Human Resource Outsourcing and the HR Function: Opportunity or Threat?

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ABSTRACT

The purpose of this paper is to explore the implications of HR outsourcing (HRO) on the internal HR function. As such it corresponds with the theme of Track 1. It presents survey results conducted in conjunction with the Chartered Institute of Personnel and Development (CIPD) in the UK. Survey results derive from CIPD member organisations, and the research forms part of a larger doctoral research project.

Broadly applying Strategic Contingencies Theory (Hickson, Hinings et al. 1971), this paper explores the extent to which HR professionals cope with uncertainty, and develop unique skills that are vital to the organisation and the power status of the HR function. It assesses the level to which HR professionals are involved during the HR outsourcing lifecycle, and the nature and extent of involvement of other key stakeholders throughout. The skills and competencies of HR professionals are assessed against those skill areas they deem important in dealing with outsourcing activities. In addition, the research explores the profile of the HR professional within the organisation, in order to ascertain whether HRO is more prevalent amongst those HR departments with a weak organisational profile.

The survey reveals that HR professionals generally have a low level of involvement throughout the entire outsourcing lifecycle, despite a majority declaring that HR is taken seriously within the organisation. Their involvement whilst low, does peak during the realisation phase of HRO (managing vendor relations, providing end-user feedback and monitoring the outsourcing contract). Despite this low level of involvement, HR professionals claim high skill levels in those areas they deem important in outsourcing. Contrary to the organisational drive for efficiency, HR professionals tend to consider financial skills a low priority during HRO engagements. Yet, this is the area that most are seeking to develop. The majority of respondents consider HRO as successful to a limited extent. There are some who declare that overall objectives have been achieved, but still consider the HRO venture to be unsuccessful. It seems that in addition to the broad-based organisational objectives of HRO, HR professionals have their own criteria on which they judge these outsourcing endeavours.

Set against the backdrop of Strategic Contingencies Theory, HRO is not being utilised by HR professionals to craft a unique niche within the organisation. The ability of HR professionals to cope with uncertainty and acquire power is limited. The use of other professionals during the HRO process undermines HR professional centrality and non-substitutability. HRO currently represents an inherent threat to HR expert users. The exclusion of HR experts from HRO weakens the reputation of the HR function, prevents skill deployment and development, and obviates further gains derived from a relational approach to contracting, traditionally held as synonymous with HR professional involvement.
INTRODUCTION

The human resource management function has long been scrutinised and criticised for being too administrative and for contributing very little to organisational strategy. It is increasingly being judged on its ability to contribute to an organisation’s ‘bottom line’, and the value it adds to the organisation. It is against this canvas that an expanding use of outsourcing is being implemented. Firms continue to buy-in HR expertise, and replace that which was once developed and operationalised internally. Whilst the procurement of expertise yields mixed results, the focus of this paper is to explore the decision-making involvement of HR professionals during HR outsourcing (HRO) ventures. It seeks to examine their skill sets and how they are perceived in the organisation and elaborates on the use of alternative professions during the HRO process.

The first section of this paper establishes the introduction of HR outsourcing through the Ulrich model (1997), and assesses the opportunity for HR professionals to embrace the outsourcing agenda, broadly applying Hickson et al’s (1971) strategic contingencies theory of intraorganizational power. The second section then discusses current examples of organisations using alternative professions in typical HR jurisdictions and questions whether HRO complies with this trend. A brief overview of the survey method used is then followed by the research findings which explore stakeholder involvement in HRO, the self-perceptions of HR, their skill proficiencies and overall HRO outcomes. This will be followed by a discussion of these findings and relevant conclusions.

BACKGROUND

The Fractured HR Identity and Acceptability of Outsourcing

The sheer multiplicity of normative models in HRM reflects an inherent instability and disagreement regarding what HRM should look like and what role the HR function should play. In the words of Ferris et al (2004:250) “there is no grand theory of HRM, nor probably will there ever be”. Unsurprisingly, HRM has become a victim of its own malleability, pulled in all directions to be all things to all people. Managerial expectations of a personnel department are moulded by the external environment, trade union response, and the individual management and marketing regimes of the firm (Tyson 1987). Versions of the HR function depend heavily on the perceptions of senior management, their expectations and what they interpret as organisational requirement.

