



Strategic Management of the Benefits and Challenges of HR Outsourcing in Effective Organizational Management

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Abstract

The stiff competition and ever changing business environment has brought with them a plethora of challenges for organizational managers. Different programmes are often designed to overcome these challenges and enhance performance. Outsourcing has become an increasingly dominant preference for organizations seeking to focus on core competences, reduce operating costs and enhance service deliveries. Outsourcing generally is considered an important factor in today's businesses and has become the fastest growing business process outsourcing services in many countries in recent years. The growth of outsourcing as a management tool is evidenced on the premises where various organisations outsource within and across borders. This study therefore outlines the strategic management of the benefits and challenges of this often controversial tool in meeting organisational needs. While the findings of this study revealed cost and time savings, among others, as some of the key reasons for outsourcing, the challenges weighed heavily on the loss of expertise and inability of business organizations to muster any form of business secrets and often lead to low morale on the part of organisational employees.

Keywords: *Outsourcing, Human Resource, Benefits, Challenges, Organizational management*

1.0 Introduction

Outsourcing has become a growing trend in the 21st century. It is the strategy of companies to concentrate more and more on their core competencies and key businesses. One definition of outsourcing is that it is a contractual relationship between an external vendor and an enterprise in which the vendor assumes responsibility for one or more business functions of the enterprise Boxall and Steeneveld, (1999); this means that these companies have sought different partners to take care of their support functions. Today, every organization aims at increasing productivity by enhancing return on investments and achieving economies of scale. The general consensus is that

organisations should focus only on their core competencies and outsource non-critical business activities. Therefore, routine administrative works, although important, can be outsourced to third party vendors. The idea of outsourcing according to Fill and Visser, (2000) has its roots in the competitive advantage theory propagated by Adam Smith in his book *'The Wealth of Nations'* which was published in 1776. Over the years, the meaning of the term *'outsourcing'* has undergone a sea-change. Kotabe & Murray, (2001) stressed that what started off as the shifting of manufacturing to countries providing cheap labour during the industrial revolution, has taken on a new connotation in today's scenario. Barthelemy, (2003) observes "the idea of contracting-out as a means for improving public administration dates back to the 1850s". The author also noted that there was a clear increase in outsourcing between 1987 and 1995, since then, there has been a boom in outsourcing. Klaas, (2003), also observed that third party involvement in IT can be traced back to the 1960s in the USA, the landmark event that brought IT outsourcing to the attention of the business world was Eastman Kodak's decision to outsource its IT to an IBM subsidiary in 1989. Other companies soon followed, including Continental, Enron, American Standard, National Car Rental, and Copperweld. By the early 1990s, IT outsourcing cases were being reported in journals such as the *Harvard Business Review*. This study examines from strategic management point, the benefits and challenges of outsourcing of human resource in effective organizational management.

2.0 Review of related literature

The history of outsourcing dates back to the industrial development that began in the late 17th century. For instance, the making of America's covered wagon covers and clipper ships' sails was a job outsourced to workers in Scotland, with raw material imported from India. England's textile industry became so efficient in the 1830s that eventually Indian manufacturers couldn't compete, and that work was outsourced to England, (Benson and Leronimo (1996). Wasner, (1999), states that the ancient Chinese and the Japanese empires were also adept at outsourcing to their conquered nations. But looking at recent times, in the USA many computer companies used to outsource their payroll processing in the 1970s and 1980s. Learning that outsourcing existed since the early days of our civilization, one may wonder why no one talked about it, twenty years back and the reason for the hues and cries about it now? Alexander and Young, (1996) stressed that the reason outsourcing stayed out of the news was because it used to happen on a small scale and was concentrated in some specific regions, like the USA and Europe. But now outsourcing is billions of pounds a year industry and the world cannot afford to ignore it. Globalization, explosive growth of internet, and the development of information society in every region of the world has made outsourcing an integral part of the world economy. Bajpai, Sachs, Arora, and Khurana, (2004), stated that the origin of outsourcing could be related to exporting of the valuable goods from developing countries to US and European countries. China, India and most Asiatic countries, for instance, are becoming hubs for most outsourcing businesses. Particularly, China and India have proven records for their innovations in almost all sectors, whether it is painting, craft or other technological domains. The last few years have witnessed a lot of activities in patent filing and patent lawsuits. These results in huge need for the various patents related services. This leads to the generation on Knowledge Outsourcing concept. Most of them acquire their patent works from top industries in US, Europe and Japan. And most of the firms have gained reputation, from their unique service qualities. Thus, the core to this business is innovation, new tools and techniques for the delivery of quality work at competitive costs. Bajpai, et al., (2004), further stressed that the evolution of these capsules of energy, in corporate terms "The Outsource centres" has broken a very stupendous ritual of Chinese and Indian work

cultures which was the ancient day light shift system. Men and women of these vast lands were fed on the principles of “Work Only When the Sun is up and shining, because the nights are not meant for working”. However, as a rule of demography, the West wakes up when the East goes to sleep. So, the Indian Mard (Man in Hindi) and the Bharatiya Nari (the typical Indian woman) have now been exposed to working round the solar clock; in other terms, catapulting the Indian work group to the norms of world business.

Lawler, Ulrich, Fitz-enz, and Madden, (2005), in support of this assertion, states that, it was not long ago that the concept of Business - Across - the - Seas was a distant dream, in fact an impossible feat to imagine. But the technical advancements of the West and the remarkable ideas of technology have rendered these realistic yet astonishing business transactions feasible. In furtherance of this, the authors stated, “How else would you like to describe “A zappy New York corporate head, seated at 309, Lake St., Penn Yan, NY - 14527 in the busiest of corporate blocks in “The Big Apple”, calling in to order for a Pizza for lunch, to be answered by an ardent order taker situated at a call centre in New Delhi, India, who ensures that the Pizza is delivered in a remarkable service time, with extreme accuracy to the point that the number of Jalapeños in the Pizza ordered are accurate to ensure the customer’s delight”. That is the advent of technology that has scaled remarkable heights. This seems quite simple, but as the experts would tell you “*It Is Not as Simple as It Seems*”. They authors further stated that, ‘if you would ever want to know how effective the origin of outsourcing fundamentals has been in the Indian Market, you do not have to hold a conference of the top heads of the leading organizations in the market. Rather, walk up to an entry level representative in a call centre, and he or she would explain to you how happy they are talking to the Smith’s and the Spencer’s of Virginia and Florida. The smile on the faces of these mighty warriors would explain the success of Outsourcing on the Indian soil’’. Cook, (1999), in his submission observed that the origin of outsourcing in America dates back to the 1970’s when IBM developed the IT industry in India. Later, the Internet and telecommunications boom encouraged outsourcing as a means of promoting capitalism.

