

Outsourcing Human Resource Activities: Measuring the Hidden Costs and Benefits

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## **Dedication**

This thesis is dedicated to my wife, Sherri, who provided me the time and resources needed to complete this work along with the love to make it worthwhile.

## **Abstract**

This thesis contributes to the literature on human resource management (HRM) and business process outsourcing (BPO) in three important ways. First, this is the first study to report on the level of human resource outsourcing (HRO) for 34 distinct human resource management activities. Currently, the vast majority of the information available on HRO comes from consultant reports (Aberdeen Group, 2006; Equaterra, 2008; Towers Perrin, 2008) and articles in the popular press (Engardio, et al., 2006). Only a handful of academic studies (Gilly, Greer & Rasheed, 2004; Lawler, Boundreau & Mohrman, 2006) have systematically measured HRO. Second, this study examines the impact of HRO on organizational outcomes by attempting to detect an association between levels of outsourcing different types of HRM activities and three dependent variables: employee turnover, employee satisfaction, and customer satisfaction. Third, this study reports the assessments of several dozen expert raters as to the attributes of the 34 measured HRM activities and their suitability for outsourcing. The data set contains organizational data collected from multiple sources, including HR vice-presidents, CFOs, HR professionals, managers, organizational archives and publically available financial records. The evidence suggests that HRO levels vary along with the predictions of transaction cost economics and that outsourcing certain HRM activities may be associated with employee retention.

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This thesis tackles three important research questions related to the explosive growth in human resource outsourcing (HRO). It should be noted upfront that due to the paucity of scholarly work in this area this work is exploratory. The first series of research questions simply requires an observation of this new phenomenon— which HR activities are being outsourced, to what extent and by whom? The second series of research questions focuses on the determinants of HRO— what attributes make a business process, such as HRO, well suited for outsourcing? The third series of research questions examines the organizational impact outside of the direct financial costs— what, if any, relationship exists between employee retention and the type and level of HRO? Might this relationship extend to employee satisfaction and customer satisfaction?

The analysis of the third question has implications for the field of strategic human resource management. If human capital is a core asset and a source of sustainable competitive advantage, how far can a firm outsource people management activities without putting their performance and existence at risk?

The approach used to answer the second set of research questions begins with the development of a typology of attributes based on economic, sociological and management theories predicting the suitability of outsourcing HRM activities. These predictions are then compared to the actual levels of HRO measured in 2007. The third set of research questions compares 2007 HRO levels to the employee satisfaction, employee retention and customer satisfaction measures. The theoretical perspectives applied include: transaction cost economics, organizational capital, social exchange theory, and the resource-based-view of the firm.

## **Chapter 1: Human Resource Outsourcing: An Overview**

An exploratory study of this type benefits from looking at the broader picture of the wider phenomenon. This chapter begins by comparing definitions of outsourcing followed by a brief review of the literature on the reasons for outsourcing. Next a recap of both the history and the geographic scope of outsourcing are presented. Finally, human resource outsourcing is described with an analysis of the major types of HR activities commonly outsourced.

### 1.1 Describing the Outsourcing Phenomenon

There is little disagreement in the academic community that outsourcing is an important management practice and that the level of outsourcing has increased dramatically in the last decade. *Business Week* noted that HRO has been the fastest growing area of business process outsourcing (Engardio, et al., 2006). There is somewhat less agreement about the definition of the term “outsourcing”. Business process outsourcing can include transferring an entire business function (e.g. payroll), a production process (e.g. ready-to-install windshield manufacture) or a portion of the related processes (e.g. mailing paychecks, windshield glass delivery). The decision to outsource may be purely financial, but may also have strategic implications.

#### *1.1.1 Defining Outsourcing*

As recently as 2002, the *Shorter Oxford English Dictionary* did not define outsourcing. The definition of outsourcing found on Wikipedia on December 17, 2007, read “Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company.” There are dozens of definitions of the term in the academic literature. Brown and Wilson (2005, p. 24) define outsourcing as “the act of obtaining

services from an external source.” Describing information technology (IT) outsourcing Kern, Willcocks and Heck (2002) state that “outsourcing is the practice of contracting out or selling the organization's IT assets, people and/or activities to a third party supplier for monetary payments over an agreed time period.” This framework fits the experience of HRO in that the definition includes the practice of “badge flipping” which is the term used when an HRO provider assumes the employment responsibility for a share of the new client’s former human resource professionals.

