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The management model for human-resource outsourcing among service companies

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Abstract

Despite the growth of human-resource outsourcing in both the manufacturing and service sectors, it has been very complicated to measure this until now. Among scholars, outsourcing began to be analysed in the manufacturing sector when certain functions were transferred to subcontractors. In practice, outsourcing is related to tactical, strategic and restructuring issues. This article highlights the advantages of outsourcing human resources and examines outsourcing models, based on that there is derived human resource outsourcing management model and tested among service companies.

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1. Introduction

There is a discussion between scientists about when outsourcing began. According to Corbett (2004), although the outsourcing phenomenon appeared in the US in about 1970, the date is not scientifically fixed. Amiti and Wei (2004) noticed that outsourcing was mentioned for the first time in the context of the car industry in 1979, in the *Journal of the Royal Society of Arts*, Vol. CXXVII, 141/1. The article cited the decisions of representatives from the British car industry to outsource some activities to German specialists. Blumberg (1998) contends that outsourcing came from the IT sector in 1980. Gerbl et al. (2009) discussed its origins, concluding that there was outsourcing in the manufacturing and service industries. The former arose in the industry sector, when manufacturers started to outsource some activities to subcontractors. Service outsourcing occurred later, beginning with specialised legal activities and then followed by the outsourcing of IT services. Bakanauskienė and Brasaitė (2011) note that there is more than a decade of literature by management scholars that has analysed the process, under which certain management functions, activities and processes previously carried out inside an organisation are outsourced to external companies.

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One type of this activity is human-resource outsourcing (HRO). Although this has been used by organisations for about 50 years, its practical application is growing all the time. Brown and Wilson (2005) argue that outsourcing can be divided into three levels that can also be applied by organisations in practice – namely, tactical, strategic and transformational levels. Authors explore outsourcing from different points of view. Blumberg (1998), McIvor (2000) and Francheschini et al. (2003) developed decision-making models for outsourcing, some of which apply universally (Francheschini et al., 2003, McIvor, 2000) and others only to specific areas such as service companies (Blumberg, 1998). Researchers have pointed to different drivers for outsourcing, with Zhu, Hsu, and Lillie (2001) highlighting changes in the market, Edgell et al. (2008) describing the impact of economic cycles, and Espino-Rodriguez and Padron-Robaina (2005) discussing the key factors for service companies. Authors (including Arias-Aranda et al., 2011; Bakanauskienė and Brasaitė, 2011; McIvor, 2000; Blumberg, 1998) highlight the strengths and weaknesses of outsourcing for organisations. Problems with evaluating outsourcing are explored by Horgos (2007), Rajan and Srivastava (2007), and Amiti and Wei (2004). However, outsourcing and HRO in the service sector are weakly analysed. Assessing the diversity of the sector and an increase in the number of service companies in the world presents a scientific problem: how does the outsourcing of human resources work and how can it be managed in service companies?

Research objective: reveal human resources outsourcing management problems around service companies and develop HRO management model also test it around service companies.

2. Human-resource outsourcing in the service sector

Alongside the growth of outsourcing, it has become more difficult to cover a larger number and wider variety of services. Because of this and uncertainties involved in outsourcing, different theoretical and practical problems are usually covered in studies. The first aspect that should be mentioned involves classification issues. Although attempts at classification have been made, researchers admit that there is not a method for doing this that could encompass all outsourcing activities. Based on Gerbl et al. (2009), Ok (2011), and NACE's 2008 classification, outsourcing could be grouped into service and manufacturing types. Secondly, there has so far been no common method for measuring outsourcing. Amiti and Wei (2004) believe this is difficult to measure because there is a lack of information on the stage of production at which outsourcing has been used. Because of this, research should rely only on indirect indicators. Rajan and Srivastava (2007) also point out the complexity of measuring outsourcing because there is no detailed and internationally harmonised information. Horgos (2007) states that in recent years a whole set of indicators has been created in an attempt to measure international outsourcing. However, all of these have limitations.

