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The management model for human-resource outsourcing among service companies

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Abstract

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

JEL classification: D21

Keywords: Umanresource outsourcing; Services; Management model.

1. Introduction

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

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

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

2. Human-resource outsourcing in the service sector

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

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

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

1 Finance and accounting;
2 Investment and capital management;