# OPPORTUNITIES AND CHALLENGES OF HUMAN RESOURCE OUTSOURCING IN THE CASE OF LONADD HR CONSULTANCEY AND DALHOUSIE UNIVERSITY

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**ST. MARY'S UNIVERSITY**
**SCHOOL OF GRAUDATE STUDIES**

## DECLARATION

I hereby declare that this thesis represents my own work, prepared under the guidance of Dr. Abraraw Chane. All sources of material used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted to this or any other institution for degree or other qualification for the purpose of earning any degree.


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Name                        Signature


**St. Mary's University, Addis Ababa June 2021**

## STATEMENT OF CERTIFICATION

This is to certify that Fitsum Hailemariam has carried out her research work on the topic entitled,

***Opportunities and Challenges of Human Resource Outsourcing in the Case of LonAdd HR***

***Consultancy and Dalhousie University***. The above declaration made by candidate is correct to the

best of my knowledge as an advisor and suitable for submission of Master's Degree in General

MBA.

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**St. Mary's University, Addis Ababa June 2021**

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**Addis Ababa**

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# Acknowledgments

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# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

In business, outsourcing is the contracting out of a business process to a third-party. The term "outsourcing" became popular in the United States near the turn of the 21st century (Nawab, 2013). Outsourcing is also used to describe the way public services are handed over to profit firms. Outsourcing gained momentum in the 1970s, when large corporations were under performing. This trend became even more pronounced in the early 1980s with the onset of global recession. In fact, the 1980s witnessed a change of direction in business strategy thinking namely, focusing on fewer activities. By the 1990s, the agenda was set, with the growing belief that quick wins could be achieved by pursuing core strategies. Many firms began reengineering their process, in effect embarking on a search for new ways of organizing the various elements of business. These new beginnings encouraged a radical overhaul of business processes with the aim of dramatically improving the performance in critical areas like cost, quality, service, and speed. (Gamble, 1995). Outsourcing has emerged as the most powerful tool for companies seeking to stay in today's competitive business environment.

Therefore, if we go through the history of outsourcing we found that outsourcing was not formally identified as a business strategy until 1989 (cited in Handerfield, 2006). The term outsourcing is first used in IT sector. Now-a-day, the scope of outsourcing has broadened. Outsourcing of Human Resource functions or Human Resource Outsourcing (HRO) is now becoming a strategic choice for many organizations. As business globalization increases, the need for outsourcing grows as external suppliers more effectively and efficiently produce or serve a good. (Yang, et.al. 2007).

HR outsourcing services generally fall into four categories: professional employer organizations-PEOs, business process outsourcings- BPOs, Application service providers ASPs or e-services (Sharif and Jamal, 2012, p.1). Business process outsourcing can include transferring an entire business function (e.g. payroll), a production process (e.g. ready-to-install windshield manufacture) or a portion of the related processes (e.g. mailing paychecks, windshield glass delivery) (Norman, p.2). In HR, a BPO would make sure a company's HR system is supported by the latest technologies, such as self-access and HR data warehousing (Aquinas, 2006, p.308).

In Ethiopian case the application of outsourcing is in its infancy stage. Currently there are few companies that are engaged in providing limited outsourcing service. The current outsourcing practice in Ethiopia is limited to a company's non-core activities which are confined to recruitment service, security service and janitorial service. Despite its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none. Thus, this research tried to investigate the existing HR practices of outsourcing in LonAdd HR Consultancy and Dalhousie University as a case.

For the purpose of this study, Human resource outsourcing is described by Reed (2011) as the process where elements of a company's human resource management (HRM) functions or activities are transferred to a provider outside of the company itself. Outsourcing the Human Resource (HR) function is aimed at improving the efficiency of an organization (Arnold, 2010).

### 1.2 Statement of the Problem

Outsourcing is increasingly being used as a means of both reducing costs and achieving strategic goals of organizations. It also helps improvement in operational performance, reduction in overheads and operating costs. The problem related to outsourcing is the operational difficulties in that service provider may deny specific technical expertise, capability and capacity for delivering the desired performance (Aron, Clemons, and Reddi, 2005). There is evidence that outsourcing does not reduce costs as expected in some cases (Beaumont and Sohal, 2004; Gonzalez, 2005). Wang et al. (2013), highlights some of the drawbacks of outsourcing and stipulated that some outsourcing providers are found to lack knowledge, some providers are non-responsive, and others have low performance standards. In addition, service providers may not realize the client's culture or personality, and the services delivered by them may not fit in the client's culture due to some of them only produce one set of service delivery system for all their clients in order to reduce the production costs (Siegel, 2000).

Generally, it is clear that human resource outsourcing brings many benefits to the organization as well as imposing some negative impacts.

When it comes to Ethiopia, outsourcing is a recent phenomenon, established decades ago. LonAdd PLC is one of the outsourcing service provider in Ethiopia that has been providing outsourcing service to governmental and non-governmental organization since 2009. Dalhousie University is

one of the service users of LonAdd for over five years. The researcher strongly believes that these two organization can represent the prevailing scene regarding outsourcing. In addition, these organizations are immensely engaged in outsourcing activities be it either by providing service or by receiving services as well. They have a lot to share as they are practicing outsourcing services. These (service provider-client) organizations have encountered employee, service delivery and performance appraisal related challenges which needs to be investigated and described scientifically. As with the challenges, there have also been opportunities that could be harnessed for enhanced organizational performance such as joint staff capacity building program.

In general, there are policy, strategy and operational challenges associated with outsourcing with the increasing expansion of the sector. For the service provider, recipient and employee, this presents challenges. Research in Ethiopia, which has so far focused largely on save costs by outsourcing to the production and service industries, is clear. However, there appears to be no prior research conducted in the business sector. Even if there are research conducted in the business sector, there is no comprehensive study aimed at investigating challenges from the service provider, recipient and employee perspectives. There are lesser researches conducted in the realm of outsourcing as researchers are not bold enough to tackle the issue of outsourcing as compared to other human resource related issues. Therefore, research that examines challenges from service provider, employee and client perspectives are not well explored both theoretically and empirically. And this research fills the gap and accounts for why this research sought to assess opportunities and challenges of outsourcing human resource by taking LonAdd HR Consultancy and Dalhousie University as case. Thus, this research investigated the practices of the HR outsourcing practice from the employee, employer (Service provider), Client (companies who use outsourcing).

### 1.3 Research Objective

The general objectives of this study is to investigate the challenges and opportunities of HR Outsourcing practice in Ethiopia. Specially, the study have the following objectives.

- ❖ To identify the existing, the practices of Human Resources Outsourcing in Ethiopia.
- ❖ To find out the client, employee and legal issues surrounding HR outsourcing.
- ❖ To examine the relationships between the service provider and service recipient.
- ❖ To assess the risks and the prospects associated with HR outsourcing.

### 1.4 Research Question

- ❖ How has HRO benefited both the service provider and service recipient?
- ❖ Why do companies outsource their employees?
- ❖ What are the policy/strategic and management obstacles service providers face?
- ❖ What should be done to overcome the bottlenecks and maximize opportunities of HR Outsourcing practice?

### 1.5 Significance of the Study

A Recent trend around the globe is outsourcing, this means the products and services are contracted to outside vendors that have expertise in a particular area (Henery Mintzberg and James Brain Quinn, 1992). In Ethiopia, the concept of outsourcing is still relatively new and unexplored among the general public and business community. In addition, few formal researches has been done to identify the country's outsourcing potential. Therefore, the researcher believe that this research has great significance in creating awareness, about outsourcing, among the society, business people and scholars. Furthermore, this research can serve as stepping stone for other researchers in similar area. The human Resource Outsourcing practice in the case of Ethiopia mainly focused on lower level employment such as Janitor & Guard but the past few years there is a big change most companies made by start working with highly professional people who use the service. Despite all the positive change and growth mentioned there is a major information gap between business owners, society and service provider which require more work to create awareness. There is not only information gap but there is also misconception of the service. It is very rare to find research carried out on this specific topic and this research paper add value to all involved parties by touching most of the area including Ethiopian legal system regarding on Human Resource Outsourcing practice.

### 1.6 Scope of the Study

This study focuses on the Human Resource Outsourcing Practice in Ethiopia as a whole, but due to the fact that there are only a few companies providing this service in Ethiopia, the majority of them are located in Addis Ababa. Despite the fact that some of these service providers are not located in the same city, their challenges and benefits are similar to the majority of them.

Considering that and the time, resource limitation for the purpose of this study the researcher chooses one of the  companies working on this service for over 11 years' name LonAdd HR consultancy as a service provider and Dalhousie University as a service recipient. The following HR functions are most commonly outsourced: High-volume recruiting, temporary staffing, background checks, relocation, payroll, benefits administration, health insurance management, coaching, creating/updating employee handbooks and policy manuals, compensation program development/implementation, writing and updating affirmative action plans, and Independent contractor compliance.

### 1.7 Definition of Terms

**Human Resource**: The department or support systems responsible for personnel sourcing and hiring, applicant tracking, skills development and tracking, benefit administration and compliance with associated government regulations.

**Outsourcing:** is a business practice in which services or job function are farmed out to a third party.

**Business process reengineering:** the examination and redesign of business processes and workflows in the organization.

**Goals:** the primary purpose of a business is to maximize the profit for its owners or stakeholders while maintaining corporate social responsibility.

**Cost:** the monetary value that has been spent by a company in order to produce something

**Human resource functions:** Human resource functions are categorized into 2 groups, which are core and non-core task. The purpose of HR function is to support HR with business strategy.

**Client/service recipient:** It could be organization or a person who buys goods or pays for services. Client usually have an arrangement or a relationship with seller or service provider.

**Employee: this employee of the service recipient's organization.**

**Service providers:**

**LonAdd:** Name of a company combines two different countries city Lon-London and Add-Addis

**Organizations/firms:** An entity aimed at carrying on commercial enterprise by providing goods or services.

### 1.8 Organization of the Study

This research paper organized in five chapters as below. The first chapter covers introduction, statement of the problem, research objectives, significant of the study, scope of the study. The second chapter provides an overview of related review of literatures and empirical studies. Chapter three outlines the research methodology and describes in detail the data collection tools and the unit of analysis. Then the findings of the study provided in chapter four and will provide a brief analysis and synthesis of the findings of the research. The final chapter focused on providing summary, conclusion and recommendation based on the result of the research carried out.

## CHAPTER TWO

## LITRATURE REVIEW

### 2.1 Introduction

This chapter basically disclosed the predominant literatures regarding outsourcing. It deals with issues related to history of outsourcing, types of outsourcing, challenges of Outsourcing, reasons for outsourcing, and opportunities of human resource outsourcing. It also further deal in defining different strategies in an effort to establish connection with outsourcing as well.

