



# INTERNATIONAL JOURNAL OF ACADEMIC RESEARCH IN BUSINESS & SOCIAL SCIENCES



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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v12-i4/13085>

DOI:10.6007/IJARBSS/v12-i4/13085

**Received:** 06 February 2022, **Revised:** 08 March 2022, **Accepted:** 27 March 2022

**Published Online:** 09 April 2022

**In-Text Citation:** (Owino & Mandago, 2022)

**To Cite this Article:** Owino, A. A., & Mandago, R. (2022). Effect of Payroll Outsourcing Practices on Performance of Saccos in Uasin Gishu County. *International Journal of Academic Research in Business and Social Sciences*, 12(4), 566–575.

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**Vol. 12, No. 4, 2022, Pg. 566 – 575**

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[www.hrmars.com](http://www.hrmars.com)

ISSN: 2222-6990

## Effect of Payroll Outsourcing Practices on Performance of Saccos in Uasin Gishu County

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### Abstract

Organizations are outsourcing Human Resource but only the activities and functions, which are very much essential to be performed. Most of the Organizations are unaware from the factual essence of this idea that it is very cost productive and helps to gain competitive advantage. The main objective of the study therefore was to examine the effect of Payroll outsourcing practices. The study was guided by Stacy Adam's Equity Theory. This study employed explanatory research design the target population of the study was all employees of the 20 SACCOS in Uasin Gishu County. The accessible population is a subset of the target population where the researcher drew the sample size for the study. Therefore, the accessible population for this study was 227 employees working in the Savings and credit cooperative societies in Uasin Gishu County. The sample size were 145 employees. The study used purposive and simple random sampling to select respondents. Collected data was organised and edited to remove any inconsistencies, repetitions or errors that would have made analysis difficult. Descriptive and inferential statistics were used to analyse the data with the aid of the Statistical Package for Social Sciences (SPSS) version 25. Descriptive statistics included percentages, frequencies, mean and standard deviation. Inferentially correlations and multiple regression analysis were applied to get the change in dependent variable caused by the effect of independent variables. The study results revealed that payroll outsourcing practices has a significant influence on performance of Saccos ( $\beta=0.339$ ,  $p<0.05$ ). The study concluded that performances of employees are guaranteed since outsourcing ensures that the employees being paid are under payroll, there is up to date payment of employees, outsourcing does salary surveys and salary administration are ensured. The study recommends that the Saccos should always pay their employees under payroll, ensure that there is up to date payment and ensure that their salary surveys and salary administration for this will greatly influence the performance of Saccos.

**Keywords:** Performance, Saccos, Effect, Payroll, Practices, Outsourcing

### Introduction

Performance of Savings and Credit Co-operative Society (SACCOS) comprises the actual output of an organization as measured against its intended outputs. Organizational performance involves analyzing a company's performance against its objectives and goals. Savings and Credit Co-operative Society (SACCOS) are among the Micro Finance Institutions

(MFIs) which are owned and managed by their own members using co-operative principles (Bailey, 2001). SACCOs play a significant role in the provision of financial services to the poor (target groups). They provide savings and credit and investment opportunities to individuals, institutions and group members. Sacco's perform an active financial intermediation function, particularly mediating from urban and semi-urban to rural areas, and between net savers and net borrowers while ensuring that loan resources remain in the communities from which the savings were mobilized.

Uruguay leads the pack with more advance human resource management structure both in public and private practice. Million Makers helps employers within the private or public sector in identifying and acquiring skilled candidates who can support business requirements for Uruguay Vance and Paik (2015). In Latin America, there are numerous examples of successful SACCOS, for example in Bolivia SACCOS produces about 60% of the country's chickens and nearly 30% of fertilizer inputs requirement for the country. In contrast, opportunity-enhancing HR practices in these countries are organizational mechanisms directly designed to empower employees for achieving organizational objectives and optimizing their levels and types of skill to handle new.

