

Analysis of human resource outsourcing with regards to competitiveness of organizations

Abstract

Human resource outsourcing means that personnel-related matters are contracted to another organization. In other words, this refers to the transfer of responsibility for the management and application of human resource processes to an external party. The war for talent in the ever changing business environment is an essential factor that contributes to the outsourcing arrangement. The dynamic and complex nature of legal environment may also lead companies to engage with external contractors in order to obtain specific field expertise. Changing business structures may push internal HR professionals to focus their attention on facilitating the change in their respective organizations. Aside from that, the increasing transactional HR costs drive HR departments to consider outsourcing as well. Latest HR information systems significantly increase HR productivity, enhanced control of employee benefits, beefing up compliance initiatives, and lowering transactional HR costs. This paper discusses the issue of human resource outsourcing in a sequential manner. The literature review briefly discusses the reasons behind the trends in human resource outsourcing. Then, the discussion will look at how to select the best business service provider. It discusses the criteria and variables that are needed to be considered before a company decides on the outsourced service provider. Lastly, the discussion will focus briefly on how to achieve a successful outsourcing relationship with the selected provider along with issues pertaining to agency contract. This paper attempts to meet the stated objectives within the scope of vendor selection, types of services and relationship, and outsourcing governance and uncovering how outsourcing some or all HR functions may well contribute to one's competitive advantage.

Keywords: HR outsourcing, HR competitive advantage, process outsourcing, human resource, compliance initiatives, scope of vendor selection, agency contract, community appear, endogeneity

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Introduction

Experts have long maintained that by outsourcing certain non-critical human resource functions, companies stand to reap significant rewards. Some of more visible benefits may include reduced operating costs, improved service delivery, ability to focus on the core business, and opportunity to leverage expertise not available internally. Human resource outsourcing has grown more prevalent during the past five years, and the trend is continuing. Outsourcing activities such as recruitment, hiring, compensation and payroll administration, and labor relations may significantly reduce human resource related costs incurred by the company. This issue is very much significant when looked at small and medium sized companies studied how HR outsourcing affects the HR role, competencies and relationships with senior management through 27 semi-structured interviews with senior HR professionals, comparing HR departments engaged in HR outsourcing with those maintaining full in-house HR provision. The findings indicate that HR outsourcing stymies HR role transformation. HR outsourcers experienced limited skill development and an increased focus on cost reduction at the expense of their strategic position. In contrast, non-HR outsourcers actively engaged in other parts of the business, developing competencies that garnered trust and support of senior managers. The benefits of an external HR community appear limited. The study suggests that an 'internal' HR community is better placed to enhance HR departmental roles. One might wonder who actually bears the burden of this compensation administration. To understand this, one should briefly outline the fundamental differences between outsourcing and conventional HR.

From an outsourcing client point of view, outsourcing places the responsibility for continuous improvement of a company's HR

and compensation administration in the hands of a provider whose core competency is human capital management. In addition, the administration provider assumes the functions of recruiting, hiring, training, and retaining the specialized human resource or talent deemed necessary by its clients. Conventional HR, on the other hand, requires a company's human resource department to internally manage all the human capital needs and compensation administration¹ used event study methodology and two-stage regression analysis on a sample of firms announcing human resource outsourcing (HRO) contracts to test the association between administrative HRO and firm-level capital market and long run operating performance, with archival financial data controlling for endogeneity and outsourcing decision optimality. Their results demonstrate that the equity capital market responds positively to client firms announcing administrative HRO, particularly service firms and those outsourcing transactional HR tasks. Additional statistical analysis shows that suboptimal outsourcing is negatively associated with long run operating performance measured as return on assets and operating return on assets.

Problem statement

Governing contracts for outsourced business activities is markedly different from routine purchase or services agreements. That's especially true if intellectual property, warranties, liability and indemnification provisions are involved. From the pertinent literatures that have been reviewed, the three major outsourcing problems are identified as follows:

- I. No specific guidelines are available on how to select which human resource functions to be outsourced;
- II. There is lack of literature on how performance management are

carried under business process outsourcing environment; and

- III. There are no readymade course of action on how to negotiate HR outsourcing contract and maintain sound relationship with service vendors.

Objectives

Having identified the problems, the objectives of this paper are thus as listed below:

1. To present a thorough and clear guidelines on the selection of which human resource functions to be outsourced;
2. To propose a thorough method of performance management in an outsourcing environment; and
3. To suggest a strategy on how to negotiate HR outsourcing contract and maintain sound relationship with service vendors.

