Rice namely - " Pearl", "CIL" and "Ranee". It is currently the Market Leader in the Kenyan "Pishori" market segment, which is the bulk of rice produced in the country. The present installed capacity of the Rice Mill is 50 MT per Day. In 2009, CIL diversified its milling operation to Pulses and introduced "Green Grams" and "Masoor" varieties under the "PEARL" brand, which has become very popular in the Kenyan market. In 2010, the UJI Plant was set-up and "Pure Wimbi", "Wimbi-Mix" and "Sorghum-Mix" varieties were introduced to the market, under the popular "SOKO" brand of the company. All the products have been well received and have become very popular among consumers all over the country. The company has currently employed a workforce of 480 employees and is a full member of Kenya Association of manufacturers.

While many studies have shown that manufacturing firms are increasingly utilizing outsourced services, there is little information on how internal employees and managers perceive such decisions. There has been an increasing effort to establish why despite many evidences that outsources cuts the cost hence improving profitability of the firm, the theory is not being replicated in practical performance. For instance, it has been shown that Kenyan manufacturing firms have been struggling to exist despite all the ongoing outsourcing of HR functions. In this study, the researcher tried to gain information from the middle level managers as well as senior managers at Capwell Industries Ltd as a case study, in the quest to understand their perception in regard to firm performance.

### **Statement of the Problem**

Substantial uncertainty remains, as to how outsourcing human resource activities affect firm's performance, whether some practices have stronger effect than others, and whether complementary or synergies among such practices can further enhance performance.

Even though many studies have been done in relation to outsourcing which reveals outsourcing as preferred approach for improving quality and productivity in organizations, very few have focused on effects of outsourcing in manufacturing sector. Meclah *et al.*, (2010) mentioned that there are limited studies on outsourcing in Kenya. Outsourcing practices, which have been adopted by leading financial institutions and have impacted on the growing financial sector in Kenya, has not been well documented. Based on these facts, this study therefore seeks to bridge the gap by assessing the effects of outsourcing HR activities on employee's performance in manufacturing sector with Capwell Industries Ltd., as a case study.

**Research Objectives**

The general objective of this study is to determine the effect of outsourcing human resource activities on firm performance; using Capwell Industries ltd. as a case study. The study was guided by the following specific objectives:

1. To determine the effect of recruitment outsourcing on organizational performance in CIL.
2. To establish how training outsourcing affects organizational performance in CIL.
3. To assess how payroll outsourcing affects performance in CIL
4. To establish the effect of human resource management information system outsourcing on organizational performance in CIL.

**2. RESEARCH METHODOLOGY**

The study adopted case study research design. The study targeted employees in the rank of senior staff and middle staff in Capwell Industries Limited. A target population of 480 employees from which a sample of 145 respondents was taken was used. Purposive and stratified sampling technique was used in selecting the respondents. A pilot study was conducted for the data collection instrument which was pretested before data collection for validity and reliability. Both primary and secondary data methods were used. Data was collected using questionnaires and interview schedules. Data was analyzed using both descriptive and inferential statistics using Statistical Package for Social Sciences (SPSS) and presented in tables, charts and in prose discussion. This was attained through frequency distributions, means, percentages, and standard deviations. The study also adopted correlation and multiple regression analysis at 0.07 % level of significance that determined the strength and direction of the relationship of the variables.

**3. PRESENTATION OF FINDINGS AND DISCUSSION**

In this part, the researcher presents the findings of the study in accordance with the research objectives. For clarity purposes, the following are the research objectives that have been guiding this study: to determine the effect of recruitment outsourcing on firm performance in CIL, to establish how training outsourcing affects firm performance in CIL, to assess how payroll outsourcing affects firm performance in CIL and finally to establish the effect of human resource management system outsourcing on firm performance in CIL.

**Reliability test**

To test the reliability, the study employed Cronbach’ alpha (table 1).

*Table 1 Test for reliability*

<b>Variable</b>	<b>Cronbach’ alpha</b>	<b>Verdict</b>
Outsourcing employee recruitment	0.74	Reliable
Outsourcing employee training	0.79	Reliable
Outsourcing employee payroll	0.73	Reliable
Outsourcing employee management system	0.71	Reliable
<b>Overall</b>	<b>0.74</b>	<b>Reliable</b>

From the findings in table 1, all the values had an alpha of above 0.7. Orodho (2014) asserts that an alpha of 0.7 and above indicate that findings are reliable. It can therefore be explained that the findings from each of the variables under study were reliable.

