***HR outsourcing:***

***IS It The Future Of HR?***

***Done By: Khaled Khalil***

***ID: K1157910***

***Submitted to :Dr. Raymond Robertson***

***Module: Dissertation***

***Table of Contents;***

***Abstract…………………………………………………………………3***

***Introduction……………………………………………………………..4***

***Research Aim and Objectives……………………………………………6***

***Literature Review………………………………………………………..6***

***Methodology………………………………………………………………18***

***Part One……………………………………………………………………21***

***Part Two……………………………………………………………………30***

***Conclusions and Implications……………………………………………36***

***Limitations…………………………………………………………………40***

***Personal Statemnt…………………………………………………………41***

***List of References………………………………………………………….43***

***Appendecies……………………………………………………………….48***

***Abstratct:***

This research will be studying the outsourcing of HR activities to external vendors; this innovation is growing in popularity among companies of different sizes, sectors, industry, strategic orientation and cultures (CIPD, 2009). The study will focus on the motives and pressures that are pushing companies to outsource and the nature of the HR activities that are outsourced, and finally the implementation of the contract and the ways of controlling the relationship with the vendor.

The study will highlight different theories and views that analyzed the motives for HR outsourcing and the nature of the activities that were outsourced. These theories are the transaction cost economic theory (TCE), the resource based view (RBV), and the institutional theory. Using, the CIPD survey that studied 315 organizations that were engaged in outsourcing, the research will analyze which views are adapted by the company.

Then, the research will analyze case studies about companies that are engaged in HR outsourcing. The analysis will focus on the nature of the activities that are outsourced, the contract details, and the ways in which companies are monitoring their relationship with the vendors and how such relationship is affecting the success or failure of the whole outsourcing process.

***Introduction:***

Managing human resources is one of the main sources of achieving sustainable competitive advantage (Huselid, Jackson &Schuler, 1997). The processes that are part of the HR system implemented directly affect the level of engagement and commitment of employees, in addition to altering their behaviour (Klaas, 2003). However designing an effective HR system is a difficult task to achieve; it includes creating a set of HR practices that correlates with the needs of the organization and its culture (Ulrich, 1996).

HR is defined as “philosophy, policies, procedures and practices related to the management of people within an organization” (French, 2003). HR systems do not include only recruiting and dismissing an employee; it also needs a strategy for organizing staff needs and enhancing performance. In search for a perfect HR system, lots of organizations are experimenting outsourcing HR activities (part or all) (lever, 1997).

Such HR system can be a difficult task to achieve for small and medium enterprise where economies of scale make their job too difficult in maintaining highly skilled HR professionals that could implement the desired HR programs (Sexton et al, 1997, Klaas, 2003). While in large firms, the HR staff plays an important role in designing an effective HR system (Ulrich, 1996).

HR activities were traditionally implemented in-doors (Braun & Pall,2009). However, after 1990s firms are leaning towards outsourcing all or part of the HR function (Lever, 1997). Today “all around the globe, HR executives are considering or actively engaged in outsourcing all or part of the HR function” (Cook and Gildner, 2006 pxiii). Such aspects of conducting HR activities are making lot of observers call it “the key trend shaping the future HR” (Alder, 2003 p53). Such trend wasn’t implemented traditionally because the HR staff was limited to the administration work, but now they are becoming more correlated with business strategies and visions (Cook & Gildner, 2006).

Such change in the role of the HR department is due to the fact that companies are now aware that the human resource management has a fragile effect on the organizational performance (Becker & Gerhart, 1996). And there are always continuous needs for companies to have an effective HR management in order to be competitive in the market (Braun et al, 2010).

Most of the previous studies suggest that HR costs and short-term transactions are the main drivers for HR outsourcing. While the non-core and strategic activities are often not considered as a good candidate for the HR outsourcing and the company is better of performing that activity in the company (LePak & Snell, 1998).

There are an increasing number of companies that are now using the market governance in order to obtain HR specialists and experts from professional employer organisations (PEOs) (Cook, 1999). It is relatively estimated that the PEOs are currently providing HR services to three million employees, and the number is expected to grow around 30% per year (Hirschman, 2000).

After a contract is established between the company and the PEO, the PEO will be responsible for a broad area of HR activities (Baron & Kreps, 1999). The reliance on the PEO services may offer the company lots of potential advantages (Klaas, 2003). Such advantages include greater economies of scale and giving the company the ability to negotiate better rates for the benefit programs which usually enhances substantial cost savings for the company (Klaas, 2003). In addition to that, HR outsourcing will be a root for the company to get access to specialized HR programs which will improve the HR management program in the company leading to better HR outcomes and results (Klaas, McClendon, & Gainey, 1999).

Although HR outsourcing has many advantages, it could also be argued that it has some limitations to its effectiveness (Greer, Youngblood, & Gray, 1999). There are lots of HR activities that require asset-specific investment in order for the HR service to be provided or continue (LePal & Snell, 1999b). It is also argued that with such investment, it is more likely that the vendor will behave in an opportunistic way which will decrease the effectiveness of HR outsourcing implementation (Walker & Weber, 1984).

In addition to that, acquiring HR services from an outside vendor will increase the likelihood that other firms will acquire the same service if it turns out to be a good investment (Klaas, 2003). This will certainly raise concerns about whether the advantage generated by HR outsourcing can be easily imitated by the other firms who acquire the same service (Lepak & Snell, 1999).

Finally, it is also important to note that HR effectiveness may be limited if the HR outsourcing relationships will not allow the HR services to collate with the needs of the company (Klaas, 2003). There are still much uncertainty about how and when to outsource an HR function (Klaas, 2003). There is also uncertainty about the motives behind HR functions and the nature of the functions that should be outsourced in order to receive the highest potential of HR outsourcing.

**Research Aims and Objectives**:

The fact that HR has aroused the interest of many observers makes it a good candidate for conducting a research studying such topic. The belief of Alde (2003) about the possibility that this trend could become the future shape of the HR function makes it an interesting issue to investigate and discuss. In order to address such issue several aims and questions must be answered. These questions are as the following:

1. What are the motives for HR outsourcing?
2. Which activities are potential candidates for HR outsourcing?
3. What are the factors that play important factors in successful implementation of the HR function?
4. Could HR outsourcing be the future of the HR function?

**Literature Review**:

Outsourcing is defined as “the performance, by outside parties on a recurring basis, of HR tasks that would otherwise be performed in-house” (Greer et al 1999, p85). It is logical to predict that firms are going to outsource an HR activity to an external firm if that firm can provide that activity at a cheaper cost or perform it in a better way (Chiang et al, 2010). But, it is generally accepted by observers that the HR function being outsourced are generally non-core, transactional and administrative activities rather that the activities which are core and strategic (Ulrich, 1996).

Previous studies have shown that there are different factors that play important roles in deciding the activities, which should be outsourced (Chiang et al, 2003). These factors include size (Klaas et al, 2003), strategic orientation, culture (Smith et al, 2006) in addition to the opportunities, skills, and competencies of the firm’s HR staff (Khatri &Buhdware, 2002). As an example, HR outsourcing will be a time and money saving for small organizations (Alder, 2003) where as large enterprises have lots of negotiation power to make favorable conditions with professional employer organizations (PEOs) (Smith et al, 2006).

Usually the motives for outsourcing fall in one of these two groups, either efficiency or strategic enhancement (Green et al, 1999, Chiang et al, 2010). If the organization wants to reduce costs, transactions and non-core activities are going to be outsourced in most situations (Becker and Gerhart, 1996). On the other hand, if the company outsources its core competencies functions, like training and development, then the company is aiming on getting specialized HR people with high skills. These skills usually cannot be accessed and attained in-house (Powell et al, 1996).

There are different debates and opinions concerning such categorization. Prahald and Hamel (2003) indicated that the company’s competence plays an important role in deciding the making or buying decisions. On the other hand, Stroh and Trehuboff (2003) had a totally different opinion where they said “When considering outsourcing, the focus should be keen on keeping core activities in-house and outsourcing non-core activities only”. They believe that core activities are the identity of the company and it is too important and confidential to be outsourced.

Different studies were concerned about the motives behind outsourcing (Chiang et al 2010). They are concerned about answering the questions about which functions of the HR functions should be outsourced and which should be kept in house. These views are as follow:

***Transaction cost economics***:

The factors that are driving the rationale for HR outsourcing aroused the curiosity of economic researchers. Transaction cost economics theory, which is known as the TCE was one of the theories that tried to explain the motives for outsourcing. This theory suggests that the choice of outsourcing is related to the cost of the transaction and its efficiency (Williamson, 1975). TCE argues that outsourcing occurs on the basis of a transaction where it is argued that HR activities which are not specific, unique, and rare will be considered potential candidates for outsourcing (Williamson, 1985). By contracting external PEOs, the firm can avoid the cost of producing the activity (in-house) and buy it from an external company (Chiang et al, 2010). Dickmann and Tyson (2005) enforced such theory when they discovered that internal factors are pushing companies to reduce labour cost and undergo HR outsourcing especially in American and Australian companies.

The theory suggests that companies are taking the outsourcing decision in the form of governance rather than organizational governance (Klaas, 2008). Williamson (1993) argued that companies will pick up the form of governance that minimizes the cost of the transaction when acquiring the service that needs to be outsourced. The cost of outsourcing the activity will not include the cost of the good or service, but also the costs that are associated with such outsourcing activity. These costs include the management of contractual relationship, management of employees, and the monitoring of behavioral performance (Walker and Weber, 1984).

This theory focuses on the concept of asset-specificity investment (Klaas, 2008). The asset-specificity investments refer to specific investments that the company must take in order to obtain goods and services from the vendors. In this case, the company is at risk of suffering from opportunistic behavior by the vendor (Williamson, 1996). The asset-specific investment will give the vendor a substantial increase in power when negotiating the contract, which will make the company more tolerant and accept the increase in cost or the decrease in service quality (Walker and Weber, 1984).

Other key concepts are the concepts of incomplete transaction and uncertainty. Where the company may face uncertainty dealing with the services provided by the vendor because of incomplete contracts. This will be more likely to have a fatal effect on the effectiveness of the outsourcing activity and thus putting the company at greater risk of suffering from opportunistic behavior (Williamson, 1996).

Transaction cost economics point out the difference between organization management versus the external market contracts. The contracting process will depend on the nature of that is under consideration for outsourcing (Klaas et al, 1999). In market contracting vendors will most likely deliver services to a large number of clients, so this will make the cost of investment required spread between the companies and eventually this this cost will be more likely to be standardized (Mastern and Crocker, 1985).

The results may vary in market contracting. It will depend on the nature of the task itself and whether there is uncertainty and requirements for asset-specific investment, which will make the company more vulnerable to opportunistic behavior by the vendor. All these factors play an important role in the success of outsourcing implementation (Mastern and Crocker, 1985).

***Resource Based View***:

This view focused on the values and capabilities of the company (Chiang et al, 2010). The theories indicates that companies should keep their resources that are considered core for developing competencies in-house and outsource the activities which are considered non-core (Quinn and Hilmer, 1994). Outsourcing non-core activities will allow the company to focus on its core competencies (Lepak and Snell, 1999), it will give managers more time to focus on creating strategic development plans that will contribute to achieving competencies instead of spending lots of time doing non-core and transactional activities (Klaas et al, 2005).

Resources that are considered to be very valuable and rare for the company making it difficult for the competitors to imitate are considered primary source for creating a sustainable competitive advantage for the company (Barney, 1991). Such resources are viewed as the core element of the company and require organizational governance (Connor and Prahald, 1998). Whereas resources that relate to routine and daily organizational activity are contracted externally and may require asset-specific investment by the company to obtain the service provided by the vendor. Such issue may trigger opportunistic behavior by the vendor (Wernerfelt, 1995).

The main concern of the RBV is a superior advantage in performance compared to the competitors of the company (Mclvor, 2005). RBV points out that companies will do whatever it takes to develop its own capabilities and enhancing the performance, which will make it capable of competing with relative competitors (Mclvor, 2005).

Langlois and Robertson (1995) raised an argument which points out that company’s boundaries are determined by a comparison between the capabilities and development against that of the competitors. They argued that the tasks that cannot be achieved internally because of the lack of resources are potential candidates for HR outsourcing. Companies choose to outsource these activities because they will not gain any competitive advantage if these tasks were done internally.