Survey of literature

Traced the evolution² of outsourcing in USA during financial crisis of 2007-2008 and found that outsourcing is practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally³ see that companies are gradually depending upon external providers to carry out HR activities that have been conventionally done in-house. The authors use transaction cost economics perspective in order to study the impact of organizational-level factors such as the demand for product/service of a company, level of uncertainty, firm size, and cost pressure, on perceived benefits resulted from HR outsourcing. This perspective asserts that in obtaining inputs, companies have to choose between internal or external governance structures. When companies depend on external providers to perform all or parts of their HR functions, the companies are depending on the market as a kind of governance. Similarly, when depending on internal employees to perform the functions, companies are counting on the organizational hierarchy as a mode of governance. Companies tend to choose governance structure that may lead to the lowest total transaction costs connected with acquiring inputs of the desired quality. These total transaction costs may well include unit price, the cost linked to the establishment and maintenance of client-agency relationship, the costs associated with performance and quality checking, and the costs generated by the opportunistic behavior of either the client (company) or the agent (provider). The authors argue that the perceived benefits from HR outsourcing will differ across companies of different organizational characteristics. Notwithstanding, developing trust between clients and agents through constant interaction, establishment of fully specified contracts, and selecting the best provider may be the best way to ensure a successful HR outsourcing exercise.

Although the results of the study provide a sound idea of the impact of organizational characteristics on the success of HR outsourcing, the authors, however, fall short of explaining how to select the best provider⁴ takes a theoretical approach to the issue of HR outsourcing, using transaction cost economics perspective, social exchange theory, and strategic HR literature. The author studies the impact of each of the theories on decision-support model for small and medium enterprises. This paper concentrates on the conditions best suited to HR outsourcing, fostering and maintaining a sound relationship with the vendors, as well as mitigating chance for providers to take advantage over a situation. His study shows that since outsourcing transactional HR functions requires little asset-specific investment,

small and medium enterprises can easily change vendors should they are not satisfied with the service rendered. Hence, market governance structures seem to be effective at limiting opportunism and making sure of effective provision of services. The theoretical framework presented here signifies the characteristics that are critical to determining whether a small and medium enterprise will benefit using HR outsourcing strategy with a professional employer organization (PEO). While the study discusses the three approaches to the issue of HR outsourcing in detail, it lacks data-collection to support its findings and conclusion.

Kim-Soon et al.,⁵ explored the theories, the current issues and challenges of HR management, factors influencing HRO and the benefits of HRO in manufacturing industries. Based on qualitative data from six manufacturing industries, they found that manpower management and security management are the common tasks that have been outsourced. The common issues and challenges faced by industries are high employee turnover rate and employee's problems faced. As such, manpower and effectiveness of management are the main themes for adopting the outsourcing. It was found that in manufacturing industries, the human resource officers are able to elevate their effectiveness in managing manpower, its focus not purely on cost reduction, but on manpower and its effectiveness in management in enhancing industries performance and to support its growth⁶ sought to determine which human resource (HR) functions are most commonly outsourced in Australian organisations and to explore the motivation to outsource these HR functions. From a nationwide survey, they identified that recruitment and selection; training, occupational health and safety, payroll and employee benefits are the top five outsourced HR functions. The three common reasons to outsource these functions were to acquire specialised HR capabilities, improve quality and efficiency, and to free resources to concentrate on the strategic role of HR. Four main outsourcing drivers—resources, learning, cost saving and political—were identified, which offer explanations for the most commonly outsourced HR functions. Apart from the learning factor, these are consistent with motivations for outsourcing in non-HR areas.

Explored the antecedents of the decision of whether to outsource human resources (HR) while considering two moderators - the lack of in-house HR expertise and positive HR outcome using data collected from 85 Vietnamese firms of different sizes. They concluded that the strategic involvement of HR management is positively related to the decision to outsource HR. As expected, a positive significant relationship exists between cost reduction and the decision to outsource HR for non-core HR activities. For core HR activities, demand uncertainty relates positively to the decision to outsource HR, and the lack of HR expertise moderates the process of HR outsourcing (HRO) proposed a co evolutionary model for understanding the behaviour of companies off shoring their HR activities and contends that companies should address their decision to offshore HR activities from a dynamic perspective, being aware of three processes that are in constant change: the evolution of the HR function, the evolution of service providers, and the evolution of off shoring decisions.⁷ Critically examined how outsourcing and devolvement of HR activities influence the strategic position of HR departments. They suggest that the strategic position of HR departments is negatively influenced by devolvement to line management and positively influenced by outsourcing of noncore HR tasks. No significant effect of outsourcing core HR activities was found.⁸ believes that HR outsourcing allows HR departments the flexibility to concentrate on core activities and

