

OUTSOURCING HUMAN RESOURCE SERVICES AND THE ORGANIZATIONAL PERFORMANCE OF COMMERCIAL BANKS IN NAKURU CITY, KENYA

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DOI: <https://doi.org/10.56293/IJMSSSR.2023.4720>

IJMSSSR 2023

VOLUME 5

ISSUE 6 NOVEMBER - DECEMBER

ISSN: 2582 - 0265

Abstract: Kenyan commercial banks face significant challenges in terms of performance, particularly in relation to profitability, capital adequacy, asset quality and customer satisfaction. The Kenyan banking sector has experienced rapid growth over the past decade, but this has also led to increased competition and pressure on banks' performance. This study established the effect of outsourcing human resource services and the organizational performance of commercial banks in Nakuru City, Kenya. The study was anchored on resource based view theory. The study used explanatory research design. Twenty eight (28) licensed commercial banks in Nakuru City were targeted. Purposive sampling was used to sample the branch managers, credit managers and operational managers in the twenty eight (28) licensed commercial banks in Nakuru City making a sample size of 84 respondents. Data was collected using structured questionnaires. Statistical Package for Social Sciences (SPSS) software aided in analysis of the quantitative data collected where analysis was conducted using both descriptive and inferential statistics. The results indicated that there was a positive and significant correlation between outsourcing human resource services ($r=0.295$, $p=0.013$) and performance of commercial banks. The regression results show a positive and significant effect of outsourcing human resource services ($\beta = 0.041$, $\text{Sig.} = 0.046$) on performance of commercial banks which implies that outsourcing HR services affects performance of commercial banks positively. The study concludes that the outsourcing HR services allows banks to tap into the expertise and specialized knowledge of HR service providers who have experience in managing these complex HR processes and recommends commercial banks in Nakuru City to outsource employee relations services since they can help maintain confidentiality and impartiality in sensitive employee-related matters.

Keywords: Outsourcing, human resource services, Organizational performance, commercial banks, Nakuru.

1.0 INTRODUCTION

Performance of an organization is key in every sector and successful organizations have clear view of how they are performing against their competitors (Talel, 2010). Further, performance is important because it help in determining exactly what is needed and can be done most effectively within the constraints of the available resources and cost. In all organizations, performance is a representation of a measure of results, aims and ambitions that are of significance to varying stakeholders in the organization making performance a critical research variable (Sufian & Chong, 2009). Commercial banks have numerous aims that are but not restricted to achievement of effectiveness, efficiency and being flexible in response to the varying demands of a vibrant consumer base, speed, customer satisfaction and improvement in the organizational bottom-line (Siran, 2017).

Globally, there has been performance difficulties facing commercial banks. The profitability of the banks in European Union (EU) banks' profitability is still far down compared to the pre-crisis period (2007-2008). The returns on equity (ROE) have reduced to 5.4 in 2006 from 5.7 in 2015 and the non-performing loans (NPLs) increased from 2% of the total loans in 2006 to a highest of 8% in 2006. Other organizations like Alibaba in China was able to shoot to the limelight internationally since it chose to outsource IT services and was considering for as against the short supply of similar attainable in China.

Regionally, commercial banks in Africa have been registering increased levels of NPLs reducing returns on assets (ROE) in the recent years (IMF, 2006; BOC IIF, 2017). In Nigeria, there has been outsourcing in the banking industry which has affected the performance of the commercial banks. Agburu, Anza and Akuraun (2017) found out that a number of Nigerian Mega banking groups had outsourced their operations and services for enhancement of world competition in the international financial markets. Further, most recruitment and selection of employees in the banks have been outsourced to other human resource (HR) organizations.

In Kenya, commercial banks link outsourcing with increased operational contractual strategic risk (Agburu et al., 2017). Some of commonly outsourced roles include cash management, HR services, information and technology and security among others. For cash management, functions have been outsourced by the banks to private security firms transporting and replenishing Automated Teller Machines. This is to enable the banks to put more efforts on other important actions and offer security firms an opportunity for planning routes (Akwas, 2012). The commercial banks in Nakuru City have also not been spared.

