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**ASSESSING HUMAN RESOURCE MANAGEMENT OUTSOURCING:  
THE CASE OF HOLLAND DAIRY ETHIOPIA**

**SCHOOL OF COMMERCE**

**By**

**Nablies Bitew Hailemariam**

**Advisor: Dr. Teklegiorgis A.**

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**APPROVED BY THE COMMITTEE OF EXAMINERS:**

1.

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Department Head Signature

2.

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Advisor Signature

3.

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Internal Examiner Signature

4.

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External Examiner Signature

## DECLARATION

I hereby declare that the thesis entitled: **ASSESSING HUMAN RESOURCE MANAGEMENT OUTSOURCING IN THE CASE OF HOLLAND DAIRY ETHIOPIA** is submitted for the partial fulfillment for the award of masters of art in Human resource management at Addis Ababa university, School of commerce is my own original work and has not been submitted earlier either to Addis Ababa university or to any other institution for the fulfillment of the requirement for any course of study.

Declared By:

Name: \_\_\_\_\_ Nablies Bitew Hailemariam

Signature: \_\_\_\_\_

Date:

Confirmed By: Advisor:

Name: \_\_\_\_\_ Teklegiorgis A. (Ph. D) \_\_\_\_\_

Signature: \_\_\_\_\_

Date:

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## **ABSTRACT**

*Human resource outsourcing provides businesses access to high-quality human capital from outside sources at reduced costs. This allows firms to devote fewer organizational resources to staffing and more to core operations and competence-building programs. Concerning this, limited research has been conducted on HRM outsourcing function and Most of the empirical studies that has been mentioned were failed to properly assess the ability to access knowledge, technology, and industry best practices that may not be accessible internally can be gained by outsourcing HR operations to a specialist vendor. This study aims to answer the following research question: what the HRM outsourcing practice in Holland Dairy Ethiopia is, what are the existing challenges in implementing HR outsourcing services in the company and what are the opportunities for practicing HR outsourcing in the company. Therefore, to answer this question the study used census method and descriptive survey design to collect data and to address the research questions, 85 questionnaires were prepared and distributed out of these questionnaires 72 were filled and returned. Accordingly, the result of the study showed that, there is HRM outsourcing function in none-core activities of the company. Also, there is moderate opportunities and more challenges of outsourcing human resource management function in Holland Dairy company Hence, most of the respondents were suggesting neutral to those questions. As a recommendation the company should develop outsourcing HRM function in their core areas of HRM service, further, when the company outsourced the HRM function must focus on the area that the company established site and the employee culture to avoid language and culture barriers.*

**Keywords:** *Human resource management, outsourcing, human resource outsourcing*

# **CHAPTER ONE**

## **INTRODUCTION OF THE STUDY**

### **INTRODUCTION**

This chapter presents background information about the study and cover the statement of the problem, research objective, research question, and significance of the study. The chapter also covers other sections including the delimitation of the study. In the background of the study, reviews of the key concepts of human resource outsourcing were discussed.

#### **1.1 BACKGROUND OF THE STUDY**

The world has witnessed remarkably rapid growth in Business Process Outsourcing (BPO) in areas such as manufacturing, product development, and innovation. With Business Process Outsourcing, the target is longer-term, and it focuses on the achievement of the overall business benefits, whether enhancing an organization's competitive position in the marketplace or improving shareholder returns (Maku & Iravo, 2013).

The difficulty, time commitment, and complexity of HR operations may prevent the effective performance of critical business tasks. These challenges divert attention from the obligations that inevitably require full concentration. As a result, any company's ability to succeed depends on how well it uses its human resources. HR outsourcing services improve adaptation to the rapidly changing domestic and international corporate contexts (Yang, et al. 2007).

According to Global Impact Report 2022, many companies are under constant pressure to reduce costs. And while HR has made tremendous strides to manage its costs and improve its operating efficiency over the past two or three decades, there is usually room to improve. That said, it is important to remember that HR must not only be efficient, but also effective and compliant. The direct impact of improving HR's internal efficiency is relatively low. To have a greater impact on costs, HR should focus its specialization on people-related costs that are outside of the HR budget, such as pensions and health care. Another way for HR to contribute is by helping the business reduce the 'cost of work' through improvement initiatives that focus on things like worker productivity and the management of contingent workers. Human resource outsourcing

(HRO), or the outsourcing of human resource services, is now a strategic option for many firms. Due to the more effective and efficient production and service provided by external suppliers, outsourcing becomes more and more necessary as corporate globalization rises

Human resource outsourcing provides businesses access to high-quality human capital from outside sources at reduced costs. This allows firms to devote fewer organizational resources to staffing and more to core operations and competence-building programs. Over the last decades, organizations have begun to outsource certain aspects of their HR operations to reduce costs and gain access to specialized skills such issues in areas such as process design, performance management, and compensation planning. In addition, HRM outsourcing can provide smoother integration of personnel changes due to mergers or acquisitions or relax the strain on company human resource departments tackling new initiatives or downsizing programs—enabling them to better handle other tasks they may be assigned to Michael L (2018).

According to Fitsum Hailemariam (2021) states despite the importance of HR outsourcing in helping organizations concentrate on their core missions and improve performance, HR outsourcing activities are still in their infancy in Ethiopia. Currently, few companies are engaged in providing limited outsourcing services. The current outsourcing practice in Ethiopia is limited to a company's non-core activities which are confined to recruitment service, security service, and janitorial service. Despite its aggressive application in the international environment, the use of outsourcing in Ethiopia is almost none.

Therefore, the goal of this research is to assess the current HR outsourcing practice in the study organization. This study also identifies the current favorable conditions to execute various HR outsourcing and the bottlenecks which hinder the effective implementation of HR Outsourcing.

## **1.2 BACKGROUND OF THE ORGANIZATION**

Holland Dairy is a leading provider of high-quality dairy products in the entire country of Ethiopia that was founded in 2009 E. C. Holland Dairy is a leading dairy company in Ethiopia. The company is Ethiopian by nationality and Dutch by technology. the company is most famous for yogurt and milk, but its uniqueness goes much deeper. The milk is sourced locally, and only

the best gets selected to ensure high-quality raw milk inputs. It strives to build a thriving Ethiopian agricultural sector and most of the suppliers are smallholder farms.

The organization is passionate about the people of Ethiopia and cares immensely about their well-being. It seeks to alleviate some of the food insecurity in the country by growing the Ethiopian dairy sector. This industry is of vital importance to rural and urban economic development.

At Holland Dairy, seeking to help modernize this valuable sector to help increase the living standards of those involved in the work while increasing the health of all who benefit from locally sourced and high-quality dairy products. By using small farms, the organization ensures funds remain within the community to create quicker growth and development. The organization has been able to boost the living standards of our community and make consumers happy.

### **1.3 STATEMENT OF THE PROBLEM**

The need to respond to market changes daily and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities (McIvor, 2008). HR outsourcing is the practice of contracting out some or all of the HR operations to outside suppliers as opposed to handling everything internally (Adler, 2003; Patry et al., 1999). HR outsourcing includes everything from simple transfer of non-core functions to outside providers, such as payroll and benefits administration, through recruitment, training, and even HR strategy planning (Patry et al., 1999; Klaas et al., 1999).

Despite the many benefits some firms achieve from outsourcing, others experience undesirable outsourcing outcomes because managers lack the knowledge to identify potential risks or the ability to manage them (Prystupa, & Rządca, 2015). Before outsourcing any function, managers need to assess the consequences of HRO on organizational efficiency and effectiveness, and to accomplish this; they must understand the reasoning for deciding to outsource and the cost of HRO across all business lines (Savino, 2016).

According to the researcher's preliminary study conducted, the organization has contracted with an outside consultant or service provider for administrative services like recruiting, cleaning, security, and catering service. The organization was assumed to minimize cost and enables their

staff to focus on strategic or core activities. Practically, outsourcing HR services is increasing overhead expenses owing to consultancy fees, and organizations didn't specify communication standards while working with HR outsourcing companies. From the organizational viewpoint (Service recipient), the factor combined with other issues that have been identified above causes unanticipated results. The organization was not inspected or evaluated the efficiency of HR outsourcing across various dimensions. There is no assurance that these services would offer the same return on investment as using an internal strategy because the firms neglected to conduct further research on HR outsourcing concerns.