participate in the strategic planning process. The third party vendors should play a supporting role to the HR departments. This means that HR outsourcing strategy should not be used to replace the internal HR departments. The author asserts that some HR functions are too sensitive to be outsourced because of its strategic values. These functions may well include succession planning, organizational design, recruiting, and training. With the mergers, acquisitions, and restructuring exercises going on in the business environment today, she finds that internal HR professionals have an increasingly important task to facilitate these changes.

Since the chief purpose of HR outsourcing is to lower the costs of managing HR activities, the author does a great job of providing some questions that companies must ask themselves in order to select an outsourcing provider/vendor. Companies which are considering HR outsourcing strategy must first understand how it works. The desired outcomes must also be identified. Subsequently, companies should be clear about how to measure the achievement of this strategy. Ultimately, one should determine the cost-effectiveness of the exercise. While lacking an in-depth discussion on how outsourcing partnership can prepare an organization to finally gain a desired competency internally, the author does an excellent job by presenting a holistic idea of what constitute HR strategic and core functions⁹ examined why recruitment and selection is so important for a business and whether it should be dealt with solely by the internal HR and Recruitment teams or whether it should be outsourced to a specialist. He found some minor issues with the current, traditional recruitment methods used by the organisation; however if the future plans for changes in recruitment processes continue to take place within the organisation they will continue to remain competitive within the market and rates of staff turnover will remain low.

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Outsourcing decision making

The Human Resource Department Management Report¹⁰ cautions companies which are considering outsourcing their HR functions about the failure of others in trying to implement this strategy. Similar to the previously reviewed article, the report reiterates the importance of knowledge about all the relevant HR functions of one's company. This information is vital in deciding which function, if at all, to be outsourced to a third-party operator. Traditionally, a business process is outsourced so that company can save significant operational costs. Nevertheless, there were some reports that suggest that this is not always true. This increase in cost is due to the failure to clearly specify the desired requirement or outcomes by the client or company. The report also points out that contrary to popular belief, a company may still need internal HR professionals and staff even though it has

outsourced most, if not all, of its HR functions. The reason behind this is that the company may still need someone to manage the vendor services while performing some strategic HR functions. In addition, companies are also warned against the tendency exaggerating the demand for HR outsourcing. The demand for this service is patchy across major HR functions. The report suggests companies to make formal of its intention to outsource certain HR functions. This can be achieved by discussing the matter across the company's various functional departments. Outsourcing HR functions may well affect the Finance, and Information Technology departments besides the obvious HR department of a company. Benchmarking one's company against a successful company, particularly from the same industry, may prove to be beneficial to the one's strategy.

Knowing the true reason to outsource, selecting the provider, and anticipating change are the other important factors that one needs to deal with. As in any other agreements or contracts, the desired or expected outcome of this arrangement has to be clearly specified so that the provider understands of what is expected of its service? Though briefly stated, the report seems to be helpful in educating companies about the pitfalls that should be avoided when deciding to outsource HR functions¹¹ explored the linkages between the concepts of recruitment process outsourcing (RPO) and its contribution towards the employer branding process and proposed a conceptual framework based around outsourcing effectiveness and its impact on employer branding. They clearly highlight the importance of and the vital role played by the outsourced employees and how they need to be nurtured through a strong corporate culture and make them great brand ambassadors discuss about general outsourcing from a more contemporary perspective. The authors claim that traditionally, companies outsource their nonessential functions to cut down significant administrative and avoidable costs. Throughout the years, this strategy has evolved into a collaborative engagement aimed to create excellent support operations that is in line with the ever changing business environment. Better still, the arrangement is directed at supporting enterprise transformation. The authors took the outsourcing of the entire IT functions by Eastman Kodak to make their case. The four levers for relationship management provide companies considering outsourcing a sound guidelines on how to make fully utilize third party service vendors in the long term as business partners.