Outsourcing is sanctioned in the increasing popularity and use of the Ulrich model (1997). Through the construction of a broader HR community, Ulrich encourages the HR function to assume four key roles that constitute a business partner: strategic partner, administrative expert, employee champion and change agent. External vendors play a fundamental role in this community. The logic is that an HR community will alleviate some of the strain and emphasis placed upon the HR function to deliver an integrated and effective service, thus enabling HR professionals to focus on the more strategic aspects of their role.

Whilst the use of external suppliers in HR provision does not pose a real threat to the HR function, the use of an HR community assumes a strategically integrated HR structure where HR experts are able to direct HR activities and share their expertise and knowledge with the community as a whole. However, HR’s involvement in the outsourcing venture is not guaranteed and depends highly on its position and priority within the organisation.
HR and Strategic Contingencies Theory

Hickson et al. (1971) consider organisations as interrelated systems needing to cope with uncertainty. This division creates dependencies. Power is vested and depends upon the task allocation within each subunit. It is the variability or inequality of interdependence that gives rise to power within this system. This variability makes the system work. Departments, unlike individuals, therefore have to form political relationships. Dependency, according to Hickson and colleagues, is a function of the ability of the unit to cope with uncertainty, the degree to which a subunit’s activity can be substituted, and the extent or pervasiveness of its interunit linkages. The latter variable does not merely include the extent of the linkage, but the criticality of the unit to the ‘workflow’ of the organisation.

Undeniably the HR function can take advantage of this power source through managing the outsourcing lifecycle. The function is able to reduce, thus cope with environmental uncertainty. It becomes privy to information through a greater focus on environmental scanning, is able to internally and externally benchmark HR provision, access state of the art techniques, and craft a workforce able to cope with a range of environmental circumstances. It can select and interpret information from the outside for internal dissemination (Russ, Galang et al. 1998). In terms of its pervasiveness and criticality, HRM influences organisational climate, subsequent employee attitudes, behaviours, the organisation’s reputation and performance outcomes (for a multilevel framework see Ferris, Hall et al. 2004). According to Hickson et al. (1971), dealing effectively with uncertainty provides power. If HR managers are able to control the outsourcing relationship through effective boundary spanning activities, then arguably they become more powerful, flexing to and pre-empting the operating environment.

Interpersonal relationships of boundary spanners play a vital role in outsourcing outcomes (Lievens and De Corte 2008). HR experts are expected to challenge HRO’s focus on the bottom line, adjusting current thinking to build alliances and champion investments in a well trained and well utilised workforce (Kochan 2004). HR managers thus have a vested interest in developing symbiotic vendor relationships through obligatory contractual relation types (Sako 1992). These contracts are centred around mutual trust with an emphasis on ‘goodwill’ and greater interdependence. HR managers are pivotal in achieving cultural fit and a commonality of values between buyer and vendor (Lievens and De Corte 2008). Engagements of this type yield positive reputational effects, and provide HR professionals with greater visibility and exclusivity over vendor management issues. Through effective gatekeeping and boundary spanning activity, they are able to demonstrate a level of non-substitutability, and therefore, organisational importance.

This level of involvement in turn assists a greater strategic influence in the organisation. Not only are HR professionals theoretically released from the transactional elements of their role, but they are also able to demonstrate their input into organisational performance and direct strategic engagement – thus securing a place at the ‘top table’. Power is acquired through enactment of a gatekeeper role. Power will increase with uncertainty and heterogeneity, and the function becomes increasingly autonomous. Once they have earned a reputation for value-added, their centrality to organisational success increases, alongside their power status.