Most of the empirical studies like welansa B (2018) and Sisay B (2020) were conducted to examine the effect of fleet outsourcing on operational performance. The other studies Işık c et., (2011) focus on examining the effect of HR outsourcing on organizational culture. The study examined what kind of human resource practices can be outsourced and can add value to organizational performance are discussed. The influence of workers' changing attitudes about outsourcing towards the organization in detail and the effect of organizational culture in the mentioned relationships are missing in the literature. But the study was laid on a document or literature critical review but failed to triangulate from primary data sources to address research questions.

Other research Fitsum Hailemariam (2021); did his study on Opportunities and Challenges of Human Resource Outsourcing in The Case of Lonadd HR Consultancy and Dalhousie University. The study found that human resource outsourcing has inherent risks as well as some challenges in the Ethiopian context. The study heavily relied on a qualitative research methodology to answer its research questions. To present a thorough view of the research problems, this study did not use a quantitative technique. The study's scope is too broad to adequately examine the opportunities and problems of HR outsourcing from the standpoint of organizational performance, and it places too much focus on policy and legal concerns rather than critically assessing the needs of the service recipients.

Most of the empirical studies that has been mentioned above failed to properly assess the ability to access knowledge, technology, and industry best practices that may not be accessible internally can be gained by outsourcing HR operations to a specialist vendor. Providers can offer

specialized solutions that address their demands since they may have experience handling HR difficulties that are specific to service-provider.

Therefore, this study aims to deal with the effectiveness of HRM outsourcing, prospects for expanding these operations as well as the current difficulties in implementing HR outsourcing. Since the service recipients are the ones who choose to continue working with HR outsourcing providers, this study places more emphasis on evaluating HR outsourcing from their perspective.

#### **1.4 RESEARCH QUESTIONS**

The research guided by the following basic research questions.

- What is the HRM outsourcing practice in Holland Dairy Ethiopia?
- What are the existing challenges in implementing HR outsourcing services?
- What are the opportunities for practicing HR outsourcing in the study organizations?

#### **1.5 OBJECTIVES OF THE STUDY**

##### **1.5.1 GENERAL OBJECTIVES OF THE STUDY**

The overall objective of the study was to examine the challenges and opportunities of Human resource management outsourcing in the case of Holland Dairy Ethiopia.

##### **1.5.2 SPECIFIC OBJECTIVES OF THE STUDY**

- To assess the HRM outsourcing practice in Holland Dairy Ethiopia
- To identify the existing challenges of implementing HR outsourcing
- To investigate the opportunities of HRM outsourcing in the study organizations

#### **1.6 SIGNIFICANCE OF THE STUDY**

The goal of this research was to investigate the benefits and drawbacks of outsourcing HRM. The findings of this study might be used by the management of the organization to make judgments about outsourcing policies that would increase productivity and enhance service delivery. The study's conclusions and suggestions offer management insight into how efficiency might increase through an outsourcing strategy, enabling this significant sector to carry out its

core or strategic tasks more easily. When outsourcing is successfully implemented, other institutions and companies will want to understand the difficulties and opportunities of implementing HR so they can choose the best strategy for service acquisition. Additionally, it might aid in developing and expanding the current studies, particularly in the business sectors.

### **1.7 SCOPE OF THE STUDY**

The conceptual boundary of the study will focus on examining the challenges and opportunities of Implementing HR outsourcing. This study will emphasize Human resource management outsourcing, particularly in Recruiting, Catering, cleaning, and Security services. Mainly the study will focus on examining effectiveness, challenges, and opportunities of HRM outsourcing from the perspective of service recipients or Holland Dairy plc. The study focuses on the environmental factors which helps the study to identify challenges and opportunities of HRM outsourcing; those environmental factors are Technological advances (companies that are able to leverage the latest tools and platforms may have a competitive advantage), Social and cultural factors (language barriers, geographical location, and cultural norms) and Legal and regulatory environment depending on the location of the outsourcing provider. Effectiveness of HRM outsourcing in this research will be measured by checking or assessing whether outsourcing has led to improvements in the quality, speed, or efficiency of HR services, such as recruitment, training, and performance management.

Geographically the study was limited to one organization which is Holland Dairy Ethiopia. To find a solution to the study issues, the methodological scope was applied. Both quantitative and qualitative research methods were used for this study. Data from sample respondents were collected using a well-designed survey tool and interview guide, and SPSS version 26 was utilized to analyze the data.

### **1.8 ORGANIZATION OF THE STUDY**

The research paper organized into five chapters. The first chapter deals with the introduction of the topic and the second chapter present the review of related literature which is about Concepts of HR Outsourcing, related challenges, and Opportunities. The third chapter deals with the methodology of the research and the fourth chapter presents data analysis, and findings of the

data gathered. The fifth chapter presents summary, conclusion and recommendations of the research.

## **1.9 DEFINITIONS OF KEYWORDS**

**Outsourcing-** The strategic process of subcontracting certain business operations or job functions to an external third-party provider. Work done for a company by people other than the company's full-time employees Manisha S. et.,al (2011).

**Human Resource Outsourcing-** HRO is commonly defined as externalizing HR activities previously performed in-house to external providers. It is the process of transferring a company's responsibility for human resources activities to an outside provider. This could include activities such as payroll, employee benefits, and recruitment services. HRO is a relatively new business model for many companies, but it is growing in popularity due to its potential to reduce costs and improve efficiency. (Delmotte and Sels, 2008).

**Recruitment Outsourcing:** Recruitment Outsourcing is a sort of HR outsourcing service where a firm outsources some or all its recruitment-related tasks to a third-party service provider. This can involve tasks including finding people, handling job ads, reviewing resumes, and overseeing the interviewing procedure. (Silverthorne & Snider, 2018)

**Security Outsourcing:** Security outsourcing involves hiring external service providers to manage various aspects of a company's security needs, including physical security, network security, and cybersecurity. Some common examples of security functions that are outsourced include security guard services, security system installation and monitoring, and cybersecurity monitoring and incident response (silversealredesign, 2022).

**Catering Outsourcing:** Catering outsourcing involves hiring external companies or service providers to manage food and beverage services for events, businesses, or other organizations. By outsourcing catering, companies can focus on their core activities while allowing specialized providers to manage food preparation, service, and cleanup (E, 2023,).



## **CHAPTER TWO**

### **RELATED LITERATURE REVIEW**

#### **2. INTRODUCTION**

This chapter gives an insight into the literature by other scholars and researchers on the Human resource management outsourcing. It reviews literature that is related to the specific and general objectives of the study. It specifically covers the past studies/main review where it discusses literature related to the specific objectives of the study.

#### **2.1 DEFINITION AND CONCEPTS OF OUTSOURCING**

According to Kodwani (2007), Outsourcing can be defined as a situation where an external vendor or service provider provides, regular, services that would normally be performed in-house by the organization. In other words, it can be said that outsourcing is a process where organizations outsource those aspects of their business processes, which gives them a competitive advantage (called core business) and contract out or shell out the non-core aspects of their business processes. With the increasing global competition, organizations are looking at outsourcing as a means of gaining a comparative advantage over other competitors

Outsourcing is thought to benefit a business by allowing an organization to focus on its “core competencies” or “core processes.” In this way, an organization can divert its energy away from peripheral or non-core activities of the business which lie outside of its “true” area of expertise, and instead concentrate more energy and focus on what it can do well to differentiate itself from other competitors. By outsourcing their non-core activities, organizations would be able to reduce their operating costs too Kodwani (2007).

The basic idea behind strategic outsourcing is to create gains by allowing outside providers and specialists to take over the operation and management of a given function. Such gains may come in different forms such as improving the bottom line of a company by reducing various operating expenses and increasing the flexibility for innovation without having to invest too much in training and capital infrastructure (Mella & Pellicelli, 2012). Other benefits may come in form of convenience, where the strategy allows the business owners and managers to concentrate on their core business (Insinga & Werle, 2000). As a simple rule, so long as the benefits are considered sufficient by the client, then the process of strategic outsourcing can be considered a success. In

the context of this study, strategic outsourcing will be considered in terms of the driving force behind the strategy. This study will focus on cost-driven outsourcing, innovation-driven outsourcing, and focus-driven outsourcing.

In the early 1980s, „outsourcing“ typically referred to the situation while organizations expanded their purchases of manufactured physical inputs, like car companies that purchased window cranks and seat fabrics from outside the firm rather than making them inside (Bhagwati, et al. 2004). Several writers have argued that enterprises will improve efficiency by concentrating on their core functions and outsourcing all peripheral activities to firms that specialize in such tasks (Cannon, 2009; Harrison and Kelley, 2003; Sharpe, 2007; Smith, 2001). The increasing use of contractors, for the supply of components and services, has been one of the notable trends in work organization over the past decade (Mayhew, Quinlan and Bennett, 2006). As Benson and Ieronimo (2006) reported most manufacturing firms surveyed had outsourced at least one activity with most planning further outsourcing within the next three years. This finding is supported by Wooden and Vanden Heuvel (2006) who found that 90 per cent of the 522 workplaces surveyed had used contractors in the past year.