Outsourcing of services by companies has become a prevalent business strategy in today's globalized economy. It offers numerous advantages like cost reduction, access to specialized expertise and the capability to look onto key proficiencies (Gituma, Kimencu & Muchemi, 2018). However, it also presents challenges related to control, communication, and potential job displacement. The impact of outsourcing on businesses and the global economy is complex and multifaceted. Therefore, companies must carefully evaluate the potential benefits and risks associated with outsourcing to make informed decisions that align with their strategic objectives and long-term sustainability (Jyoti, 2015)

Outsourcing human resource is practice of delegating various HR functions and responsibilities to external service providers. It involves partnering with specialized HR outsourcing companies or vendors to handle specific HR processes or the entire HR function on behalf of an organization (Matolo & Iravo, 2018). Outsourcing HR services helps banks to enhance their focus on core banking activities. By entrusting HR functions to external providers, banks can redirect their internal resources and attention towards strategic initiatives, customer service, and revenue-generating activities (Klaas, McClen- don, & Gainey, 2001). Banks outsource HR services to achieve cost savings. By outsourcing HR functions, banks can reduce the overhead costs associated with maintaining an in-house HR department. External providers often offer economies of scale, advanced HR systems, and expertise that can lead to increased operational efficiency and cost reductions (Ndubuisi-Okolo & Obiakonwa, 2020).

With an increasingly turbulent business environment, organizations are continuously looking for better ways or strategies of enhancing their performance and one of the strategies that organizations including commercial banks can use is outsourcing (Matolo & Iravo, 2018). Commercial banks in Nakuru are constantly evolving and implementing various strategies to be competitive in the vibrant business environment. When it comes to outsourcing services, commercial banks in Nakuru, like banks in other parts of the world, may consider outsourcing certain functions to specialized service providers. By outsourcing services, banks can focus on their core competencies while relying on external partners to handle specific tasks effectively and efficiently. This study therefore aimed to determine the effect of outsourcing human resource services on the organizational performance of commercial banks in Nakuru City, Kenya.

2.0 THEORETICAL FRAMEWORK

Resource Based View Theory

This theory was developed by Penrose in 1959. The RBV theory emphasizes the importance of valuable, rare, inimitable, and non-substitutable resources in creating long-term success (Barney, 1991). It emphasizes that firms possess different resources and capabilities, leading to heterogeneity among competitors. Resources can be tangible (physical assets) or intangible (knowledge, reputation, patents), and capabilities is the organization's capability in deploying resources to attain required outcomes. Resource heterogeneity is a key determinant of a company's ability to attain sustainable competitiveness.

Valuable resources greatly contribute to a company's competitive advantage, rare resources are retained by few competitors, inimitable resources are difficult to replicate, and non-substitutable resources have no equivalent

alternatives (Peteraf, 1993). VRIN resources are seen as the basis for a firm's sustained competitiveness. The theory recognizes that companies need to constantly foster and modify their resources and capabilities to counter to changing market conditions (Barney, 1995). Dynamic capabilities are the company's capability to integrating, building and reconfiguring resources and capabilities to seize new opportunities and adapt to evolving challenges. This dynamic nature of capabilities is critical for firms to maintain their competitive advantage over time (Gottshalk & Solli-Saether, 2006).

The RBV theory shifts the focus of firms from external market conditions to internal resources and capabilities. It encourages firms to conduct a detailed investigating their unique resources and capabilities and align them with market opportunities (Quinn & Hilmer, 1994). By understanding their strengths and weaknesses, firms can identify areas where they have a competitive advantage and develop strategies to leverage those advantages (Amit & Schoemaker, 1993). By investing in and developing these strategic resources, firms can create barriers to entry, differentiate themselves from competitors, and achieve long-term success. The RBV theory emphasizes the importance of resource allocation decisions and firms need to allocate their resources strategically to leverage their competitive advantages fully (Barney, 1991). By investing in resources and capabilities that align with their strategic objectives, firms can enhance their competitive position in the market. The RBV theory has implications for merger and acquisition strategies. Firms seek to acquire other firms to access and integrate valuable resources and capabilities that complement their existing ones. This strategic move can strengthen a firm's competitive position and enhance its overall performance (Amit & Schoemaker, 1993).

Critics argue that the RBV theory tends to overlook the importance of external market dynamics, such as industry structure, customer preferences, and competitive forces. They claim that a sole focus on internal resources may hinder firms from adapting to market changes and seizing external opportunities (Grant, 1991). Critics also argue that the VRIN criteria, which determine the strategic value of resources, can be circular or tautological. They contend that the criteria are difficult to measure objectively and lack a clear causal relationship with sustained competitive advantage. Some critics argue that the RBV theory provides limited practical guidance for managers (Barney, 1995). It may be challenging to identify and develop resources that meet the VRIN criteria, and the theory does not provide clear guidelines on how to do so effectively. Critics also claim that the RBV theory overlooks the importance of industry factors and competitive forces. They argue that industry structure and competitive dynamics significantly influence a firm's ability to attain sustainable competitiveness (Teece, Pisano & Shuen, 1997).