### 2.1.1 Concepts, definitions and types of Outsourcing

According to William, F (1999), outsourcing is defined as the effort of obtaining products or services from different institutions that are outside of the organization. Outsourcing encompasses constricting for the delivery of a provision for a specific task, which used to be formerly conducted as an in-house chore, leaving the chores for another organization to perform the duties on the organization's behalf (Reilly and Tamkin. 1996). It is expected that organizations should contemplate outsourcing when there is a strong need for support for specific purposes. It should also consider issues related to time, money and quality from the external service provider. And only core competency-oriented tasks should be considered for the contract of the candidates. Though it is a common fact that different skill or knowledge may let to allow in serving a customer base better but dealing with product or provision should be kept in house. Nowadays, the outsourcing of selected activities has become an essential part of a company's strategy. For the sake of Companies advantage outsourcing are important and entail reduced costs, experienced services and expertise. Outsourcing permits companies to give emphasis on their resources regarding their core business. Outsourcing refers to an organizations decision to contract with an external organization to deliver chores or service to a company. Though there is an immense practice of outsourcing by different governmental and non-governmental organizations, there is still comparatively little pact about whether outsourcing is consistently useful (Pollitt and Bouckaert 2000).

Outsourcing is a combination of two words which is "out" and "sourcing" (Power *et al.*, 2009). Power et al. (2009) went on to describe sourcing as the process whereby an entity transfers its

work, responsibilities and also its right to another entity. They indicated that it is necessary for an organization to outsource its activities because another organization can do it better at a faster rate and also cheaper than the focal organization.

Ashley (2013) also defined outsourcing as the situation where a company allocates its risks and responsibilities to another organization to perform those activities. The researcher adopts the definition of Anikin and Rudaya (2012) who described, outsourcing as the situation where a company delegates its operations to be managed by a third party that can do it cheaper, better and at a faster rate.

Outsourcing can be separated into internal and external types depending on the level of control over performance of outsourced function. Internal outsourcing is the reallocation of functions within the business system for saving control over its performance and external outsourcing is the delegation of performance of separate or mutually related functions to external outsourcer (Vashista, 2009).

## 2.1.2 History of Outsourcing

It is believed that the practice of outsourcing came into the scene few thousand years ago.  It is assumed that it began with the production and selling of different edible items, household supplies and utensils (Maynard, 2006). Human history reveals that gathering crops and hunting animals were activities that enabled families to survive by fulfilling their needs. This somehow paved way for what is known as bartering. This led to the exchange of goods and services where money was developed to enhance the process of bartering.

Jagdish Bhagwati, Arvind Panagariya and T. N. Srinivasan, Autumn, 2004, "outsourcing" was considered as a situation where companies increased their purchase of manufactured goods like where car companies bought window cranks instead of making them in the 1980s.

Although outsourcing has been around as long as since the time when work specialization came into existent, outsourcing has been around simultaneously. Companies started to outsource some small functions like personnel, advertising and data entry functions. (What is outsourcing: Sourcingmag.com) It is believed that the processes can be done more proficiently and with less cost by other companies who have the specialized expertise, gears and capacity.

Presently, outsourcing assumes different forms. Institutions still hire service providers to take care of different business processes. However, some organizations outsource the whole process. (What is outsourcing: Sourcingmag.com) This shows the that outsourcing needs differ based on the institutions desire.

### 2.1.3 Theories of outsourcing

Outsourcing consists of several activities. According to Doyle and Tapper (2011) each activity can be described by several frameworks that are entrenched in some theoretical frameworks. According Perunovic and Pedersen (2009) outsourcing can be captured under three approaches, and these they indicated as Resource-Based View, Core Competency Approach, and Transaction Cost Theory.

Perunovic and Pedersen (2009) described the resource-based view as the type of outsourcing that is built on the idea that an entity that does not have valuable and organized resources and capabilities would need an external provider that can assist the focal organization in overcoming its weaknesses. Perunovic and Pedersen (2009) stipulated that resource based theory is mostly used in the preparation phase and helps to define the framework for making decisions and also in the selection of the appropriate vendor.

It is critical that the organization attaches greater concern to its core activities. On the other hand, if some activities of an organization are not critical to the operations of the company it is wise that those activities are outsourced to another entity so that the company can concentrate on its core operations. Prahalad and Hamel (2013) described core activities as that which an organization possesses and which in turn aid the organization to have a competitive advantage. The organization needs to focus and concentrate on its core activities to help it maintain its competitive edge. Sullivan and Ngwenyama (2008) emphasized that it is prudent to give those activities that are not core to the operations of the company to another organization that can deliver at a lower cost and more efficient that the focal company itself.

The development of the transaction cost was based on the notion that the organization must be able to analyze the costs associated with planning, adapting, and monitoring the completion of task under different structures of governance. The management of an organization must be able to weigh the cost associated with executing a particular task within the organization and that outside

the organization (Aron et al., 2012). That is, they must be able to weigh the cost of internally conducting their production processes (insourcing) and that of giving to an entity who has the technological knowhow and other facilities to undertake the task at a cheaper price and also effectively (outsourcing). The decision of whether to choose to buy from the market or to develop in-house is based on the cost associated with the acquisition of that product or service and this can be derived from both the production cost and the transaction cost.

## 2.2 Outsourcing HR Functions and Activities

Human resource outsourcing was described by Reed (2011) as the process where elements of a company's human resource management (HRM) functions or activities are transferred to a provider outside of the company itself. Outsourcing the Human Resource (HR) function is aimed at improving the efficiency of an organization (Arnold, 2010). The evolution of the internal and external organizational environment has changed the notion of the HR function (Young, 2007). The earlier focus which was on traditional operational and administrative perspectives has lately had a major shift to changes in strategic HRM and employment relationships (Beardwell & Claydon, 2012). The recent approach to HR management has to do with clarifying the relationship between business strategy and HRM. Organizations are further required to assess the way in which HRM can be strategically used in the achievement of organizational goals (Thompson et al., 2008). Outsourcing HR activities is a major strategy adopted by business executives to meet the demands and objectives of organizations. This includes reduction in costs, gaining access to advanced technologies, increasing flexibility, and a focus on core activities (Barthelemy, 2009).

Armstrong (2006) indicated that most companies require the services of professional firms. Most companies have therefore outsourced their HR function due to developments in technology (Turek, Watson, Bhansali, Baron & Lacerte, 2005). According to Armstrong (2006) outsourcing the HR function is a cost-effective HR 19 strategy. Several companies have outsourced all or some HR activities because they might not be able to afford the cost of employing talented fulltime or part-time employees across all areas of the organization's operations.

The issue of whether or not to outsource the human resource function hinges on the benefits and costs of outsourcing HR needs. There has been a tremendous increase in the number of organizations that have outsourced their human resource functions, notwithstanding the disadvantages and challenges that are associated with outsourcing. The last two decades had a

major shift with many companies outsourcing most or all of their HR functions (Beardwell&Claydon 2012). Companies nowadays believe that the development and maintenance of the HR function requires a lot of expenditure and this has called for the greater number of functions being outsourced to external entities. The HR function has therefore become the most popular function to outsource. There is therefore a major increment in the number of Human Resource Outsourcing (HRO) providers. Berry (2007) stipulated that that the outsourcing industry is worth billions of Pounds and that there is a significant increase and this trend is affecting the future of human resource strategy.

## 2.3 Reasons for Outsourcing

Companies that outsource chores primarily aspire to get advantage in terms of benefits and cost wise. It involves to basically reduce the scope, definition of quality levels, re-pricing, re-negotiation, cost re-structuring, and access to lower cost economies through cost re-structuring according Rothman, J (2003). It operates to leverage and compare fixed costs to variable costs. Where outsourcing changes the balance of the ratio and hence making variable costs more predictable.

To advance quality includes accomplishing a move to modify in quality through contracting out the service with a new provision level arrangement. There is also acquisition of operational knowledge for best practice that might be tough or overwhelming to develop in- house. Agreement for services, enables work to be completed more cautiously and efficiently by private contractors with the target of providing high quality service, productivity and cost reduction.

Various researchers underline purposes in different way. However, there are some common motives for outsourcing regarding acceptance in different literatures available. The review of literature reveals that many motives for outsourcing are overlapped. Lonsdale & Cox (1998) reveal that different researches are conducted from various viewpoint. They classify it into five core reasons why firms outsource: focus resources on core activities, cost reduction, convert fixed costs to variable, benefit from supplier's investment and innovation and improve time to market. Quelin and Duhamel (2003), disclose that a prominent measure for outsourcing is to decrease operational cost, emphasize on core activities and incorporate simplicity.

The reasons for outsourcing according to Lacity et al (1994), are categorized into four parts: financial, business, technical and political. There are also other categorizations by different writers. This clearly show that outsourcing became a common phenomenon for business activities of companies. And it traces its reason as to look for skills and resources that are not present in-house. Thus, outsourcing can be regarded as an operational strategy that is crucial in business.

In this paper, some of the reasons for outsourcing the human resource of an organization are discussed below. According to Prasad and Prasad (2013), there are three main reasons for performing outsourcing.

### 2.3.1 Cost effectiveness

The high level of competition around the world has culminated into the effect whereby companies are not able to increase their production cost although there are increases in asset costs (Mouhammed, 2008). According to Potkaany (2011), it for institutions acute to adopt tactics that are aimed at lowering asset costs. Stroh and Treehuboff (2003) described outsourcing as an effective strategy that can help an organization to give out its noncore activities to be performed by another supplier. This they indicated could help the company maintain its customer services and also gain a competitive advantage in the market that it operates.

Growth in organization has globally put a pressure on organizations to put much investment in human resource (Potkany, 2011). This investment can however be costly and can dramatically affect the operational costs of many companies.

Companies would also need to maintain and develop key human resource personnel that are needed to manage and further administer the large size of the workforce. HR outsourcing is needed to maintain efficient HR services at a price cheaper than what the focal company can offer. This situation according to Enlow and Ertel (2006) enable the organization to focus on the main objectives of the company and further invest in its core competencies, helping the company to be effective in terms of cost.

### 2.3.2 Focus on core competencies

The reason behind many outsourcing decisions taken by most management is that they would want to focus on the core competencies of their organizations. This Potkany (2011) indicated will help the organization to maintain its competitive advantage in the market that it operates. Hansen (2009)

emphasized that outsourcing HR activities helps in the reduction of the load of work that that employees have to undertake and further allows the company to have the time to focus on strategic decisions and further develop the core competencies of the organization.