The concept of outsourcing is not new. Firms have been outsourcing since the early 1900s, although under a variety of labels (Cappelli, 1995; Chandler, 2004). The activities outsourced, however, were not generally central to the core objectives of the firm and usually made a low contribution to the value chain. Conventional wisdom was that outsourcing core activities or technologies would threaten the firms' competitive advantage (Bettis, Bradley and Hamel, 2009). The success of companies like Microsoft, Benetton and Nintendo has, however, demonstrated that a competitive advantage can be achieved through outsourcing arrangements. These firms have outsourced many of the traditionally perceived core competencies including product design, software development and distribution. Many of these firms are new and so are free from historical practices and cultural restraints.

For organizations seeking to simply lower their cost of doing business, the efficiency The most traditionally acknowledged driving force for outsourcing is cost reduction (Blumberg, 1998). Some organizations may outsource only for cost reduction and efficiency especially those that are involved in offshore outsourcing to destinations of lower cost (Aksoy & Öztürk, offered by

the service provider and the level of risk borne by the provider are the most important factors in the equation. Another major driver of strategic outsourcing is innovativeness. As the business environment changes rapidly and customers increasingly modify their demands, organizations must find a way to stay afloat in the market by providing innovative products to the market in proper time and ahead of competition (Calantone & Stanko, 2007). Such organizations may therefore utilize strategic outsourcing with a goal of developing new products faster as they seek increased flexibility for innovation (Gesing, Antons, Piening, Rese & Salge, 2014).

## **2.2 HUMAN RESOURCE OUTSOURCING**

A value-creating activity that was performed internally by a company or could have been referred to as outsourcing human resource activities (Gilley & Rasheed, 2000). According to Lievens and De Corte (2008), who share this viewpoint, outsourcing HR operations refers to the practice of handing over all or a portion of an organization to a provider or providers outside the company. Adler (2003) goes on to define HR outsourcing as contracting out some or all the HR operations to outside suppliers rather than handling everything in-house. The practice of procuring human resource services from outside vendors or consultant firms is referred to as outsourcing human resource activities, according to Brown and Wilson (2005).

Moreover, Reed (2011) defined human resource outsourcing as the process through which parts of an organization's human resource management (HRM) tasks or activities are moved to a vendor outside of the organization itself. The goal of outsourcing the HR function is to increase an organization's effectiveness (Arnold, 2010). The idea of the HR role has altered because of changes to the internal and external organizational environments (Young, 2007).

Prior attention was placed on typical operational and administrative viewpoints, but there has been a significant shift recently toward strategic HRM and employment relationships (Beardwell & Claydon, 2012). Clarifying the connection between business strategy and HRM is a key component of the most recent approach to HR management. Organizations must also evaluate how HRM may be strategically applied to the accomplishment of organizational goals (Thompson et al., 2008).

Business executives frequently use outsourcing as a primary tactic to help them accomplish organizational needs and goals. This involves lowering expenses, obtaining access to cutting-

edge technologies, enhancing flexibility, and concentrating on essential tasks (Barthelemy, 2009). According to Armstrong (2006), most businesses need the assistance of professional businesses. Most businesses have so outsourced their HR function because of technological advancements (Turek, Watson, Bhansali, Baron & Lacerte, 2005).

Armstrong (2006) asserts that outsourcing the HR department is a sensible HR nineteen approach. Since some businesses might not be able to afford the cost of hiring talented full- or part-time personnel across all areas of the organization's operations, they have outsourced all or some HR-related tasks. The pros and cons of outsourcing HR requirements determine whether or not the human resource function should be done. Despite the drawbacks and difficulties involved in outsourcing, there has been a significant rise in the number of businesses that have done so for their human resource operations.

A significant change occurred over the past 20 years with many businesses outsourcing most or all of their HR functions (Beardwell & Claydon 2012). Nowadays, businesses consider the development and upkeep of the HR function to be expensive, which has led to a rise in the number of services being outsourced to external organizations. Therefore, outsourcing the HR function has become the most common. As a result, there has been a significant increase in the number of companies offering human resource outsourcing (HRO). According to Berry (2007), the outsourcing sector is estimated to be worth billions of pounds, there has been a major uptick, and this trend is influencing the future of human resource management.

## **2.3 THEORETICAL FRAMEWORK**

The study will adopt two main theories namely the Resource Dependency Approach and Transaction cost theory hence, these theories are important because it helps by fast creating a theoretical model that can be used to analyses information in a particular context. The information is then analyzed by collecting data from primary and secondary sources and analyzing it against theorists and identified within the study.

### **2.3.1 RESOURCE DEPENDENCY APPROACH**

It's critical to look at a company's structures, work cultures, relationships with other organizations, and period relationships within departments if it wants to survive (Ataman, 2009: p222). In this sense, organizations depend on their input's money, knowledge, talent, labor,

goods, and services—to run their operations and remain viable. Due to the dependence on the environment caused by the need for resources, organizations are constrained in what they can do and how they can behave by external factors. There are resources that are crucially important to each company and whose availability is unpredictable. Organizations must therefore adopt a variety of steps to address the issues of key resource scarcity and uncertainty (Kocel, 2011, P.352) The following three goals are typically sought for by organizations in terms of resource dependency: (Artuner & Anil, 2012, P.32) Owning a vital resource allows you to prevent others from obtaining it. It also protects your business from future resource dependency and gives you long-term control and dominance in the market.

### **2.3.2 TRANSACTION COST APPROACH**

The analysis of transactions between organizations and third parties outside the organization forms the basis of transaction cost theory. 82 (Williams, 2000). The theory was initially proposed by Ronald Coase towards the end of the 1930s, and Oliver Williamson contributed to its development with his 1975 book "Market and Hierarchies" (Abdullah Yilmaz & Aykut Beduk, 2013, p739) Coordination costs are another name for transaction costs. In organizations, there are two ways to carry out a task. Either the company produces its own goods or it purchases or obtains its supplies from outside the company. The main focus of the transaction cost method is on reducing costs while trading generated goods and/or services with people or organizations (Kocel, 2011, p.357). Williamson claims that the method is based on reason and the pursuit of efficiency. Bounded rationality, opportunism, being particular, frequency of operation, and uncertainty are factors that have an impact on transaction costs (Williamson, 1981, P.553; Williamson, 1999, p.1089) In the context of the resource dependency approach, outsourcing is viewed as a crucial managerial tool that provides the company with the resources it needs at a lower cost and with less uncertainty (Akay, 2009, P. 11-12; Maydan, 2010, P.22)

### **2.4 PROSPECT FOR HUMAN RESOURCE OUTSOURCING**

Outsourcing refers to a business function of handling works outside the company by other entities. The reasons for outsourcing differ and focus on giving the work to outsiders instead of developing expertise within the company. Kenneth L (2004) states that a company that outsources will surely do the chores at a better and less price than a worker hired by an institution. Large and small business firms do outsource functions for different reasons. Small

businesses may lack the needed capacity while large companies are also affected by economic and digital factors.

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

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

The benefits of outsourcing human resource (HR) operations to businesses were covered by Fan et al. (2011) claim that while outsourcing the HR function has several benefits, cost-effectiveness, core competency, strategic human resource, service delivery, and efficiency are the most important ones.

#### **2.4.1 COST EFFECTIVENESS**

Even though costs and benefits are rising as a result of the effects of the global financial crisis (Mouhammed, 2008), companies are unable to raise their production costs due to intense market rivalry. Therefore, firms must look for methods that reduce asset costs (Greer et al. 1999; Hansen 2009; Potkány 2008). According to Stroh and Treehuboff (2003), firms can gain a competitive edge by outsourcing their non-core competencies while still providing excellent customer service (Thompson et al 2005).

Organizations are naturally under pressure to invest in human capital due to global operations and the aim of organizational growth (Hasan & Abdullah, 2008; Leeuwen & Foldvari, 2008; Potkány, 2008). According to Jeffay et al. (1997), outsourcing human resource functions can

help maintain superior human resource services at a lower cost. The price of outsourcing human resources tasks may be less than the price of hiring, training, and retaining human resources workers to carry out the same duties. Human resources tasks are frequently outsourced due to tight costs. However, businesses that start outsourcing human resource tasks later hire more people to guarantee supplier service quality control. The justification for continuing to outsource human resources as a common practice can be found in the cost reductions over time.

