

THE OUTSOURCING AND ITS RELATIONSHIP WITH HUMAN RESOURCES MANAGEMENT

Konstantina Chatzi¹
e-mail: kon_xat@yahoo.gr

Abstract

Human resource management is now the backbone of any modern business. It is true that a few years ago no one imagined the importance that the functions of the Human Resources department would have for the overall development and progress of a business. In the year 2022 we are now talking about the mutation of the Human Resource Management Department, and we are talking about the strategic HRM.

On the other hand, the economic crisis and the intense competitive environment has created the need for companies to readjust their activities and even their goals so that they can meet the ever-increasing needs of the business environment. This adjustment process is called in a word flexibility. The need for flexibility is expressed through the creation of institutions. One of these institutions is the institution of outsourcing, i.e., outsourcing.

Keywords: human resource management, management, HR, HRM, outsourcing, business performance, strategy

JEL: M10, M11, M15, M19, M30, M50, O14, O15,

Introduction

A few decades ago, businesses had not realized and attributed the strategically important role that human resources departments could have in the overall management and operation of the company's interior. The skills and talent of the people working in these departments were not being exploited and their administrative abilities were put on the sidelines. Nowadays, however, the role of the Human Resources Management department has changed radically with the responsibilities and active involvement of the department in the process of making and implementing the company's strategic decisions having increased significantly (Klaas, 2003).

The constantly changing business environment in combination with the increasingly competitive external environment, has increased the level of involvement of the individual departments of the business in the formulation and execution of its overall strategy. Within this context, the human resources

¹ PhD student, Faculty of Philosophy, Sofia University "St. Kliment Ohridski"

department acquires a more dynamic role that does not simply concern the performance of its functions but undertakes strategic and tactical tasks in order to contribute to the achievement of the organization's goals. It is looking for methods and tools that will make its operation more efficient and will upgrade the quality of its processes, creating the conditions that will create value in the business and enhance its competitive advantage. Among the modern tools and methods that a human resources department has at its disposal is outsourcing part of its functions to an external partner (Greer, Youngblood, and Gray, 1999).

What is Outsourcing?

Outsourcing is the practice of an organization to entrust to an external entity the supply of products and / or services that could be produced internally. It is divided into domestic (onshore) outsourcing when the contactor and the assignee are located within the same territory and offshore outsourcing when the assignment is made to a company located in another territory (Cook, 1999). Depending on the business functions assigned we can distinguish it into four different categories.

Table 1: Outsourcing categories

Outsourcing production: Assignment, in whole or in part, of work related to the individual stages of the production cycle (product development and design, processing of intermediate goods, assembly of finished products, etc.) the output of which is incorporated into the final product. It takes various individual forms, reflecting the legal status and the level of participation of the subcontractor in the final product (e.g., contract manufacturing, licensing agreements, industrial franchising).	Business Process Outsourcing (BPO): Assignment, in whole or in part, of specific supporting operational functions. Assigned tasks can concern both so-called "back office" functions, such as financial management, human resource management, legal services and facility management, as well as "front office" functions, such as sales and marketing.	Information Technology Outsourcing (ITO): Assignment, in whole or in part, of IT services and maintenance of applications, terminals and networks. It includes both the provision for use by the contracting company of specialized information systems and / or software applications (Application Outsourcing) as well as various infrastructure services (Infrastructure Outsourcing – IO).	Knowledge Based Outsourcing (KBO): Award of knowledge-intensive activities which have a significant contribution to the value chain of the contracting undertaking. Typical examples are research and development, patents and intellectual property patents and legal services.
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Source: Author's interpretation