Managers would have the necessary time to concentrate on the core activities rather than spending the time available on human resource activities that are becoming more advanced and highly technical with the introduction of technology. Davidson (2009) emphasized that some of the functions that are internally performed by the human resource department are not critical and that they could easily be outsourced to other entities. According to Davidson (2009) one of the aspects of HR that can easily be outsourced is recruitment. Organizations have specialized in recruitment services to the extent that they have advanced technologically and have developed websites and other technologies that can be accessed by a lot of applicants and this increases the chance of selecting the most suitable applicant for a particular position being advertised by companies. This complex activity would have taken enormous time of the company and this also requires experts who are well endowed in those areas of practice.

Software applications and other technological advancements have impacted on the management of human resource of many organizations (Stone, 2009). According to Stone Human Resource Information Systems (HRIS) and other HR software has been and continues to play very critical roles in the managing of people in various organizations. Stone indicated that HRIS has played an enormous role in the improvement of most organizations and have positively affected performance thereby increasing the productivity of most organizations that have adopted them. The major challenge that was discussed by Stone was that HRIS needs to be constantly updated and this requires huge sums of money to be invested which comes as a great cost to the company and which must be done any time there is an upgrade of the system.

Another challenge that was also highlighted by Stone was that some organizations may also lack the expertise that is needed in the handling and maintenance of the HRIS systems. Organizations would also have to invest a lot of money in the training and development of the experts to man that process. It is therefore cost effective to outsource the HRIS to another supplier that can undertake such activity at a lesser cost because it enjoys economies of scale.

It is prudent that an organization outsources its HR activities such that it can concentrate on its core competencies and further and save costs that are associated with performing those activities

that are not core to the operations of the company. There are several factors that motivates HR outsourcing that includes concentration on core competencies and cost saving. That notwithstanding a major driver for outsourcing HR activities has been the focus on HR as a value-adding function at the strategic level.

### 2.3.3 Strategic Human Resource

There is greater recognition to the strategic importance of the human resource function in an organization (Wirtz, Heracleous&Pangarkar, 2008). Human resource (HR) has become more aligned with organizational goals and strategy as perspectives of HR has evolved from operational and administrative to strategic. This evolution has called for an increment in the focus of outsourcing the HR function, and has become critical in most organizations. Makenna and Walker (2008) described outsourcing the human resource function as a major component of contemporary human resource.

Organizations can therefore gain competitive edge over their competitors if they isolate their human resource management (HRM) functions. A survey conducted by Gilley et al. (2009) revealed that outsourcing the human resource function of an organization positively impacted on the performance of the organization. It was revealed from the study that outsourcing both training and payroll led to a higher tendency for organizational innovation.

It was further revealed that stakeholder performance was increased if an organization outsourced its training and development functions of the HR. This also led to an increased ability to add value to the stakeholder. Furthermore, if the training activity is outsourced it also leads to improved supplier-customer relations, due to the fact that employees are well trained by expert professionals. The research also indicated that when companies outsource they become more strategic and they spend less time on meeting objective related to cost and they are able to address developmental issues effectively. It also helps organizations to have more time for strategic planning.

Elmuti (2003) conducted a study on the activities that are mostly outsourced by most companies that have adopted outsourcing of their HR functions. It was revealed from the study that the activities that are mostly outsourced were payroll, administration of retirement plans and benefit administration. It is however clear that HR outsourcing is no longer restricted to recruitment, legal compliance, training and development and payroll.

Many organizations have increasingly outsourced their HR activities. This indicates that organizations and human resource outsource providers becomes business partners. In order to understand their client's businesses HR providers, need to consider the context of their client, including organizational culture and structure. It has become obvious that outsourcing as a HR strategy is increasing in popularity.

## 2.4 Opportunities in Outsourcing

Outsourcing refers to a business function of handling works outside the company by other entities. The reasons for outsourcing differ and focuses on giving the work for outsiders instead of developing expertise within the company.

Kenneth L (2004) states that a company who does outsourcing will surely do the chores in a better and less price than a worker hired by an institution. Large and small business firms do outsource functions for different reasons. Small businesses may lack the needed capacity while large companies are also affected by economic and digital factors.

From a business development viewpoint, outsourcing paves way for small and large business a brilliant opportunity for start- up. This develops a business mode that provides services for small companies. Some decent examples of outsourced functions include mail delivery, accounting, IT services, payroll, public relations, security, transport management, mail handling and cleaning services.

Outsourcing secures growth and development for both public corporations and private companies. This a sole way for growth as it enables them to focus on their functions by leaving functions for specialized firms. The ultimate goal in outsourcing should be the provision of an efficient service achieved by cutting costs and by transferring benefits for consumers. Thus, firms who adopt outsourcing strategy are at a competitive advantage than their competitors in the same industry. Therefore, this thought is very valuable as it ensures that there is specialization and dedication of resources to core functions.

Fan et al. (2011) discussed some advantages of outsourcing the human resource (HR) activities to organizations. According to them there are so many advantages associated with outsourcing the HR function but the most significant ones are cost savings and flexibility. It has been realized that when an organization hand over its noncore activities to a third party that can be trusted, the

organization can then concentrate on those activities of the organization that are critical to its operations and can help in increasing the competitive advantage of the company.

Another advantage of outsourcing the HR function is cost savings. Outsourcing HR becomes very necessary when a particular human resource aspect of the company is not mostly needed by the company full time. When a particular process in the operations of an organization is such that the organization have to spend a lot of money and other resources in say acquiring and training of experts to man that operation which the company does not require the service full time, then it becomes necessary that the company outsource that activity to an external company that can provide that service effectively and efficiently and at a lower cost than the company can provide. Lacity and Willcocks (2012) indicated that outsourcing activities that are not critical to an organization helps the company save a lot of cost that are associated with hiring of experts and technical expertise. The training for the hired staff is also high and it is therefore expedient that the company outsource that activity.

The third major advantage to outsourcing HR is access to qualified personnel to handle an activity that the company lacks the required expertise to undertake effectively. Adler (2013) emphasized that by outsourcing some of the noncore HR activities of the company to a third party, the company get the possibility of accessing highly qualified personnel that may not have been available to the focal company. The company then gets the opportunity to exploit fully innovations, investments and the specialist capabilities of the supplier. This is a major advantage to the focal company.

Another advantage in outsourcing HR is improvement in performance that can be offered by the outsourcer due to economies of scale. Some workers would not want to work in a less stimulating environment and as such working in a large company can provide a variety of opportunities and functions that could help save that worker. Fan et al. (2011) emphasized that the level of operational experience is much higher with service providers due to the fact that there is much concentration of staff on tasks as compared to internal operations. This helps the supplier to offer service at a lower rate than the focal company as it enjoys economies of scale due to the large volumes of works that it undertakes.

The fifth advantage of outsourcing HR as highlighted by Fan et al. (2011) is flexibility. Grimshaw and Miozzo (2013) indicated that flexibility has been key reason to outsourcing HR for many

organizations. Contract taken by an outsourcer and its employee's job is dependent on the degree of flexibility that reflects changing business environments.

**2.5 Challenges of Outsourcing**

An obstacle that hinders a given policy from being implemented is a barrier or a challenge. It also limits the extent of the implementation. This will somehow pave way for certain policies to be overlooked where strategies will be less effective to the dismay of stakeholders. Though there has been many good things said about human resource (HR) outsourcing, nevertheless there are some challenges associated with HR outsourcing. There are some complex issues in managing outsourcing relationships (Wirtz et al., 2010). According to Sullivan and Ngwenyama (2008), the notion of contract being based on cost savings has diminished and contracts nowadays incorporates equity-based outsourcing, value-based outsourcing and business process outsourcing.

There is much concentration on cooperation between the outsourcing and the focal company. This cooperation highly depends on the quality of the relationship existing between both parties. The factors that tend to be an advantage in outsourcing HR can also be a challenge in the management of outsourcing of Hr activities. Advancement in technology and development that are brought about as a result of technological changes can be said to be a major factor in enhancing outsourcing relationship. This can also be a major challenge when the other party is not ready to adopt new technologies and this can adversely affect the relationship.

Fan et al. (2011) reveals that the foremost challenges to outsourcing activities are absence of managerial control, quality constraints, threat to security and confidentiality, hidden costs and reallocation of existing team.

Another challenge has to do with security and confidentially. The outsourcing contract will have terms and security spelt out in them. The challenge is that although these terms are clearly stated there is always a problem associated with auditing. Ashley (2012) emphasized that there is a major challenge associated with the execution and auditing of terms that are captured under the outsourcing contract.

Organizations stand the risk of losing vital and confidential information when they outsource their HR activities. This Berry (2007) indicated to include reports, audit trails, and personal data. In-house knowledge and skills could also be lost. Knowledge and organizational innovation is also

lost when organization outsource their HR. The company is also likely to face decreasing organizational productivities due to the loss of employee skills and knowledge (King, 2004). Many organizations also experience loss of control over its human resource activities if they introduce outsourcing. This is greatly influenced by the quality of HR provider and the service agreement that exists between the provider and the organization.

One of the expectations of outsourcing HR is that the focal company expects to receive better services than that offered by its staff. The challenge therefore is the ability to choose an outsourcer that can provide the expected service. The outsourcer must be chosen such that it would not have any negative influence on the goods and services provided by the company. Adler (2013) indicated that if care is not taken in the selection of the outsourcer the consequence might be so grave that it can affect the position of the focal company.

Another major issue associated with outsourcing is that both parties are bound by only the terms and conditions as stipulated in the outsourcing contract. Anything that is not captured under the contract cannot be enforced on the other party. Any other duty that is performed by the outsourced company will be subjected to charges and that brings additional cost to the focal company.

The issue of outsourcing has to do with doing away with a particular function that was being performed by the focal company. Since that function is to be sublet to another supplier it will place in the minds of the employees that they are going to be fired. It is a major challenge to management how to relocate and further compensate those that the company no longer needs their services. The company will also be challenged how to relocate some of the company's employees to the outsourced entity to perform that particular function. Brown and Cregan (2008) indicated that outsourcing becomes a major challenge to managers who were part of the process and see it fail. If adequate attention is not paid to remaining employees the organizations risk facing serious obstacles when outsourcing HR activities. The remaining employees may exhibit some negative feelings and these could affect the organizational culture.

Outsourcing HR would not necessary be a cost saving approach to an organization especially when the company already has in existent effective human resource management (Marquez, 2007). Marquez accessed an organization that invested in building its own service benefits and internal activities. The organization Marquez emphasized was able to reduce about 11% of its HR costs. Marquez advised that companies must first attempt to develop its own human resource activities

before outsourcing. This was supported by Thomas (2005) who opined that internal HR activities could as well bring a cost saving benefit to an organization.