#### **2.4.2 FOCUS ON CORE COMPETENCIES**

Many businesses decide to contract out portions of their operations. This is because they desire to concentrate on their core capabilities and place little importance on creating internal initiatives outside of these core competencies (Cooper, 2007; Potkány, 2008). In particular, outsourcing human resource functions can lighten the workload of current human resource workers, allowing the firm to concentrate on growing core capabilities and making strategic decisions (Hansen, 2009). According to Cook (1999), outsourcing human resource functions can free managers from time-consuming, increasingly complicated, and sophisticated human resource functions so they can focus on their core businesses.

#### **2.4.3 STRATEGIC HUMAN RESOURCE**

Organizations are more and more aware of the strategic value of the human resources function (Gubbins et al 2006; Wirtz et al 2008). Human resources are better able to support corporate goals and strategy as human resource management perspectives shift from operational and administrative to strategic. Due to this development, outsourcing the human resource's function is becoming more and more popular in many firms (Merritt, 2007; Raman et al 2007). As a result, outsourcing the function is a key component of modern human resource strategy (Lohr, 2007). It has been asserted that businesses can obtain an advantage over rivals by focusing on isolating the human resource management function (Beardwell & Claydon, 2007). For instance, Gilley et al (2004) found that outsourcing the human resource function affected the effectiveness of the business. The study specifically found that outsourcing payroll and training increased the likelihood of organizational innovation. The potential to add value to the stakeholder grew, and stakeholder performance was good as a result of outsourcing the training activity. Furthermore,

since personnel was well-trained by qualified professionals, outsourcing the training activity significantly strengthened supplier-customer relations.

More importantly, research suggests that outsourcing human resource activities can encourage the human resource function to become more strategic by devoting less time to meeting cost objectives and addressing development goals for specific human resource knowledge and more time to strategic planning (Kosnik et al 2006; Stopper, 2005). Recruitment, payroll, training and development, benefits administration, legal compliance, and the administration or transaction process of human resources appear to be the human resource operations that are currently most frequently outsourced. Payroll, benefit, and retirement plan administration were the three most popular human resource tasks that respondents chose to outsource, according to Elmuti's 2003 research.

However, outsourcing human resources no longer just involves hiring, paying employees, providing them with training, and ensuring that all legal requirements are met. Organizations report outsourcing more and more human resource-related tasks. This suggests that businesses and human resource providers will work together as business partners. It appears that human resource service providers will eventually assume total accountability for the human resource operation of their clients. Providers of human resource management must also take their client's environment, including organizational culture and structure, into account to comprehend the nature of their client's business (Tanure & Duarte, 2007). Consequently, it seems that outsourcing is becoming more and more common as a human resource approach. Therefore, businesses must think through the consequences of their outsourcing decisions, especially given the possibility of a good result.

#### **2.4.4. SERVICE DELIVERY**

This seems to support the necessity for service level agreements and key performance indicators with a stronger emphasis on customer satisfaction, which are necessary for measuring the value of human resources. The introduction of outsourcing has made it possible to make improvements that would be challenging to adopt internally. It also provides flexibility because supply can be easily turned on and off (Quinn, 1992). It offers a better system for managing service and technology capacity where the seller assumes the risk of delivering excess capacity, and



increased usage of external knowledge service providers by businesses to augment their restricted capability for product creation. Additionally, it helps to reduce the annoyance elements. Numerous burdensome factors, such as keeping track of everyone, managing technology budgets, managing service level agreements, etc., are necessary for core business functions, but they can easily be handled by an outsourcing human resource company to relieve employers of managing these intricate functionalities (Beardwell & Claydon, 2007).

Outsourcing of human resource services ensures the effectiveness of service delivery. It is concerned with how assets (money, time, equipment, and staff) are used to achieve the desired outcome; one is efficient if the least amount of money is expended to achieve the desired goals (Jarilo 1998).

#### **2.4.5 EFFICIENCY**

The efficient handling of employment issues can be improved by contracting with an outside company to handle your human resources tasks. Particularly startup businesses profit from the level of experience provided by outsourced providers. The primary benefit of outsourcing human resources is the effective administration of benefits and compensation, which calls for a thorough understanding of tax and employment legislation. More effectively than the employer, human resource outsourcing companies can manage hiring duties, workplace investigations, and occupational safety reporting.

The outsourcing of the human resources division might benefit the workers as well. These outsourcing businesses frequently know how to acquire staff members with the best human resource services available, such as fantastic health benefits and retirement plans, as they specialize in human resources (Heywood, 2001; Maidment, 2003). Additionally, they could be able to offer your business rewards programs for a lot less money than you would have to pay otherwise. Additionally, these businesses have years of experience that you may tap into if you or your workers require any form of human resource support in matters like worker's compensation. Outsourcing human resources have the additional advantage of not being all or nothing. For instance, you can easily outsource just your payroll and attendance while managing compliance and taxing yourself.

## **2.5 CHALLENGES OF HUMAN RESOURCE OUTSOURCING**

A barrier or challenge is something that prevents the implementation of a particular policy. It also restricts how far the implementation can go. To the dismay of stakeholders, this will in some manner open the door for some policies to be disregarded and tactics to be less successful. Even though there have been many positive comments made regarding outsourcing human resources (HR), there are still certain difficulties involved. Managing outsourcing relationships involves some challenging difficulties (Wirtz et al., 2010). The idea of a contract being based on cost reductions has become less prevalent, and contracts now include equity-based outsourcing, value-based outsourcing, and business process outsourcing, claim Sullivan and Ngwenyama (2008). There is much concentration on cooperation between the outsourcing and the focal company. This cooperation highly depends on the quality of the relationship existing between both parties. The factors that tend to be an advantage in outsourcing HR can also be a challenge in the management of outsourcing HR activities. Advancements in technology and development that are brought about because of technological changes can be said to be a major factor in enhancing outsourcing relationships. This can also be a major challenge when the other party is not ready to adopt new technologies, and this can adversely affect the relationship.

Fan et al. (2011) reveal that the foremost challenges to outsourcing activities are the absence of managerial control, quality constraints, a threat to security and confidentiality, hidden costs, and reallocation of the existing team. Another challenge has to do with security and confidentiality. The outsourcing contract will have terms and security spelled out in them. The challenge is that although these terms are clearly stated there is always a problem associated with auditing. Ashley (2012) emphasized that there is a major challenge associated with the execution and auditing of terms that are captured under the outsourcing contract.

When organizations outsource their HR functions, they run the risk of losing sensitive information. Berry (2007) stated that this should also include reports, audit trails, and personal information. It is also possible to lose internal information and talents. When businesses outsource their HR, they also lose knowledge and organizational creativity. The loss of staff skills and expertise is also likely to result in a decrease in organizational productivity for the corporation (King, 2004). If they introduce outsourcing, many firms also lose control over their human resource activities. The caliber of the HR provider and the terms of the service contract

between the provider and the company have a significant impact on this. One of the expectations of outsourcing HR is that the focal company expects to receive better services than that offered by its staff. The challenge, therefore, is the ability to choose an outsourcer that can provide the expected service. The outsourcer must be chosen such that it would not have any negative influence on the goods and services provided by the company.

Adler (2013) indicated that if care is not taken in the selection of the outsourcer the consequence might be so grave that it can affect the position of the focal company. Another major issue associated with outsourcing is that both parties are bound by only the terms and conditions stipulated in the outsourcing contract. Anything that is not captured under the contract cannot be enforced on the other party. Any other duty that is performed by the outsourced company will be subjected to charges and that brings an additional cost to the focal company.

The issue of outsourcing has to do with doing away with a particular function that was being performed by the focal company. Since that function is to be sublet to another supplier it will place in the minds of the employees that they are going to be fired. It is a major management challenge how to relocate and further compensate those for whom the company no longer needs their services. The company will also be challenged on how to relocate some of the company's employees to the outsourced entity to perform that function. Brown and Cregan (2008) indicated that outsourcing becomes a major challenge to managers who were part of the process and see it fail.

If adequate attention is not paid to the remaining employees, the organizations risk facing serious obstacles when outsourcing HR activities. The remaining employees may exhibit some negative feelings, and these could affect the organizational culture. Outsourcing HR would not necessarily be a cost-saving approach to an organization especially when the company already has existent effective human resource management (Marquez, 2007).