Although lacks an empirical data sufficient to other pioneering companies in this regard is highly credible, to say the least¹² empirically analyze the changes in globalization, fierce business competition, and legislation pressures that are found to be major drivers for HR outsourcing in Australia. The paper attempts to discover main reasons for the very significant rate of HR outsourcing in the country while identifying some emerging issues associated with the practice. The authors divide HR outsourcing into two categories, namely the externalization of place and the externalization of administrative. The former refers to the practice of working from or at home or away from the conventional office while the latter refers to the hiring of temporary external employees or subcontracting some or the entire HR functions to a service provider. In conclusion, the authors argue that HR outsourcing may lead to create an oversupply of labor in the domestic market, thus increasing expected job insecurity to the current employees. Clearly, the authors overlook the need to retain internal HR professionals to deal with the latter problem¹³ suggests the use of risk management techniques to staffing issues. This application is aimed at safeguarding companies' interests, in both short- and longer-terms.

She puts forth the notion that business entities are avoiding permanent staffing and hiring temporary employees instead in order to lower operational costs and leverage their limited resources on their core business. The author analyzes various HR outsourcing arrangements such as employee leasing, contracting, temporary staffing, and other transactional costs. She also describes the need to foster mutual but specific contractual agreements with vendors in order to fully realize the desired cost saving goals from the outsourcing arrangements. This paper, however, lacks the opinion of the learned author on the subject being analyzed.

Staff leasing arrangement

Suggests that a company struggling with soaring employment costs may want to regard outsourcing HR services to a professional employer organization (PEO). As a matter of fact, this company can contract out the running of its entire workforce to a PEO. Aside from employee leasing, HR services presented by a classic PEO take account of administration of payroll, job loss insurance, reimbursement and payroll tax fulfillment. It can also provide job descriptions, worker manuals, and employee assistance program services. Companies that hire the PEOs may benefit from higher savings, lesser risks, enhanced efficiency, and focus on central part business and a better labor force. On the other hand, the practice of outsourcing HR and leasing employees has its restrictions and risks. Therefore, companies should first resolve if it is the right strategy for them. The author cautions companies not to jump into the outsourcing bandwagon without first study the HR processes already in place and the potential benefits and costs from the outsourcing arrangement. Despite failures experienced by some companies, the success of outsourcing will rely upon one's business goals, staffing needs, and readiness in allowing other party to manage one's employees' affair. Although the author successfully explains how companies can fully benefit from a good relationship with a PEO, she lacks the logical explanation on how the PEO manage to provide benefits to its temporary staff similar to the permanent staff of the client company. Human Resource Department Management Report¹⁴ argues that the best way to measure the potential success of cutting down the HR costs is by benchmarking one's company's practice against other companies which have experienced success in implementing the strategy.

The report cited HR outsourcing experience at Prudential Financial USA. Prior to outsourcing its HR functions, Prudential Financial was plagued by a soaring HR costs due to its disintegrated and decentralized HR systems. After 10 years of poor HR system, the management started to consider outsourcing its nonessential HR functions to a third party as a way to drive down the ever increasing HR administrative costs. The decision to outsource certain HR activities is influenced by the company's requirement to concentrate on value-added or consultative services in HR, to adapt to business environment change, to benefit from the latest HR technology, to minimize HR administrative costs by shaving away high-volumes transactional activities like payroll and compensations administration, and to effectively manage third party vendor relationship. The report excellently highlights important matters pertaining to outsourcing contract. All in all, the selected service provider must understand that the main goal of the outsourcing arrangement is to save costs on the client part. This has to be specified clearly in the contract between the two parties. This report has successfully served its purpose of enlightening companies about the need to benchmark with other successful companies and the way to select which HR functions to

be outsourced. Stroh and Treehuff (2003) argue that there is no easy and clear method to decide whether and which HR functions to outsource. Deciding on the former question is the foremost problem. Although there are commonly mentioned benefits to outsourcing, such as significant cost savings, increase in service efficiency, as well as enabling internal HR professionals to concentrate on strategic and value-added activities, there is also a number of horror stories associated with it. In order to be successful, companies only outsource HR activities that are nonessential to the organizational goals.