Management should make an obligation to stay attentive on the fixed plans and must only make substantial changes to the plan with careful consideration on the implications and consequences of the change. A balance between business activities and strategy initiatives should be maintained. When companies are immersed in new strategy development, they tend to forget their primary business strategies and as a result implementation problems start to occur.

Strategy is execution to Nickols (2000). He divides the strategy execution into four groupings: flawed strategy and flawed execution, sound strategy and flawed execution, flawed strategy and sound execution, and sound strategy and sound execution. A great opportunity for success comes leaving environmental and competitive influences.

The execution of inappropriate strategy is a main problem that leads to unsuccessful implementation strategy. Downes (2001) wrote that the kinds of execution obstacles most companies run into fall into two categories: problems internal to the company and problems generated by outside forces in its industry. Both the internal and external matters are affected by the scope of flexibility companies have to launch strategic initiatives successfully.

According to Brannen (2005) to improve the implementation certain subjects must be undertaken. These are inadequate or unavailable resources, poor communication of the strategy to the organization, ill-defined action plans, ill-defined accountabilities, and organizational/cultural barriers.

## 2.6 Empirical study investigation

The chapter presents summary of the empirical studies conducts across the globe and Ethiopia that are pertinent to the research under study.

To start with, a study conducted by Klass (1999) uses transaction-cost economies theory to explain the outsourcing benefits received by the firms and its transaction cost is varying to different organizations. The study indicates that transaction costs could be increased by opportunistic behavior by service providers to which the firm has grown dependent. For example, agencies may increase price at contract renewal, charging more for adjustments or add-on during the contract period. (Klass, Clendon and Gainey 1999)

Another study conducted by Miller (2011) on selected respondents that included top executives of various companies revealed that 86% of the respondents felt that the introduction of outsourcing in the HR of their various companies has had a positive effect on their companies and had increased the overall performance of their respective companies. Miller''s study further revealed several reasons why management would want to outsource it HR activities. These the study revealed to include concentrating on core business activities of the company, outsourcing to quickly attain the goals of the business and focusing on product innovations to increase its competitive advantage.

A recent World Bank study concluded that more outsourcing in developing countries "is significantly associated with more advanced market and reliable access to service providers". If the banks lack the skills to undertake their own in-house operation and can't afford to hire the necessary expertise, they can find themselves in practicing business process outsourcing. (World Bank, 2009).

IT outsourcing is strongly focused around technical professionalism, and the migration to business process outsourcing introduces this extra dimension of application professionalism. IT outsourcing is a common occurrence and, for instance, about 90 % of European banks outsource ICT functions. This includes software development and IT-enabled processes such as call centers and accounting. According to a global survey of 50 banks, back office and other routine support functions are also increasingly outsourced. (World Bank, 2009)

Focusing on its core business and creating a competitive advantage within the industry is an important driver for HR outsourcing in Indian banks (Surya Narayan, 2012). The primary reason for banks mainly utilizing in house resources to organize events was due to the confidentiality of information. In order to respect client confidentiality and to not reveal sensitive data, this prevents them from using an external company to outsource event services.

Furthermore, there was a general consensus of outsourcing event service was not cost effective and it was more for the reasons of time saving and the using an external company, they have access to the expertise and up-to-date knowledge of what is going on in the event industry, including technology equipment for example (Delphine Francoise et al., page 14).

Fan et al. (2011) discussed some advantages of outsourcing the human resource (HR) activities to organizations. According to them there are so many advantages associated with outsourcing the HR function but the most significant ones are cost savings and flexibility.

In Ethiopia, Meresa Mulat (2007) argues that "in spite of its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none. No formal research has been done in this area to assess the impacts, challenges and prospects of outsourcing in the country." His findings showed that Ethiopian organizations are willing to outsource non-core business functions, such as maintenance and janitorial services, security services and information technology services.

Muluneh Atinaf Kebede (2009) study it can be understood that more core business function such as IT related business are being outsourced since there is lack of experienced in-house Software developers are some of the reasons.

## 2.7 Summary of chapter

This chapter has reviewed literature related to the study. The chapter began with literature on the definition and types of outsourcing. It discussed the definitions that had been adopted by various writers. It also highlighted the types of outsourcing. The various theories of outsourcing were also captured. The chapter highlighted issues that had made organizations opt for outsourcing and discussed why an organization would want to delegate its function to be performed by an external organization. The chapter further highlighted on outsourcing HR functions and activities. The last part of the chapter captured the empirical studies conducted. The next chapter is the methodology and will capture the methods that will be adopted for gathering and analyzing the data gathered.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1. Research Approach and Design

This research looked into an area that is not well explored in Ethiopia. As I indicated in previous chapters outsourcing in Ethiopia is recent phenomena and the best approach to investigate such type of issues was qualitative research approach. Accordingly, the study will use descriptive research design with qualitative approach so as to get deeper understanding and complete description of the phenomenon under investigation (Drubig, 2001). Descriptive research can be used to identify and classify the elements or characteristics of a subject under study (Collis & Hussey, 2003). It helps to obtain information concerning the current status of the phenomena to describe that what exists with respect to variables or conditions in a situation (Key, 1997).Therefore, this research followed a qualitative research with a drive to describe the practices of HR in Ethiopia taking the case of LonAdd PLC and Dalhousie University.

## 3.2 Data Sources

For the purpose of this study, both primary and secondary data will be collected. Primary data were collected using key informant interview, interview questioner and focus group discussion. Whereas secondary data were collected from published documents, official organizational documents such annual plans and reports, financial and strategic documents.

## 3.3 Study Population, Sampling technique and Sample Size

In this study, the interest of the researcher is not to generalize to a population, but to develop an in-depth investigation, to appropriately understand the phenomenon, the writer purposefully or intentionally selects individuals and sites (Creswell, 2009). The data was gathered using purposive sampling or non-random sampling method for the reason that it allowed the researcher to select the study participants.

**Sampling technique:**

This qualitative inquiry had employed purposive sampling. The targeted population are from Lonadd PLC & Dalhousie University. The targeted population is comprised of Support and Core staffs, Country director, Managing director, Finance and Admin Mangers, President, Officers,

coordinators and managers. Qualitative research employs purposeful sampling in which individual and sites are selected purposefully with the hope to better understand the research problem. Purposeful sampling requires the researcher to decide who should be sampled in what form to provide rich and in-depth information (Creswell, 2007b).

Therefore, a total of 37 individuals took part in the study through a sample survey. These individuals are listed in the below table.

| Instrument | Quantity | Organized | Role |
| --- | --- | --- | --- |
| Interview | 20 employee | | Support & core staffs |
| KII | 2 | Dalhousie | Country Director and Finance and Admin Manager |
| Total | 22 | | |

Table 3.1 Number of people who were interviewed.

| Instrument | Quantity | Organized | Role |
| --- | --- | --- | --- |
| Interview | 12 employee | LonAdd Consultancy | Officers, coordinators and mangers |
| KII | 2 | | Managing Director and Operation Manager |
| Total | 14 | | |

Table 3.2 Number of people who were interviewed.

| Instrument | Quantity | Organization | Roles |
| --- | --- | --- | --- |
| | 1 | Ethiopian employers association | President/Representative |
| Total | 1 | | |

Table 3.3 Number of people who were interviewed.

### 3.3 Data Collection tools/instruments.

Qualitative study relies on the integration of data from a variety of methods and sources of information through triangulation so as to minimize biases and limitations of a single data collection method (Maxwell, 2008). Therefore, document analysis, key informant interviews, Focus group discussion, and semi-structured interview were used to collect relevant data that help to address basic questions of the study

### 3.3.1 Document analysis

According to Payne & Payne (2004), written documents with private or public sphere are important to categorize, explore, interpret and recognize the limitations of physical sources. To achieve the aim of this particular study, secondary documents such as annual reports, strategic document, journals, working papers, articles, and internet sources directly or indirectly related to outsourcing, HR outsourcing were reviewed, analyzed and synthesized.

### 3.3.2 Key informant interview

Key informants, as a result of their personal skills, or position within a society, are able to provide more information and a deeper insight into what is going on around them. It is an expert source of information as Marshall, (1996) suggests. As a result, the researcher did conduct interview with 5 people to get rich and detailed data. To make it work, key guiding questions was developed to make gather from key informants with identified directors, managers and coordinator. Total of five people will be interviewed using interview guide developed by the researcher.

### 3.3.2. Focus group discussions

FGD is a type of interview that involves carefully selecting individuals who usually do not known each other. They generally consist of 7-10 members alongside the researcher and extremely useful in providing qualitative data (Abiy et al., 2009). In this study two focus group discussion were conducted, each consists of 5-7 individuals. The researcher goal was to generate the maximum amount of discussion and opinions within a given time period. The researcher took time to carefully plan the questions. The researcher introduce participants to the discussion topic and make them feel more comfortable sharing their opinion with the group. The researcher was also able to delve further into the discussion topic and the participants' opinions.

### 3.3.3 Interview- questions

An interview involves a purposeful interaction of the investigator with participants to secure data pertaining to the problem of the study that cannot acquire from observation and document analysis alone. Unstructured interview enables the qualitative researcher to know and deeply understand about something from the research setting (Gays, 212).

Following the general interview guide recommended by McNamara (1999), in these study face-to-face interviews with 2 and questioner with 20 staffs from Dalhousie University carried out. The researcher anticipated challenge of face-to face interview due to COVID and might be forced to do via phone call or email. Given to the good profile of staffs in both organization, interview were administered through email and phone calls. The researcher made maximum effort to meet face-to-face interview by applying social distancing and personal protective equipment's.

### 3.3.4 Data Analysis and interpretation

Creswell (2012) forwarded identified six steps for qualitative data analysis and interpretation. According to him, "preparing and organizing the data, exploring and coding the database, describing findings and forming themes, representing and reporting findings, interpreting the meaning of the findings, and validating the accuracy of the findings" (p.236). Therefore, in this study paper, notes that will be taken from key informants, FGD and semi-structured interview will be thematically analyzed and described. The analysis was continue on data presentation and of conclusion for each thematic area. Finally, recommendations was forwarded.