2.1 Overview of the meanings of outsourcing

Organisations are constantly in search of new solutions and strategies to develop and increase their competitive advantage; outsourcing is one of these strategies that can lead to greater competitiveness, (Kotabe, and Murray, (2001). Hindle (2005), defined outsourcing as a management strategy by which an organization delegates major, non-core functions to specialized and efficient service providers. Koch, (2004), states that it can also be described as the contractual agreement between the customer and one or more suppliers to provide services or processes that the customer is currently providing internally. Morton and Wilson, (2003), viewed outsourcing as having works that was formerly done inside the organization performed by an external organization. The vendor (hereafter the outsourcer and outsourcee are, respectively, referred to as vendor and client) may be an independent entity or a wholly owned subsidiary. Klaas, (2003), in his submission, defined outsourcing as “reliance on external sources for manufacturing components and other value-adding activities”. Gray, (2002) focused on employment, defining outsourcing as, “another firm's employees carrying out tasks previously performed by one's own employees”. Dyer, Kale, & Singh, (2001), also, viewed outsourcing as turning over to a supplier those activities outside the organization's chosen core competencies.

Campbell, (1995), briefly described outsourcing as a “managed process of transferring activities to be performed by others” and its main advantage is conceptually based on two strategic pillars

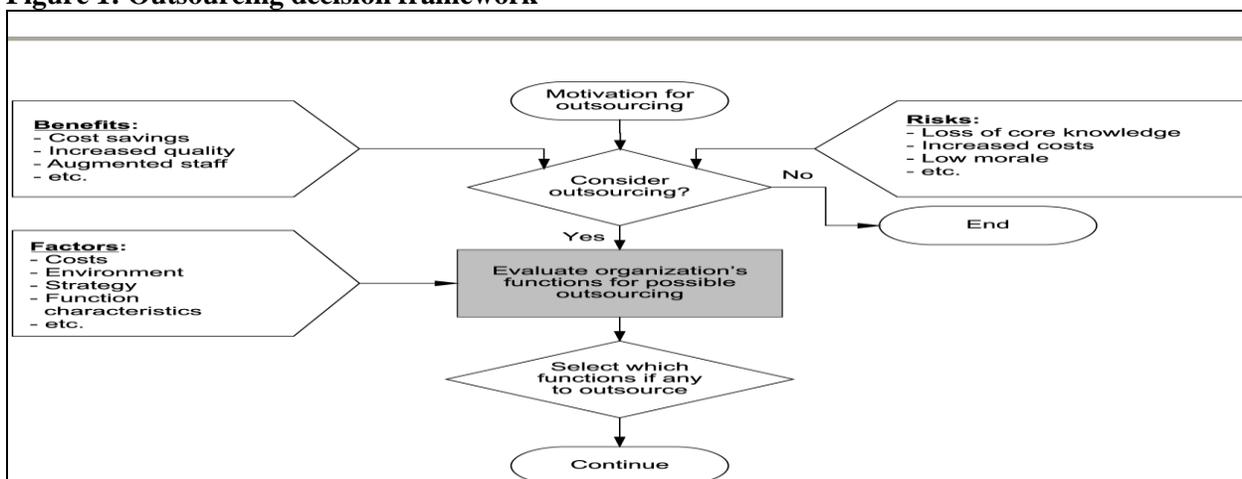
- the use of domestic resources mainly for the core competencies of the company; and
- the outsourcing of all other (support) activities that are not considered strategic necessities and/or whenever the company does not possess the adequate competencies and skills.

Alexander and Young, (1996), observed that the single biggest cause in the increase of outsourcing has been the concept of the core organisations which focuses its in-house expertise on its primary functions and purchases any necessary support from a range of sources in its periphery. But Fill and Visser, (2000), warned that it can be dangerous to focus too narrowly on a single, isolated process when making an outsourcing decision. In supporting this assertion, Barthelemy and Adsit (2003), suggested that such choices should be made only after four questions have been answered:

- What will be the net gain or loss in efficiency and cost-effectiveness of using outsourcing?
- What will be the net gain or loss in performance quality of using outsourcing?
- What will be the net effect on the strength, versatility and resourcefulness of the treasury department if the duties in question are outsourced?
- What dependence on a third party will be created by outsourcing, and how vulnerable would the organization be if that third party somehow became unable to perform as expected?

Harper, (2001), pointed out that outsourcing can free up assets and reduce costs in the immediate financial period. While Newman and Willmott (2004) stressed that organisations outsourcing parts of their in-house operations report significant savings on operational and capital costs. Hindle (2005) in his study found a correlation between outsourcing best practice and high performing companies. This is explained by Transaction Cost Economics (TCE) – the underpinning for make-or-buy decisions, (Perry, 1997).

Figure 1: Outsourcing decision framework



Source: Wasner, R. (1999), "The outsourcing process – strategic and operational realities", Linköping University, Linköping

Perry, (1997) further states that in Transaction Cost Economics, the boundaries of the firm (i.e. whether products and services are bought or provided in-house) are determined by the most cost-effective option. This includes “the uncertainty associated with executing the transaction and the uniqueness or specificity of the assets associated with the goods or services transacted”. Hindle (2005) also observed that outsourcing might seem to be a simple cost reduction option, but there are challenges to getting it right. Knowing what benefits to expect in the first instance and setting measurable performance indicators for both the client and the outsourcer are important starting points. Incorporating the critical success factors described above:

- finding a supplier with the right cultural fit,
- defining the contract precisely,
- obtaining senior management buy-in,
- clarifying roles and educating employees, and
- installing a layered governance structure

All these will help increase the odds of having a successful HR outsourcing relationship. Ward, Grimshaw, Rubery, Beynon, (2001) asserts that one way of evaluating whether the outsourcing contract can create or protect firm value is to assess the capital market's reaction to the outsourcing decision. Kotabe and Murray (2001) argue that many UK work organisations are losing the ability to plan coherent human resources policies in the face of external and internal problems, particularly competitive pressures and rapid technological change. The EU Directive on fixed-term contracts, requiring equality between contract staff and permanent workers may have led employers to substitute temporary agency workers for directly hired temporary staff, (Gray, 2002). Furthermore, Gilley and Rasheed (2000) provide clarification for the definitional confusion; positioning outsourcing as procuring something that was either originally sourced internally (i.e. vertical disintegration) or could have been sourced internally notwithstanding the decision to go outside (i.e. make or buy). This includes arrangements and concepts which have been termed: – internal versus external sourcing, or as stated by Axelsson and Wynstra, (2002); strategic make-or-outsource decisions; contracting out, sub-contracting, purchasing, privatisation, Balogun, (2004) coined it as: compulsory competitive tendering, market testing and liberalisation. Adler, (2003), stressed that the decision-making process that management must undergo when considering outsourcing, hinges on a “make or buy” philosophy. More variables are brought into play when management considers outsourcing a product or service that is currently being produced internally. Many more options exist currently than there was even a decade ago.

2.2 Human Resource Management in Organizations

Charles Darwin once said: ‘It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change’. Therefore, human resource must also evolve and transform and outsourcing can be the tool towards accomplishing just that. There has been a paradigm shift in the past few decades regarding the perception of human resource within various organizations. It is no longer only a backend or an administrative activity and human resource managers are no longer confined to being mere paper-pushers for hiring and paying people. Klaas, (2003), states that human resource is shifting focus away from what it’s routinely traditionally handled-transactional and administrative activities and now taking on a more consultative and strategic role within organizations. In today’s business world, human resource is aligning itself with the larger business goals and strategies of organizations where they exist.