**Outsourcing HR practices and firm performance**

The study considered four HR practices that were prominently outsourced by the management of CIL: recruitment, training, payroll and human resource management system.

**Recruitment**

In the first objective, the study sought to establish the effect of payroll outsourcing on firm performance. Middle level managers were asked to indicate the extent to which they agreed or disagreed with the statements displayed in table 2.

**Table 2 Respondents’ opinions on outsourcing employee recruitment and firm performance**

Statement	S. Agree	Agree	Neutral	Disagree	S. Disagree	Mean	Std. Deviation
My organization uses recruitment agencies to fill vacancies when the workload is high and when the core employees are not able to handle it.	49	63	14	14	0	1.9500	.92390
My organization cooperates with recruitment agencies because of the time and cost savings.	35	70	7	14	14	2.3000	1.23323
My organization will get quality applicants if they outsource the recruitment advertised firms.	21	35	14	49	21	3.1000	1.34271
More qualified employees will be well obtained by outsourcing screening of applicants to human resource consultancy firms.	14	21	14	56	35	3.5500	1.28816
My organization uses external consultants to negotiate salaries of top executive during recruitment.	42	49	14	21	14	2.4000	1.32383

From the findings in table 2, it was evident that respondents had different opinions in regard to each statement, with majority basically being negative on outsourcing of recruitment practices in CIL. It was evident from the responses that CIL used recruitment agencies to hire its employees. At least 80% of the respondents agreed that the company outsourced recruitment exercise from agencies, with only 10% disagreeing and another 10% being neutral on the issue. With a mean of 1.95, it was clear that majority of the respondents were sure that the

company outsourced recruitment services. Furthermore, a standard deviation of 0.92 further indicated that majority of the respondents had similar opinions. Most of the respondents were also of the opinions that the company used the services of recruitment agencies in order to save time and costs. In fact, 50% of the respondents agreed with this, with another 25% choosing a strongly disagree. With a mean of 2.3, it can be further be ascertained that majority of the respondents agreed that CIL outsourced recruitment services in order to cut costs and time. However, majority of the respondents disagreed that outsourcing of recruitment services would lead to hiring of more qualified employees. In fact, 40% of the respondents disagreed, with another 25% indicating strongly disagree with the assertion that use of consultancy agencies would yield better employees. Basically, the findings imply that middle level managers were not comfortable with the practice of the company to outsource recruitment services and did not believe that doing so would lead to recruitment of better employees. In fact, majority felt that the services would be better left to the insider managers since they were deemed to understand the needs of the company better. Another study by Elsaid (2013) also found that many companies were considering outsourcing as an efficient, cost-effective and time-savin strategy to recruit competent employees. However, though similar findings were established in this study, it appears that the practice could be counterproductive since employees, especially the middle managers, were not comfortable with the practice, hence they are likely to underperform.

**Outsourcing employee training and firm performance**

The second objective of this study sought to establish the extent to which middle level managers agreed or disagreed with the statements displayed in table 3 (1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-stringly disagree).

**Table 3 Respondents’ opinions on outsourcing of employee training**

Statement	S. Agree	Agree	Neutral	Disagree	S. Disagree	Mean	Std. Deviation
The outsourced training program delivery offered in my organization would increase employee and organization performance	56	56	14	7	7	1.9500	1.07506
	% 40.0	40.0	10.0	5.0	5.0		
By outsourcing training my organization reduces the cost of training	7	14	28	42	49	3.8000	1.17038
	% 5.0	10.0	20.0	30.0	35.0		
Training process outsourcing increase the levels of service quality or professionalism my organization presents to the public.	56	56	14	7	7	1.9500	1.07506
	% 40.0	40.0	10.0	5.0	5.0		
My organization gets quality training by outsourcing top-notch training professionals	63	56	7	14		1.8000	.93069
	% 45.0	40.0	5.0	10.0			
By having a training process outsourcing policy my	42	70	7	21		2.0500	.97689

organization would perform better	%	30.0	50.0	5.0	15.0		
Training consultants outsourced by my organization provide specialized services as compared to internal trainer	F	56	63	7	7	7	
							1.9000 1.04778
	%	40.0	45.0	5.0	5.0	5.0	