### 3.5 Quality Assurance

The researcher did use triangulation as data quality assurance technique to overcome unfairness and cross-examines the trustworthy of the participant's response. The data that will be collected through interview and FGD cross-checked using document review and key informant interview and vice versa. By using these techniques, the researcher will verify the collected data from different sources. According to Bhattacherjee (2012), data quality assurance principles for qualitative research to preserve the trustworthiness of the collected data are. (1) Addressing credibility; to do this, the researcher will try to demonstrate that a true picture of the phenomenon under the study so that the readers will find inferences believable. (2) Addressing confirmability; to do this, the researcher will try to demonstrate the different subjectivity issues under

investigation. Transferability; to do this, the researcher will provide sufficient detail of the practice of HR outsourcing  for a reader to be able to decide whether the prevailing environment is similar to another situation and the finding can justifiable by applied into the other setting. (3) Addressing dependability; to do this, the researcher did strive to enable future investigators to repeat the study so that to arrive at the same conclusion.

## 3.6 Ethical Considerations

The researcher has gotten permission from LonAdd PLC and Dalhousie University to undertake this research, thus the interview will be conducted and questionnaires will be distributed with full knowledge of the management. The research will maintain confidentiality about the information that the researcher will gather from respondents, and data will be used for academic purpose only and will ensure that the respondents and organization as a whole will not be exploited.

Participants will be informed about the voluntary nature of their participation in the study and will confirm their willingness to take part in the study by signing on consent forms. The consent form will clearly-have stated the aim of the research, the expectations from the research, voluntary participation and withdrawal. The researcher will respect the dignity of the research participants in such a way that their right to privacy and confidentiality will be recognized and respected.

# CHAPTER FOUR

# DATA ANALYSIS AND INTERPRETATION

In this chapter, the collected data through focus group discussion, key informant interview and other documents has been analyzed and interpreted. The chapter consists of respondents' demographic characteristics, the existing practices, the client, employee and legal issues surrounding HR outsourcing, the relationships between the service provider and service recipient, the risks and the prospects associated with HR outsourcing as well as the role of Human resource outsourcing. Initially, the researcher planned to participate 37 respondents for key informant interviews, Focus group discussion, and semi-structured interviews, however, the researcher collected data from 34 individuals which makes the study participation rate 91.8%. In this chapter, the background of these respondents will be presented followed by the responses of organized in to main thematic areas of the study.

## 4.1 Demographic Characteristics of Respondents

Regarding the demographic variable of the respondents, sex, age, educational level were used as a describing variable's. Accordingly, regarding the sex of the respondents, the majority of them 23(67.65%) were males while the remaining 11(32.35%) of the total respondents were females. This shows the dominance of male respondents in this study case.

The other demographic descriptor used was age of participants. Therefore, based on the age category of the respondents, the majority 64.71% of them fall in the age range 31-40 years while the remaining 23.53% and 11.76% of the total respondents were in the age group 30 years and below as well as 41-50 years respectively.

Lastly, regarding the educational level of respondents, the overwhelming majority 73.53% of the respondents were first degree holders while the remaining26.47% of the respondents had MSC/ MA and above level of education. This shows the well-educated participants of the study which will contribute for the validity of the result gained since most of the respondent will have sound understanding and appreciation of human resource outsourcing practice and related issues.

*Table 4.1 Demographic Characteristics of Respondents Dalhousie University (Service Recipient)*

| Variables | Options | Frequency | Percentage |
|---|---|---|---|
| Gender | Male | 13 | 59.09% |
| | Female | 9 | 40.91% |
| Age | 30 years & below | 6 | 63.63% |
| | 31-40 years | 14 | 64.71% |
| | 41-50 years | 2 | 9.1% |
| | 51 years and above | - | - |
| Educational level | High school and below | - | - |
| | Diploma | - | - |
| | Degree | 15 | 68.18% |
| | MSC/ MA and above | 7 | 31.82% |
| Total | | 22 | 100.00% |

*Source: Own Survey, 2021*

*Table 4.2 Demographic Characteristics of Respondents LonAdd HR Consultancy (Service Provider)*

| Variables | Options | Frequency | Percentage |
|---|---|---|---|
| Gender | Male | | |
| | Female | 14 | 100% |
| Age | 30 years & below | 2 | 14.29% |
| | 31-40 years | 10 | 71.42% |
| | 41-50 years | 2 | 14.29% |
| | 51 years and above | - | - |
| Educational level | High school and below | - | - |
| | Diploma | - | - |
| | Degree | 12 | 85.71% |
| | MSC/ MA and above | 2 | 14.29% |
| Total | | 14 | 100.00% |

*Source: Own Survey, 2021*

*Table 4.3 Demographic Characteristics of Respondents Ethiopian Employee Association (Policy Maker)*

| Variables | Options | Frequency | Percentage |
|---|---|---|---|
| Gender | Male | 1 | 100% |
| Age | 41-50 years | 1 | 100% |
| Educational level | Degree | 1 | 100% |
| Total | | 1 | 100% |

*Source: Own Survey, 2021*

As can be seen on the above respondent both service recipient and service provider has their own perspective of looking the benefit and challenges of HR Outsourcing:

**LonAdd HR Consultancy/ Service provider:** Having experts in the field who can recruit and manage the right employee for most company who doesn't even understand the context of hosting country labor law is a benefit to the service provider. Business opportunity, job creation and contributing to the economy

**Challenges**: The legal framework has many gaps especially when it comes to HR Outsourcing. This has been a big issues for service provider when there is a need for legal mediation between employee and service provider. The other challenge, when the employee has belongingness issue that affect their day to day activity as well as their relationship with management and the team. Since the service providers manages remotely, creating that environment for the employee to feel that they belong there is very challenging at times

**Dalhousie University/Service recipient:** Some of the benefit of HR outsourcing for service recipient, they can focus on strategical work than routine activities, administration cost minimized when the employee is managed remotely by outside party, service recipient doesn't have to deal with any legal issues raised by the employee, the service recipient employee being managed by highly qualified professionals who has well experience in the area

**Challenges:** It is not always easy to explain criteria needed to outside party. Even though there is a clear understanding and written document signed by both parties, there is still a challenge having the right people on the job with the right attitude. The other challenge which is shared by both parties' service provider as well as service recipient, when the employee has belongingness issue that affect their day to day activity as well as their relationship with management and the team. Since the service providers manages remotely, creating that environment for the employee to feel that they belong there is very challenging at times

### 4.2 The practices of Human Resources Outsourcing in Ethiopia

As the basic principle of outsourcing is simply acquiring a product or service form outside supplier rather than producing in the organization or it is transfer or delegation of the operation and day-

to-day management of the business process to an external service provider, the following section provides the practice of human resource outsourcing practice in LonAdd HR Consultancy.

In the subsequent segment, participants are represented by code number to hide their real identity to conform to confidentiality ethical standards while conducting and stating participants' ideas and perspective. Concerning the practice of human resources outsourcing in Ethiopia, the responses from Focus group discussion and semi-structured interviews have showed that HR outsourcing is sometimes praised as one of the strategic tool in the higher competitive environment. Therefore, it assists organizations to focus on their scarce resources, increase customers' perception towards quality and reduce the cost of outsourcing the HR functions.

According to respondent [no 19];

> *"Outsourcing of human resources is almost nothing in Ethiopia. Some Ethiopian organizations are restricted to the practice of reaching staff members through third-party services to perform their HR functions."*

Most of the respondents have agreed that the practice of HR outsourcing in Ethiopia is low. However, recently, there are many improving circumstances in the country with growing number of company sizes, it is becoming necessary to outsource human resource activities.

According to respondent [no 8], expressed regarding the demand for the practice of HRO in Ethiopian;

*"Human resources outsourcing is an important practice in Ethiopia because it enables companies to focus on core operations, save on costs, create a stable, cost-effective operational platform, focus internally on business goals, and make investment in HR and IT systems."*

Similarly, respondent number [1], from Dalhousie, with a role of procurement and Logistics officer with a work experience of above three years have expressed his understanding of outsourcing he responded as the objective of outsourcing is getting the services that can be done internally from outside service providers with minimized cost, minimized risk , with better technology, in timely manner. Accordingly, the requirements for outsourcing, he replied as;

*"I did not believe that outsourcing is necessary because the number of employees in my company is very little outsourced. And the outsourced HR tasks can be performed internally."*

Regarding the organization needs for outsourcing, Respondent [5] who is an IT Officer with an experience of more than three years; expressed his ideas as;

*"I think that this type of arrangement is a good practice for an organization's HR wing. Because the organization is a programme, and the program has an expiry date by nature, I think that the management of human resources is an essential way."* Respondent [no 12] with a position of Innovation Fund and Income Generation Officer, with more than 4 years of experience puts his opining as follow:-

> *"Yes, in its structure, our organisation's role was not only the administrative function. Therefore, some excellent companies must outsource their HR roles in particular. It also reduces the workload for recruitment, salary and related issues."* In relation to the practice of HR outsourcing Respondent [no 7] expressed his idea as follow.

*"Main risk includes the lack of HR handbook and guidance for the recruitment of newly recruited personnel, and the lack of comprehensive direction, Clearness and transparency lacking (e.g. lack of clear evidence on the annual wage adjustment/augmentation: what are the references and considerations? Information not communicated prior to the letter arrival), Ambiguity about employees' benefits (reduction payment, entitlement and non-entitlement leave, overtime payments or travel and delegation compensation) and lack of staff on the latest HR information and regulations.'*

In summary, regarding the practice of outsourcing in Ethiopia, despite the dramatic increase in outsourcing practices by many organizations around the world, the above findings showed that human resource outsourcing or performance of outsourcing are still lacking behind the practice of other countries. However, in the global circumstances, there is an acute shortage of evidences about the practice and success of these human resource outsourcing practices. As per the findings of this study, in Ethiopia aspects of outsourcing such as managerial motivation, relationship with service providers, advantages, risks and how outsourcing affects organizations are reported.

The interview and focus group discussion results showed that organizations struggle to produce the highest quality of the products benefit the most by performing and maintaining the HR functions in their own hand particularly on recruitment and training related activities. Recruiting the right people with the accurate attitude, and train them with suitable training are the starting

point for organizations to produce highest quality products. Moreover, it is not easy to explain criteria needed to outside party since these processes most of the time is based on past experiences.

The above result showed that one of the main tasks of human resource management, in addition to securing the effectiveness and efficiency of human resource activities, is the continuing balancing of manpower endowment and its requirements. Innovative or transformed needs for the procurement of one or more HR functions thus increase if an imbalance between manpower endowments and manpower requirements occurs. The primary determinants of outsourcing human resource activities in Ethiopia have a direct effect on manpower requirements.