Many firms in Nigerian are turning to outsourcing Human Resources functions to achieve effective workforce within their strategic goals. This strategy often creates synergistic effects, which could be in form of monetary and non-monetary benefits. Though Human Resource Outsourcing was first driven by the Oil Corporation firms' attempts to reduce or control costs, it also allowed the company to focus on their core competencies, while relying on their outsourcing partners for effective workforce for greater efficiency in all business processes. Most of the people over 7% affiliated to SACCOs are still suffering a number of problems like rights to be heard and there is also limited protection related to SACCOs (Wamiori, 2019). In the same continent, cases have also existed in South Africa and Nigeria as well. These cases have created a need to have internal controls in place to help senior management in making decisions.

In the Kenyan context, SACCOS contribute 45% of the country's GDP and that the sector has effectively managed to mobilize Ksh 200 billion deposits and assets worth Ksh 210 billion Mmari (2020). SACCOs in Kenya are required to adhere to regulations set out by the Sacco Societies Regulatory Authority (SASRA). The management has to present the capital adequacy return reports, liquidity statement reports, Statement of financial position and Statement of deposit return as well as Return on investments reports which compares fixed investments like land and other financial assets to the SACCO's total assets and its core capital.

SACCOs plays a key part in assisting people save and acquire credit at relatively lower interest rates than the main stream banks. SACCOs plays a significant role in the realization of vision 2030. Due to the increase in demand of intermediate banking facilities, SACCOS or a company must focus its limited resources on those activities that are essential to its survival and must leverage activities that arc peripheral. Outsourcing initiatives contribute to increases in employment rates and wages and led to the creation of over 14 million jobs in the United States; therefore, SACCOS should consider how outsourcing could impact their organizations performance (Keben & Maina, 2018). Many outside vendors arc installing integrated or enterprise software, such as PeopleSoft, with human resource information system components. HR Practices Outsourcing is also used when SACCOS are operating at capacity and do not have additional staff to handle increased activity. Because such levels of business will eventually decline, companies may prefer to outsource some activities rather than hire more staff. SASRA is the regulating body of SACCOS in Kenya. Its annual report in 2019(pg.19)

revealed 3 Saccos had their Licenses deregistered because the SACCOS were rendered not credible. Their credibility was questioned due to some of the following matters; Human Resources being compromised by the board of directors, Lack of quality Human Resource Systems to run clientele and staff data. HR practices outsourcing might be a competitive advantage factor. Hence the current study sought to establish the effect of payroll outsourcing practices on performance of Saccos in Uasin Gishu County Kenya.

## **Theoretical Framework**

### **Stacy Adam's Equity Theory**

Equity theory was first developed in 1965 by John Stacey Adams. Adams, a workplace and behavioral psychologist, asserted that employees seek to maintain equity between what they put into a job and what they receive from it against the perceived inputs and outcomes of others. Equity theory proposes that people value fair treatment, which motivates them to maintain a similar standard of fairness with their coworkers and the organization (Adams & Freedman, 1976).

Accordingly, equity structure in the workplace is based on the ratio of inputs to outcomes. The rule of equity and fairness has been introduced in organizational management to ensure that employees rewards are inconsonance with their groups or individual inputs, hence the theory of equity. The theory assumes that individual is concerned with his achievements (salaries, rewards and recognition) as well as with achievements of others. Also, employees demand fair treatment or acknowledgment of their contribution to their company. In addition, Employees determine what return (equitable) they should receive after comparing their inputs with the outcomes their relational workers have received. Employees who feel that they are being inequitably treated will try to reduce inequity, either by balancing their performance level or by leaving the company.

The theories explain employee's behavior, attitudes and perceptions arising out of payroll and performance. A linkage between payroll and performance is derived from employee's behavior to various elements of payroll. Equity theory acknowledges that subtle and variable individual factors affect each person's assessment and perception of their relationship with their relational partners (Adams, 1965). In any case, an employee wants to feel that his contributions and work performance are being rewarded with his pay. If an employee feels underpaid then it will result in the employee feeling hostile towards the organization and perhaps his co-workers, which may result in the employee not performing well at work anymore. It is the subtle variables that also play an important role in the feeling of equity. Just the idea of recognition for the job performance and the mere act of thanking the employee will cause a feeling of satisfaction and therefore help the employee feel worthwhile and have better outcomes.