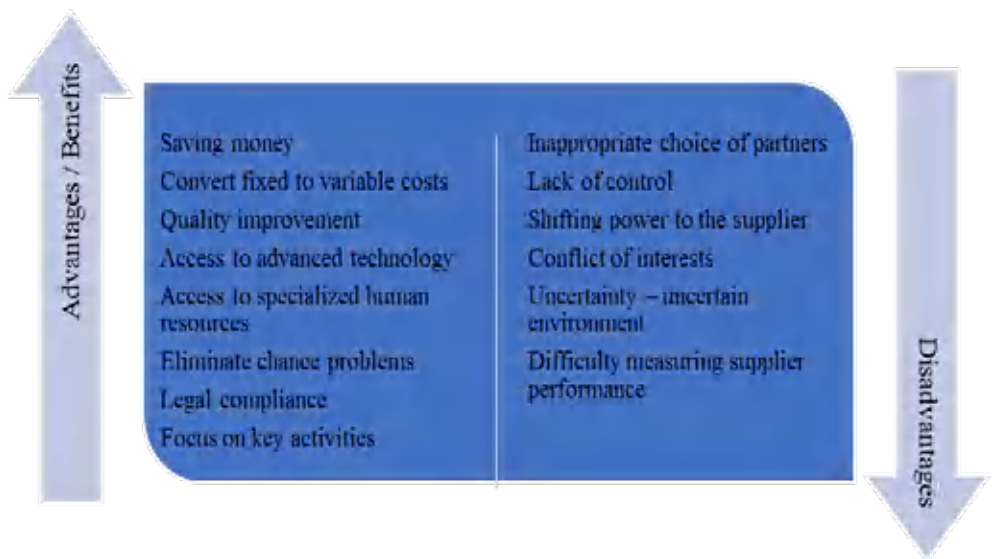
However, apart from the above categories, what is of particular importance is the way in which outsourcing is integrated into the business model of each company. When a company chooses to systematically assign to third parties all its non-critical activities and to focus where it has core competences, outsourcing becomes a central strategic choice, and we refer to strategic outsourcing (Carney, 1997).

Why Outsourcing?

The rapid growth of outsourcing indicates that there are expected benefits from it. Each organization has its own uniformity and its own needs, so it is reasonable for everyone to expect different benefits. The list of possible advantages is endless (Embleton and Wright, 1998).

It is common for most people to focus on the benefits rather than the risks. A key risk that leads to the failure of outsourcing is the inappropriate methodology (Greer, Youngblood and Gray, 1999). This means that if a company chooses to outsource certain activities to an external partner, it must carefully plan it in order to avoid potential problems. An indicative list of advantages, disadvantages – risks of outsourcing are the following:

Table 2: Advantages / disadvantages of outsourcing

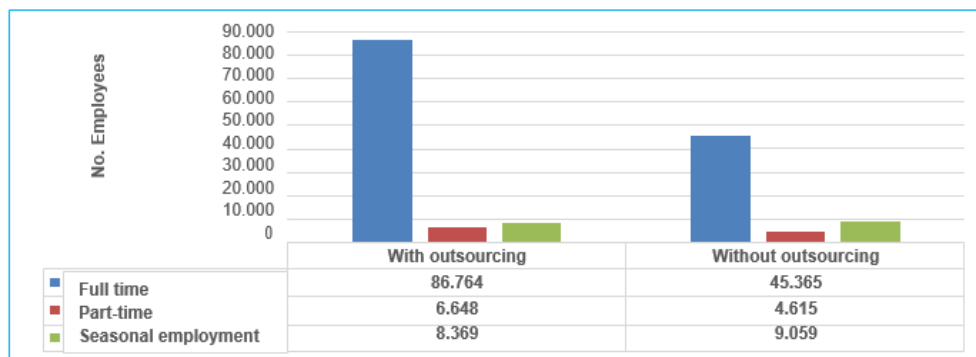


Source: Author's interpretation

Outsourcing in Greece

The recent survey of SEV in a sample of 831 companies from all over Greece and which employ at least 30 employees revealed important findings regarding the companies that apply outsourcing in relation to those that do not apply this practice.

The first finding concerns the extent to which the practice of outsourcing has been adopted by the sampled companies. Specifically, of the 813 companies that responded, 461 (56.70%) stated that they apply, 352 (43.30%) stated that they do not apply outsourcing, while there were also 18 companies that stated do not know / do not answer. However, when we approach this practice of work organisation from the point of view of employment, we see that it concerns larger companies in terms of the number of employees (Paraskevas, 2000). In particular, as shown in the following chart, the number of employees in full-time positions in enterprises that apply outsourcing amounts to 86,764 and constitutes 65.01% of the employees of the sample. That is, a percentage of just over half of the companies (those that implement outsourcing) employ almost 2/3 of all employees in full-time positions. This image does not apply to part-time and seasonal jobs and leads to the conclusion that the adoption of this practice of work organization is also linked to the existence of better-quality jobs within enterprises.