Many administrative and operations jobs in human resource are being outsourced in attempts to cut costs and increase efficiency. Klaas, (2003), further stated that apart from the cost benefits of outsourcing of human resource, another reason is also to reduce the administrative responsibilities of human resource so that it can focus on the strategic aspects. The primary role of the HR department is to ensure that the organization's human resources are utilized effectively and managed in compliance with company policies and procedures, government legislation, and, in unionized settings, collective agreement(s), Barthelemy (2003). To effectively utilize the HR department's assistance and services, all managers as a matter of policy, must be familiar with its roles. Human resource department staff members are involved in five distinct types of activities: formulating policies and procedures, offering advice, providing services, monitoring to ensure compliance, and serving as consultant and change agent, Hayes, (2000). According to Gilley and Rasheed (2000), managers at all levels must concern themselves with HRM functions since they all meet their goals through the efforts of others, which require the effective management of people. Every supervisor and manager has responsibilities related to a wide range of HRM activities. These include analyzing jobs, planning labour needs, selecting employees, orienting and training employees, managing compensation, communicating (which includes counselling and disciplining), and maintaining employee commitment. Furthermore, Hindle (2005), stressed that part of the managers responsibilities also includes ensuring fair treatment; appraising performance; ensuring employee health and safety; building and maintaining good employee/labour relations; handling complaints and grievances; and ensuring compliance with human rights, occupational health and safety, labour relations, and other legislation affecting the workplace. Esen (2004) stressed that regardless of the field of expertise, from accounting to production control, learning about employee rights, employer responsibilities, and effective HRM practices can provide managers with knowledge that will enable them to perform more effectively. Gray (2002) pointed out the other important tendency that made a strong case for HR outsourcing. He claims that it has become a wide-spread tendency of shift from the view of HR services as business own responsibility, to the stance that it can be purchased from external suppliers, outsourced. At the same time the excuse for resorting to this practice is "prove it cannot be subcontracted". This view was supported by Esen (2004) who agreed that after some HR entry-level services were outsourced, the firm's management were freed up to focus more on strategic HR issues such as internal-consulting skills, change-management skills and project-management skills, Bettis, Bradley, and Hamel, (1992) believed that these three functions were absolutely vital as they enhanced the skill capability of the HRD, management, and the organisation. These enhancements were believed to be influential to senior managements, aids the running of bigger projects and assisting senior management in changing the entire organization. Adler, (2003) contends that it is still hard to get away from the fact that human resource is typically run as a cost centre within a business, and as such is expected to provide a value-added service to the business. An almost unavoidable way forward, therefore, is to identify options for delivering those services for less – which probably means using an external service provider. Therefore, if outsourcing is an inevitable option, then it is very important to do it in a well-planned way, with clear goals in mind and ensuring that the change-management risks are well managed.

2.3 Benefits and challenges

Boxall and Steeneveld, (1999), divided the reasons for outsourcing into six categories: organizationally driven reasons, improvement-driven reasons, financially driven reasons, revenue-driven reasons, cost-driven reasons and employee-driven reasons. The benefits created

from outsourcing can be divided into the same categories as the reasons for outsourcing. Lawler, Ulrich, Fitz-enz & Madden, (2005), pointed out that the reasons and benefits of outsourcing are organisationally driven when a company needs to enhance its performance through organizational changes. The transformation process can be difficult, but outsourcing can be used as a tool to make it easier, (Boxall and Steeneveld, 1999).

Table 1: Benefits and Challenges of Outsourcing HR

| Benefits of HR Outsourcing HR Functions | Challenges of HR Outsourcing HR Functions |
|---|--|
| <ul style="list-style-type: none"> • To gain access to vendor technology • To avoid the cost of major investments in technology • To make up for the lack of in-house talent/expertise • To save money/reduce operating costs • To gain access to vendor talent/expertise • To streamline HR functions • To control legal risk/improve compliance • To offer services the organization could not otherwise provide • To reduce the number of HR staff and related staff expenses • To provide consistent/improved service delivery • To allow HR staff to focus more on strategy • To make up for a reduction in HR staff • To improve metrics/measurement | <ul style="list-style-type: none"> • Lack of prior outsourcing experience in general • Resistance from employees in general • Fears that customer service to employees might be affected • Fears that outsourcing might impact company culture • Fears about loss of control • Fears about loss of HR jobs/staff • Resistance within HR • Inability to understand what to look for in vendors • Resistance within senior management • Might not be able to locate the right vendors • Existing vendors might not be qualified |

Source: Scott-Jackson, W., Newham, T. and Gurney, M. (2005) HR outsourcing: the key decisions, Executive briefing, London: Chartered Institute of Personnel and Development

Organizational performance development can be carried out for example by focusing on a company's own core competence. When outsourcing non-core support functions, the management and the rest of the personnel can concentrate better on the core competence areas, (Ten Raa and Wolff, 2001). Also, if there is a need to increase the flexibility of a function to meet changing business conditions, a company does not have to worry about the capacity and resources for the function, while the outsourcing company takes care of the acquiring and downsizing the needed resources, (Roodhooft and Warlop, (1999). A company also has freedom of choice when taking on new or changing old outsourcing partners. However, the main objective of outsourcing is to develop the total performance of a company, to increase product and service value, customer satisfaction and shareholder value are qualities that create long-term success for a company, (Quinn, 1999). In many organizations the resources allocated for support functions are often limited. The changes carried out in a company are improvement-driven when

the acquiring and obtaining of a high level of operating performance in support functions is done through outsourcing. Also, a service provider usually has better knowledge and a better skills base for a certain function than a company's own personnel has. A company can benefit by improving the level of performance of its support functions by using an outside service provider's high-level resources dedicated only to one function, (Perry, 1997). Outsourcing directs some of the risk involved in operating a function to the service provider, (Jones and Pollitt, 2004). The service provider can also give fresh and innovative ideas to a company which might be blind to its own weaknesses and opportunities, (Klaas, 2003). Buying outsourcing from superior and world-known service providers can also improve the credibility and image of a company, (McIvor and McHugh, 2000). If a company is in need of instant cash, outsourcing allows it to sell assets for cash as part of a long-term service agreement, (Harper, 2001). When outsourcing is done in the hope of gaining new business opportunities, of accelerating expansion in operations, sales and production or just to exploit existing skills, it can be categorised as revenue-driven.