Although outsourcing is hardly defined and measured at a macro level, certain patterns that shape assumptions can be seen in research conducted at a micro level. From a managerial point of view, Lankford and Parsa (1999) identified the operational and strategic levels of outsourcing. At an operational level, organisations are used to solving short-term problems, whereas at a strategic level they expect to gain long-term benefits from outsourcing and maximise their capabilities. Brown and Wilson (2005) claim that outsourcing can be divided into three levels: tactical, strategic and transformational. At a tactical level, an organisation may already have certain problems that it needs to solve – for example, a lack of funds, incompetent management, a lack of specialists or the need to reduce personnel. In such cases, outsourcing is a possible solution. At a strategic level, the goal is to create long-term value (Ghodeswar & Vaidyanath, 2008). With respect to this, long-term contracts may be awarded to reliable outsourcing service providers. In this way, an organisation can outsource non-core activities to the service company and then dedicate resources to core focuses. Transformational outsourcing is used when an organisation is restructuring. Brown and Wilson (2005) point out that it can be necessary for a company to restructure to gain a leading position in the market. Restructuring with the use of outsourcing enables an organisation to benefit from the experience of professionals (outsourcing companies) that specialise in a particular area and in the provision of outsourcing services.

Although it is believed that outsourcing arose from the IT sector, according to Blumberg (1998), any activity can become the subject of this practice. Outsourcing covers many types of activity, which the literature tends to analyse in three groups: information technology, business processes, and manufacturing. The outsourcing of business processes covers certain activities that were previously carried out within the company being taken on by an external company. Halvey and Murphy Melby (2007) identify seven activities in this area. According to the authors, these cover all tasks that can be attributed to this type of outsourcing, namely:

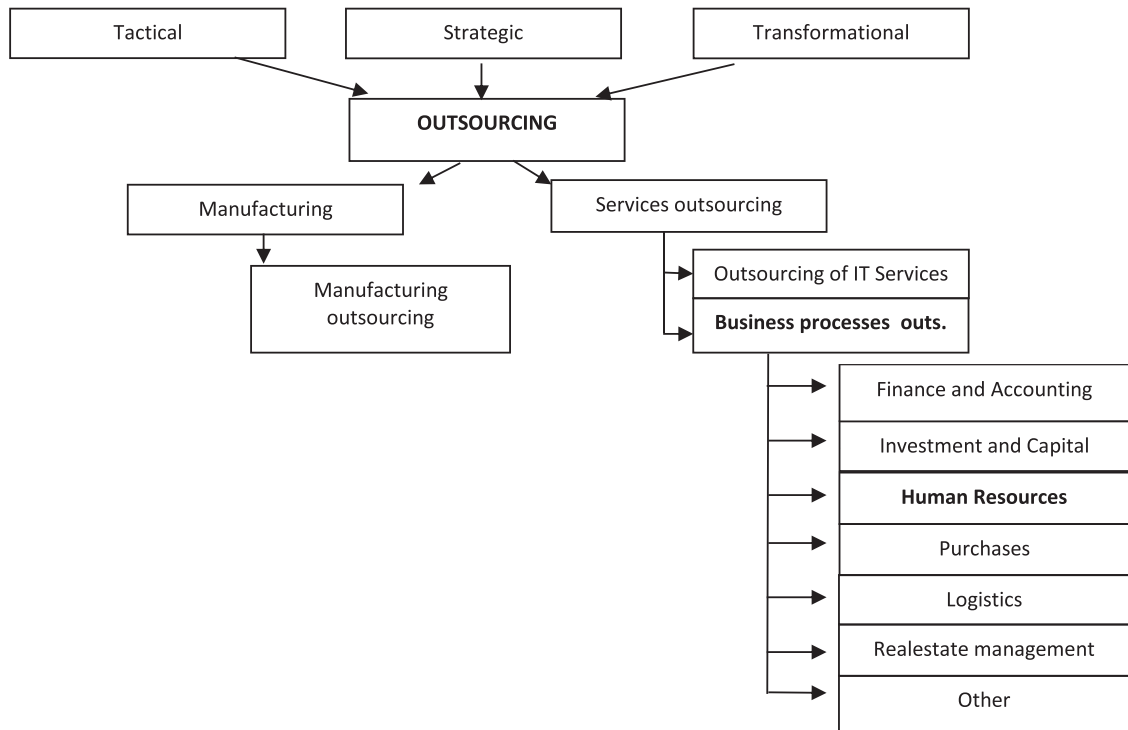1 Finance and accounting;
2 Investment and capital management;

Fig. 1. Outsourcing levels and types of activity. *Source:* Prepared by the authors.

3 Human resources;
4 Purchases;
5 Logistics;
6 Real-estate management;
7 Other areas (such as energy services, customer-management services, e-mail delivery, and food supplies).

