

Personnel Outsourcing and Corporate Performance

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ABSTRACT

This paper was carried out to study personnel outsourcing and corporate performance. In carrying out this study, the researcher used AGIP Oil Company in Port Harcourt as a case study. A total number of fifty one (51) questionnaires were administered to employees in the personnel department of the company. The Yaro Yemen's formula was adopted during the determination of the sample size. Hypotheses were also formulated and tested using the chi-square statistical/mathematical technique. The researcher uncovered that there is a significant effect of personnel outsourcing on corporate performance. The researcher further recommended that as a result of the findings, that organisations should see outsourcing of personnel function and other areas very important as it contribute to the transfer of knowledge from external vendors to internal employees, and make the organisation to reduce their cost of operation and make them stand out in a competitive ground. Also, that before organisations implement the process of outsourcing, they should first of all establish a training course to make sure that employees have the knowledge and an idea of the process. That employers should also try as much as possible to ensure that they establish a good relationship between internal employees and external employees by hosting both formal and informal meetings to bring them together and others.

Keywords: Personnel, Outsourcing, Performance

INTRODUCTION

To survive in a competitive global market and to accomplish long term growth, organisations need to develop and focus on their core competencies (Kirchner, 2006). Organisations need careful planning and strategy implementation to increase productivity levels and to change the beliefs, attitudes and values of employees (Hirshman, Cords & Hunter, 2005). Thomas (2005) mentioned that this is important as employees will then be in a better position to adapt to new technologies and future challenges.

Practice in business and economic activities is constantly changing (Kong, 2007). Most industries have transformed completely from manual processes to complicated, automated and computerized technologies (Minoli, 1995). Some researchers observed that manufacturing industries have come up with sophisticated products that require operators with special skills (Sullivan, 2006; Thapanachai, 2004). Moreover, information communication technology usage and faster information flows have revolutionized our way of life and the way businesses operate. The needs and demand of consumers are forcing organisations to reform and restructure to ensure that they keep up with market demands (Entrekin & Court, 2001; Schultheis & Summer, 1998). As a result of this, many organisations has resolved to outsource some of the services they need from specialized bodies/vendors who can provide such services better while their in-house specialist focus on their core competence.

In general, outsourcing can be defined as an organisation delegating their non-core functions to an external organisation that provides a particular service, function or product (Hansen, 2009). Some authors observed that outsourcing is no longer confined to information technology (IT) services, but has expanded to financial services, banking services, engineering services, creative services, data management services, hospitality and clinical laboratories or laboratory medicine, and human resource management (Bielki, 2007). Outsourcing the personnel function is one of many ways to improve an organisation's efficiency (Lawler, & Mohrman, 2003).

The notion of the personnel function has changed due to the evolution of the internal and external organizational environment (Brewster & Harris, 1999). The focus is no longer on traditional operational and administrative perspectives, but has shifted to changes in employment relationship and strategic personnel management (Beardwell & Claydon, 2007). More specifically, the contemporary approach to personnel management is to clarify the relationship between business strategy and personnel management. Moreover, organisations are required to examine the way in which personnel management can be used strategically to achieve organizational goals (Thompson, Stickland & Gamble, 2005).

This change in focus requires the personnel function to become more strategic (Francis & Keegan, 2006). Many researchers stated that outsourcing the personnel activity is one of many strategies used by business executives to meet the organisation's demands and objectives; including cost reduction, increasing flexibility, gaining access to advanced technologies, and a focus on core activities (Khanna & New, 2005).

Personnel outsourcing is the process of transferring elements of a company's personnel functions or activities to a provider outside of the company itself (Reed, 2001). Personnel outsourcing is not new. For example,

organisations typically engage law firms for advice regarding personnel legislation. Evidence supports this proposition. For example, Armstrong (2006) stated that because of the complexity of Australia's labour laws, most organisations in Australia require the services of professional legal firms. In the same vein, new developments in technology has resulted in the payroll function often being outsourced (Turek, Watson, Bhansali, Baron & Lacerte, 2005). Armstrong reports that 45 percent of executives admit to outsourcing payroll management.

Ghassemieh, Thach and Gilinsky (2005) advocated that outsourcing the personnel function is a cost-effective personnel strategy. Indeed, many organisations outsourcing all or some personnel activities because they cannot afford to employ talented part-time or full-time employees across all areas of the organisation's operations (Greer, Youngblood & Gray, 1999).

Other personnel activities being commonly outsourced include recruitment and selection, remuneration, industrial relations (IR), and occupational health and safety (OHS) (Armstrong, 2006).

However, regarding the debate whether or not to outsource the personnel function does exist, and it centres around the benefits and costs of outsourcing personnel needs versus creating internal programs (Fitzpatrick & Dilullo, 2007). Yet, despite the evidence that there are both advantages and disadvantages to outsourcing personnel activities (Kosnik, J. & Hoover, 2006), the popularity of outsourcing personnel functions has been increasing rapidly over the past few decades, with many organisations choosing to outsource some or all of their personnel activities.