However, what constitutes non-core activities in one company may be significantly different from other company. Hence, there is no clear category that can group these non-core HR functions together. Before outsourcing any HR function, companies must deal with issues relating to employee morale and company culture. The authors brilliantly conclude with a number of guidelines that any company that is considering outsourcing parts or the entire of its HR functions should follow. They assert that each company should still maintain some internal HR professionals for managing vendor relationship. This is vital for both parties should there arise a problem in future. Companies must also ensure that only nonessential functions are outsourced. Finally, the authors reiterate the importance of maintaining company culture. The authors do a good job by cautioning companies against some outsourcing pitfalls. Nevertheless, the authors' work could have been improved by presenting some quantitative evidence to support the findings and conclusion¹⁵ identifies six factors that companies need to consider when making HR outsourcing decision. These factors are essential guidelines that can be effectively applied to HR functions. The author explains how changes in the business environment are affecting how firms approach HR management, and how HR outsourcing has been divided into three main segments, ultimately aiming to give advice on when to and when not to outsource finds that outsourcing practice in general has emerged and evolved from merely a strategy for reducing costs and enhancing organizational focus to acting as means of obtaining new competencies and introducing essential strategic and structural change. The author points out that outsourcing places the influence to bring new competence to the organization in the hands of management members who have and value those aptitude. She identifies four broad categories of outsourcing clientele, namely rapid startup, pathway to growth, change catalysts, and radical renewal. She also discusses the varying reasons for each of these categories to limit service providers. This paper provides vital information to both client companies and service vendors in understanding the desired outcome of an HR outsourcing.

Legal issues surrounding outsourcing

Miller and Anderson (2004) discuss the responsibilities of members of the American Institute of Certified Public Accountants (AICPA) in three legal areas, namely the AICPA ethical standards, the Gramm-Leach-Bliley Act (GLBA) and certain Internal Revenue Code provisions. Under the ethical standards of the institution, the code holds members responsible for making sure the precision and comprehensiveness of the services rendered by third party vendors. In addition, members must also safeguard clients' information so as not to jeopardize their confidentiality. Members have the discretion whether or not to inform their respective clients about the use of outsourcing agents. Nevertheless, the Gramm-Leach-Bliley Act protects clients' confidential information by allowing clients to determine when their personal financial information could be shared

among financial service institutions. Ironically, the GLBA does not require practitioners to disclose to a client that a third party vendor is being engaged to render service for the client on the practitioner's behalf. Finally, the authors discuss the US Internal Revenue Code, which prohibits practitioners from knowingly disclosing clients' tax-related information to third party vendors. The paper also briefly touches the practitioners' duty. Though informative, the paper lacks in-depth discussion in the authors' opinion on the subject discusses issues relating to outsourcing the preparation of income tax returns to overseas third party providers. The focal point of this paper is the ethical concerns of such practice. The author argues that clients must be informed that their personal and tax information (which are also linked to HR issues) are being transmitted to international service vendors across the border. Ethically, clients have the right to be excluded from this arrangement. He also highlights that it is difficult for domestic practitioners to exercise due process in performing their services because such services are subcontracted overseas. The author's most appealing conclusion is that most, if not all, of the US legislations and ethical codes pertaining to the subject merely provide opportunity for clients to option-out of the outsourcing arrangements instead of option-in. This provision is seen as the greatest weakness in the US legislation that can prove to be disastrous to the interest of the clients or consumers.

Research framework

In trying to achieve all that have been stated above, this paper will present a framework of supplier selection process and explain the activities involved. This process starts from implementing a job analysis. Also, a framework of outsource governance will be shown and explained in detail so as to ensure service quality being carried out by selected service vendors meet one's predetermined requirements. Refer appendix for framework chart^{16,17} examined the role of service quality in strengthening the relationship between partnership quality and human resource (HR) outsourcing success by studying samples obtained from 96 manufacturing organizations in Penang, Malaysia. The results showed that partnership quality variables such as trust, business understanding, and communication have significant positive impact on HR outsourcing success, whereas in general, service quality was found to partially moderate these relationships. Therefore, comprehending the HR outsourcing relationship in the context of service quality may assist the organizations to accomplish HR outsourcing success by identifying areas of expected benefits and improvements.

Discussion and findings

Organizations now realize that they must reduce their human resource costs while improving service to employees. For many companies, outsourcing has become an important part of their strategies of achieving and sustaining competitive advantage over business rivals. Nevertheless, determining which human resource functions should be outsourced can be challenging to most, if not all, companies. In order to ensure the best human resource strategy, companies should evaluate the potential benefits of outsourcing and consider business motivations, such as reducing costs, and maximizing internal resource utilization.¹³ Selecting an outsourcing provider is a delicate task to most companies. Before deciding to outsource, companies should conduct an assessment of their internal resources. For some companies, outsourcing the bulk of their transactional human resource functions like recruiting, hiring, benefits administration, and labor

relations to a single provider may be the best solution. Many find that managing a single business service provider to a easier and more cost effective than managing the transactional human resource activities internally¹⁵ describes human resource outsourcing as management of one or more human resource functions by a third party, together with the information technology that supports the process or function. Human Resource Outsourcing does, one could argue, take a process-oriented view of organizations while seeking to use the market as the preferred mechanism for sourcing provision of those processes. The review therefore separately considers first the firm or market interest in economic organization and secondly the process models of the human resource activities. Unifying these themes, the review covers extant research on human resource outsourcing, noting that much of the work to-date has been on outsourcing the information technology function rather than the full range of processes that fall within the scope of human resource management. Next, the problems of initiating and managing organizational change programs such as human resource outsourcing is considered. From this, a theoretical framework or the interaction between employees and concepts is developed.