The findings show that majority of the respondent were of the opinion that outsourcing training was an effective strategy to build the capacity of employees. In fact, 80% of the respondents’ agreed that outsourcing employee training services would increase firm performance. However, 65% disagreed that outsourcing would reduce the cost of training. In fact, a mean of 3.8 was a further indication that majority of the respondents disagreed with this aspect. On the other hand, 80% of the respondents were in agreement that outsourcing training services would lead to better quality of employees, by improving the level of professionalism displayed in the public. Moreover, 85% of the respondents were in agreement that training consultants that were outsourced offered specialized services that would otherwise not be available from the internal trainers (m=1.9). Generally, it can be explained that middle level managers were comfortable with the practice of outsourcing trainers since they deemed them beneficial to the professionalism of the employees. Similarly, Bansal (2014) found that outsourcing of training services have been found to be effective in promoting firm performance of small and middle level companies.

**Outsourcing payroll**

The third objective of the study sought to examine the opinions of the respondents on the extent to which they agreed or disagreed with the practice of outsourcing payroll services by CIL management (table 4). Responses were placed in a scale of 1 to 5 (1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-stringly disagree)

*Table 4 Respondents’ opinions on outsourcing of employee payroll services*

Statement	S. Agree	Agree	Neutral	Disagree	S. Disagree	Mean	Std. Deviation
Outsourcing of payroll activities is positively related to my firm performance.	F 7	35	7	49	42	3.6000	1.28522
	% 5.0	25.0	5.0	35.0	30.0		
Compensation administration is an integral part in my organization and should not be outsourced since the external experts will not impact on the organization compensation policy.	F 35	77	7	14	7	2.1500	1.06565
	% 25.0	55.0	5.0	10.0	5.0		
By outsourcing compensation practices i will focus on core functions of the business hence increase profit.	F 21	14	14	42	49	3.6000	1.43341
	% 15.0	10.0	10.0	30.0	35.0		

My performance is not affected by the fact that my organization outsources its pay roll to another firm.	F	7	28	21	49	35		
	%	5.0	20.0	15.0	35.0	25.0	3.5500	1.20744
I am satisfied with the fact that my organization outsources compensation practices to another firm	F	21	14	7	63	35		
	%	15.0	10.0	5.0	45.0	25.0	3.5500	1.36411

Majority of the respondents were dividend on the issues presented in table 4. For instance, 65% disagreed that outsourcing payroll was positively associated with their firms’ performance. Only 30% of them agreed with this statement while 5% remained neutral. Similarly, 80% of the respondents agreed that compensation administration is integral to the organization and should therefore, not be outsourced at any given time. A mean of 2.15 further confirms that majority agreed that it was not prudent for an organization to outsource payroll administration. However, a standard deviation of 1.07 indicates that there was quite considerable level of variation in the opinions of the respondents. Another 65% of the respondents disagreed that outsourcing payroll administration would make organizations focus on core functions of the business hence increase their profit. Majority of the respondents felt that the practice was counterproductive since internal departments could be utilized instead. Majority (60%) further disagreed that outsourcing payroll administration did not affect their performance. The implication is that outsourcing of payroll affected the productivity of employees themselves, hence, it appeared like the organization was solving one problem while creating another. This can also be explained by the fact 70% of the respondents disagreed that they were satisfied with their organizations’ practice of outsourcing employee compensation practices. In general, it can be explained that majority of the respondents were not happy with the decision by the management of CIL to outsource employee compensation. However, Che-Ha (2011) finds that outsourcing payroll reduces organizations’ time wastage and overhead costs. This study finds contrary findings especially because the type of respondents used in the study are the middle level managers who felt that they were supposed to be tasked to such functions.

**Outsourcing Human Resource Management Information System (HRMIS)**

The fourth objective of this study sought to establish the effect of outsourcing HRMIS on firm performance at CIL. Respondents were asked to indicate the extent to which they agreed or disagreed with the statements displayed in table 5 (1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-stringly disagree)

**Table 5 Respondents opinion on outsourcing Human Resource Management Information System (HRMIS)**

Statement	S. Agree	Agree	Neutral	Disagree	S. Disagree	Mean	Std. Deviation
Outsourcing HRMISF enhances communication in our industry	21	21	14	56	28		
	%	15.0	15.0	10.0	40.0	20.0	3.3500 1.35670
Outsourcing HRMIS effects timely delivery of services	F	7	21	7	56	49	
	%	5.0	15.0	5.0	40.0	35.0	3.8500 1.19907
By outsourcing HRMIS the organization is able safeguard organization data	F	28	14	14	56	28	
	%	20.0	10.0	10.0	40.0	20.0	3.3000 1.42284
	F	7	14	7	77	35	
							3.8500 1.06565



