

MARKET REACTIONS TO HR OUTSOURCING ANNOUNCEMENTS

Kevin E. Dow, College of Business and Public Policy, University of Alaska, Anchorage, 3211 Providence Dr., Anchorage, AK 99508, afkd2@uaa.alaska.edu

Patrick Fort, College of Business and Public Policy, University of Alaska, Anchorage, 3211 Providence Dr., Anchorage, AK 99508, cpfort@uaa.alaska.edu

Rashmi Prasad, College of Business and Public Policy, University of Alaska, Anchorage, 3211 Providence Dr., Anchorage, AK 99508, afrp2@uaa.alaska.edu

Human Resource (HR) outsourcing continues to be the strategy of choice for many organizations in an attempt to maximize cost saving opportunities and to reduce the burden of non value-added activities. HR outsourcing decisions are important to organizations because they often represent a significant share of an organization's budget, and outsourcing provides an opportunity to leverage the core competence of another organization that specializes in those HR services. While improving the efficiency of the HR function is important, HR outsourcing contracts might serve as a catalyst that can enable HR to contribute more value to the business.

The Core Competence concept [3] identifies the strategic value of firms' focusing on the effective integration of a limited set of activities (which has been rewarded by capital markets). HR is a complex set of functions, some of which, especially recruitment and training, are regarded as essential sources of competitive advantage [1,2]). The market should reward firms that focus on value-added activities, while not focusing on those support functions on which they do not specialize.

Outsourcing of HR functions is more like relational contracting than classical spot-contracting, and the value-creation that comes from outsourcing HR will depend on the quality of the interaction (e.g. trust, communication, social capital) between the two firms. Firm-size and industry may also be a motivating factor in seeking to outsource HR. For example, knowledge intensive firms often function in special agglomeration zones (e.g. Silicon Valley) where the community of professionals (e.g. software developers) clusters, and across which information about personnel flows freely. As these firms grow, their HR needs become such that they need to search beyond the cluster, yet rapid internal growth and differentiation of the firm threatens the functioning of its core work processes e.g. [4], which they prefer to buffer. Therefore, outsourcing HR functions should be preferable and valued by the market.

This objective of this paper is to investigate the abnormal returns associated with HR outsourcing announcements by firms between 1997 and 2009. We gathered 101 announcements from firms that have outsourced their HR functions to external service providers and analyzed them using the event study methodology. The event study methodology is a statistical method that can assess the impact of a specific event on the market value of a firm. The preliminary results suggest that HR outsourcing is valued by the market. They provide the empirical evidence supporting the economic motivations behind HR outsourcing and have significant implications for further research and practice.

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