According to McIvor (2005, p. 7), “Outsourcing involves the sourcing of goods and services previously produced internally within the sourcing organization from external suppliers.” The key point worth noting is that this definition excludes processes never performed internally. Linder (2004, p. 27) writes that outsourcing is “purchasing ongoing services from an outside company that a company currently provides, or most organizations normally provide, for themselves.” This view limits McIvor’s definition by adding the qualification that most organizations normally provide some services for themselves. Lee and Hitt (1995, p. 836) provide a much broader definition for outsourcing, as “the reliance on external sources for the manufacturing of components and other value-adding activities.” This definition could include nearly any activity so long as it is value-adding.

This paper adopts the broader definition, though it excludes activities such as advertising and independent auditing as these are nearly universally outsourced by companies that are not directly selling these services to other companies. Kotabe and Mol’s (2006) notion that outsourcing may be viewed as both a process and a state is helpful. They define the state of outsourcing as “the procurement of goods and services

from external suppliers.” The opposite is vertical integration or the production of goods or services within the firm. Kotabe and Mol (2006, p. 5) define the outsourcing process as “a range of actions within a clearly identifiable time-frame that lead to the transfer to outside suppliers of activities, possibly involving the transfer of assets including people, as well, that were previously performed in-house or procured from other units within the corporate system.” The Kotabe and Mol definition encompasses purchasing and subcontracting, which recalls Thompson’s (1967, pp. 54-55) categorization of interdependence mechanisms.

### *1.1.2 Types of Outsourcing*

Thompson’s categorization describes purchasing as involving a discrete transaction in which no communication is needed between ordering and delivery (e.g. books ordered for a training program). Subcontracting is akin to sequential interdependence where the buyer takes the lead (e.g. a diversity training firm is hired to run a one-day workshop for employees in Chicago). Strategic outsourcing involves a reciprocal relationship in which the outputs of one become the inputs of others and a joint relationship may arise (e.g. engaging an HR outsourcing provider to manage the employee call center handling benefit enrollment, reimbursement and all related questions and requests).

Defining outsourcing primarily in terms of procurement activities fails to capture the strategic nature of the issue. Outsourcing is more than a purchasing decision, as every organization purchases elements of their operations. I argue that the term outsourcing should refer to processes less common than any purchase and is distinguished from purchasing as outsourcing represents the decision to reject the

internalization of an activity. The definition used in this study takes the view of Gilley and Rasheed (2000) which states that the decision to outsource is a strategic choice with the potential to cause ripple effects throughout the entire organization.

Outsourcing may arise in two ways. First, outsourcing may arise through the *substitution* of external purchases for internal activities. The use of an internal supplier is discontinued in favor of procurement from an outside supplier and may be viewed as vertical *disintegration*. This seems to be the most commonly understood type of outsourcing. Gilley and Rasheed (2000) describe a second type of outsourcing that occurs through *abstention*. Here, outsourcing need not be limited to activities shifted to external suppliers, but may also arise when a firm purchases goods or services not provided in-house previously. Abstention-based outsourcing differs from basic procurement because provision of the good or service outsourced is within the acquiring firm's managerial capacity.

Outsourcing is thus the use of outside resources to perform activities traditionally handled by internal staff and resources. The "make versus buy" decision has a history as long as that of the trade of goods or services between people. Companies have long used contractors for very specific types of work or to level out spikes in their workload. However, subcontracting differs from outsourcing in that subcontracting is intended to temporarily supplement resources, while outsourcing involves the restructuring of business activities on a more permanent basis.

Mol (2007, pp. 3-4) summarizes the attempt to define outsourcing by providing three descriptions of outsourcing:



- “1. Outsourcing refers to those activities that are undertaken by outside suppliers.
2. Outsourcing refers to the transfer of activities and possibly assets from a firm to an outside supplier.
3. Outsourcing refers to those activities that are undertaken by outside suppliers but could also be undertaken by the firm.”

Mol (2007) notes that the third definition is not particularly helpful, for if one considers activities that could *technically* be performed by an organization, this includes nearly everything. If, instead, one modifies this definition to include activities that *economically* be performed, the reasoning becomes circular. In effect this would be stating that outsourcing includes those activities which are most economically outsourced. This assumes perfect information about costs and benefits.

