

Chapter 4.15

Human Resources Outsourcing Strategies

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INTRODUCTION

Often, organizations externalize work *activities* and use employment intermediaries (consulting firms, temporary help agencies, contract companies (Nesheim, Olsen, & Kalleberg 2007). At a *functional* level, firms tend to externalize business as well so that boundaries of firms are extended. Historically production function, catering, cleaning, security, IT functions have been outsourced for several years. *HR outsourcing* is far more recent. Several elements will be discussed: HR outsourcing definition, typology, process management, and research perspectives on performance.

BACKGROUND

Outsourcing can be defined as a phenomenon in which a company delegates a part of its in-house

operations to a third party. It includes a contractual relationship for HR services with an external provider. Wahrenburg, Hackethal, Friedrich, and Gellrich (2006) find that outsourcing is a major *international* trend for companies from all types of industries and for most organizational business units and level. Different activities can be externalized: payroll and benefits, training, HRIS, compensation, recruiting, and/or relocation.

HR Outsourcing Typology

Practitioners subsidize RH externalization in different categories: application service providers (ASP), application outsourcing, business process outsourcing (BPO), and professional employer organization (PEO) (Guilloux & Kalika, 2008).

Different terms exist for application service provider: On-demand software or software as a service can be also found. It offers online human resources management tool and it is often used by SME.

External hosting of HR application: the firm's application is "taken" and is hosted by the service provider

Third-party maintenance applicative concerns operational and functional maintenance of a software application. A service level agreement is determined: overall service description, service delivery financing aspect, including penalties, contract terms and conditions, and specific performance metrics governing compliant service delivery (system availability, incident resolution time...).

Application outsourcing is a computing resources management (materials and networks) which can be localized in the provider.

For a firm HR processing services consists in entrusting a whole HR process to the provider (legal monitoring, social reporting, functional aid, computation...). The vendor's resources are mutualized on several clients. The vendor commits himself to reaching results.

Business process outsourcing (BPO) consists in entrusting whole business process to provider (Gyeung-Min & Hyun, 2007). The firm keeps its managerial and strategic decisions.

BPO can be offshore outsourcing (contracted outside a company's own country), nearshore outsourcing (contracted to a company's neighboring country), or onshore outsourcing.

Move on rationalization of key business leads some US firms to go further in externalizing working contract, recruitment, remuneration with "professional employer organization." A professional employer organization assumes full responsibility for the company's HR administration. It becomes a co-employer of the company's workers by taking full legal responsibility of the employees (hiring, firing, pay...). This is only set for small firms and is only running in the USA (Klaas, Gainey, McClendon, & Yang 2005)

HR Outsourcing Underlying Processes

Two perspectives can be analyzed: the intensity of the relationship and the stage based model.

Intensity of the Relationship

If we retain the concept on developmental processes of cooperative interorganizational relationships, each category of externalization can be visualized as a repetitive sequence of negotiation, commitment, and execution stages. In negotiations stage, parties develop joint expectations about their motivations, possible investments and perceived uncertainties of a business deal which is explored to undertake jointly. In commitments stage, wills of the parties meet together, when they reach an agreement on the obligations and rules for future action in the relationship. In executions stage, commitments and rules of action are carried into effect. According to Byham and Riddle (1999), the intensity of the outsourcing relationship is tied with a continuum from the Table 1 first level (vendor-customer relationship or supplier relationship management) where in house staff continue to retain responsibility to the fifth level strategic (partners) where the line between the firm and the third party have become practically indistinguishable. At the second stage (supplier customer relationship) the outsourcing firm provides services in specific topics as determined by the organization. In the third level (strategic supplier-customer relationships), the outside firm is responsible for more activities. Then for the fourth level, a few in-house staff is used as liaisons between the provider and the firm.

Of course the total continuum could be uncovered. For example, Lievens and De Corte (2008) examine the HR manager's commitment reasons to continue existing HR outsourcing relationships or not. They eliminate the case of total HR function outsourcing, they focus only on recruitment

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