Confidentiality of information is enhanced when HRMIS is outsourced  
of% 5.0 10.0 5.0 55.0 25.0

The findings show that in general, majority of the respondents disagreed with the statements displayed in table 5. For instance, 40% disagreed with another 20% choosing strongly disagree that outsourcing HRMIS enhances communication in their industry, an implication that majority of the respondents did not approve outsourcing of HRMIS services. Another 75% disagreed that outsourcing affected timely delivery of services. Similarly, 60% disagreed that outsourcing enables the organization to safeguard data. A similar scenario was also observed when 80% of the respondents disagreed that information is enhanced when HRMIS is outsourced. Basically, there were slightly high variations in responses given considering the fact that all the standard deviation in this section were above 1. All means were also above 3, an indication that generally respondents disagreed with the statements displayed in 4.5, and in extension, an implication that middle level managers did not approve outsourcing of Human Resource Management System.

**Firm performance**

The dependent variable in this study was firm performance. Respondents were asked to indicate the extent to which they agreed or disagreed that CIL had performed as an organization. Responses were placed in a scale of 1 to 5 (1-strongly agree, 2-agree, 3-neutral, 4-disagree, 5-stringly disagree).

**Table 6 Respondents opinions regarding performance of CIL**

Statement	S. Agree	Agree	Neutral	Disagree	S. Disagree	Mean	Std. Deviation
By outsourcing human resource function the company is able to concentrate on more important matters of the business thus making more profit.	F 21	7	56	56		3.8500	1.39333
	% 15.0	5.0	40.0	40.0			
There will be increased customer service if human resource function is outsourced at CIL.	F 7	14	7	70	42	3.9000	1.09479
	% 5.0	10.0	5.0	50.0	30.0		
By outsourcing human resource functions my organization will reduce the cost of appointing human resource expert to handle personnel matters.	F 14	21	0	77	28	3.6000	1.24542
	% 10.0	15.0	0	55.0	20.0		
Outsourcing human resource function in my organization Increases service delivery.	F 14	14	77	35		3.9500	.86769
	% 10.0	10.0	55.0	25.0			

The results show that majority of the respondents generally disagreed that the organization had performed in different fronts. For instance, 40% disagreed while another 40% were neutral on whether by outsourcing human resource function the company was able to concentrate more on important matters of the business thus making more profit. Additionally, 80% of them disagreed that there would be increased customer service if human

resource function was outsourced at CIL. Similarly, 75% disagreed that outsourcing would save organizations' money that would otherwise be used for appointing experts to handle personnel matters. Another 80% disagreed that outsourcing human resource function increased the service delivery.

**Correlation matrix and regression model**

**Correlation matrix**

A correlation matrix was used to establish whether there was a significant relationship between each independent variable and the dependent variable. Using the responses obtained from the descriptive statistics, a correlation matrix was obtained at 95% confidence interval (table 7).

**Table 7 Correlation matrix**

		Outsourcing employee recruitment	Outsourcing employee training	Outsourcing employee payroll	Outsourcing HRMIS	Firm performance
Outsourcing recruitment	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	140				
Outsourcing training	Pearson Correlation	.027	1			
	Sig. (2-tailed)	.750				
	N	140	140			
Outsourcing payroll	Pearson Correlation	-.414**	-.173*	1		
	Sig. (2-tailed)	.000	.041			
	N	140	140	140		
Outsourcing HRMIS	Pearson Correlation	.112	-.139	.423**	1	
	Sig. (2-tailed)	.189	.101	.000		
	N	140	140	140	140	
Firm performance	Pearson Correlation	-.548**	.470**	-.487**	-.246	1
	Sig. (2-tailed)	.001	.007	.006	.089	
	N	140	140	140	140	140

