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EXPECTATIONS AND CHALLENGES FACING HR SERVICE PROVIDERS IN OUTSOURCING RECRUITMENT AND SELECTION ACTIVITIES IN GHANA.

Master's Thesis in Management

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# ABBREVIATIONS

| | |
|---|---|
| HRM: | Human Resource Management |
| HR: | Human Resource |
| HRO: | Human Resource Outsourcing |
| HRM: | Human Resource Management |
| HRIMS: | Human Resource Information Management Systems |
| BPO: | Business Process Outsourcing |
| RPO: | Recruitment Process Outsourcing |
| KPO: | Knowledge Process Outsourcing |
| MNCs: | Multinational Companies |
| ADRM: | Alternative Dispute Resolution Mechanism |
| TCT: | Transaction Cost Theory |
| RBV: | Resource Base View of the Firm |
| RFP: | Request for Proposal |
| ITC: | Information Technology Communication |
| ITES: | Information Technology Enabled-Services |
| PPP: | Purchasing Power Parity |
| GDP: | Gross Domestic Product |
| BRP: | Business Reengineering Processing |
| BTO: | Business Transfer Outsourcing |

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## ABSTRACT:

The main purpose of this study was to explore the expectations and challenges that HR service providers face in their recruitment and selection outsourcing activities in Ghana. According to the research results, the transaction cost theory and the resource based view of the firm theories applied to this study confirmed that most firms use recruitment and selection outsourcing as a way of saving costs and focusing on core competences as majority of respondents said the reasons why most of their clients outsource their recruitment and selection activities are basically geared towards cost savings and focusing on core competences in order to gain competitive advantage.

The findings of the research revealed that clients have a lot of expectations from service providers, as majority of respondents interviewed indicated that they expects their service providers to deliver quality services in terms of quality of personnel, time-to-hire, cost of savings etc.

However, this study showed that there were numerous challenges that confront service providers in their efforts to fulfill or meet the expectations of clients. Some of the challenges as revealed by the study included poor management of contract, poor management of relationship between the parties, inadequate communication between the outsourcing parties, and lack of skilled workforce in the Ghanaian labour market.

# 1. INTRODUCTION

## 1.1 Background of the Study

This study seeks to examine the expectations and challenges that HR service providers face in their recruitment and selection outsourcing activities within the Ghanaian labour market. The global market today is highly competitive and dynamic and so many multinational companies are seeking opportunities to grow, to remains competitive and to meet changing business conditions. Furthermore, the labour market today is increasingly also becoming competitive; many companies feel the pain of mounting recruitment costs, time to hire cycles, as well as the longer time and effort burden that recruitment activities place on hiring managers and HR leaders. Multinational companies around the world are therefore taking advantage of the global market environment and are constantly seeking for opportunities in economies where cheap and readily available skills and expertise can be employed to improve their companies' performance.

The concept of outsourcing "non-core" HR activities including recruitment has been adopted by some MNCs as a strategic management tool to assist them to have competitive advantage. As Robert (2003) suggests, HRO as a business model offers human resource management professionals a significant opportunity to focus on activities that really add value to the organizations operations and reduce costs. Recruitment Outsourcing is a business strategy that most multinational companies have adopted as a means of gaining competitive advantage by delegating their recruitment or staffing functions to third party entities. The outsourcing of non-core operations or jobs from internal production (in-house) to external entity that specializes in such activities is thus changing the landscape of businesses across the globe. In most advanced economies, companies are taking advantage of cheap and readily available expertise in developing countries such as India &China, South Africa and Ghana to strengthen their competitive advantage through off-shoring of their BPO including HR activities.

Franceschini et al, (2003) suggests "Outsourcing" is defined as the process of transferring the responsibility for a specific business functions or a set of related business functions to an external operator or agent. According to Greer et al (1999), HRO takes place when a company contracts with an HR vendor to perform an HR activity previously performed by the company in-house. HRO can therefore be defined as the delegation or transfer of HR activities that are traditionally performed internally (in-house) to external third party to perform such activities. HRO is a strategic management tool that deals with delegating the operational responsibility for processes or functions that were previously delivered internally to external agents. HRO occurs in both the private and public sectors and consists of different types. These include primary and secondary value chain outsourcing, strategic and tactical outsourcing, selective and full outsourcing, business process outsourcing, off-shoring, near shoring, co-sourcing, in-sourcing and geo-sourcing, and outplacement.

There has been much debate over the definition of Recruitment Process Outsourcing (RPO). This is because the industry is still growing; hence a widely accepted definition remains elusive. Some are of the view that any service provider offering services in a number of functional areas should be considered an RPO. For instance, if a service provider conduct candidate searches, performs pre-interviewing screening, set up interviews, and helps to hire the employee may be viewed as an RPO firms. Others contend that the provider should go beyond this to cover the entire candidate lifecycle, including, in some cases, making long hiring decisions. For the purpose of this research study, RPO is defined as *"the contracting out of a company's recruitment activities which are traditionally performed in-house to an external or third party HR service provider for a consideration which is normally the payment of a contract fee*."

According to Dell (2004) HRO has been identified as the fastest growing sector within business process outsourcing and all of the major service providers are pushing hard to develop and increase their share of this potentially huge market. The Outsourcing Institute, 1994/95 industry surveys' report view "outsourcing" as essential to competitiveness and that significant capacity and quality improvement is achieved through outsourcing. Some analysts predict that HRO will continue to grow by more

than 30% so that global expenditure on HRO in the US alone will reach \$14billion by 2009. (Yankee Group, 2005). HRO involves more than outsourcing HR services such as retirement benefits and payroll administration. HRO plays a strategic role as organizations are outsourcing HR activities such as payroll, training and development, recruitment, pension benefits and in some cases, the entire HR functions (Adler, 2004; Cook, 1999; Greet et al, 1998) in order to have competitive advantage in the global market environment.

Ulrich (1998) argues that there has been serious debate about the contribution of human resource functions to organizational performance. This is due partly to the inability of the human resource functions to demonstrate or show concrete value of its contribution at the strategic level in most organizations. In an effort to address this concern, HRO have been adopted as strategic tool that business executives use as a way of adding value to or enhances organizational performance. Most companies make the decision to outsource for variety of reasons; however cost reduction tends to be one of the most important reasons.

Proponents of HRO have argued that many companies that provide outsourcing services are able to do the work at considerably less costs, they don't have to provide benefits to their employees and have fewer operating cost. According to them, it also enables firms to focus on their core business, gain access to new technology and expertise which otherwise cannot be obtained in-house. Other benefits of HRO include freeing internal resources for other purposes; accelerate reengineering benefits and the sharing of risks. Critics have, however argued that HRO rather leads to increased costs, loss of control and data insecurity, as well as conflict between service providers and outsourcing company, and serious disruptions of the business should the contract be abrogated. Cooke et al (2005) pointed out that although HRO as an organizational strategy has increased substantially over the last decade; this trend has attracted less academic research with regards to how outsourcing decisions are made, the manner in which those decisions are implemented, how the outsourcing effectiveness is measured, and most importantly the expected benefits or outcomes of outsourcing decisions on organizational performance.

As a result, empirical evidence on the reasons and outcomes of outsourcing HR activities is both fragmented and inconclusive. There are differences in opinion as to the real benefits of HR outsourcing. For instance, some authors see HRO beneficial in terms of the delivery of services and the enhancement of the strategic position of human resource (Brenner, 1996; Laabs, 1993; Switser, 1997). Others on the other hand, consider HRO as concession and that human resource function no longer has a strategic significance (Baker, 1996; Caldwell, 1996). According to a report carried out by Yankee Group (2005), on HR business process outsourcing, only 48% of key decision makers agreed that HRO had delivered on the promised return on investment they expected.

Kakabadse & Kakabadse (2003) note that although the outsourcing debate involves, what and how to outsource, the most sensitive issues concerns what to outsource, the impact of outsourcing on organizational relationship, the client/supplier interface, performance management, and client satisfaction/dissatisfaction with outsourcing. They refer to a new outsourcing paradigm in which competitive advantage is achieved through good relationships with business partners and customers. This can only be achieved if service providers are in a position to meet the expectations of their clients. However, many business leaders are beginning to question the extent to which HR service providers meet their expectations in HRO. It is against this background that this study seeks to investigate empirically the expectations and challenges faced by HR service providers in their recruitment and selection outsourcing activities in the Ghanaian labour market in order to gain a deeper insight into the challenges they encounter in their effort to meet these expectations from their clients.

## 1.2 Research Problem

According to Greaver (1999), even in the best of outsourcing situations problems arise. New innovative management strategy can produce unexpected problems,  it is therefore important to investigate whether such problems and mediocre outcomes of outsourcing implementation are due to inherent flaws in the concept or whether they are as a result of  poor management practices(Lonsdale and Cox,2000).

 This research therefore originated in the context of growing concern among business managers in recent times about the failure on the part of HR vendors to meet the expectations of outsourcing firms. As earlier on stated according to a survey report carried out by Yankee Group in 2005, on HRO, only 48% of key decision makers agreed that HRO had delivered on the promised returns on investment expected. This survey finding implies that most decision makers are dissatisfied with the expected outcomes from their HRO service providers. It is in this light that this study seeks to uncover the factors behind this state of affairs, thus this study tries to investigate what are the expectations and the challenges that service providers face in their effort to meet their clients demands.

Theoretically, not much information exists in the literature from the academia and researchers on recruitment and selection outsourcing in the Ghanaian labour market. Much of the theories on outsourcing HR activities have focused generally on why firms outsource their HR functions, the arguments for and against HRO particularly in the Advanced economies of Western Europe and United States. Hence this study can provide useful information to the academia.  Practically too, business leaders have not focused much attention on the strategic risks and the vulnerability that the outsourcing of their HR functions can pose to their business. Most business leaders have been lured into outsourcing their HR services due to the much trumpeted expected benefits that it's brings to organizational performance without analyzing the implications of such decisions and the challenges it entails. Hence most business leaders lack knowledge about the risks or challenges that HRO involves. It is to address these knowledge gabs that this research study tries to find out or investigate the expectations and challenges HR service providers (vendors) face in recruitment or staffing outsourcing in the

Ghanaian labour market. Hence the research problem being posed is: *What Expectations and Challenges do HR service providers face in the outsourcing of recruitment and selection activities in Ghana?*

The significance of this study is first and foremost to serve as learning process or useful lesson for companies that intend to use HRO as a business strategy to accelerate and enhance the development of the organizations. Secondly, it is to serve as a source of information to students and business managers who lack relevant information on the subject matter. Furthermore, it is to contribute to the intellectual debate on the expected outcomes and challenges facing HR service providers in their effort to meet organizational performance especially in this particular subject matter, but which have received very little attention from academia. In addition, it will serve as bases for future studies on the role of key players or actors such as line managers, employees, and senior management and the clients or vendors to the success of HRO. Finally it will provide useful information to guide policy makers to fashion out policies that would engender the growth and development of the HRO business in Ghana.

## 1.3 Research Questions

In order to dissect the research problem for easy analysis, the statement of the research problem has been subdivided into two sub-questions as follows:

*a. What are the expectations of MNCS (Clients) which outsource its recruitment and selection functions to HR service providers in Ghana?*

*b. What challenges confront HR service providers' in Ghana as they try to meet these expectations?*

## 1.4 Scope of the study

This research work is based on a study that attempt to investigate and analyze the challenges and expectations that HR service providers or vendors face in Ghana. First of all, this study is limited in scope to only the Ghanaian labour market and deals with recruitment and selection outsourcing activities and not to other areas of HRO such as retire benefits, pay roll administration, training and development etc. In addition, to theoretically appraise all theories that might explain HR outsourcing decisions is beyond the scope of one research work.

In applying theory for this research study, this study limits itself to only two theories i.e. TCT and RBV. This underscores the extent to which a study of this kind involves somehow arbitrary decisions with respect to scope. The selection of only the TCT and RBV that have been applied to this study should not be taken as an inference that other theories may not also prove useful in understanding why firms decide to adopt HR outsourcing as a strategic management tool as other theories also assist to explain the motivation for HR outsourcing decisions. Furthermore, the research is mainly limited in scope to multinational companies and do not include State Owned Enterprises and Government Agencies.  Lastly, the research seeks to investigate and analyze the challenges and expectations HR service providers or vendors' face as they undertake the outsourcing of recruitment and selection activities in the Ghanaian labour market.

## 1.5 Structure of the Study

The research study has been divided into five sections. The first section, which is an introduction to the research study, covers the background of the study, research problem, research questions, scope of the study, and significance of the study and the structure of the study. Section two takes a look at the literature review of the study which focus on some definitions and trends in HR Outsourcing, types and process of HR outsourcing, Motivation for HRO,  TCT and RBV theories and their limitations, relate the HRO decisions to TCT and RVB theories, Outline other arguments for  and

against HR outsourcing. Section three covers the methods and research strategy used in the study. This section consists of the research design, data collection, data analysis, reliability and validity of the study and an overview of the business environment in Ghana and HR Outsourcing Activities.

The section four covers the empirical findings, operational areas of HR service providers in Ghana, the expectations from MNCs from TCT and RBV perspectives as well as the challenges facing service providers from the interviews conducted and the last but not the least section consist of the discussion and conclusion, the managerial implications of the study well as areas for future research.

## 2. LITERATURE REVIEW

## 2.1 Definitions and HR Outsourcing Trends

Outsourcing HRM activities by multinational companies has become popular way of improving basic services as it allows professionals time to play a more strategic role in the organization. In recent times, HRO has attracted a lot of attention by business managers, financial analysts, scholars and the media. Many articles have been written on the subject and a lot of research work carried out on several aspects of HRO such as managerial motivation, human resource management business processes, the relationship between the outsourced company and the vendor or service provider etc.

Cook and Gilder (2006) defined HRO as having a third- party service provider or vendor administer on an on-going basis, an HR activity that would normally be performed internally. According to Greer, Youngblood & Gray (1999) HRO occurs when a company contracts with an HR vendor to perform an HR activity previously performed by the company. Domberger (1998) argues that "Outsourcing" is the process whereby activities traditionally carried out internally are contracted out to external providers. Greaver (1998) also stresses that outsourcing is the act of transferring some of the organization's recurring internal activities and decisions rights to outside providers as set forth in a contract. Turnbull (2002) also points out that HRO is defined as placing responsibility for various elements of the HR functions with a third party.

For the purpose of this study HRO is defined as" *the delegation or transfer of HR-related activities that were normally performed internally (in-house) by an organization's HR department to an external third party."*

Some analysts suggest that outsourcing certain business process including human resource, procurement, financial and accounting functions to IT consultants and service providers is growing in popularity as companies seek to reduce their operating costs. The HR business process outsourcing service sector grew 8% worldwide last year to $405billion, according to market research firm (Framingham, MA). The sector is expected to grow at 11% per year to reach $682billion in 2008, as companies strive to

reduce costs further. For instance Procter & Gamble signed a 10-year, $400million contract last year to outsource its HR functions to IBM Business Consulting Services (Chemical Week, September, 24, 2003:14).