***Institutional theory***:

Another theory called institutional theory suggested that HR outsourcing represent a response to pressures that are exerted by external environment; this is the reason behind the variation of HR functions outsourced in different countries (Gooderham et al, 1999). Institutional theory argues that there are different factors that play an important role in deciding the HR activities that are going to be outsourced, factors like: resources, environment and cost (Chiang et al, 2010).

Institutional theory focused on the fact that companies are willing to adapt innovation in their management (Milkovich and Barringer, 1998). It is also know that with innovation comes risk and uncertainty (Klaas, 2008). They argue that innovation represents a response to the challenges and pressures that the organizations are facing. But, there are still lots of ambiguity when it comes to creating benefits through innovation (Strang and Marcey, 2001).

When it comes to decision- making, the behavior of other firms play an important role in perceiving the risk accompanied with such innovation (Klaas, 2008). So it is argued that the behavior of other firms is directly associated with the innovation decision in management practices (Williamson and Cable, 2003).

When a firm outsources an HR activity or task, other firms will perceive it as a low risk innovation and thus they adapt such innovation (Klaas, 2008). Institutional theory argues that this mimicry can take place in three different forms. Frequency- based imitation occurs when the company adapts an activity because such practice is used by a significant number of other firms. Trait-based imitation takes place when the company copies the behavior of larger and more advanced organization. And finally, outcome- based imitation where companies copy other firm’s behavior because they observed that such practices are successful (Wejnert, 2002).

Institutional theory also pointed out that innovation and outsourcing may still occur even if such managerial practice have not been proven to be very beneficial. In such situation organization are put under pressure to improve the overall performance of the company in order to be able to compete with the competitors (Wejnert, 2002).

***Insights on Theories***

The transaction cost economy and resource based view highlighted important information about HR outsourcing from two different perspectives (Chiang et al, 2010). The classification of HR activities between core and transactional make the issue more comple (Husleid, Jackson and Schuler, 1997).

Shen (2005) argued that some activities can be estimated as routine daily activities at the beginning, but in fact these activities play an important role in the company. The carnet survey showed that training and development is the most outsourced activity among organization (Vernon et al, 2000). TCE suggest that it is inefficient and costly to train the employee and develop them in the company. While RBV argues that such activity represent core competency of the firm and it should be performed internally as long as the company has the skills needed to develop a competitive advantage over competitors (Barney, 1991).

On the other hand, Institutional theory emphasizes the fact that external pressures and environment explain the reason for companies’ adoption of new practices such as outsourcing (Chiang et al, 2010). They argued that companies of the same industry that share the same external environment and external pressure will eventually become homogeneous and extract similar practices (Chiang et al, 2010).

***Ulrich Shared Service Concept:***

Ulrich (1995) described the functions that are outsourced as shared services between the PEO and the company. He divided these shared services into two groups transactional and transformational. He described the transactional service as services that “deal with all the processes and activities that are related to meeting the administrative requirements of employees (Ulrich, 1995 p.14). These services include payroll, benefits, compensation, and staffing activities.

However, he defined the transformational- based services as services needed “to implement strategy, create new culture or accomplish business goals” (Ulrich, 1995 p.15). He described them as Centre of Excellence that employs technical experts.

***HR Outsourcing in Practice***:

Dickmann and Tyson (2005) have showed some proofs that most of the functions being outsourced in American and Australian firms are pension plans, counseling, employee assistance, payroll administration, training, pre-employment testing and outplacement. Similarly, other activities like diversity management; employee relations and key staff were less likely to be outsourced. This leads to believe that most activities outsourced are routine and transactional work that wouldn’t make the organization vulnerable to uncertainty (Woodull et al, 2007).

The outsourcing activities have displayed a positive effect on HR performance and efficiency of firms (Gilley et al, 2002). Still some observers claim that outsourcing will display negative effects on the workforce and sometimes lead to inefficiencies because the PEOs are not familiar with the strategy and culture of the company (Ulrich 1996, Pfeffer, 1997).

Ulrich (1996) argued that HR function cannot be conducted in a uniform way; his argument was based on the fact that there are several ways of delivering HR which are “Strategic Partner”, “Change Agent”, “Champions of Employees”, and “Administrative Expert”. The organization may outsource lots of administrative activities like recruitment and selection, pay and benefits. This will give the remaining HR staff the chance to focus on other functions including “Champions of employees” for delivering a good internal consultation, “Change Agents” for providing development activities for the company, and “Strategic Partners” by aligning HR objectives with business needs.

However, he highlighted that there could be some routine and transactional activities that could be outsourced in order to keep the concentration focused on the “administrative experts”. The rest of the employees could be focusing on delivering the HR service while others focus on overseeing the employees and solving troubleshooting and complains. Those employees are known as “the employee champions”. His was that such approach will give the senior managers the time to focus on strategic partnership with the company and aligning the delivery of HR services with the company’s mission and goals (Ulrich, 1996). This issue raises uncertainty about the possibility of segmenting the HR function.

Similarly, a study done by Lawler and Mohrman (2003) proved that the process of outsourcing might cause problems of poor service and insufficient knowledge leading to higher costs; this could jeopardize the motives for outsourcing in the first place, which is efficiency. This study indicates that effective outsourcing is not affected only by the choice of activities outsourced, but also by successful implementation of such activities.

Many troubles that are unexpected can occur in implementation of outsourcing activities (Kosnik et al, 2006). These problems may include a huge resistance from the company’s HR department, unsatisfactory preparation of the employees, and the inability to manage the outsourcing contraction due to the lack of skills and competencies in the company (Kosnik et al, 2006). Managers may lack the ability to handle the complex process of contracting and implementing the HR activities in the company (Kosnik et al, 2006).

***Factors that affect effectiveness of outsourcing***:

Outsourcing can have visible outcomes on organization’s performance in four different outcome variables, which are HR outcomes, administrative fees, staff time cost and compensation costs (Klaas et al, 2003). But, in order to achieve such effectiveness, there are different factors that play an important role in successful outsourcing implementation. These factors are as follow:

***Constraints on opportunism***:

TCE suggested that market competition would force the PEOs to be economically motivated and make them behave in an opportunistic way according to their self-interest (Williamson, 1975). They suggested that in outsourcing activities, contractual mechanisms and market competition would be the primary factors that affect the firm’s control over opportunistic behavior of the PEO and implementing constraints over opportunistic behavior (Hart, 1988).

The constraints that usually occur in market contracting will depend on the company’s perception of its needs and the implementation of these needs in the contract (Helper & Levine, 1992). There are differences in contracts by which the fees and costs are adjusted as a part of contract implementation or renewals (Klaas, 2003). It is also common in contracts the presence of differences when specifying the number and types of training programs in addition to the process of implementing the contracts (Hirschman, 1997). Cook (1999) also suggested that contracts can be differ in indicating a clear liability for the vendor’s legal obligations.

Similarly, as mentioned earlier, the TCE suggested that outsourcing will be of limited effectiveness if the company has an asset-specific investment in order to receive good quality service from the PEO or the vendor (Riodran & Williamson, 1985). The firm-specific investment will limit its power in negotiating contracts and changing vendors (Klaas, 2003).

It is usually argued that the transactional and daily activities require little familiarity and knowledge about the company’s strategy and culture. While outsourcing strategic HR activities will require deep knowledge and familiarity about the company’s strategies, missions, visions, and issues that they are facing (Delery, 1999). Such deep knowledge will require more investment from the company in order to keep the relationship and the service received from the vendor (Klaas, 2003).

The variation in the results of outsourcing contracts will depend on such investment (Klaas, 2003). For example, firms that have an idiosyncratic culture will be more likely to require larger investment in order to acquire HR services (Klaas, McClendon & Gainey, 2000). The effectiveness of outsourcing may be also affected by the degree to which vendor is ready to share the up-front cost of such investment (Klaas, 2003), and finally, the degree to which the company outsource transactional routine activities, rather than strategic HR activities (Klaas et al, 2000).

***Trust Relation Between the firm and the PEO****:*

While TCE suggest that market competition will oblige PEOs to behave in an opportunistic way, social exchange theorists had another opinion (Blau, 1964). They argued that PEOs may not behave in an opportunistic way even though there are only a few barriers that prohibit them from doing so (Ghoshal & Moran, 1996). They argued that at sometimes, a relationship trust will emerge between the firm and the PEO which will make the PEOs identify with the business needs, and prohibits them from behaving opportunistically because such behavior will break the trust relationship between the firm and the PEO (Coleman, 1990). This may indicate that trust relationship has a huge effect on successful implementation of HR outsourcing (Klaas, 2003).

Trust relationship does not develop easily, but once it is developed, it is fragile (Jones & George, 1998). It is important that both company and vendor understand how the trust relationship will be built. Even though in most situations, the trust relationship will depend on one party of the contract (Klaas, 2003).

When the company’s leaders study the process conducted by the PEO when providing a service, they will have a better position to evaluate the vendors that are available and select the PEO that they can manage their relationship with and thus building a trust relationship between each other (Klaas, 2003).

The main challenge for the vendors is that they have to provide services requiring skills, competencies, specialties, and expertise to a large number of dispersed companies (Klaas et al, 2000). Such pressures obliged the PEOs or vendors to adopt different models of delivering the services in order to ensure effective communication and coordination with the companies (NAPEO, 1993). More precisely, the trust relationship will be more likely to be built if the delivery model of the PEOs requires repeated interactions with the company because such relation emerges from interpersonal relationship between the company and the vendor, so the same people must interact regularly over the course of time (Jones & George, 1998).

Another factor that affects the development of trust relationship is the practices that are implemented by the PEO regarding retention of the PEO representatives (Klaas, 2003). It is argued that strategic HR practices and supportive culture will enhance employee retention (Becker & Gerhart, 1996). Companies that have contractual relationships with such PEOs are more likely to develop trust relationship because they are more likely to interact with the same people over time and thus developing trust relationship (Klaas, 2003).

***PEOs Firm-Specific Knowledge***:

Literature argues that the success of an HR outsourcing implementation will largely depend on the degree to which those activities support the organization’s strategy and linked to the firm’s needs (Wright, Smarth &McMahan, 1995). Such relation led to the development to the development of the fact that the firm-specific knowledge is an important factor relating to successful PEO utilization (Klaas, 2003). It is argued that Informal interaction and physical proximity between the firm and the PEO will make the PEO more knowledgeable about the firm’s strategy and business needs. Similarly, the lack of these two factors will prohibit the development of firm specific-knowledge (Ulrich, 1996). Thus it is claimed that firms will gain a better experience with HR outsourcing in case the relationship between the firm and the PEO enhances the development of firm-specific knowledge (Klaas, 2003).

Firm-specific knowledge that is required for implementing an effective HR outsourcing is not easily implemented (Klaas, 2003). It requires learning about the company that occurs through interactions between the company and the vedors. Such interactions will occur over the course of time (Ulrich, 1996).

There are different factors that enhance firm-specific knowledge (Klaas, 2003). As mentioned before, it is crucial that the company work with the same PEO representative over the course of time in order to gain firm-specific knowledge. The repeated interactions is less likely to occur if the PEO has a delivery model that is based on call centers specialized in different functional areas (Cook, 1999). Such method will ensure that all responses that are based on technical information are done on time rather than making the company work with same representatives during the duration of the contract (Cook, 1999). And since PEOs will work with different companies, it will be difficult for them to collect firm-specific knowledge about each company they are cooperating with (Cook, 1999). On the other hand, if the company works with the same PEO staff over time, the staff will be able to accumulate firm-specific knowledge and thus allowing the PEO to provide quality services that fits with the company’s culture and needs (Klaas, 2003).

Trust is also an important factor in developing firm-specific knowledge (Klaas, 2003). When a company trusts its vendor, it is more likely to share all the information that corresponds to the company’s business and culture including sensitive information about the employees and the processes conducted in the company (Becker & Huselid, 1999). So, the trust relationship between two parties will determine the openness and willingness of the company to share such information and allowing the PEO to gain deep knowledge about the company (Klaas, 2003).