Outsourcing provides the opportunity for a company to become part of the service provider's network of other customers, suppliers and affiliated companies, (Bryce and Useem, 1998). When a company runs out of resources to deliver the required amount of products or services, building and acquiring the needed resources might take too much time or there might not be resources enough to make the necessary investments. Outsourcing also makes it possible for a company to share the service provider's capacity, advanced processes and systems when the company needs them, without waiting for a new production facility to be built, or makes possible an increase in production and sales without big investments, (Anderson and Weitz, 1986). If a function has broader market applications with unique technologies than the company is ready to invest in, a joint venture with an outsource provider could be considered. The partner benefits from and utilizes the industry knowledge, special skills and technologies related to the function, and by exploiting the partner's marketing and distributing channels, these can be turned into revenue, (Balogun and Hailey, 2004). Outsourcing is also used to reduce current costs and to turn fixed costs into variable costs. These are cost-driven reasons. A service provider often has a better cost structure in carrying out a task than a company's internal function could have. A service provider divides overhead costs over more activity units, and therefore a service provider often has lower overhead costs per unit than a company's internal units, (Dennis, 2003). Through outsourcing, normally fixed costs can be converted to variable costs. Providers handle varying demand more efficiently because of their economies of scale. The service provider has bigger capacity and volume than a company's internal units. Thus, changes in demand have a smaller effect for the service provider. It is also possible for a company to gain a cost advantage over competition through lower operating costs, (Gray, 2002). Outsourcing can offer employees a stronger career path. This employee-driven reason for outsourcing means that the people working in a support function of a company do not have such strong career possibilities as the employees working in the core competence area of a company. If the support function is outsourced, the service provider often employs people with previous experience in the outsourced area, (Gilley, Greer and Rasheed, 2004)

This view was supported by Balogun and Hailey, (2004), who argues that HR outsourcing represents a strategic tool for achieving competitive advantage. He states that outsourcing of the transaction-based HR activities frees HR managers and other managers to deal with strategic business issues. According to Alexander and Young, (1996), the other major rationales for HR

outsourcing is to cut administrative and high transaction cost activities, minimize the workload of regular workers, reduce cost, reap economies of scale, improve quality and efficiency, and gain expertise from outside vendors. Summing up all the points, the following list of pull factors of outsourcing can be made:

- Cost saving – HR costs are reduced because the services are cheaper and the size of the function can be cut back;
- Concentration of HR effort – members of the function are not diverted from the key tasks which add value;
- Obtaining expertise – know-how and experience that is unavailable in the organisation can be purchased

But Momme and Hvolby, (2002) believe that HR outsourcing is a faddish trend, and will not take off to the extent that has been predicted. They urge firms to question whether an external source can ever know the business as well as business owner does, and though there may be a place for outsourcing routine tasks like payroll, it is unwise to let a vendor make important decisions for the firm. Gunsauly (2002) stressed that when managers decide whether to outsource, the need to retain sufficient skills in-house to fulfil the role of vendor-manager and intelligent customer is often overlooked, as is the need to ensure there is a cost-effective exit if the outsourcing arrangement does not work. On the basis of the Information systems outsourcing, (Balogun and Hailey, 2004), draws the following picture:

- Loss of control,
- Loss or degradation of internal services,
- Corporate security issues,
- Qualifications of outside personnel,
- Negative impact on employee morale.

Stating that outsourcing is driven by a desire to reduce costs while improving the quality of IS and user services, they casts serious doubts whether these objectives are feasible. Other important issue raised by Dennis, (2003), points out those different strategies differ in their requirements for HR practices may imply varying needs for HR outsourcing.

From these issues two major points arise:

- How to link organisational strategy with outsourced HR functions?
- What shall be the criteria for measuring the adequacy of the expertise of HR service supplier?

Gray, (2002), suggests that it is difficult to control the quality since the process of production is external. During internal process a company can apply quality improvement tools. Receiving off-shelf product or solution a company may face the problems of hidden flaws in quality (so called “floating” flaw or error). With outsourcing a company may be dependent on its suppliers, what reduces its flexibility capacity. Another vital point was raised by Gray, (2002) who speaks about commitment and survival syndrome. Delaying may lead to “survival syndrome”. It may cause the loss of trust and commitment. As a result, the staff turnover may increase and the productivity might decrease significantly. Unless the outsourcing process is carefully carried out,

internal resistance may arise based on reluctance by the internal employees to outsource service activities that are perceived to be central to the way the company competes and the brand of the firm, (Bryce and Useem, 1998). Overt and covert resistance by managers and employees can be a significant obstacle to the change process. It can sabotage both the outsourcing process (Harper, 2001) and the adoption of service logic which consists of the delivery of more customer-oriented services such as solutions (Hayes, Hunton and Reck, 2000). Although this resistance cannot be avoided altogether, the change approach, or the way in which the outsourcing project is carried out (e.g. top-down or bottom-up, revolution or evolution, participative or directive) should be adjusted to the content and context of the change, (Balogun, (2002).

By doing this, the negative effects of internal resistance can be reduced to a more constructive level. In other cases, especially at prosperous firms and during boom periods, outsourcing may be taken too lightly by employees and managers who are searching for interesting new areas, neglecting the firm's core business (Bettis *et al.*, 1992). Zhu *et al.*, (2001), opined that 'even though the ideal outsourcing process is often described as a being linear, well planned, having clear goals, etc. in reality this rational approach may not be feasible. Many industries are so volatile that it is nearly impossible to forecast, with any degree of accuracy, more than a few months into the future. Under such conditions, responsiveness to changes in the market and technology are more important than formal planning procedures (Bettis and Hitt, 1995; Bettis *et al.*, 1992). This is even more important in many service businesses, where knowledge of the customers' needs and strategies is often decentralised to service employees in the field. Management may have a broad overview of the business, but in rapidly changing environments and complex organisations, it must gather information from those who are better informed about the market, i.e. its service employees and purchasers. Management must also ensure that the employees have an overview of the strategic intent of the firm so that interactions with customers and suppliers are consistent with the overall ambition of the firm, (Quinn and Hilmer, 1994). Furthermore, Zhu *et al.*, (2001), stressed that in turbulent contexts such as during the adoption of a service-centred logic, learning and flexibility may be more important than planning and rationality, (Momme and Hvolby, 2002; Wasner, 1999). Fill and Visser, (2000), claimed that such a rational outsourcing approach is often unfeasible due to the difficulty of predicting environmental changes and foreseeing events that will impact the outsourcing process. Instead of planning, they emphasise the need to be flexible during the outsourcing process. Wasner (1999, p. 32), for instance, suggests that outsourcing should be seen as an iterative process which cycles between:

- initial intentions and vision; and
- incremental steps in the outsourcing process.

It is likely that both approaches, i.e. the rational approach and the more flexible and iterative one, are applicable, but only under certain conditions. The latter perspective seems particularly feasible in turbulent contexts, for instance at firms which are also transforming their business into a more service-centred logic, (Gilley and Rasheed 2000). Hitherto, however, little empirical evidence exists which supports such a supposition and hence this in-depth longitudinal case study may be justified. Besides, other problems appear quite often. According to Harper, (2001) these problems are:

- many executives see in outsourcing a threat to their job;

- sometimes, outsourcing deeply affect the tasks of most executives; and
- Outsourcing can create in some people the feeling that they are the winners or the losers.

