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OUTSOURCING HUMAN RESOURCE ACTIVITIES IN NIGERIA: BENEFITS AND CHALLENGES

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Abstract

Outsourcing typically involves transferring one or more of an organisation's business processes to an outside service provider or vendor. It is centrally on the organisational motive to save cost and improve organisational performance. The intention of this paper is to examine outsourcing human resource activities in Nigeria: benefits and challenges. The outcome showed that HR activities/ function that is commonly outsourced is payroll administration, recruitment and selection, training and development, performance management and health and safety (benefit). The study concluded that HR outsourcing is highly beneficial to organisation. However, it pitfalls particularly in the areas of management control and employee morale cannot be overemphasised. The study recommended that organisations should consider critically the pros and cons of HR outsourcing especially when taking decision on outsourcing HR activities.

Keywords: Outsourcing, Human resource activities, Benefits, challenges.

Introduction

Human resource Outsourcing been a global trend in business organisation for some decades. Managers even consider it as panacea for the company to reduce costs so as to focus on core business. In all companies, there has been one form of outsourcing activities or the other too. Now outsourcing becomes more and more popular particularly in the organisation. It is

becoming fashionable today for organisations to outsource majority of their human resource activities to third party agencies while retaining only a negligible set of functions, a trend that has become acceptable even among scholars and practitioners with the believe that it is the solution to gain competitive advantage (Yang, Seongcheol, Changi & Ja-Won 2007; McIvor, 2008). Outsourcing typically involves transferring one or more of an organisation's business processes to an outside service provider or vendor. Many organisations now outsource some human resource functions they used to perform internally in the past. As organisations attempted to reduce operating costs during the most recent recession, bottom-line factors played a role in organisations searching for lower cost alternatives. In fact, reasons why outsourcing is initiated have been identified by researchers. Notable among reasons why organisation embarks on outsourcing are cost reduction, competitive advantage, core competency, technology advancement and efficiency (Armstrong, 2003; Elmuti, 2003, Sarwar, 2013).

Some scholars suggested that organisations outsource their Human Resource Management functions due to the need to cut cost, focus on core businesses, ensure greater business flexibility, increase speed and use specialized expertise (Cooke, Shen, McBride, 2005; Ward, 2004). Other researchers have also argued that the practice is vital for a number of strategic and operational reasons such as to increase capacity, improve quality, increase profitability, increase productivity and improve overall financial performance and growth (Bartlett, 2004; Jasper, 2003). These underlining reasons trigger the motivation for Human Resource outsourcing practices in many organisations today. Aside from the reasons for outsourcing Human Resource activities, organisations are willing to outsource almost every activity that is transactional in nature. Armstrong (2003) indicated that the Human Resource Management functions that are mostly outsourced include; recruitment and selection, performance appraisal and management, reward or compensation management, health and safety, training and management development, change management and other administrative activities.

The popularity of outsourcing HR functions in Nigeria has been increasing rapidly over the past few decades, with many organisations choosing to outsource some or all of their activities. The decision on which of the human resource functions to outsource depends on organisation in identifying its core and non competency. In essence organisations outsource non core activities to outside providers and focus on their core activities in house. However, organisations are expected to consider the pros and cons of outsource HR before taking outsourcing decision. The paper will therefore examine reasons why organisations outsource HR; which of the HR functions are mostly outsourced and what are the benefits and challenges of HR outsourcing.

Literature Review

Concept of Human Resource Outsourcing

Outsourcing human resource activities is described as the purchase from external vendors of a value-creating activity that either was or could have been done within a firm (Gilley & Rasheed, 2000). In the same vein, Michel, Michel, Paul & Michelle (1999) define human resources outsourcing (HRO) as the contracting out of part or whole HR activities to an outside supplier, in opposition to internal procurement whereas the activity is performed by the employees of the organisation. Human Resource outsourcing is 'a process of replacement of in-house provided activities by subcontracting it out to external agents' (Irefin, Olateju, and Hammed, 2012). Human resource outsourcing typically involves transferring one or more of an organisation's human resource activities to an outside service provider or vendor. Many

organisations begin to discover the important of outsourcing and started to extend this practice their business operations.

