Introduction

The nature of the personnel function has preoccupied academics for decades. However, the transformed business context of the 1980s and 1990s together with the far reaching structural and cultural changes which have been a feature of every medium size and large organization over the same period have provided a new impetus for examining the nature and role of the specialist function. The emergence of the concept of HRM with its emphasis on HRs strategic and value-added contribution to the business and the evolution of certain activities to line managers is central to any reappraisal. Whilst strategic HRM purports to focus on a number of key policy areas there is also a recognition of the increasing body of knowledge and specialist expertise required of the function if it is to provide an efficient and customer-focused service. At the same time, such developments foster an increasing fragmentation of specialist activity, what Tyson (1987) has described as the Balkanization of the function. The question of how personnel

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Outsourcing the HR function—personal threat or valuable opportunity?

- The article explores the current practice of outsourcing aspects of HR activity.
- The extent, rationale for and nature of outsourcing within the HR function in 60 UK manufacturing companies are examined.
- The implications of inadequate costings, lack of measurement of service levels and underestimation of the people and cultural aspects are discussed.
- The significance of outsourcing for the practitioner role and concomitant skills is considered.
- A five-stage framework to guide practitioner action is proposed.

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activities are structured and delivered goes further than decentralization and devolution to the line. Delivery has an internal/external dimension to it as well. In recent years a number of alternatives to the traditional corporate personnel function have emerged (Adams, 1991). This article examines one of these alternatives — outsourcing. It presents the findings of research into the extent and nature of outsourcing aspects of the human resource function in UK manufacturing industries and discusses their implications for wider human resource management practice.

The business of outsourcing

Organizations have always contracted with outside companies to provide goods or services — the make or buy decision is a key one in manufacturing (Quinn and Hilmer, 1994; Venkatesan, 1992; Welch and Nayak, 1992). Outsourcing is just one such form of subcontracting and used to describe the practice whereby work previously performed in-house is ‘contracted out’. Harrison and Kelly (1993) emphasize the important dynamic of choice in the decision to outsource or not and argue that the choice only becomes a reality if the organization has the technological and human resources to perform the activities itself.

The concept of core competencies and strategic outsourcing has been widely acknowledged for over 20 years. Whilst initially it meant reducing the number of product lines or ‘sticking to the knitting’, Quinn and Hilmer (1994) put forward a case for outsourcing those services in which the organization is comparatively weak or can develop no strategic advantage, even if they have been traditionally considered integral to the business.

Certainly the ongoing and apparent relentless search for strategic advantage and efficiency has put increasing pressure on private sector organizations to focus on costs, productive lean and mean business structures and contribution to the bottom line. Such developments have encouraged companies to question what activities should remain in-house and what activities should be outsourced, leading in turn to what Jennings (1996) describes as ‘the outsourcing revolution’. Outsourcing is not the exclusive preserve of private organizations. The practice is apparent in the public sector as well. However, it has been argued that such developments owe more to Government imposition through CCT and market testing than considerations of sound financial and business management (Benton, 1992).

Outsourcing and the human resource function

Flood et al. (1995) argue that with the shift in emphasis from ‘make to buy’ as organizations are encouraged to focus on their core activities and core competencies: ‘. . . the traditionally configured specialist personnel function becomes a potential candidate for outsourcing’.

This is a view echoed by Laabs (1993a) when she reports how American HR professionals are increasingly recognizing the benefits of outsourcing some of the activities which traditionally fall under their remit. In the UK, the practice of outsourcing certain aspects of ‘personnel work’ such as executive recruitment, payroll and catering has been prevalent in various organizations for some time.

Survey studies (Torrington and Mackay, 1986; Clark and Clark, 1990; Recruitment and Development Report [RDR], 1991) into the changing nature and role of the function provide some evidence for the extent of externalization. On the basis of the RDRs findings, Adams (1991) suggests that the reality is not one of straightforward externalization of personnel, not withstanding Torrington and Mackay’s (1986) and Clark and Clark’s (1990) evidence on the increasing use of external consultants. She argues instead for the existence of four alternatives to the traditional corporate personnel department which, in addition to external consultancy, encompasses specialist in-house units, internal consultancy, and business within a
business. Nonetheless, in what is undoubtedly a very complex picture, the evidence suggests that the use of external consultancy is not only the most popular and extensive alternative being adopted but one which is increasingly being used as well, particularly in the private sector (RDR, 1991). Information relating to the actual practice of outsourcing HR is at best partial. Survey evidence provides some support for the level and scope of uptake, together with the motivation for doing it.