**PEO Resources**:

The contemporary challenge facing PEOs is the requirement to provide services that are specialized and correlated with client needs over a large number of firms located in different places (Klaas, McClendon, & Gainey, 2000). This challenge obliged the PEOS to create a variety of delivery models for their services to make sure there are appropriate levels of coordination and effectiveness between themselves and their clients (NAPEO, 1993). Klaas (2003) argued that the model of delivery of the service will directly affect the effectiveness of outsourcing and enhance building a trust relationship between the firm and the PEO. His argument was based on the fact that trust relationship is based on several interactions between the PEOs and the firms so in case the delivery model permits continuous interaction between the PEO and the firm, then the process of building trust relationship will become easier. But if the model of delivery did not permit continuous interactions then the firm and the PEO will remain doubting each other and considering each other as competitors. As a conclusion, the model of delivery enhances the trust relationship between the PEO and the firm which in turn affect the outsourcing utilization.

**Methodology**:

Different issues were taken into consideration when deciding which research methods to choose from. The inability to access information about HR outsourcing in different companies presented lots of constraints with respect to choosing the perfect methods to conduct this research. Having said that, the methods of research that are going to be used are totally dependent on previous research studies and statistics that were analyzing the issues of HR outsourcing.

The analysis of this research will largely depend on previous studies about HR outsourcing including primary sources including CIPD survey (2009) and case studies in addition to secondary sources like journals and books (Saunders, Lewis &Thornill, 2012). The approach used here will be a deductive approach where the journal articles and books are going to be used for indicating theoretical framework about HR outsourcing (Saunders et al, 2012). The purpose here is not accumulating information and knowledge about HR outsourcing, but instead indicating the theories and assumptions derived by previous authors concerning the motives behind HR outsourcing and the factors affecting successful implementation (Bryman and Bell, 2003).

The research will be divided into two parts, the first part will be studying the CIPD statistical survey (2009) and the second part the research is going to be analyzing case studies of different companies located in the UK and Italy.

In the first part, the research is going to be extracting results from the CIPD survey (2009) which was studying 315 organizations in the UK in which only 29% were actually engaged in HR outsourcing. The study includes organizations of different sizes, orientation, industry, and culture. Such survey is used because it is rich with information about HR outsourcing and it is the most recent survey that was done on companies regarding this subject.

This research will not cover all the data collected by the CIPD survey, but it will extract the information that is relevant to the topics that are discussed in this research. The areas that are going to be discussed are the reasons that are preventing the majority from engaging in HR outsourcing, the role that the HR department is playing in the organization and how important is that role, the external pressures that are forcing companies to outsource, the nature of the activities that are outsourced and their achievement, and finally the degree to which companies consider the HR outsourcing process as a success and whether it helped in achieving the aims of the company.

At first, the research will be discussing the role of the HR function in the companies and the reasons that make lots of companies ignore HR outsourcing. This information will give quantitative information about the specific role of the HR department and whether it is considered as an important role or not. In addition, this information will reveal whether HR is playing a strategic role in the company or it is limited to the administrative role. Using the hypothesis deduced, the research will critically analyze Ulrich’s theory (1996) and whether the HR function is conducted in a uniform way or not.

To put the transaction cost economic theory, resource based view, and institutional theory into practice, the pressures and motives of HR outsourcing will be analyzed in order to deduce which view actually apply to the views of senior managers in companies.

The nature of the functions and their achievements will be presented in order to analyze the nature of the functions that are outsourced and whether they are transactional and routine activities as most authors suggested, or strategic and rare activities which is contrary to most views.

After studying the nature of the functions that are outsourced, the research will focus on studying the company’s perception about outsourcing decision and the degree to which they consider HR outsourcing to be a success. In addition to studying whether have achieved their aims or they did not.

The second part of the case study will be analyzing case studies of different companies that are engaged in HR outsourcing, these companies are of different size, industry and environment. The companies are Sory Inc, Chase Plastics, BCI Financial, Beard Electric, Gruppo X, Alcan Packaging, and Lowara.

The analysis of the case study will include extracting the nature of the HR activities that were actually outsourced and whether these activities confirms the hypothesis the hypothesis that was deduced for the CIPD survey. The analysis of the case studies will also include the outsourcing contract and the ways in which each company is monitoring the relationship with the vendor. Using this information, a deduction about whether the ways in which each company monitor the relationship is affecting the outcome of outsourcing activity.

After gathering the data needed from two different research methods. The analysis will be aiming at establishing a relationship between different variables collected from the two methods. By doing so, it will become easier to answer the research aims and objectives. Finally, a credible conclusion will be deduced, this conclusion will include a small summary about the discussion and analysis conducted in the research and will give answers for the questions that were asked in the “Research aims and Objectives” section.

PART ONE: CIPD Research

***CIPD Findings:***

As mentioned before, only 29% of the sample studied is actually engaged in HR outsourcing. The other 71% were actually not engaged about HR outsourcing were asked about the reasons for non-engagement in HR outsourcing. There were different responses for these reasons (Appendix 1).

The majority of the respondents (52%) answered that they have an effective HR teams within their organization, so there is no need to outsource any function. Similarly, (35%) of the respondents answered that they are still unconvinced about the benefits of the HR outsourcing. A low percentage of respondents (5%) answered that they had poor experience with outsourcing within other organizational functions. Another 5% answered that they perceive HR outsourcing as a huge risky procedure for the organization to undergo.

Having asked about the results, the CIPD wanted to study the role of the HR function in the organization studied and how important they consider and how important do they consider that role. The results (Appendix 2) showed that 91% of the organizations studies are taking the role played by the HR people seriously. But still there are some variations in the role they play in the organization. 50% of the respondents answered that their HR people support the organization’s strategy, 13% considered HR function as an important function that is shaping the direction of their strategy.

The results also showed that there are 33% of the companies that consider the HR function role are growing in importance over time. A significant number of companies which represents 22% of the sample studied still limit the HR function to administrative roles in their organizations.

The CIPD wanted to study the nature of the changing environment that the companies are operating in and the pressures that the environment is exerting on these companies (CIPD, 2009). The results (Appendix 3) showed that 91% of the companies acknowledged that improving efficiency is pressuring the company to outsource HR activities. Also enhancing quality and the needs to innovate are pushing companies to outsource with 85 and 82 % respectively, confirming these environment changes are pushing them to outsource HR functions. Those are not the only pressures that are pushing companies to outsource. 75 % of the sample acknowledged that there is a huge need to cope with the market turbulence, 71% confirmed that there are needs to pursuit the market growth and increase abilities and skills to compete in the market place.

Although, almost all the companies studied responded that there is a need to improve efficiency. The results (Appendix 4) show that most of the companies considered access to skills and knowledge were their ultimate driver for outsourcing HR activities, 64% wanted to enhance the quality and 61% confirmed that reducing the cost was an important driver to outsource the HR function.

The CIPD wanted to dig deeper into the subject by asking them about detailed outsourcing drivers and whether the achievement was great, partly good, or not achieving what they aimed for when they undergo outsourcing (Appendix 5).

42% responded that they greatly achieved reduction in cost, 42% partly achieved, and only 10% did not achieve cost reductions. Cost reduction is the driver that is ranked first in terms of achieving great results. The achievements were not limited only to reduction in costs, 59% claimed that they greatly achieved improved quality and access to knowledge and skills. 31% achieved great access to knowledge and skill, 21% were able to greatly achieve improvement in quality.

However, there are some outsourcing drivers that companies weren’t able to achieve anything with them. 43% weren’t able to receive HR team pressures and 32% weren’t able to access new technology. But still there is a certain percentage of companies that achieved greatly and partially (CIPD, 2009).

The research wanted to browse the nature of the activities that are outsourced(Appendix 6). As expected, recruitment and selection, pensions, payroll, legal issues and benefits were common activities that were outsourced fully, partially and considered for HR outsourcing.

Outplacement was the only activity that is not considered for potential outsourcing in the companies that were engaged in outsourcing HR activities. While, recruitment and selection in addition to compensation and benefits were ranked as the most popular candidates for future outsourcing by the respondent companies.

Training is also a very popular activity where 49% of the respondents are outsourcing part of the activity, 8% are outsourcing training fully, and 1% are considering training as a potential candidate for HR outsourcing in the future.

(Appendix 7) represents the response of the HR professionals when they were asked if the outsourcing activity enabled the HR function to enhance its strategic role in the organization. Only 11% responded positively and to a great extent, while the majority (54%) answered positively but to a limited extent and 36 % responded negatively saying that HR outsourcing did not play any role in enabling HR function to take a more strategic role (CIPD,2009).

(Appendix 8) gives more detailed insights about the responses where 5% considered HR outsourcing a failure. 15% responded that it is still too early whether it is going to be a success or a failure. 26% responded that outsourcing was a success but to a limited extent. 47% responded that it was successful in some areas but in other areas, they weren’t. And only 7% responded that the HR outsourcing is all-round success and that they were satisfied with the results that they have achieved with outsourcing partially or fully.

***Discussion of the results***

It is clear from the above results that the CIPD focused on studying the role that the HR function plays in the organization (CIPD, 2009). The results showed a clear indication that the companies are starting to realize the importance of the HR function in developing competencies through effective management where 91% said that HR is taken seriously in the company (CIPD, 2009).

Ulrich (1996) argued that the HR function is important for developing the talents of employees and enhancing innovation. He added that the HR function could not be conducted in a uniform way and that the role of the HR function can vary from one company to another. The CIPD results show that 22% of the companies acknowledged that HR function plays an important administrative role which Ulrich defined as “Administrative experts”. While others confirmed that HR people are shaping the organization strategic direction which Ulrich defined as “Strategic Partners” There is also a significant number of companies (33%) that highlighted that the importance of the HR function is growing and that the role of the HR department may be expanded in the future (CIPD, 2009).

The results have shown that 71% of the companies do not outsource HR functions. The CIPD wanted to explore the reason for such non-engagement. The majority of the companies that are not involved in HR outsourcing acknowledged that they have a well-effective HR teams so there is no motive for outsourcing (CIPD, 2009). It is clear that these companies are able to survive and compete in the industry without the aid of the external market (CIPD, 2009). Such insight correlates with the Resource based theory where they argued that the main concern of the company is superior advantage and competitiveness (Mclvor, 2005). And these companies are satisfied with their internal skills and capabilities so there is no need to outsource any HR function (Mclvor, 2005). Similarly, Langlois and Robertson (1995) pointed out that the only boundary for the firms are the capabilities and development. So, these firms are able to develop such capabilities internally, they will keep their core competencies and identity internally because such capabilities are giving them competitive advantage in the market.

Although most of the companies that did not engage in HR outsourcing are satisfied with the HR team internally, there are still companies that are not very satisfied with internal capabilities but they are not willing to take such risk because they consider HR outsourcing as a big risk or a bad approach that is not beneficial for the company (CIPD, 2009).

These companies are not willing to innovate even though they may lack the capabilities to develop effective HR department internally. The industry they are working in does not exert a huge pressure on them to innovate or outsource. These differences in the working environment between on industry and the other and the lack of big pressures are giving these companies the capabilities to survive without innovation and outsourcing. Such view correlates with the institutional theory (Gooderham et al, 1999). Strang and Marcey (2011) also highlighted the fact that companies may not outsource because of risk and uncertainty which seems to be the case in this study. It seems that the environment that these companies are operating in is not working is not engaged in outsourcing, so as a result there is no imitation and the companies still perceive outsourcing as a risky approach (Williamson and Cable, 2005; Strang and Marcey, 2001).

The CIPD wanted to study the environmental pressures that were actually exerted on the 29% of the sample who are engaged in outsourcing, companies were asked about the kind of environmental issues that are exerting pressures on them to outsource HR activities. The results were as expected, the majority confirmed their need to reduce the cost and improve efficiency (CIPD, 2009), which confirms the argument of the transaction cost economic theorists who emphasized the fact that HR outsourcing is considered as a transaction between the company and the vendor where the company is aiming at improving efficiency and reducing costs. TCE argued that if routine activities were outsourced, it would increase the efficiency of the company by reducing the cost of the activity which was previously performed internally (Williamson, 1975; Williamson, 1985; Chiang et al, 2010).