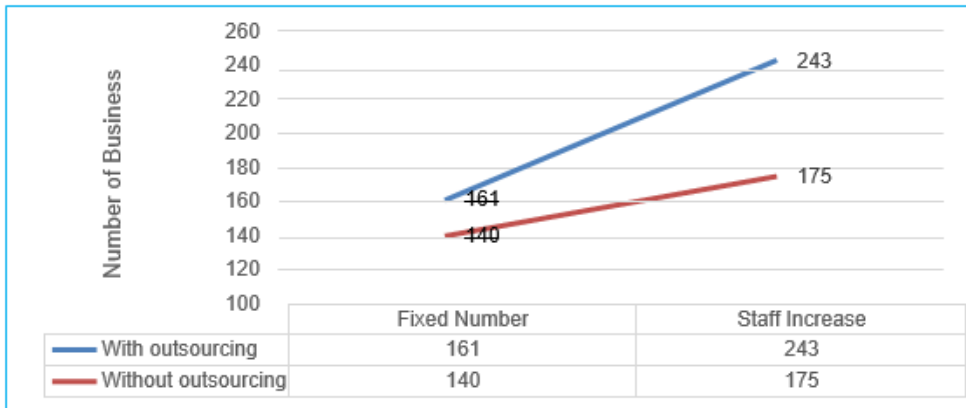


Source: SEV Hellenic Federation of Enterprises (2018).

Figure 1: Adoption outsourcing by businesses

Another extremely interesting and important finding concerns the correlation between the adoption of outsourcing and the prospects for the change of employment in the sampled enterprises. As shown in the following chart, the number of companies implementing outsourcing and intending to increase staff is much higher than those that do not implement outsourcing. This finding, combined

with the above given the greater average number of employees in enterprises with outsourcing, leads to the conclusion that the implementation of this practice of work organization leads, contrary to what one might expect, to an increase in employment as a whole and even to quality full-time jobs (Panayotopoulou, Vakola and Galanaki, 2007).



Source: SEV Hellenic Federation of Enterprises (2018).

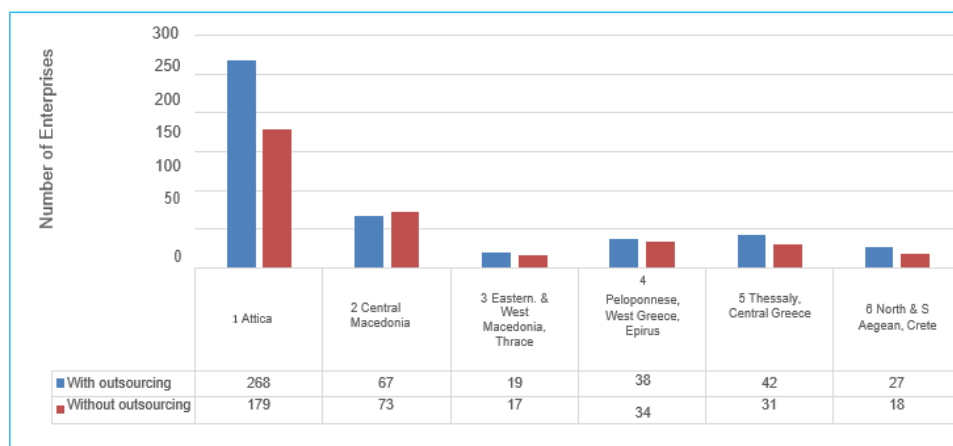
Figure 2: Correlation between adoption of outsourcing and the prospects for the change of employment in enterprises

The adoption of outsourcing by the sampled companies is universal throughout the country and in fact with slight deviations from the average as shown in the following charts, with Attica and the N. & S. Aegean, Crete having the highest percentage (60.00%) and Central Macedonia having the lowest (47.9%).