The use of external providers implies that buying from the market is preferred to internalizing the service provision within the firm. The literature on organizational economics identifies the efficiency of the markets whereby the process of exchange gives rise to efficiency gains (without considering the costs); if after resource allocation, everyone is better off, the allocation is said to be Pareto superior¹⁸ built a systematic and practical human resource management outsourcing decision model for SMEs. In this decision model, HRM activities are classified into transaction, profession and strategy levels, and economic benefit, core competence enhancement and risks are taken into consideration. Applying multi-objective intelligent weighted grey target decision method based on combination weighting approach, the decision model can help the enterprise decide which HRM activities should be outsourced in priority sequence. The study also proposed a scientific guidance for China's SMEs to make the HRM outsourcing decision. A market-based economic system encourages resources to be used more productively and moves resources from low to high value uses. Studies by US-based IDC claim that market systems produce improvements in aggregate values of around 3% to 4% per annum over the long term, attributing this to four factors:

- a. Technology, meaning the application of knowledge to improve tools, processes, products, and services by entrepreneurs to meet the needs of buyers;
- b. Improvements that produce continuous productivity gains allow better methods to replace inferior ones;
- c. Testing of ideas, with the successful prospering and increasing standards while inferior ideas and firms fail;
- d. Decentralization but with a universal measure of performance – profit. The market provides rules without needing external authorities making decisions. The market signals what is needed and rewards those who provide for those needs.

Concluded that in a vertically integrated firm, where the producer serves internal customers, then the value-chain is not subject to market scrutiny and the disciplines that this will bring. While the theoretical poles of economics give a vertically integrated autarky against an atomized market, emerging models describe organizational

forms that seek efficiency, adaptability and responsiveness. A flexible firm¹⁹ describes how labor flexibility allows an organization to adapt to changes in its environment. By having a core group performing the firm's critical activities and two controlled groups that expand or contract as required, labor costs are more closely matched to revenue¹⁷ examined the relationships among six types of HRM strategies with three categories of outsourcing HR activities to reduce HR labour costs from data gathered from a survey questionnaire of 232 manufacturing organizations of which 113 organizations were engaged with HR outsourcing. They found that no organization outsourced transformational HR functions and that organizations that espouse cost efficiency, commitment, and conventional HRM strategies tend to outsource traditional HR functions, whereas quality conscious and commitment HRM strategies tend to outsource transactional HR functions. Transactional and traditional HR functions show a significant relationship with a reduction in HR labour costs.

The business environment is one of turbulence and rapid, frequently unpredictable, change, compounded by growing technological complexity, increasing emphasis on knowledge and competitive customer markets. Observing this,²⁰ suggests that one increasingly pervasive trend in organizational form is that of a network. Display both vertical and horizontal relationships between network members, various types of strategic alliances and other inter-organizational collaboration are put into effect – with an associated integration of functions within the firms. The authors concluded that the goals of networks are typically to gain flexibility to cope with rapidly changing and competitive markets; to develop the skills and resources needed to identify and commercialize innovations; and to achieve operating economies in order to offer value to customers and shareholders. The nature of the relationships between members of the network is likely to be influenced by a wide range of situational factors, such the functions performed, the degree of interdependence and the dynamics of the environment. The managerial implications for each network member are described as:

- I. Defining core competencies—the viability of the network depends on the identification and definition of the core competencies and the fit or synergies of the partners.
- II. Setting strategic priorities—the network should be developed to reinforce a market leading position with clear competitive advantage.
- III. Managing networks—scarce management skills are needed to foster the collaborative relationships, sharing responsibilities and developing trust.
- IV. Assessing network effectiveness—effective assessment is likely to be more complex in a network than in an integrated firm, especially in comparing results to management's strategic objectives, which may be problematic to define and evaluate in conventional terms. In such circumstances, the multi-dimensional perspective obtained with a proven method that has considerable value, giving the traditional financial reporting but augmented with measures from the customer, internal process and learning and growth perspectives.
- V. Customer focus – employees in the network may be poorly placed to understand the core company's service goals and customer satisfaction requirements. Additionally, having a fluid network of collaborators suggest particular difficulties in maintaining a learning organization.