Dearlove (2003) predicted that business process outsourcing was estimated to yield $50billion in revenue worldwide by the end of 2004 and according to a survey carried out by the Society for Human Resource Management; according to the report currently 58% of companies outsourced at least one of their human resource management activities. (HRM Outsourcing Survey, SHRM, 2004). According to IDC research, spending on HR services is forecast to reach 126billion US dollars worldwide by 2010. The United States which is the largest portion of the market is forecast to reach 68billion US dollars by 2010, growing at a compound annual growth rate of 10.6% over the 5year period i.e. 2005-2010 (IDC Research, 2005).

The origin of HRO can be traced back to the definite work of Micheal Hammer and Jim Champy in Re-engineering the Corporation. This transcends the business process reengineering (BPR) industry in the early 1990,s. It is not bizarre to find out that HRO is being referred to as off-shoring, business process outsourcing (BPO) business transaction outsourcing (BTO), near shoring, or on-shoring in management literature. This shows that HRO calls for a more carefully defined definition. (Corporate Research Forum, 2006). According to Schumacher, (2005) Outsourcing first appeared in the IT industry in the 1980,s at the time when companies recognized the benefits of having IT service partners in order to develop complex systems, and enhance the way that a business process or service is managed. The outsourcing industry has taken different dimensions since then, with HRO assuming a dominant role in the business process market.

As a result of increased globalization and high pressure to innovate, most business managers are compelled to adopt business strategies and tactics that would enable them have sustained competitive advantage over their rivals. HRO has been adopted as a strategic management tool by which business managers intend to increase their competitiveness in today's global market environment. Outsourcing HR activities can

be a way to quickly gain competitive advantage by reducing costs, improving quality, and concentrating on core business. The outsourcing of human resource services has emerged as a front runner in the ever growing business process outsourcing market. The demand for greater corporate productivity and profitability as well as the potential efficiencies that is likely to be derived from the combination of human resource services across a host of enterprises, have fueled the pace at which HR transactions are contracted. The human resource departments of major US corporations have moved strongly to outsource key functions. According to a 1994 survey of 400 corporations conducted by the Olsten Corporation, 45 percent of firms outsource payroll management, 38 percent outsource tax administration; 53 percent outsource benefits management and 34 percent outsource their workers compensation.

In a 1995 survey of 121 businesses, HR Magazine found that 91% outsource one or more of their HR functions, and 16% outsourced more than $1million annually. Functions most outsourced included outplacement, (64%) training delivery (46%) and training development (40%) Information Technology and management information Systems led the way in outsourcing, but recently outsourcing has been extended to other operations. Outsourcing is now one of the major significance in the HRM area. It has come to the front line as the role of HRM in contemporary business environment has gained particular prominence. HRM is the second most likely corporate business function to be outsourced, according to a study by American Management Association (HRM Focus, 1997). Outsourcing activities initially comprises only a small segment of HRM such as payroll functions (Adler, 2003) but has grown gradually to encompass many HR functions.

Today, HR outsourcing involves more than outsourcing HR services such as payroll administration. Instead, HR outsourcing also play a strategic role as organizations are outsourcing HR activities such as training and hiring, and in some cases even the entire HR functions. (Adler, 2004; Cook, 1999; Greer et al, 1999, Lepak and Snell, 1998).
As pointed out by Woodall, Gourlay, & Shorts, (2000) evidence from professionals and publications from practitioners have shown that HR has increased considerably over the last decades. For example qualitative and quantitative reports from a range of sources

such as People Management and the Cranet Survey (Vernon et al., 2000; Pricewaterhouse (2002) provide further proof of this growth.

## 2.2 Types of Outsourcing

There are different types or categories of outsourcing. Some of them are information technology outsourcing, knowledge process outsourcing and business process outsourcing. Others include primary and secondary value chain, selective and full outsourcing, tactical and strategic outsourcing, off-shoring, near shoring, in-sourcing, co-sourcing, geo-sourcing, and outplacement.

### 2.2.1. Primary and secondary value chain outsourcing

According to Porter (1985) the value chain is described as a model that outlines the value activities performed or undertaking in a company and their linkages to the company's competitive position. In the process of converting inputs into outputs companies undertake many different kinds of activities which can either be defined as primary or auxiliary or secondary activities. The primary activities link the supply side (raw materials, inbound logistics and production) to the demand side (out bounded logistics, marketing and sales). The primary activities create and bring value to the customer and they form part of the value chain that deliver the market offering.

Supporting (auxiliary) or secondary activities assist and improve the performance of the primary activities. They constitute an infrastructure base that allows the primary activities to be carried out. The margin which is described as the difference between the total value and the total cost of performing all activities in a company is determined by how the activities are carried out, how they interact and how the links among the activities are managed. The management of these activities influences the costs and efficiency of other activities. One way of describing outsourcing in a company is through their primary and secondary value chain activities. For instance, in a company the primary value chain activities such as manufacturing and advertising can be

outsourced. In the same vain the secondary value chain activities such as payroll, research and development (R&D) and PC support can also be outsourced. It must be noted that HRM activities including recruitment outsourcing, payroll administration, compensation, Procuments falls under the secondary activities in the vain chain. The figure1 illustrates this point.
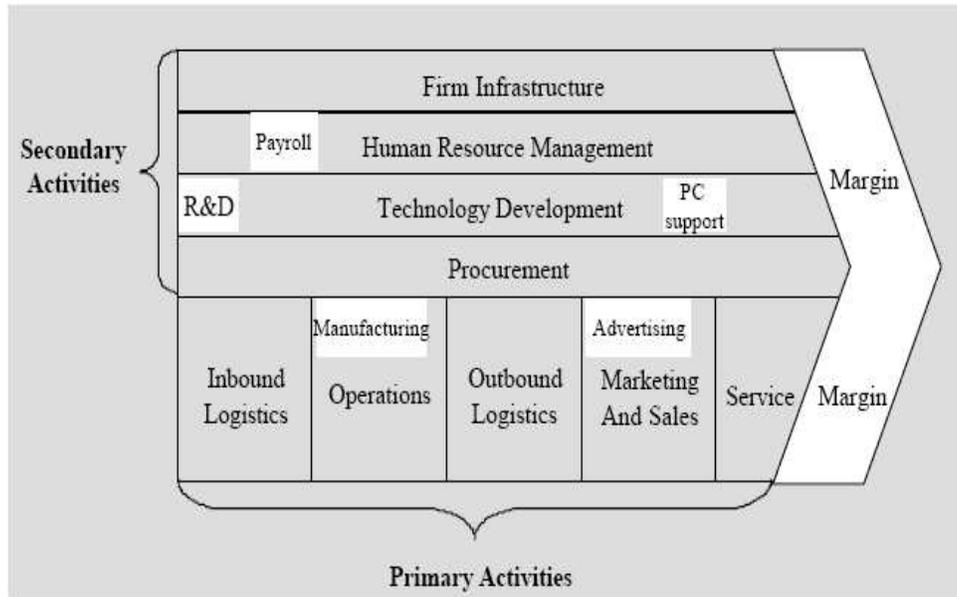


Figure 1: Distinction between Primary and Secondary Chain activities

Source: Adapted from M.E Porter (1985)

## 2.2.2. Tactical and Strategic Outsourcing

Tactical outsourcing is often used to resolve practical problems such as filling a vacancy. Strategic outsourcing on the other hand involves outsourcing that is linked to a company's long-term strategy and is expected to have effect on the company for a long time, for instance the outsourcing of R&D. Strategic outsourcing has more influence than tactical outsourcing on areas like core competency, future costs, current and future competitive advantages. Strategic outsourcing can be implemented within a year; however it takes a longer time to see its full impact. According to Greaver (1999) the risk with strategic outsourcing are higher, because it involves a greater part of the organization than tactical outsourcing.

## 2.2.3. Selective and full outsourcing

Another means of distinguishing between types of outsourcing is selective and Full Outsourcing. Outsourcing can be described through a continuum ranging from selective to full outsourcing. In selective outsourcing the company decides to outsource a discrete activity like security or cafeteria rather than doing it in-house. In full outsourcing a whole function or process like IT or HR is outsourced to a vendor. The figure2 in the next page illustrates this. Generally the risk involved in selective outsourcing is lower compared to full outsourcing.
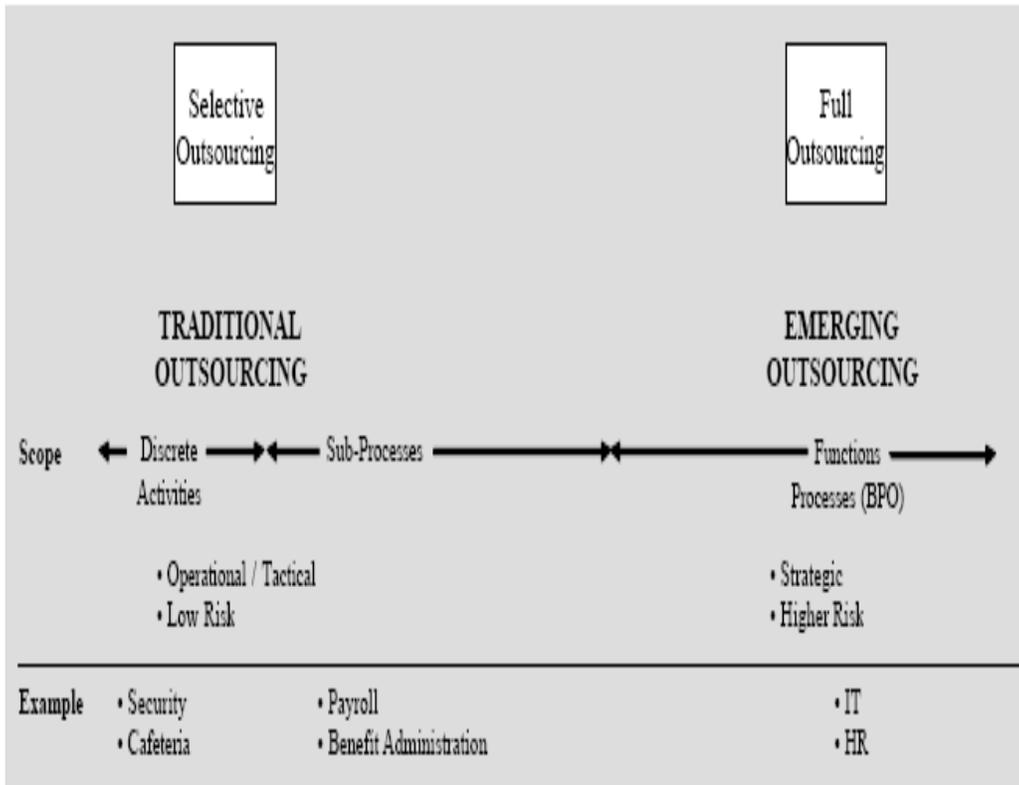
Figure 2: Continnum describing Selective and Full Outsourcing

Source: Adapted from Hakan Borg (2003).

**2.2.4.** Business Process Outsourcing

According to Gartner Group (2000) BPO is defined as the delegation of one or more IT intensive business processes to an external provider who in turns owns, administrates, and manages the selected process and processes based upon defined and measurable performance metrics. Business process outsourcing includes outsourcing services related to accounting, Human resource, benefits, payroll administration, finance, sales and marketing, legal services etc. BPO is based on the principles of re-engineering, but also combines them with the ownership and management of processes on behalf of a client by an outside vendor. Business process outsourcing has been applied to many transactional processes that can be easily defined or scaled and transferred to third party owners who have deeper expertise than the outsourced company. The management of the IT systems has been the only major element of outsourcing market until recent times. The figure 4 below gives examples of the traditional outsourcing activities that have change to what now constitute business process outsourcing.



Figure 3: Traditional Outsourcing changes to Business Process Outsourcing

Source: IDC, Human Resource Service Marketplace, Part 1 US forecast and analysis, 2000-2005.

## 2.2.5 Off-shoring, Near-shoring and On-shoring

Off-shoring occurs where business operations are subcontracted out to companies in distance countries where taxes, savings and low cost of labour provide necessary incentives for companies to farm –out some of the in-house processes. Near-shoring on the other hand is a situation, where work is done or services are performed by people in neighboring countries instead of the domiciled country. Whiles On-shoring occurs where in-house processes are subcontracted out to domestic companies.
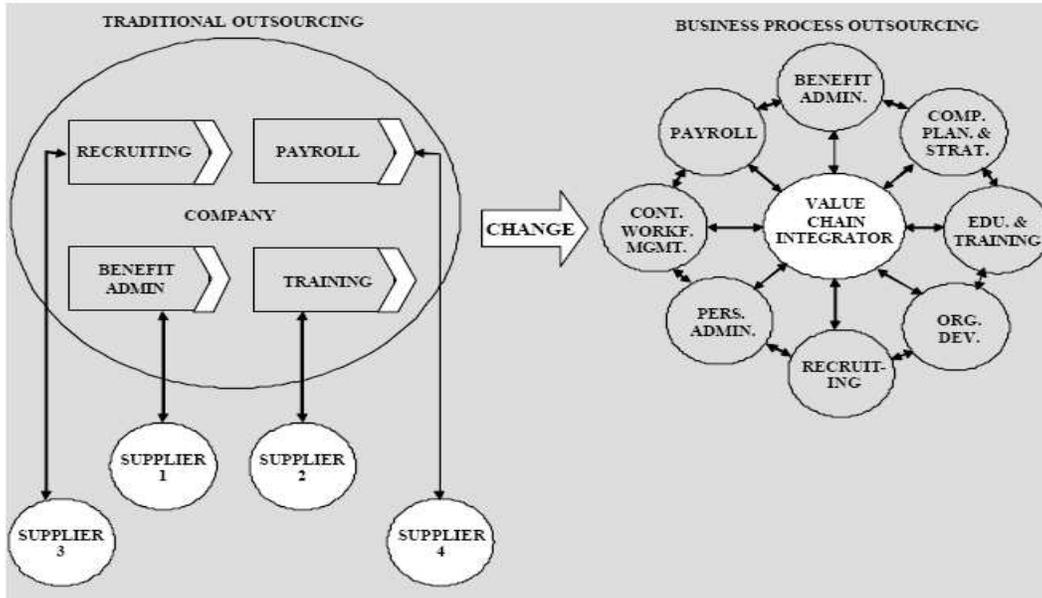
## 2.3 HR Outsourcing Process

HRO process is a very complex activity which involves details and sensitive decisions affecting the company's employees and assets. In order to guarantee the successful implementation of the company's HRO decision, the company's management is assisted by consultants at various stages of the outsourcing process. The outsourcing institute, based on a survey it conducted in 1995 on 30 outsourcing firms, identified the key phases of the outsourcing process, and the average amount of time required for each phase. According to the report the outsourcing process is broken down into seven distinct steps, which can be grouped into three main categories: The pre-solicitation phase, the solicitation phase and the implementation phase. On the average firms required 14.6 months to complete outsourcing process, with the fastest outsourcing action taking six months and the most prolonged requires twenty four months.

