

OUTSOURCING HUMAN RESOURCE MANAGEMENT: THE IMPACT ON EMPLOYEE SATISFACTION AND TURNOVER

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Abstract

Human resource outsourcing (HRO) is increasingly being employed by organizations around the world. Some contend that human resource (HR) departments should only provide those HR activities core to their organization's competitiveness and source the remaining activities externally. This study explores the relevant factors to consider in outsourcing. For example, a primary reason managers choose to outsource human resource management (HRM) processes is to lower costs. Subtracting the cost of employees formerly paid to provide HRM services from the cost of the HRO contract is relatively straightforward; however, other factors may yield additional benefits and costs to the outsourcing organization.

For example, the quality of the HRM services provided by an external party may differ; thereby affecting employee attitudes and behavior, which in turn may have positive or negative effects on employee retention, productivity, customer satisfaction and overall profitability. This study collects primary data from more than 200 organizations regarding their use of HRO and organizational outcomes such as turnover and customer satisfaction. This data is combined with publicly available secondary data on firm performance to explore the relationship between level and type of HRO and firm-level outcomes.

The results of this study contribute to the literature on HRM and business process outsourcing by examining a wider array of costs and benefits from outsourcing HRM activities than previous studies. The target audience of this research is corporate executives, HR consultancies and HR leaders involved in outsourcing decisions. The implications may challenge conventional wisdom about outsourcing HR activities by using a framework developed from the resource-based theory of the firm, transaction cost economics, social-exchange theory.

As an initial step in examining HRO seven attributes that theoretically would predict the suitability of an HRM activity for outsourcing were specified: level of complexity, repetition, firm-specificity, interdependence, expertise required, social capital created, and personalization. Economic theory suggests that activities high in complexity, firm-specificity and interdependence are less like to be outsourced effectively due to transaction costs. In contrast, activities high in repetitiveness and required expertise but low in personalization are more likely to be outsourced due to returns to scale and scope. Social exchange theory suggests that activities creating social capital for the employee cannot be outsourced without reducing employee satisfaction.

A survey of more than 40 managers and human resource professionals was used to assess 30 HRM activities on each of the seven dimensions. In addition these respondents were asked about the suitability of each to outsourcing. The five activities most suited to outsourcing in order were: salary surveys, computer and technical training delivery, pre-employment assessment, employee surveys, and employee assistance programs. Based on the rater assessments of complexity relocation, tuition reimbursement, employee assistance programs, resume screening and interviewing non-exempts are good outsourcing candidates. Based on the rater assessments of firm-specificity customized training programs, organization design, management training, merit pay implementation and succession planning should not be outsourced. The empirical data provides insight into what is actual happening in the United States and any impact on employee retention.