

The Benefits and Dangers of Outsourcing Employees in an Emerging Economy

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Abstract: This paper presents the findings of the benefits and dangers of outsourcing in an emerging economy using hr managers selected public and private sectors as case studies. The aim of the study was to determine the impact of outsourcing on the employees. The findings suggested that although it has positive outcomes in achievement of organizational goals, employees are weakened by the negative impact of outsourcing as it increases job insecurity, demotivation in the organization. The significance of the study was to highlight the impact of outsourcing on employees and its relation with management although there's not much empirical evidence, this paper thus addresses this issue. It is hoped that this study would add to knowledge, create awareness, refine the existing practices in the organization and change the attitudes of employees for better performance and organizational success.

Keywords: performance; outsourcing; employee relations; motivation

1. Introduction

In recent times, environmental and contextual changes presents a number of competitive challenges to organizations with new trends and patterns emerging and giving rise to a new economy influenced by the new factors that are changing the work system. With high competitiveness, new and innovative organizations springing up, organizations are continuously forced to improve their business performance to achieve a competitive advantage.

These organizations actually cross their traditional boundaries just to achieve optimum, efficient and cost effective performance. Many of these organizations (from the aspect of human resource) have "*been turning to outsourcing*

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increasingly in an attempt to enhance their competitiveness, increase profitability and refocus on their core business”. (Adeyemi & Salami, 2008)

There has been a major growth of interest in strategic human management (Boxall and Purcell, 2003). As human resources in organizations are becoming more strategic, they have the priority to secure and maintain the kind of human capital that is necessary for the organization’s viability and survival. Thus, there is a need for the company to outsource the non-core functions of the organization so that the human resource will be more strategic in integrating with the overall business strategy focusing more on achieving the core business objectives.

To this end organizations have become “leaner and meaner”. The application of this idea differs between organizations considering the ultimate goal of the company (in terms of what they expect from employees). This serves as a reason why Redman and Snape (2005) opined that *“for organizations to achieve that level of optimum performance and operational efficiency, it has to rely almost exclusively on the output of the workforce.”* An understanding of the psychological contract and creation of a conducive working environment for employees would enhance the optimum productivity of employees and also improve the benefits of the stakeholders in the organization.

It is however worrisome to observe that Nigeria, a developing country, lacks sustainable practices as such adopt a combination of foreign and local practices (Anakwe, 2002).

The US Solidarity Centre in its report detailed the shift of Nigerian oil industry’s from permanent, direct employment towards outsourced and temporary labor. The report also argued that outsourcing of labor is industry-wide and is a clear attempt to reduce the cost of doing business while simultaneously breaking workers’ strength. it is in line to say that these outsourcing practices are carried out without considering the effects of these practices on employee performance and motivation.

It is based on the observed shortcoming that this paper seeks to explore the benefits and risks and the impact of outsourcing Human resources in an emerging economy like Nigeria.

2. Statement of the Problem

Arising from the observed shortcoming identified above, it will be reasonable to argue that there is an organic linkage between the effective performance of employees in the organization and the methods adopted by the management of the organization for the management of men and materials.

Nigeria being a low-qualified labor intensive country, workers would be more affected by these trends. It is expected that out sourcing would affect workers, performance as it depends on part of their commitment (Camilleri, 2002). Financial and non financial rewards are factors that determine an employee's level of commitment but little attention has been paid to employment relations which outsourcing heavily affects.

It is assumed that organizational performance depends to a large extent on the performance of the employees to the organization. But then, commitment itself involves an emotional attachment (affective and continuance commitment) which influences the employee to want to stay in the organization or not. This depends on the employee's assessment of the utility of continuing the current employment as against working elsewhere (Halaby & Weakliem, 1989). Therefore, a critical review of outcomes of outsourcing human resources ought to be examined to see if they are actually beneficial to the organization and employees and at the same time strike the right balance.

3. Objectives of the Study

The study focuses on the impact of outsourcing on in an emerging economy with relevance to the human resource. The objective of this study is to ascertain the perceived effects of outsourcing on employee relations and also to investigate the effect of outsourcing on workers commitment.