3.0 EMPIRICAL LITERATURE

Matolo and Iravo (2018) carried out a study on the effect of outsourcing human resources and organizational performance in public universities in Kenya. Primary data was obtained from review of literature on human resource outsourcing, observations and the secondary data through the means of academic journals. The study revealed that HR outsourcing will have overall benefit for the organization and that cost savings and access to technology are not significant motivators for HR outsourcing in the Public Universities.

Gitiye and Omondi (2018) carried out a study to investigate the effects of outsourcing human resource activities on performance of manufacturing firms in Kenya. 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. Findings of the study indicated that the practice of outsourcing employee recruitment services was found to result to a negative slope on firm performance.

Mwangi (2017) conducted a study to establish the relationship between human resource outsourcing on organizational performance. The study employed descriptive research design. The total population was 200 employees, sample size of 50 employees. The study adopted agency, social exchange and knowledge based theory of a firm theories. The response rate was 90% thus the reliability and validity of the study. The study revealed that human resource outsourcing affects organizational performance and concluded that human resource outsourcing has positive significant effect on organizational performance.

Jirawuttinunt (2015) conducted research to verify the relationships among human resource outsourcing and organizational performance of multinational firms in Thailand. The model was tested by using data collected from mail survey questionnaires of 165 multinational firms and using a questionnaire as the research instrument. The results of OLS regression analysis showed that HRM outsourcing had a significant impact on organizational performance. This research was done in Thailand while the present study will be done in Nakuru County where operationalization of the outsourced services may vary. Further, OLS regression analysis was conducted while the present study conducted simple regression analysis.

Jepkoei (2016) conducted a study to evaluate the influence of outsourcing human resource activities on employee engagement at Rural Electrification Authority. The study was conducted across the five departments of Rural Electrification Authority at the head offices in Nairobi. The study was guided by Kolb's experiential learning theory, socio-technical systems theory and Andrew Brown engagement pyramid model. The study adopted a descriptive survey design using quantitative approaches. The study targeted 114 employees and used a structured questionnaire to collect data. The Statistical Package for Social Sciences Version 23 software facilitated data processing and analysis. Both descriptive and inferential statistics were used in the analysis. The study revealed that outsourcing recruitment services had a negative influence on employee engagement.

4.0 RESEARCH METHODOLOGY

Explanatory research design was adopted in the study and the target population comprised of 28 licensed commercial banks operating in Nakuru City, Kenya. Branch managers, credit managers and operations managers from each of the commercial banks were interviewed. Questionnaires were used as the data collection instruments. Data analysis was done with the aid of SPSS. Descriptive statistics (means and standard deviations) and inferential statistics (Pearson correlation and regression analysis) were carried out. The regression model was $Y = \beta_0 + \beta_1 X_1 + \varepsilon$

Where

Y	=	Performance of commercial banks
β_0	=	Constant
β_1	=	Coefficients of outsourcing HR services
X_1	=	Outsourcing HR services
ε_0	=	Error term assumed to be a constant

5.0 RESULTS AND DISCUSSION

5.1 Descriptive statistics

The study sought to determine the effect of outsourcing human resource services on performance of commercial banks in Nakuru City, Kenya where means and standard deviations were carried out. The mean summaries showed that the bank has a way of ensuring that the outsourced employee relations services are aligned with their organizational culture and values as it had the highest mean of 4.42. There was a high variation (standard deviation (SD) of 1.09). The bank ensures that their outsourced training programs are effective and aligned with the organizational goals had a mean of 4.25. There was a low variation (SD of 0.73). The bank has a set criterion to consider when selecting a HR outsourcing provider for training services had a mean of 4.18 and a high variation (SD of 1.05) while there are potential benefits and drawbacks of outsourcing recruitment services for banks had a mean of 4.18 and an SD of 0.85 thus a low variation. The bank ensures that the outsourced payroll management services are accurate and timely had a mean of 4.08 and an SD of 0.98 thus a low variation while there are risks associated with outsourcing employee relations services for the bank had a mean of 3.99 and an SD of 0.78 thus a low variation. The bank has a criterion in place to consider when outsourcing payroll management services had a mean of 3.93 and an SD of 1.07 thus a high variation while the bank ensures that the outsourced recruitment processes are effective in attracting and retaining top talent had a mean of 3.90 and an SD of 1.17 thus a high variation.