According to the research, various types and levels of manufacturing and service outsourcing can be highlighted (see Fig. 1).

As shown in Fig. 1, human-resource outsourcing (HRO) occurs in the business-services process. In addition, HRO can be meaningful to all participants in the service sector at any organisational level (tactical, strategic or transformational).

In order to analyse service outsourcing, it should first be defined what services are and how they contrast with goods. Langvinienė and Žitkienė (2011) contend that they differ through properties such as intangibility, heterogeneity, the unity of production and consumption, customer participation, and the fact that you cannot accumulate and store them.

But in practice, the separation between goods and services has been found to be more complex. Firstly, some services may be tangible (such as when a consultant prints out a report), visible (such as a theatre production) or stored (as with voicemail). Secondly, most products are designed to perform a service or function. Thirdly, most goods include indirect participation in services, and most services involve tangible assets and intermediate goods. Goods and services are also often provided together (UNCTAD, 2004).

Services are usually produced at the same place and time they are consumed. However, innovations in information and communication in recent decades have created opportunities to produce and consume services in different places, influencing the growth of trade in services and outsourcing.

Bardhan and Kroll (2003) identify a number of conditions needed for the outsourcing of services:

• no requirement for face-to-face servicing;
• a high level of High information content;
• work processes that are telecommutable and Internet-enabled;
• high wage differentials with similar occupations in the destination country;
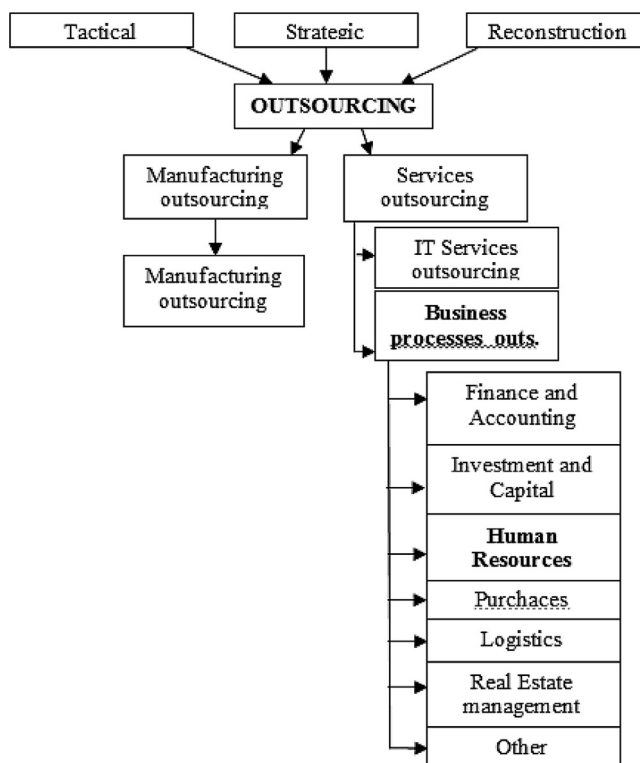
Fig. 1. Continued

• low barriers to setting up;
• low social-networking requirements.

However, it can be noted that these conditions are not only close to those involved in service outsourcing, but exist in the services industry in general. Nevertheless, restrictions that operate with regard to service outsourcing make it more exclusive, and not all services may be the subject of outsourcing (Stare & Rubalcaba, 2009). UNCTAD (2004) refers to a number of limitations. There are, for example, technological limitations, with many services unable to be digitised and separated from related activities. Face-to-face interaction is still required at many points in the value chain for the development, marketing, delivery and maintenance of a variety of services. Proximity to customers is often important for gaining market knowledge, and some processes are hard to manage cross-nationally: for example, creative and innovative processes usually require close interaction and are therefore difficult to separate and outsource. In some cases, a local presence is critical for understanding technical requirements such as healthcare regulations or legal codes. In others, information that needs to be processed may be personal, idiosyncratic, sensitive or confidential, increasing the transaction costs involved and thus limiting the desirability of outsourcing. Some countries require particular services to be provided by locally established companies. Other legal factors that may limit the globalisation of IT-enabled services relate to areas in which the marketplace is global, but the legal jurisdiction is local. Professional qualifications are one such example. Whereas certain accounting activities can be outsourced, a final stamp of approval may be needed from a certified accountant in the home country. The lack of globally agreed privacy rules may similarly limit the globalisation of IT-enabled services. In the United States and the European Union (EU), data-security issues have emerged as potential barriers to further outsourcing. Legal restrictions in a few developed countries on the outsourcing of services to protect jobs domestically may also have a dampening effect on the trend.

