

To which extent are outsourcing activities beneficial to human ...

Dr. Walid Aboubakr Abouzeid

**To which extent are outsourcing activities beneficial to
human resources' performance?**

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PhD in Management

1. Abstract:

Outsourcing is a business practice in which a company hires another company or an individual to perform tasks, handle operations or provide services that are either usually executed or had previously been done in-house. Outsourcing, also known as contracting out is a business practice used by companies to reduce costs or improve efficiency by shifting tasks, operations, jobs or processes to an external contracted third party for a significant period of time.

When used properly, outsourcing is an effective strategy to reduce expenses, and can even provide a business with a competitive advantage over rivals. Outsourcing is usually done as a cost-cutting measure; it can affect jobs ranging from customer support to manufacturing to the back office.

2. Introduction:

Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed in-house by the company's own employees and staff. Usually done as a cost-cutting measure, it can affect jobs ranging from customer support to manufacturing to the back office.

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Organizations and firms can reduce labor costs significantly by outsourcing certain tasks. They can also avoid expenses associated with overhead, equipment and technology. A manufacturer of cell phones might buy internal components for the machines from other makers, for example, to save or reduce production costs.

In addition to reduced cost, companies may utilize outsourcing strategies to better focus on the core aspects of the business. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm itself. This strategy may also lead to faster turnaround times, increased competitiveness within an industry and the cutting of overall operational costs.

3. Hypothesis:

The study's main hypothesis supports the fact that outsourcing companies are extremely beneficial to organizations; and their advantages to business surpass and outweigh their disadvantages.

The study's hypothesis also promotes and advocates the fact that outsourcing significantly assists organizations in terms of setting their strategies and achieving their objectives and organizational goals.

The study's sub-hypotheses highlights that outsourcing is considered profitable to organizations due to increased efficiency, as well as being advantageous and cost effective.

4. Research Problem & Objectives:

This study's main aim and objective is to identify the effects that outsourcing processes has on HR departments. The study attempts to identify and analyze whether outsourcing can be beneficial for an HR department or not. This research investigates whether outsourcing companies can assist their partners in terms of reducing turnaround times, minimizing turnover rates, reducing hiring & training costs.

The research problem is identifying the pros and cons of outsourcing companies to firms and organizations, therefore the research attempts to find out whether outsourcing companies advantages outweigh their disadvantages or not. Therefore it is extremely vital to test the study's hypothesis in order to analyze the extent to which outsourcing is beneficial for organizations.

5. Research Methodology:

This research's data collection primarily relies on a survey & questionnaire that was conducted with HR managers and directors of organizations and does and doesn't utilize outsourcing processes. The main aim of the surveys conducted was to identify, analyze, and ascertain the significance and drawbacks of outsourcing according to HR departments' perspectives.

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In this study, the dependent variable is HR performance and the independent variable is outsourcing processes. In order to analyze the association or the effect of outsourcing processes on HR performance, statistical analysis will be applied.

The most suitable and appropriate statistical operation for our case is utilizing and conducting the Pearson correlation coefficient test. The Pearson correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r .

The Pearson Correlation coefficient test will measure the strength of the association between the independent and dependent variables. It will clearly identify the effect of outsourcing activities on HR departments via numbers which we will use in our data analysis.

6. Data Sampling & Segmentation:

This study's data sampling includes 4 firms which operate in different specializations and fields of Business. The firms included are Maxim Group; a company specialized mainly in developing high-end residential towers, developments, and communities. Another firm included in our data collection is Centro global solutions, a multinational provider of customer contact solutions and business process management based in Cairo, Egypt. Centro global solutions provides call center and business process outsourcing services in North America, Europe, Middle East and Asia Pacific regions.

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The other 2 firms are Edara property management; a subsidiary specialized in providing facilities management services. In addition to Perfect Solutions consultancy, a subsidiary specialized in providing contact center services to various clients in Egypt and the Middle East.

7. Literature review:

Outsourcing was first recognized as a business strategy in 1989 and became an integral part of international business economics throughout the 1990s

Outsourcing refers to the way in which companies entrust the processes of their business functions to external vendors. Any business process that can be done from an offshore location can be outsourced. This includes functions like transaction processing, payroll and order and inventory management to name a few. Plus, there are a whole lot of call center services that are being outsourced as well.

According to HR personnel; the following aspects are the positive aspects and advantages of outsourcing activities:

Obviously one of the prime advantages of Recruitment Process Outsourcing is its cost effectiveness and efficiency. The bottom line is that RPO saves companies money in the long run. RPO providers can scale up and scale down their recruitment activity to match the fluctuating hiring needs of the client. In business, to use the old adage, time is money. Every day that a position remains unfilled costs a company. Filling vacancies quicker is significantly better for productivity and reduces the amount of HR resources spent on sourcing candidates. RPO

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providers are ultimately measured on time to hire, cost of hire and quality of hire.