Obviously, many researchers posit that outsourcing, encompasses a wide spectrum of activities, ranges from manufacturing operation to research and development, logistics and marketing, information technology, HRM and accounting (Gilley, Charles, Rasheed. 2004; Peter & Helen, 2004). Consequently, is the process of contracting overall or part of an organisation HR functions to external provider. In making outsourcing decision, organisations need to consider the likely impact of outsourcing activities on the organisation's performance. Advocates of the resource-based view (RBV) of the firm (e.g., Barney, 1991; Ulrich, 1996) believe that outsourcing can be productive to the development of the core competence of the organisation – especially in relation to HR practices. To do this, organisations may need to distinguish between “core” and “noncore” activities. Finn (1999) argued that a basic distinction can be made between HR “core” and “noncore” activities. The core activities he described as the organisation's core competency that create unique value for employees, customers, and investors and also give the organisation a competitive advantage. The non-core activities would be transactional work such as routine personnel administration (e.g., payroll and pension), and professional HR advice (e.g., legal advice related to employment regulations) that can be easily duplicated. Whether outsourcing or in-sourcing, the decision should be based on a solid analysis of alternatives and the availability of resources and capabilities of organisation in accomplishing the mission and objectives.

Reasons for Human Resource Outsourcing

Many reasons at both the strategic and operational level have been highlighted why organisations decide to outsource HR activities. As Greer, Youngblood, and Gray (1999) observed, HR outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for HR services. However, this often eventually leads to downsizing. Downsizing and tougher competition mean that the HR functions is under increasing pressure to demonstrate value, both in terms of efficiency and effectiveness (Roberts, 2001). Notable among reasons why organisation embarks on HR outsourcing are cost reduction, focus on core competency, competitive advantage, efficiency and technology advancement.

Cost Reduction

One of the most frequently named drivers for organisation to embark on outsourcing is cost reduction. Many organisations both private and public preferred to outsource non-core activities due to the cutting down cost of production. Organisations cannot increase their production cost due to the high level of competition in today's markets. It is necessary for organisations therefore to search for strategies which lower asset costs (Gilley and Rasheed, 2000; Hansen, 2009; Potkány, 2008). HR manager considers the cost whether it will be able to accommodate the expense or not. For instance, a small business organisation where the budget is limited, prefers to outsource HR employees rather than building and maintaining for a large group of people and to meet the needs of another department at the same time. An in house employee will cost you a salary, benefits, training, payroll taxes, equipment and office space. When you engage the services of a consultant firm you are only required to pay on hourly or monthly basis depending on the job you require. However, this depends on organisation negotiable power with the vendor (Fapohunda, 2013).

Focus on Core Competencies

In order to reduce load of existing HR staff organisation seeks outsource HR activities in order to focus primarily on strategic decision making and develop core competencies (Hansen,

2009). Similarly, Cook (1999) view that outsourcing HR activities can allow managers to pay attention to their core business rather than spend valuable time on HR activities that are becoming increasingly more complex and advanced. Outsourced human resource employee enables HR manager to remain focus while assuring the fact that they have taken care of all the complex human resource paperwork and other necessities. The fact remain that Human Resource managers can perform more strategic roles by 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(Peter & Helen, 2004).

Competitive Advantage

Human resourcing outsourcing has been described as a strategy used by organisation to achieve competitive advantage. In this present age, organisations are faced with hyper competition and need to have adequate resources to achieve competitive advantage is paramount. The quest of having the required resources to stay on top cannot be overemphasized. The primary resources regarding a firm's competitive advantage include its physical asset, financial capital, human resources, organisation system, technology and knowledge, and intangible assets (Barney 1991;Porter, 1985). With outsourcing, organisation is able to achieve competitive advantage over its competitors.

Efficiency

To maintain an efficient and productive workplace is another strategic motive for outsourced. Advanced human resource technology developed by deployed individuals, employees and providers helps to focus on other human resource functions such as payroll, benefit administration and acquiescence and consent management. Sravani (2016) argued that outsourcing helps the employees, supervisors and managers focus less on the paperwork and rather helps them to be more focused and concentrated on how to improve the quality, efficiency and effectiveness of the workforce. Once you begin to outsource from an organisation the employees become more efficient and the HR administration becomes more professional in their work. They also use highly advanced technology and devices to make the organisations more organized and productive.