The development of information technology has therefore caused service outsourcing to accelerate and despite the existing imitations, the volume of services being outsourced is increasing.

One of the most important resources in the company is the human resource. In these times of technology innovation, no organisation could get by without people who could operate those technologies and processes.

Organisational success depends on the employees who work for the business, so it is important that it has the right people with the qualifications and skills needed for processes to be carried out as efficiently as possible.

Human-resource outsourcing, as a part of business-process outsourcing, includes all activities related to human resources, starting with hiring and ending with the payroll and other benefits (Halvey & Murphy Melby, 2007). In the opinion of Bakanauskienė and Brasaitė (2011), HRO can be complete or partial. Under full HRO, responsibility for all HR functions is transferred to a group of people outside the organisation – leading to a comprehensive and fully fledged succession. Partial outsourcing can occur in two ways: one or a few HR management activities can be permanently outsourced – as with complete outsourcing, but for a limited number of functions; or single HR management activities or parts of them can be outsourced for a short period of time for one-off external operation. This means that the company can decide whether to manage its human resources itself or transmit them to the external entity. The organisation also decides how much to participate in the management of delegated activities.

Analysing research on human-resource outsourcing reveals benefits that a company gains through such activity. These expected benefits provide direct motives to encourage the use of HRO, which enables companies to save time and money.

Hewitt Associates conducted research in 2009 in which 65% of participating companies stated that their main reason for using HRO was to reduce costs, which they managed to achieve. Costs fall when a company transfers human-resource management, and motivational and job-retention activities to an HR service supplier. After delegating such tasks to an external organisation, the company can concentrate on its core activities, eliminate unused resources and increase competitiveness. HRO can also reduce the risk of recruiting an unsuitable employee. HR-outsourcing businesses are experts in this area, using the latest technology for recruitment, selection and training. Employees managed using the latest technology who work temporarily at various companies bring considerable experience and innovative ideas generated by working in different places. It also becomes possible for a company to transform flexible costs (in terms of staff) into fixed costs. This means that organisations take an innovative approach to human-resource management.

From the perspective of service companies, Arias-Aranda et al. (2011), Espino-Rodriguez and Padron-Robaina (2005), Rahim and Baldry (2010), Sani et al. (2013) and others state that companies should use outsourcing for non-core activities. In the hotel business, these are considered to be cleaning operations for rooms and other premises, laundry services, security and environmental maintenance (Espino-Rodriguez & Padron-Robaina, 2005; Sani et al., 2013), and in the healthcare sector cleaning activities, protection, catering and the maintenance of medical equipment (Rahim & Baldry, 2010). As can be seen from the activities stated, the outsourcing of human resources plays an important part in service sector. Espino-Rodriguez and Padron-Robaina (2005) argue that new technologies, evolving consumer culture, fierce competition and a constantly changing environment encourage hotels to reduce the extent of their vertical integration and focus on their core business. Human-resource outsourcing enables this to be carried out easily and efficiently.

3. Management model for human-resource outsourcing

Human-resource outsourcing is an innovative management strategy that focuses on all areas relating to human resources and their management. It can have both a negative and positive influence on a company. But despite existing gaps and assessing the benefits, the use of human-resource outsourcing is increasing. It is therefore important to manage this activity properly, especially among service companies, for which the human factor is highly relevant. Researchers have produced models for different groups of services: IT outsourcing (Robinson & Kalakota, 2004), logistics outsourcing (De Boer, Gaytan, & Arroyo, 2006) human-resource outsourcing (Lilly et al., 2005), business-processes outsourcing (Kim & Won, 2007), and others. Models can have a theoretical or practical nature and can be based on various approaches, including strategic management (Blumberg, 1998) and supply-chain management (De Boer et al., 2006).

Blumberg (1998) highlights, that an analysis of a company's activities should be based on the end-user point of view. If the consumer thinks that such actions are exceptional and important for the product, then the company should implement it. McIvor (2000) says that activities should be viewed through an added-value and competitive-advantage prism. Francheschini et al. (2003) state that key activities should be distinguished compared with those of competitors, and there should be highlighted possibility that money can be wasted, or accure lack of skills. Unlike research mentioned above, Francheschini et al. (2003) stress the importance of human-resource management in the model. Both

Table 1
Comparison of outsourcing models.