THEORETICAL FRAMEWORK

Outsourcing can be defined as the transfer of a function previously performed internally to an external provider (Domberger, 1998). Many organisations realize the importance of outsourcing and are beginning to expand this practice to many of their business operations. In fact, outsourcing has encompassed a wide spectrum of activities, logistics, information technology, human resource management and accounting (Switzer, 1997). This preponderance indicates that outsourcing is becoming a common practice among organizations and that it is used widely in variety of business activities (Lever, 1997).

Outsourcing of personnel activities has been lauded as one of the strategic tools available to firms in a competitive environment (Stewart, 1996). Its popularity is fast gaining ground due, in great measure, to the need for the personnel department to play a much more strategic role in the firm (Ulrich, 1996). Today's Human Resources managers are expected to shed their traditional roles associated with policies and procedures; and the hiring, selecting, training and compensating of workforce, for more strategic roles that include improving customer's perception of quality, reducing overall costs of Human Resource administration and the managing of scarce resources (Marinaccio, 1994).

It is in response to this shift in paradigm that many Human Resource managers are now outsourcing their more conventional functions (Cook, 1999). As opposed to internal procurement where the personnel functions are performed by the employees of the organisations, outsourcing involves contracting out part or the whole of the personnel functions to external vendors or service providers (Adler, 2003). It encompasses many different commercial relations stretching from outsourcing only routine and repetitive personnel functions, such as payroll and benefits, to the more elaborate arrangement where recruitment, training and even personnel strategic planning are given to outside providers.

PERSONNEL OUTSOURCING

Personnel outsourcing is the contracting out or parts of the whole of the functions of personnel to external providers, rather than performing all the personnel functions in-house (Adler, 2003). Personnel outsourcing ranges from simply transferring non-core activities such as payroll and benefits administration to external providers, to the outsourcing of recruitment, training and even personnel strategic planning. Personnel managers are expected to be more flexible, responsive, efficient and to contribute to the strategic decision of their organisations. In response to this paradigm shift, many personnel managers are turning to outsourcing as a way of meeting these demands.

REASONS TO OUTSOURCE

Outsourcing appears to offer an opportunity for organisations to address the following goals;

➤ COST EFFECTIVENESS

Although assets costs are increasing due to the impact of the global financial crisis (Mouhammed, 2008), organisations cannot increase their production cost due to the high level of competition in today's markets. It is necessary for organisations therefore to search for strategies which lower asset costs. Outsourcing their non-core competencies whilst still maintaining customer service, and thereby gaining a competitive advantage (Thompson, Strickland & Gamble, 2005).

➤ **FOCUS ON CORE COMPETENCIES**

Therefore, there are variety of factors that motivates the trend towards HR outsourcing, including a focus on cost saving, and the need to concentrate on core competencies (Reilly, 2006). However, the focus on personnel as a value-adding function at the strategic level is seen as a significant driver for outsourcing personnel activities.

➤ **STRATEGIC PERSONNEL**

Organisations increasingly acknowledge the strategic importance of the personnel function. As personnel management perspectives change from operational and administrative, to strategic, personnel becomes more aligned with organizational goals and strategy. This change has increased the focus of outsourcing the personnel function, and it is steadily building momentum in many organisations (Merritt, 2007). Hence, outsourcing the personnel function is seen as a significant part of contemporary HR strategy (Lohr, 2007).

It has been suggested that by specifically isolating the personnel management function, organisations can give an edge over competitors (Beardwell & Claydon, 2007). For instance, in a study by Gilley, Greer and Rasheed (2004) outsourcing the personnel function had an impact on organizational performance. Specifically, the research showed that outsourcing both training and payroll led to a higher propensity for organizational innovation. Moreover, outsourcing the training activity led to high stakeholder performance and an increased ability to add value to the stakeholder. Furthermore, outsourcing the training activity also led to improved supplier-customer relations, because employees were well trained by expert professionals.

BENEFITS OF OUTSOURCING PERSONNEL

According to KPMG International (2006), 78 percent of their respondents in Asia see cost saving as the primary reason for outsourcing the personnel function. It could be said that cost saving is the first reason for many organisations to outsource their internal personnel function. There is also evidence that shows organisations can avoid a huge investment because they can deal with cost-effective personnel providers. Shelgren (2004) agrees that outsourcing the personnel function may help organisations forecast their personnel activities budget because providers are paid on a monthly or yearly basis.

Another cited benefit of outsourcing the personnel function is a more efficient service. It is argued that the ability, skill and knowledge of personnel providers is better than that of in-house personnel staff (Heywood, 2001). Thus, the organisation will benefit from HRO providers because personnel activities are their core competencies. For instance, Stainburn (2007) reported that the expertise of personnel providers on different employment and remuneration regulations is an advantage for organisations operating in more than one country.

Another significant benefit from outsourcing the personnel function is that the organisation can focus on core business or core competencies. In research conducted by KPMG International (2006), 68 percent of respondents in Asia see outsourcing of the personnel function as the opportunity to focus on their core competencies.