Marquez accessed an organization that invested in building its service benefits and internal activities. The organization Marquez emphasized was able to reduce about 11% of its HR costs. Marquez advised that companies must first attempt to develop their human resource activities before outsourcing. This was supported by Thomas (2005) who opined that internal HR activity could as well bring a cost-saving benefit to an organization. Management should make an

obligation to stay attentive to the fixed plans and must only make substantial changes to the plan with careful consideration of the implications and consequences of the change. A balance between business activities and strategic initiatives should be maintained.

When companies are immersed in new strategy development, they tend to forget their primary business strategies, and as a result implementation problems start to occur. Strategy is execution to Nickols (2000). He divides the strategy execution into four groupings: flawed strategy and flawed execution, sound strategy and flawed execution, flawed strategy and sound execution, and sound strategy and sound execution. A great opportunity for success comes leaving environmental and competitive influences.

## **2.6 EMPIRICAL EVIDENCE**

The Study Conducted by Welansa Belayneh (2018) Focused On Examining How Employee Perceive The Effect Of Outsourcing Fleet Management Functions. The paper was employed mainly quantitative data analysis techniques. Descriptive statistics such as mean, and frequency tables were used to describe the data. Inferential statistics such as ordered logit model were employed to answers the basic questions. the results of the study suggest that operational performance of ILRI is not improved by outsourcing the fleet management functions. The study also found a positive correlation among all the variables (Procedure of outsourcing, service quality, relationship quality, financial value & supplier fleet management system) which thought to determine the operational performance of the institute. Regarding the correlation, it is possible to conclude that there is a strong and positive relationship among the five variables on which this study was relied. All variables except supplier fleet management system are significant effect on operational performance of the institute. Outsourcing is justifiable if it has positive impact on operational performance which can be explained in improved quality in terms of service and relationship, cost reduction & achieved the intended objective.

Fitsum Hailemariam (2021) has carried out her research work on the topic entitled, Opportunities and Challenges of Human Resource Outsourcing in the Case of LonAdd HR Consultancy and Dalhousie University. The study was used descriptive research design with qualitative approach to get deeper understanding and complete description of the phenomenon under investigation. The targeted population are from Lonadd PLC & Dalhousie University. The targeted population

is comprised of Support and Core staffs, Country director, Managing director, Finance and Admin Managers, President, Officers. The findings of this study has found that inability of service recipient company to control the operation of the vendor, it may pose inherent practice risks. The major reasons to engage in the practice of HR outsourcing in Ethiopia is to decrease the cost of HR function as well as to acquire the right employees in reduced time lapses.

Another research which was conducted by ışık çiçek et, al (2011) on the effect of outsourcing human resource on organizational performance: the role of organizational culture. The purpose of this study is to examine the effect of outsourcing HR practices on the organizational performance in the light of detailed literature and question the role of organizational culture on this relationship. In their study they found that, there is a significant relationship between organizations with proactive strategies and the decision to outsource both transformational and transactional HR functions. Outsourcing of both functions has a significant relationship with HR performance traditional with a positive impact and transactional with a negative impact.

Sisay Berihun (2020); did his research on factors affecting fleet outsourcing and their effect on operational performance UNICEF Ethiopia. The main purpose of this study is to examine the effect of fleet outsourcing on the operational performance. The research approach was quantitative and qualitative in its nature. This research aims in assessing the fleet outsourcing service being provided by number of companies to UNICEF Ethiopia. Quantitative data was collected to assess primarily using a mix of interview and document reviews. In his study he found that communication as a factor for fleet outsourcing, Exchange of information takes place frequently and in a timely manner, and both outsource suppliers and the organizations (UNICEF, Ethiopia) have strong relations to make work done as planned. service quality of the outsourcing has a great significant over the performance. The study shows outsourcing provides fast service delivery which improves the service quality. The study also revealed some challenges that UNICEF face in fleet outsourcing of their operations. These included the ethical problem of the outsourcing company employees; the loss controls of the management over the outsourced fleet operation; the challenge in the emergency delivery of the organization and the fact that the hidden cost for the fleet outsourcing are the challenges.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3. INTRODUCTION**

Kothari (2004) defined research methodology as the science of studying how research is done scientifically. It contains details about the research approach, research design, sample size and sampling techniques, data source, data collection instruments, data analysis, reliability and validity of the study, and finally ethical considerations.

#### **3.1 RESEARCH DESIGN**

The study uses descriptive statistics research design. The main reason to select the descriptive type of research is the research intention was to examine the challenges and opportunities of Human resource management outsourcing in the case of Holland Dairy Ethiopia based on the facts observed (Kotheri, 2004). Thus, the research operated an observed analysis that tried to assess the current phenomenon of outsourcing in the organization.

#### **3.2 RESEARCH APPROACH**

A mixed-methods approach were used to collect and analyze data for this study (qualitative and quantitative). As a result, a mixed-methods approach enables the researcher to gather more relevant evidence and data than a single method. A qualitative method used to gain a complete understanding of the subject under study. Structured questioners for quantitative and face-to-face interviews will be employed to acquire qualitative data. A qualitative research technique relies heavily on the evaluation of opinions, attitudes, and behavior (Kothari, 2004). This study adopts a quantitative approach with the help of surveys obtained from outsourcing service staff. Quantitative analysis methods help in the discovery, presentation, description, and study of data connections and trends (Saunders et al, 2009).

#### **3.3 TARGET POPULATION AND SAMPLING TECHNIQUES**

In this study, the researcher selected the study area, by using purposive sampling technique. Purposive sampling (also known as judgment, selective or subjective sampling) is a sampling

technique in which the researcher relies on his or her judgment when choosing members of the population and study areas to participate in the study (Black, K. 2010).

The study's target populations were 85 employees (Managerial and non-managerial) who are working in the organization (Holland Dairy plc). As a result, the study use census method because a census is an attempt to list all elements in a group and to measure one or more characteristics of those elements. Furthermore, censuses can provide detailed information on all or most aspects of the population, allowing for totals for rare population groups or small geographic areas (Paul J., 2008).

### **3.4 SOURCES OF DATA**

The study will use both primary and secondary sources of data. Primary methods are those that collect data for the first time while secondary methods are those where the researcher uses data collected by other people. Secondary data include documents, data, and information from previous studies that a researcher might use in a new study (Oates, 2006:234). According to Bryman and Bell (2007:10), secondary data collection methods refer to the ability of the researcher to carry out an analysis of the data that has already been prepared by other researchers.

### **3.5 INSTRUMENT OF DATA COLLECTION**

In this study, the primary data was collected through questionnaires from the respondents. The questionnaires consisted of closed-ended questions designed in a 5-point Likert-Scale, with “1” standing for “Strongly Disagree” and “5” for “Strongly Agree”. The secondary source of data includes Holland Dairy documents, data, and information from previous studies such as existing official reports and documents from the named entities, journal articles, other empirical research in the area, and any other relevant document from the libraries.

### **3.6 DATA ANALYSIS**

As stated by Duncan Cramer and Dennis Howitt (2004), descriptive data analysis emphasizes maximizing the gain from the data by making clearer the process of describing and analyzing the data gathered. After proper editing, the data will be coded and entered the software then it will be ready for analysis. To achieve the objectives of the study, the collected data will be processed

and analyzed with descriptive statistics using Statistical Package for Social Studies (SPSS) of 26 versions. This technique is selected because it helps to summarize the sample, provides, and allows describing the characteristics of the data collected, and helps to thoroughly analyze and interpret the questions one by one to reach meaningful results. Throughout the analyzing process, percentages and frequency will be employed. In doing so tables will be used to present and made easily understandable the findings to arrive at a certain conclusion.

### **3.7 VALIDITY OF THE STUDY**

Validity is a term used in both qualitative and quantitative research. It is derived from the Latin term *validitas*, which means "strength." It claims that a conclusion can never be proven; it can only be argued (Trochim, 1999). Validity can be established in a variety of ways in quantitative research. Validity has a different meaning in this context than it does in qualitative studies. The term "validity" describes how well an instrument measures what the researcher is trying to assess. Items in the questionnaire, on the other hand, were created using a five-point Likert-scale close-ended multiple-choice format. Some SPSS lecturers and some Holland Dairy plc employees tested the instrument to ensure its validity. Employees were asked to see it and assess its validity.