The pre-solicitation phase involves the assembly of internal project team, the identification and evaluation of candidate functions for outsourcing, and the development of the request for proposal (RFP). These steps need 4.5 months or about 30 percent of the total process time. According to the survey, the Chief Financial Officer typically spearheads the outsourcing team and exerts top-down leadership.

The outsourcing decisions are generally made by a small group of senior executives and development of an effective request for proposal is critical to the success of the outsourcing action.

At the solicitation phase, the outsourcing firm reviews and evaluates vendor proposals, selects a service provider based on the proposals, and negotiates the contract.
These steps requires on the average about 5months, or slightly more than one third of the total process time. The outsourcing firm considers reputation, experience and existing relationships, when deciding on the choice of a vendor. The price is not a vital factor. In the proposal evaluation, the firms tended to adopt a balanced "best –value" approach, which consider reputation, proposed contract terms, and proposed technical approach as well as price.

The third phase of the outsourcing process is the implementation stage, which involves the development of a detailed implementation plan, and the actual transition of the support function to the vendor. However, according to Booz Allen & Hamilton a management consultancy firm survey report (2001), there have been several flaws in the manner traditional outsourcing has been applied and managed. These flaws include decision making and implementation flaws. As argued by Booz Allen & Hamilton Consultancy, as far as the decision making flaws are concern, the full economic impact of outsourcing is not given sufficient consideration, and much emphasis is placed on "simple stuff" whiles  most of the cost base are ignored, non-core activities are outsourced automatically.

Secondly, the implementation flaws involve lack of appropriate attention paid to the selection of vendor or service provider and poor management of ongoing vendor-client relationship. In addition, the organization is not able to transform itself to manage new processes and relationships. In order for a company to avoid these problems, the company must pay particular attention to pre and post outsourcing decision- making process. Some researchers and practioners have suggested and developed some models that can be used in the outsourcing process so as to make the right decision. One of such models is "Composite Outsourcing decision Framework" which was developed by

Chris Fill and Elke Visser (2000). They suggested that a company that is considering outsourcing should analyze these different elements.

The first element is the contextual factors which deal with an analysis of internal and external factors that are associated with the context of the specific activity or process that is considered to be outsourced. For example investments, revenues, confidentiality needs linkages with operations, manageability and dependence on vendor and the second element mentioned is the strategy and structure which concerns an analysis of the structural and strategic aspects of outsourcing. Examples are uniqueness of activity or process that maybe outsourced access to knowledge and competence, as well as capability of the vendors to perform the activity or process and corporate culture.

The third element which is the transaction costs deals with the usage of the TCT as a basis for the analysis. There are two types of costs, thus the production costs and transaction costs, the production costs are linked with the act of performing the activity or process, and the transaction costs occurs as a result of the coordination and management of the vendors. In order to lower transaction costs, the customer should pay particular attention to the contract with the vendor. The figure 4 illustrates the three elements of outsourcing process suggested by Fills and Vissers.
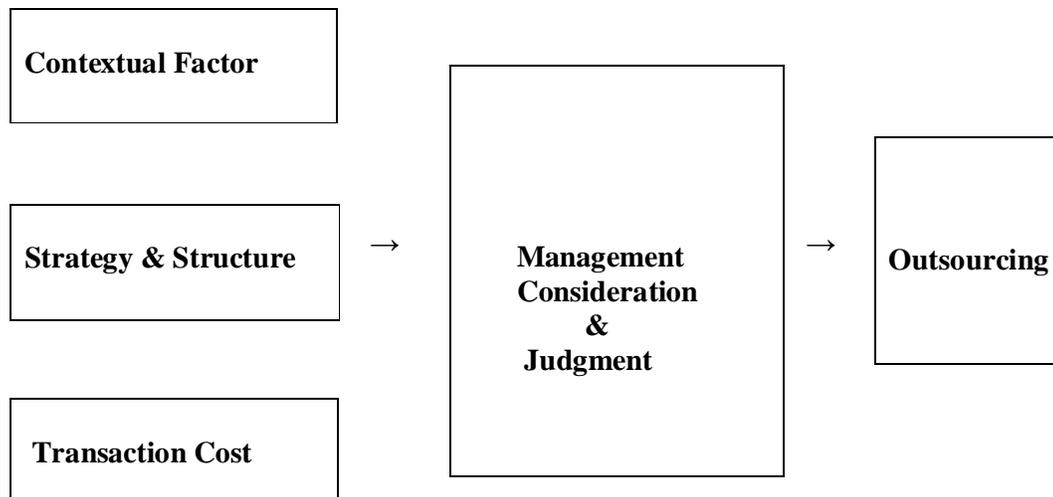


Figure 4: Composite Outsourcing decision frameworks

Source: Adopted from Fills and Visser (2000).

As pointed out by Capelli (2000) there are several steps that a company should take in order to choose the right vendor. This demands a set of new competences for managing the vendor. For instance negotiation arrangements and performance specifications, creating incentives for performance, monitoring compliance and establishing contracts. In this respect, Greaver (1999) proposes the following steps in the outsourcing process.

1. Selection of Vendors: The evaluation criteria are set and vendors are identified and screened. Afterwards, a request for proposal is sent to vendors who will then come with their proposals. These proposals are evaluated in terms of qualifications and costs. A due diligence of the vendors must be done and total acceptable cost of outsourcing determined. A shortlist of vendors should then be compiled.

2. Negotiation terms: the outsourcing contract calls for careful planning. Careful planning should take place to address pertinent issues, deal breakers and terms sheets before negotiations with vendors. Negotiation includes settlements of the contract, scope, performance standards, pricing schedules, terms and conditions of the contract. Once the negotiations are completed and the contract signed, the relationship is then announced.

3. Transition Resources: If the vendor plans to take over resources from the customer, the resources have to be transitioned. This step includes adjustment of team roles, compilation of transition plan, addressing of transition issues like communication, meetings with employees and vendors as well as physical movement of resources.

4. Managing relationships: This involves the adjustment of management style if the need arises, setting up an oversight council, communication, definition and design of meeting agendas, meeting schedules, performance reports, performance oversight roles and addressing of poor performance if that is the case and building the relationship.

## 2.4 Motivation for Firms HRO Activities

A number of theories have been expounded by scholars to explain the rationale behind the adoption of HRO as a business strategy by business leaders in the management literature. In this particular section, an overview of the transaction cost theory and the resource based view of the firm have been applied as the fundamental theories underlying this study in order to explain the reasons why business leaders adopt HRO as a business strategy to gain competitive advantage . In addition, it also highlights some of the limitations and criticisms of the TCT and RBV in the management literature. Indeed there have been several theoretical studies on multinational companies and their behavior. As a result, there are numerous theories and views on multinational companies to explain their behavior based on the economic literature. Among these theories include, the Transaction cost theory, the Eclectic theory, the Resource Based View of the firm, Uppsala model, Institutional Capability theory, Agency theory, etc.

This particular study draws on the TCT and RBV as the basis for the research work. These two theories help in explaining the reasons why business leaders adopt outsourcing as a business strategy in some if not all their HRM functions. The TCT and RBV are examples of two underlying theories that have been propounded by academia or scholars notably; (Coase, 1937, Williamson, 1985, Wernerfelt, 1984, Barney 1991) to help explain why outsourcing has been adopted as business strategy by business executives of many organizations in the strategic management literature.

## 2.4.1 Overview of Transaction Cost Theory

According to management literature, transaction costs economics or theory was first developed by Coase (1937) who considered the question of what drives organizational form. This theoretical framework has been widely known as transaction cost economies otherwise called transaction cost theory in some textbooks. Coase (1937) recognizes that in addition to production costs, a cost arises in connection with how transactions are organized within markets or organizations (hierarchies). As Milgrom and Roberts

(1992) stated, Coase developed the idea that "economizing on transaction costs would determine the organization of economic activity between the firms and markets" (Milgrom and Robert, 1992: 51). The development of this idea is of significance to the concept of outsourcing. Even though it appears instinctively, the definition for transaction cost according to Robin (1987) is rare. Robin (1987:69) defined transaction costs as "those costs associated with an economic exchange that vary independent of the competitive market price of goods or services exchanged". (1987:69).

However, there are differences in the interpretation of what constitutes transaction costs. Ouchi (1980) highlights the costs of ensuring expectations are met. Spicer and Ballew (1983) focus on lack of information, while Baiman (1990) introduces computational costs and contracting costs. Domberger (1989) also came in with switching costs ( i.e. cost of moving from in-house to external provision) costs of looking for a new supplier, loss of in-house skills, loss of innovation and loss of control were all viewed as transaction costs. Milgrom and Roberts (1992:29) see transaction costs as "the cost of negotiating and carrying out transactions. They classified transaction costs into two categories, the cost of co-coordinating and the costs of monitoring. "The core task of economic organization is to coordinate actions of the various individual actors so as to form a consistent plan and to motivate the actors in accordance with the plan" (1992:29).They defined coordination costs as "the cost of monitoring the environment, planning and bargaining to decide what needs to be done". The coordination costs include or involved cost of bringing sellers and buyers together. For instance, the cost of market research, advertising, marketing, price setting procedure and the effort expended by the buyer to find a product all constitute transaction costs.

The transaction cost economies or theory was further developed by Williamson (1985) in his write up titled "*the Economic Institutions of Capitalism*". He emphasized that the decision making process as to whether to 'make' or 'buy' (goods) or 'supply' or 'buy' (services) involved transaction cost. According to Williamson, the decision to provide goods and services internally or to outsource relies upon the relative cost of production and transaction. In other words, it is a comparison of the costs of coordinating and managing alternative models of governance in relation to either buying the goods or

services through market mechanisms (outsourcing) or supplying the goods or services through internal or 'hierarchy' mechanism.

TCT has been developed to facilitate an analysis of the "comparative costs of planning, adapting, and monitoring tasks completion under alternative governance structures" (Williamson, 1985:2). "The unit of analysis is the transaction, which occurs when a good or service is transferred across a technologically separate interface" (Williamson, 1985:1). Transaction costs arises for ex-ante reasons (drafting, negotiating, and safeguarding) agreements (contract) between the parties to the transaction and ex-post reasons maladaption, haggling, establishing, operational and boding costs. Decision makers must reflect on the production and transaction costs associated with effecting a transaction within their firms (in sourcing) as against the production and transaction costs associated with effecting the transaction in the market (outsourcing). If they choose to use the market, they must then decide the right type of contract to use.

Williamson (1985) argued that two human and three environmental factors lead to rising transaction costs. These two human factors are:

  a. Bounded Rationality- human beings are likely to have the abilities or resources to consider every state contingent outcome associated with a transaction that might arise.
  b. Opportunism- human beings will act to further their own self-interests.

The three environmental factors are:

  a. Uncertainty- uncertainty aggravates the problems that arise because of bounded rationality and opportunism.
  b. Small numbers trading- thus if only a small number of players exist in a marketplace, a party to a transaction may have difficulty to discipline the other parties to a transaction via the possibility of withdrawal or use of alternative players in the marketplace.
  c. Asset specificity- the value of an asset maybe attached to a particular transaction that it supports. The party who has invested in the assets will incur a loss if the party who has not invested withdraws from the transaction. The possibility

(threats) of this party acting in an opportunistic manner leads to the so called "hold-up" problem.

Williamson (1985), argued that three dimensions of the transaction affect the type of governance structure chosen for the transaction; assets specificity, uncertainty, and frequency. As assets specificity and uncertainty increase, the risk of opportunism increases. Thus decision-makers are more likely to choose a hierarchical (firm-based) governance structure. As frequency increases, the comparative advantage of using market governance structures decreases because the costs of hierarchical governance structures can be amortized across more instances of the transaction. Transaction cost theory predicts that the level of uncertainty is likely to affect whether a decision maker chooses to outsource or insource. In other words the cost element is a critical factor in determining the kind of governance structure that a decision-maker would choose in reaching a decision as to whether it outsource or internalize some aspects of its operations.

## 2.2 Limitations of the Transaction Cost Theory

TCT like many other theories have some limitations; hence varied criticisms have been leveled against the transaction cost theory by some scholars. For example, according to Robins (1987) he believes that the transaction cost theory's underlying assumptions have not been adequately examined and that this has resulted in some serious logical and empirical weaknesses' in published works. Despite this, he believes it is a powerful tool for organizational analysis, but should be interpreted at a fairly general level of thought.

Furtherance to this, Robins also claims that the transaction cost theory builds on a basic microeconomic theory i.e. a perfect market structure. Therefore its capacity to capture reality is inhibited by the limitations of microeconomic theory and limitations of perfect market assumptions. He believes that transaction cost theory is compromised in an imperfect market. According to him he feels that "historical institutional transaction

cost researchers have paid little attention to distinguish the theory and it practical with the resultant failure in given reality to the kind of priority over theory that requires an empirically tested field" ( 1987:74).

Kakabadse and Kakabadse (2003) also criticized transaction cost theory as having its limitations "as it does not account for the leadership and management capabilities to structure and manage cooperative relationship crucial to effective working of outsourcing arrangement". (2003:670).

Table 1: Theoretical Construct of TCT

| |
|---|
| Costs:  Transaction costs<br>        Production costs |
| Transaction Type:<br>Frequency – decreases production costs<br>Assets specificity- increases production costs |
| Uncertainty- increases coordination costs |
| Threats of opportunism<br>Small number of vendors- increases coordination costs<br>Contracts- decreases coordination costs |

Adapted from Hodge, Anthony, and Gales (1996).

## 2.4.3 Relating TCT with HR Outsourcing

According to Coase (1937) and Williamson (1985) the transaction cost theory states that transactions and exchange between companies leads to an agreement. The establishment and management of this agreement drive costs which are called transaction costs. There are three kinds of transaction costs. First and foremost, information costs which are in relation to the process of finding a counterpart with whom to perform the transaction.

Secondly, negotiation costs which is in relation to the transaction that occurs. Thirdly control costs which are related to the monitoring and managing the relationship.

As to whether the activities should be performed internally (vertically) or externally (on the market) is determined by a transaction costs analysis. When conducting a transaction costs analysis all costs are taken into consideration, both production and transaction costs. If the total overall cost is lower, the activity should be retained in-house and vice versa. Thus in undertaking an activity whether internally or externally, Williamson listed three factors that are significantly important namely:

1. The degree of transaction-specific investments made for the activity; the more transaction-specific investments that are made internally and are only useful for a particular activity, the higher probability that the company should undertake the activity internal.