Research Questions/Hypothesis

The following questions were raised to guide and help proffer solutions to the problem that was stated in this study.

- (i.) Does outsourcing cause risks in the area of employee- management relations?

- (ii.) How would you estimate the balance between its advantages and disadvantages?
- (iii.) Can outsourcing help in the accomplishment of business objectives?
- (iv.) What is the impact outsourcing on employee in the organization?

3. Literature Review and Theoretical Framework

Contemporary studies in the field of human resources management has shown that the concept of outsourcing is multifaceted thus there are so many contribution to the definition of this concept. Gibson (1996) defined outsourcing as “submitting activities and routine functions to external units”. According to Adeyemi and salami (2008) outsourcing is the transferring of activities previously performed within the organization to external suppliers due to high transaction costs and risks, allowing the company to benefit from the supplier’s higher production economies, such as scale and specification.

Outsourcing human resource is a trend that creates its own momentum because the more outsourcing that occurs, the bigger and better the providers become, making increasing proportions for more organizations (Torrington, Hall & Taylor, 2005). Human resource in the organization can be well positioned by aligning strategic human resource to the core business will be more efficient, more effective and more profitable by concentrating on core activities and by letting specialists service providers run the rest (Financial Time, 2009). The quality, type and nature of the services to be provided by the outsourcing consultancy firm are usually determined by the service level agreement signed (Torrington et al., 2005). Finally, Kraker (1995) reported that outsourcing is finding new methods for using new good and service suppliers to use their knowledge and experience in our activities.

Burnes and Anastasiadis (2003) reported that outsourcing is more effective and successful in public sector than private. Moreover, with their comparative studies, Domberger (1998) and Burnes and Anastasiadis (2003) found that North American countries, England, France, Germany, Japan and Australia have increasingly tended to use outsourcing and have applied it in both private and public sectors. China, as a case pacing through development quickly, by using outsourcing in public and private sectors, has become one of the best countries in this field. The basis of outsourcing concept relies on the fact that organizations using outsourcing

are trying to capture experts to whom they assign a series of their functions and use their knowledge and experience in those actions (Embleton and Wright, 1998:2).

4. The Benefits of Outsourcing

The increase in outsourcing by most organizations suggests that both public and private organizations expect benefits from it. Organizations in different situations expect different gains. For example, most organization may look at its cost effective aspect even though in government agencies, *the typical cost savings are only about half of what the private sector achieves* (Kakabadse & Kakabadse, 2000a). Many of the advantages are general enough and are shared across organizations. The advantages or benefits of outsourcing may include gaining competitive advantage and realizing the same or better service at a lower overall cost Adler (2000), increased flexibility and/or quality .Roberts, V. (2001), access to the latest technology and best talent Gordon and Walsh(1997, Wright (2001) and the ability to re-focus scarce resources onto core functions McIvor and McHugh (2000), For the political sector, additional benefits may include better accountability and management, and a better political posture. McIvor (2000a), There also appears to be an expected benefit of copying competitors or dealing with functions that seem to be troublesome.

Risks of Outsourcing

The lack of methodology is believed to cause some outsourcing failures (Bounfour, 1999; Lonsdale, 1999).This notion is supported by Lonsdale who suggests that outsourcing failures are not due to an inherent problem with outsourcing but rather the lack of guiding methodology for managers (Lonsdale, 1999). Another difficulty encountered with outsourcing, particularly is the lack of skills within public organizations to manage and Monitor outsourced functions. Potential Risks abound for organizations taking up outsourcing these are: unrealized savings with a potential for increased costs. Alexander and Young (1996), (Journal of Accountancy, 1996), employee morale problems. Story (2000), over dependence on a supplier Krizner (2000), lost corporate knowledge and future opportunities McIvor (2000a), and dissatisfied customers Kakabadse and Kakabadse (2000a). It is also noted that outsourcing may fail because of inadequate requirements

definition, a poor contract, lack of guidance in planning or managing an outsourcing initiative, or because of poor supplier relations.

5. The Nigerian Context

Outsourcing is showing off its risks in Nigeria especially in the areas of its human capital. Above all, it is worsening the already dangerously unstable unemployment challenge in the country.