In addition to improving efficiency, lots of companies wanted to enhance the quality, pursuit market growth, and increase their competitiveness (CIPD, 2009). Such significant results highlighted, gives information that companies are not only concerned about improving efficiency and reduce cost as the transaction cost economics predicted (Klaas et al, 2000), they want to enhance their quality and increase their competitiveness. They found that HR outsourcing is an accessible root to gain such competitiveness which confirms that companies have no limits when it comes to developing their capabilities and abilities in comparison with their competitors in the industry (Mclvor, 2005; Langlois & Robertson, 1995).

The results have also showed that the companies are facing lots of pressures to innovate and cope with the market turbulence (CIPD, 2009). Such results correlates with the institutional theory which focused on studying the pressures that companies are facing that are pushing them to outsource the HR functions (Gooderham et al, 1999). The results have shown that there are significant pressures and needs to innovate which was highlighted by Milkovich and Barringer (1998) where they argued that companies are facing lots of pressures from the external environment and market. These pressures are making the companies pursuit innovation and adapt new practices in their management.

After studying the nature of pressures and environment that the companies were facing, the CIPD wanted to explore the nature of the HR activities that were outsourced and whether these activities were completely, partially or considered for HR outsourcing. As expected, the results have shown that compensation and benefits, employee assistance, legal issues, pensions, payroll and outplacement were more considered for potential HR outsourcing. Whereas other core activities like strategy, resource planning and appraisals were less likely to be outsourced or considered for outsourcing (CIPD, 2009).

These results of the CIPD correlates with the study of Dickman and Tyson (2005) on American and Australian firms where they proved that transactional and routines were the activities that are more likely to be outsourced. Similarly, the results seem to confirm what Ulrich (1996) referred to as transactional services. His argument was that the transactional services are routine activities done on a daily bases by the company. He highlighted that these activities were most likely to be outsourced so that companies can focus their attention and capabilities on strategic activities that can develop the capabilities and competitiveness of the company. The results of the CIPD have shown that transactional services are more likely to be outsourced partially or fully which can confirm Ulrich’s argument.

Contrary to what most theories suggested, the CIPD results have shown that significant number of companies is outsourcing training and information systems either fully or partially and there are some companies that are considering these two activities for potential outsourcing in the future (CIPD, 2009). Training and information system activities are activities that are suggested to take a strategic orientation rather than a transactional or routine one (Klaas, 2003). Ulrich (1996) have argued that successful training activities play an important role in achieving the missions and visions of the company. The development of the competencies in the company is directly related to the training activities provided to the employees and the ways in which these activities fir the culture and the strategy of the company (Ulrich, 1996; Taylor, 2010). Similarly, the technological advancement is considered one of the main sources of competitive advantage between companies and most of the companies are trying hard to get advanced technological resources that give them an advantage over their competitors in terms of quality and efficiency (Marchington & Wilkinson, 2008). These activities are more likely to require asset-specific investment since they may require continuous investments by the company in order to keep the service received active and effective (Lepak &Snell, 1998). Such specific investment could jeopardize the motives for HR outsourcing that the company was aiming for (Walker & Webber, 1984). The results of HR outsourcing provided by the CIPD provide important information about the effectiveness of the process itself.

The results have shown that companies have achieved lots of benefits from HR outsourcing, but their expectations of achievements were higher than the actual real achievement (CIPD, 2009). There were a significant number of the companies that were able to achieve reduction in costs and accessing knowledge and skills either fully or partially. Only low proportions (10%) have acknowledged that they did not achieve reductions in costs and 9% answered that they did not get access to skills and knowledge (CIPD, 2009). However, it is not the same case with other motives of HR outsourcing and their actual achievements. The results revealed that that 43% did not achieve any relieve in there HR department and 32% did not access to new technology. Also 17% weren’t able to achieve any kinds of improvements in the quality (CIPD, 2009).

It is generally argued that companies are outsourcing their non-core activities in order to let their HR department focus on the strategic HR activities and to relieve them from doing non-core activities (Klaas et al, 1999). But the results seem to suggest that lots of companies are not achieving these motives because the activities that are outsourced require monitoring and continuous interaction between the company and the vendor in order for the service provided to be effective (Ulrich ,1996). It is believed that transactional activities do not need lots of monitoring and firm- specific knowledge and can relieve the internal HR department after outsourcing these activities (Klaas, 2003; Lepak & Snell, 1998), but this is not the case with the results obtained. This may suggest that the activities that are outsourced are not only limited to daily or routine activities.

One problem that is misunderstood is that most companies consider training activity as a transactional or non-core activity, but in reality the training activity is important to motivate and engage employees in addition to fitting them to the culture of the company in addition to giving them a huge push to work hard for achieving the challenging missions and visions of the company (Marchington and Wilkinson, 2008).

New technology also cannot be considered as a transactional activity. Marchington and Wilkinson (2008) argued that today we are living in an age of technological advancement and information systems. Technology is considered to be one of the important resources that companies are trying to use effectively in order to develop a competitive advantage over competitors in the same industry.

Similarly, Klaas (2003) argued that access to technology is an important factor for the survival of companies and some companies may not be able to get access to new technology internally so they outsource in order to get such services internally, so they outsource in order to get such services. But the results from the CIPD survey did not show that every company is achieving what they aimed for before implementation of outsourcing. This may indicate that technology and information systems are not simple activities to outsource and there are some factors that lead to failure of such implementation. These factors may include poor service or insufficient knowledge (Lawler and Mohrman, 2003), unsatisfactory preparation, resistance from the HR department, and the lack of abilities and skills by the internal managers to handle the outsourcing implementation (Kosnik et al, 2006).

Looking into the results (Appendix 7), it is clear that 36% of the respondents considered that outsourcing did not allow HR department to play an important role in the organization and 54 % answered positively but to a limited extent. This kind of results may justify that Ulrich showed towards outsourcing where he argued that the HR function cannot be conducted in a uniform way and he identified the different functions that the HR department can play which are “administrative experts”, “employee champions”, “change agents”, and “Business partners”. He highlighted that some transactional activities can be outsourced in order to focus on the core activities, but the results in the CIPD research that HR outsourcing did not affect the strategic role played by the HR departments in lots of companies (CIPD, 2009).

Similarly, the RBV theory suggested that companies will outsource routine activities in order to focus on developing the core activities internally as long as they have the skills and capabilities (Klaas et al, 1999). However, the results suggests that in some companies the HR function is limited only to transactional activities and does not play any role in developing he core competencies of the firm or company (CIPD, 2009).

The results (Appendix 8) have shown that only 7% of the respondents confirmed that HR outsourcing is all round success story while 47% that it was successful in some areas. 5% answered that it wasn’t a success (CIPD, 2009). These variations in the results suggest that there are many factors that play an important role in the success of outsourcing. The success is not only bonded with the type of activity chosen to be outsourced, but also with the implementation of the contracts itself. These factors include asset-specific investment, risks, uncertainty, trust, and firm-specific knowledge (Klaas, 2003). These factors will be discussed in part two of the research which will be studying real-time case and the ways that the companies are approaching the market contracting process.

PART TWO: CASE STUDIES:

***Case Study 1 (Appendix 9) Sory Inc:***

Sory Inc is using the aid of the market contracting in order to be supplied with temporary staff in different departments including manufacturing, sales and marketing in addition to finances (Kosnik et al, 2006). The aim of Sory Inc was to achieve economies of scale and reducing cost and time, this approach was suggested by the TCE theorists where they suggested that outsourcing is considered as a transaction that the companies are undergoing to reduce and achieve economies of scale (Williamson, 1975). At the beginning, Sory Inc were using one staff vendor for all the departments to achieve economies of scale but the services that were provided by the vendor varied between different departments and there were lots of mismatching people to the vacancies required. After these problems, Sory Inc decided to assign one vendor to each department. Although this decision prohibited Sory Inc, the quality of the service provided by the vendors to their respective department in Sory Inc was good and it was able to meet the staffing needs of Sory Inc and the company was able to achieve high quality of internal recruiting with the aid of market contracting (Kosnik et al, 2006).

This case study highlights the importance of trust and firm-specific knowledge between the company and the vendor (Klaas, 2003). The case study shows that the vendors did not attempt to behave in an opportunistic way as Williamson (1975) suggested. The vendors were able to interact and accumulate knowledge about the departments that they were responsible of providing recruitment services to (Blau, 1964; Klaas, 2003; Ghoshal & Moran, 1996). The facts suggest that the specialized vendors were able to interact a lot with their respective department and thus a trust relationship was more likely to emerge (NAPEO, 1993).

In the past stage, Sory Inc was using one vendor to recruit for different departments, they were able to achieve economies of scales but the services provided varied by a big degree, so the achievement of economies of scale was achieved at the cost of the quality of service because one vendor could not accumulate enough knowledge about different departments and thus there was no trust resulting in poor service (Coleman, 1990). That’s the reason that made Sory Inc change their outsourcing contract.

This case study highlights that economies of scale is not the only important factor in outsourcing. The quality of the service is also important for a successful implementation of HR outsourcing (Kosnik et al, 2006).

***Case Study 2 (Appendix 10) Chase Plastics:***

This case study highlights that Chase Plastics Company are not giving the vendors an easy access to the departments of the company. The chain of communication between Chase Plastics and the vendors is full with barriers. This is leading to non-development of firm-specific knowledge and there is no trust between the HR department, this department is responsible for monitoring the relationship with the vendor, and the specialized vendor who are responsible for recruiting temporary workers and as a result, the success was very limited and staffing were barely met and it was always done in the last minute.

This case highlights the importance of interaction between the vendor and the company, which NAPEO (1993) pointed out, and the prohibition of this interaction is resulting in poor service.

***Case Study 3 (Appendix 11) BCI Financial:***

This case study is similar to the previous case where the BCI Financial were using vendors for recruiting people but they did not regulate this relationship, they used a third firm called “managing staffing vendors”. This issue prohibited communication between the staffing vendors and the senior level managers at BCI. This approach will lead to lower level of vendors’ knowledge concerning BCI and thus lower quality of staffing services will be provided by these vendors. Another problem is the complexity of communication where the vendors had to be trained and communicated to by the managing staffing vendors (Kosnik et al, 2006). The relationship between the staffing vendors and the management staffing vendors was already bad and the communication between those two parties only electronically without any live interaction.

Such procedure will make it hard for a trust relationship to be developed between the two parties (NAPEO, 1993). Kosnik et al (2006) expected that in the future, such procedure will lead to lots of mismatching, higher turnover and higher training costs, in addition to more disappointment with senior managers and hiring managers.

***Case Study 4 (Appendix 12) Beard Electric:***

Beard Electric have used lots of vendors in the past, but recently the company decided to reduce the number of staffing vendors and approach only one specialized to do several activities including implementing a web based information for sending requirements, fulfilling requirements, tracking hours, pay rate, in addition to staffing spend (Kosnik et al, 2006).

The transaction cost economic theorists suggested that such approach may lead to opportunistic behavior by the vendor (Williamson, 1975) because in this case Beard Electric’s benefits are only obtained with the continuity of service with this vendor and the company is at risk of suffering from opportunistic behavior by the vendor (Helper & Levine, 1992; Hirschman, 1997).

So, in the long term, the company will have limited power in switching vendors and the vendor may abuse its power and behave in an opportunistic way (Klaas, 2003). However, social exchange theorists will argue that Beard Electric and the vendor will have social interaction and communication over the course of time, which will lead to development of firm-specific knowledge and trust, so the vendor, will not behave in opportunistic way (Blau, 1964).

The results show that Bread Electric was able to achieve reduced rate of payment for temporary workers and achieve saving using a standardized procurement temporary help (Kosnik et al, 2006). Such positive results indicate that there may be a trust relationship that was built between the two parties over 18- month period; this allowed the vendor to provide high quality service after acquiring sufficient knowledge about the company. Such results may indicate that the vendor may not behave in an opportunistic as social exchange theorists suggested, which is contrary to what Williamson (1975) suggested. But still there is a possibility that the vendor might behave in an opportunistic way in the long term after acquiring negotiation power over the company because the vendor is the only source of effective staffing system that the company is benefiting from (Kosnik et al, 2006).