Consequently, from this perspective, there is nothing more important for the success of an outsourcing than the attitudes of the executives that have to do with it. In fact, the author found that the cornerstone for the implementation of an effective outsourcing is an appropriate management that tries to obtain the personnel's wholehearted collaboration. However, the process might turn out to be naturally dangerous, since organisations, like individuals, are reluctant to change. Despite the shortcomings, Equa Terra (2005), states that the potential of outsourcing is enormous, if implemented correctly, (Scott, Kies, Schoch, Wesley, and Bernard, 2003), claimed that it can dramatically improve an organization's effectiveness, they further stated that, on average, companies are realizing a 9 per cent cost saving and a 15 per cent increase in capacity and quality through outsourcing. There is enormous pressure on major corporations to establish competitive positions in a global marketplace. The global imperative for outsourcing accelerates as firms evolve from sellers of products and services abroad to setting up operations in foreign countries and staffing those operations with host country or their party nationals, (Fill and Visser, 2000). Most corporations believe that in order to compete globally, they have to look at efficiency and cost containment rather than relying strictly on revenue increases. In agreement, McIvor and Humphreys, (2000), pointed that as companies seek to enhance their competitive positions in an increasingly global marketplace, they are discovering that they can cut costs and maintain quality by relying more on outside service providers for activities viewed as supplementary to their core businesses. Lawler, et al., (2005), offers a handy analogy in which he compares outsourcing to marriages by saying that both relationships are easy to consummate but much harder to terminate. Thus, if a company decides to outsource a function without a solid reason, any risks caused by the outsourcing can be very difficult to reverse. Uncertainty and risk of failure exist every time a company is considering outsourcing a function. If the company decides to hand out part of its operations to an outside service provider, it will be very difficult to bring it back inside the company in the case of failure Anderson and Weitz, (1986). Axelsson and Wynstra, (2002), however states that after shifting the responsibility for a function to the service provider and not dealing with the function for a while, the company may experience a dependency on the service provider. Alexander and Young, (1996) stressed that outsourcing might create a loss of control over the outsourced function, furthermore, If the outsourcing is done for the wrong function, one which in fact is critical for a company's operations, the loss of control can be fatal. Also, controlling and communicating with service providers can create hidden costs. The responsibilities of both parties must be clearly defined or the service provider's priorities might not match client needs, (Bryce and Useem, 1998). Together with the outsourced function the competence inside the function will drift away from the company. Gray, (2002), opined that the loss of core competencies and critical skills is a big risk that management must keep in mind when selecting a function which will be outsourced (Dennis, 2003). Outsourcing also affects the amount of cross-functional intercourse, which will create a loss in the company's cross-functional skills

According to Whitehead, (2004), outsourcing creates many negative emotions among employees. This can appear as employee unhappiness and lowered working morale, (Gunsaulley, 2002). If the remaining employees have to work in fear of being the next to go, it will show in the overall efficiency and atmosphere of the company. Also, if the outsourced personnel are hired by the service provider to perform the same task for the old employer, the level of

motivation might not be so high as before. It can take a long time for the benefits of outsourcing to become visible. This means that outsourcing contracts often cover a few years. In some studies, over half of companies in which the primary object through outsourcing is cost reduction are at the end dissatisfied with their outsourcing relationships, (Klaas, 2003). If a company is only looking for fast cost reductions and does not consider outsourcing as a long-term development strategy, the probability of failure is greater than if outsourcing is done with a longer time scope.

2.4 Need for HR Outsourcing

Outsourcing is the performance by outside parties on a recurring basis of activities that would otherwise be performed in-house. Functions that are commonly outsourced are: - Information Technology, Human Resource, Sales Marketing, Finance, Administrative and various others, (Zhu, Hsu, and Lillie, (2001). Human resource outsourcing involves outsourcing particular functions to a third party. Usually non-critical, routine administrative transactional functions are outsourced. Increasingly, however, critical functions are being outsourced as well but the third party service providers chosen are specialists in their respective fields, (EquaTerra, 2005)

2.4.1 Outsourcing stages

An organization can adopt any or all of following three stages of outsourcing:

- **Low Stake outsourcing:** - usually training, resume or curriculum vitae (CV) processing or vetting, search and selection, are outsourced. Thus an organization retains all major processes and functions with it and is not really risking much.
- **Mid-level Outsourcing:** - here one or more processes relating to human resource are outsourced. It involves some measure of risk by an organization which requires sensitive employee database to be shared with the service provider. However the organization still retains the strategic aspects and core-competencies and final decision making. The human resource processes that are commonly outsourced are payroll administration, recruitment administration, pension, benefit administration, search and selection, training, benchmarking surveys/research, etc.
- **Complete HR Outsourcing:** - under this stage, the entire HR function is outsourced to a third party including the policy formulation and strategic aspects.

2.4.2 In-house outsourcing

This is a new trend in outsourcing that has emerged in recent years. As opposed to outsourcing to a third party several organizations are setting up back-end offices in *Labour Cost* efficient countries. The motivation is to cut cost, avail the benefits of cheaper labour in the host country and draw from a pool of talent crunch in the parent country. It allows them to retain ownership of their processes and data without involving a third party. As a result, they get to partake in most of the benefits without the associated risks. But as opposed to 'out-house' outsourcing it requires long-term investments in setting up offices, staff and infrastructure, (Newman and Willmott, 2004). Anderson and Weitz, (1986), state that the issue of *build versus buy* is also a strong driver for outsourcing. In this case, companies choose to "leapfrog" their efforts by hiring an outsourced service provider to get things up and running quickly. Harper, (2001), observed that

some human resource departments within various organizations are going for one-stop solutions human resource outsourcing shops where activities such as payroll, compensation, benefits, and BPO are handled by the service provider. Ten Raa, and Wolff, (2001), observed that human resource related issues, particularly in US-based firms, are starting to outsource even some of their core tasks, like parts of training or recruitment. These firms are learning how to take core functions apart and outsource some of their elements, further reducing the burden on the HR department of the organization. In yet other cases, HR organizations are not thinking in terms of core or non-core activities and they are simply categorizing transactional activities and looking for a different way to perform them.