### **3.8 RELIABILITY OF THE STUDY**

The research instrument is concerned with the instrument's ability to produce consistent results over time. The process of questionnaire pilot testing (testing and retesting) aided in ensuring the questionnaire's reliability in eliciting responses (Cook & Campbell, 1979:37) Chronbach Alpha Statistics is the most important tool for determining the findings' reliability and internal consistency. To obtain a reliable scale, the Chronbach Alpha result must be greater than 0.70, and any scale with a Chronbach Alpha of less than 0.70 must be excluded (Sekaran & Bougie, 2013). As a result, the study's reliability will be tested using the Chronbach alpha test. **Table 3.1.**



Table 3.1 Reliability test

Items	Cronbach's Alpha	N of Items
Effectiveness of HRM outsourcing	0.707	7
Challenges of implementing HR outsourcing	0.739	7
Opportunities for practicing HR outsourcing	0.712	5

*Source: own survey, 2023*

### **3.9 ETHICAL CONSIDERATION**

First, the respondents were informed about the purpose and intention of the study and verbal consent obtained for better participation engaged in the study. Participants will inform of their right not to participate in the study at any time. Similarly, Participants informed the benefit of the research and thus research has no risk. Participants have the right to ask a question for clarification and refuse to give information at any time in the research process.

## CHAPTER FOUR

### RESULT AND DISCUSSION

#### 4. INTRODUCTION

This chapter presents data analysis and discussions. The study sought to examine the challenges and opportunities of Human resource management outsourcing in the case of Holland Dairy Ethiopia. Primary data was collected through the administration of questionnaires to the targeted company office in Addis Ababa.

#### 4.1 RESPONSE RATE

A total of eighty-five (85) questionnaires had been distributed to the respondents, out of which 72 were completed and returned. This gave a response rate of 84.7%. According to (Blumberg, 2014), response rate of 50% is adequate for a study, 60% is good and 70% and above is excellent. Thus, a response rate of 84.7% was fit and reliable for the study as shown below the table.

Table 4.1. Response Rate

Response Rate	Frequency	Percentage
Responded	72	84.7%
Non-responded	13	15.3%

Source: Own survey, 2023

From Table 4.1, the total number of questionnaires that were administered was 85 and among all those total population 84.7% were answered and returned and the remained 15.3% was non-responded. From the study, it can be concluded that the response rate was high to give credence to the findings.

#### 4.2. DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

This section sought to collect information on the respondents' gender, age, marital status, education level, and year of experience.

Table 4.2. Demographic characteristics of the respondents

<b>Respondents' characteristics</b>	<b>Characteristics details</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Female	34	47.2%
	Male	38	52.8 %
	Total	72	100%
<b>Position in the organization</b>	Managerial	11	15.3%
	Supervisor	19	26.4%
	Quality control manager	13	18.1%
	Quality control officer	15	20.8%
	Finished goods store	8	11.1%
	Others	6	8.3%
	Total	72	100%
<b>Educational level</b>	Below diploma	3	4.2%
	Diploma	6	8.3%
	First degree	48	66.7%
	Second degree and above	15	20.8%
	Total	72	100%
<b>Work Experience</b>	less than 4years	27	37.5%
	5-9years	30	41.7%
	10- 14years	15	20.8%
	Total	72	100%

Source: Own survey, 2023

The respondent's demographic information collected included gender, position in the organization, education level, and work experience. The above table was used to summarize the study findings as shown in table 4.2. Accordingly, the analysis for gender indicated that most of the respondents were male accounts for 52.8% while a female was 47.2%. This implies that though there is gender distribution in occupation of job in the company. Also, the study sought to find out the highest level of education attained by the respondents. Results of the study indicated that 66.7% had attained the first degree as the highest level of education while 20.8% had

attained second degree level of education and 8.3% had attained diploma and 4.2% were below diploma. In this case, most of the respondents have first-degree education as the highest education level, followed by second degree and diploma and this infers that the respondents are educated enough to respond to the questionnaire and had a good knowledge on the challenge and opportunity of HRM in the company hence, higher chances of obtaining reliable data.

Concerning work experience in the company, majorities (41.7%) are 5-9 years of work experience, followed by (37.5%) have less than 4years of work experience, and (20.8%) have 10-14 years of work experience respectively. Thus, most of the respondents had 5-9 years which is an average year for a competent worker. Based on this the work experience of the respondents had adequate exposure to the work area and had the potential of bringing change to the company under study. The other analysis part which is discussed above in the table is position in the organization that majority of the respondents were supervisor which accounts 26.4%, followed by quality control officer 20.8%, quality control manager 18.1%, managerial 15.3%, finished goods store 11.1% and others position were accounts 8.3% hence majority of the respondents were from supervisor position of the company.

#### **4.3. DESCRIPTIVE ANALYSIS**

According to Creswell (2007), an interval measurement scale was used to assess Likert scale data. The composite score for Likert scales should be assessed at the interval measurement scale because Likert scale items are formed by calculating a composite score (sum or mean) from four or more type Likert-type items. Furthermore, assuming the sample is nearly normally distributed, the interpretation for Likert scale values from 1 (Strongly Disagree) to 5 (Strongly Agree) should be "Disagree" for mean up to 2.8, "Neutral" for the mean between 2.9 and 3.2, and "Agree" for mean above 3.2. Cetro (2006). As a result, 0.8 was calculated by dividing the difference between the maximum (5) and minimum (1) scores by the questionnaire's maximum score (5). The standard deviation was used in the analysis of the data. Small standard deviations (compared to the mean's value) indicate that data points are close to the mean, whereas big standard deviations (relative to the mean) show that data points are far from the mean. The data does not fit the mean well. The standard deviation is a metric for determining how well the mean accurately represents the data (Field 2009). All the characteristics were evaluated on a five-point Likert scale, with 1 representing Strongly Disagree and 5 representing Strongly Agree. Therefore, the interpretation

formed using the mean of each variable falls between the two ranges; if the mean approaches 1, the inference is that the respondents disagree on the raised problem or variable, and if it approaches 5, the opposite is true.

**4.3.1 Does your company implemented outsourcing service to focus on core activities?**

Table 4.3 company implemented outsourcing service to focus on core activities.

		Frequency	Percent
Valid	Yes	72	100.0
	No	0	0
	Total	72	100.0

Source: Own survey, 2023

The above table 4.3 show that, the question raised by respondents about whether your company implemented outsourcing service to focus on core activities or not and the response indicate that, (72) 100 % said that yes, the company implemented outsourcing service by focusing on core activities

**4.3.2 What level of awareness do you have regarding HRM outsourcing?**

Table 4.4 the level of awareness regarding HRM outsourcing

		Frequency	Percent
	Low	7	9.7
	Medium	10	13.9
	High	55	76.4
	Total	72	100.0

Source: Own survey, 2023

Table 4.4 questioning about the level of awareness concerning HRM outsourcing in the company, and the respondent’s response shows that, most of the respondents which are 55 (76.4%) indicated that their level of awareness regarding HRM outsourcing is at high level.

Followed by 10 (13.9 %) said the level of awareness about HRM outsourcing are at medium level and 7(9.7%) and the rest 7(9.7%) said low level of awareness about HRM outsourcing in the company. Therefore, the result show that there is high level of awareness on the outsourcing activities particularly HRM outsourcing in the Holland Dairy company.

#### 4.3.3 To what extent your organization outsourced HRM Function?

Table 4.5 To what extent your organization outsourced HRM Function?

	Frequency	Percent
Valid All HRM functions are outsourced	26	36
Some HRM functions are outsourced	37	51.4
There is no HRM functions are outsourced	3	4.2
The Organization is planning to outsource in the future	6	8.4
Total	72	100.0

Source: Own survey, 2023

Table 4.5 enquiring that the extent to which the organization outsourced HRM Function. Accordingly, most of the respondents which were 37(51.4%) said some HRM functions are outsourced, 26 (36%) said all HRM functions are outsourced in Holland Dairy company, 6 (8.4 %) said the company is planning to outsource in the future and the rest 3(4.2%) said there is not any HRM functions are outsourced in the company. Therefore, the above table show that majority of the respondents recognize that there are outsourcing functions of HRM in Holland Dairy company.

**4.3.4 Which HRM Functions have been outsourced by your company?**

Table 4.6 Which HRM Functions have been outsourced by your company?

		Frequency	Percent
Valid	Core activities	13	18.1
	None core activities	37	51.4
	I don't know	22	30.6
	Total	72	100.0

Source: Own survey, 2023

Table 4.6 examines that which HRM functions have been outsourced by your company. Accordingly, most of the respondents which is 37 (51.4%) said none-core activities, 13(18.1%) said core activities and the rest 22(30.6%) said I don't know. Therefore, the above table shows that in Holland Dairy none-core HRM functions are outsourced than core activities of HRM in the company.