The HR Function Usurped

However, devolution to a broader HR community and the use of external vendors undermines this centrality. There is evidence to suggest that HR experts are not being involved in core HR jurisdictions. Business leaders and line managers report poor perceptions of the value of the HR function (Deloitte Consulting 2005).

Morton and Wilson (2003) discuss new developments in HR at British Telecom and highlight greater devolution to the line of specialist areas. British Telecom use generic ‘people development consultants’ made up of ex-sales managers who share experiences with the line, and offer insights outside the purview of the HR professional. Similar findings are reported by Parry and Tyson (2007), researching HR information systems in Nortel. Here line managers exercised more power over decisions impacting the entire workforce and operation, accessing complex HR advice and
practice over the intranet without having to liaise directly with HR at all. Investigating HR’s role in mergers and acquisitions, Björkman and Soderberg (2006) reveal HR’s limited input in the resultant changes, with corporate HR only playing a secondary role in cultural integration - the primary role undertaken by the Communications Department.

Given the above evidence, it would be safe to assume that the HR function has little involvement in outsourcing decisions. Some like McKee (1997), go so far as to say they have no involvement at all. The decision makers instead include accounting and procurement experts. Once the profession succumbs to the accounting and procurement experts, HR could well start to lose accountability and empowerment (Syedain 2008). Yet for some, this involvement is logical. Procurement officers are able to negotiate better contract terms, whilst HR specialists only prove naive in the contracting process (Speizer 2007).

There is a distinct need to assess the impact of HRO on the role of HR and to question whether HR experts are actively involved in HRO or whether they are being replaced by other business functions? What impact do skills have on this involvement? And what, if anything, is HRO enabling the HR function to achieve?

**METHOD**

An electronic survey was conducted in conjunction with the Chartered Institute of Personnel and Development (CIPD) and distributed to 13137 CIPD members. Members were selected according to their membership profile and interest in the areas of outsourcing and use of shared service centres. The CIPD remained in full control of the survey contact and distribution process and were limited in their ability to re-contact potential respondents, working within monthly contact limitations. Responses were analysed using SPSS to generate non-parametric statistics. In total 477 responses were received, giving a response rate of 4%. However, only 315 of these responses were usable.

**RESULTS**

All 315 respondents were responsible for or worked in the HR function. Of the 315 organisations, only 91 organisations (29%) engaged in HR outsourcing. Within this sample, private sector organisations accounted for 69% of HRO activity, and the public sector accounted for 25% of HRO activity.

<table>
<thead>
<tr>
<th>Area</th>
<th>Not Involved</th>
<th>Informed</th>
<th>Consulted</th>
<th>Negotiated</th>
<th>Decided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmarking</td>
<td>38%</td>
<td>11%</td>
<td>21%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Planning</td>
<td>37%</td>
<td>10%</td>
<td>19%</td>
<td>19%</td>
<td>15%</td>
</tr>
<tr>
<td>Vendor Selection</td>
<td>39%</td>
<td>11%</td>
<td>13%</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Setting SLA’s</td>
<td>38%</td>
<td>10%</td>
<td>12%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>Contract Monitoring</td>
<td>42%</td>
<td>9%</td>
<td>5%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Managing Vendor Relations</td>
<td>34%</td>
<td>10%</td>
<td>11%</td>
<td>16%</td>
<td>29%</td>
</tr>
<tr>
<td>End-User Feedback</td>
<td>30%</td>
<td>15%</td>
<td>10%</td>
<td>17%</td>
<td>28%</td>
</tr>
</tbody>
</table>

The figures in the above table present an overall poor level of involvement of HR in the HRO process. There is a distinct difference between the opinion on involvement levels in HRO when specific areas are broken down to consider individual elements of HRO, and the assessment of an aggregate level of involvement. When HRO is considered in isolation as an entire bundle, 41% of respondents confirmed that HR ‘decided’ during the outsourcing venture. However, when broken down into specific activities, the highest decision-making area is managing vendor relations – with a mere 29% confirming optimal involvement.