***Case Study 5 (Appendix 13) Gruppo X:***

The case study shows that Gruppo X is suffering from high turnover losses which are 330 million euros. The company had to respond using the aid of the market contracting. They did not have the skills and abilities required to recruit and select people with certain professional skills that are hard to find in the market. It seems like Gruppo X’s boundaries are getting people with competencies required to develop the market competitiveness of the company. These people were not found by recruitment and selection that was done internally so the company had to go for market contracting. The case appears to correlate with Langlois and Robertson (1995) argument that pointed out that companies will go for outsourcing in these companies lack certain skills to do activities internally.

Gruppo X wanted to outsource what they called “basic outsourcing” in other word “non-core activities”. They were able to implement a detailed contract that has a fixed cost and fees over 3 years duration time. In addition to that, they could enhance the efficiency through using software provided by the specialized vendor. Gruppo X considers this outsourcing as an effective transaction that will reduce the cost and improve efficiency without having to pay additional investment fees (firm-specific investment). This approach correlate with transaction cost economic theorists who insisted that companies must try to make the contracts as detailed as possible in order to avoid additional hidden costs or payments (Williamson, 1975).

Using this approach Gruppo X was also able to recruit people with professional skills that will develop the company’s capabilities which are the aim of most companies according to the resource based viewers. The company also seems to have an advantage in terms the nature of the activities outsourced where these activities are believed to be transactional and do not require firm-specific knowledge (Klaas, 2003).

The problem is that the relationship between the liaising people and the vendor is not very good and there is no continuous informal interaction between the vendor and the company (Kosnik et al, 2006). They only interact through periodic meetings, which were later replaced by e-mails and calls. This will not facilitate a trust relationship between the company and the vendor because continuous interpersonal interaction is missing (Jones & George, 1998). Without this trust relationship, the ability of the firm to gain firm-specific knowledge in order to recruit people with professional skills that are needed by Gruppo X will be diminished (Klaas, 2003). This may cause lots of mismatching because the vendor may not be able to identify the needs of Gruppo X and thus recruit wrong people who do not have the skills required (Martin et al, 2008).

***Case Study 6 (Appendix 14) Alcan Packaging:***

The case study shows that Alcan Packaging are partially outsourcing the recruitment and selection activities, and training activities (Martin et al, 2008). The external vendors are responsible for professional headhunting of professional needed by Alcan Packaging, they carry on the first stage for low level of employees and they carry out the first selection process for managers of higher and senior levels (Martin et al, 2008).

It is clear from the case study that Alcan Packaging is using headhunting companies to help them search for people with professional skills that fit the management positions in the company (Martin et al, 2008). The company uses many vendors to supply them with professional people that fill the vacancies required for them and developing the company’s capabilities. This approach will put Alcan Packaging in a powerful position to control the terms of the contract and increase its ability to switch vendors easily without having to pay hidden costs and fees, in addition to having to pay some investments for the continuity of services (Klaas, 2003). However, the role of these vendors requires firm-specific knowledge in order to be performed in a perfect way. Without this knowledge there will be some room for errors (Martin et al, 2008).

For training activities, the approach used by the company is different since training activity is more strategic and important activity. The company purchase training packages from suppliers and the training courses must be provided internally. This approach is useful for Alcan Packaging because they are buying packages which will decrease the possibility of additional fees to be paid so they might avoid asset investments. At the same time providing the training courses will make the supplier gain knowledge about the company’s culture and strategy so that the training course will be delivered in the most useful way. Providing the courses internally will favor the development of trust relationship and firm-specific knowledge which are important factors that play important role in successful implementation of HR outsourcing.

Alcan Packaging also tries to avoid opportunistic behavior which was suggested by Williamson (1975) through using different vendors to provide the training courses. Using this approach the company will make switching vendor easier since there is no one vendor that is the main source for the company’s benefit, so the negotiation power will still be in Alcan Packaging favor.

***Case Study 7 (Appendix 15) Lowara:***

Lowara wanted to outsource routine and transactional activities in order to focus time and human resources on more strategic activities such as involvement in a BPR project at the corporate level. In addition to that, they were dissatisfied with the IT supplier that had developed in-house system for payroll activities. The performance of the fiscal requirements also played a big role in the decision to outsource (Martin et al, 2008).

Lowara outsourced its personnel and administration activities which are training contracts, statistical surveys, attendance and absence, pay and contribution. In addition to the documentation regarding the public bodies and social security due to initiation and termination of the contracts (maritin et al, 2008).

Almost all of these activities outsourced are considered to be transactional and non-core activities (Williamson, 1975; Coleman, 1990; CIPD, 2009; Klaas, 2003). However, there are still suspicions about the training contracts since these activities are used for developing the skills and talents of the employee in order to benefit Lowara in the long-term (Marchington and Wilkinson, 2008).

Lowara made the choice to outsource these activities based on the reputation, price of service, and the supply of accessory service. The company used these criteria to study which vendor best fit the company’s culture and strategy which is very important activity that each company should do before selecting the vendor to outsource (Klaas, 2008).

Along the duration of the contract, the communication between Lowara and the PEO will be done through information systems with no physical appearance or interaction. This procedure is argued to be a bad procedure because it will prohibit the development of trust and firm specific knowledge (NAPEO, 1993). The contract itself was very detailed which could help prevent any further costs or compensation fees (Martin et al, 2008).

The results have shown that there was an improvement in the levels of effectiveness and efficiency of the service but Lowara had to pay some costs that weren’t perceived before the implementation of the contract (Martin et al, 2008).

The approach of outsourcing done by Lowara is considered to be a good approach since they are making clear contracts with the supplier to outsource transactional activities or routine ones and focus their human and time on strategic activities. But, the problem is that there is limited interaction between the vendor and Lowara which will make it hard a trust relationship to be developed between the two parties and the relationship may always be considered as a supplier-client relationship (NAPEO, 1993). Also, Lowara is outsourcing different activities to a vendor and they have a low quality IT system internally, so the success of the company may become dependent on the vendor. Such power that the vendor hold may trigger opportunistic behavior in the future as Williamson (1975) suggested.

***Conclusions and Implications:***

This research aimed at studying the nature, motives, implementation, and achievements of HR outsourcing. The CIPD research have studies 315 organizations around the UK in which only 29% of them outsource HR functions while others outsource other functions. This shows that HR outsourcing is still an area that is under development and there are still lots of companies that consider HR functions as non-core and administrative that can be done easily internally, so they are better off outsourcing functions that will give them access to new skills and technology that is important for enhancing their capabilities and skills (CIPD, 2009). However, the research confirmed that almost all companies are starting to take HR seriously and Ulrich (1996) described the HR role as a role that is increasing in importance and that is starting to take a strategic orientation inside the companies.

It is still too early to tell if HR outsourcing is going to be the future of the HR function (Alder, 2003), but with the enhancement of the role of HR, companies will be more likely to outsource lots of HR activities either to improve efficiency and reduce cost or relieving the internal HR team in order to focus on core activities or to get access to new skills that aren’t available internally.

This research has also proved that HR plays different roles in companies as Ulrich (1996) suggested. Some companies limit the HR functions to administrative activities while in others, the HR function plays a strategic role in the company’s objectives, missions and vision 9ulrich, 1996).

There are still many companies that are not outsourcing HR function because they have the skills internally, so there is no need for outsourcing. Or because they perceive outsourcing as a risky procedure. This view was highlighted by the institutional theory. They argued that if other companies in the same industry are not innovating and outsourcing, companies will perceive the outsourcing procedure as a risky procedure that holds too much uncertainty (Williamson & Cable, 2003).

After studying the reasons that are preventing lots of companies from engaging in HR outsourcing, the research discussed the theories that studied HR outsourcing including the transaction cost economic theory, resource based view, and institutional theory.

The results have shown that companies are facing lots of external pressures that are pushing them to engage in HR outsourcing, which correlates with the institutional theory that studied the role that the external environment plays in HR outsourcing. However, the results have shown that reducing cost and efficiency is the most important factor for undergoing HR outsourcing. The improvement of efficiency and reduction of costs was what the transaction cost economic theorist believed to be the main motive for HR outsourcing (Klaas, 2003). In addition to efficiency, companies wanted to access new skills, technology, and abilities. The resource based views argued that the new skills and abilities are the main motive for HR outsourcing and that if companies weren’t able to achieve competitive skills internally, they will most likely outsource HR activities.

It is clear from results that there is no one motive for HR outsourcing and there is no right theory or view. Companies choose to outsource HR activities because the environmental factors are pushing them and there is a big need to improve efficiency and reduce costs especially in the economic crisis (CIPD, 2009). In addition to those factors, companies need to access new technology, skills that are not reachable internally, so they outsource because they know that such activity might potentially give them advantages over competitors. The degree of pressure that these factors are exerting varies between companies with different industries, sectors, sizes, orientation, and the role of the HR function in the company itself (Klaas, 2003). So there is an intersection between theories and there are some companies that have views that correlates with the three theories.

After studying the motives and pressures of HR outsourcing, the research analyzed the nature of functions that are outsourced. The results showed that the most popular outsourced activities are those that are considered non-core transactional activities (CIPD, 2009). However, the results have also shown that there is low percentage of companies that are actually outsourcing strategic activities to gain new competencies because of the lack of skills internally (CIPD, 2009). Training and information systems are also activities that are outsourced in large number, but the problem is that many companies consider these activities as transactional and non-core (Klaas et al, 2005). Many authors had a contrary view; they considered training activities as core and unique activities. For example, Marchington and Wilkinson (2008) and Taylor (2010) argued that these activities are very important for engaging employees and developing their skills and competencies, which will result in developing the capabilities of the company.

Similarly, Becker (1964) discovered positive links between good training activities and performance. There are several studies that have discovered a direct positive link between training and key performance indicators such as cost savings and productivity (Frayne et al, 1998), gross profit per employee (Morrow et al, 1997), Sales revenue (Frayne and Geringer, 2000), and performance (Harel & Zafir, 1999). Thus, training is considered to be a strategic activity that develops core competencies of the firm.

The CIPD research have also shown that HR professionals in different companies consider themselves as having more than enough skills to deal effectively with the process of outsourcing (CIPD, 2009). But, the results have shown that only a small percentage of companies considered HR outsourcing to be of limited success. The study showed that the outsourcing hasn’t been able to relieve the pressure on internal HR department to focus on more strategic activities as what most theories and studies suggested.

Thus, there are lots of factors that affect the success of the HR outsourcing. The analysis of the case studies aimed at studying the implementation of HR outsourcing and how companies are implementing different contracts when undergoing HR outsourcing, in addition to the ways in which companies are monitoring the outsourcing process. The results show that almost all the functions that are outsourced in the companies studied are considered to be transactional in nature where these activities do not hold hidden costs and do not require firm-specific investment.

There are some companies that focus only on time and cost savings, so they use lots of vendors to supply them with the services. These outsourced services are transactional in nature so this will make them easily standardized (Cook, 1990). And since there are no requirements for firm-specific investment, so the company will hold the ability to switch between vendors easily (Lepak and Snell, 1999). Moreover, these kinds of activities are easily controlled in nature (Greer et al, 1999).

However, the case studies have shown that such approaches will leave room for errors and the quality of the service provided will not be the most effective. This is caused by the lack of sufficient interaction between the company and the vendor, in addition to lack of sufficient transmission of communication between the company and the vendor. This will result in a relationship that is not based on trsut and the vendor will not have enough firm-specific knowledge to provide top-quality services (NAPEO, 1993).

There are still some companies like Beard Electric that are willing to sacrifice financial savings in order to get better quality service (Klaas, 2003). These companies are more likely to develop a relationship with the vendor and such relationship will lead to development of trust and firm-specific knowledge (Klaas, 2003). In these situations, the vendor is treated like an ally or partner to the company and they both work together for the development of the company’s capabilities through several interactions. The vendor will get to know the culture and strategy of the company and thus design a service delivery method of best services that correlates with the company’s missions and visions.

But such relationship will give the vendor too much negotiation power and the company might be at risk of suffering from opportunistic behavior by the vendor (Williamson, 1975). In addition to that, the company might be required to invest more money for the continuity of the service and maybe contract renewals (Williamson, 1975). In these situations, the success of the company might be dependent on the continuity of the relationship with the vendor, so companies will invest and pay a lot of equity to preserve this relationship (Klaas, 2003). However, social exchange theorists argue that with long relationship comes trust, so in the long term the company and the vendor will be more likely to become one entity working towards the benefits of both of them (NAPEO, 1993).