The surge in outsourcing in Nigeria and indeed around the world is causing workers to lose their jobs, across every field from manufacturing to engineering and even marketing positions. Even when the jobs are not lost, out sourced workers are derided and humiliated in most cases. Although outsourcing is a global phenomena in employee relations and also the world been a global village, the methods of outsourcing core jobs to contractors thereby trivializing worker's job security and their conditions of service does not amount to internationally accepted best practices.

Not much was known about how Nigerian workers on the payroll of outsourcing firms were treated until the recent unprovoked controversial sacking of 3000 workers in the Call Centre Service of Airtel Nigeria on the eve of the country's 51st independence anniversary.

The arbitrary termination of employment of workers recruited to man the Call Centres by Spanco Channel BPO and Tech Mahindra, two Indian firms, have opened a Pandora box on the quality of existing labor relations in many organizations in Nigeria. Moreso, that most of these companies engage in sharp labor practices that they dare not contemplate in their home countries brings to the fore their disdain for Nigeria.

Reports abound of how job recruitment firms hire qualified Nigerians on behalf of multi-national firms operating in the country and outsource them to agencies working for these multi-nationals under manipulative contracts that neither guarantees the prospective employee job security nor the promised lucrative pay-package. On top of that, these employees are made to work under very harsh conditions, including longer hours without commensurate pay. This is supported by Robert (2001) who noted *that the treatment of workers displaced through outsourcing is an important area of concern.*

With the issuance of licences to 298 outsourcing firms in the last one year alone, there is need for greater scrutiny of these firms' activities. According to a recent report by the Nigeria Union of Petroleum and Natural Gas Workers (NUPENG) and the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), for every full-time oil worker in Nigeria there are four casual workers. Similar development is also unfolding in other sectors of the economy.

Banks today make use of poorly paid contract staff in most of their operations. Just recently, Shell Petroleum Development Corporation (SPDC) divested, selling off its oil blocs, flow stations, well heads as well as assets to other oil companies without regard to the workers that man these equipment. Unfortunately too are reports of accidents in factories owned by the Chinese and Indians in Nigeria, where workers disfigured by machines are simply and allegedly fired with no benefits. This is unacceptable to any emerging economy like Nigeria.

Using motivational factors to boost performance is rather a complex and dynamic journey owing to the many existing and opposing theories of motivation. The most prominent motivational theories are Maslow's hierarchy of needs, Herzberg two-factor theory and Vroom's expectancy theory. According to Maslow's hierarchy of needs theory, the strongest motivator is self-actualization which is the desire to fulfill one's self and use one's ability to the fullest. Herzberg's two-factor theory contended that it is the content of work that satisfies and consequently motivates employees. Whereas, Vroom's expectancy theory holds that the manipulation of the factors of job motivates only if such factors are valued and expected as outcome of increased efforts by the employees. With these theories it is possible to argue that although outsourcing is favorable from management point of you, it affects the human resource and further impedes on human capital development and employee participation; job enrichment techniques organizations claim they use.

In conclusion, outsourcing and its alleged risks on employee relations in organizations have generated a lot of worries particularly against the back drop of rising unemployment rate. (Ogunrinola & Osabuohien, 2010)

The significance of the study is to highlight the impact of outsourcing on employees and its relation with management although there's not much empirical evidence, this paper thus addresses this issue.

5. Methodology

A sample of 40 human resource practitioners (experts) were randomly selected; 20 from the private sector and 20 from the public sector and with ethical considerations taken into account. The primary data was collected through the means of interviews while the secondary data was collected through the means of textbooks on outsourcing of human resource, academic journals, online resources, CIPD websites and business reviews.

Data presentation and analysis:

Table 1. Distribution of human resource practitioners in the public and private sectors

HR practitioners	No. of respondents	Percentage
Public sector	20	50%
Private sector	20	50%
Total	40	100%

- (i.) Research Question 1: Does outsourcing cause risks in the area of employee- management relations?