The scope of outsourcing

Just what is being outsourced and to what extent? Some examples of varying forms of externalization from both the public and private sectors in the UK and abroad have been reported (Flood et al., 1995; Hall, 1995a,b; Laabs, 1993b). The practice of outsourcing the HR function in its entirety appears to be rare. Fowler (1997) rules out full outsourcing for reasons of the centrality of the function to the organization’s culture and strategic objectives, the immediacy of some of its decision making, for example, industrial disputes and a market demand for discrete specialist provision rather than a complete corporate service.

The core and periphery concept goes some way in explaining both the extent and range of outsourcing of specific personnel management tasks, but it is not sufficient. Survey evidence (Torrington and Mackay, 1986; RDR, 1991) shows that some organizations outsource activities which might be considered core activities. The reasons for outsourcing go beyond the notion of non-core tasks.

Rationale for outsourcing

Much of the literature on outsourcing in general has examined the rationale behind such decisions. Given the 1980s and 1990s context of a continuous search for competitive advantage and efficiency, it is not surprising to find key considerations being the need for increased focus on core business, cost reduction, greater flexibility and respon-

siveness, and improved quality (Benton, 1992; Bettis et al., 1992; Burnett, 1992; Huber, 1993; Jennings, 1996; Quinn et al., 1990; Quinn and Hilmer, 1994).

Similar arguments are advanced in the literature relating to HR outsourcing. Cost reduction appears to be a driving factor together with benefits of quality, flexibility, productivity, expertise/specialist knowledge and customer responsiveness. Other reasons advanced are temporary time shortage, need for impartiality or anonymity and ability to benchmark with other organizations (Holmes, 1993; Laabs, 1993a; RDR, 1991; Seeley, 1992; Wheatley, 1994).

Outsourcing an activity

One of the key decisions is what should be outsourced and with the notable exception of Flood et al. (1995) there has been very little attempt to model this decision-making process in the context of HR. By contrast, the literature, mainly in the area of facilities management does provide guidance in the selection of a supplier who can deliver to the required specification and standards and who will complement the desired business culture (Burnett, 1992; Croner, 1994; Carrington, 1994). A number of factors have been identified as being important but the significance of the implementation stage including the people, cultural and communication issues has been underestimated (Ballanger-Finch, 1996; Bennett, 1992). Some writers (see Lawrence in Hall, 1995a), have challenged the compatibility of devolution and outsourcing seeing it as an either/or choice rather than a decision about what activities are best outsourced and what best devolved to line management.

Consideration of the outcomes and implications of outsourcing has been more cursory but does raise some interesting issues. To what extent does the practice achieve what it sets out to achieve? It has already been pointed out that cost reduction is often the over-riding factor in the decision to outsource (and consequently the key selling point of the outsourcing consultant). With one or two
notable exceptions (Burnett, 1992; Wheatley, 1994) the actual costs associated with outsourcing are glossed over in the literature. Certainly it would appear that the cost reduction argument is not as axiomatic or as straightforward as it appears to be presented.

What is more, the fact that other value-added benefits emerge subsequently (Ballanger-Finch, 1996; Bird, 1992) or indeed ultimately supersede the cost argument begs the question of just how strategic the decision to outsource actually is and thus adds weight to Carrington’s (1994) assertion that many outsourcing decisions are ad hoc and not the result of long-term policy.

The outsourcing of non-core or ‘chore’ activities may be wholly consistent with the concept of strategic HRM and hold intuitive appeal for the HR specialist. At the same time the move does demand very different knowledge and skills of that person. In its extreme form it includes an absolute knowledge of what is available in the marketplace, an ability to handle an entirely new set of relationships between the organization and the various autonomous people who service it, together with the capacity to manage a small core team, essentially administering the bought in skills. Does this bode well for a function aiming to be strategic and is it in fact what professionals want? (Wheatley, 1994).