In the majority of cases the reasons for non-HRO involvement is a lack of seniority, with 63% of these respondents indicating that senior executives make specific HRO area decisions. Whilst 22% cite employee experience in other parts of the organisation as a reason for non-involvement, a surprising 11% indicated that HRO is outside the remit of their role. Sadly, 7% believe that HR is not
taken seriously and that this equates to a lack of involvement in the HRO process, and 4% believe that HR is not perceived to have the necessary skills.

**Other Stakeholder Involvement**

CEO’s play a fundamental decision making role during HRO ventures, yet not as great as might be expected, with only 28% confirming CEO decision making. Most CEO’s (41%) are consulted about HRO decisions. The accounting and finance department is rated low amongst decision makers, with a figure of 8%. Accounting and finance departments were, surprisingly, merely consulted about outsourcing decisions more often than negotiating or making the final decision. This is contrary to the level of importance attributed to them by HR professionals, who, in 55% of cases, rated their involvement as important or very important.

By far the biggest outsourcing negotiator is the procurement department. The involvement of procurement was rated by 62% of HRO professionals as important/very important. Whilst they tend to be the lead negotiator, the actual figure fails to reflect the expectations amongst HR professionals of their high level of importance in decision making. Of particular note is that 22% do not involve the procurement department at all. Traditionally outsourcing facilitates a cost emphasis, so their lack of involvement is surprising.

HR professionals see the importance of involving employees in HRO decisions (61% rate it as important or very important). However, most employees are merely informed of these decisions (47%). The same can be said of line managers with 76% rating their involvement as important or very important, presumably because it facilitates employee buy-in and assists change management. However, in 52% of cases, line managers are either merely informed, or worse, not involved.

Unions are considered important or very important by 52% of the sample. Again, there is a discrepancy between suggested involvement and actual involvement. Most unions (41%) are not involved in the decision to outsource HR, 37% are however consulted. Presumably union involvement depends on union recognition (this information was not sought in the survey) as well as the scale of outsourcing intervention. If HRO interventions are incremental and change agendas non-discontinuous, then overall union involvement may decrease.

**Self Perceptions of HR**

<table>
<thead>
<tr>
<th>Statement</th>
<th>% Amongst HR Outsourcers</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR is taken seriously within our organisation</td>
<td>91%</td>
</tr>
<tr>
<td>HR plays an important administrative role</td>
<td>22%</td>
</tr>
<tr>
<td>HR is growing in importance in our organisation</td>
<td>33%</td>
</tr>
<tr>
<td>HR supports the organisation’s overarching strategy</td>
<td>50%</td>
</tr>
<tr>
<td>HR is at the forefront of shaping the organisation’s strategic direction</td>
<td>13%</td>
</tr>
</tbody>
</table>

Interestingly, 78% do not consider the HR function to play an important administrative role. When considered alongside the 87% who do not consider that HR is at the forefront of shaping the organisation’s strategic direction, it is hard to envisage where HR responsibilities currently lie. In addition, 26% of those outsourcing HR, consider themselves to have poor or limited relations with their respective CEO’s – yet 91% still consider the HR function to be taken seriously within the organisation. Over two-thirds of respondents claim the importance of the HR function has not increased in the organisation, and the overarching position is one of status.
### Skill Requirements and Proficiency

<table>
<thead>
<tr>
<th>Skill (ranked in order of perceived importance)</th>
<th>Proficiency – Good/Excellent</th>
<th>Proficiency – Fair/Developing</th>
<th>Proficiency – None</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Partnership working</td>
<td>89%</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>2. Business awareness</td>
<td>89%</td>
<td>11%</td>
<td>-</td>
</tr>
<tr>
<td>3. Change management</td>
<td>84%</td>
<td>15%</td>
<td>1%</td>
</tr>
<tr>
<td>4. Project management</td>
<td>73%</td>
<td>25%</td>
<td>2%</td>
</tr>
<tr>
<td>4. Negotiation skills</td>
<td>71%</td>
<td>29%</td>
<td>-</td>
</tr>
<tr>
<td>5. Vendor management</td>
<td>59%</td>
<td>28%</td>
<td>13%</td>
</tr>
<tr>
<td>6. Finance</td>
<td>55%</td>
<td>39%</td>
<td>6%</td>
</tr>
</tbody>
</table>