The authors further argues that any strategy for any for-profit company can be analyzed, and should be justifiable, in terms of cost, margin, selling price, units, and ultimately profit. Furthermore, he reiterates, that organizations have taken outsourcing route towards increasing margins. Nevertheless, through the use of best practice and consultants employing common analytical techniques, these strategies are increasingly critical factors. In response, the author proposes two other strategies to competitive advantage that are difficult to replicate:

- a. Developing a particular authentic character, identity or ethos.
- b. Focusing on embedded networks of knowledge relationships.

As e-business enables new distribution and procurement channels and bring together partners into collaborative networks, organizations will be challenged to adapt concluded that whatever the advantages of the network organizational form, placing the firm at the center of contracts in the marketplace has its inherent risks. These risks principally arise from information deficiency; if information was freely available and all transactions were enforceable at no cost, then the network form would be very attractive. Nevertheless, the emphasis that the transaction costs of arranging detailed multilateral contracts is one explanation for firms internalizing functions. This warrants a more detailed examination of the group of problems associated with using the markets. A deterministic contract with a supplier requires precise definition of the service to be provided at certain future points in time. Where the duration of contract is short and conditions stable and predictable this is possible. However, when these conditions do not apply, imagining all possible future scenarios and interdependencies and encapsulating them into a contract is problematic, since the decision tree rapidly becomes too large to comprehend. Such rationality implies that contracts are necessarily incomplete; giving rise to further concerns for the client who must be prepared to use a state-contingent or relational contracts emphasizes that accurate calculation according to contract profitability, which is principally achieved by making additional charges for services that were omitted from the original contract. There are search costs in discovering the skills and reliability of providers to the point where the additional costs, in terms of perceived opportunities forgone, will outweigh the benefits of potentially discoverable opportunities. Crucially, not all ignorance can actually be dispelled through exhaustive search:

- I. Asking for several quotes can mitigate ignorance of price, but this assumes that the required service is well defined which typically not the case due to bounded rationality is.
- II. Ignorance of performance quality remains because the requirements specification is incomplete, meaning that the buyer is dependent on the skills and judgment of the provider. All providers have an incentive to overstate their skills and put forward their most competent staff during the selection process.

HR can typically benefit from a move to a shared service model supporting multiple operating divisions. Elements of the process can then be effectively outsourced describe the motivation for outsourcing knowledge strategy enables companies to focus limited resources on the core competencies, creating a differential capability while eliminating the inflexibilities of fixed overheads, bureaucracy, and physical plant. In a study on this issue, a remarkable 60% to 90% of in-house service activities are neither being performed at best in world levels nor contributing significantly to competitive advantage and be outsourced. The report also points out that an exclusive concern about transaction costs overlooks the often unrecognized

costs of an integrated producer in lost innovation, delays to market, under-optimistic by internal bureaucracies and liability, product, and labor risks. A strategy of achieving a true core competency gives the organization a strategic block that keeps suppliers from bypassing the company and attacking its market directly. In addition, by having flexible access to providers of deep and diverse expertise, and using electronic communications and collaboration tools, the company can stimulate high-level innovation and reduce cycle times in bringing offers to the market evaluated the effectiveness and challenges faced by adopting Recruitment Process outsourcing (RPO) practice in the India Hotel sector and concluded that culture was a positive influence on the usage of RPO in organizations, in terms of adopting RPO during expansion of geographies and globalization.

Also, the organizational structure was the major challenge in adopting these practices along with monitoring the outsourcing activities, lack of communication and inefficient HR practices notes that clients are concerned about losing skills, becoming overly dependent on the supplier, loss of responsiveness possible with internal units, leaking of sensitive information, and the backlash from retained staff who fear further outsourcing. Taking a provider's perspective, the author adds that inflexibility and traditional measurement approaches of clients is a barrier to service innovation, especially the focus on the provider's higher hourly rates. This ignores the added value of their knowledge base, accumulated learning and technological investment that the provider brings²⁰ combined qualitative and quantitative techniques to explore the perceptions of bureaucrats and contractors towards public sector outsourcing against an Asian context comprising Hong Kong, Malaysia, and Thailand and found that the political contexts of the jurisdictions shaped certain perceptions of the respondents. However, for other attributes such as the reasons for outsourcing public services and the constraints facing them, the respondents generally shared typical stereotypes of contractors and bureaucrats. Nevertheless, many clients are unwilling to change from hourly rates to value pricing or shared innovation incentives. The problem is compounded when clients insist in specified practices and try to manage the know-how of the service delivery.