Against this background this article reports the findings into the extent and nature of outsourcing within the human resources function in UK manufacturing industries and considers the implications of such developments for the human resource professional.

**Outsourcing HR activities in manufacturing**

Data were gathered primarily by means of a questionnaire survey to 266 manufacturing companies (number of respondents 60 [23%]). Of the respondents, 50 (83%) employed over 500 employees and just four (7%) did not have a specialist function. The purpose of the questionnaire was to establish which activities were outsourced in part or full, the extent to which the move represented a strategic decision, the motivation behind it, and the nature of the planning and implementation process. Thirty activities were selected based broadly on the Personnel Standards Lead Body Functional Map.

Additional information was obtained from indepth interviews with two practitioners who had outsourced activities in the past five years and with two outsourcing companies. The purpose of these interviews was a more indepth exploration of the practice and
experience of outsourcing from both a customer and supplier perspective.

**A market of opportunity?**

Figure 1 illustrates that 55% of activities on the questionnaire remained in-house with the part or fully outsourced activities being split at 15% and 13%, respectively. Such findings do not support the impression given in some of the literature that outsourcing has already 'taken over' from the more traditional methods of delivery, although it might indicate a market of opportunity for those organizations providing services in the future. The fact that just 1% of activities were currently being considered for outsourcing may suggest the market opportunity is more limited or reflect its opportunistic nature.

As well as confirming that the practice of outsourcing HR activities is not as widespread as might have been expected closer analysis of the data reveals considerable variation between the different activities and the extent to which they are part or fully outsourced.

*outsourcing HR activities is not as widespread as might be expected*

Training and facilities type-activities (catering, security, cleaning) were the most extensively outsourced, employee or industrial relations-type activities (apart from legal services) the least outsourced and resourcing-type activities (recruitment and recruitment advertising, psychometric testing, assessment centres, pensions) falling between these two extremes. Moreover, the facility areas were more fully outsourced whereas the majority of resourcing and training activities were part outsourced.

The data also reinforced the view expressed in the literature (Bennett, 1992; Flynn, 1995) that outsourcing temporary staffing is a rapidly increasing trend with 56% of the respondents either considering outsourcing this activity or partly or fully outsourced already.

**Cost—the major motivation**

The most frequently reported reasons for outsourcing were lack of in-house expertise, reduced spend/cost and to free management time, whilst the least significant were risk reduction and lack of interest. Moreover, the study reinforces the view that cost is the major motivation to outsource particularly when all the reasons advanced, which have a cost element, are taken together. At the same time, the findings also confirm the growing recognition of other benefits associated with outsourcing, around expertise, supplementing high work load and where perceived independence of a project was desirable, thus reinforcing the notion of outsourcing core activities.

*cost is the major motivation to outsource*

Nonetheless, the study confirmed that cost savings are far from straightforward and may involve start-up costs, redundancy etc thus reinforcing Bennett’s (1992) point that:

Instead of a comparison based solely on wage costs, a true assessment should include costs of recruitment, payroll, administration and training, of employment rights such as redundancy as well as management time and opportunity costs.

**Defining the true costs of service delivery**

Five key areas were identified as problematic: problems of maintaining quality of service, underestimation of hidden costs, accountability of support service provided, lack of understanding by suppliers of core business and communication with suppliers. Of these, problems maintaining quality of service and lack of understanding by supplier of core business were identified as the two greatest single problems encountered.

This was confirmed in the interviews, where individuals reported problems with
unexpected costs and fees for the unseen. Neither company interviewed realized the target cost savings. At the same time they admitted to minimal feasibility analysis and an inability to quantify improvements due to inadequate measures of HR performance.

Maintaining quality of service and supplier accountabilities, retaining service level and contractual issues concerns measures, targets, objectives and strategies. Lack of understanding of the business and communication issues focuses on questions of implementation and culture. Again these points were reinforced in the interviews which confirmed a lack of communication, training/development or consultation plans for outsourcing implementation. What is more it is clear that the reactive nature of the decision limited employer awareness of supplier fragmentation. On the supplier side, it was reported that feedback on services provided was largely informal and unstructured.