3.0 Cases associated with HR outsourcing

Back in the early 1600s, dramatist William Shakespeare coined the immortal phrase “to be or not to be?” during a famous scene in which his character, Hamlet, was contemplating taking his own life. Many of today's business leaders perhaps imagine that they often feel some empathy with Shakespeare's troubled prince. Fortunately for them, however, it is not a normal suicide under consideration but issues such as whether or not to outsource some of their human resource (HR) functions. Nevertheless, such decisions can and do sometimes have life or death repercussions at least where the future of an organization is concerned. Getting it right therefore involves careful consideration of all the different factors involved. Shifting the responsibility for the more routine HR functions to an outside provider often means that resources can be directed towards the activities that realize greater value for the organization, concentrating on core competencies thus helps maximize returns on internal resources, while simultaneously carrying the fight to any competitor who may threaten the company's market position. According to Grossman (2004), US actor and comedian George Burns once claimed that “happiness is having a large, loving, caring, close-knit family in another city.” Some might apply his philosophy to HR outsourcing. However, as with most things, the real and the ideal are often quite different – as Accenture and BT would probably testify. Belcourt, (2006) explains that in a recent survey by AP research and advisory company Gartner, as reported in the Times, asking whether outsourcing HR functions to specialist providers had saved them money, 78% of respondents said they had saved at least 10% by outsourcing in 2004. In 2002, only 32% of firms reported similar savings. The rise suggests that organisations and providers both private and government organisations are learning from the mistakes some made when HRO was still a new approach. The picture of HR outsourcing as confirmed by the CIPD survey, *The changing HR functions*, 4% of the respondents with an HR shared services operation said that they wholly outsourced their HR functions. Around a quarter outsourced part of their shared services activities. The vast majority of organizations maintain their shared services operation in-house. Looking ahead, 11% of the survey participants expected HR shared services to be outsourced in three years, and half expect to partly outsource some of their shared services. Under the Labour government in the Britain, headed by Former Prime Minister Tony Blair, billions of pounds worth of public services was outsourced: the private sector ran prisons; local authorities outsourced extensively, from housing benefits and revenue services to street cleaning and schools. Large IT contracts across government were let, almost exclusively, to the private sector. Charities ran large chunks of the social services for the elderly and disabled, (Scott-Jackson, Newham and Gurney, 2005). Esen, (2004), in a survey report, stressed that BP Amoco operates in 40 countries, has 8000 employees. In 1999 it decided to focus on its core-competencies- drilling and oil finding and everything else was secondary. Thus, to that effect it outsourced its HR for 50,000 employees in US and UK to a US based company Exult for a fee of £300m. Initially 18 HR processes were identified and

outsourced. These included training, organization development, benefits, compensation, employee relations, vendor administration, payroll, employee development, recruiting, Performance Management etc. Also, some of BP's HR staff became Exult's employees; others were paid severance and let go. As a part of the agreement, it was decided that Exult will provide services on a fixed cost, which was to be less than or equal to BP's current HR costs. This resulted in cost saving and efficiency. Gradually, HR services BP Amoco's worldwide operations were also outsourced to Exult. BP Amoco retained the right to terminate agreement in case of Exult's bankruptcy or material breach or performance failure. Cadbury Schweppes, a UK based FMCG giant outsourced 500 jobs to GENPACT in early 2007. This was a part of Cadbury's *'Vision In Action Program'*. It was an attempt seeking to lift operating margins from 10% to 15-17%. The functions outsourced were accounting and HR Services Jobs. The main reason was raising costs of labour. HR Jobs were to be handled by GENPACT's shared business services division. Job locations would be based in India, China and Romania, (Chartered Institute of Personnel and Development, 2007)

In December 1999, BP gave away £300 million and responsibility for its global human resources administration and management. The seven-year contract, with then start-up firm Exult, is the biggest HR outsourcing deal on record, and some would say it is a sign of the times, (Grossman, 2004). BP decided HR outsourcing may be right for them after a fast succession of takeovers, which brought them 100,000 new employees spread all over the world and a number of conflicting HR strategies. The organization was interested in saving money and increasing efficiency, and soon realized that an HR vendor may be able to cut their in-house HR costs and coordinate the systems in place.

Exult, based in California, looks at companies that spread over at least five countries and have over 25,000 bringing in revenue of over \$10 billion a year. They say they can cut costs between 10% and 20% per year. After some debate, it was decided that the firms were mutually attractive. The subsequent deal made Exult in charge of running most of BP's HR processes, leaving BP with "only the things that would require judgment and policy". Hindle (2005) in his submission stated that since BT outsourced some of its HR functions in the spring of 2002 it has reaped many benefits. Accenture HR Services committed to saving BT five per cent per year over the duration of the initial contract. A UK contract for HR services, covering 87,000 employees and 180,000 pensioners, has resulted in £18 million in savings to date, with a total projected saving of £30 million by end of the contract in third quarter (Q3) of 2005. So successful has the original partnership been that earlier this year the two companies signed a new ten-year contract to extend the relationship to another 10,000 BT employees in 37 additional countries. While cost savings for this project are estimated to exceed those already achieved, the benefits of outsourcing have been more far-reaching than just direct cost savings. By outsourcing, BT has rationalized its training catalogue by 50%, reduced training waiting lists by 26% and saved £2.2 million in time and money lost due to sickness. It has also increased employee satisfaction ratings across training and counselling – with 93% of employees reporting that counselling made them better equipped to manage their challenges, (Accenture, 2004). As a result of outsourcing, BT reduced its HR function from 14,500 to 600 HR people. This transformation was delivered entirely through restructuring, process improvement, elimination of duplication and focus on productivity (Accenture, 2004).

- Accenture (2004) further claimed that it succeeded in:
Greater efficiency achieved throughout HR (reduced transaction times for basic HR administrative tasks);
- Decreasing amount of time and money lost due to sickness (from 3.81% to 3.10%.
- Increased employee satisfaction ratings (95% of attendees expressed satisfaction following a stress workshop; 95% of employees using the counselling service said they would be pleased to use it again; and 93% of employees reported that counselling made them feel better equipped to manage their challenges.

Furthermore, in a recent Yankee Group report on human resources (HR) business process outsourcing, only 48% of key decision makers agreed that HR outsourcing had delivered the promised return on investment they expected. With the market for HR outsourcing set to grow from £13 billion in 2003 to £29 billion in 2008. According to a HR Consulting giant, Hewitt Associates, a June 2002 on-line survey by the firm on "Outsourcing in the Asia Pacific" survey, threw up some interesting highlights. The survey, responded to by over 424 company representatives around the Asia-Pacific region, pointed to the following:

- As many as half of all participants, or 50.04%, cited concentration on core competencies
- 29.9% of all participants said they had considered outsourcing of HR as a means by which to control costs
- An average of 5.7% companies across the various geographical locations placed a great emphasis on confidentiality
- Across the region, payroll processing and training and development were the most important functions, accounting for 20.3% and 18.9%, respectively of all participants
- Benefits administration ranked third, accounting for 15.6% of participants
- India was home to marginally the greatest percentage of companies that had not yet considered outsourcing HR functions—amounting to 26.2% of participants.
- According to 53.3% of the participants, the biggest apprehension about outsourcing among participants was the quality of the outsourcing vendor
- Security was the second biggest concern

The respondents provide several other explanations: to use the expertise of specialists (88%); to save time (54%); to save money (41%); to save administrative costs (38%); to focus on more strategic initiatives (30 percent); the function is not part of the core business (26%); responsibilities have increased (21%): and to reduce liability (7%), (Esen, 2004).