	Francheschini et al. (2003)	McIvor (2000)	Blumberg (1998)
The main features	Based on the customer's point of view	Formation of effective outsourcing decisions	Based on the end-user point of view of the service
Main focuses	Outsourcing; implementation; process management	Costs and operational efficiency	Determination of the main business activities and methods to change them
Application area of the model	Universal	Universal/ production	Services

Source: Prepared by the authors.

Blumberg (1998) and Francheschini et al. (2003) note that in making a decision with respect to outsourcing, it is necessary to analyse the company's internal and external environments. However, others do not agree with the authors' definition of the external environment H. According to Blumberg's s external environment consists of factors such as the market and competition, while Francheschini et al. mentioned that this is analysis of service providers.

As De Boer et al. (2006) contend, many of the models consist of a limited number of stages and there are certain recurring aspects: core competencies and strategy, cost estimations, suppliers and competitor analysis. Analysing the models of Blumberg (1998), McIvor (2000) and Francheschini et al. (2003), their features and application options were compared (see Table 1).

In all three models, similar management functions and processes can be seen: identify core and non-core company activities; decide which activities will be outsourced; analyse potential service providers and make contact with them; enter into a contract; control outsourcing.

The authors emphasise that following the identification of core and non-core activities and assessing their performance at the company, non-core activities should be given to an external supplier. This requires analysis to reveal whether company employees or external providers can better perform an activity's main tasks. It is then necessary to analyse the providers in the market and possible methods of cooperation. All authors point out that there are many ways to cooperate with external suppliers. The final step is to conclude a contract and monitor the execution of processes.

The outsourcing of human resources is a complex process that requires thorough study. The mere decision to use HRO is an HR management tool. Based on analysis of the literature, a management model for the outsourcing of human resources was composed.

The model consists of three stages: planning and analysis, decision-making, and management. In the planning and analysis phase, it is necessary to consider all the benefits of this activity and what the organisation expects to achieve. Reasons for HRO can continuously vary because of a changing internal and external environment. Decision-making involves the implementation of certain steps that can help to find the optimal solution.

Based on the research of De Boer et al. (2006), in the decision-making stage, generic decision-making steps are adopted that have been discerned in the analysis of outsourcing models. These should be the same regardless of the type of organisation or its activities. It is important to analyse the company's activities with regard to human resources. However, when there is made outsourcing decision into service enterprises, it is recommended that the opinion of researchers is relied on, such as Arias-Aranda et al. (2011), Espino-Rodriguez and Padron-Robaina (2005), Sani et al. (2013), and Rahim and Baldry (2010), who emphasise that companies should use outsourcing for non-core activities.

In the third stage, it is important to monitor human-resource outsourcing. Depending on the factors that have led to this type of outsourcing, evaluation criteria and management can vary and change in the organisation, depending on factors such as time, cost, efficiency and flexibility. Organisations need to examine whether they have achieved an expected benefit, otherwise earlier stages should be reviewed and new decisions made. This stage is influenced by earlier phases and only the specifics of each company determine which indicators will be used and how HRO will be assessed and managed (Fig. 2).

4. Research methodology

To examine the theoretical provisions, the HRO model developed and the HRO situation in Lithuania, empirical research was conducted among service companies in Lithuania. A quantitative study was chosen to implement the aims of this research, with a pilot survey used. The main task of the pilot study was to find ideas and directions for

1st STAGE: PLANNING/ANALYSIS

Factors encouraging HRO
Saving money; Saving time; Seasonal fluctuations in demand for workers; Risk reduction; Maximising efficiency; Demand for external experience; Improvements in quality; Concentration on core activities; Flexibility; Possibility of manoeuvring employees; Reduction of administrative burdens.

Factors discouraging HRO
Loss of control; Loss of skills; Poor quality of services; Leaks; Deterioration in quality; Higher-than-expected costs.