**4.3.5 Based on Question Number 4, if your organization is outsourcing HRM Function; Are you satisfied with the outsourced service?**

Table 4.7 Satisfaction of HRM outsourcing function in the organization

		Frequency	Percent
Valid	Unsatisfied	2	4
	Indifferent	5	10
	Satisfied	38	76
	Very Satisfied	5	10
	Total	50	100

Source: Own survey, 2023

Table 4.7 questioning that the Satisfaction levels of respondents on HRM outsourcing function in the company. Hence, most of the respondents which were 38 (76%) said they are satisfied by the company HRM outsourcing functions, followed by 5 (10%) said they are very satisfied and indifferent on outsourcing function, 2 (4%) said they are unsatisfied by the company HRM outsourcing functions. Consequently, the above table illustrate that majority of the respondents were satisfied by HRM outsourcing functions of Holland Dairy company.

#### 4.3.6 effectiveness of HRM Outsourcing to enable the organization to focus on core business activities

Table 4.8 effectiveness of HRM Outsourcing to enable the organization to focus on core business

#### Descriptive Statistics

	N	Mean	Std. Deviation
Gives an opportunity to focus on main tasks of the organization	72	3.0278	.97825
It raises the organizations service standard	72	2.9722	1.06112
It Increases flexibility to meet changing business and commercial conditions	72	2.9583	1.04055
It increases efficiency	72	3.2361	.92680
Lower ongoing investment requirement in internal infrastructure	72	3.2500	.86806
It reduces risk and uncertainty	72	3.0139	.91148
It Minimize costs (due to economies of scale or lower labor rates)	72	2.9167	1.03120
Effectiveness of HRM outsourcing to enable the company focus on core business activities	72	3.0536	.46766

activities

Source: Own survey, 2023

Table 4.8 shows that the effectiveness of HRM outsourcing to enable the company focus on core business activities. The first item for which the respondents gave a higher mean score was lower ongoing investment requirement in internal infrastructure which is the mean score of 3.25,



increases efficiency which accounts 3.23, gives an opportunity to focus on main tasks of the organization which accounts 3.02, reduces risk and uncertainty which is the mean score of 3.01 it raises the organizations service standard which accounts 2.97, it increases flexibility to meet changing business and commercial conditions which accounts 2.95, it minimizes costs (due to economies of scale or lower labour rates) which is the mean score of 2.91 and the average mean score for effectiveness of HRM outsourcing to enable the company focus on core business activities accounts 3.05 which lay in neutral level. Hence, the analysis shows that there is gap in effectiveness of HRM outsourcing function and the company core business activities.

#### 4.3.7. Existing challenges of implementing HR outsourcing

Table 4. 9 challenges of implementing HR outsourcing

<b>Descriptive Statistics</b>			
	N	Mean	Std. Deviation
Outsourcing activities cost your organization more than completing the job in the organization	72	2.8889	1.05558
Loss of control between the outsourced team and the outsourcing company	72	2.8472	.91405
Absence of matured vendor market	72	1.5278	.94901
Lack of expertise in the outsourcing tasks	72	3.0556	.72944
Unfair negotiations or unbalancing risks and benefits equally	72	2.9306	.90890
Security concern (outsourcing exposes critical company information)	72	3.5139	.88800
Less flexibility (you have no immediate access to the outsourcing in the way that you have with an employee)	72	3.1389	1.03876
Challenges of HRM outsourcing	72	2.8433	.39917

Source: Own survey, 2023

Table 4.9 demonstrate that, challenges of HRM outsourcing in Holland Dairy company. The first assessment in which the respondents gave higher mean score was the question supposed that Security concern (outsourcing exposes critical company information) which accounts 3.51, Less flexibility (you have no immediate access to the outsourcing in the way that you have with an employee) which is the mean score of 3.13, lack of expertise in the outsourcing tasks which is the mean score of 3.05, Unfair negotiations or unbalancing risks and benefits equally which accounts 2.93, outsourcing activities cost your organization more than completing the job in the organization which is the mean score of 2.88, loss of control between the outsourced team and the outsourcing company which is the mean score of 2.84, absence of matured vendor market which accounts 1.52 and the average mean score for challenges of HRM outsourcing is 2.84 accordingly, the score of this variable indicates on disagree level therefore, the result indicate that there is challenges in HRM outsourcing at Holland Dairy.

From the open ended question the respondents gave the following response: the first challenge is loss of control hence, when you outsource your HRM functions, you are essentially entrusting an external entity with the responsibility of managing your employees and this could make it challenging to retain full control over HRM policies, procedures, and employee-related decisions.

The second challenge is culture mismatch or challenge related to organizational culture. Outsourcing HRM functions may also lead to a mismatch between the culture of the external HRM provider and the company's own culture. This could result in a lack of arrangement between the external provider and the company's goals and values.

Third challenge also the quality-of-service delivery by the HR outsourcing provider may vary depending on the provider's expertise and experience in the Holland Dairy sector and their level of specialization. If their services do not meet the expectations of management or employees, this may result in significant concern.

The last and most important challenge in HRM outsourcing in Holland Dairy is communication difficulties hence, outsourcing HRM functions may sometimes result in a communication gap or language barriers if the HRM outsourcing provider is based in outside the city with different work cultures and languages.

The interview result show that, outsourcing HRM comes with its own challenges. One of the main challenges for Holland Dairy is finding the right outsourcing provider that can deliver what they promise. It's essential to research and select a reputable provider with experience, which will ensure that the outsourcing process runs smoothly.

Another challenge is maintaining a good relationship between the outsourcing provider and the company. To ensure effective collaboration, clear communication, and a shared understanding of goals and expectations are needed. It's vital to keep in mind the importance of ongoing monitoring and evaluation of the outsourcing process to ensure that it meets the desired outcomes.

In summary, HRM outsourcing can provide many advantages to your company, including cost savings, freeing up resources, and improved efficiency. However, to maximize the benefits of outsourcing, selecting the right provider, and maintaining good communication and monitoring are crucial

#### 4.3.8 Opportunities of HRM outsourcing in the organizations

Table 4.10 opportunities of HRM outsourcing

<b>Descriptive Statistics</b>			
	N	Mean	Std. Deviation
Increases flexibility to address demand volatility	72	3.3056	.98780
Cost curtailment and risk sharing	72	3.3056	1.08302
Outsourcing provides the organizations required leeway to contemplate on what it is good	72	3.1389	1.19040
Access to high end technologies and specialized expertise	72	3.3194	.97614
Opportunity of HRM outsourcing	72	3.2674	.68860

Source: Own survey, 2023

Table 4.10 demonstrate that the opportunity of HRM outsourcing and the first item for which the respondents gave a higher mean score was access to high end technologies and specialized expertise which accounts 3.31, increases flexibility to address demand volatility and cost

curtailment and risk sharing which is the mean score of 3.30 each, Outsourcing provides the organizations required leeway to contemplate on what it is good which is the mean score of 3.13 and the average mean score for opportunity of HRM outsourcing accounts 3.26 which lay in agree level. Hence, the analysis shows that HRM outsourcing is a good opportunity for Holland Dairy company.

For the open-ended question respondent's response were summarized as follow outsourcing practice in the Holland Dairy company is exercise in the following ways:

Outsourcing HRM functions can lead to cost savings by eliminating the need for in-house HRM staff and reducing overhead costs associated with managing and administering HRM functions.

HRM outsourcing vendors have advanced technologies, streamlined processes, and best practices that help company to streamline their HRM operations. With improved efficiency, the company can focus on core competencies of dairy production, generating more sales.

Experienced HRM outsourcing service providers possess industry-specific skills and knowledge that can help the companies comply with labor laws and regulations. This ensures that the company is less likely to face legal issues that cost time and resources.

HRM outsourcing service providers provide objective data analytics on people-related results which help the dairy company to make data-driven decisions.

HRM outsourcing vendors also provide recruiting support and placement assistance, which can take the burden off the organization to identify and hire competent employees.

From the interview result, outsourcing HRM has become increasingly popular among many businesses, including ours (Holland Dairy). The major advantage of HRM outsourcing is that it enables companies to focus on their core business functions while leaving the HRM responsibilities to the experts. This can lead to cost savings, increased efficiency, and improved productivity. In general, Holland Dairy company outsource HRM functions can have time to focus on core business functions while ensuring their human resource management functions are being executed effectively and efficiently.