Finally, it is fair to say that outsourcing activity is an activity that is increasing rapidly day after day (Klaas et al, 2005). There are different factors that affect the outsourcing decision including organization size (Klaas et al, 2005), culture (Smith et al, 2006), strategic orientation (Miles and Snow, 1984), and the internal HR skills (Khatri and Buhdware, 2002). Small firms or companies often lack internal HR skills and capabilities, so they outsource to get access to such skills in addition to saving money and time (Alder, 2003). While, larger firms have the capabilities to achieve cost savings through their bargaining power and their tendency to outsource to different vendors, which will give them the ability to switch vendors easily and be in a stronger position in negotiations period (Smith et al, 2006).

***Limitations:***

This research highlighted general background on the HR outsourcing, it gave important insights on theories that studied HR outsourcing and it analyzed some case studies with the focus on the implementation of HR outsourcing. However, there are lots of limitations to be considered.

There was no primary research included in this research since the access to such information wasn’t applicable and there was no access to companies that are outsourcing HR activities. If the research included primary resources, the results that were concluded would have been more accurate because there would have been direct proofs from companies that may increase the credibility of the hypothesis that were argued in this research.

The research studied companies of different industry, size, sector, strategic orientations and culture. So, there are lots of variables to be considered and any of these variables could play an important factor in affecting the motives for HR outsourcing, the choice of activities to be outsourced, and the ways of implementing outsourcing and controlling the process. The institutional theory suggested that each company and each industry have different environmental factors that affect the decisions that companies take including outsourcing decisions (Klaas et al, 2005). They also highlighted the concept of mimicry and that companies copy the behavior of companies that are in the same industry or tackling the same environmental pressures. But in this research, such issue was not studied because there was no access to different companies of same industry in order to analyze this concept and the degree of accuracy of this view. In addition to that, the research only focused on companies located in the UK and Italy and there may be some international factors that are affecting HR outsourcing decisions in other locations which are not highlighted in this research.

The research also studied case studies which were extracted form books and journal articles, so the analysis was limited to the information provided by these resourced and there might be some details about the outsourcing process that weren’t highlighted in the case and such details may have had an effect on the choice of HR activities to outsource or the way of implementation or even the monitoring of the outsourcing process.

***Personal Statement:***

Despite the limitations mentioned, the research reflected the theories that studied HR outsourcing in practice. The results showed that there is an intersection between these theories and different companies adapt different views about HR outsourcing. This view is suggested to be a response to the environmental factors that are affecting the company’s position in the market.

The HR outsourcing innovation is still under development and it is growing day after day in popularity between companies (Coleman, 1990). The CIPD results proved that lots of companies are engaged in outsourcing different activities in general (315 organizations) and there is a significant proportion (29%) who are outsourcing HR activities and with the enhancement of the role of HR department during recent years, it is expected that HR outsourcing will become more popular innovation that companies will be willing to adapt (CIPD, 2009).

With the continuous environmental changes, it is expected that there will be greater needs to improve efficiency, reduce costs, develop competencies, and access skills and knowledge in the operation of the HR activities. So it is more likely that companies will be heading towards HR outsourcing in order to achieve these motives and goals (Klaas, 2003).

List of References:

Anderson, V.(2009). “Research Methods in Human Resource Management”. 2nd ed. CIPD:London

Alder, P.S. (2003). Making the HR outsourcing decision, MIT Sloan Management Review,45, 53-60

Barney, J.B., (1991). Firm Resources and Sustained Competitive advantage. Academy of Management Executive 9, 49-61

Baron, J.n., & Kreps, D.M.(1999). Strategic human resources. New York:John Wiley & Sons

Becker, B., Gerhart, B.(1996). “The impact of Human Resource Management on Organizational Performance: Progress and Prospects”, Academy of Management Journal,39,779-801

Braun, I., Pull, K., Alewell D., Stormer, S., & Thommes, K. (2010). “HR outsourcing and service quality: theoretical framework and empirical evidence”, Emerald Group Pubishing limited, 40,3, 364-382

Coleman, J.S. (1990). Foundations of social theory. Cambridge, MA:Belknap Press

Connor, K.R., & Prahald, C.K. (1996), “ A Resource-based Theory of the Firm: Knowledge Versus Opportunism”, Organizational Science,7,477-501

Cook, M.f., Gildner, S.B. (2006). Outsourcing Human Resources Functions. How,Why,When, and When Not to Contract for HR Services, Society for Human Resource Management, Alexandria, VA

Chiang, F.T., Chow, H.S., & Birtch, T.A. (2010). “Examining human resource management outsourcing in Hong Kong”, The International Journal of Human Resource Management, 21,15, 2762-2777

CIPD Survey report, (2009). “HR outsourcing and the HR function Threat or Opportunity”

Delery, J.E. (1999).”Issues of fit in strategic human resource management:Implications for research”. Human resource management Review, 8, 289-309

Dickmann, M., &Tyson, S.(2005). “Outsourcing Payroll: Beyond Transacton-Cost-Economics”, Personal Review, 34, 451-467

Greer, C.R., Youngblood, S.A., & Gray, D.A. (1999). Human Resource Outsourcing:The make or buy decision, Academy of Management Executive,13, 85-96

Gooderham, P.N., Nordhaug, O., & Ringdal, k. (1999). Institutional and Rational Determinants of Organizational Practices: Human Resource Management in Europe Firms, Administraive Science Quarterly”,44, 507-531

Hart, O. (1988). Incomplete contracts and the theory of the firm. Journal of Law, Economics &Organization,4, 119-139

Harel, G.H., & Tzafrir S.S. (1999). “The effect of human resource management practices on the perceptions of organizational and market performance of the firm. Human Resource Management 38, 3, 185-200

Hirschman, C. (1997). All abroad:The boom in employee leasing may bring good career opportunities for HR professionals, HR Magazine,42,80-86

Huselid, M.A. (1995). The impact of human resource management practices on turnover, productivity, and corporate financial performance. Academy of Management Journal,38, 635-672

Huselid, M.A., Jackson, S.E. & Schuler, R.S. (1997). “Technical and Strategic Human Resource Management Effectiveness as Determinants of Firm Performance”, Academy of Management Journal, 40,171-188

Jones, G.R. & George, J.M. (1998).” The experience and evolution of trust:Implications for cooperation and teamwork”, Academy of Management Review, 23, 531-540

Khatri, N., & Budhwar, P.S. (2002). “A study of Strategic HR Issues in an Asian Context”. Personnel Review, 31, 234-254

Klaas, B.S., McClendon, J., &Gainey, T.(1999). HR outsourcing and its impact: The role of transaction costs. Personnel Psychology,52, 113-136

Klaas, B.S., McClendon, J., & Gainey, T.(2000). Managing HR in the small and medium enterprise: The impact of professional employer organizations. Enterpreneurship & Practice,25, 107-124

Klaas, B.S.(2003). “Professional Employer Organizations and Their Role in Small and Medium Enterprises: The Impact of HR outsourcing”, Baylor University, 43-61

Klaas, B.S.(2008). “Outsourcing and the HR function:an examination of trends and development within North American firms”, The International Journal of Human Resource Management, 19,8,1500-1514

Kosnik .T., Wong-MingJI, .D.J., & Hoover, .K., (2006).” Outsourcing Vs Insourcing in the Human Resource Supply Chain: A Comparison of Five Generic Model”,35,6, 671-683

Langlois, R.N., & Robertson, P.L., (1995). Firms, Markets and Economic Change: A dynamic Theory of Business Institutions, Routledge, London

Lever, S.(1997). “An analysis of managerial motivations behind outsourcing practices in human resources”, Human Resource Planning, 20, 47-47

Lepak, D.P., & Snell, S.A. (1998). “Virtual HR: Strategic Human Resource Management in the 21st Century”, Human Resource Management Review,8, 215-234

Lee, N., & Lings, I.(2008). *Business Research Methods: A Guide to Theory and Practice*. California: Sage Publication.

Martin, G., Reddington, M., & Alexander, H. (2008). “Technology, Outsourcing and Transforming HR” 1st ed, UK:Butterworth- Heinemann

Mastern, S., & Crocker, K. (1985), “Efficient Adaptation in Long-term Contratcs: Take or Pay Provisions for Natural Gas, American Economic Review,75,1085-1096

Mclvor, R., (2005). The Outsourcing Process: Strategies for Evaluation and Management, Cambridge University Press, Cambridge.

Miles, R.E., & Snow, C.C. (1984), “designing Strategic Human Resources Systems”, Organizational Dynamics, 13, 26-52

Morrow C.C., Jarrett M.Q., Rupinski M.T. (1997). “ An investigation of the effect and economic utility of corporate training”, Pers Psychol, 50, 1, 91-119

NAPEO. (1993). The business of employee leasing, Alexandria, VA:NAPEO

Prahald, C.K., Hamel, G.(2003). The core competence of the corporation, Harvard Business Review 68 (30)

Powell, W., Koput, K., & Smith-Doerr, L. (1996). “Interorganizational Collaboration and the Locus of Innovation: Networks of Learning in Biotechnology”, Administrative Science Quarterly,41, 116-145

Quinn, J.B., & Hilmer, F.G.(1994). “strategic Outsourcing”, Sloan management Review, Summer,43-55

Riordan, M. & Williamson, O.(1985). “Asset specificity and economic organization”. International journal of industrial Organizations, 3, 365-378

Sexton, D.L., Upton, N.B., Wacholtz, L.E., & McDougall, P.P.(1997). Learning needs of growth-oriented entrepreneurs, Journal of Business Venturing,12, 1-8

Shen, J. (2005), “Human Resource Outsourcing:1990-2004”, Organizational Transformation and Social Change, 2, 3, p275-296

Strang, D., & Macey, M.W., (2001), “In Search of Excellence:Fads, Success Stories, and Adaptive emulation”, American Journal of Sociology,107,147-182

Stroh, L.K., Treehuboff, D. (2003). Outsourcing HR functions: When – and when not-to go outside, Journal of Leadership and Organisational studies,10,19-28

Smith, P.C., Vozikis, G.S., & Varaksina, L. (2006). “Outsourcing Human Resource Management: A Comparison of Russian and U.S. Practices”, Journal of Labor Research, 27,305-321

Saunders, M., Lewis, P., & Thornhill, A. (2012). *Research Methods for Business Students*. 6th ed. London: Pearson.

Taylor, S. (2010). “ Resourcing and Talent Management”, 5th edition, Wimbeldon: Chatered Institute of Personnel and Development

Ulrich, D.(1995), “Shared Services:From Vogue to Value”, Human Resource Planning, 18,3, 12-33

Ulrich, D. (1996). Human resource champions. Boston:Harvard University Press

Walker, G. & Webber, D.(11984). “A transaction cost approach to make or buy decisions. Administrative Science Quarterly, 29, 373-632

Wejnert, B. (2002), “Integrating Models of Diffusion of Innovations: A Conceptual Framework”, Annual Review of Sociology, 28, 297-326

Wernerfelt, B. (1995). “ The Resource- based View of the Firm: Ten Years After”, Strategic Management Journal,16,171-174

Wilkinison, A., & Marchington M. (2008). “Human Resource Management at Work: People Management and Development”, 4th ed, Wimbeldon: Chatered Institute of Personnel and Development

Williamson, I.O., & Cable, D.M., (1976) “organizational Hiring Patterns:Interfirm Network Ties and Interorganizational limitation”, Academy of Management Joural,46,42-65

Williamson, O.E. (1975). “Markets and Hierarchies: Analysis and Antitrust Implications, New York: Free Press

Williamson, O.E. (1985). “The Economic Institutions of Capitalism, New York: Free Press

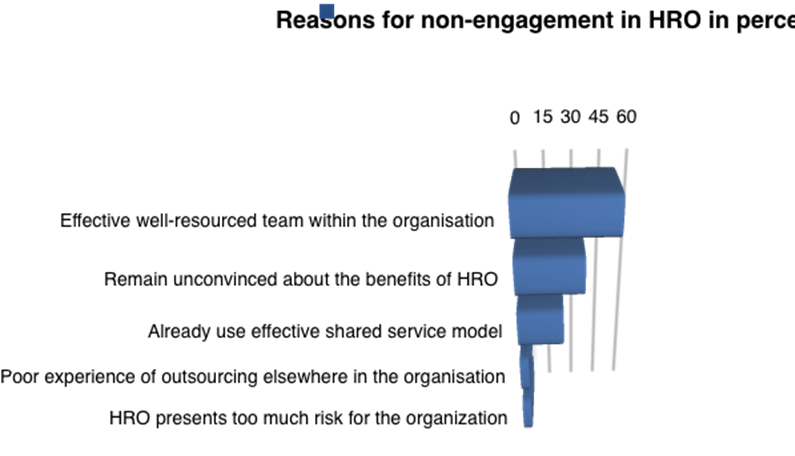
Williamson, O.E. (1996). “The Mechanics of Governance, New York: Oxford University Press.