Technology Advancement

Another factors leading to HR resource outsourcing is technology. Technology used to be a facilitator rather than a driver of change, though many delivery models would not have possible only a few years ago without technological innovation (Reilly, 2006).Outsourcing encourages a company to gain access to new skills and modern technology not available internally. Modern equipments and systems require specialized skills and experts to perform their functions efficiently. Technology encourages companies to replace outdated systems and improve service delivery. Many software programs are self-automated hence making it easier for the employees to easily handle HR clerical and paper works on their own.

Outsourcing Human Resource Activities

Human resource outsourcing is no more a new phenomenon in Nigeria and all over the world. Both private and public organisations have been outsourcing various components of human resource functions, such as payroll and benefits administration, for years. Lievens and De Corte (2008) argue that outsourcing HR functions refers to the practice of turning all or part of an organisation to an external provider or providers. Many researchers and literatures have been focused on which of the human resource functions are commonly outsourced by organisations (Finn, 1999: Cicek & Ozer, 2011 : Quartey, 2013), Hall and Torrington (1998) viewed that the HR activities most likely to be outsourced were: training and management development, recruitment and selection, outplacement, health and safety, quality initiatives, job

evaluation, and reward strategies and systems. In support of Hall and Torrington's findings, Shaw and Fairhurst (1997) found that training and development along with facilities management were the most likely areas to be outsourced.

According to Beaman and Eastman (2004) the human resource activities that are commonly outsourced are recruitment, payroll and more so training and development. Norma (2009) asserts that Payroll processing involves perhaps the most transactional, routine activity involving HR and is the most frequently outsourced HRM activity. Also, Hewitt Associates (2007) and Klaas et al. (2001) found that the most common outsourced HR functions are payroll administration, recruitment and selection, training and development, and performance management including the administrative functions of the Human Resource Departments. According to Sarwar, (2013) training and payroll listed as the most favorite areas of HR outsourcing. In addition, recruitment, taxation, and legal compliance are most common functions which are outsourced very often. He reiterated further that employee relations, HR planning, career management, and performance appraisal are less likely to be outsourced, as these activities are considered to be the core competencies by some organisation.

Manisha & Deepa, (2011).Posited that a study on HR Department Benchmarks and Analysis2007 available from The Bureau of National Affairs, (BNA), and U.S.A. reports that 72% of surveyed employers outsource at least one HR activity. They reiterated that the five most commonly outsourced HR activities, according to this study are: employee assistance/counseling, pension/retirement plans, other employee benefits (health, medical, life insurance, cafeteria, etc), Training and Payroll. HR outsourcing can happen in areas such as payroll, employee benefits administration, recruitment, training, health and safety, security, and hardware. More so in Nigeria, the most common processes outsourced are related to payroll administration, recruitment and selection, training and development, performance management and health and safety (benefit).More so, there are no clear patterns of the types of HR functions that are outsourced. HR functions are usually either partially outsourced or completely outsourced. The difference is that when functions are partially outsourced, the organisation co-manages the function with the vendor when it is completely outsourced, the vendor takes full responsibility.

Diagram



Source: Authors' Model

Theoretical Framework

The Transaction Cost Economics

The transaction cost economics provides a theoretical frame work for assessing the choice to keep an activity in- house in an organisation or to seek an externally provided alternative. Williamson (1979) argued that organisation will seek to choose 'the most

economical governance structure'. Transaction cost theorists assert that the total cost incurred by a company can be categorized largely into two components—transaction costs and production costs. Transaction costs often known as coordination costs include the costs of selecting suppliers, negotiating prices, writing contracts, monitoring performance, as well as the potential for opportunities from suppliers. Whereas production costs refer to the cost incurred in create and distribute the goods or services being produced plus labor and infrastructure costs. According to transaction cost economics, a company decision on outsourcing will be on the basis of reducing transaction and production costs.

Relational View

Relational view develops and explains how firms gain and sustain competitive advantage within inter-organisational relationships (McIvor, 2005). Indeed, the concept of relational view has been explored in literature to explain how firms choose their future outsourcing partners and preferred type of the relationship. It has been also adopted tremendously in studying the Transition, Managing relationship and Reconsideration phases. Prince, Duah, Osei & Anita, (2014) argued that when organisation need to considered outsourcing their non-core activities to service providers and focus on their core competence the knowledge of relational view become important. This makes the relational view to be an important theory that has been applied in the research of all the outsourcing processes.