As companies experience peaks and troughs to staffing an RPO model is calibrated to flex accordingly. If a company is expanding or opening a new department it will need more staff, while if it is downsizing or it has to implement a hiring freeze, it will not. RPO providers have structures in place to adapt to any situation. They can scale their recruitment team up and down as needed. At the end of the day the client pays for what they get; successfully filled vacancies, nothing more, nothing less. RPO providers are flexible and can accommodate every situation.

Outsourcing is responsible for increased efficiency; when organizations outsource their business needs to an outsourcing partner, they bring years of experience in business practices and expertise in delivering complex outsourcing projects. Thus, they can do the job better with their knowledge and understanding of the domain. This leads to an increase in productivity and efficiency in the process thereby contributing to the success of the company.

Therefore, organizations which outsource their business activities are more likely to focus on investing in research and development and move on to providing higher value added services, and eventually achieving their strategic goals and objectives.

Many corporations have eliminated their entire in-house customer service call centers, outsourcing that function to third party outfits located in lower cost locations. Other companies find outsourcing the functions of Human Resources departments

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such as payroll and health insurance saves enormous amounts of time, effort and energy.

Companies typically save around 15% due to cost reductions brought about from outsourcing. A 2014 study from Datamark, Inc. claims one client saved 31% over one year when outsourcing one aspect of its business. Over three years, the cost savings rose to 33%.

Deloitte LLP's 2014 Global Outsourcing Survey interviewed respondents from over 22 industry sectors and 30 countries. The consulting firm found 69% of companies surveyed were more likely to outsource in some way due to cloud computing technology. Two-thirds of them wanted to outsource certain business processes. Up to 53% of survey respondents outsourced their IT functions in 2014, while 26% of firms that did not outsource anything at the time planned to do so sometime in the future.

One the other hand, some managers who oppose outsourcing argued that outsourcing results in loss of managerial control; they stated that outsourcing means handing over the company and reins of management & control to another entity.

They also believe that the outsourcing firm will not be driven by the same standards, passion and mission that drive their company, the think that outsourcing companies are primarily driven to make a profit from the services they are providing to you, which is partially true!

According to managers, there is another negative aspect of outsourcing; which is threats to security or confidentiality. They believe that the company's proprietary information is considered

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as its lifeblood and that confidentiality could be compromised if such information is shared with a second party.

They also believe that problems with quality can arise if the outsourcing provider doesn't have the proper processes for hiring and executing other tasks.

8. Data Collection:

According to the survey conducted with first line managers and senior HR managers and executives, we were able to obtain the following data:

	<i>Firm 1</i>	<i>Firm 2</i>	<i>Firm 3</i>	<i>Firm 4</i>
<i>Percentage of activities outsourced</i>	70%	63%	5%	3%
Percentage of time invested in R&D	42%	37%	8%	5%
Percentage of employees who achieve their monthly targets (KPI's)	78%	72%	48.5%	27%
Turnover rate	33%	25.5%	37%	28.7%
Average hiring turnaround time	7 days	13 days	21 days	24 days

9. Research findings & Data analysis:

The data obtained via the survey indicates that firms which utilize outsourcing in their business activities are most likely to exert more efforts in research & development, as well as having more employees achieving their monthly targets. Other firms that recruit in-house such as firm 3 and firm 4 which don't outsource at all or only outsource security members, facilities etc. are less likely to achieve their organizational objectives as they are already overwhelmed with the secondary tasks.

As indicated by the previous table, turnover rate is not directly associated with outsourcing or in-house hiring, there is no direct correlation here however there might be a strong association between these variables in other occasions.

And eventually, average turnaround time is lower with firms that use outsourcing partners, which saves the business time and efforts and results in organizational success.

	Firm 1	Firm 2	Firm 3	Firm 4
L1 Independent variable X (Percentage of activities outsourced)	70%	63%	5%	3%
L2 dependent variable Y (Percentage of time invested in R&D)	42%	37%	8%	5%

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In order to substantiate the hypothesis of the study, a Pearson Correlation Coefficient must be conducted to analyze the association between outsourcing activities and human resources performance.

A Pearson Correlation Coefficient test is a measure of the strength of a linear association between two variables, and is denoted by r . *The two variables in this study are the amount of tasks outsourced and HR performance. The correlation test will identify whether there is an association between the two variables or not.*