Response	No. of respondents	Percentage
YES	18	90%
NO	2	10%
Total	20	100%

Table 1b. Response from the private sector

Response	No. of respondents	Percentage
YES	16	80%
NO	4	20%
Total	20	100%

Research Question 2: how would you balance its advantages against its criticism?

Table 2a: Responses from the public sector

Response	No of respondents	percentage
Advantage	15	75%
Disadvantage	3	15%
At par	2	10%
Total	20	100%

Table 2b: Response from private sector

Response	No of respondents	percentage
Advantage	18	90%
Disadvantage	0	0%
At par	2	10%
Total	20	100%

Research Question 3: can outsourcing of human resource help in the accomplishment of organizational objectives?

Table 3a: Response from the public sector

Response	No of respondents	percentage
Yes	15	75%
No	3	15%
Not sure	2	10%
Total	20	100%

Table 3b. Response from the private sector

Response	No of respondents	percentage
Yes	15	75%
No	3	15%
Not sure	2	10%
Total	20	100%

- (i.) Research Question 4: What is the impact outsourcing on employee in the organization?

Table 4a. Responses from the public sector

Response	No of respondents	percentage
Positive effects	4	20%
Negative effects	14	70%
Not sure	2	10%
Total	20	100%

Table 4b. Responses from the private sector

Response	No of respondents	percentage
Positive effects	4	20%
Negative effects	16	80%
Not sure	0	0%
Total	20	100%

6. Findings and Discussions

The findings of this paper show a great deal of similarity in the perception of outsourcing in the private sector as well as in the public sectors of the Nigerian economy.

In the public sector, approximately 73% were of the opinion that outsourcing causes risks in the area of employee- management relations. This is because from the research carried out the somewhat casual workers can be seen and not heard in the sense that they are treated with some form of inferiority and a little lower than the “permanent staff”. It was also discovered that there is a feeling of job insecurity among casual workers and the grapevine if negative at any point during working activities leads to loss of motivation. The negative Pygmalion effect might necessitate the actualization of such fears. From management point of view, the threat of frequent strikes is evident enough to show that outsourcing affect employee relations and so feel a venture into it although profitable might affect generally the human capital in the organization.

Both the public and private sectors have negative perceptions on its impact on employees this is supported by Robert (2001) who noted *that the treatment of workers displaced through outsourcing is an important area of concern*. The finding shows that though outsourcing is beneficial to the organization which in turn paves a favorable future for organizations, the human resource (employees) becomes the bearer of the consequence in which their expectations are cut short and motivation reduced because of the tendency of job insecurity and self actualization.

The private sector, approximately 87% held that the concept of outsourcing personnel should be carried out often for efficiency. Outsourcing in the private sector is an avenue to maximize profit and so there is a tendency to go for outsourcing

In totality, an approximate figure of 80% of both sectors conclude that although there are outlined disadvantages, the weight of the advantages supersedes that of the disadvantages from the ,management point of view and that the concept of outsourcing of personnel should be carried out more often by companies not only for short run gain but also for the benefits in the long run. On the impact outsourcing on employee in the organization?

7. Conclusions and Recommendations

This report from the beginning introduced and high-lighted the changing trends and patterns of the economy, organizations and human resource practice as well as the need for organizations to outsource part of their human resource.

Although the results show that organizations are in favor of it, the risks associated with carrying out this practice in a developing economy like Nigeria should be tackled especially in the area of human resource.

Also, there is need for the National Assembly to enact employment legislation that would protect employees' rights at such work places. There is a growing understanding that the current labor laws do not significantly protect employees from abuse by their employers in Nigeria, and foreign firms have exploited the loopholes to 'maltreat' laborers. A situation where workers are easily dispensed of at the flimsiest of excuses dampens productivity with its attendant reduction of potential national output.

That workers who offer same services or shoulder even more responsibilities in most foreign firms in the country receive lower wages than their expatriate colleagues is antithetical to national development. Besides, government should match words with action and implement the local content law across all sectors of the economy to ensure that Nigerian job-seekers are not displaced by foreign expatriates, who often are not better skilled.

Finally, foreign firms operating in Nigeria should be compelled to avoid labor practices that cannot be permitted in their home countries. International best practices should equally be extended to Nigeria's labor sector.

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