2nd STAGE: DECISION-MAKING

HRO decision-making

1.   Assess the company's activities related to HR

Core   Non-core

2.   HRO functions
Selection; Recruitment and dismissal; Temporary employment; Training; Safe conditions for health and care; Creation and implementation of work rules; Other

Complete   Partial

3.   Cost analysis

Running within company   HRO

4.   Possible HRO provider analysis

Acceptable   Not acceptable

Contract

3rd STAGE: MANAGEMENT

Human-resources outsourcing performance monitoring and evaluation

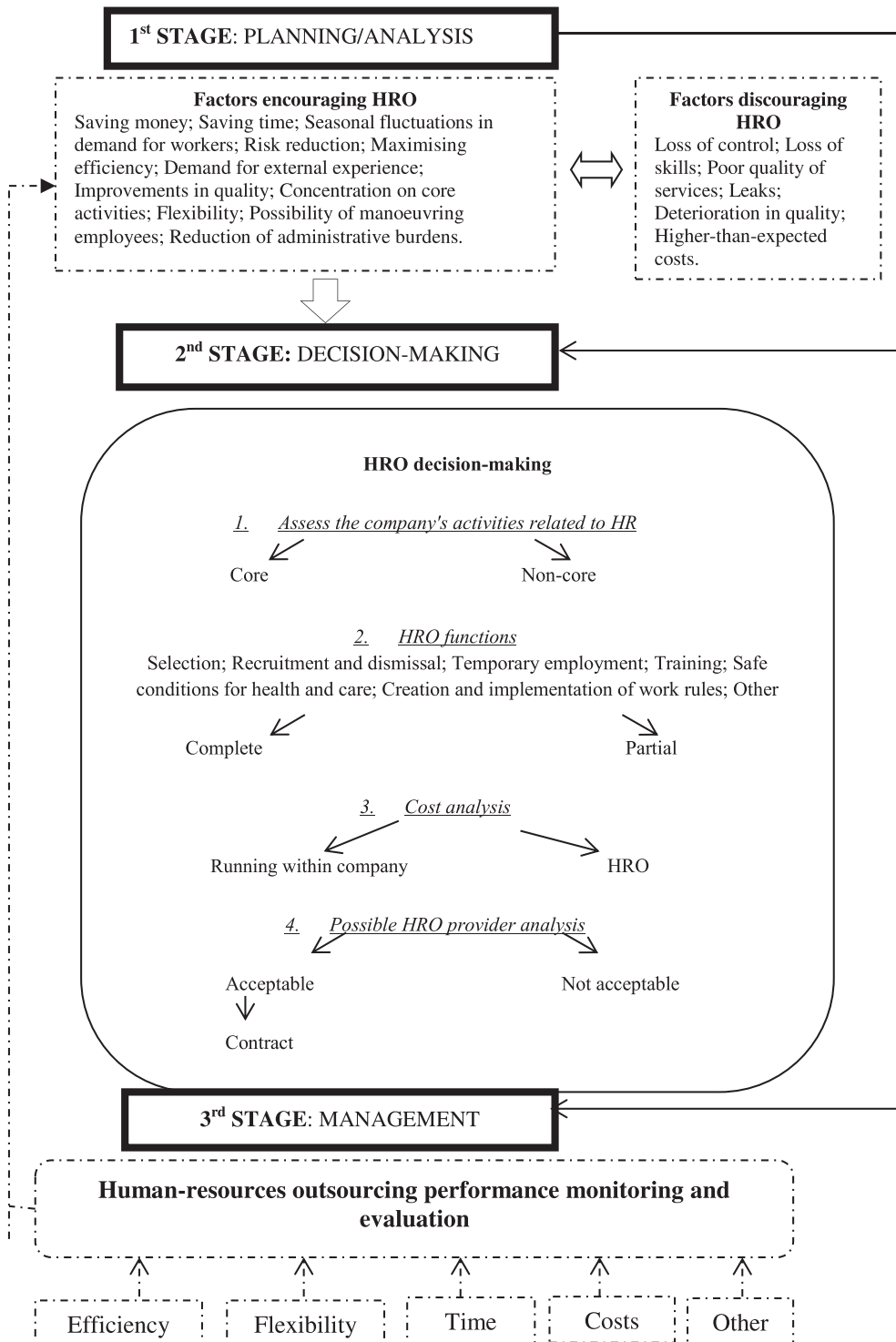Efficiency   Flexibility   Time   Costs   Other

Fig. 2. Theoretical model for HRO management.

further investigation. A survey method was chosen for the data collection. Depending on the chosen research method, an anonymous questionnaire was used for this data collection. Questions in surveys can be open and closed in nature. From a data-analysis point of view, closed questions are more practical and were used in the questionnaire for this research. Closed questions with alternative answers, multiple-choice questions and questions that involved ranking different elements numerically were formulated, with a total of seven questions selected.