Resource-Based View

The resource based theory cited by Barney (1991) viewed that organisations can gain competitive advantage by concentrating on their core internal resources (abilities, skills, knowledge, capabilities and competencies). Indeed, the outsourcing decision is motivated by the ability of an organisation to invest in developing a capability and sustaining a superior performance position in the capability relative to competitors. However, organisation can outsourced activities where its lacks the necessary resources or capabilities internally. McIvor, 2008 asserts that Resource-based view is the firm as a bundle of assets and resources that if employed in distinctive ways can create competitive advantage. The resource-based theory (RBT) is often used to shed light on the benefits and challenges of HR outsourcing as well as the typologies of HR functions mostly and frequently outsourced (Klass, McClendon & Gainey, 2001).

Benefits of Human Resource Outsourcing

Organisations outsource various jobs to achieve many benefits and compete in global market, but the most prominent advantage as widely documented seems to be the fact that it often cost reduction. Organisations that provide outsourcing services are able to do the work for considerably less cost, as they don't have to provide benefits and incentives to their workers and have fewer overhead expenses to worry about. Hence, to avoid large capital expenses and control operating costs organisation prefers to outsource HR employees rather than building and maintaining for a large group of people and to meet the needs of another department at the same time.

Achieving competitive advantages is another benefit derived by outsourced company. (Porter, 1985) asserts that it allows a firm to focus on activities that represent its core competencies thereby creating competitive advantage while reducing cost. Organisations through outsourcing achieve competitive advantage and gain profit from the suppliers who can in turn focus on developing their own specializations. Related to the idea of competitive advantage is the issue of core competency. HR Outsourcing enables organisations to focus on their core business functions that they can best performed and sustained. By outsourcing non-core activities, an organisation can free up resources to sharpen its focus on core competences.

The next benefit is direct access to technology. Outsourcing in human resource administration prevents the company from further investing into human resources. Technology changes rapidly and following all the developments is very time and resource consuming. Outsourcing can shorten the learning curve of new technologies and reduce cost spent on training (Fapohunda, 2013). Added to this is outsourcing provides an organisation the advantage of quality improvement of human resource employees. The technology and standards introduced by the outsourced company will ensure a great level of motivation within the employees of the company.

An increasing time delivery is another advantage derived by outsourced company. This "just-in-time" deployment of human resources also brings other advantages of saving direct costs (e.g., reducing headcount and overtime working) and indirect costs e.g. cutting administration and backup costs, saving recruitment and training costs, saving absenteeism costs, and reduced industrial relations problems (Manisha & Deepa, 2011).

Greater flexibility and efficiency is another prominent benefit of outsourcing. By outsourcing firm can cater with fluctuating labor requirements with the help of subcontractors. Firms can save the direct costs by the on time provision of the human resource (e.g., reducing headcount and overtime working) and indirect costs becomes more important than saving cost and outsourcing provides flexibility and efficiency both in terms of people and technology. Sarifuzzaman (2012) identifies main reasons and benefits that drive in-sourcing to outsourcing among others are to: improve company focus, access world class capabilities, accelerate reengineering benefits, share and minimize risks, free resources for other purposes, infuse cash into the organisation, make capital funds available, reduce and control operating costs, provide resources not available internally, manage or control difficult or out of control functions, provide the organisation's buyer (s) with greater flexibility, improve efficiency and to establish competitive advantages, and gain access to technology that would be too expensive to duplicate internally.

Goffredson, Puryear, & Philips (2005): Lojeski (2004) reported that the strategy of outsourcing indeed significantly improves organisational performance. In a rivalry intensity environment, many organisations use outsourcing as a way to perform routine business functions to enable them focus corporate resources mainly on those activities where clear differentiation advantage can be developed in their value chain to satisfy their customers.

Elmuti (2003) identifies ten reasons/benefits for outsourcing which are to: reducing cost, improving quality, improving delivery and reliability, using resources not available internally, accessing new technology, accessing materials only available abroad, establishing presence in a foreign market, maintaining sufficient flexibility to respond to market conditions, reducing the overall amount of specialized skills and knowledge needed, making capital funds available for more profitable operations and focusing on core competencies.

Many organisations in Nigeria have focus on the benefits outsourcing to annex maximum advantages, achieve sustainable growth and improve organisational performance.