The essential aspect of the equity theory, which Polk (2011) has received a great deal of credit for its formulation is as follows:  $\text{Outcome of a person} / \text{Outcome by another person}$ . This equation revealed that there should be a balance of the outcome/input's relationship for one person in comparison with that of the other person. In the logic of the word, if people feel that they are inequitably rewarded, they may be dissatisfied, and they may reduce the quantity or quality of output, or they may even leave the organization. Also, if people think that the rewards are greater than what is equitable, they may work harder.

## Methodology

This study used descriptive research design. The target population of the study were all employees of the 20 SACCOS in Uasin Gishu County. The accessible population for this study was 227 employees working in the Savings and credit cooperative societies in Uasin Gishu County. The sample size of 145 respondents were obtained using Yamane formula.

The study proportionally distributed the sample size into the six categories of respondents. This was done to ensure that the sampling is done as per the size of the population. The study employed purposive sampling to select 13 managers. Purposive sampling was to enable researcher to get a lot of information out of the data to be collected. Simple random sampling was done using random numbers generated by computer. Simple random sampling method was used since it reduced biases by giving equal and independent chance to every member of the population

The study collected both primary and secondary data. Primary data was collected using questionnaires. The researcher administered close ended questionnaires to collect data from respondents. Self-completion of questionnaires was adopted because it was cost effective when handling large number of widely spread respondents especially those who are literate (Konig & Neumayr, 2017). The questionnaire is the most suitable research tool as it permits the researcher to gather information from a large sample with diverse backgrounds. The findings remain confidential, saves time and because they are presented on paper format there is no opportunity for bias.

To test validity, the research instruments availed to the supervisor and other specialized lecturers in this field of study in the university to review the test items. Data collected from the pilot study were used to compute the internal consistency reliability of the instruments' items. The Cronbach's alpha was applied on the results obtained to determine how items correlate among themselves in the same instrument. Cronbach's Alpha of more than 0.7 was taken as the cut off value for being acceptable.

Collected data was organised and edited to remove any inconsistencies, repetitions or errors that would have made analysis difficult. Descriptive and inferential statistics were used to analyse the data with the aid of the Statistical Package for Social Sciences (SPSS) version 25. Descriptive statistics included percentages, frequencies, mean and standard deviation. Inferentially correlations and multiple regression analysis were applied to get the change in dependent variable caused by the effect of independent variables.

The regression model to be adopted for hypotheses testing was as follows:

### Multiple Regression Model

$$Y = \beta_0 + \beta_1 X_1 + \epsilon \dots\dots\dots \text{Equation 3}$$

Where:

- Y; represents performance of SACCOS
- $\beta_0$ ; represents regression Constant
- $\beta_1$ ; represents coefficient of study variables
- $X_1$ ; represents Payroll outsourcing practices
- $\epsilon$ ; represents error term

## Findings

### Response Rate

A total of 145 questionnaires were issued to the respondents, and total of 110 were fully filled and returned for analysis. This represented a 75.9% questionnaire response rate. According to Kothari (2010) when the rate is 75%, then it is appropriate to continue with the study.



**Descriptive Analysis for Payroll Outsourcing Practices**

The objective of the study was to determine the effect of payroll outsourcing practices on performance of Sacco's in Uasin Gishu County, Kenya. Table 2 presents the study results.