Table 3: Outsourcing as % of the region

Outsourcing as % of the region		
Region	Yes	No
1 Attica	60,0%	40,0%
2 Central Macedonia	47,9%	52,1%
3 Eastern. & West Macedonia, Thrace	52,8%	47,2%
4 Peloponnese, West Greece, Epirus	52,8%	47,2%
5 Thessaly, Central Greece	57,5%	42,5%
6 North & S Aegean, Crete	60,0%	40,0%
Total	56,7%	43,3%

Source: SEV Hellenic Federation of Enterprises (2018).



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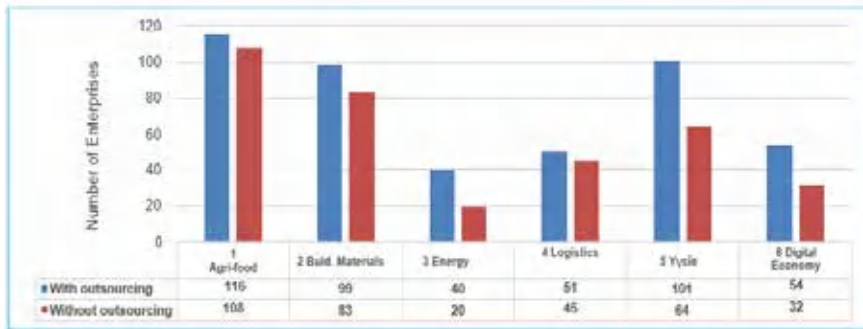
Figure 3: Outsourcing as % of the region

The picture in terms of sectoral ecosystems as shown in the following charts shows that in the energy sector there are percentage (66.70%) the most companies that apply outsourcing while on the contrary in the agri-food sector it is applied in the smallest percentage (51.80%). It is observed here that the sector that has the most businesses in absolute numbers has the smallest percentage in adoption of outsourcing.

Table 4: Outsourcing % of the sector

Outsourcing % of the sector		
Branch Ecosystems	Yes	No
1 Agri-food	51.8%	48.2%
2 Building Materials	54.4%	45.6%
3 Energy	66.7%	33.3%
4 Logistics	53.1%	46.9%
5 Health	61.2%	38.8%
6 Digital Economy	62.8%	37.2%
Total	56.7%	43.3%

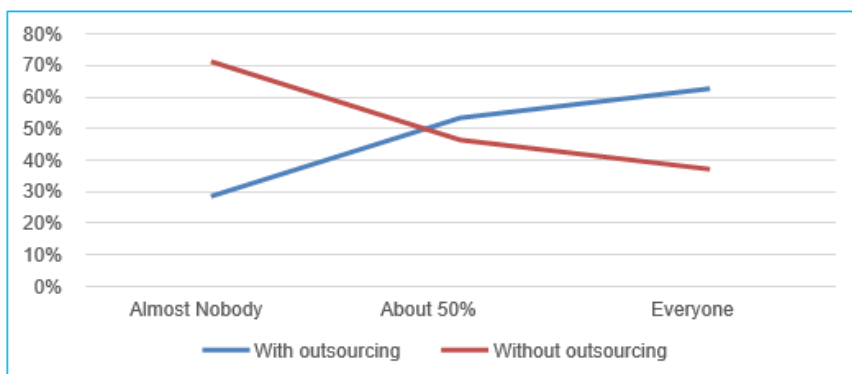
Source: SEV Hellenic Federation of Enterprises (2018).



Source: SEV Hellenic Federation of Enterprises (2018).

Figure 4: Outsourcing % of the sector

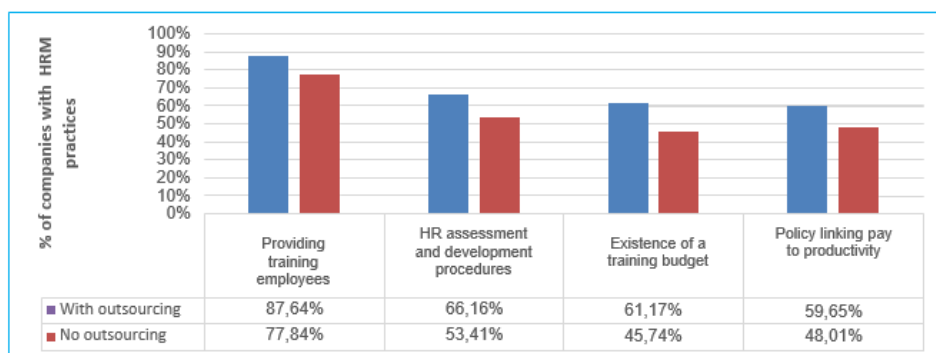
Because as mentioned above, outsourcing is one of the forms of work organization, we related this practice with the most basic of the systems and practices of human resource management in the sampled enterprises (Adler, 2003). The first, and most impressive, finding concerns the most basic process of job description (duties) of employees who, as shown in the following diagram, companies that implement outsourcing have an opposite profile to those that do not apply (Weatherly, 2005). Specifically, when asked what percentage of your employees have an approved “Job Description”, of the companies that answered ‘Almost none’, more than 2 out of 3 (71.43%) concern companies that do not implement outsourcing. Conversely, about 2 out of 3 (62.80%) who replied that ‘Almost everyone’ has an approved “Job Description”, belong to the companies that apply outsourcing