Information about the true costs and benefits is precisely what does not exist in most cases of new outsourcing of business processes. Firms enter into an outsourcing arrangement with the intention of getting more for less, but given the numerous contextual differences between firms and providers, in most cases the true costs and benefits cannot be known until after outsourcing commences and sometimes even then the true impact is cloudy.

Contracting, contracting out (Domberger, 1998) and farming out (Doig, Ritter, Speckhals and Woolson, 2001) are terms similar in meaning to outsourcing. The term “out-tasking” used by Friedman (2005) refers to hiring an external provider on a limited basis for a particular project, such as the design or delivery of a training project. This term is nearly synonymous with subcontracting. Outsourcing differs from out-tasking in that outsourcing refers to a long-term decision, not a one-time deal. In the realm of knowledge-based work, outsourcing is distinguished from consulting in that consultants

advise about “how to do” something and an outsourcing provider “does it”. The line between consulting and outsourcing can be especially blurry in the domain of business processes. This may account for the fact that several of the largest HRO providers are part of larger management consulting firms.

The definitions of outsourcing used by many authors often differ in their focus on a particular context such as information technology or construction. Repackaging of old concepts into new terminology is a tried and true phenomenon akin to pouring old wine into new bottles. For this reason a discussion of the development of outsourcing may be of value.

### *1.1.3 Outsourcing as the Natural Outcome of the Division of Labor*

Outsourcing arose with organizations and its study goes back at least as far as Adam Smith’s analysis of the division of labor. The division of labor and the subsequent trade of the fruits of that labor is a basic activity that arose as a cornerstone of civilization. Individuals or groups of people specialize in some production processes and rely on others to produce and supply inputs to their production along with other finished goods. The nature of trade is such that it increasingly requires outsourcing a specialization and the division of labor increases.

The industrial revolution was a period of increased outsourcing accompanying radically new forms of production. Recall Chandler’s *Visible Hand* (1977) and the role of trust and family firms in this time of transition. By the 20<sup>th</sup> century several industries reversed this trend of atomistic production and consolidation began in the form of a Fordist vertical integration up until the 1970s (Piore and Sabel, 1984).

While Porter (1980) made much of the importance of scale and bargaining power, by the late 1980s decentralization and dismantling of conglomerates became commonplace as *keiretsu* (a type of strategic outsourcing) and management practices like “lean production” popularized by Japanese automakers (Womack and Jones, 2003) became the focus of study for practitioners and academics alike. The decision to outsource, to put it another way, is making decisions about the boundaries of the firm (i.e. redrawing the boundaries between an organization and its suppliers).

Changes in communication, computing and transportation technologies occurred in the 1980s which greatly reduced the costs of trade in a variety of services. Deregulation of phone companies combined with satellite communication systems and the commercialization of the internet reduced the cost of communicating globally to an insignificant expense in most developed countries. Enterprise Resource Planning (ERP) Systems and Electronic Data Interchange (EDI) systems created standard protocols for exchanging information. Huge amounts of data can now be exchanged between organizations instantly at almost zero cost. This creates the ability to exchange information about the cost and quality of an available service at a cost that invites suppliers to enter new markets as well as creating markets for the externalization of knowledge-based processes that previously had to be physically co-located with an organization. Containerization technology has lowered shipping costs so dramatically that production became economic in distant locations like China.

These technological changes were accompanied by increasingly open trading and investment regimes. Tariffs and barriers to trade and investment continue to fall. The end of the Cold War added the human resources of an additional three billion new

capitalists (Prestowitz, 2006) as the workers of China and the former Soviet republics joined the global labor pool and India shifted its alliance with the Soviet bloc. At the same time several countries adopted domestic economic reforms which liberalized their economies, facilitating rapid economic growth and expanded trade. As with any technological innovation, a period of time is needed for managers to change their way of thinking and discover and adapt to and discover and adapt to the new possibilities available. The change in the belief system of managers needed to create outsourcing champions occurred in the 1990s with increased discussion of focusing on one's core and improving the ability to manage inter-organizational relationships (Prahalad and Hamel, 1990; Powell, 1990; Uzzi, 1997).