Woodall, J., Jackson, S.J., Newham, W.S., & Gurny.M.(2007). “Making the decision to outsource human resources”, Personnel Review,38,3,236-252

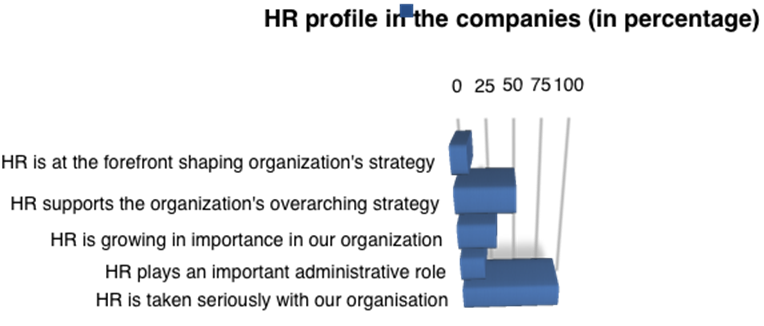
Wright, P.M., Gerhart, B., Snell, S.A., & McMahan, G.C., (1997). Strategic human resource management:Building human capital and organizational capacity: Technical Report, SHRM Foundation and Human Resource Planning Society Alexandria, VA

Appendecies:

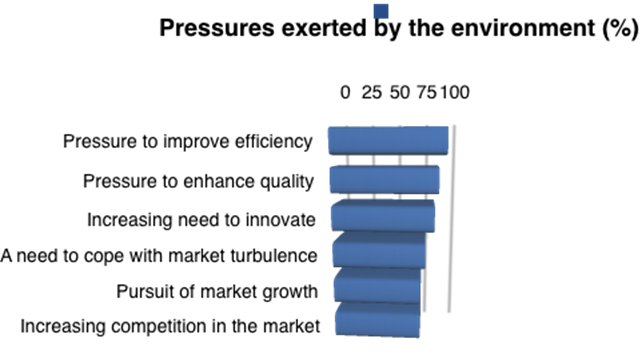
Appendix 1 (CIPD, 2009):



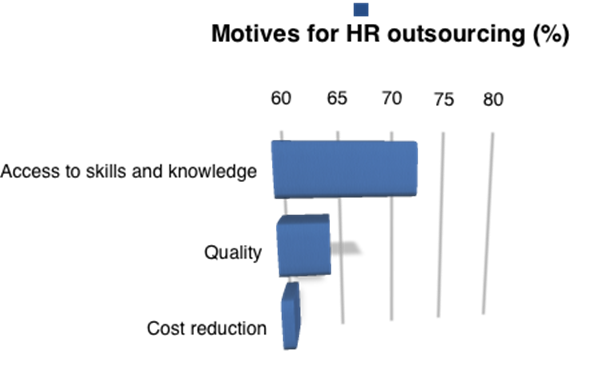
Appendix 2 (CIPD, 2009):



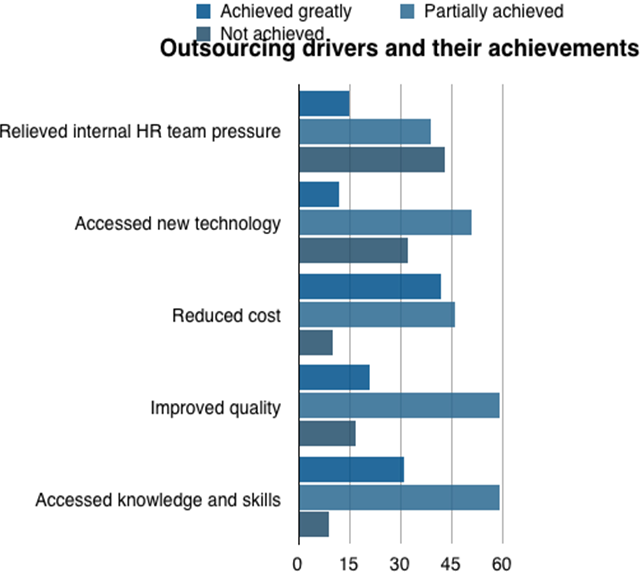
Appendix 3 (CIPD, 2009):

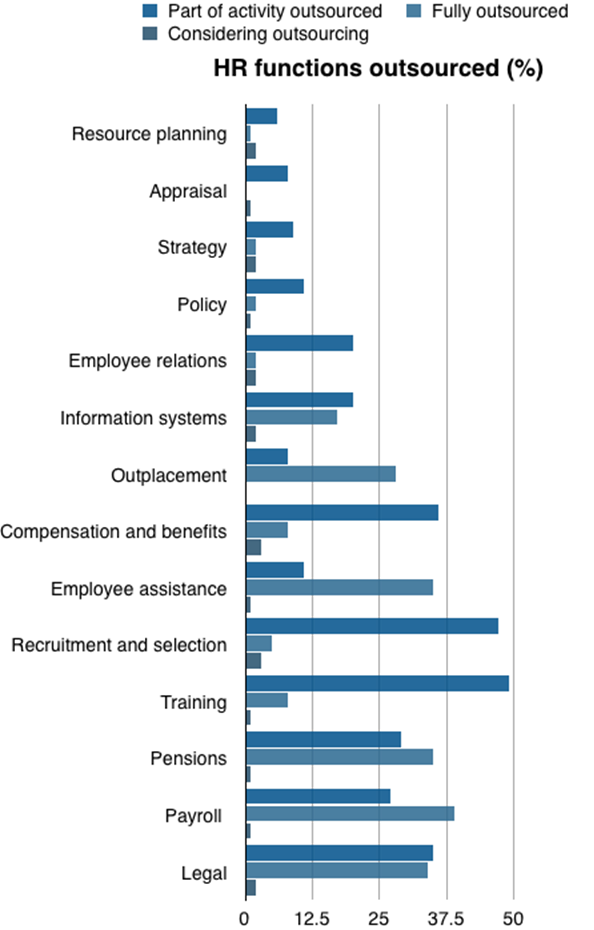


Appendix4

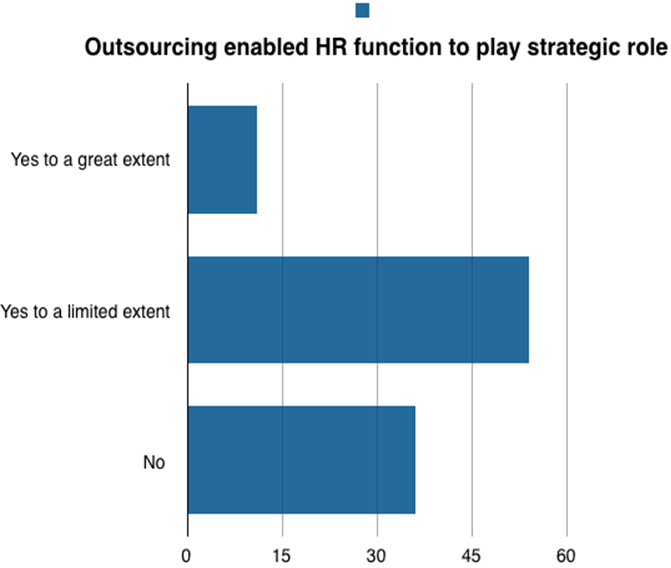


Appendix 5 (CIPD, 2009):

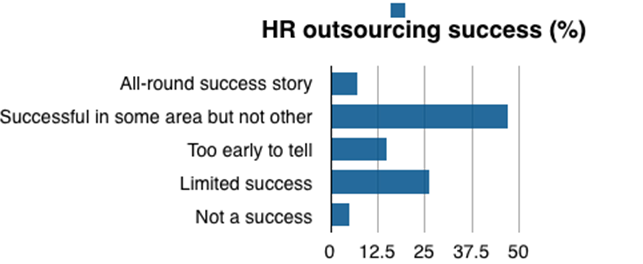




Appendix 7 (CIPD 2009):



Appendix 8 (CIPD, 2009):



Appendix 9 (Kosnik et al, 2006):

**Sory Inc:**

“Sory Inc is a first tier manufacturing company that supplies parts to the auto industry. Manufacturing, sales and marketing, and finance are functions within Sory that use temporary help services during various times throughout the year. Manufacturing uses staffing vendors for light industrial workers, sales and marketing use staffing vendors for clerical services, and financing uses staffing vendors for temporary accounting help.

Each functional area within Sory uses different staffing vendors that specialize in placing personnel that best meet their needs. In the past, Sory tried to use a “one stop staffing vendor”, but the quality of services varied greatly from department to department. The management team decided to let each functional area make its own decision on what staffing vendor to engage.

In this situation, in the sort-term and on a day-to-day basis, Sory’s unable to achieve economies of scale with its staffing vendors. The total costs for temporary workers as well as internal costs for contracting with several different are higher then if it used one staffing vendor to meet all its needs. Sory is unable to secure a set pricing range that it pays for its temporaries. Each staffing vendor secures a different rate range with each functional department head. Additionally, separate contracts are secured with each vendor as opposed to one contract. Sory also incurs additional accounting and tracking costs by using several specialized staffing vendors rather than one vendor.

In the long term, Sory is benefiting from this arrangement. Each specialized staffing vendor is able to fully work with each function within Sory to best meet its staffing needs. Temporary utilization is better than average. Mismatches are fewer. Functional departments are able to receive a high quality/high touch service. Sory’s HR department has been able to down size its internal recruiting arm by using the specialized staffing vendors.”

Appendix 10 (Kosnik et al 2006):

**Chase Plastics:**

“Chase plastics is an injection molding company. Because of customer demands and scheduling habits, the company is often in a position where it needs to staff up rather than quickly on projects. To fulfil this need, Chase Plastics uses a couple of staffing vendors to supply them with 25 to 200 temporary workers. The HR department manages the staffing vendors, secures the contract, communicates all requirements, receives any metrics on temporary workers, and feeds information back to staffing vendors.

This arrangement is wrought with several problems. The real users of the staffing services were “Supervisors” on the manufacturing floor. Supervisors had to go through the HR department to communicate any needs to the suppliers and staffing suppliers had to go through the HR department to make any improvement changes with the supervisors. Quality control meetings were generally rejected by the client; no time to meet. Staffing vendors had to submit certain metrics to the clients, but nothing was ever done with these metrics. The relationship between the HR department and staffing vendors was highly adversarial. Staffing vendors were not allowed to speak with the plant manager, CFO or President. When asked, “What are you looking for from staffing vendors?”, the senior HR executive said she wanted “to be pampered by the staffing vendors”. Because the communication link was cumbersome, the staffing vendors needed to assign Service Coordinators with weekend pagers. In the end, Chase Plastics was paying 83 per cent above the market average for its temporary workers.

This method of having the HR department manage the staffing vendors was extremely ineffective for this company. Staffing needs were being met, but haphazardly and at the last minute. Chase Plastics, through the HR department, retained all of the control in the relationship with the staffing suppliers. This control made for an ineffective process and was costing the company thousasnds of dollars over and above the average of a temporary in its market place”.

Appendix 11 (Kosnik et al, 2006):

**BCI Financial**

BCI Financial is a large sprawling company that has location in the Northeast, Southeast and Midwest. In 2002, BCI Financial shifted from having each of its locations managing their own staffing vendors to a third party “vendor management firm” managing the staffing vendors. Senior level people throughout the US were informed from corporate headquarters that this decision had been made in order to improve tracking, control and cost reductions of its temporary help. Senior level people were brought up to speed up on the vendor management firm and how the transition was going to proceed. They were also given the task to inform their hiring managers of change.