Source: SEV Hellenic Federation of Enterprises (2018).

Figure 5: Outsourcing and practices of human resource management in the sampled enterprises

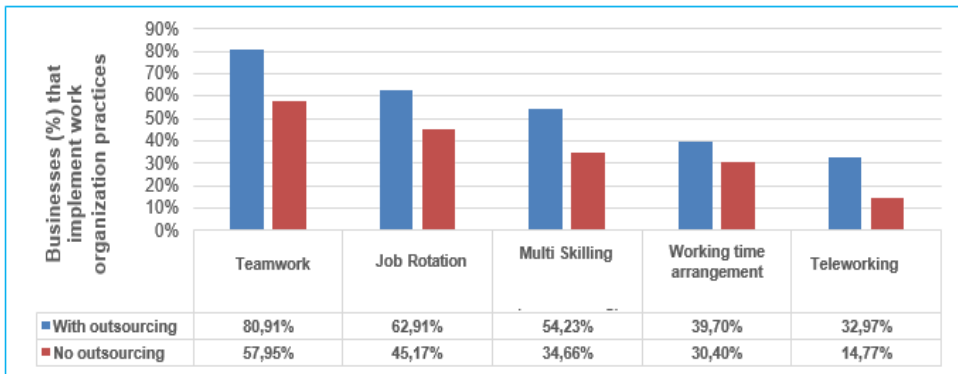
A similar picture exists in the other basic systems and practices of human resource management in the sampled enterprises. In particular, as shown in the following chart in all categories, enterprises that implement outsourcing perform better in terms of providing training to employees, evaluation and development processes, having a training budget and linking pay to productivity (Galanaki and Papalexandris, 2005). A very important finding is that almost 9 out of 10 companies (87.64%) that implement outsourcing provide training to their employees, that is, they continue to invest in knowledge (acquisition of new, adaptation of existing knowledge) as a component of employee development, but also of the companies themselves.



Source: SEV Hellenic Federation of Enterprises (2018).

Figure 6: Outsourcing and other basic systems and practices of human resource management

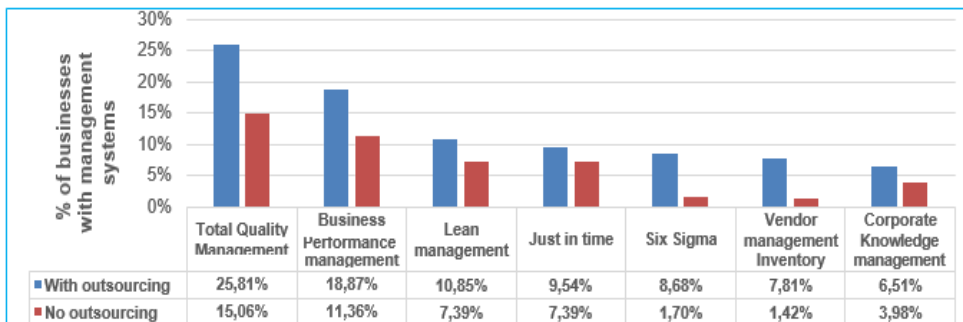
Regarding the correlation of the application of outsourcing with other practices of work organization, we observe from the companies that responded on this, as shown in the following chart, that in all categories, companies with the application of outsourcing excel (Shaw and Fairhurst, 1997). The most impressive percentage (80.91%) concerns teamwork, but the largest percentage difference in work organization practices concerns teleworking which is applied by companies with outsourcing to more than double (32.97% vs. 14.77%) than other businesses.