They also stated that outsourcing can save company money provided that it enters the right relationship with the right vendor. Because human resources professionals state that the main reasons they outsource are to use the expertise of specialists and to save time, the responses reveal that quality and flexibility are the key factors. This view is also supported by Balogun, Hope Hailey, (2004), who argues that HR outsourcing represents a strategic tool for achieving competitive advantage. They further stated that outsourcing of the transaction-based HR activities frees HR managers and other managers to deal with strategic business issues. A General Insurance company of British and Irish origin has 3,500 employees in 77 offices in 28 countries. In 2005, they decided to set up an offshore division in Gurgaon, China. This division was primarily for financial research/ Accounting and HR operations. And in the Gurgaon office it has a dedicated 14-member HR Operations team for global business for compensation and

benefits, payroll, Retirement benefit processes. This team reports to HR Operations Head in the UK, who in turn reports to HR Head. This captive KPO division as they like to bracket themselves has proven to be an extremely successful venture. Since its inception two and half years ago it has been instrumental in reducing costs by 25% and increasing profits by 33%, (Main, 2006). Morton and Wilson, (2003), asserts that technologies have altered the economics of HR outsourcing services as it makes it easy, quick, and cheap to transfer internal data (e.g. payroll data or delivery instructions) to a vendor. The vendor can analyze the data and instantly copy results to the client, employees' banks, and the tax office. Problems of time delays are eliminated. Palmer, (2005) stressed that for informational tasks, physical locations of the vendor and client are irrelevant; the outsourced task can be performed in a low wage country and/or a centralized facility that provides economies of scale or a different cost structure. This is exemplified by the Indian call center whose volume justifies a high fixed, low variable cost technology. Morton and Wilson, (2003), further stated that instead of shuffling paper work and fielding phone calls, HR managers use the Internet to obtain information and communicate with others, affecting virtually every HR function. HR database management systems maintain organizationally relevant information about employees. Developments in computer hardware and software have not only made possible user-friendly access to employee information, but also the ability to analyze this information for purposes of organizational planning. Main, (2006), observed that in a recent survey conducted by the API Institute on the importance of technology to human resources outsourcing, 72% of the respondents stated that technological advances are revolutionizing the way organizations manage HR information. They further stated that technological advancements are helping to re-define the role of HR in various organizations. Gilley and Rasheed, (2000) pointed out that improved technologies have enabled companies to expand their markets worldwide by more than 45% in 1998 and intensified competition has compelled organizations to outsource some of their non-core activities to other firms possessing the expertise. Zhu, (2001), also pointed out that under the waves of globalization and outsourcing, it is evidenced that large manufacturing companies often develop their products in Europe and the USA, then manufacture them in Asia and Latin America, and sell worldwide, thereby increasing their sales by 63%. Meanwhile, a research by The Conference Board sponsored by Accenture shows that North American companies are much more likely than European ones to outsource HR functions. Based on the results of a survey of executives at more than 120 companies in North America and Europe with annual revenues of at least £1 billion, *HR Outsourcing: Benefits, Challenges and Trends* reveals that 87 percent of executives at the US companies surveyed said they currently outsource major HR functions, compared with 71 percent in Canada and 57 percent in Europe, (Accenture, 2004). Overall, some 76 percent of respondents surveyed said their organizations currently outsource one or more major HR functions, and 80 percent of those said they would do so again. In addition, 71 percent of the surveyed companies that currently outsource HR said that they would extend or renegotiate contracts with their current outsourcing providers and 29 percent said that they would put their existing outsourced services out for a new bid. None said they planned to take services back in-house, (Accenture, 2004). More than 90 percent of respondents reported having achieved, or partially achieved, their HR outsourcing objectives. Only 9 percent said they were entirely against outsourcing some or all of their major HR functions, compared with 23 percent in a similar survey carried out a year earlier.

HR activities that are most often fully outsourced are:

- programs (selected by 53 percent of respondents);
- pensions and benefits (30 percent);
- stock-option administration (30 percent); and
- health benefits (29 percent).

Leading the list of partially outsourced services are health benefits (50 percent), training and development (48 percent) and payroll (40 percent). The study also found that while most companies fully outsource some HR functions, they often deliver their HR services through a blended solution, using both internal and external capabilities with multiple providers, (Accenture, 2004). A 2005 study by US HR industry consultants Everest Research Institute suggested that the cumulative total contract value of HR outsourcing transactions came to \$21.2 billion in 2004 and should reach \$25.4 billion by the end of 2008, (Smith, 2006). Furthermore, one of the biggest airline companies in the world, according to Smith, A. (2006), which is the 3rd largest airlines in terms of U.S traffic, has signed a deal with a company to outsource its human resource operations. The deal between the companies is valued at one hundred and twenty million dollars and the airline company is very confident of saving nearly 25% on its cost. Lawler, Ulrich, Fitz-enz and Madden, (2005) stressed that outsourcing all or part of the HR function continues to be an important trend in the USA. The USA spent an estimated \$8 billion on HR outsourcing in 2003, a figure that may increase to \$11 billion in 2007. Scott, Kies, Schoch, Wesley and Bernard, (2003), explained that Telecommunications giant Cable and Wireless adopted a three-prong approach to slimming down its in-house HR, which Ian Muir, vice-president of group human resources, described as “too big, too expensive and with a cost base that was fixed rather than variable”. In the final analysis, the company raked in a whopping 40% savings. First, the company began to implement a global SAP-based e-HR system, making it one of the first businesses to have truly global HR processes. Second, it began to outsource some of its HR functions. And third, it concentrated on enabling the remaining in-house HR people to focus on much more strategic work. Ian Muir explained: “Having reduced HR by a third, we wanted to move to a much more variable cost model, so we decided to outsource the transactional functions of HR – the moves, changes, employment data, employee records, administrative call centre and payroll – as well as the non-transactional recruitment function, part of the training function, and later part of the HR business-partner function, that is, the provision of straightforward advice or policy interpretation, plus support on disciplinary, harassments and the like.” Boxall and Steeneveld, (1999), stressed that outsourcing should be limited to peripheral or administrative HR functions that are not central to a company’s business. HR functions and activities that are both core and beneficial to the business should be kept in-house. According to a study by PricewaterhouseCoopers and Yankelovich Partners, 86% of executives who outsourced HR services believe they are likely to benefit from outsourcing by being able to focus on a company’s core business. Therefore, a company needs to carefully assess the value and contribution of each of its HR functions in order to decide whether the function would make a good candidate for outsourcing, (Klaas, 2003). Grossman, (2004) argued that it is a mistake to believe that outsourcing of HR is going to help organisations save money under any circumstance. Another study by Accenture found that 14% of the executives surveyed believed that cost factors were an impediment to expanding their use of outsourcing. This is backed up further by a September 2000 Darwin report which shows that many outsourced HR services have been brought back in-house because the cost-savings were not achieved. Outsourcing HR functions can lead to a loss of control by the buying company. According to recent study by Accenture (2004), 48% of executives surveyed stated that the fear of a loss of operational control

was the greatest impediment to expanding their use of outsourcing, (Grossman, 2004). A 1997 survey by the Treasury Board of Canada Secretariat and the Personnel Renewal Council found that the number one reason for bringing outsourced HR functions back in-house was poor quality of service by the outsourcing provider. When organisations search for outsourcers, they need to look at their track record, and should ask to see detailed references from their customers. To attract the best outsourcing provider for the job, organisations should clearly define their requirements from the outsourcing initiative and the objectives they hope to achieve. They should also select a provider whose culture and working practices are compatible with theirs, (Chartered Institute of Personnel and Development, 2007).