**Table 2 Descriptive Analysis for Payroll Outsourcing Practices**

Statements		SA	A	UD	D	SD	Mix	Max	Mean	Std. Dev.
1. Outsourcing ensures that the employees being paid are under payroll	F %	38 34.5	52 47.3	13 11.8	3 2.7	4 3.7	1	5	4.06	0.951
2. Outsourcing ensures that there are up to date payment of employees	F %	38 34.5	20 18.8	39 35.5	9 8.2	4 3.7	1	5	3.72	1.134
3. Outsourcing does salary surveys	F %	48 43.6	36 32.7	17 15.5	1 0.9	8 7.3	1	5	4.05	1.136
4. All salary administration is ensured by the outsourcing of human resource	F %	26 23.6	51 46.4	12 10.9	14 12.7	7 6.4	1	5	3.68	1.156
<b>Valid N =110</b>									<b>3.88</b>	

The study results from Table 2 revealed that that majority 90(81.8%) of the respondents agreed that outsourcing ensures that the employees being paid are under payroll. On contrary to that, 7(6.4%) of the respondents disagreed that outsourcing ensures that the employees being paid are under payroll. Further, the results also showed in terms of mean and standard deviation that the respondents agreed that outsourcing ensures that the employees being paid are under payroll (Mean=4.06, Standard deviation=0.951). Also, 58(52.7%) of the respondents agree that outsourcing ensures that there is up to date payment of employees. However, on the other hand 13(11.8%) of the respondents disagreed that outsourcing ensures that there is up to date payment of employees. Further, the results also showed in terms of mean and standard deviation that the respondents agree that outsourcing ensures that there are up to date payment of employees (Mean=3.72, Standard deviation=1.134).

Further, 84(76.4%) of the respondents agreed that outsourcing do salary surveys. On contrary to that, 9(8.2%) of the respondents disagreed that outsourcing do salary surveys. Further, the results also showed in terms of mean and standard deviation that the respondents agree that outsourcing do salary surveys (Mean=4.05, Standard deviation=1.136). Finally, 77(70%) of the respondents agree that allsalary administration are ensured by the outsourcing of human resource. However, on contrary 21(19%) of the respondents disagreed that allsalary administration are ensured by the outsourcing of human resource. Further, the results also

showed in terms of mean and standard deviation that the respondents agree that all salary administration are ensured by the outsourcing of human resource (Mean=3.68, Standard deviation=1.156).

The study results showed that majority of respondents agreed that payroll outsourcing practices has an influence on performance of Sacco's in Uasin Gishu County, Kenya. This implies that outsourcing ensures that the employees being paid are under payroll. Also, outsourcing ensures that there is up to date payment of employees. Further, outsourcing does salary surveys. Finally, all salary administration is ensured by the outsourcing of human resource. The study results concur with Afdalin and Al-Mahmud (2019) whose results exhibit the relationship and also demonstrate the impact of total payroll of workers and organizational culture on workers performance.

### ***Descriptive Analysis for SACCOS Performance***

The study sought to determine SACCOS performance. Table 3 presents the study results.

**Table 3 Descriptive Analysis for SACCOS Performance**

Statements		SA	A	UD	D	SD	Mix	Max	Mean	Std. Dev.
5. Customer satisfaction is high, noted by the increased number over the period.	F %	56 50.9	46 41.8	3 2.7	1 0.9	4 3.6	1	5	4.35	0.883
6. The sales have increased noted by high profits every year.	F %	45 40.9	54 49.1	1 0.9	6 5.4	4 3.6	1	5	4.18	0.969
7. Customer complaints and errors at work have reduced hence increasing efficiency and productivity.	F %	51 46.4	50 45.5	4 3.6	1 0.9	4 3.6	1	5	4.30	0.884
8. Employees meet their set targets, and this increases performance.	F %	45 40.9	27 24.5	23 20.9	11 10	4 3.6	1	5	3.89	1.160
Valid N =110									<b>4.18</b>	

The study findings from Table 3 revealed that that majority 102(92.7%) of the respondents agree that customer satisfaction is high, noted by the increased number over the period. However, 5(4.5%) of the respondents disagreed that customer satisfaction is high, noted by the increased number over the period. Further, the results also showed in terms of mean and standard deviation that the respondents agree that customer satisfaction is high, noted by the increased number over the period (Mean=4.35, Standard deviation=0.883). The study findings further revealed that 99(90%) of the respondents agree that the sales have increased noted by high profits every year.