This collection of determining factor includes the range of products and services with the related kind and extent of tasks to be fulfilled in the firm, labor productivity and working time of workers per period. Changes in manpower requirements result directly from variations in these primary determinants. For instance, a more comprehensive range of products and services, a decrease in labor productivity or a reduction in working time increase manpower requirements in a quantitative or qualitative manner, temporarily or permanently will be desirable. Secondary determinants indirectly influence manpower requirements via changing primary determinants. They may have internal or external origins and be predictable or unpredictable for the firm. Conditions of supply and product markets, including cost structures and cost competition, a firm's production technology and organizational factors all belong to this group of determinants.

Second, changes in manpower endowment may necessitate the procurement of several HR functions. There are various variables impacting an association's labor gift. From one perspective, there are pretty much exogenously given boundaries which a firm can't impact straightforwardly or in a momentary viewpoint, for instance, work turnover, pace of nonattendance of faculty or changes of the labor gift through maturing measures. Then again, there are "activity boundaries" on which organizations may choose straightforwardly, like the acquisition of faculty, staff decreases and relocation, advancements, preparing or further training. Concerning labor necessities, an adjustment of determinants of labor gift might be unsurprising or capricious, be caused remotely or inside and produce results quantitatively or subjectively just as for all time or just for a brief time. Any unevenness between labor prerequisites and gift requires the satisfaction

of a few HR errands and may trigger a choice on whether these assignments are to be completed by in-house creation or outside acquisition.

### 4.3 Client, Employee and Legal Issues Surrounding HR Outsourcing

Concerning the client, employee and legal issues surrounding HRO, the following results have been gained. As to the legal issues in using HR outsourcing, the respondent acknowledged that these requirement such as the presence of legal framework which handles human resource outsourcing issues are available. However, these requirements needs updates so as to include the latest holes and disputes in the area.

In relation to whether the employee respondent recommend the use of HRO for future use, Respondent [no 2] states his ideas as;

> *"I don't recommend for this organization"*

Regarding whether the organization needs HR of outsourcing;

> *"Yes, it is important, because the organization was structurally, have no HR. however, it needs skilled human resource to implement activities and achieve its target. For this to do so there should be HR who find and employ personnel."*

According to respondent [14] a gender advisor in Dalhousie with a work experience of three years regarding the challenges that have been encountered with this service provider;-

> *"I appreciate the services provided from LonAdd specially the staffs who manage to provide the required support timely however, I have a little reservation regarding building the capacity of staff, facilitating loan and credit from different banks and close follow up and procedure on work place sexual harassment and bullying policy."*

Regarding the significance of outsourcing activities for the recipient organization Respondent [no 2], from Dalhousie, with a role of ATTSVE ATVET Coordinator, above 4 years of experience expressed his opinions as follow;

> *"No, it's not important. Because administrative manager, office assistances and finance assistances are available in our organization and can facilitate the payroll and benefits. The recruiting and hiring process of employees were handled by our managers. I did not even see any significant impact of Lonadd in hiring and promoting of employees in our organization. For instance; Most of the employees who are currently working in our office are directly promoted by the recommendation of their supervisor's means it was not merit based and the role of Lonadd was not impactful on this regard."*

Concerning the Performance management in the service recipient organization, Respondent [no 6] puts his idea as;

> *"It has been managed at organizational level, but, could be managed at individual level in observing the performance of service provider's in terms of their legal requirements they have been able to fulfill for their employee, their response to the organizations request for anything needed, their efforts they made in satisfying employees of the organization and etc. In case of our organization, performances have been carried out at organizational as well as at individual level."*

## 4.4 The Relationships between the Service Provider and Service Recipient

Concerning the relationships between the service provider and service recipient of HR outsourcing service in Ethiopia, the two parties practice HR outsourcing functions based on the perceived quality attainment and cost reduction from the part of service recipient. Some elements of the operational cost are relevant for the firm's decision making has already been extensively documented the previous and proceeding sections of this study.

The respective results show that the relevant cost elements can either rise or fall with external service procurement, depending on the specific situation of the demanding firm. Whether and under what conditions total costs per service unit decrease or increase by using an external procurement can be determined only empirically.

Total costs may be reduced if the service provider can realize economies of scale, learning curve effects, advantages of specialization or of labor costs, and if these cost advantages exceed the provider's profit mark-up. Such cost reductions are more probable if external HR services are provided for organizations with minor and infrequent demand for specific, non-discretionary separable services, as in this case comparatively high fixed costs per service unit would arise for

the focal firm. However, if dependency arises between the focal firm and the provider, profit mark-ups may form a considerable element of service prices, increasing the total costs for HR functions of the focal firm under external procurement.

Furthermore, through the external delivery of particular HR services, expected but hard-to-calculate costs arising from liability for errors, legal processes, etc. may be lower. Calling in a HR consultant may be beneficial for the firm in that any such costs would be lower, because it is the service provider's responsibility to observe the law in dealing with a third party in the workplace, or comply with antidiscrimination regulations in the pre-selection process. From this perspective, a highly regulated labor law can strongly support the demand for external HR services.

## 4.5 The risks and the prospects associated with HR Outsourcing

Regarding the risks of HR outsourcing, various issues were discussed with respondents during the interview and focus group discussion sessions. Based on the results, the following demonstration of the results were presented in terms of direct quotes form the responses as well as summary of the majority of responses gained in the area of risk and prospects associated with HR outsourcing. Regarding the risks associated with HR outsourcing themes such as cost, trustworthiness of service providers, selecting and managing service providers and the availability of service providers to select based on merits and comparison were discussed.

According to Respondent [no 1], there are various challenges for human resource outsourcing including;

> *"Staff development schemes like trainings, seminars etc. are not possible, unable to get timely decisions from the higher-level officers of the outsourcing company, poor communication on organizational and timely government rules, laws procedures, lack of orientation upon employment and so on…"*

Similarly, according to respondent [no 2];

> *"The outsourcing activity currently do not provide training, insurance claim delay, expected to deliver the original document which takes long time especially for field office, and low job security due to contract agreement delay"*

Regarding the administrative and legal challenges, Respondent no 3 expressed his ideas as;

> *"The main challenge here is it is difficult to answer employees' question in relation to salary raise and insurance matters. I feel sometimes that employees get reluctant to forward their questions to the outsourcing company (in this case LONADD) and become discouraged. I think the outsourcing company must have a discussion with staff periodically in relation to the working environment, promotion, position, and salary raise. In addition, HR manual is not distributed to employees"*

Additionally, respondent number 4, a female with a position of financial officer in Dalhousie experienced around three years express her idea as;

> *"I don't face any legal challenge, but I have seen some administrative challenges for example, since I join the organization I ask for human resource policy but we couldn't find until now, they don't have code of conduct, they don't follow-up on the submission of performance management filled forms which uses as a base for the salary increment and also I didn't see them having any meeting at least once in a year with the employees. If there is any new issue or policy by the employer they only implement with no prior notification or discussion with the employees."*

According to respondent no 4; regarding the challenges of service provider;

> *"They don't give the employees amended or renewed contract agreement with in the time. I didn't see this service provider give or initiate any training. Capacities building training is always an issue for the employees and always raise this request but they don't have detailed answer for the employees"*

According to respondent [no 6] on the other hand expresses his ideas as;

> *"May be, timely accessing competent individuals were a challenging. In case, lack of providing an individuals an opportunity for a positions and capacitating he/she, the service provider are very sticky to the requirements provided by organizations. There were no flexibility in this case and individuals will not get an opportunity. Only experienced personnel's participate as outsourced HR are very sticky to the requirements set by organization' and this brings in erosion for human resources development. Not only has this, it also affect organizations timely implementations of activities and delays achievements of organizations goals, as a position will not get a person on time. This was one of the administrative challenges, I faced. I did not know any legal challenge I ever faced."*

Regarding the future recommendation for the use of HRO, Prospects Most of the respondent do not recommend HRO for future of their organization; for instance; according to respondent [no 2];

> *"I recommend outsourcing for huge companies. Companies with less staff can manage both recruiting and other HR tasks by hiring one or two additional staff".*

Similarly, regarding whether the respondent recommend HRO for future use, Respondent [14] expressed his ideas as;

> *"I would not because I believe the human resources has to be in close contact with the employees to handle any concerns and improve work as well as personal development goals of the employees. their might be times where the organization needs support on in hiring a lots of employees a country as well as regional level which might be overwhelming, thus, outsourcing temporarily might be relevant to share this responsibility"*

The results discussed have shown that the respondents from the side of service recipient organization had concerned such as outsourcing does not provide an organization with a competitive advantage. Some of them asserts that HR should enable the organization to compete head to head with talent competitors and offer things that differentiate the experience to attract the best talent. A solution to this issue is requiring an exclusivity agreement from the HRO vendor, but this would reduce the cost benefits accruing from the economies of scale.

Furthermore, HRO limitations the development, the picture and the capacities of the HR work and inhibits the development of HR Professionals. Outsourcing bad systems does ensure that the system will be fixed. Drawing in advisors to help fix the frameworks may be a superior method to build the apparent worth of the HR work. HRO won't improve inside picture, and no constructive outcome can have tremendous adverse consequence and it restricts the capacity of the HR group to become worldwide HR work.

Respondent [17] whose position was an academic programming and ATVET Linkage coordinator with five years of experience enlist administrative and legal challenges they have been facing as follow;

> *"Getting standardized letter of experience, accessing the insurance claim on time, problem of getting guaranteed letter, which can be used as a reference to be guaranteed to someone else, a reference whether the tax deducted from my salary is paid to the concerned government body and problem of getting support to get benefit house loan from commercial banks"*

In summary, the above results and other findings presented showed that the major risks involved in the HR outsourcing area are related to the reduction of the aggregate of understanding about the workforce controlled and owned by the organization. A reduced number of HR positions may reduce the ability to attract high quality HR professionals for the service recipient organization which may intervene the independence of its effort and competitive advantage than other organization in the sectors. Additionally, relocating an HR activity to a vendor can take a year or more and the substituting costs may make it very difficult and costly to return the activity in the client organization. This can lead the vendor to act opportunistically with respect to reducing service levels and pricing a contract renewal. Interfacing with another organization on critical business processes involves transaction costs such as monitoring the agreement, establishing and renewing the contract and the risk of the vendor being acquired or failing that otherwise would not exist. Lastly, any learning and resulting innovations that would provide higher quality and/or lower cost HR service are captured by the customers of service recipient.