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The findings show that there was a significant correlation between outsourcing employee recruitment and firm performance ( $r = -0.548$ ,  $p = 0.001 < 0.05$ ). However, the fact that the relationship was negative meant that outsourcing employee recruitment led to negative firm performance. It therefore, meant that the decision by CIL to outsource employee recruitment practice was hurting the organization from the perspective of the middle level managers. It was also established that outsourcing employee training had a positive correlation with firm performance ( $r = 0.47$ ,  $r = 0.007 < 0.05$ ) at 95% confidence interval. The findings show that the more the organization outsourced employee training, the better the firm performance. The implication is that CIL performed better whenever they chose adopt outsourced training services. Outsourcing employee payroll had

a significant but negative relationship with firm performance ( $r = -0.487, p = 0.006 < 0.05$ ) at 95% confidence interval. The findings show that the decision by CIL to outsource employee payroll services affected its performance negatively. Middle level managers felt that the organization was not doing the right thing by using external services to manage employee payroll, a factor that greatly affects their motivation to work. The study further established that outsourcing human resource management system did not have a significant relationship with firm performance at CIL ( $r = -0.246, p = 0.089 > 0.05$ ). The implication is that, though the relationship was negative, the decision by CIL to outsource HRMIS did not affect the performance of the organization significantly.

**Regression model**

A multiple regression model was used to establish the extent to which a combination of the four factors under study (outsourcing HRMIS, outsourcing employee recruitment, outsourcing employee training and outsourcing employee payroll) influenced firm performance at CIL. The model was performed at 95% confidence interval.

**Table 8 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.612 <sup>a</sup>	.547	.510	.49041

a. Predictors: (Constant), outsourcing HRMIS, outsourcing employee recruitment, outsourcing employee training, outsourcing employee payroll

From the results displayed in table 8, it can be observed that the R square was 0.547, which implies that the independent variables (outsourcing HRMIS, outsourcing employee recruitment, outsourcing employee training, and outsourcing employee payroll) had 54.7% determination of the firm performance at CIL. The findings further show that other factors beyond the scope of this study had 45.3% determination of firm performance in the same company. Basically, much of the firm performance was found to be explained by outsourcing HR functions as reported by middle level managers.

**Table 9 ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.494	4	.874	3.632	.008 <sup>b</sup>
1	Residual	32.468	135	.241		
	Total	35.963	139			

a. Dependent Variable: Firm performance

b. Predictors: (Constant), outsourcing HRMIS, outsourcing employee recruitment, outsourcing employee training, outsourcing employee payroll

The results in table 9 shows that outsourcing HR functions (HRMIS, employee recruitment, employee training and employee payroll) had a significant influence on firm performance of CIL ( $p = 0.008 < 0.05$ ). The findings therefore, imply that it was not by chance alone that outsourcing HR functions predicted the outcome of firm performance at CIL. It can also be explained that the regression model presented in chapter three of this study was fit.

**Table 10 Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.402	.498		6.835	.000
1 Outsourcing employee recruitment-	.155	.092	-.161	-1.674	.036
Outsourcing employee training	.361	.110	.275	3.298	.001
Outsourcing employee payroll	-.161	.079	-.178	-.075	.040
outsourcing_ HRMIS	-.012	.089	-.014	-.140	.889

a. Dependent Variable: Firm performance

The results from the coefficient table show that the regression constant was 3.402, with a standard error of 0.498. It can also be shows that the coefficient attributed to outsourcing employee recruitment was -0.155 with a standard error of 0.092. The coefficient attributed to outsourcing employee training was 0.361 with a standard error of 0.110 while the coefficient associated with outsourcing employee payroll was -0.161 with a standard error of 0.079. On the other hand, the coefficient associated with outsourcing employee HRMIS was -0.012 with a standard error of 0.089. The findings of the study further show that only the coefficient attributed to outsourcing HRMIS did not have a significant determination of firm performance at CIL. Moreover, only the coefficient associated with outsourcing employee training was positive, an implication that all the other coefficients had negative effects on firm performance.

The findings further show that the p-value associated with outsourcing employee performance was statistically significant ( $p=0.036<0.05$ ). The p-value associated with outsourcing employee training was also statistically significant ( $p=0.001<0.05$ ) and the p-value associated with outsourcing employee payroll was statistically significant ( $p=0.040<0.05$ ). However, the p-value associated with outsourcing HRMIS was not statistically significant at 95% confidence interval ( $p=0.889>0.05$ ).