Challenges Human Resource Outsourcing

Despite the rising popularity of outsourcing organisational activities, the practice is not without pitfalls. The biggest challenge of outsourcing in employee's mind is low morale. Outsource HR practice in most cases come up with less wages, job losses and pay cuts which brought about low morale and low productivity. Researchers suggested that outsourcing can produce negative feelings in employees that remain in-house, and as a result these employees may suffer from job insecurity, decreased productivity, decreased employee morale, decreased employee loyalty, increased absenteeism, and increased employee turnover all may have negative effect on organisational performance (Kakabadse & Kakabadse, 2002; Sarifuzzaman, 2012).

Loss of management control is also another challenge in outsourcing because outsourcing requires managers to relinquish control of certain functions. For instance, when organisation is having high competitive advantages, products and services should remain within the company whereas organisations may be better off to look for alternatives such as external vendors or buying a product off the shelf where they have less competitive advantages (Quinn, 1999). Some specific areas include payroll, pension and benefits administration, training and development, recruitment and selection are considered as non core activities and decrease profitability of organisation, management can handover their control to vendors. However, areas of strategic control may place the company in a vulnerable position if they are contracted out.

Domberger (1998) believes outsourcing HR could lead to loss of in-house knowledge and skills. He reiterated that, similar to the issue of lost in-house knowledge and skills, is the issue of lost organisational innovation and knowledge when outsourcing occurs. Research has also shown that organisations may experience low in organisational productivities, as a consequence of this loss of employee skills and knowledge (Berry, 2005). More so, since outsourcing will often displace employees across the organisation and may reduce the overall number of staff, in many instances the organisation will experience resistance to outsourcing, loss of productivity, low employee morale and high turnover during and after the transition.

Another constraint of HR outsourcing is managing the relationship between organisation culture and the vendor. The outsourced organisation culture may be differing from that of the vendor. Meshing the two corporate cultures is often one of the most difficult tasks in a vendor relationship, since it requires a good communication infrastructure—something most organisations are lacking. In fact, the existing organisational culture is disturbed when an external outsourcing agent enters the organisation (Hemmington and King, 2000). In Nigeria, outsourced staff is treated as sub-human. Consequently, instead of Building Human Capital, 'outsourced system' is destroying Human Capital. For instance, there is no provision for them to be trained. Therefore, they cannot become professionals (Adeleke, Olajide & Bolanle 2014). Many workers were facing downsizing by outsourced organisation. As a result organisation lay off many workers due to outsourcing practices. Indeed, this action rendered many workers jobless. Those that might fortunate to retain become outsource staff working on the condition of job insecurity in organisation. They were deprived of many benefits such health and safety, insurance, holiday allowance, training, flexible working condition among others by outsource service providers. This action could result in to employee job dissatisfaction, poor commitment and low productivity.

Conclusion and recommendations

Outsourcing in Nigeria is no longer a new concept to both private and public sector. The trend of Outsourcing the Human Resource activities is tremendously increasing among various organisation in Nigeria, with the motive of reducing operative cost and improving organisation performance. This study has contributed to closing the literature gap in understanding the concept of Human Resource outsourcing in Nigeria. Throughout this study many reasons for outsourcing have been identified. Consequently, this study has conclude that the major reasons listed for HR outsourcing by organisations are cost reduction, focus on core competency, competitive advantage, efficiency and technology advancement. The study has provided enough evidence that payroll administration, recruitment and selection, training and development, performance management and health and safety (benefit) are HR activities that are commonly outsourced by most organisations in Nigeria. However, in taking outsourcing decision it is important for organisations to differentiate their core activities from non-core activities. More also the study proved that effective understanding of the benefits and challenges of outsourcing HR activities is an organisational imperative. Evident from the study has shown that most of benefits of HR outsourcing favored more of organisation at the detriment of workers. However,

despite some challenges faced by organisation in outsourcing practice particularly management control, the bulk of problem associated with HR outsourced rested on workers whose job are prone to risk and insecurity.

In line with the above conclusion the following recommendations were made:

- Organisations should have a clear vision of what outsourcing should achieve
- Manager should define clearly and understand the scope of HR activities to be outsourced base on organisation cure and non cure activities.
- The outsourcing partnership should be nurtured and closely monitored particularly in the area of management control.
- Before organisations implement the process of outsourcing, they should first of all establish a training to make sure that employees have the knowledge and an idea of the process.
- Lastly, the perceived benefits and challenges of HR outsourcing must be considered when firms make strategic decisions on whether or not to outsource functional HR activities.

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