Table 1: Outsourcing HR services

Outsourcing HR services statements	Mean	Standard deviation
The bank ensures that their outsourced training programs are effective and aligned with the organizational goals	4.25	0.73
The bank has a set criteria to consider when selecting a HR outsourcing provider for training services	4.18	1.05
There are potential benefits and drawbacks of outsourcing recruitment services for banks	4.18	0.87
The bank ensures that the outsourced recruitment processes are effective in attracting and retaining top talent	3.90	1.17
The bank has a criterion in place to consider when outsourcing payroll management services	3.93	1.07
The bank ensures that the outsourced payroll management services are accurate and timely	4.08	0.98
The bank has a way of ensuring that the outsourced employee relations services are aligned with their organizational culture and values	4.42	1.09
There are risks associated with outsourcing employee relations services for the bank	3.99	0.78
Aggregate Mean	4.12	0.97

The results of this study are supported by Kiiru (2015) who denoted that the HR needs of a commercial bank can vary over time, depending on factors such as business growth, mergers and acquisitions, or changes in workforce dynamics. Outsourcing employee relations services provides banks with the flexibility to scale their HR support up or down as needed (Mahmud, 2012). Service providers can adjust their resources and expertise to meet changing demands, allowing banks to adapt to organizational changes more effectively. Outsourcing non-core HR functions, such as employee relations, allows banks to focus on their core competencies, such as financial services, customer relationship management, and risk management (Mohapatra, 2012). By entrusting employee relations to specialized providers, banks can redirect internal resources and attention to strategic initiatives that directly impact their business objectives. HR service providers often have exposure to various industry sectors and organizations, which gives them insights into best practices and emerging trends in employee relations (Afionni, 2007). By outsourcing, banks can leverage this knowledge to enhance their HR policies, procedures, and practices. They can gain access to innovative approaches, benchmarking data, and industry standards, allowing them to improve employee satisfaction, retention, and overall organizational performance (Greer, 2006).

5.2 Inferential statistics

5.2.1 Pearson correlation

This was done to establish the linear relationship between the variables. The test results of the study variables are as in Table 2.

Table 2: Results of Pearson's Linearity Test

Organizational performance	Pearson's correlation	1
	Sig. (2-tailed)	
	N	71
Outsourcing HR services	Pearson's correlation	0.295*
	Sig. (2-tailed)	0.013
	N	71

Source: Survey data (2023)

Findings shown in Table 2 demonstrated a significant positive linear correlation between performance and outsourcing HR services at the level significance of $P < 0.05$ which implies that an increase in outsourcing HR services increases performance of commercial banks positively and significantly.

5.2.2 Regression analysis

Regression model determined the effect of outsourcing HR services on organizational performance of commercial banks.

Table 3: Regression coefficients

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	3.458	.755		4.577	0.000
Outsourcing HR services	0.041	.126	.048	0.325	0.046

As per the results generated, the equation translated to;

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$\text{Organizational performance} = 3.458 + 0.041 (0.126)$$

Where; Organizational performance = Constant + Outsourcing HR services

The beta coefficient of technology fit was 0.041 which denotes that a unit increase in outsourcing HR services would result in a 4.1% rise in value of performance of the organization showing direct effect of outsourcing HR services on the performance of commercial banks in Nakuru City. The t-statistic and corresponding P-value recorded was 0.325 and 0.046 respectively. At significance level of $P < 0.05$, the assumption is rejected implying that outsourcing HR services had a significant effect on the performance of commercial banks. Based on these statistics, the study found the presence of a significant positive effect of outsourcing HR services on the performance of commercial banks in Nakuru City. This research finding supports those of Mwangi (2017) who concluded that human resource outsourcing has positive significant effect on organizational performance. Moreover, Jirawuttinunt (2015) found out that HRM outsourcing had a significant impact on organizational performance. Matolo and Iravo (2018) also found out that HR outsourcing had an overall benefit for the public universities thus supporting the findings of this study.

6.0 CONCLUSION AND RECOMMENDATIONS

Regression analysis results showed that the effect of outsourcing HR services was positive and significant. Outsourcing HR services allows banks to tap into the expertise and specialized knowledge of HR service providers who have experience in managing these complex HR processes. These providers stay updated on HR best practices, employment laws, and regulatory requirements, enabling banks to benefit from their expertise. The study recommends commercial banks in Nakuru City to outsource employee relations services since they can help maintain confidentiality and impartiality in sensitive employee-related matters. External service providers can objectively handle employee grievances, investigations, or disciplinary actions, ensuring fair and unbiased outcomes. This can foster trust among employees and demonstrate the bank's commitment to fair treatment and due process.

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