2. The frequency of the transaction, the more often the activity occurs, the higher probability that the company should perform it in-house.

3. The degree of complexity and uncertainty in purchasing situation, the more complex and uncertain the situation is the higher probability that the company should retain the activity internally.

TCT offers a useful framework for the analysis of make-or-buy decision. It has been widely used in recent times to analyze the choices made by numerous industries between different governance structures. Among the established transactional characteristics of HR activities, TCT suggests that asset specificity, frequency and uncertainty of transaction play a significant role in the HRO decision. As far as asset specificity is concern, the more specific-investment made in the physical and human assets deployed by the HR department are concern, it is less likely the company will contract out an HR activity. For example in a situation whereby a decision is to be made as to whether HR activities are to be performed in-house or outsourced, one can guess that investment specificity will play a major role for human capital assets. A company specific skills, know how, and idiosyncratic features becomes very important for an HR activity. The risk of hold-up for the company and the necessity to provide the assets

owner with appropriate incentives will reduce the likelihood that the activity will be outsourced. TCT also suggests that the size of a firm or company is very important because as firms size increases, the disadvantage of procuring HR activities internally arising from possible economies of scale decreases. As a firm size increases, transaction costs play an increasingly important role vis-à-vis production costs. The size of a firm might thus influence the decision to outsource its HR activities. Pisano (1990) argues that the size of a firm gives evidence of the internal management costs. Thus the larger the company, the higher is the costs generated by a huge administrative structure.

Hence it is worthy of note that large companies tend to resort to outsourcing of its business processes including its HR activities. The unpredictability or uncertainty of level of HR activities might lead to a mixed strategy solutions where the firm or company will maintain and develop resources in-house to meet the predictability component and outsource during peak period. (Williamson, 1985; Lever, 1997).


In summary, assets specificity, frequency of a transaction, uncertainty of transaction constitutes appropriate factors to explain the decision to outsourcing HR activities. This study suggests that the low level of assets specificity, uncertainty and frequency are definitely linked to HRO decisions of most companies. For transactions which are very high asset specific, high frequency and high uncertainty, companies would prefer to retain these activities internally. Whiles under conditions of low assets specificity, low frequency and low uncertainty it worthwhile to outsource components.

|  | Low | Middle | High |
|---|---|---|---|
| High | Outsourcing | Outsourcing In-House | In-House |
| Low | Outsourcing | Outsourcing In-House | In-House |

Degree of Complexity & Uncertainty

Low                    Middle                    High

Degree of Transaction-Specific Investments

Figure 5:   Framework decision whether to outsource or not outsource

Source:   Adapted from Hakan Borg (2003)

## 2.4.4 Overview of the Resource-Based View of the Firm

A. The resource based view of the firm is an economic management tool used to determine the strategic resource available to a firm. The underlying principle of the resource based view is that the basis of a firm's competitive advantage lies primarily in the application of the bundle of available resource that the firm possesses (Wernefelt, 1984:172; Rumelt, 1984:557-558). For the firm to transform a short - run competitive advantage requires that these resources are heterogeneous in nature and are perfectly immobile (Barney, 1991:105- 106; Peteraf, 1993:180). This translates into perfectly neither imitable nor substitutable without great effort (Hoopes, 2003:891; Barney 1991:117). If these conditions hold, the firm's bundle of resources can assist the firm to sustain above average returns.

The Resource Based View of the Firm as said earlier is another underlying theory for HR outsourcing decisions. Strategic resources are the focus of the Resource Based View which competes with Transaction Costs Theory to explain the sourcing decisions made by organizations. The Resource Based View according to Barney (1991) focuses on those factors that help the firm to gain competitive advantage. The proponents of the Resource Based View such as (Barney 1991; Mata, Furst, and Barney, 1995) observed that some companies appear to earn sustained abnormal returns or profits. They argued that this outcome is as a result of these companies having access to key resources (Barney, 1991).

These strategic resources share four characteristics namely; they are valuable, rare, and imperfectly imitable and have no easy substitutes. These four characteristics jointly enable a firm to protect a competitive advantage. Unless the resource is valuable, competitive advantage will not arise. Valuable resources by definition generate returns. If the resources are not rare, many competitors can acquire it. Thus the advantages obtained through using the resource cannot be sustained. Strategic resources are also difficult to replicate. Factors such as causal ambiguity, social complexity, and history can prevent a competitor from fully understanding how a set of resources leads to competitive advantage, thereby impeding replication of the resources.

Finally strategic resources must be difficult to substitute. If substitutes exist, a competitive advantage cannot be sustained (Barney, 1991). As pointed out by Barney (1991), the value of different resources affects the boundary decisions of a firm. Firms will try to retain in-house activities that take advantage of their strategic resources. Outsourcing these resources would deprive the organizations of their competitive advantage and subsequently their abnormal returns (Duncan, 1998). Where these resources are not strategic, they will look to outsource them. An organization is not likely to undertake specialized investments in assets to support transactions unless they give it competitive advantage. Otherwise, it might justifiably rely on the marketplace to support the transaction.

## 2.4.5 Limitations of the resource-based view of the firm

The resource based view theory as propounded by Barney (1991) has received a number of criticisms from scholars such as Peteraf (1993), Porter (1994) Foss, (1997) Mosakowski et al (1997) Priem and Bustler (2001) and many others. The definition of the basic concept and unit of analysis is a primary requisite for any attempt to disseminate a theory and the resource based view is not an exception. Many criticisms have been highlighted, some ambiguous problems with respect to the way the RBV handles these basic requirements.

In the literature two main issues that recurs have been identified which concerns the manner in which the RBV was defined by Barney (1991). First and foremost the definitions are described as inclusive and pleonastic. Secondly there is no agreement on the unit of analysis which is regarded as too narrow. According to Foss (1997:11) the definitional state of the RBV is in a terminological soup. He made reference to the non-homogenous use of terms such as assets, resources, capabilities and competencies. He argued that those make the distinction generally believe knowledge assets are the most likely to yield sustained competitive advantage.

Priem and Bustler (2001) also made four key criticisms. According to them, the resource-based view is tautological, or self-verifying. Barney (1991:106) defined competitive advantage as a value-creating strategy that is based on resources that are among other features valuable. As pointed out by Priem and Bustler (200:131), this reasoning is circular and therefore operationally invalid. Secondly different resources configurations can create the same value for firms and thus would not be competitive advantage.

Thirdly the role of product market is underdeveloped in the argument and the theory also has limited prescriptive implications. It is difficult if not impossible to find a resource which satisfies all the Barney's VRIN criterion. Fourthly the assumption that a firm can be profitable in a highly competitive market as long as it can exploit advantageous resources, but this may not necessarily be the case or valid. It ignores

external forces concerning the industry as a whole. Porter's industry structure analysis merits consideration. Porter (1994:445) pointed out that at it worst; the resource based view is circular. Successful firms are successful because they have or possess unique resources. They should nurture these resources to be successful.

Furthermore, as argued by Lippmann and Rumelt, (1982,) "there is a long time implications that flows from its premises; a prominent source of sustained competitive advantage is casual ambiguity". (1982:420) "While this is an undeniably true, and leaves an awkward possibility; the firm is not able to manage a resource it does not know exists, even if a changing environment requires this" (Lippman and Rumelt, 1982: 420). Through such an external change the initial sustainable could be nullified or even transformed into a weakness (Priem and Bustler, 2001a:33; Peteraf, 1993:187, Rumelt, 1984: 566). Much of Barney RBV theory relies on the premises that general or factor markets are efficient and that firms are capable of precisely pricing in the exact future value of any value-creating strategy that could flow from the resources (Barney, 1986a:1232), but Dierickx and Cool (1989) argued that purchasable assets cannot be a source of sustained competitive advantage, just because they can be purchased. Either the price of the resource will increase to a point that equals the future above-average return, or other competitors' will purchase the resource as well and use it in a value – creating strategy that diminishes rent to zero (Peteraf, 1993:185, Conner, 1991:137).

Hoopes, Madsen and Walker, (2003:890) argued, the concept rare is obsolete, although prominently present in Wernerfelt's original articulation of resource based view (1984) and Barney's subsequent framework (1991), the concept that resources need to be rare to be able to function as a possible source of a sustained competitive advantage is unnecessary due to the implications of the other concepts (e.g. Valuable, inimitable, and non-substitutability) any resource that follow the previous characteristics is inherently rare. The lack of definition with regards to the concepts sustainable makes it premises difficult to test empirically. Barney's statement ( 1991:102-103) that competitive advantage is sustained if current and future rivals have ceased their imitative efforts is versatile from the point of view of developing a theoretical framework, but a disadvantage from a mere practical point of view as there is no unambiguous end-goal.

## 2.4.6 Relating HRO with Resource Base View

The Resource Based View of the firm therefore provide useful account of HR decisions because the advocates of this theory such as (Barney;1991 and Ulrich;1996) believe that outsourcing can be productive to the development of the core competences of an organization especially in the area of HR practices. The notion of the Resource Based View was "rediscovered" by Wernerfelt (1984) and developed into a more robust theory by Barney (1991:99), who argued that organizations "obtain sustained competitive advantage by implementing strategies that exploit their internal strength ( strategic value) by responding to environmental opportunism, whiles neutralizing external threats and avoiding internal weaknesses." The Resource based View strategy is closely linked to a growing body of research on high commitment management models.

This perspective helps in defining both an organizations 'core' function and the optimal HR policies that will bring out the best performance outcome.

In the context of accelerating global competitive pressures, organizations are being advised to focus on their core competences and utilize outsourcing to capitalize on other expertise (Domberger; 1998, Porter; 1990, Prahalad and Hamel, 1990). According to Cooke (2003) what constitute core activities and competences is dynamic; hence organizations are constantly reassessing what in their view consider as their core and non core aspects of their business and re-adjusting the way these activities can be sourced, either in-house or externally.

The nature of HR activities are changing each passing day, for example HR activities are becoming more complex, are more compartmentalized into relatively self-contained areas (Tyson, 1987). Specialist outsourcing supplier firms have emerged in response to this growing demand in businesses and HR outsourcing happens to be one of them. The Resource Based View of the firm recognizes the holding of a firm's strategic resources and capabilities as critical determinant of their competitive advantage (Barney, 1986b) and the outsourcing of non-core competences.

Many organizations outsource HR activities at both the strategic and operational level for a number of reasons. Outsourcing companies cites several reasons for shifting support functions to outside service providers, including a sharpened focus on company's core businesses and capabilities; cost reductions and improved utilization of capital resources, improvement in the quality, responsiveness, and agility of internal services; improved access to new technology, access to skilled workers, and one time revenues through sale of assets. A firm resource and capabilities (core competences) and costs are the underlying reasons why most firms decide to outsource non-core HR functions, so as to focus on it core competences which are of vital significance to the performance of the organization. Core activities are those activities that the firm does best and/or are crucial to the firm's competitive advantage and therefore must be kept internally( in-house). On the other hand, non core activities are considered to have little impact on the overall performance of the organization and therefore can be outsourced to external providers.

Table 2:  Motivation for firms Outsourcing HR Activities?

|  | TCT | RBV |
|---|---|---|
| 1. | HR Outsourcing enables firms to save or reduce operating costs. | HRO allows the HR departments of firms to concentrate resource on their core competencies. |
| 2 | HRO allows firms to gain access to better and new technology at lesser costs. | HRO can foster the development of relationship which creates partners between vendors and clients that can facilitate learning and cross fertilization. |
| 3. | HRO enables firms to have competitive advantage of specialized service providers who have the expertise in the functional areas concern | HRO can be productive to the development of core competencies of the organization involved in the HR outsourcing process |
| 4. | HRO creates the opportunities for firms to shift the burden of risk and uncertainty that are associated with business to someone else. | HRO can assist firms to obtain sustained competitive advantage by implementing strategies that exploits its strength, take advantage of opportunities and limits threats and weaknesses. |
| 5. | HRO provides firms with greater flexibility and productivity by using temporary labour to cover for shortage or fluctuating demand for labour. |  |
| 6. | HRO allows companies to add value and reduce personnel far easier than a company can do in-house, thus avoid expensive layoff process. |  |

## 2.5 Other arguments for human resource outsourcing

Other arguments advanced in favour of HR outsourcing are as follows.

First and foremost, HR Outsourcing may lead to decentralization of structures within the organization. By outsourcing specialized services to vendors, the internal HR staff can be reallocated from the central level to the business units' level. Secondly, outsourcing HR activities can reduce bureaucracy and culture change. HR departments are always criticized for being too bureaucratic and inefficient. Through outsourcing more service oriented and efficient HR functions can be attained. Thirdly, it is often common to seek for assistance from vendors when internal HR staff is under time pressure as they overloaded with work. By outsourcing some HR functions to outside vendors, the HR department relief itself of the time pressure associated with work overload and finally some HR executives argue that outsourcing stimulates their personal thinking and idea generation and keep them up to-date with the latest development in the HR area.

## 2.5 Arguments against human resource outsourcing

Despite the seemingly rising popularity of outsourcing HRM activities by organizations, the practice has some disadvantages that should not be overlooked or ignored. These include factors such as high transaction costs, potential lower service quality, and loss of control over outsourced processes, conflict with service providers, disruption of businesses in case of a dispute etc. Hence careful analysis is often required to determine the wisdom of outsourcing (Quinn and Hilmer, 1994). For example according to Brenner (1996) he believes that HRM functions are no longer viewed as a core value-adding corporate component, but rather a process that can be measured on the same scale as other business processes and, consequently, changed to become merely more efficient. There is the fear that the HRM department may risk losing the human element of the HRM function and thus become a dilemma between strategic value and cost savings.

As pointed out by Becker and Gerhardt ( 1996),Outsourcing maybe directly linked to core strategic competencies  with positive impact on the company's performance, but not lead to an effective HRM system overall. Outsourcing can also fail due to either managerial unwillingness to scrutinize the exact need for outsourcing or excessive control of the outsourcing implementation process. (Quinn, 1999).

In many instances, organizations seek outsourcing to save training costs, with the assumption that someone else will take responsibility over the training to ensure the delivery of key skills. However, skill loss can have serious consequences or effects on competitiveness. Prahalad and Hamel (1990: 84) stressed that "outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are needed to sustain product leadership".

Another area of concern with outsourcing, especially for those firms that operate in the upper end of the product market, is the loss of quality. Service quality is often judged by employees comparing their expectation of the resulting service under the proposed change with what they used to have. By switching HR services from in-house to external providers, it inevitably causes disruption to the continuity of the services, for a long time and brings problems that are unpredictable. Hence the quality of personnel and work cannot be guaranteed. Companies risk low quality work or massive delays in work because they are in the hands of the outsource service provider. Besides quality, companies also can loose the knowledge they require to function.