## **CHAPTER FIVE**

### **SUMMERY, CONCLUSION AND RECOMMENDATION**

#### **5.1 SUMMARY OF MAJOR FINDINGS**

This research was conducted to assess opportunity and challenges of HRM outsourcing in Holland Dairy Company in line with the following research questions and objectives

- What is the HRM outsourcing practice in Holland Dairy Ethiopia?
- What are the existing challenges in implementing HRM outsourcing services?
- What are the opportunities for practicing HRM outsourcing in the study organizations?

Regardless of the research questions the following are key findings of this study.

- HRM outsourcing practice to enable the company focus on core business activities examines in neutral level. Hence, the analysis shows that there is gap in effectiveness of HRM outsourcing function and the company core business activities.
- On the other hand, the opportunity of HRM outsourcing results lay in agree level. Hence, the investigation shows that HRM outsourcing is a good opportunity for Holland Dairy company. Hence, outsourcing HRM function in Holland Dairy has their significant contribution for the success of the company; the findings of the study shows that the Holland Dairy company outsource HRM functions can have time to focus on core business functions while ensuring their human resource management functions are being accomplished effectively and efficiently.
- The company also not free from challenges hence, lack of expertise in the outsourcing tasks, unfair negotiations or unbalancing risks and benefits equally, outsourcing activities cost of the company more than completing the job in the company, loss of control between the outsourced team and the outsourcing company, absence of matured vendor market, maintaining a good relationship between the outsourcing provider and the company, ensure effective collaboration, clear communication, and a shared

understanding of goals and expectations are some of the challenges that are raised by the respondents.

## **5.2 CONCLUSION**

This research intended to assess human resource management outsourcing in the case of Holland Dairy Ethiopia.

The findings of the study show that there is HRM outsourcing function in none-core activities of the company. Also, there is moderate opportunities and more challenges of outsourcing human resource management function in Holland Dairy company Hence, most of the respondents were suggesting neutral to those questions.

The analysis of this research further revealed that there are challenges in Less flexibility (you have no immediate access to the outsourcing in the way that you have with an employee) which is the mean score of 3.13, lack of expertise in the outsourcing tasks which is the mean score of 3.05, Unfair negotiations or unbalancing risks and benefits equally which accounts 2.93, outsourcing activities cost your organization more than completing the job in the organization which is the mean score of 2.88, loss of control between the outsourced team and the outsourcing company which is the mean score of 2.84, absence of matured vendor market which accounts 1.52 and also loss of control, culture mismatch also the other challenge related to organizational culture, quality-of-service delivery by the HR outsourcing provider may vary depending on the provider's expertise and experience in the Holland Dairy sector and their level of specialization and different work cultures and languages.

On the contrary, the study findings show that there are moderate benefits gain through adopting HRM outsourcing function in Holland Dairy this are; access to high end technologies and specialized expertise which accounts 3.31, increases flexibility to address demand volatility and cost curtailment and risk sharing which is the mean score of 3.30 each, Outsourcing provides the organizations required leeway to contemplate on what it is good which is the mean score of 3.13 in addition, it enables companies to focus on their core business functions while leaving the HRM responsibilities to the experts. This can lead to cost savings, increased efficiency, and improved productivity are the advantages of HRM outsourcing in Holland Dairy company.

### **5.3 RECOMMENDATION**

Based on the findings of the research, the following recommendations were made:

- The company should focus on developing an outsourcing HRM function in the areas where they have expertise in providing HRM services. This will help them to maintain high-quality service levels and meet the needs of their clients effectively.
- It is important for the company to conduct thorough studies or research before engaging in any outsourcing services. This will enable them to determine the suitability of the outsourcing option in addressing their specific HRM needs.
- When the company decides to outsource its HRM functions, it must focus on working with service providers who are familiar with the area that the company operates in, as well as the employee culture in that region. Likewise, language and culture barriers should be taken into consideration to ensure seamless coordination between the outsourced team and the in-house team.

In general, by following these recommendations, the company can ensure that its outsourcing efforts result in a successful HRM function with minimal disruption to their day-to-day operations.

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**Appendix  
Questionnaire**

**Addis Ababa University  
Faculty of Business and Economics  
School of Commerce  
Department of Human Resource Management**

**Dear participants,**

Dear participants,

I am conducting a study on “HUMAN RESOURCE MANAGEMENT OUTSOURCING: IN CASE OF Holland Dairy Ethiopia”. This research is conducted in partial fulfillment of the requirements for award of Master of Arts Degree in Human Resource Management at Addis Ababa University School of Commerce graduate studies. The questionnaire will not take more than 15 minutes of your time. I do not foresee that you will experience any negative consequences by completing this questionnaire. The researcher will keep any individual information provided herein confidential, not to let it out of her possession, and to analyze the feedback received only at a group level.

It will be a great contribution if you may complete all the items covered in the questionnaire since your opinion is of utmost importance for this study. I thank you in advance for sharing your valuable experience and time in completing the questionnaire.

*Thank you very much in advance,*

***Nablies Bitew Hailemariam***

***Cell Phone: 0911939492***

***Email address: [nabbyam@yahoo.com](mailto:nabbyam@yahoo.com)***

**Part I: General Information - Please put '√' in the box**

**1. Gender**

Male

Female

**Educational Status:**

Below Diploma

Diploma

BA/BSC

Masters & Above

**2. How long have been with the company?**

≤ 5

6 – 10

11 – 15

16 and Above

**3. Your Position in the organization**

Managerial Position

Non-Managerial position

**Part II: Questions to Answer Specific Objectives of the study**

**1. Does your organization Implemented Outsourcing service to focus on core activities?**

Yes

No

**2. What level of awareness do you have regarding HRM outsourcing?**

High

Low

very High

Medium

**3. To what extent your organization outsourced HRM Function?**

All HRM functions are outsourced

Some of the HRM Functions are outsourced

No HRM functions are outsourced

The Organization is planning to outsource in the future

**4. Which HRM Functions have been outsourced by your organizations?**

Core activities       None- core activities       I don't know

5. **Based on Question Number 4, if your organization is outsourcing HRM Function; Are you satisfied with the outsourced service?**

Satisfied       Unsatisfied   
 Very Satisfied   
 Indifferent

**Instructions: Please indicate the extents to which you agree with the following statements on the extent you are agreed or not depending on the effectiveness of HRM outsourcing in Boosting organizational performance (Scale of: 1-Strongly Disagree, 2-Disagree, 3- Neutral 4- Agree, 5-Strongly Agrees.)**

NO	Statements	1	2	3	4	5
1	Gives an opportunity to focus on main tasks of the organization					
2	It raises the organizations service standard					
3	It Increases flexibility to meet changing business and commercial conditions					
4	It increases efficiency					
5	Lower ongoing investment requirement in internal infrastructure					
6	It reduces risk and uncertainty					
7	It Minimize costs (due to economies of scale or lower labor rates)					

**Discuss additional point which are not listed above on effectiveness of HRM Outsourcing in boosting organizational performance**

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**Instructions: Please indicate the extents to which you agree with the following statements on the extent you are agreed or not on challenges of HRM outsourcing (Scale of 1-Strongly Disagree, 2-Disagree, 3- Neutral 4- Agree, 5-Strongly Agrees.)**

<b>NO</b>	<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	<i>Outsourcing activities cost your organization more than completing the job in house</i>					
2	<i>Loss of control between the outsourced team and the outsourcing company</i>					
3	<i>Absence of matured vendor market</i>					
4	<i>Lack of expertise in the outsourcing tasks</i>					
5	<i>Unfair negotiations or unbalancing risks and benefits equally</i>					
6	<i>Security concern (outsourcing exposes critical company information)</i>					
7	<i>Less flexibility (you have no immediate access to the outsourcing in the way that you have with an employee)</i>					

Other-----  
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**Instructions:** Please indicate the extents to which you agree with the following statements on the extent you are agreed or not on opportunities of HRM outsourcing (Scale of: 1-Strongly Disagree, 2-Disagree, 3- Neutral 4- Agree, 5-Strongly Agrees.)

<b>NO</b>	<b>Statements</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>1</b>	<i>Increases flexibility to address demand volatility</i>					
<b>2</b>	<i>Cost curtailment and risk sharing</i>					
<b>3</b>	<i>Outsourcing provides the organizations required leeway to contemplate on what it is good</i>					
<b>4</b>	<i>Access to high end technologies and specialized expertise</i>					

*Other*-----  
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## **Interview guide for managers in Holland Dairy Company in Ethiopia**

1. How do you see the practice of human resource management outsourcing in Holland Dairy company?
2. What are the existing challenges in implementing human resource management outsourcing services in your company?
3. What are the opportunities or advantages of implementing human resource management outsourcing in your company?