The table above indicates that HR professionals involved in HRO, proclaim good or excellent skills in those areas they deem important. Whilst partnership working is ranked in first place in terms of importance and proficiency, they cannot be divorced from vendor management skills positioned in fifth place in terms of importance, also containing a higher number of those developing expertise or having none at all. Despite the HR function’s emphasis on value-added and cost efficiencies, financial skills remain low on the list of the HR professional’s priorities, but also has the highest percentage either proclaiming fair or developing proficiency. This may be due to organisational pressure, rather than personal perceptions of the value of financial skills.

### HR Outsourcing Outcomes

<table>
<thead>
<tr>
<th>Were Overall Objectives Achieved?</th>
<th>Is HRO a Success?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Not a success</td>
</tr>
<tr>
<td>No</td>
<td>-</td>
</tr>
<tr>
<td>Yes - limited extent</td>
<td>5%</td>
</tr>
<tr>
<td>Yes – great extent</td>
<td>15%</td>
</tr>
</tbody>
</table>

As illustrated above, the overall perception of whether HRO has been successful or not seems not to stem from the success of achieving organisational objectives. There may be a link between success and the extent to which HR experts consider HRO as a strategic enabler. Over 36% of HR outsourcers confirmed that HRO had not enabled them to take on a more strategic role, whilst 54% confirmed that it did so merely to a limited extent. Only 11% felt that the strategic effect of HRO was considerable.

### DISCUSSION

The extent of HR outsourcing amongst UK firms is not great. Most organisations who do not outsource HR declare that they have a well-resourced and effective HR team and are more likely to engage in outsourcing elsewhere in the organisation. It is possible that organisations engaging in HRO are not considered well-resourced and effective. However HR outsourcers are content with their profile and consider themselves a ‘serious’ business function with overall good CEO relations.

Evidence suggests the ability of HR outsourcers to cope with uncertainty and therefore acquire power is limited. Where organisations are outsourcing HR, there is a distinct lack of involvement of
HR experts in all stages of the HRO process, despite their claims of having the necessary skills. The vast majority of HR professionals are not engaged in benchmarking, planning, managing vendor relations or relaying end-user feedback. The boundary spanning role, that helps secure non-substitutability through social capital and ‘psychological’ networks, cannot be achieved if HR professionals are not involved. Equally, the influence and ability of HR to shape relational contracts from the start and focus on cultural synergies with their respective vendors is negligible.

The most important functions involved in HRO are the HR experts, the CEO, senior managers, procurement and accounting department (to a lesser degree). Whilst procurement departments are the lead negotiators in HRO, both finance and procurement do not play the expected role within HR outsourcing ventures. HR expert perceptions of who should be involved in HR outsourcing ventures and the extent of that involvement do not reflect reality. If they consider the involvement of certain actors as important, the non-involvement of these actors may be due (in part) to the poor influence of HR professionals. Overall, however, if variability and inequality of dependence provides power, then HRO fails to provide the HR function with power, as the most crucial decisions fail to involve them. Decision making and negotiation of HRO architecture resides elsewhere in the organisation. The HR function remains dependent upon other business areas for outsourcing expertise.

Self-proclamations by HR managers of their lack of skill in outsourcing are generally rife (Deloitte Consulting 2005; Mercer 2006; CIPD 2007). However, this research fails to confirm these findings. HR experts consider themselves to have good or excellent skills in all areas of HR outsourcing. Yet their skills do not garner involvement. Either HR experts exaggerate the skills they have in order to ‘impression manage’ research output, or their status and credibility in the organisation is lowly regarded by superior decision makers. The role of the HR function is, after all, socially constructed (Truss, Gratton et al. 2002). Organisations will have a predetermined view of their respective HR functions which creates a certain ‘path dependence’ and a set of predefined expectations amongst business leaders.