Furthermore, if a service provider goes bankrupt, the firm could be in a dire situation. The company cannot even temporarily resume the outsourced roles because the internal knowledge has been lost. This can however be avoided by focusing on core activities and outsourcing non-core activities (Chanvarasuth, 2005). Outsourcing also eliminates direct communication between the outsourcing company and its clients. This prevents a company from building relationships with its customers, and often leads to dissatisfaction on one or both parties. There is also the danger of not being able to control some aspects of the company operations or activities, as outsourcing may lead to delayed communications and project implementation. Any sensitive information is more

vulnerable, and a company may become over-reliable upon its outsourcing providers, which could lead to problems should the outsource providers withdraws from the contract suddenly.

In the US and Europe public opinion is highly against outsourcing as companies are perceived to be sending jobs overseas, and the perceived loss of high profile jobs can cause poor publicity so that the associated costs in public relations can increase the outsourcing costs, while boycotts and protests can directly affect the bottom line.
Yet another disadvantage of outsourcing is that it can also add to cost instead of the firm's objective of reducing cost. The cost of negotiating, managing and overseeing a detailed contract can be great or very expensive.

Another disadvantage is the idealized expectations regarding the return on investment and the time it takes. Many companies envision drastic cost savings up to 80%. A company that is looking for a quick solution will be frustrated by outsourcing. Outsourcing goals that are set too high are never accomplished and they often lead a company to believe that it failed in its implementation when it still achieved major gains. Again, when the service quality is bad and the company wants to change vendor, switching costs maybe high. Also there is the possibility of no actual cost savings or cost reduction as outsourcing to vendors might rather inflate costs. Furthermore, overdependence on vendors may lead to loss of internal HR skills as potential learning may accrue to the vendor at the expense of the company HR staff. HR department losses their identity within the company with extreme outsourcing and resistance from HR staff and line managers may hinder the successful implementation of the outsourcing process.

Finally, another point argued against HRO is that an activity cannot be outsourced without compromising critical information that would make the firm vulnerable to its competitors. For example a firm maybe vulnerable if it outsources its executive compensation function and confidential information get to its competitors who may then conduct a raid by poaching its executive talents. Also, HR departments can easily get

into trouble when outsourced activities such as payroll, employees' records and retirement administration are not well handled (Speaker, 1999).
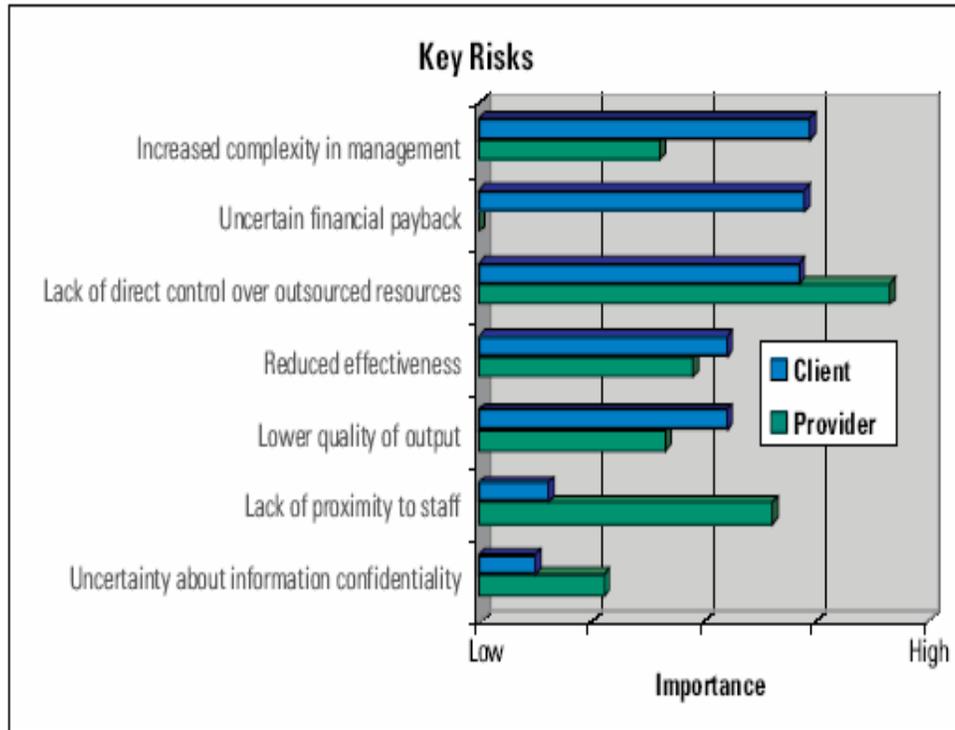


Figure 6: Key risks in HR outsourcing

Source: Adopted from Dimond Cluster International, 2004

## 2.6 SUMMARY

This study is aimed at investigating the expectations and challenges that HR vendors face in recruitment and selection outsourcing business, in order to gain a deeper understanding of the challenges facing HR service providers in a developing country such as Ghana. First of all, this study applied the TCT and RBV as the underlying theory to explain why firms adopt HRO as a strategic tool to enhance organizational performance. Basically, HRO is geared towards costs reduction and focus on core competences by firms in order to gain competitive advantage. According to transaction cost theory, the outsourcing decision is determined by the relative transaction and

production costs associated with the outsourcing process or services (Williamson, 1979). Transactions include three dimensions namely degree of assets specificity, frequency and uncertainty. A firm will outsource its business processes if all dimensions of transaction are low. According to the RBV, a firm may outsource its activities other than its core competencies (Quinn and Hilmer, 1994). Core competences refer to those capabilities of the firm that are unique, inimitable, non-substitutable, and from which a firm derives its competitive advantage (Barney, 1991, Prahalad & Hamel, 1990). For instance a firm may outsource its payroll administration or health benefits if they are not part of its core competencies. Secondly, this study then reflected on a review of the existing literature on HRO by elaborating on the some definitions that scholars have used to describe HRO, Global trends in HRO, description of types and process of HRO as well as other arguments for and against HRO aside the TCT and RBV rationales advanced in the management literature. Thirdly, this study in relation to the research problem takes a scientific approach to investigate and analyze the challenges and expectations that HR service providers in Ghana face through qualitative survey based on personal interview conducted within Accra – Tema metropolis among selected HR outsourcing firms so as to gain a deeper understanding or insight into the subject matter.

## 3. RESEARCH METHODS

## 3.1 Introduction

After reviewing the existing literature most pertinent to this study in the previous section, the fourth section describes the research methods used. This section will present how data for the study was collected in order to answer the research question being posed. This consists of the research design, data collection, and choice of respondents, data analysis, validity and reliability of study.

The purpose of the study is to gain a deeper understanding of the expectations and challenges that HR vendors or service providers face in the outsourcing of recruitment and selection activities in Ghana. To achieve this objective, this study explore the expectations and challenges vendors face in dealing with recruitment and selection outsourcing in the Ghanaian labour market through a qualitative approach and based on multiple -case study.

## 3.2 Research Design

This study adopted a qualitative approach based on an exploratory method in collecting data for the study. The study used personal interviews as data collection method for this study. The basis for which the researcher adopted the personal interview method was that as Miles and Huberman (1994) noted qualitative methods can be "the glue that cements the interpretation of multi-method results (1994:42). Qualitative method usually involves a small group of respondents, and within the context of an in depth studies, whiles quantitative method aimed at large sample of respondents which seeks statistical significance. The qualitative method was therefore chosen in order to have an in depth information about the research problem.

According to Yin (2003) a research strategy can be used for three main research purposes- explanatory, descriptive or exploratory. Exploratory- when conducting exploratory research, the researcher makes some insight in different areas asks some

questions and assesses phenomenon in a new light. Most time spent on exploratory research is when the investigator wants to clarify his or her understanding of the problem especially if the nature of the problem is unclear. There are different means of conducting exploratory research: A search of literature, interviewing "experts" in the subject, and conducting focus groups interview (Saunders, Lewis and Thornhills, 2007). Exploration should state this purpose as well as the criteria by which an exploration will be judged successful (Yin, 2003).

Descriptive research according to Saunders et al (2007) when conducting descriptive research the investigator has a clear picture of the phenomenon on which he/she will collect the data. Ghauri and Gronhuag (2005) state that in descriptive research the problem is structured and well understood. Explanatory research as Saunder et al (2007) suggest establish casual relationship between variables. Emphasis here lay on studying the problem in order to explain the relationships between variables. According to Ghauri and Gronhaug (2005) in explanatory research, the researchers are confronted with "cause –and –effect" problems. The main purpose in this research is to isolate causes. In this particular study, the research is primarily exploratory due to the fact that the research problem tries to explore specific issues in an exploratory manner. The exploration of the study began with a review of general literature on the subject matter under investigation.

This research as stated earlier is based on qualitative method. According to Denscombe (2000) qualitative research has a tendency to understand words as a central analytic unit; it is also associated with describing and includes the involvement from researcher's side in open research design. As Flick (2007) points out, qualitative research uses text as empirical materials, starts from the concepts of social science construction of realities under study, and is interested in the perspectives of participants, in everyday practices and in everyday knowledge with reference to the issue under study.
Flick (2007) identified some common characteristics or features of qualitative research which he outlined as follows

- By analyzing interaction and communication in the making. This can be based on observing or recording practices of interacting and communicating and analyzing this material.

- By analyzing documents (texts, images, films or music) or similar traces of experiences or interaction.

Flick (2007) then stated " Qualitative research is intended to approach the world out there and to understand, describe and sometimes explain social phenomena from the inside in a number of different ways" (2007:IX).

By adopting qualitative approach, extensive data will be collected in order to achieve the purpose of the study.

In collecting and analyzing empirical evidence, Yin (2003) points out that there are different strategies that can be used; these include experiments, survey, archival analysis, historical and case study. He stated that there are three conditions on which these three strategies distinguishes, thus they are:

- The type of research question

- The extent of control an investigator has over actual behavioral event.

- The degree of focus on contemporary as opposed to historical events.

Case studies are preferred when research question involves "how" and "why", when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003).

Saunder et al. (2007) define case study as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence"(2007:139). According to Ghauri and Gronhuag (2005) the case study often involves primary data collection through multiple sources such as verbal reports, personal interviews and observations. Case study relies on investigation an object with many dimensions and then drawing an integrative interpretation. Yin (2003) emphasizes that the unique strength of case studies is its ability to deal with variety of evidence i.e. documents, artifacts, interviews and observations. He identifies four types of case study designs. Single-case (holistic)

design, single-case (embedded) design, multiple-case (holistic) design and multiple-case (embedded) design. To decide which type of case study to apply, one should take into account what kind of data will be collected to address the research question (ibid).

Single-case is appropriate when a particular critical case is used for testing an established theory (Ghauri and Gronhaug, 2005). A single case study is also used when the case is unique or extreme. Furthermore, when the case is representative or typical a single case design can be appropriate, that is to say if the case study does represent a typical project within different projects. Finally, single case is revelatory, where the investigator has an opportunity to study a phenomenon that previously was not accepted within scientific investigation (ibid). Multiple cases do not involve rare, critical or revelatory cases (Ghauri and Gronhaug, 2005). In multiple-case design we should be clear that every case has to serve a particular purpose in the study that means that we must justify the selection of each case. Having looked at these different strategies, this study decided to apply the multiple case studies to gain a deeper understanding of the expectations and challenges that HR service providers face in Ghana. A multiple case study was considered appropriate in order to solicits answers to the research questions.

## 3.3 Data collection

The research study conducted within the Ghanaian labour market involved interviewing twelve persons within a period of six weeks from mid April, to May, 2008 and took place in 8 outsourcing companies within Accra-Tema metropolis of Ghana, which are engaged in HR Consulting. Ghauri and Gronhaug (2005) emphasize that the choice of data and how to collect these data, in what way and from whom is very important. The choice depends on the type of problem, the needed information and data possibilities. The most common source of evidence when conducting a case study is as follows: documentation archival records, direct observation, and physical artifacts (Yin, 2003).
This study relied on primary data based on personal interviews in order to collect data for the case study, as Ghauri and Gronhaug (2005) described interaction between the researcher and the respondents. According to them, there are various ways of collecting

data through interviews, by mail, by phone and face to face. Yin (2003) states that interviews are the most important source of information. Face to face interview was conducted among 8 selected companies involving 12 respondents due to limited time. The interviews were conducted by following certain set of questions that needed to be answered in order to obtain relevant data to the research questions. Furthermore, interviewing is seen as an opportunity for a researcher to probe deeply or further in order to uncover new clues, open up new dimensions of problems and secure vivid, accurate inclusive accounts that are based on personal experience (Burgess, 1982:107, cited by Easterly-Smith et al, 1991: 73).

The interviews were conducted in English language since all the respondents were very fluent in the English language and can understand it very well, afterwards transcripts of the interview was sent to the respondents respectively for verification and clarification. There are disadvantages associated with qualitative method as pointed out by (Miles and Huberman, (1994), "it is labor-intensive, covering months or years) of data collection, frequent data overload, the distinct possibility of research bias, the time demands of processing and coding data, the adequacy of sampling when only a few cases can be managed, the generalization of findings, the credibility and quality of conclusions, as well as their utility in the research study" (1994:2). Semi-structured questions were asked to respondents and this was to ensure that the respondents had the freedom to response to the questions being put forward, but at the same time do not deviate from the anticipated responses that the researcher expects from them.

Table 3. Demographics of participants

| Company Name | No. of participants | Job Position Held | Gender |
|---|---|---|---|
| A | 2 | CEO, Snr. manager | M, F |
| B | 2 | Line manager, lower level staff | F, M |
| C | 1 | Snr. manager | M |
| D | 2 | Line managers, lower level staff | M, F |
| E | 2 | CEO, Snr. manager | F, M |
| F | 1 | Lower level staff | M |
| G | 1 | Lower level staff | M |
| H | 1 | Line manager | F |

**Table 4.** General characteristics of HRO firms

| Company Name | Location | No. of Employees | Age of Business | Core Business | Annual Turnover |
|---|---|---|---|---|---|
| **A** | Accra | 10 | 8 | HR Consulting. | 16m |
| **B** | Tema | 15 | 12 | HR Consulting. | 18m |
| **C** | Accra | 12 | 10 | HR Consulting. | 14m |
| **D** | Accra | 30 | 15 | HR Consulting | 20m |
| **E** | Tema | 18 | 10 | Recruitment Consulting | 12m |
| **F** | Accra | 25 | 10 | HR Consulting | 15m |
| **G** | Tema | 20 | 7 | Recruitment Consulting | 12m |
| **H** | Accra | 15 | 9 | HR Consulting | 20 |

## 3.4 Development of Interview Questions

The interview guide consisted of fifteen (15) questions, which try to elicit or solicit information about the expectations of clients and what challenges they face as they try to meet these expectations? Before the main interviews were conducted, a pilot interview was done with two HR vendors as test case for the research questions and it was administered in English because all the participants were fluent in the English language and it also happens to be the official   language in Ghana.