Main, (2006), argued that after years of waiting and many false predictions of growth, HR outsourcing has finally become a truly accepted means of delivering HR services for many major European companies. Smith, (2006) further stressed that in the last twelve months significant deals, both single process and multi-process have been signed amongst others with Unilever, Nestle, Lloyds TSB, Centrica, IKEA, Sandvik, Repsol, BBC and Bank of Ireland. Main, (2006) further pointed out that the buoyancy in the market is also illustrated by strong new entrants into the HRO vendor space in Europe, specifically Hewlett Packard and Xansa, and the continuing success of Arinso. Industry Analysts predict further expansion with an expected compound annual growth rate (CAGR) for European outsourcing business of 28% between now and 2010, with a slightly lower CAGR rate of 17% in the UK for the same period. In a 2004 study, the Bureau of National Affairs reported that 78 percent of respondents can readily identify an initiative that 'exceeds expectations', while only about 30 percent can cite one that 'falls short of expectations', (Belcourt, 2006). Experience so far indicates that overall levels of satisfaction with HR outsourcing are high, with organizations and their employees all benefiting from the 'brain gain' that outsourced HR offers, it looks as though it's a trend that's here to stay, (Grossman, 2004). In contrast however, Barthelemy and Adsit, (2003), argued that by outsourcing a HR function, organisations tend to lose the managerial control. This happens because it is harder to manage the outsourcing service provider as compared to managing one's own employees. Also because organisations generally tend to skip (or miss to calculate) the potential hidden costs of HR outsourcing, This hidden and missed out costs of outsourcing is hard to predict causing overall costs to be underestimated. In a separate 2004 SHRM human resource outsourcing survey found that in some cases HR outsourcing led to a decrease in customer service (25% of respondents), a less personal relationship with employees (37% of respondents), and a decrease in employee morale (6% of respondents), (Grossman, 2004). According to Adler, (2003), it is still hard to get away from the fact that HR is typically run as a cost centre within a business, and as such is expected to provide a value-added service to the business. An almost unavoidable way forward, therefore, is to identify options for delivering those services for less, which probably means using an external service provider. The challenge, therefore, if outsourcing is an inevitable trend, is to do it in a well-planned way, with clear goals in mind and ensuring that the change-management risks are well managed. The framework suggests that organizations should consider all the mentioned factors and their implications when making outsourcing decisions.

Whenever organisations decide to transfer ownership and responsibility for activities traditionally carried out internally to external providers, they simultaneously redraw organisational boundaries and change organisational structures and shape. These changes often involve reductions in personnel in order to improve the efficiency of the firm in terms of cost

disciplines and to maintain competitiveness in the market, (Dyer, Kale and Singh, 2001). Outsourcing of human resources creates change problems. If an in-house function is outsourced to a vendor, there is danger of disruption caused by misunderstanding or failure to transfer data properly. Outsourcing a function may entail dismissal or redeployment of employees, changes in the work they do or their transfer to the vendor's employment and its different condition, (Barthelemy and Adsit, 2003). Smith, (2006), observed that outsourcing of human resources obviously has an effect on employee morale. "Indeed, among 531 companies surveyed by the Wyatt Company in 1993, more than half reported decreased morale and commitment among downsizing survivors". These statements show the importance of employee morale to the success of an organization. According to the Yankee Group (1996), 80 per cent of employees will initially view HR outsourcing extremely negatively. Their acceptance level will improve, however, if management communicates its rationale constantly about the deal, and possible career paths. By the time the deal is finalized, 50 per cent should be accepting of the situation with a further 30 per cent acclimatizing to the deal within six months after it is signed, (Barthelemy and Adsit, 2003). These statistics describe a "best case" scenario that can only be achieved when communication channels remain open. Developing a policy on how to communicate an outsourcing move is very important to a successful transition" (Perry, 1997). The heart of an organisation is its engagement with staff; something an external supplier cannot provide, (Adler, 2003). Furthermore, managers must ensure all those affected are made aware of milestones that are reached and the options available. Providing counselling and out-placement services, therefore, is an essential component of the successful HR outsourcing process. All employees must believe that management is being fair.

Seeing fellow employees lose their jobs always leads to an emotional response from surviving employees. According to one Public Service Commission of Canada publication, survivors exhibit many of the following symptoms:

- fear, insecurity and uncertainty;
- frustration, resentment and anger;
- sadness, depression, and guilt; or
- injustice, betrayal and mistrust (Barthelemy and Adsit, 2003).

As well: "it doesn't take long for some of the survivors to channel that emotion into two counterproductive streams: retaliation and self-defence". These actions can be very damaging to an organization, as some employees may break company. In order not to deal with the unpleasantness of redundancies, negative publicity and the legality of employee rights, organisations are increasingly undertaking outsourcing deals which include the transfer of staff to service providers. In certain cases, service providers take over the entire workforce of outsourced activity as a condition of contract, (Harris, Giumipero and Hult, 1998). Wasner, (1999) in support of the above, stated that outsourcing of human resources functions often have immediate and continuing effects on employment in absolute and relative terms. Usually a significant number of employees are transferred to the service supplier, who then enters into a service contract to provide the service that the employees previously delivered directly. The following are examples of such transfers: 1,250 employees of British Aerospace (BA) were transferred into Computer Science Corporation (CSC) (see *Business Wire*, 1993; *Regulatory News Service*, 1993). British Petroleum outsourcing agreements involved transferring 1,400 of its IT staff (see *Computer Weekly*, 1992) and around 1,100 of the chemical giant's, ICI, staff have

been transferred to Origin as a result of an outsourcing deal (*Computer Weekly*, 1996). Other announcements relate to a smaller number of employees; for example, General Accident (*Glasgow Herald*, 1997) and Rolls Royce (*Birmingham Post*, 1997) who transferred 250 and 160 respectively. Belcourt, (2006), states that the correct application of the European Acquired Rights Directive and TUPE (in the UK) has ensured that affected employees normally don't lose out if they transfer across to the vendor organization.

4.0 Discussion and conclusion

Organizations the world over are today faced with two very important roles. The first involves being a business partner which focuses on core functions that impact on the bottom-line objectives of the organization. And the second is that top managements are now critical in ensuring that the day to day needs of employees are addressed in order for them to function efficiently. Top managements have since the dawn of the new millennium and the aftermath of the global meltdown of 2008 realized that these two roles affords them great foresights to manage the organization's strategic approaches while at the same time ensuring that its immediate and relevant concerns are not in any way affected. The forces of globalization are sweeping across the world and national borders are disappearing. One major outcome of this change is that competition has intensified greatly. In the past, low performing organizations could survive because they were protected by national boundaries and governments. These may not be possible any more. In this global era, organizations have to be able to take on other companies located in any part of the world in terms of product quality and ability to successfully deliver these products to the end-users with a well refined logistics and properly trained and motivated work-force. They need to be supple and adaptable to meet the competitive challenges, (Banham, 2003). To face the onslaught of hyper-competition, organizations are becoming responsive and flexible. The human factor, if managed effectively, is perhaps the most important in imparting organizational flexibility. Managing the human factor as a competitive tool falls in the domain of strategic human resource management, (Lawler, Ulrich, Fitz-enz, and Madden, 2005).

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