The research took place in October 2013 in the city of Vilnius, which was chosen because it is where most service companies in Lithuania are located. The questionnaire was e-mailed to general managers of service companies, with e-mail addresses collected using the catalogue of business entities (www.info.lt), selecting the filters: "City of Vilnius", "Service companies" and "Has e-mail". A total of 1607 e-mail addresses were collected, constituting: 107 hotels, 279 tourism-service companies, 176 internet-service companies, 81 cleaning-service companies, 168 entertainment and leisure companies, 150 restaurants, 54 logistics companies, 59 information-services companies, 170 communications- and telecommunications-service companies, 712 business-advisory-services companies. Of these, 337 could not be delivered. Of the 1270 questionnaires successfully sent, 112 were returned completed – giving a return rate of 8.8%.

5. Research findings

Summarising the results of research, it can be stated that human-resource outsourcing using one-third of surveyed companies. Bearing in mind that the respondents were service companies, almost half of those who said they used HRO said they used it to carry out non-core activities (46.3%). However, it was also found that a significant proportion of respondents (24.4%) used HRO for core activities.

Checking the practical suitability of the first phase of the model, the study showed that reasons for using HRO are very broad. This variation can be explained by the different companies that participated in the research and their specific activities. However, the most common reason was identified as saving time, in contrast with the cost savings cited in the literature.

When analysing the data, it was also observed that, although the model can be universally applied to all service companies, reliable data are available only by allocating data by service, company, activity and field. Respondents were therefore divided into three groups, depending on the focus of their activities: group I, comprising hotels, restaurants, tourism and leisure organisations; group II, comprising construction, transportation and storage services; and group III, comprising computers and IT-related activities.

With regard to the second stage of the model - decision-making - was examined only in the first two (access business activities related to HR and chosen HR functions) elements of the four. Respondents noted the use of HRO for non-core activities. However, after grouping respondents according to their activities, it was determined that company specifics influence whether HRO is used for core or non-core activities. Businesses that typically communicate a lot with clients face-to-face, such as hotels, restaurants, tourism providers and recreation organisers, often apply HRO to non-core activities. Meanwhile, computer and IT-related service companies use HRO for core activities. The assumption in scholarly theory that HRO among service companies should be used for non-core activities is not appropriate in all cases.

Grouping service companies revealed that the type of activity also determined the choice of HRO functions. For example; 80% of hotels surveyed, 100% of leisure organisers and 33% of restaurants used temporary work services that could be related to the seasonal nature of their activities; and 57% of those that carried out computer and IT-related activities, and 60% of hotels used recruitment and selection services. Many reasons can be found for this situation, such as a lack of employees. But it can also be influenced by a finding already mentioned in this study – a lack of time. Meanwhile, 50% of transportation and storage companies, and 75% of construction-services companies surveyed outsourced health and safety, and implementation functions. These statistics may be affected by the risk in the field of activity. The second stage of the model can therefore be applied in practice, but decision-making is affected by the service company's activities and nature.

The first two stages of the HRO management model create predictions for the third stage – management. Depending on the reasons that have led to the choice of HRO and the selected functions, each organisation individually set HRO management tools. If HRO leads to time savings, the main assessment indicator should be time. The third phase of the model should be made and applied to a particular firm.

6. Conclusion

Human-resource outsourcing is becoming more and more popular among organisations. This activity is particularly relevant for service companies because of the vital human factor in such organisations. According to researchers, given the importance of quality for service companies and their need to concentrate on their core activities, HRO enables non-core activities to be referred to service providers, thereby improving operational efficiency.

HRO can be applied at several levels – namely the tactical, strategic and transformational levels. But no matter what level HRO is used at, the process must be carefully planned and continuously managed. Many outsourcing models have been formed. Based on an analysis, an HRO management model has been identified among service companies that consists of three stages.

The study revealed that the model can be applied in practice and help to assess the implementation and management stages of outsourcing. However, it also became clear that the model does not reflect the trends of all companies in the service sector. The results become meaningful only by analysing interrelated enterprises in a service field and putting them in certain groups. The first two stages of the HRO management model make assumptions about the third stage – management. Depending on the reasons that led to the choice of HRO and the selected functions, each organisation individually set management tools.

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