On contrary to that 10(9%) of the respondents disagreed that the sales have increased noted by high profits every year. Further, the results also showed in terms of mean and standard deviation that the respondents agree that the sales have increased noted by high profits every year (Mean=4.18, Standard deviation=0.969). The study findings also revealed that 101(91.8%) of the respondents agree that customer complaints and errors at work have reduced hence increasing efficiency and productivity. However, on the other hand, 5(4.5%) of the respondents disagreed that customer complaints and errors at work have reduced hence increasing efficiency and productivity.

Further, the results also showed in terms of mean and standard deviation that the respondents agree that customer complaints and errors at work have reduced hence increasing efficiency and productivity (Mean=4.30, Standard deviation=0.884). The study findings also showed that 72(65.5%) of the respondents agree that employees meet their set targets, and this increases performance. On contrary to that, 15(13.7%) of the respondents disagreed that employees meet their set targets, and this increases performance. Further, the results also showed in terms of mean and standard deviation that the respondents agree that employees meet their set targets, and this increases performance (Mean=3.89, Standard deviation=1.160). The study findings revealed that majority of respondents agreed that SACCOS Performance has improved.

#### ***Linear Regression Model of Payroll Outsourcing Practices and Performance of SACCOS***

The linear regression analysis models the relationship between payroll outsourcing practices and performance of SACCOS.

***Table 4 Regression Model Summary of Payroll Outsourcing Practices***

<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
.407 <sup>a</sup>	0.166	0.158	0.97193

The results of the linear regression in Table 4 indicated that  $R^2 = 0.166$  and  $R = 0.407$ . R value of 0.407 gives an indication that there is a positive relationship between payroll outsourcing practices and performance of SACCOS. The  $R^2$  indicates that explanatory power of the independent variables is 0.166. This means that about 16.6% of the variation in performance of SACCOS is explained by the regression model. This gives implication that the employed data for regression model were accurate.

***Table 5 Model Fitness Results of Payroll Outsourcing Practices***

	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	20.276	1	20.276	21.464	.000 <sup>b</sup>
Residual	102.022	108	0.945		
<b>Total</b>	<b>122.298</b>	<b>109</b>			

From the study results in Table 5 the F-statistics ( $F = 22.659$ ) was significant at  $p=0.000$  thus confirming the fitness of the model. The F test provides an overall test of significance of the fitted regression model. The F value indicates that the variables in the equation are important hence the overall regression is significant.



Therefore, there is statistically significant relationship between payroll outsourcing practices and performance of SACCOS. This means that the independent variable (payroll outsourcing practices) was a significant predictor of the dependent variable (performance of SACCOS).

**Table 6 Regression Analysis Coefficients of Payroll Outsourcing Practices**

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	3.077	0.217			14.151	0.000
Payroll outsourcing practices	0.339	0.073	0.407		4.633	0.000

From Table 6 the results it illustrated that payroll outsourcing practices has a positive significant effect on performance of SACCOS ( $\beta_2=0.339$ ,  $p=0.000<0.05$ ). This gives an implication that a unit increase in payroll outsourcing practices will cause a 0.339 increase in performance of SACCOS. Thus, the regression equation model as follows;

$$Y = 3.077 + 0.339X_2 \dots\dots\dots \text{Equation 4.2}$$

### Conclusions of the Study

The study concluded that performances of employees are guaranteed since outsourcing ensures that the employees being paid are under payroll, there is up to date payment of employees, outsourcing does salary surveys and salary administration are ensured.

### Recommendations of the Study

The study also recommends that the Saccos should always pay their employees under payroll, ensure that there is up to date payment and ensure that their salary surveys and salary administration for this will greatly influence the performance of Saccos.

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