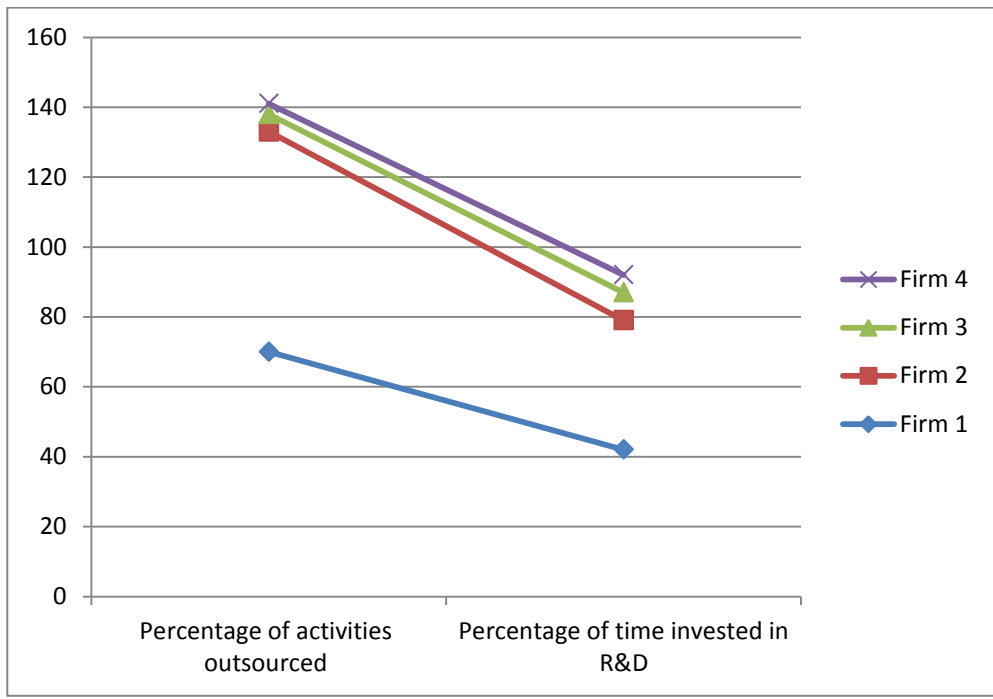
Pearson Correlation Coefficient Formula:

$$r = \frac{\sum XY - \frac{(\sum X)(\sum Y)}{n}}{\sqrt{\left(\sum X^2 - \frac{(\sum X)^2}{n}\right) \left(\sum Y^2 - \frac{(\sum Y)^2}{n}\right)}}$$

In order to be able to conduct the correlation test, two variables must be selected. Variable X will represent percentage of activities outsourced and Variable Y will represent HR performance denoted by time invested in R&D.

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After analyzing the data obtained from the four firms and conducting the Pearson Correlation Coefficient test, the following results were observed:

Linear Regression

$$y = ax + b$$

$$a = 0.529654$$

$$b = 4.329667$$

$$r^2 = 0.997532$$

$$r = 0.9987655$$

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The results above indicates a very strong correlation/association between the two variables, in other words, there is a very strong relationship between utilizing outsourcing and improved & more effective HR performance.

In order to support the research's hypothesis, the coefficient of determination r^2 was also calculated.

Coefficient of Determination value interpretation (r^2):

Value	Strength of association
$r^2 = 0$	No correlation
$0 < r^2 < 0.25$	Very weak correlation
$0.25 \leq r^2 < 0.50$	Weak correlation
$0.50 \leq r^2 < 0.75$	Moderate correlation
$0.75 \leq r^2 < 0.90$	Strong correlation
$0.90 \leq r^2 < 1$	Very strong correlation
$r^2 = 1$	Perfect correlation

According to the previous table, the coefficient of determination indicates a very strong correlation between allocating more tasks and activities to outsourcing companies and improved HR performance. In simple terms, organizations and firms which utilize outsourcing more frequently are more likely to encounter a higher percentage of employees achieving their monthly targets, more time and efforts exerted in R&D and lower turnaround time which are all denoted by better HR performance.

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	Firm 1	Firm 2	Firm 3	Firm 4
L1 Independent variable X (Percentage of activities outsourced)	70%	63%	5%	3%
L2 dependent variable Y Percentage of employees who achieve their monthly targets (KPI's)	78%	72%	48.5%	27%

Linear Regression

$$y = ax + b$$

$$a = 0.602790$$

$$b = 35.12662$$

$$r^2 = 0.873099$$

$$r = 0.9343978$$

Var statistics:

$$\sum X = 141$$

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$$\sum X^2 = 8903$$

$$S_x = 36.20$$

$$\sigma = 31.35$$

$$N = 4$$

In order to better substantiate the study's hypothesis, another sample was selected to conduct the Pearson Correlation Coefficient on. Once again, the results indicate a very strong correlation/association between the two variables, percentage of activities outsourced and percentage of employees achieving their targets. The research findings and data analysis connotes that the higher the percentage of activities allocated to outsourcing firms the better and more efficient HR performance becomes.

10. Conclusion

According to the research findings and data analysis, the research hypothesis was substantiated and proved right. Outsourcing companies are actually beneficial, constructive, and advantageous for HR performance.

Similar to any other study, this study has its limitations including the scale on which it was conducted on. The study was conducted on a small scale and it analyzed data obtained from 4 firms only. Research findings may vary if the study is to be conducted on a larger scale. Research findings may also vary if our samples' organizations are dealing with disreputable or unprofessional outsourcing firms.

In addition, correlation between two variables does not necessarily mean that one variable causes the other; some other factors might have contributed to increased HR performance. However, in our study, it has been clarified by the data analysis that outsourcing leads to and results in better and more effective HR performance.

Eventually, as indicated by the data collection and analysis, allocating more or a higher percentage of HR activities to outsourcing firms not only gives the organization the opportunity to be a market leader, but it also generates and provides more time to be spent in R&D which accordingly, results in achieving organizational goals & organization's success.

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