Some organizations have taken the extreme approach of using large-scale outsourcing of traditional functions to dismantle the organization into a web of relationships between separate entities, transferring staff to external vendors while redefining the terms of employment and expectations of existing staff. This creates a new organization form often labeled a "virtual corporation" (Davidow, 1993). With the potential to bring major organizational change, outsourcing is a complex and important issue for many organizations.

The dramatic increase in the level of outsourcing of a wide range of business activities combined with innovations in the types of services now considered to be candidates for outsourcing has brought a great deal of attention to the phenomenon from the management community inside and outside of academia. The reaction to outsourcing varies between and within affected groups such as executives, politicians, employees and unions. For example, in the United States, a great deal of attention is

currently being paid in political and business circles to outsourcing and its effects on labor markets and global trade.

## 1.2 Review of the Literature on Outsourcing

A search of the Business Premier database on articles with the term “outsourcing” in their titles, keyword and abstracts yields more than 2,700 peer-reviewed articles and more than 20,000 non-peer reviewed articles appear. At the end of 2008, the Library of Congress had more than 300 books with outsourcing as a keyword. The topic of outsourcing is by no means new and the number of research studies published in this area is still growing, so carving out original research will not become easier. This study focuses on the rapidly growing segment of HRO.

Advantages and disadvantages of the current literature will be reviewed and the current state of knowledge with respect to performance and context will be discussed. Key theories applicable to HRO suitability are explored in a later chapter with an attempt to move beyond the current focus on the micro-economic perspective of outsourcing.

The use of contingent workers to perform business processes is similar to outsourcing in some respects as they provide flexibility with respect to work levels and offer the promise of lower costs due to the lack of benefits provided. Davis-Blake and Uzzi (1993) provide statistically significant evidence linking five firm traits to the use of contingent and temporary workers: firm specific training, government oversight, job complexity, the presence of bureaucratized employment practices and size. Each of these traits was associated with lower usage of independent contractors. With respect to the determinants of a firm’s use of contract workers, employee benefit costs had no statistically significant relationship. However, variable employment levels,

bureaucratized employment practices, establishment size, and the presence of multiple establishments within the organization were statistically associated with increased use of independent contractors. Industry was an important determinant of contract work with larger usage of the practice by organizations in construction, manufacturing and services.

### *1.2.1 Geographic Scope*

Though the two words are frequently used interchangeably, “outsourcing” differs from “offshoring” in that outsourcing relates to the restructuring of the firm’s production process while offshoring is relative to the location of production. It is curious that the term offshoring is used to describe foreign or global sourcing and is actually inaccurate as a term for trade between U.S. and Mexican firms or German and Polish firms as there is no “shore” across which trade is conducted. As the two terms outsourcing and offshoring are not mutually exclusive, it is useful for clarity to refer to domestic outsourcing and non-domestic outsourcing.

Reductions in tariff and non-tariff barriers to trade, investment and the flow of labor across national borders combined with developments in information and communication technologies permit collaboration between people and across distances that were previously impossible or impractical. Public sector shifts towards privatization have encouraged outsourcing. These forces are causing organization structures to evolve.

McKinsey & Company (2004) surveyed 7,300 executives worldwide on whether outsourcing low wage jobs to developing countries is beneficial to the global economy

and found that 80 percent of them agreed that it was. This ratio was roughly the same for Europe, Asia and North America. When asked about whether outsourcing was good for their organization the agreement varied substantially by country: agreement with the statement was 97 percent for Indians, 86 percent for Chinese 70 percent for Europeans and 58 percent for Americans.

India-based BPO providers-- such as Infosys, TCS and Wipro have seen their market share increase to 7 percent of the worldwide market in 2006, from less than 0.5 percent in 2002 according to a study by outsourcing advisory firm TPI (Financial Express, 2007). This increase of more than 14 times compares to the falling share by the “Big Six” global outsourcing majors -- Accenture, IBM, HP, ACS, CSC and EDS whose market share fell from 71 percent in 2002 to 46 percent in 2006 (Financial Express, 2007).