Given this evidence, it is not surprising that many HR professionals are not achieving tectonic shifts in their strategic decision making ability. When combined with the overwhelming amount of respondents who proclaim that the HR function is not increasing in importance within the organisation, the study confirms Lawler and Mohrman’s (2003) findings, that potentially peer perceptions of HR are not changing, and progress towards full business partner status is limited. This is reflected in the mixed feelings of overall outsourcing success and the achievement of specified organisational objectives. Whilst organisational objectives are being met fully in some cases, many HR experts remain unsatisfied with the overall outsourcing venture. It is apparent that HR experts have their own ideas about what constitutes outsourcing success and that organisational objectives are but one element. The possible reasons for this dissatisfaction may stem from their obvious lack of involvement, the failure of HRO to raise the profile of the function in any way, and the seeming inability of HR experts to engage more extensively with strategic issues. Combined with a general consensus that HR does not play an important administrative role within the organisation, questions remain over the future of these outsourced HR functions and whether or not there is a need to maintain any internal and ‘owned’ presence.

CONCLUSION

Through an e-mail survey of 315 organisations, this paper investigated the extent of HRO and the level of involvement that HR professionals have during the HRO lifecycle. It explored the skill-sets that HR managers considered important to HRO involvement and their perceptions of their own levels of proficiency and sought to explore the self-perceptions of HR professionals. Findings reveal that HRO in the UK is not as widespread as the US, but those engaged in HRO are increasing their use of it.

HRO was then analysed through the use of the strategic contingencies theory of intraorganizational power (Hickson, Hinings et al. 1971). This presents a need for the HR function to qualify its power status through the management of uncertainty, the creation of non-substitutability and actor centrality. This is achieved through personal networks, information access, expert advice and their enactment of a boundary spanning, gatekeeper role. However, despite self-proclaimed competence,
the role that HR professionals should have during HRO ventures is devolved to other business functions and senior executives. This leads to assumptions that HR departmental responsibilities depend on the organisation’s historical perceptions of the role and the importance it attaches to the management of its human resources.

Overarching findings in this study indicate that HR outsourcing represents a very strong opportunity for the HR function that is still yet to be recognised by the majority of HR outsourcers. However, those not engaged in HRO predominantly cite a well-resourced and effective HR team as their prime reason for not outsourcing. The assumption that HR outsourcers consist of teams that are not well-resourced and not effective is contentious. However, if combined with the sheer lack of involvement throughout the individual stages of the HRO lifecycle, HRO poses a serious threat to those HR functions currently engaged in outsourcing. A narrowing of the HR remit throughout HRO prevents these professionals from deploying the skills they believe they have and from effectively developing new skills that are pertinent to the organisation as a whole.

The exclusion of HR professionals from HRO serves not only to weaken the reputation and credibility of the HR function, but potentially precludes the ability of the organisation to maximise their relationships with external providers. HR professionals are, after all, clear as to what they can and should bring to an outsourcing venture. The challenge that remains is to create awareness of these competencies amongst other business stakeholders.

The poor overall response rate is a limitation of this research, as is the cross-sectional nature of the survey undertaken. Data was gathered from single respondents only. Other business functions will have diverse opinions concerning their own involvement in HRO and the overall position of the HR function within the organisation. In addition, the relinquishing of control of survey administration to an external party failed to facilitate proper targeting, audience preparation and follow-up. The response rate would have been improved upon if more personal contact had been enabled.

Whilst the survey assists in building an overall picture of HRO in the UK and makes a valuable contribution to this field of enquiry, it does not answer the questions of why HR departments are not involved, nor does it explore the forces that have shaped the reputation and power position of HR professionals and their function. However, the findings are unique in the UK context and provide a suitable platform from which to further investigate the role that the HR function plays during HR outsourcing ventures and the implications for their involvement or lack thereof.

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REFERENCES