With the dependent variable being firm performance (Y), the independent variables were outsourcing employee recruitment (X<sub>1</sub>), outsourcing employee training (X<sub>2</sub>), outsourcing employee payroll (X<sub>3</sub>) and outsourcing Human Resource Management System (X<sub>4</sub>). The regression equation obtained from the coefficient table was therefore:

$$Y = 3.402 + (-0.155)X_1 + 0.361X_2 + (-0.161)X_3 + (-0.012)X_4$$

The fact that three coefficients were negative is an indication of negative slope. The findings show that increase in outsourcing HR functions (employee recruitment, employee payroll and human resource management system) would lead to reduced firm performance. However, an increase in outsourcing employee training would lead to increased firm performance. The findings show that outsourcing HR functions was generally affecting firm performance negatively.

Furthermore, a unit increase in outsourcing employee recruitment would lead to 0.155 reductions in firm performance. A unit increase in outsourcing organizational training would lead to 0.361 increases in firm performance. A unit increase in outsourcing employee payroll would lead to 0.161 reduction in firm performance and a unit increase in outsourcing HRMIS would lead to 0.012 reductions in firm performance.

#### **4. SUMMARY OF THE STUDY**

##### **Outsourcing employee recruitment and firm performance**

The findings of the study have shown that respondents were generally negative on the practice of outsourcing employee recruitment services. It was established that most of the middle level managers felt that recruitment services could be managed by the firm employees, hence they did not find outsourcing this service as important in the organization. Furthermore, regression findings have shown that outsourcing employee recruitment services led to a negative slope in firm performance, hence the more the firm increased the use of external services to recruit their employees the more its performance was affected negatively.

##### **Outsourcing employee training and firm performance**

It was established that most respondents were positive on the importance of outsourcing training services. Respondents felt that outsourcing employee training was positively associated with employee competence, hence improving firm performance. Findings from the regression model further confirmed that outsourcing employee training was the only independent variable in this study that led to positive firm performance.

##### **Outsourcing employee payroll and firm performance**

The study has established that outsourcing employee payroll was viewed by respondents with skepticism. Most of the respondents felt that outsourcing payroll was a bad idea for the firm and felt that the organization could utilize internal managers to oversee employee payroll system. Furthermore, the regression findings show that outsourcing employee payroll had a negative slope with firm performance, hence continued outsourcing of this HR function was hurting the performance of the firm.

##### **Outsourcing Human Resource Management System and firm performance**

Findings have shown that outsourcing HRMIS was negatively associated with firm performance. Most of the respondents felt that all employee affairs could be managed by the available internal management and therefore, outsourcing the function demoralized employees. However, findings from the regression model established that outsourcing this HR function did not have significant influence on firm performance at Capwell Industries Ltd.

##### **Conclusion**

Owing to the fact that outsourcing employee recruitment was viewed by respondents as unnecessary and was undermining internal management, this study concludes that outsourcing employee recruitment was counterproductive to the firm and led to negative slope to its performance.

Outsourcing employee training was found to be good especially in building the capacity of employees by introducing new skills and giving refresher courses through seminars, workshops and other forums, hence this concludes that outsourcing employee training was the best approach in promoting firm performance.

The study further concludes that outsourcing employee payroll was significantly hurting the performance of the firm, especially because the middle level managers (who are the majority) viewed it as a demotivating act that seemed to imply that nobody was qualified to perform such functions from the company management.

The study further concludes that outsourcing human resource management system did not have significant effect to the performance of the firm, though it had a negative slope.

### **Recommendations**

Manufacturing firms should consider assigning recruitment functions to insider management or involve them fully in case outsourcing of such function is necessary, so that to ensure they are highly motivated to perform their duties, hence promoting firm performance

The study further recommends manufacturing firms to continuously outsource employee training functions since employees' capacity is built and new knowledge added, hence promoting the prospects of better firm performance.

Manufacturing firms should discourage as much as possible, the outsourcing of employee payroll functions, but instead hire internal managers or rather ensure there is adequate involvement of internal managers so that they can understand the reason why any of such functions should be outsourced, hence leaving them with positive attitude to work better and improve firm performance.

Finally, the study recommends the ministry of industrialization to support manufacturing firms in developing a good employee management system, which can also help the ministry to audit employment trends as well as help the firms to build the capacity of internal managers so that they can manage these systems, hence leading to better firm performance.

### **Suggestion for further study**

This study suggests further study be done, involving more manufacturing firms to establish the underlying reasons why firms continue to use outsourced HR functions despite their disapproval by internal middle level management.

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