HRO is quickly becoming global. Total HRO was pioneered in Europe in 1998 with a contract between energy giant, BP and Exult (acquired by Hewitt Associates in 2004). After an announcement in 2006 that BP was abandoning its partner, this contract was renewed in February, 2009. Of the 170 contracts signed globally through 2006, 33 were European with a total contract value exceeding \$5.6 billion (HROA, 2007). As of 2006, Accenture had 48 percent of the total contract value (24 percent of contracts), Excellerate HRO had 16 percent of the total contract value (9 percent of contracts) and Hewitt had 15 percent of the contract value (6 percent of the contracts). Rounding out the top ten European HRO providers in 2006 are Xchanging, ARINSO, ACS, Capita, ADP, IBM and Xansa. One of the largest signed European deals is a \$1 billion contract

between Accenture and Unilever to provide HR services to its 200,000 plus employees (HROA, 2007).

The top European cities for HRO are London, Paris, Brussels, Warsaw and Prague (Vashistha, 2007). London has the most HRO companies including Accenture, ACS, Alexander Mann Solutions, Brib Outsourced Solutions, Ceridian and Crystal HRO. Glasgow, Scotland houses an HRO center for Hewitt. ARINSO International, Hewitt Associates, Manpower, and SharedXperts have offices in Brussels. Paris is home to major offices of Adecco, Boyden, EADS, and European Human Resource Consultants. Eastern Europe is currently seeing the fastest growth of new offices.

Hewitt recently opened an HR outsourcing center in Krakow, Poland to gain access to low-cost multilingual employees who speak French, German and English (Marquez, 2006). Accenture has locations in Prague and Bucharest, Romania. Staff Poland has a center in Warsaw. ADP has an office in Prague and ZEST outsourcing has a Ukrainian office in Kiev. Shifting HRO work to a location in Eastern Europe is more palatable than shifting work to India for many German and French executives where unemployment is a contentious national issue.

The major HRO providers such as Accenture and IBM have developed large centers in Asian cities such as Mumbai, Delhi, Dalian and Manila. IBM and Convergys have HRO operations in Dalian, China and CDP Group has a center in Shanghai. IBM, Accenture, DDC HRO, and DesktopStaff have centers in Manila. The Philippines has become a center for offshoring of recruitment processing outsourcing and Thailand is emerging as a player. Convergys has a center in Kuala Lumpur, Malaysia, and Inovasia has an office in Jakarta, Indonesia.



Advocacy for radically increased levels of HRO or “Total HRO” increased in the late 1990s (Stewart, 1996; Jamrog, Grow & Pyle, 1997). The arguments were lower costs, better service quality and increased access to expertise in specialized areas (Csoko, 1995). Expanding global trade and investment, information technology advances, and public sector reforms are three forces driving additional outsourcing. As increasing global competition leads most organizations to look for greater efficiencies and ways to lower costs, one method is to outsource production processes that can now be sourced less expensively.

Cheaper computing power combined with global high speed networks enable the delivery of the output of knowledge-based work to virtually any place at any time. As a result the labor pool for radiology services in a Boston hospital, for example, extends to Bombay and beyond. As industries are deregulated, new markets are created for services that previously had to be performed in-house by government employees.

The increased number of suppliers resulting from increased global trade combined with better tools for communicating prices of goods and services has led many organizations to specialize further on those activities that they do best and cheapest. Outsourcing has evolved from peripheral activities (e.g. cleaning by companies like Service Master) to activities that directly interact with customers (i.e. customer call centers by companies like Sykes) to those that affect the type and quality of products (e.g. R&D by companies like IDEO). Changing a business support activity, like security, to an external vendor effects little organizational change. In contrast, transferring the majority of a firm’s human resource staff to another company certainly

changes the traditional structure of a firm and may affect employee expectations and attitudes.

### *1.2.2 Advantages of Outsourcing*

Domberger (1998) and Hendry (1995) list five advantages to outsourcing: lower production costs, cost avoidance, strategic focus, flexibility and relational rents.

Burkholder (2006, pp. 49-50) lists ten advantages of outsourcing:

1. Acceleration of reengineering benefits
2. Access to world-class capabilities
3. Cash infusion
4. Freeing up resources for other purposes
5. Function difficult to manage or out of control
6. Improved company focus
7. Making capital funds available
8. Reducing operating costs
9. Reducing risk
10. Resources not available internally

Lowering the average unit cost of the product or service sold by an organization is the primary reason most organizations give for outsourcing inputs (McCune, 1993; Plunkett, 1991; Rees and Fielder, 1992; Sharpe, 1997; Tulley, 1993). Managers asked to explain why they outsource a particular input sometimes explain the outsourcing decision as enabling them to better focus on strategy; however, Strassman (1995, p. 2) concluded that “strategy is not driving outsourcing” and it may be a sign that “they’re in financial trouble.” If high-value skills are outsourced, over the long-term a loss of core competencies may arise (Prahalad and Hamel, 1990).