## 4.6 The Role of Human Resource Outsourcing

Respondent [no 1] expressed his ides as the practice of Human resource outsourcing can result in reduction of costs for the client organization:

> *"Yes I feel there is a reduction of cost as a result of outsourcing; it may reduce costs for setting up and running costs of internal departments".*

However, respondent number 3; stated his ideas that

> *"Regarding reduction of cost as a result of outsourcing; it depends on size of the organization. For organizations with less staff outsourcing (1-100) is not cost effective. However, for organizations with high number of staff it is cost effective and time saving. For example in our case, there is no cost reduction"*

According to respondent [no 2] the major goal and objective of outsourcing is to;

> *"Reducing the cost of experts and other internal costs, increase efficiency, access to HR experts not available inside the company, increase the speed of response and reduce risk.*

Regarding cost reduction of HRO, Respondent [No 2] expressed his idea as:

> *"No, I don't feel, may be the salary of one HR expert but it's not significant cost reduction if you calculate with the level of satisfaction of the employees"*

Performance was found to be managed by the will of the supervisor, not by the merits of the employees. According to respondent number 2;

> *"It totally depends on the evaluation of the supervisor only."*

According to respondent number 3; the goal and objectives of outsourcing include;

> *"Fewer burdens on human resource department, getting more talent from the pool of the recruiting organization, and lower time requirement for hiring".*

Similarly, as to respondent [no – 4]; the goal and objectives of outsourcing include;

> *"To minimize man power and administration cost, to get qualitative service, it will make ease for the organization in the face of legal law with the employment process issues, it also making easy by taking full responsibility of employment process with any related issues for the organizations. If there is any issue raised by the employee or the government related to employment for example; income tax, pension, etc., the outsourcing provider take full responsibility at the face of law."*

As to Respondent [5] with a position of Field (ATVET) Office coordinator and innovation fund officer for ATTSVE project, Dalhousie University with an experience of around two years, the goal and objectives of outsourcing include;

> *"Outsourcing's goal is to give those specific tasks of the organization to some body, which is outside of the organization's scope of management directly. I think its objective is to ease control overheads, running cost and most importantly, it is a way to transfer the legal and risks related issues to some else."*

According to respondent [no 6]

*"Yes, for ATTSVE project for instance, the cost of office and with required facilities, a human resource person full time employment costs like salary, transportation allowances, assistant for HR salary, cost of office supplies a lots of things reduced. Had it been HR employed by the project, the project incurs all this costs. Time also saved. Time taken in managing human resource issues might affect project targets consuming time for program staffs."*

Regarding the role of HR outsourcing, the resulted showed that the activity can benefit lesser production prices, cost avoidance, strategic focus, flexibility and relational rents. Dropping the average unit cost of the product or service sold by an organization is the primary reason most organizations give for outsourcing other inputs. The respondent have acknowledged that their organization outsource HR activities to explain the outsourcing decision as enabling them to better focus on strategy as well as other core activities of the organization. Outsourcing normally allows an organization to avoid some future costs that are incurred by the vendor. It also enable a company to redirect energy to its particular core competencies by making more competent use of labor market. It provides an opportunity for increase productivity and contribute to better focus on an organization's strategic direction. Outsourcing buyer group meetings are filled with stories about how companies jumped into outsourcing without fully understanding the implications of this decision.

Additionally, the role of HR outsourcing can be summarized into four groups that affect organizational performance. One purpose is cost in a way that the outsourcing service provider firm can do the action for fewer costs than the client organization. A second purpose is quality in which service provider firm can do the action in a better quality since it specialized in doing this activity as its major source of mission. A third purpose is risk reduction when the service provider is usually better able to assume the risk of doing the activity. The last purpose is focus in which the service provider should do this activity because it is time consuming and diverts focus. When one considers the principle agency problem, and convenience in which service provider do this because it is hard or otherwise undesirable.

Outsourcing an HRM movement incorporates both immediate and aberrant expenses and advantages to an association. A portion of the more clear direct expenses incorporate the faculty expenses of time spent in recognizing the HRM exercises to be re-appropriated, choosing a seller or merchants, and dealing with the seller relationship. At times outsourcing involves material and

supply costs, preparing, travel, new gear and programming. Direct advantages, then again, incorporate staff time saved and investment funds from extra working efficiencies, for example, lower material, equipment and programming costs.

## 4.7 Discussion of Results

The findings of this study has found that inability of service recipient company to control the operation of the vendor, it may pose inherent practice risks. Consistently, this finding is similar with Alex (2010) who stated that, due to lack of direct control on the human resource the vendor might hire under qualified or unqualified employees, depending on his discretion, which would successively, hampers the quality of service further.

This study has tried to understand HR outsourcing practices, risks as well as prospects in Ethiopia. The research has found that it is hard to determine the factors that predict the degree of HR outsourcing. Various literatures have established different types of business strategy as the moderator between outsourcing and performance. This study has showed that organizations that emphasize on cost efficiency tend to engage with external vendors to perform HR functions.

The results also showed that by engaging with external vendors, this requires honest investment in understanding the particular need of the organization. In short, organizations that highlight on quality focus more on performing HR functions in their own internal capabilities. Additionally, focus on distinctive practices and tend to be different which assumed to add values for the effectiveness of the organization.

According to Smith, Vozikis, and Varaksina (2006) indicate that most of the organizations outsourced at least one HR function. The most frequently outsourcing HR functions include; outsourced recruitment, outsourced human resource information system followed by training and benefit administration.

One of the findings of this study showed that the major reasons to engage in the practice of HR outsourcing in Ethiopia is to decrease the cost of HR function as well as to acquire the right employees in reduced time lapses. This result is consistent with McClendon and Gainey (1999) where organizations that encountered with cost pressure involve with external vendors to perform HR functions as this generate more benefits and immediate saving.

The result also showed that it is highly likely that the outsourcing decisions require proper approximating of the cost of a service or product, the time horizon of the outsourcing decisions and any associated opportunity costs as well as any related desired outcomes. Therefore, the relationship between two parties in a market business must have coinciding motives in order to enter into, develop and maintain a relationship. Moreover, HR outsourcing is expected to be made on the basis of the management team's skill level, interest, and preferences. So, the outsourcing decision may be decided of talent, interest in performing the activity and convenience rather than how business strategy predicts HR outsourcing.

The literature is divided in terms of the level of human resource outsourcing. For instance; Lilly, Gray and Virick, (2005) suggest that HR activities should be outsourced heavily. On the other hand Quinn (1992) argues that HR outsourcing should be limited to only non-core HR functions whereas core HR functions should be done in house to preserve the competitiveness of the establishments. However, decision making on which area of HR to outsource depends on the business strategy of the organizations. To accomplish that, the association would need to zero in on its center ability and agreement its noncore exercises and capacities to an outside organization which has the asset and furthermore could accept that action as its center. This outsourcing procedure would empower the central association to focus its center abilities and thusly increment its proficiency without contributing a great deal (Lee, 2008). Outsourcing takes into consideration associations to focus on its center skills. Outsourcing auxiliary exercises permits the establishment to zero in additional on center capacities and to stress less over the other non-center business tasks.

Kennedy (2003) contends that the center explanations behind outsourcing incorporate upgraded administration, staffing limitations, and spending imperatives, to get to innovation. Likewise, Jefferies (1996) states that outsourcing, when appropriately arranged and controlled, is required to create a few advantages, like decreased expenses, improved assistance quality, and expanded productivity and advancement. Promoters of outsourcing contend that the private area offers better support more productively and at lower cost than the public area which is unmotivated by benefit.

They call attention to that outsourcing to a worker for hire can lessen work expenses and increment benefits, give a solitary mark of responsibility, and give unsurprising expenses; the subsequent expense investment funds allows the organization to zero in more assets on its center business

capacities (Jurison, 1995). At the end of the day, outsourcing brings about improving the essential triangle of an association; quality, cost and time. Defenders of outsourcing perceive that the private area merchants offer types of assistance more productively and at lower cost than the public area (Jefferies, 1996)

Moreover, this study has found that most of the respondents didn't agree on higher performance HR outsourcing for the client organization. In fact, some of the respondents find it very handicapped and lack the advantages that it was supposed to provide for the client organization in terms of quality service and cost.

The study also showed that effective HR outsourcing are not merely adopted but are shaped for specific organizations with specific competitive needs to produce best results. With the exclusion of other characteristics such as human resource management strategy, structure and environmental factors as the antecedents to HR outsourcing which will add value for future practice of HR outsourcing in Ethiopia.

The role of practicing human resource outsourcing has been disputed. The results of this study also showed contradictory results when the importance of such activity is concerned. Similarly, the literature also have an ongoing argument on the issue. For example, Gilmer (1997) contends that the fundamental analysis of outsourcing as being its human resource consequences. Due to moving positions from the monetary organization to the specialist, who is playing out the reevaluated work, may bring about compensation cuts, staff repetition, or conservation/decrease. Once in a while the specialist organization could even utilize staff on agreement. Along these lines, outsourcing pundits feel that agreement staff may foster less dependability to the establishment than if they were utilized straight by the foundation. In this manner, they express dissatisfaction with the subsequent insufficient assistance by project workers. Additionally,

Ender and Mooney (1994) likewise distinguished that the best deficiencies of outsourcing is staff conservation/decrease brings about adverse consequence on institutional resolve. Ideally, they formulated a bunch of rules for moderating these adverse consequences of outsourcing. The rules are: outsourcing of the executive's faculty just, cutting back the staff by whittling down, including representatives in choosing the project worker, and re-offering the agreement regularly. Then again, the increasing utilization of outsourcing in the course of the last 20 years has been filled by

contentions from the board masters/master and driving scholastics that an association's upper hand originates from its capacity to recognize, focus on and foster its center abilities and exercises, and re-appropriate anything which is non-center. Nonetheless, there is some conflict concerning whether outsourcing ought to just apply to the non-center exercises an association or on the off chance that it can likewise incorporate center exercises.

For Prahalad and Hamel (1990), center abilities and exercises are the key to an association's prosperity and ought not be re-appropriated. Yet, Gay and Essinger (2000) take an alternate position, they do accept that outsourcing can accept the contracting-out of both center and non-center exercises. Nonetheless, to confound the image, it is here and there hard to characterize what is or isn't a center movement (Mitzberg, 1998). In any case, paying little mind to which exercises it embrace, or how these are characterized, there is a lot of proof to show that outsourcing is increasingly taking over from vertical coordination as the favored way to deal with getting sorted out the arrangement of numerous merchandise, cycles and services(Domberger,1998)

# CHAPTER FIVE

## CONCLUSION AND RECOMMENDATION

### 5.1 Conclusions

The main objective of this study was to investigate the challenges and opportunities of HR Outsourcing practice in Ethiopia.  More specifically, the study tried to identify the existing, the practices of Human Resources Outsourcing in Ethiopia, client, employee and legal issues surrounding HR outsourcing, examine the relationships between the service provider and service recipient, to assess the risks and the prospects associated with HR outsourcing and to assess the role of Human resource outsourcing.