Outsourcing—a positive experience

Over three quarters of those respondents who had outsourced were positive about the experience and almost two thirds saw a potential to outsource further. However, the nature and extent of the problems reported here, does cause this high figure to be questioned and it may be that the absence of measurement and evaluation has resulted in a lack of critical awareness of the wider issues.

Clearly such feelings and the fact that a lot of activities still remain in-house suggest a healthy future for outsourcing suppliers and a worrying one for those who may feel threatened by the prospect. At the same time, the problems, lack of analysis and inadequate implementation also identified in the research assume even greater significance against this context of potential growth.

Outsourcing HR—adding value?

The need for a business-focused HR contribution is a concept which has long been espoused by both the HRM literature and organizations and the practice of outsourcing aspects of HR activity is a logical outcome of such an approach. However, the extent to which the HR function fulfils a value-adding role in practice is less clear.

Measurement is fundamental to an effective HR service

Measurement is fundamental to an effective HR service yet many practitioners dislike or actively shy away from the practice. Hard, quantitative measures are available and indeed often exhorted but an exclusively quantitative approach could miss some of the important subtleties of performance. In the specific context of outsourcing, Wheatley (1994) argues it is only worth outsourcing an activity if it can be shown to lead to cost or service improvements. The experiences reported in the survey of underestimation of hidden and unexpected costs and problems maintaining quality of service illustrate the issues around measurement only too well.

Furthermore, a value-added strategy depends not just on ‘doing-things-right’ but on ‘doing-the-right-things’ (Kesler, 1995). This not only involves contracting with line management on the priority practice areas and outputs but more fundamentally, agreeing with them precisely what role the HR function should play. It is only then that the current delivery systems can be evaluated and potentially re-engineered, for example along Adam’s (1991) continuum or in line with Venkatraman’s (1997) concept of a value centre. The significance of such a step is reinforced by Lacity et al. (1996). From their survey of 62 IT sourcing decisions, they concluded that outsourcing attempts frequently fell short of the expected cost savings and other benefits because managers failed to carefully select which IT activities to outsource.

The survey results outlined here provide no evidence to suggest that such processes occur
in practice despite the fact that 60% of the sample claimed to be strategic in respect to HR policy making. Indeed, the fact that less than 14% of those who had contracted out in the last five years had conducted a systematic review to consider the process calls their strategic influence, planning and decision making into question. Indeed the evidence from the interviews reinforced the view that decisions to outsource are ad hoc and opportunistic.

What is more, designating activities or even functions as non-core can begin to isolate those activities. Fowler (1997) in arguing against total outsourcing of the function suggests that even partial outsourcing might lead to elements of HR work being re-packaged and therefore involve re-organization of the entire specialist function as generalist personnel officers can no longer move seamlessly between routine personnel administration and strategic advisory work. Such developments raise a key dilemma in the outsourcing debate—the extent to which concentrating on the core business ultimately limits the organization’s ability to have a broader awareness and understanding of the bigger picture.

The problem perhaps lies with the designation of the term core and periphery and the implicit message contained within it. In human resource terms outsourcing can simply imply that an individual is no longer central to the business or that he or she is a commodity which can be bought or sold at will. The shifting of risk from the employer to the employee, in terms of job security, has emerged as a central area of ethical concern (Winstanley et al., 1996; Warren, 1996). Outsourcing raises other ethical issues too, in the areas of supplier bribery, ethical choices in decision making and ethical approaches to implementation not to mention the general ethical stance of the supplier. If leadership in terms of a code or programme is not provided by the organization then the onus is on the HR practitioner to make ethical decisions, a task which should not be underestimated in the relentless climate of competitiveness and pressure to deliver.

A strategic alliance

Structuring and managing an outsourcing activity presents a challenge for the HR practitioner.

Outsourcing should be a strategic decision

Outsourcing should be a strategic decision which transcends the boundaries of organizational design, structure and culture. The research has identified a number of shortcomings in the way HR outsourcing is currently approached and implemented in manufacturing. McFarlan and Nolan’s (1995) suggestion, in relation to IT, that the outsourcing agreement should be viewed and managed as a strategic alliance is relevant in the HR context. An added-value approach to the business requires that much more consideration be paid to the entire process from determining when and what to outsource through to structuring and managing the resulting alliance.