As this shift began to proceed, staffing vendors were told that they were no longer allowed to communicate with hiring managers or senior level contacts at BCI Financial. The staffing vendors had to communicate through the vendor management firm. Slowly, each BCI Financial location as well as each staffing vendor received training and education on the new process of submitting and procuring contract help or temporary workers.

This shift to a vendor management firm introduced in the supply chain number of problematic issues. First, the change occurred is a unilateral manner from the top down. Therefore, the vendor management firm had to overcome resistance from some of the senior level personnel and hiring managers was terminated. Requirements for temporary help were all electronically communicated. Therefore, a level of quality from staffing vendors decreased and the number of mismatches at the client site increased due to a decrease in communication. Third, the staffing vendors pay the vendors pay the vendor management firm part of their gross margin for access or the right of doing business through them. As a result, the staffing vendor sends their best employees to client companies who will pay them a higher gross margin and BCI Financial looses out on prospects.

The overall result is that this model increases the complexity of the supply chain by adding a vendor management firm between the staffing vendors and the client. Short term gain included decreased pay rates and bill rates, standardizing the hiring process, and increasing the hiring managers focus time. But long-term gains are overshadowed by an increase of miscommunication, number of mismatches, higher turnover, higher training costs, and greater frustration with hiring managers.

Appendix 12 (Kosnik et al, 2006):

**Beard Electric:**

Beard Electric is a utility company that provides electricity to several thousands household in a major metropolitan area. Beard Electric had a long history of using over twenty staffing vendors to meet its needs throughout several of its organizational functions. In the late 1990s, Beard Electric began a process of decrease the number of staffing vendors. The goal was to reduce the overall staffing costs by creating certain efficiencies and outsourcing its staffing work. Beard Electric also believed it secure an overall lower bill rate using fewer vendors.

As the process began, Beard Electric decided to approach one local mid-size staffing vendor with the idea of total outsourcing to this one vendor. It was the responsibility of this one staffing vendor to manage all second tier vendors, establish a rate card, implement a web based electronic information system for sending requirements, fulfilling requirements, tracking hours, pay rates, bill rates, and departmental staffing spend.

Over an 18-month period, the single source staffing vendor was able to implement the electronic tracking system, train the internal hiring managers, find and train second tier staffing vendors, establish rate cards and standardize the hiring process. Beard electric was able to secure an overall reduced rate that it was paying for its temporary workers. In addition, it achieved savings by using a system that standardize the procurement of temporary help.

In the short-term and long-term, Beard Electric benefited from this arrangement. The key long-term risk lies in the potential cost of switching master vendor if such existing master vendor begins to consistently fail in delivering services. Other risks such as the reduction of quality and increase in turnover could occur if the master vendor abuses its single source position. If managed carefully, the hard and soft cost benefits can offer great rewards.

Appendix 13 (Martin et al,2008):

**Gruppo X:partial outsourcing of personnel administration**

Gruppo X is an Italian company which, since the beginning of the 1980s, has operated in the casual clothing sector. Its main office and all of its four factories are localized in the province of Treviso, in northeast Italy.

Its principal brand is famous worldwide so much so that 30% of turnover is is realized in Italy while 70% comes from abroad. There are 200 single-brand sale outlets while there are 130 corners.

In 2005, the Group’s turnover exceeded 330 million euro and the number of employees was 1061.

Ten people working in HR, including the manager. The HRM uses, in addition to the more traditional personnel management instruments, more innovative instruments such as pay surveys, job analysis, corporate climate analysis, and internal marketing. These instruments are employed not only for the managers but also for the middle managers and employees.

Gruppo X’s HRM department turns to the market for HR services, first of all, for all the activities of recruitment and selection when these concern particular professional skills that are hard to find on the labor market and whose search requires a specific competence. For these professional figures the company applies, depending on the type, to a few national headhunting and selection companies or local employment agencies

Since January 2004, the copany has decided to outsource part of the perssonel administration activities: payroll and performance of fiscal requirements concerning pay.

Rescue to outside of the company for administration activities is part of a policy aimed at developing HR activities with a higher strategic content and reducing operational costs of the process.

The choice of supplier fell on an organizational service provider in Milan chosen based on its skills, specification, and experience in IT and HRM outsourcing, as well as the cost of the services.

The contract stipulated with the provider is non-exclusive with duration of 3-years (with a renewal option) and a fixed cost for each pay packet processed. The agreement also provides that the client firm Gruppo X, uses a special software supplied by the provider to transmit the data for the payroll services.

The HR directory defines this process as basic outsourcing, since it has outsourced the administration process while keeping the control functions over the operation inside the company.

After payroll services were outsourced, the employees previously charge of these services took on the role of liaison officer, monitoring and coordinating operations with the external provider. At the beginning of outsourcing relationship liasing activity was very intense. Peridocic meetings, which were later substituted with telephone calls and e-mails, were necessary to establish the relationship. Gruppo X assesses the provider according to the contractual specifications, and on rapidity of response time.

Appendix 14 (Martin et al, 2008):

**The case of Alcan Packaging Italia: partial outsourcing of the recruitment, selection and training activities**

Alcan Packaging Italia is part of the Alcan multinational group, world leader in the production of aluminium. The Italian factories deal with the manufacture of packaging for food, pharmaceutical, and cosmetic products. The main plant in Vinceza, in northest Italy. The other manufacturing plants, all located in the North of Italy, are situated in Lainate and Arezona.

In 2005, Alan Packaging Italia had a turnover of 193 million Euros’, there were 821 employees divided into: 18 managers, 251 clerical workers, and 552 workers.

The HR Italia manager, in addition to being in charge of the personnel and policies inside Alcan Packaging Italia, is also personnel manager in the plant Vicenza. In the other manufacturing plants there is a HR manager who answers, hierarchically, to the plant manager and, functionally, to the HR Italia manager. The various manufacturing plants deal completely autonomously, with the selection and training of their perssonel and they work with the HR Italia management with regards to organizational problems, organizational development, and trade-union relations.

The HR area of Alcan Packaging Italia has nine people including the HR manager. Rven though it is a young area, which has existed for a relatively short time, it shows a good level of sophistication, measured by the quantity and type of management instruments (replacement tables, pay surveys), Alcan HR Italia management utilizes more innovative practices (Job analysis, assessment centre, corporate climate analysis) and it does so for many of the current categories of personnel. This is certainly to the fact that Alcan Packaging Italia is a part of multinational group equipped with the most cutting-edge instruments in the HR-sector.

Particularly worth of note is, for example, the e-HRM system aimed at the managerial figures (management and middle management) and at young talent with potential: the IPCM assessment system and the internal recruitment channels, jobs online, are included this investment.

The outsourced HRM processes:

Other than personnel administration, for which the choice is not equivocal (it depends on the plant), among the HRM processes in Alcan Packaging, the processes of recruitment and selection and training is more concerned with outsourcing, Indeed, for these processes, Alcan Packaging Italia decided to opt for management which is a cross between market and hierarchy,

For both recruitment and selection, as well as training, it is partial type of outsourcing, in that concerns either only several phases in the process or, when it concerns the whole process, only several categories of personnel.

In particular, in the event that blue collar or white collar workers with maximum of 3-4 years experience are sought recruitment by consulting the internal CV database and turning to suppliers specialized in the search for these professional figures. In the event that the company turns to external suppliers, the headhunting companies are entrusted not only with recruitment but also the first phases of selection.

However, for the more important middle managers and managers both the recruitment and the first stages are carried out by the external headhunting and selection companies consulted by Alcan Italia.

For training Alcan turns to the market for:

-The purchase of standard training packages (catalogue training)

-the supply of internally planned training courses

- the planning and supply of complex courses, to be realized on the base of training requirements detected internally. These requirements are identified by the line and communicated to the HR manager, who manages relations with the market.

It must be said that, alongside recourse to the market, for the high potential professional profiles there are training courses that are specially designed , managed and supplied by the group’s head office.

The principal reasons that drove Alcan Packaging to outsource for both recruitment and selection as well as training, are ascribed, first, for the necessity of improving process effectiveness, by relying on the specialization and experience of the providers. The second reason is linked to efficiency and it concerns the reduction of times and costs. Another reason is formed by the necessity of focusing on those HRM activities which are core.

Conversely, among those reasons for keeping part of the outsourced process and other HRM activities in-house, the HR manager indicated the importance of distinctive abilities, sources of competitive advantage, and the consquent risk of spill over, the interdependence with other activities and, lastly, through decidedly a less important reason, the costs, which are less internally compared to the market due to economies of scale.

Alcan Packaging Italia uses three to five providers of recruitment and selection services. These are the largest employment agencies, local headhunting and selection companies and, for the middle managers and managers, headhunting companies.

Alcan Packaging has regular relationships with approximately 15 providers of training services- consultants and/or training companies- whose selection took the firm approximately 1 year.

Non-exclusive contracts are made for recruitment, for selection, however, exclusive contracts are made with the supplier.

Those contracts between Alcan and the suppliers of services concerning personnel training are also non-exclusive.

Appendix 15 (Martin et al, 2008):

Lowara: the complete outsourcing of personnel administration process

Lowara is an Italian firm localized in Vinceza, it operates in the sector of development and manufacture of pump systems in the field of water technology and in the sectors of residential and collective construction, irrigation, and industry. In 2004, it had a turnover of 137 million Euros. The firm has two manufacturing plants. In 2004, there were 270 employees plus another 50 temporary workers. The firm, established in 1968, was bought by Goulds Pumps in 1985 and in 1997 became part of the ITT industries group, the main manufacturer worldwide of pumps and pump systems for water and industrial liquids. Since 2003, Lowara has held the role of headquarters of the WTG EMEA.

Lowara’ personnel office deals with the management activities of HR and the firm’s trade-union relations. The person in charge secretarial services and the person in charge of the “personnel services” area report to the manager of the personnel office. In total, the number of people employed in personnel management is five.

The principal activities of Lowara’s personnel management include managerial activities such as personnel selection and training programs, performance assessment and compensation, career identification and development, as well as more innovative and highly strategic activities such as development of organizational competences, communication (in collaboration with other corporate sectors), and the implementation of ITT corporate policies.

Outsourcing of HRM

In 2001, Lowara completely recognized its personnel management by outsourcing the personnel administration activity, more specifically: attendance and absence, pay and contributions, documentation regarding social security and public bodies due to initiation/ termination of employment contracts, training contracts, statistical surveys (eg annual disabled declaration).

Lowara outsourced personnel administration activity to reduce the excessive commitment of resources (human and time) in the most routine and least added-value activities, to focus on more strategic activities, such as involvement in a BPR project at corporate level.

Dissatisfaction with the IT supplier who had developed the software package for the in-house management of the payroll and the performance of fiscal requirements also played a part in the decision. Due outsourcing the number of people employed in the personnel office passed from eight to five. Through outsourcing the personnel management states that it has realized an improvement in the level of effectiveness and efficiency of the service.

The provider of HRM service chosen by Lowara is “HRO”, a Milanese company, which is part of the larger OSP “Gruppo Byte”.

Selection was carried out based on the following criteria: reputation, price of service. And supply of accessory services. Accessory services related to pay and contributions fall under these criteria.

The supplier’s willingness to absorb the excess staff was also instrumental in the choice: indeed HRO employed two of the three people who, due to the decision to outsource, had to leave the personnel office in Lowara. The third worker was transferred to the firm’s administration office.

The first contract had a duration of 3 years, provided for the leave of premises in Lowara’s open space and consideration of a fixed price, within definite tolerance bands.

The services offered by the HRO are supplied by means of a virtual platform through which two firms- the client and the supplier- exchange data from their own information systems. This mechanism does not require the physical presence of the supplier, however, at the beginning of the relationship with HRO, Lowara asked the provider to be present in the firm, giving it a part of the open space, also in order to supply several accessory services considered very important for Lowara’s employees (help desk, legislation advice).

In order to monitor the relationship with the provider, the contract also lists the performance indicators and performance levels expected by Lowaras. The presence of these elements makes the contract between Lowara and the HRO a service level agreement.

According to Lowara, outsourcing has entailed costs that were not entirely anticipated during the decision phase linked to the management of expectations encountered until the sysmten was made operative after the first year.