Concerning the practices of human resources outsourcing in Ethiopia, the study has found that it has little application as compared with other countries level of utilization. The practice of attaining staff members through exhausting the services of the third party to take care of its HR functions is only limited to very few organizations in Ethiopia. Despite the dramatic increase in outsourcing practices by many organizations around the world, the above findings showed that human resource outsourcing or performance of outsourcing are still lacking behind the practice of other countries. However, in the global circumstances, there is an acute shortage of evidences about the practice and success of these human resource outsourcing practices. As per the findings of this study, in Ethiopia aspects of outsourcing such as managerial motivation, relationship with service providers, advantages, risks and how outsourcing affects organizations are reported. Recruiting the right people with the accurate attitude, and train them with suitable training are the starting point for organizations to produce highest quality products. Moreover, it is not easy to explain criteria needed to outside party since these processes most of the time is based on past experiences.

Regarding the client, employee and legal issues surrounding HR Outsourcing in Ethiopia. The study has found that the presence of legal framework which handles human resource outsourcing issues are available. However, these requirements needs updates so as to include the latest holes and disputes in the area.

Concerning the relationships between the service provider and service recipient of HR outsourcing service in Ethiopia, the two parties practice HR outsourcing functions based on the perceived quality attainment and cost reduction from the part of service recipient.  Some elements of the

operational cost are relevant for the firm's decision making has already been extensively documented the previous and proceeding sections of this study. The respective results show that the relevant cost elements can either rise or fall with external service procurement, depending on the specific situation of the demanding firm. Whether and under what conditions total costs per service unit decrease or increase by using an external procurement can be determined only empirically. Total costs may be reduced if the service provider can realize economies of scale, learning curve effects, advantages of specialization or of labor costs, and if these cost advantages exceed the provider's profit mark-up. Such cost reductions are more probable if external HR services are provided for organizations with minor and infrequent demand for specific, non-discretionary separable services, as in this case comparatively high fixed costs per service unit would arise for the focal firm. However, if dependency arises between the focal firm and the provider, profit mark-ups may form a considerable element of service prices, increasing the total costs for HR functions of the focal firm under external procurement.

Based on the results of this study, human resource outsourcing has inherent risk as well as some challenges in Ethiopian context. The result showed that the major risks involved in the HR outsourcing area are related to the reduction of the aggregate of understanding about the workforce controlled and owned by the organization, relocating an HR activity to a vendor can take a year or more and the substituting costs may make it very difficult and costly to return the activity in the client organization, establishing and renewing the contract and the risk of the vendor being acquired or failing that otherwise would not exist and learning and resulting innovations that would provide higher quality and/or lower cost HR service are captured by the customers of service recipient.

Lastly, regarding the role of HR outsourcing, the result showed that it has various roles for the client organization such as outsourcing service provider firm can do the action for fewer costs than the client organization. A second purpose is quality in which service provider firm can do the action in a better quality since it specialized in doing this activity as its major source of mission. A third purpose is risk reduction when the service provider is usually better able to assume the risk of doing the activity. The last purpose is focus in which the service provider should do this activity because it is time consuming and diverts focus. When one considers the principle agency problem, and convenience in which service provider do this because it is hard or otherwise undesirable.

## 5.2 Recommendations

Based on the findings and conclusions of this study, the researcher want to make the following suggestions;

- Service recipients of human resource outsourcing services should train the new comer outsourced staffs about the norms and cultures of its operations and their duties and responsibilities required to increase their engagement and commitment level.
- Huma resource outsourcing services should be checked at certain time intervals against fixed measurements or set standards. The standard must be transparent and well-known by both the client and the supplier. This has to be supported by well-established Service Level Agreement between service providers and service recipient.
- The Ethiopian labor law should be more clear and inclusive of Human Resource Outsourcing practice.
- Monitoring and evaluation system need to be put in place for timely corrective action before time elapses and rectification becomes so difficult. When it is used in a calculated and well-designed way, outsourcing could bring lots of benefits to the client organization. If applied without proper assessment of the capacities of service providers, it may involve irreparable damages in the short-range and could draw lots of risks that may disturb time-honored organizational culture. Hence, any form of outsourcing is likely called for maximizing benefits and minimizing risks.
- Since human resource outsourcing has many advantages, the user organization has to focus on outsourcing other noncore activities of the bank like office equipment maintenance, human resource recruitment and selection, acquired asset management and transport management
- Service recipient organizations of human resource outsourcing should give due emphasis on increasing employee belongingness and commitment feeling. Since this will enable the organization to create productive employees who contribute for the betterment and achievement of the organization goals.

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Appendix I: Questionnaire for key informant

<p align="center">Dear Respondent,</p>

My name is Fitsum Hailemariam. I am a student in St Marry University. I am conducting a research on the topic "opportunities and Challenges of Human Resource Outsourcing in Ethiopia" for partial fulfillment of the requirement of Master in Business Administration. Hence, the purpose of this questionnaire is to collect primary data from LonAdd Outsourcing Service Provider and Dalhousie Service Recipient. As your valuable information is crucial for the success of the study, I kindly request you to take a few minutes to fill the questionnaire. Your response for all questions will be used only for academic purpose and will be kept confidential.

## Section I: General Information

Please put a tick (√) mark in the box of your response for the following questions.

1. Gender:    Male    ☐

           Female    ☐

2. Age: 30 years & below ☐       31-40 ☐

        41-50 ☐       51 and above ☐

3. Educational Level: High School ☐      MSC/ MA ☐

                 Diploma ☐      Above ☐

                 Degree ☐

4. Which organization do you belong?

      LonAdd ☐         Dalhousie ☐

5. What is your role in the organization?

6. How long you been in the organization?

## III. Key Informant Interview: (Service provider)

3.1 What is outsourcing, in light of its desirability for organizations and employee? For which organization outsourcing is good? Private, NGOs or government business types).

3.2 When was Ethiopia commenced outsourcing? Is enabling environment, is it trending up/down?

3.3 What benefits outsourcing brings to organizations? cost, strategic focus etc?

3.4 In your opinion, how are employees perceiving outsourcing? Commitment & ownerships?

3.5 What is the best model for performance management? Should it be service provider? Recipient? or joint?

3.6 Are there conducive policy and legal formwork?

3.7 Do you know business/sectors that outsourcing of HR is not desirable for?

3.8 What is the service charge or management fee from outsourcing?

3.9 How do you compare the challenges and benefits before and after outsourcing?

3.10 What prospects for HR outsourcing in Ethiopia?

3.11 What do you advice/ recommend to employers, service providers employees and government?

## Appendix II: Questionnaire for employees

Dear Respondent,

My name is Fitsum Hailemariam. I am a student in St Marry University. I am conducting a research on the topic "opportunities and Challenges of Human Resource Outsourcing in Ethiopia" for partial fulfillment of the requirement of Master in Business Administration. Hence, the purpose of this questionnaire is to collect primary data from LonAdd Outsourcing Service Provider and Dalhousie Service Recipient. As your valuable information is crucial for the success of the study, I kindly request you to take a few minutes to fill the questionnaire. Your response for all questions will be used only for academic purpose and will be kept confidential.

### Section I: General Information

Please put a tick (√) mark in the box of your response for the following questions.

1. Gender:  Male  ☐
            Female ☐

2. Age: 30 years & below ☐        31-40 ☐
        41-50 ☐                   51 and above ☐

3. Educational Level:  High School ☐       MSC/ MA ☐
                       Diploma ☐            Above ☐
                       Degree ☐

4. Which organization do you belong?
        LonAdd ☐              Dalhousie ☐

5. What is your role in the organization?

6. How long you been in the organization?

## II. Employee Interview question, Service Recipient

2.1. What is your understanding the concept of Human Resource Outsourcing?

Very high ☐   Medium ☐   Very Low ☐

High ☐   Low ☐

2.2 **As** an employee of Dalhousie, how do you feel the service delivered by the outsourcing service provider?

Very high ☐   Medium ☐   Very Low ☐

High ☐   Low ☐

2.3 Do you believe your organization needs outsourcing? Is it important for your organization, why?

2.4 What do you think the goal and objectives of outsourcing?

2.4 Do you feel there is a reduction of cost as a result of outsourcing, can you cite example?

2.5 What is your level commitment to the organization?

2. 6 Do you feel ownership of your organization? Or you feel otherwise?

2.7 What challenges have been encountered with this service provide? Insurance claim, contract agreement and training?

2.8 Could you tell me how is performance managed?

2.9 Could you enlist administrative and legal challenges you have been facing?

2. 10 Do you recommend outsourcing in future?

Appendix III: Service Recipients Questionnaire

Dear Respondent,

My name is Fitsum Hailemariam. I am a student in St Marry University. I am conducting a research on the topic "opportunities and Challenges of Human Resource Outsourcing in Ethiopia" for partial fulfillment of the requirement of Master in Business Administration. Hence, the purpose of this questionnaire is to collect primary data from LonAdd Outsourcing Service Provider and Dalhousie Service Recipient. As your valuable information is crucial for the success of the study, I kindly request you to take a few minutes to fill the questionnaire. Your response for all questions will be used only for academic purpose and will be kept confidential.

## Section I: General Information

Please put a tick (√) mark in the box of your response for the following questions.

1. Gender:     Male    ☐
               Female  ☐

2. Age: 30 years & below  ☐          31-40          ☐
        41-50             ☐          51 and above   ☐

3. Educational Level:  High School  ☐          MSC/  MA ☐
                       Diploma      ☐          Above    ☐
                       Degree       ☐

4. Which organization do you belong?
        LonAdd ☐                Dalhousie ☐

5. What is your role in the organization?

6. How long you been in the organization?

3.12    What is outsourcing, in light of its desirability for organizations and employee? For which organization outsourcing is good? Private, NGOs or government business types).

3.13    When was Ethiopia commenced outsourcing? Is enabling environment, is it trending up/down?

3.14    What benefits outsourcing brings to organizations? cost, strategic focus etc?

3.15    In your opinion, how are employees perceiving outsourcing? Commitment & ownerships?

3.16    What is the best model for performance management? Should it be service provider? Recipient? or joint?

3.17    Do you know business/sectors that outsourcing of HR is not desirable for?

3.18    How do you compare the challenges and benefits before and after outsourcing?

3.19    What prospects for HR outsourcing in Ethiopia?

3.20    What do you advice/ recommend to employers, service providers employees and government?

3.21    Why you outsourced your HR function? Is for cost saving, legality issue or labor risk transfer?