Source: SEV Hellenic Federation of Enterprises (2018).

Figure 7: Businesses (%) that implement work organization practices

In addition to the above systems and practices of human resource management, we also examined the correlation between the application of outsourcing and selected other used business management systems (Adler, 2003). And in this category, it is very clear the superiority of companies with outsourcing and even with universal superiority in all management systems as shown in the following diagram.



Source: SEV Hellenic Federation of Enterprises (2018).

Figure 8: Businesses (%) with management systems

What is happening in Europe?

The important role of outsourcing is also highlighted by the available data from countries with high production potential (Espino-Rodríguez and Padrón-Robaina, 2006). Indicatively, a study in a sample of 1415 Belgian companies

shows that companies doing extensive outsourcing (≥ 4 functions) achieve twice the growth rate of employment compared to those that do not assign any work at all (20.8% vs. 10.1%). Also, a study on a sample of 1.100 German companies showed that the assignment of IT Outsourcing increases the rate of business growth by 6% while the growth of employment is 10% higher than in companies that do not outsource (Grant, 2016). At the same time, the International Labour Organization (ILO) estimates that 25% of new jobs are created in international value chains.

How Greek businesses benefit?

For Greek companies, outsourcing can bring significant benefits and multiplier effects. Undertaking is a passport to the penetration of new markets and chains, as it enhances their credibility and facilitates access to capital, knowledge and technology (Lever, 1997). At the same time, the need to be included in international lists of certified suppliers accelerates the modernization of their production and management. At the same time, outsourcing turns businesses to maintaining jobs in highly skilled and high value-added sectors such as design, prototyping and branding (Grant, 1991).

Outsourcing can be a key component of the internationalization strategy of Greek businesses, and especially of the Mass Media, and a component of the shift towards an extroverted production model that creates quality jobs (Hiltrop, Jenster and Martens, 2001). When, according to the OECD and WTO, between 60% and 80% of world trade is served through international production networks, the integration of Greek companies into those, as contractors or subcontractors, of larger international companies, is a crucial parameter.

Conclusions

Outsourcing is the present as well as the future. The market demand not only of simple but also of the complex of HR outsourcing processes is growing (Jones and Finlayson, 1999). It is a practice that is being criticized and many companies do not accept it, but its benefits cannot go unnoticed (Dickmann, 2004). Of course, outsourcing is not a panacea but if used critically and wisely it can be an important tool for a business.

Businesses initially chose to outsource only the time-consuming and costly processes. However, there is an increasing tendency towards externalization and functions of strategic importance to the company (Hiltrop, Jenster and Martens, 2001). These mainly concerned training, staff training, evaluation as the results of the research show that the assignment of such tasks to an external partner brings multiple benefits for the company.

As it has been understood, the Human Resources department is perhaps one of the most important parts of the company (Foster, 2010). He faces the following double challenge every day. On the one hand, the daily operating needs of the department and on the other hand the need to align (the so-called alignment) of the strategic management of human resources with that of the organization (Zottoli and Wanous, 2000). The intense challenges lead in many cases to the solution of outsourcing. Outsourcing appears to the eyes of HR executives as a lifeline as it can lighten their responsibilities and enable them to focus on their main activities. Design is a prerequisite for the success of outsourcing (Weatherly, 2005). A properly organized and comprehensive outsourcing process can safely lead to the choice of “make or buy”. Perhaps it is the only way to enable outsourcing to act as a lever for growth, increasing the efficiency of employees and creating value in the business. Such serious operational decisions must not be taken overnight (Kavanagh and Johnson, 2017). The Administration must think strategically. At the same time, the international economic and social environment is constantly changing. Developments are rapid, with the result that the need for a different management model becomes imperative. Changing direction in the way of operating and thinking is essential for the sustainability of organizations (Gomez-Mejia, Balkin, Cardy and Carson, 2007). The practice of outsourcing in the strategic management of human resources, having as a compass everything that was set out above proves to be a tool that can help a company’s in the competitiveness (Hiltrop, Jenster and Martens, 2001).

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