The structure of the interview questions touched on brief background of companies and their locations, how long they had been in the outsourcing business and their estimated annual turnovers, what are their core business and other activities they are engaged in and why their clients should engage them in HR outsourcing business processes, what their clients expects from them as well as the challenges the face in their efforts to meet the expectations of their clients. The some of the interview questions were adopted from past survey conducted in relation to the topic which tried to compare HR outsourcing in Russia and US and have been used to help unravel the research questions posed in this particular study.

## **3.5** Choice of respondents

To enable the researcher understand the extent to which service providers are able to meet the expectations of their clients or outsourcing companies and the challenges they are confronted with in  meeting these expectations, the focus of the research was on the service providers or vendors operating in Ghana.   In order to gather data or information for the research, this study sought responses from key informants who are knowledgeable about the issues being researched and who make the crucial decisions concerning the issues (Campbell 1955; Humber and Power 1985; Kumar et al. 1993; Philips 1981; Seidler 1974) as well as decision makers or executors of these outsourcing decisions, hence the respondents consisted of  2 CEO's  and 3 Senior Managers of HR Consultancy firms who have direct contact with the outsourced companies were contacted and interviewed, 3 line managers and 4 low level staff were also included.

The interviewees or key informants selected were players in the outsourcing business in Ghana. Out of a total of 20 respondents who were contacted for the interview 12 respondents, consisting of 7 males and 5 females were able to grant the interview. However no reasons were assigned by the other respondents who could not participate in the interview.

## 3.6 Data Analysis

According to Yin (2003:109) "data analysis consists of examining, categorizing, tabulating, testing or recombining both quantitative and qualitative evidence to address the initial prepositions of a study" (2003:109). He states that there are five specific techniques for analyzing case studies: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis.

According to Saunders et al (2007) there are some set of procedures when conducting qualitative analysis. These include, categorization, unitizing data, recognizing relationships and developing the categories, developing and testing theories to reach conclusions.

- Categorization: this activity involves classifying data into meaningful categories; data from theoretical frame work or collected data. These categorizations will provide relevant structures to a research project by helping to organize and analyze the data further.

- Unitizing data: this activity refers to categorizing units (numbers of words, sentences, or complete paragraph of data. This activity can be achieved by using one or more of some analytical technique described by Yin (2003) earlier using this technique allow researchers to recognize patterns in data which indicated how to further analyze data.

- Recognizing relationships and developing categories: the analysis continues searching key elements and pattern relationships in rearranged data, this can lead to revising of categories and reorganizing for data.

- Developing and testing theories to reach conclusions: the connection between categories will need to be tested in order for it to be concluded that this is an actual relationship. To test these relationships the hypothesis needs to be developed. Only by testing identified propositions will lead towards formulating valid conclusions.

When it comes to data analysis, this study relied on the theoretical prepositions and procedures which were provided by Saunders et al (2007). Within-case analysis of all the participating companies were conducted and analyzed. Then after a cross-case analysis was performed on all the participating companies. A cross-case analysis was to guide against the drawbacks of within-case analysis. For example jumping to conclusions based on insufficient data, being overly influenced by vividness or by more elites respondents, or ignoring basic statistical properties or inadvertently leaving unconfirmed evidence. The cross-analysis was used in order to counteract the above mentioned drawbacks by looking at data from different angles in many divergent ways.

This study analyzed the data collected with coded and indexed interview data through the use of Non-numerical Unstructured Data Index Searching and Theorizing (NUD* IST 4) qualitative data management and analysis software (Fielding and Lee, 1998).

An index tree of codes, or theoretical categories based on the existing literature and the broad research objective was created. Thus the three reflected codes that related to each other in a coherent study in a significant way (Miles and Huberman, 1994). This was treated as a logically neat "start lists" which was open to modification and change throughout the conduct of the study (Miles and Huberman, 1994). Interview texts were coded at sentence unit level. Codes were then refined over several iterations based on the relevant extant or existing literature and from the interviewees accounts.

This process gave room to the progressive addition of free codes outside of the initial index tree. These facilitated the indexing of themes in the data in addition to those identified from the extant literature and semi-structured interview schedule. This procedure allowed for a grounded theory approach (Strauss and Corbin, 1994). Through the use of the NUD* IST 4 search facilities, the study compared the interviewees accounts with each other and with secondary data sources including participating

companies manuals and archives and where necessary annual reports and popular media articles about HRO.

## 3.7 Validity and Reliability of Research Study

According to Yin (2003), it is possible to judge the quality of research, since the research is supposed to represent a logical set of statements. To establish the quality of any empirical research four tests can be used: Construct validity, internal validity, external validity and reliability. Construct validity means establishing correct operational measures for the concepts being studied. Yin (2003) states that to meet the test of construct, there are two steps a researcher must be sure cover: Selection of the specific types of changes that are to be studied and demonstrate that the selected measures of theses changes reflect the specific types of change that have been selected(ibid). Internal validity means establishing a casual relationship by addressing rival explanation, explanation building, and using logic models (Yin, 2003). Ghauri and Gronhaug (2005) added that internal validity means that the results obtained within the study are true. External validity is about establishing the domain to which a study's findings can be generated. Ghauri and Gronhaug (2005) point out that the investigator must have a representative sample for the research. In order to influence the construct validity, the interview guides were developed as depicted in appendix 1. The interviews were conducted in a language that was understood by respondents in order to reduce the misunderstanding that is likely to occur. Even though, the respondents were all non English native speakers, they had the ability to speak, read and write in well in the English language. Furthermore transcripts of respondents were sent to them for clarification and verification of any misinterpretation or misrepresentation made. This affected the construct validity of the study. The companies that were selected for the study had different levels of development within the HRO business and this also helped to increase the construct validity of the study as it made it possible for generalization.

To ensure external validity, the study obtained data from multiple key informants or players in the HRO business and relied also on secondary data such as companies' documents, archival records, internet, newspaper publication and personal observation.

Reliability means demonstrating that the operations of a study such as the data collection procedures can be repeated with the same results. The objective is if a different investigator follow the same procedures as described by an earlier investigator and conduct the same case study, he should end up with the same findings and conclusions (Yin, 2003). To ensure the reliability of this study interview guide has been attached at the end of this thesis in order to make it possible for other researchers to repeat the same case study. Furthermore, for many reasons, the reliability of the study is often affected, especially in studies based on interviews due to distortion of information from respondents. According to Huber and Power (1985: 172) there are four reasons why an informant (respondent) may provide inaccurate or "wrong" data:

- They are motivated to do so.

- Their perceptual and cognitive limitations results in inadvertent mistakes

- They lack crucial information in relation to the event in question

- They have been questioned by using an inappropriate data gathering procedure.

The question to ask is what would motivate informants to provide inaccurate or wrong data? One possible reason could be that by delving certain information, it may have adverse impact or effects on their careers or the organization in general. Some informants may also alter or invent stories on facts in order to appear knowledgeable or important. As pointed out by Humber and Power (1985) motivationally induced inaccuracies may intentionally be introduced, however it can also develop unintentionally. In order to avoid such a situation, or in an attempt to avoid fears that the information provided might somehow have adverse impact on interviewees career or the interest of the company concern, the identity of the persons and companies involved has been protected. It is also not ruled out that some persons or companies participating in the survey might refuse to answer certain sensitive questions that they consider as confidential. However other methods have be adopted to fill these gabs, such as cross checking from company's archives, documents, manuals and brochures.

Another reason for the lack of totally reliable information is linked to the fact that individuals have several limitations as far as information processing is concern.

These limitations can lead to inaccurate reportage, because people tend to forget historical events, but they may also influence the kind of issues informants recall.

The possibility of memory bias is particularly strong when it comes to recalling decision making processes (Larimo; 1987, Bjorkman, 1989). But effort has been made to contact persons who have been involved in the HRO issues over the past five years to reduce the occurrence of memory bias.

A third source of data inaccuracy is the managers' lack of knowledge of what has been or is going on in the organization. Second hand information and imagination may have filled information gaps and may lead to unintentional inaccuracies. In an attempt to limit the possibility of these situations from occurring, the focus of the study have been based on the past 3-5 years as it maybe difficult to access information over the past decades or managers who were in office at the period may not be available now, hence they would not be able to answer questions related to those periods.

A response or participation rate of 20-30 percent seems common in most developing countries due to poor standard of research support infrastructure, conducting face to face, telephone, fax or internet based research could be tedious; hence a participation rate of 60 – 70 percent in this study is regarded as satisfactory or good hence a participation rate of 70-80 percent was very good. The interviewees were in the cities where access to these facilities is common. Added to this, the use of internal consistency reliability or equivalency was applied to make the study richer and more reliable through the use of different items to measure the expectations and challenges HR service providers face in their recruitment and selection outsourcing activities in the Ghanaian labor market.

It was expected that some companies may not participate in the survey and for that matter; this study tried to find out the reasons for the non participation of such companies in the research study so as include them in the survey report, but this was not done since no reason was assigned by the non participants.

In this research, various literatures on HR outsourcing have been consulted prior to the design of the research. The validity in construct has been taken into consideration through the design of the interview questions for which most of the constructs have been pre-validated in Europe and US. Since most of the questions were adopted from a questionnaire developed and administered by Society for Human Resource Management in February, 2004 which tried to compare HR Outsourcing in Russia and US. One can positively say that the validity and reliability of this research study was greatly safeguarded.

## 3.8 Overview of Ghana's Business Environment and HR Outsourcing

Ghana, formerly called Gold Coast was the first Sub-Sahara African country to gain post-colonial independence from British rule in 1957. Ghana is located on the west coast of Africa. It is bounded on the north by Burkina Faso, on the west by La Cote D'lvoire, on the east by Togo and on the south by Gulf of Guinea (Atlantic Ocean).

Accra is the capital city of Ghana and Tema the industrial city which is adjunct to Accra, is on the Greenwich Meridian (zero line of longitudes), thus making Ghana the closest landmark to the centre of the world. Ghana have a landmark area of 88,881 sq miles (230,020 sq km) it population according to 2007 estimates is 22,930million and a population growth of 2.3%. infant mortality of 29.9 per 1000 birth and life expectancy of 59.1 years for female and 57.2years for male. The literacy rate of the country is 74.8% of ages 15 and over. The country's GDP per P.P.P was estimated at 31.23billion US dollars as at 2007 and a per capita of 1,400 US dollars with real growth rate of 5.2%. Inflation figure as at 2007 was 11.7% and GDP growth of 6.3%. Ghana has a labour force of 11.29 million with unemployment estimated at 11%.

The structure of the Ghanaian economy is highly dominated by the Agriculture sector which employs about 60% of the labour force, then industry, manufacturing and service sector. The figure 7 shown below depicts the map of Ghana.

HR Outsourcing activities in Ghana is not well developed compared to most developed countries such as the US and Europe as well as countries like India. It is indeed at its infant stage. There is therefore very little information about HR Outsourcing in Ghana. However, according to A.T Kearney Global Service Location Index 2007, Ghana is ranked 22$^{nd}$ most preferred outsourcing destination in the World and third in Africa.

The Country has great potential in the outsourcing industry in Africa. The key advantages Ghana has are the availability of labour, well-educated and computer based skills are being rapidly developed, low cost labour, low turnover of 2%- 4% and good English Proficiency. Its trains 10,000 IT graduates per year. The country's relatively peaceful political stability and a business friendly government policy where a 10years tax relief is offered to investors in the outsourcing sector makes it one of the most attractive destination for HR Outsourcing in West Africa. The country also is regarded as the gateway to the West Africa market of 250million. However the country needs to do more in the area of infrastructure development such as reliable internet broadband infrastructure, enforcement of labour laws and protection of intellectual property rights, and more IT education.

The government of Ghana having recognized the great opportunities in business process outsourcing sector, and hoping to capitalize on attracting investments to create wealth and generate employment have engaged the services of Hewitt Associates(India), a global leader in the outsourcing industry to conduct a study with the objectives analyzing the ability of the country to compete in the global economy in IT Enabled Services (ITES), such as BPO and identify the primary constraints with the aim of improving Ghana's competitiveness in ITES as well as provide concrete actions for Ghana by identifying target ITES activities.

Figure 7: Map of Ghana

Source: Adapted from wikimedia project; Domenico-de-ga, 2006

**4. EMPIRICAL FINDINGS**

The fourth section of this research study which is about the empirical findings discusses what the HRO firms do in Ghana. In addition, the expectations of MNCs that contract out their recruitment and selection activities are analyzed from TCT and RBV perspectives and as applied to this study. Lastly the challenges that confront HR service providers in Ghana are described and analyzed based on interviews conducted with respondents.

## 4.1 Operations of the HRO firms in Ghana

HRO firms established in Ghana are mainly private limited liability companies that are jointly owned by Ghanaians and other foreign nationals. These companies are mostly located in industrial cities in the country's capital city Accra, and Tema. The HRO companies provide HR Business Processing Outsourcing services for foreign clients through local processing staff and facilities in Ghana. Most of their activities revolve around the expertise of its non-executive directors and multinational management team in the areas of International HRM. They offer a wide range of consultancy services such as compensation, benefits, training and development, recruitment and selection support, HRMIS management, expatriate management, management of payroll services etc. The HRO companies have their customers or clients from the manufacturing sectors.

## 4.2 Expectations of MNCs from TCT and RBV Perspectives

Firstly, as the study findings show the expectations of multinational companies which outsourcing HR activities to service providers in Ghana are intended to reduce the costs of recruitments or hiring and to enable them focus on the core business activities. This confirmed the adoption of TCT and RBV that have been applied in this study to explain that multinational companies outsource their recruitment and selection outsourcing in order to reduce cost and focus on core competencies. According to the interviews conducted majority of the respondents numbering 8 out of the 12 of the respondents

interviewed confirmed that most corporate bodies or multinational companies outsource their HR functions including recruitment and selection activities with the hope or expectation that it will help them to reduce costs and focus on their core competences or business in order to gain competitive advantage. According to the CEO of Company A, it is the expectation of his clients (outsourcing companies) that by outsource their staffing or hiring activities it would afford them the opportunity not only to cut down on costs but also focus their resource on core businesses. He states:

*"Our experience has taught us that by outsourcing staff not only do our clients expect to benefit from an increased focus on core business and reducing cost-structure, but their employees' performance actually improves."*

The CEO stated that a typical staff outsourcing contract can save a company as much as 20% - 60%. The CEO explains:

*"Our clients can expect to cut their recruitment bill by 60 percent."*

According to some of the respondents interviewed, most of their clients used to spend a great deal of time and money searching for the best candidates to fill their vacancies, however, by outsourcing their recruitment and staffing services, they now depend on them to constantly deliver the highest quality of candidates at less cost. This revelation goes to confirm the application of TCT and RBV in this study.