PITFALLS OF OUTSOURCING PERSONNEL

KPMG International Research found that many problems can occur when organisations introduce outsourcing processes.

Hence, outsourcing personnel functions may not be the best pathway to cost saving, especially if effective personnel activities in the organisation already exist (Marquez, 2007). Marquez (2007) provides an example of an organisation that invested their budget in building self service benefits, and related internal activities. As a result, personnel costs were decreased by 11 percent. Marquez also suggested that while personnel outsourcing might be the best option for many organisations, it is better if organisations try to develop their own personnel activities before going for personnel outsourcing trends. Thus, it could be said that the investment in internal personnel activities could bring a cost saving benefit to organisation as well (Thomas D., 2005).

Research also reveals that there may not be an issue if outsourcing personnel functions are linked to mechanical processes such as payroll, but problems could arise when organisations may face serious obstacles when outsourcing personnel activities if adequate attention is not paid to the remaining personnel employees. Outsourcing can produce negative feelings in employees that remain in-house, and these feelings can impact on organizational culture. There is some evidence to suggest that in-house employees may suffer from job insecurity, decreased productivity, decreased employee morale, decreased employee loyalty, increased absenteeism and increased employee turnover. Not only that, if not managed well, outsourcing personnel can result in interpersonal and group conflict between the external and internal employee groups (Grauman & Paul, 2005).

Research conducted by Grauman and Paul (2005) shows that outsourcing personnel activities can also increase the risk of losing confidential information; including reports, audit trails, and personal data.

In addition to this, organisations may experience a loss of control over personnel activities if they introduce outsourcing (Domberger, 1998). This is affected by the quality of personnel provider and the organisation (Grauman & Paul, 2005).

METHODOLOGY

The researcher used the survey method of data collection in an attempt to empirically determine the effect of personnel outsourcing on corporate performance but in the course of explaining, the descriptive method will be used in order to gain full understanding. According to Avwokeni (2002), the ability of understanding a particular problem cannot be found completely in internal and external record. Hence, this study was aimed at discovering the effect of personnel outsourcing on corporate performance.

Ngbor (2000) contended that the population for a research study is the aggregate or totality of the units in the universe of the study. It is the whole set of objects, companies and individual about which a statistical investigation is carried out. Therefore, the population of this study was fifty eight (58), and it cuts across the members and staff of the personnel department of AGIP Oil Company, Port Harcourt.

This study is interested in personnel outsourcing and corporate performance. But the study of the entire population was not feasible due to time and finance. Therefore, the research techniques used for this study is the experimental approach. According to Avwokeni (2002: 16,17), every study has a population. The entire group of individuals that we want information about is called the population. The population is defined in terms of our desire for knowledge. A sampling procedure refers to the method used to choose the sample from the population. From findings, it was discovered that the population size was fifty eight (58) and the appropriate sample size that corresponded with the population according to the Yaro Yemen's formula, is fifty one (51).

In this study both the primary and secondary data were used. Secondary data was used in establishing the chronological framework of this research work Baridam (2001). Secondary data used were mainly textbooks, journals, internet, magazines etc.

The research discovered that the descriptive type of study was the most appropriate to meet the requirement of the study. As a result of this, the research instrument used for the collection of primary data needed for the study was mainly questionnaire administration. The questionnaire was designed in a way that respondents could easily provide adequate answers in the study.

Summary

The research work examined personnel outsourcing and corporate performance. Actually, outsourcing has encompassed a wide spectrum of activities from manufacturing operations, research and development logistics, information technology, personnel management and accounting. Personnel management as one of them and this popularity also, is fast gaining ground in great measure, to the need for personnel department to play a much more strategic role in organisations. Outsourcing allows firms to focus on their core competencies by relocating limited resources to strengthen their core product and services. This study has examined the effect of personnel outsourcing on corporate performance. Results from the study shows that personnel outsourcing gives a firm an opportunity to concentrate more on its core activities while leaving the non-core activities to be handled by external vendors.

CONCLUSION

Influentially, we state that the sourcing of personnel functions from outside vendors enhances organisations performance. When organisations/firms outsource personnel functions, it gives employees relief from such stress and make them to concentrate more on the organisation's core competencies. In other words, when employees task are reduced by delegating some to external service providers, it makes them to be less busy with things that are not necessary, thereby increasing the level of their performance which in the long-run, increase the productivity level of the firm as well as the realization of organisation goals.

RECOMMENDATIONS

Below are some of the recommendations given in relation to the findings discovered during the field investigations.

- Organisations should see outsourcing of personnel functions and other areas very important as it contributes to the transfer of knowledge from external vendors to internal employees, and make the organisation to reduce their cost of operation and make them stand out in a competitive ground.
- Before organisations implement the process of outsourcing, they should first of all establish a training to make sure that employees have the knowledge and an idea of the process.
- Employees should also try as much as possible to ensure that they establish a good relationship between internal employees and external employees by hosting both formal and informal meetings to bring them together.
- Employees should see outsourcing of personnel activities as an opportunity to develop them in specific areas which are important to the organisation.

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