A five-stage framework is recommended to guide practitioner action. If the reactive approach identified in the research is to be avoided, then the process needs to start with some fundamental questions about the organization’s human resource activities and the relative line/specialist roles within those activities—what Flood et al. (1995) define as the different degree of internalization. It is only then that decisions about an appropriate delivery system should be made, recognizing that the choice is more complex than a simple make or buy—涉及 different degrees of externalization. It is at this second stage that consideration should be given not only to the hard information such as cost and service levels but also to the less tangible issues of culture and ethics. Where cost saving is paramount then it is important that like is compared with like and decisions based on a true assessment of cost. Activity-based costing models are useful here (Turney, 1996). Assuming the decision is to outsource then
the next step is to select a supplier who can not only deliver to the required specification and standards but who also complements the desired business culture (Bennett, 1992). This is where treating the relationship less as a contract and more as a strategic alliance assumes significance. The penultimate stage, implementing the outsourcing decision, needs to be systematic, methodical and well documented. Communication with both internal core and supplier personnel is critical. Bryting (1994) provides some ethical guidelines where the transfer of staff is concerned to ensure that the integrity and dignity of everyone involved in the process are respected. The final stage involves monitoring and evaluating the process from both internal and external perspectives. In the case of the former it means obtaining customer feedback on the new service and in the latter, it involves not only keeping abreast of developments in that particular field of activity but also continuing to evaluate the outsourcing market. Keeping tight control of the process through good reporting systems is critical too (Altman, 1997).

**Developing new competencies**

The move away from non-traditional methods of HRM (Flood et al., 1995) demands new and very different skills and competencies of the HR professional. Studies (Cardy and Robbins, 1996; Gorsline, 1996; McKiddie, 1994) have emphasized the importance of a broad understanding of organizational strategy and business together with sound change management skills. Additionally, practitioners have been exhorted to demonstrate clear leadership, creativity, innovation, proactivity and sensitivity to organizational culture and values in the relentless search for the HR strategy — performance linkage.

Such competencies are particularly relevant to outsourcing if it is to have any value as a strategic tool but as Kesler (1995) argues: ‘For most traditional HR organisations, these skills have been neither expected nor developed’. Certainly, the way outsourcing has been approached in the companies reported in this study has done very little to dispel such concerns. Indeed, one might argue that the apparent reactive, non-strategic or even ad-hoc way in which the outsourcing decisions were taken were consistent with a profession which is traditionally viewed as low-value and administratively oriented. The strategic approach to the outsourcing decision, outlined here, will only work if the professionals who are party to it have the competencies to deliver the new approach. Clearly, the professional body, the Institute of Personnel and Development (IPD) with its recently developed professional standards is pivotal here.

**Moving the boundaries — personal threat or valuable opportunity?**

It could be argued that the ‘traditional’ corporate personnel or HR function is no longer relevant or applicable as we approach the next century. Organizations and HR specialists within them, in both the public and private sectors have a range of alternatives through which the HRM processes can be delivered along a make-buy continuum. A decision to outsource (buy) part or indeed all of this function is one such alternative, but only one.

The virtual organization may be a long way off in HR terms but even minor adjustments to the boundary have ramifications for the professional role. This study has examined the extent of and potential for outsourcing in manufacturing and in doing so has raised a number of issues. These are not just about the practicalities of outsourcing and ensuring that it is planned, implemented and evaluated in a considered way, based on sound decision making and financial principles. They also include questions of the application of new skills and qualification relevance, ethical behaviour and loss of professional identity.

To what extent do such changes represent a personal threat or provide a valuable opportunity for the practitioner? The answer to this depends on how change is perceived. Outsourcing provides an opportunity for the
in-house professional to enhance her or his role. The actual process itself, if undertaken effectively, demands increased business and management awareness which cannot fail to add value and improve the status of the HR specialist. However, it can go further than that, the outsourcing decision has an ethical dimension involving considerations of fairness and legitimacy, which should surely be part of the specialist role however it is delivered.

**Biographical note**

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**References**