Secondly, an overwhelming majority of the respondents interviewed were of the opinion that their clients (outsourcing companies) expect them to be able to reduce time- to- hire when they outsource their recruitments and selection functions. For example the HR manager of Company C states:

*"By outsourcing their recruitments and selection functions to us, our clients expects us to reduce hiring times by 40 to 60 percent".*

The senior manager of company H explains,

*"Our outsourcing arrangement with our clients helped to cut the average time to from seven to four weeks and improved the accuracy of candidates assessment to 90%."*

Again the senior manager of E had this to say,

*"One of our partner within 12 months had reduced the number of hires through us from 90% to 40%, increased the number of direct hires from one in ten candidates to one in seven, reduced time-to-hire to 48days and cost-per-hire by 45%."*

These statements clearly demonstrate or re-affirm the linkage with costs reduction which TCT applied in this study seeks to explain as the motivation for firms outsourcing decision.

Furthermore, some respondents were of the opinion that by outsourcing HR functions including recruitment and selection functions here in Ghana; clients (multinational companies) able to attract cheap quality skilled labour and expertise to their companies for better performance.

*"By outsourcing their staffing functions to us our clients can be assured of cheap, high quality candidates from us."* - says the line manager of company D.

Again majority of the respondents interviewed also said that by outsourcing their recruitment and selection functions companies can gain access to new technology at less cost.

*"We have the ability to provide low cost information technologically based facilities for our clients. Indeed our clients expect low cost, first class information technology from us when they outsource their staffing functions."* - Says senior manager from company E.

And this assertion further provides proof or justify for the adoption of TCT in this particular study.

According to interviewees, it is the expectation of their clients that by outsourcing their recruitments or staffing functions it would lead to increased efficiency and effective service delivery which reflects the returns on their investment. In other words, by outsourcing their staffing functions their clients expect them to deliver the required returns on their investment or value for money. The HR manager of company C commented this way

*"Our outsourcing partners expects nothing less than an efficient and effective delivery of quality staff in a timely manner.*"

The senior manager of company C also responded this to say,

*"Our extensive database of skilled applicants of every level enables us to locate suitable staff to meet our clients' needs, whilst our investment in cutting –edge technology means we have a system to ensure speedy, efficient and non-costly recruitment of candidates for our clients."*

Some respondents were also of the view that by responding promptly to their request, they are able to save their clients the cost that they might incur in a situation where they have to instantly or immediately recruit or replace a highly qualified employee who may occupy a strategic position in the company and who might have resigned from the company unceremoniously. Such statements are enough justification of the adoption of the TCT in this study since they all deal fundamentally with the issue of cost cutting as envisage by the TCT theory. According to majority of the interviewees, their clients' expectations go beyond the costs of recruitment; rather it encompasses the freeing of capital funds from non-core business functions for other purposes. Outsourcing can reduce the need to invest capital funds in non-core business functions.

 According to the study, some of the respondents also mentioned that their clients' expectations were that by contracting out their staffing, they would be able to minimize their employees' turnover.

*"Most of our clients had employee turnover of 10%-15%. However since they contracted us the average employee turn over of our clients' ranges between 2%-4%."* - says the senior manager from Company C.

 Furthermore, majority of the interviewees said that the expectation of their clients was that they are fully engaged or involved in the implementation of the outsourcing process. For example, the line manager of company H had this to say

*"Our clients' expectations are that a common platform should be created through joint teams to see to the implementation of the recruitment outsourcing process right from the beginning to the final conclusion.*

The study also revealed that many of the respondents said it is the expectations of their clients that adequate measures would be taken to safeguard the security and integrity of their company's information systems. Most clients are concerned with the safety of their employees information especially those in executives positions. For instance the CEO of company A says,

*"It is our responsibility to protect and safeguard our clients' employees' records and we do everything to win the confidence of our clients in this regard."*

Asked whether they think the demands or expectations of their clients were realistic? The responses from respondents were mixed. Whiles some respondents were of the view that sometimes their clients' expectations were not realistic others did agree that they were realistic and achievable. According to those who think their clients demands or expectations argued, their clients set themselves higher expectations which to them are unrealistic and therefore difficult to achieve. One of them respondents had this to say:

*" most of our clients expect so much from us in terms of high quality and qualified skilled workforce at less costs and yet are unwilling to pay higher fees for such services and without taking into account what goes into attracting and retaining such highly qualified personnel in Ghana."*

In summary, most respondents said their clients expect to benefits from the outsourcing of their staffing functions included reduction in hiring cost, attraction of high quality candidates, reduction in  time-to-hire, reduction in employees turnover, focusing on core capabilities, gaining access to innovative technologies and expertise as well as improving efficiency and effectiveness of prospective employees. Thus as can be seen from the above empirical findings, the main reason for firms' engagement in HRO is the pressure to reduce costs which the TC theory applied in this study explains. However to achieve such a goal it is essential that companies have longer term agreements for example 5years,  so that the economies of scale and cost cutting measures that they seek to gain can take effect. Again outsourcing firms should focus on their core competencies and outsource much of their other HR functions to companies with expertise in their non-core areas as the RBV applied in this study seek to explain, since by so doing they can free resources from their non-core activities to their core business in order to maximize the returns on their investment.

## 4.3 Challenges facing HR Vendors in Ghana.

According to the study report, an overwhelming majority agreed that they are faced with a lot of challenges in their effort to meet the expectations of their clients. Asked what challenges confronts them in their bid to meet the expectations of their clients?
Among the numerous challenges that confront them, majority mentioned poor contract management as one of the major challenges they had to deal with in their effort to satisfy clients' demands. The CEO of Company H points out,

*"Although contract agreements are clearly outlined, documented and signed by both sides to the contract, its often difficult to manage such contract since often times some*

*clients would intentionally alter the terms of the contract agreement or violate the terms of their contract which when not carefully handled leads to* conflicts *and litigation." "But in order to avoid such situation we tend to exercise some amount of flexibility by and large in order to maintain the contract and to foster the relationship."*

Thus non conformity to contract agreement by clients or difficulty in enforcing contract agreement possesses a big challenge to their work. It therefore takes a lot of tactfulness and diplomacy in dealing with clients.

Furthermore, the study revealed that an overwhelming majority of the respondents interviewed were of the view that managing the relationship between all interest groups in the companies was another challenge which confronts them in their bid to meet their clients' expectations. Relationship building is seen as a vital aspect of any business engagement and therefore critical to the success of the business. As the senior manager of company D states,

*"Often times managing the contract relationship has been a major challenge to us, this is because of disagreement with out clients on pertinent issues concerning the outsourcing process."*

Hence once a vendor is selected by an outsourcing company, then that vendor is deemed to be part of the 'family' that means the vendor must do everything possible to help the company succeed. This calls for total cooperation and commitment from all stakeholders especially the employees, line managers and senior managers of the company.

However sometimes, securing the cooperation of the employees and line managers and senior managers becomes a big issue because of mistrust and suspicion on their parts. According to the interviewers, when that happens managing the outsourcing process becomes difficult. Thus to most respondents, how to seek the cooperation of the employees and line managers are the most challenging aspects of their outsourcing venture since there is always suspicion and mistrust from them. Managing the

expectations of the internal personnel is very important; hence the vendor company should clearly communicate with all stakeholders about the expected benefits of outsourcing (Hunter and Healy, 2002: 51). Hunter advises organizations *"to get employees and union involved in the outsourcing process early"* and to *"develop appealing transition packages with some period of guaranteed employment and attractive pension plan."* Finally support of top level management at all levels of the outsourcing process is important success criteria (Lacity and Hirschheim, 1993).

Another challenge that was mentioned by the some of the interviewees was the issue of decision making. Decision making in Ghana is generally done by groups or committees, therefore no single person can take sole responsibility for any initiative without due consultation. As committee made decisions generally takes a longer time to negotiate, the decision making process itself consumes a lot of time. The senior Manager of company C explains,

*"Decision making with joint teams is our biggest headache since there are always undue delays before we are able to arrive at a consensus. This actually affects our implementation process."*

When there is a decision to outsource, it is usually done at the managerial level and takes a longer time than expected. This situation according to the service providers, in a way affect the implementation process since many times consultation would have to be initiated before decisions are implemented or carried through resulting in undue delays.

In addition to that, the issue of communication was seen by most of the respondents interviewed as a critical challenge to them.

*"The lack of or inadequacy of communication between us and our counterparts often leads to some negative consequence on the successful implementation of the outsourcing process, Often times break down in communication have led to misunderstanding between us and our partners involved in outsourcing venture."*

*"Therefore how to maintain frequent communication among all the interested parties remains a challenge to us".* - Says the CEO of company E.

Again, the lack of qualified and highly skilled graduates from the Ghanaian labour market was mentioned as one of the numerous challenges that hinder the efforts of the vendors. Although Ghana can boost of high literacy rates level, the caliber of graduates that comes out annually from the countries universities and polytechnics lack the needed skills that is in high demand by industry and commerce. The senior manager of company E had this to say about the lack of skilled labour

"Most *often there is a mismatch between what our clients requires and what the universities and polytechnics in Ghana are able to train and off-load into the Ghanaian labour market*."*We have to re-train our recruiters to meet our clients demand.*"

Adding to the problem of the lack of skilled workers is the brain drain syndrome that has bedeviled the country where most of the qualified skilled workforce such as engineers, doctors, nurses and other health workers, Accountants, lawyers and other professionals leave the country to Europe and USA in search of greener pastures. Under such situation, most HR vendors find it extremely difficult to hire high quality skilled workforce and therefore have to always acquire and train new personnel which they recruits from the universities and polytechnics at higher costs.

According to the most of the respondents, another challenge posed to them is violation of contract agreements by their clients and the inability of the country's courts to enforce contract agreements due to delays, this have been a great challenge to their business activities. It is difficult to enforce contract agreements due to undue delays by the courts as there are a lot of commercial cases depending at the law courts.

*"You can't believe some cases take as long as 5years for it to be resolved by our law courts."* - Says senior manager of company A.

Yet another challenge mentioned by some of the respondents was that the country's business culture. A nation's culture plays a critical role in all business endeavors, and its effects cannot be underestimated on the outsourcing situation in Ghana too. Whiles there are many different aspects of culture and its influence on businesses, one crucial aspect that posed a big challenge to the outsourcing service providers or vendors in Ghana is the payment of "introduction fee" where the outsourcing vendor is expected to pay a percent of his or her contract sum to the one who helped him or her to secure the contract as appeasement for aiding or connecting him or her to secure the contract. This practice is seen as normal in the Ghanaian culture where gifts are presented when someone does you a favour.

However this practice is being frown upon by most foreign companies whose country of origin laws forbid the payment of such money as it is seen as an act of bribery and corruption. This poses a serious challenge to most of the foreign outsourcing firms who are reluctant to pay such appeasement or introduction fees. Differences in corporate culture between the outsourcing companies and their clients were also identified as a challenge to the outsourcing vendors especially where there is conflict or clash of corporate cultural values, beliefs and practices.

Finally the lack or inadequacy of information technology infrastructure in Ghana have also been a challenge to their activities since they depend largely on the use of information technology especially the internet for their operations, the slow pace of internet flow or traffic in Ghana do really affect their business activities. The high cost of bandwidth also posed a great challenge to their operations. According to the CEO of company E the cost of bandwidth per year runs between $5000 and $7000 and this makes them uncompetitive in the business.

Table 5. Summary of Expectations and Challenges facing HR Vendors in Ghana.

| EXPECTATIONS | CHALLENGES |
|---|---|
| Savings cost of hiring | Difficulty in enforcing contract and protection of intellectual property rights |
| Focus on core business | Inadequate communication among outsourced company and clients |
| Attraction of cheap, quality and skilled labour | Lack of cooperation due to mistrust and suspicion on the part of employees, line managers and senior managers. |
| Saves time-to-hire | Inadequacy of information technology infrastructure facilities |
| Increased efficiency and effectiveness in delivery of service | Lack of skilled labour |
| Protection or safeguarding of employees information | Misfit between the organizational culture of the two partners |
| Joint decision making and implementation |  |
| Low employees turnover |  |

## 5. DISCUSSION AND CONCLUSION

## 5.1 Discussion

The study presented demonstrates the level of expectations that outsourcing companies demand from their HR service providers and the challenges face by these service providers in their effort to meet these expectations. In addition to the theoretical rationales provided by the TCT and the RBV concept of core competency applied in this study, there are other rationales for HRO. These included the attraction of specialized expertise, the relocation of internal from the central level to the business units' level, attainment of more services oriented and efficient HR functions etc. thus HRO is increasingly being recognized as a strategic tool to reduce costs, to gain competitive advantage and increase customers service quality and profitability. Greer, Youngblood and Gray (1999) observed HRO decisions are frequently in a response to overwhelming demand for reduced costs in HR services. For instance the advantages of outsourcing are decreased costs, a better focus on HRM issues and improved quality.

The timely deployment of labour also brings other advantages of saving direct cost. According to Cooke (2001), it provides firms with greater flexibility and productivity through the use of temporary subcontractors to cater for the fluctuating demand for labour. Through a well –managed HRO relationship can create partnership between HR service provider and the outsourcing firm that might facilitates learning and cross fertilization(Powell, Koput and Smith Doer,1996). A company can gain from the outsourcing decision through knowledge sharing. Indeed outsourcing HR activities such as recruitment and staffing can contribute short-term and long-term benefits such as saves costs, improve employees' performance, attract quality of candidates, and gain access to new technology and expertise and focus on core business as well as benefits from long term relationship and long-term benefits should always be the motivational factor.

Not withstanding the above arguments advanced for outsourcing HR services, HRO can also be fraught with many problems which have been discussed in this study. These problems includes the lack of control and security  over employees data, poor

management of contract relationship, potential lower service quality, conflicts with service providers, disruption of businesses in case of disputes and mistrust and suspicion from employees, line managers and top level management etc. It is thus significant that the strategic nature, potential benefits and problems of outsourcing HR activities such as recruitment and selection are identified and understood and that significant time and effort are spent to ensure successful outsourcing implementation. This includes the identification for instance, What kind of outsourcing arrangements available, the involvement and support of top management as well as other mangers that may impact or be impacted by the outsourcing decision. Since valuable inputs is made into HRO decision-making and implementation processes, if the right people are involved in the outsourcing team.