Looking in depth at service quality, the authors develop a conceptual model of service quality in which they identify four internal gaps are the major causes of the overall, or fifth, service quality gap that customers perceive. The gaps are detailed below:

- a. The difference between the customer's expectations and the provider's perception of those expectations. Management does not understand what the right quality for the customer is.
- b. The difference between management perception and service quality specification. Management may not set quality specifications, or fail to communicate them or may place internal restrictions on the service.
- c. The difference between service quality specification and service delivery. Although carefully specified, the delivery may vary since it is often dependent on personal contact between frontline staff and the customer.
- d. The difference between delivered and promised services, either due to heightened expectations due to over-promising or not informing the customer of service improvements that would otherwise be insignificant.

Taking the adverse selection problem, some provider selections

were based on the availability of resources by the provider, qualifications and experience to deliver high quality value added service. The criteria most frequently considered are guarantees specific service level in contract, proven business track record, and depth of process knowledge. A company's relationship with an outsourcing provider is typically a long-term partnership. As a result, companies should consider issues like accountability of the provider.^{21,22} The company should investigate whether the provider has a schedule of ongoing process improvements such as web-enabled human resource tools which are continuously upgraded with a compatible technology. Employee satisfaction level must also be monitored so as to gauge the effectiveness of the outsourcing arrangement.^{23,24}

Findings and conclusion

As in previous times, today's anxieties over outsourcing of jobs are a partisan and emotional issue. From the findings that others had gathered over the years, companies that outsource some or most of their nonessential functions have been able to concentrate most of their valuable resources towards achieving competitive advantage. In a world economy that is highly interdependent today, outsourcing of jobs is a natural trend²⁵ found that HRO practices have evolved into second-generation outsourcing, with considerable potential to grow further in the future. Firm size and sector had little or no effect on the degree of HRO. Both cost benefits and resourced-based benefits were key drivers of HRO decisions, with a majority of the firms reporting having achieved these benefits equally and positively. Most of the functions outsourced were traditional-transactional HR functions. Slightly more than half of the HRO decisions were made by top management without the involvement of HR managers. More than half of the firms surveyed intended to do more outsourcing in the near future (i.e. within the next two to five years), including firms that had previously experienced HRO failure. More importantly, it is a source for increasing competition and productivity. It sharpens the edge of economic actors, and is the stimulus for creating new jobs and business opportunities. This paper concludes that outsourcing of a company's human resource activities may greatly reduce the related costs of managing those activities internally. This move may give the company and its employees the benefit of the much improved human resource services. This conclusion serves as the basis for future study on the effectiveness of this strategy in light of achieving and sustaining a company's competitive advantage over its business competitors. From the literature survey and findings, it is highly recommended that companies review the capability of internal HR resources against the needs of the business plan. They should study the experiences of other organizations, especially the problems they encountered and cost benefit analysis.

Deciding whether to reinforce existing staff or outsource one or more activities, based upon the scope for expanding expertise and its use, cost of obtaining internal facilities as compared to acquiring an external service. Companies should also determine whether outsourcing is appropriate for one-off project or long-term contract. In this regard, obtaining Board of Directors' approval on the issue and subsequently providing of access for the provider to the directors are necessary steps to be carried out. It is advisable to consult management about any reservation they have and address concerns to them. Likewise, get feedback from employee representatives and cast out fears of job redundancy. Be sensitive to the feelings of employees whose job will be highly affected by the outsourcing move. Allow enough time for them to accept the new processes and the vendors.

Prior to signing of agreement, companies should check relevant legislation, terms and conditions of employment of those affected to ensure no violation of employees' rights. Draw up a specification for the provider by giving detail of the functions to be served, desired performance level, monitoring process, duration of agreement, and exit mechanisms should the arrangement turns sour. Ultimately, companies should select the vendor on the ground of proven track record, knowledge of the industry, relevant skills, compatibility, and more importantly cost. After the selection process is done, companies should foster communication procedures with the selected vendors so as to iron out any problem that might arise in the unforeseeable future.

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Conflict of interest

The author declares there is no conflict of interest.

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