HRO consist of different types or forms as discussed in the literature earlier on. They are selective and full outsourcing, tactical and strategic outsourcing, primary and secondary value chain outsourcing, BPO, off-shoring, Near-shoring and On-shoring etc. HRO process is seen as a complex and delicate process that calls for careful planning since it deals with details and sensitive decision making. HRO process involves three distinct processes as such as pre-solicitation, solicitation, and implementation stage. Implementation flaws are abound And according to Turgay (2001) at the pre-negotiation stage, organizations must evaluate potential vendors to eliminate those who lack the characteristics demanded by the organization. Then after the elimination, more specific evaluation of the rest of the vendors is done in the negotiation stage. Fill Chris and Elke Visser (2000) suggest that companies considering outsourcing should analyze three different elements in their model entitled "Composite Outsourcing decision frameworks." as illustrated in figure 4.

In the management literature various economic theories have been theorized by scholars to explain why firms or decision makers adopt HRO as a business strategy. In this particular study, the TCT and the RBV as applied served as the motivational basis for the HRO decisions by firms. Thus the TCT and RBV have been used in this study to explain why firms outsource their HR activities including recruitment or staffing. As emphasized by Williamson in his book: "The Economics Institutions of Capitalism."

and also by Barney (19991) in his write up "Resource based view of the firm." The need for organizations to reduce cost and focus on their core competencies in order to gain competitive advantage has fueled the adoption of these two theories by business managers. However beyond the issues of cost reduction and focus on core competencies, the study revealed that MNCs are not just using outsourcing as a strategy to gain competitive advantage, but also to improve its performance through workforce diversity. By outsourcing for talents beyond their country of origin, MNCs seeks to benefits tremendously workforce diversity.

Furthermore, global competition is driving most MNCs in developed economy such as United States and United Kingdom to outsource their non-operations or jobs to developing economies such as Ghana in order to take advantage of cheap and readily available expertise due to high labour cost and labour shortages, as a result of ageing population and low birth rate in these developed countries. These multinational companies have therefore adopted the outsourcing of their business processes such as HR activities as recruitment or staffing to developing countries such as Ghana in by relying on the expertise of HRO firms so as to attract cheap and highly skilled workforce in order to gain competitive advantage. Outsourcing Recruitment and Selection functions as thus help MNCs meet global demands and address labour shortages in the developed countries.

The results of the study establishes that although HRO activities including recruitment and selection in the Ghanaian labour market is not well developed, and that the practice of HRO is limited to a handful of multinational companies in the country. The activities of HRO firms   involve selected HR activities rather than the entire HRM outsourcing. Ghana has great potential for the development of the outsourcing industry. The study indicates that most multinational companies that outsource their recruitment and selection activities have high expectations from their service providers. MNCs believe that they can cut down on costs and focus on their core business, reduce the time to hire and rely on the expertise of recruitment consultants who can deliver the hiring of prospective candidates more efficiently and effectively.   The study also revealed that it is the expectations of MNCs that their service providers recruit or hire quality and

highly qualified candidates and in a timely manner reduce or low employee turnover, and increased efficiency and effectiveness of the service quality. The study further revealed that most of the multinational companies in Ghana do outsource their recruitment portfolio with the expectation that they can access cheap technologies and expertise from their outsourcing partners. Then again this study showed that multinational companies expect their outsourcing partners to safeguard and protect the data of their employees especially from their competitors. They also expect that joint teams would be constituted by their clients to ensure the implementation of the entire recruitment process outsourcing (RPO).

These revelations elaborated goes not only to confirm the adoption of the TCT and the RBV theories as theoretical basis of this study which emphasized on the issues of cost reduction and focus on core competencies as the fundamental rationale behind firms or MNCs engagement in HRO activities. But to also identify there other expected benefits that MNCs seek from outsourced vendors.

With respect to the challenges facing HR service providers in Ghana, this study also revealed a number of interesting challenges that HR service providers face in the recruitment and selection outsourcing business in Ghana. The study shows that the one major challenge which confront the HR service providers or vendors are inadequacy or the lack of communication among key players or stakeholders such as employees and line managers and senior managers. It was also revealed by this study that HR vendors in the outsourcing hardly involve these key players in the whole process through earlier and on going consultation about the recruitment and selection outsourcing activities; hence the lack of cooperation between them. This results in mistrust and suspicion from the employees, line managers and senior manager. Hence often times there are lack of cooperation and support from the employees and line managers due to these mistrust and suspicion. There is therefore a need for HR service providers to develop communication strategy to ensure adequate communication between them and the employees and line managers through regular consultation to allay their fears about the recruitment outsourcing process and to gain their cooperation and support throughout the implementation phase of the process. Another challenge revealed by the study was

that the poor management of the outsourcing relationship between HR vendors and their clients. Managing the recruitment outsourcing relationship is a complex and difficult tasks especially where there is a significant difference in the business culture between the vendor country and the clients. Due to cultural difference managing the relationship becomes difficult since it involved the values, beliefs and practices of the outsourcing parties.

To deal with this challenge, HR vendors must ensure that they develop a healthy relationship between them and their clients since by maintaining a healthy relationship with their clients, not only will the implementation of the outsourcing process be successful, but also lead to a long-term contractual agreement for the mutual benefits of the two parties. Furthermore, the study revealed that the difficulty in enforcement of contract and protection of intellectual property rights in Ghana also poses a big challenge to them. There is a general feeling or impression that enforcing contractual obligation and protection of intellectual property rights and proprietary information is difficult in Ghana. Most HR vendors complained that that they often times encounter contractual breaches from the part of their clients even though contract terms are clearly defined and documented. More so, they have great difficulty in having the contract terms enforced by the law courts due to undue delays by the courts. To minimize this challenge, HR vendors should adopt or ensure that alternative disputes resolution mechanism (ADRM) clauses are inserted in the contract agreements so that in the events of disputes arising, they can resort to ADRM for quick resolution. Further more the government must ensure that the law courts are adequately equipped and strengthen and empowered to deliver justice timely and fairly to all litigants as justice delayed is said to be justice denied.

The study also shows inadequate information technology infrastructure or facilities in Ghana poses a great challenge to HR service providers in the recruitment and selection outsourcing business as they hugely depend on Information Communication Technology for their operations. To address this challenge calls for more investment by government and the private sector in the development of the information technology infrastructure base of the country in order to build up the capacity of the country's ICT

industry so as to accommodate the large volume of traffic by providing broadband for internet usage.

The study further indicates that another challenge that HR vendors in the recruitment and selection outsourcing business face is the lack of skilled labour in the Ghanaian labour market especially for professionals such as Accountants, Financial Analysts, ITC professionals, Engineers, lawyers etc. largely due to the brain drain syndrome as a result of low remuneration in Ghana. This problem can thus be addressed through the training and education of more of these professionals by the Ghanaian government through the provision of heavy investment in education especially in technical and vocational education and the provision of better incentives to attract and retain these professionals in Ghana.

Lastly, another challenge the study revealed was the role of culture in the outsourcing process. The influence of national and organizational culture has a major impact on the outsourcing process. Vendors must therefore endeavor to understand both the national and organizational culture of their clients, so as to ensure a smooth and successful execution of the entire contract agreement.

To sum up, this study which attempted to shed light on the expectations and challenges that HR service providers or vendors face in the recruitment and selection outsourcing activities in Ghana by investigating what expectations and challenges HR vendors do face or encounter within the Ghanaian labour market. To this end, this study tried to conduct a multiple case studies of HR service providers in the recruitment outsourcing activities in Ghana based on personal interviews. The most significant outcome of the study suggests that clients expects clients to deliver quality services in terms of attracting quality and skilled personnel at less cost, reduction in time-to-hire, low employees turnover, gain access to new technologies and expertise at affordable cost among others from their HR vendors.

Secondly the findings revealed that HR vendors face numerous challenges in their recruitment and selection activities. Such challenges include inadequate communication, managing the relationship, inadequate information technology infrastructure in the country, lack of skilled labour, non-enforcement of contract agreements etc. The success of the managing the relationship depends on trust between the parties to the contract and this can only be achieved through by the involvement of the key players in the formulation and implementation of the outsourcing plan through joint decision making as well as having regular consultation to discuss pertinent issues affecting the process. Free flow of information to all key players in the outsourcing process will reduce if not eliminate any mistrust and suspicion that may exist among employees, line managers and HR managers. According to this study, HRO including recruitment and selection outsourcing in Ghana as compared to other parts of the world, especially in developed countries such as United States and United Kingdom, is at its infancy stage, but have great potentials due to abundance of labour. As the Ghanaian economy continues to grow and expand especially with the discovery of oil, Ghana is eager to attract highly skilled workforce from within and outside its borders to accelerate the pace of its socio-economic development. There is a need therefore government and private sector to invest in more the HRO industry, since there is great potential for the Ghanaian economy especially looking at the pace of economic growth of the country and the desire of the country to attain the millennium development goal of becoming a middle income country by 2015. More employments can be generated from HRO sector and more so increase foreign direct investment into the country.

The country stands to gain tremendously from developing its HRO activities hence the government must initiate policies that can encourage investment in HRO by small and medium scale enterprises by giving tax relief to such companies involved in HRO. The government can encourage the development of HRO by outsourcing most of its HRM activities to HR vendors in the country as well as improving the investment climate so as to entice more foreign investors to transfer their HRO activities to Ghana.

The HR vendors will have to ensure that contract agreements are clearly spelt out, documented and what each party is expected to undertake well-defined or alternative disputes resolution are used to address disagreements that may arise. For instance one way of ensuring that conflicts are avoided is to agree on a standard measurement of performance by identifying what outcomes are expected from the vendors and manner in which resources and responsibilities are allocation must be agreed upon before the contracts commence to minimize conflicts.

This study indicates non-enforcement of contract agreement and intellectual property rights is another challenge HR vendors face in Ghana. The enforcement of contract obligation by the law courts and the protection of intellectual property rights are essential for the development of the HR industry in Ghana. Government must therefore strengthen the country's legal system to ensure that contracts agreements are enforced and intellectual property rights are protected.

The lack of skilled labour was also seen as a major challenge to HR vendors in Ghana. The government must therefore pay attention to the country's educational system by investing more in the people through the development of human resource base of the country. This can only be achieved by training and educating more people especially by focusing on technical and vocational education.

Lastly, the study revealed that conflicts or clash of culture was identified as a major challenge to the HR vendors due to conflicting cultural values, beliefs and practices between the vendors and the outsourcing firms. This can be avoided by ensuring that the business or organizational culture of both parties fit.

## 5.2 Limitations of the study

This study has several limitations. First the generalizability of this study's findings maybe limited, since the study was conducted in Ghana and might impact on the findings. Although the selection of respondents was representative of the population who has interest in HRO, the firms selected defer in stages of development. Also all the

firms in the sample were not exclusively in the recruitment outsourcing sector, generalizing the findings maybe very difficult. In addition, multiple key informants were used in this study. One key informant might have provided more liable data. However, the assumption underlying the use of multiple informants is that they are equally knowledgeable. Lastly since the study was conducted in English Language and both the respondents and the researcher in this study is Non- Native English Language speakers and therefore the likelihood of misrepresentation might occur.

## 5.3 Managerial Implications

The findings highlight many facts that can be seen as tips for companies wondering about whether to outsource their HR activities including recruitment and selection functions or not outsource such activities. As the findings put forth shows, the decision to embark on HRO is very complex and challenging. Hence managers should do proper cost- benefit analysis before venturing into it. The study also shows that HRO has bright efficient results, and promises better business performance, and opportunities; however it presents significantly new management challenges. Some specific challenges that maybe faced by the firm's decision to outsource include, but not limited to strategy, selecting of the right processes, right partners etc. Key reasons for the outsourcing decision have to be kept in mind in order to blend the outsourcing benefits with the over all business goals of the company. In order to stay ahead companies should not only have to meet customer's expectations but exceed them.

The ever changing technology is compelling companies to always be aware of new development and at the same time adopt an outsourcing strategy which could benefit from the advancements without causing any disruption to the ongoing operations. The study indicates that companies need to understand that just outsourcing an extremely vital business process like recruitment does not solve all the company HR related issues or problems. Once outsourced, the companies need to analyze the possibilities of further enhancing the level of development taking into consideration the risks and challenges that HRO activities such as RPO entails. HRO calls for better planning and preparation

as well as due diligence in the selection of vendors since the capabilities of the vendor is critical for the success of the outsourcing venture.

Lastly, the implication of the study is that managing the relationship is very critical to the overall success of the outsourcing process. Hence the parties to outsourcing firms must forge closer collaboration with their HR service providers through regular consultations to exchange ideas or views on pertinent issues affecting the process. Employees, line managers and senior managers must be taken onboard and made part of the decision making process right from the early stage of the outsourcing process to the end of its implementation.

## 5.3 Future Research

The current research study constitutes only a preliminary picture of the recruitment outsourcing in Ghana. Due to the small size of respondents, this study cannot represent the majority or even a large fraction of potential respondents, since the study covered only Accra and Tema metropolis and not the entire country. There are opportunities to expand on this study by redefining the research questions and by undertaking comparative research studies that would reinforce the findings. For instance future research can focus on challenges that national and organizational culture play in the success of HR outsourcing venture or the role of employees, line managers and senior managers on success of the HRO process. The study which highlights the challenges HR vendors face in recruitment and selection outsourcing and the expectations outsourced companies demand from them focused on the private sector. Further research can be done in order to validate the issues within different context. It would be interesting to see if other outsourcing destinations in Africa such as Nigeria and La Cote D'lvoire face similar expectations and challenges. This will make it possible to draw implications about the generalizability otherwise of the results. Lastly the research study which concentrated on the private sector can be extended to the public sector. For instance, it is suggested that future research can focus on public sector through a

comparative study, to see the similarities and differences of the expectations and challenges faced by HR service providers.

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## Appendix 1- Interview Questions

Name of Respondent……………………………………………………………….

Age…………………………… Gender…………………………………...

Job Position held…………………………………………………………………..

1. What types of business activity is your company engaged in?

2. Is your company a local company or a foreign subsidiary?

3. What is the number/strength of your staff or employees?

4. What is your company's annual turnover?

5. What is your company's main activity or core competence?

6. How long have your company been in the outsourcing business?

7. Is recruitment outsourcing the only outsourcing functions that your company performs or there are other functions that your company performs?

8. Why do you think or believe MNCS should outsource their HRM functions including recruitment to your company?

9. Do your Clients outline their expectations when contracting you for their HR outsourcing activities including recruitment?

10. What are some of the expectations of your clients?

11. Does your company meet these expectations from your clients or are your clients often satisfied with your performance?

12. How does your company meet these expectations?

13. Do you think these expectations are realistic?

14. Does your company face any challenges in meeting the expectations of your clients?

15. What challenges do your company face in meeting these expectations from your clients?