Outsourcing typically allows an organization to avoid some future costs that are incurred by the vendor. Outsourcing may also enable a company to redirect energy to its particular core competencies by making more efficient use of worldwide labor,

capital and technology for non-core work. Outsourcing permits the purchase of intellectual capital that might not otherwise be available. Outsourcing, provided it is done well, can increase productivity and contribute to better focus on an organization's strategic direction. As is often the case with new business technology, the success of a small number of early movers reported in popular business magazines too often is taken as universally applicable by managers eager not to be left behind. Such translations of the actual process undertaken and the true level of financial returns tend to be sorely lacking in detail with much lost in translation. Outsourcing buyer group meetings are filled with stories about how companies jumped into outsourcing without fully understanding the implications of this decision.

The reasons for outsourcing can be condensed into four categories that affect organizational performance. One reason is cost (another firm can do the activity for less). A second reason is quality (another firm can do the activity better). A third reason is risk (another firm is better able to assume the risk of doing the activity). A fourth reason is focus (another firm should do this activity because it is time consuming and diverts focus). When one considers the principle agency problem, a fifth reason emerges-- convenience (another firm should do this because it is hard or otherwise undesirable). One might wonder if this reason is disguised as focus by HR leaders angling to get a "seat at the table."

### *1.2.3 Drawbacks of Outsourcing*

Disadvantages of outsourcing that have been identified include: hollowing out, opportunistic behavior, transaction costs, reduced learning and innovation (Domberger, 1998; Hendry, 1995). Hollowing out of the HR function reduces the amount of

knowledge about the workforce controlled and owned by the organization. A sharp cut in the number of HR positions may reduce the ability to attract high quality HR professionals. Transferring an HR activity to a vendor can take a year or more and the switching costs may make it very difficult and costly to return the activity in-house. This can lead the vendor to act opportunistically with respect to reducing service levels and pricing a contract renewal. Interfacing with another organization on critical business processes involves transaction costs such as monitoring the agreement, establishing and renewing the contract and the risk of the vendor being acquired or failing that otherwise would not exist. Finally, any learning and resulting innovations that would provide higher quality and/or lower cost HR service are captured by the external party.

#### *1.2.4 Business Process Outsourcing*

Mol (2007) identifies three recent waves of outsourcing which accompanied the global technological changes of the end of the last millennium. The first wave is the outsourcing of manufacturing processes starting in the mid-1980s driven by the “Japan as #1” frenzy (Vogel, 1979). The second wave is the outsourcing of information technology (IT) in the mid 1990s followed by the third wave of business process outsourcing from the late 1990s onward. The rise of BPO is sometimes called the offshoring movement with India located at the center of activity. Outsourcing information technology processes led the growth in BPO for two reasons. The first was the primary technology enabling the rise in IT outsourcing was information technology itself, thus these managers understood the costs and benefits. Secondly, a dramatic one-time increase in demand for IT systems and programming work was created by the Year

2000 scare. The chronic lack of computer programmers and engineers in the US was so great that utilizing offshore talent was essential. The enormous investment by American and European companies in certain regions of India such as Bangalore, to complete Year 2000 projects provided the seed money for a whole new industry.

The tipping point for business process outsourcing occurred in 1989 when Eastman Kodak signed a landmark deal outsourcing IT. This experience was typical of what initially happened-- the Board of Directors of a large struggling company adopted a complex outsourcing contract as a last resort during a turnaround effort. The focus was on the 12-15 months it took to negotiate a contract, while less attention was given to managing the agreement and relationship even though these deals were valued in the hundreds of millions and involved hundreds of jobs in both organizations. Each deal was treated as an anomaly so that little effort was made to capture the intellectual capital of negotiating and managing the outsourcing contract. The fact that distressed companies were the early adopters of IT outsourcing is worth considering when examining the direction of any relationship between HRO and employee retention. Greer, Youngblood and Gray (1999) observed that HRO outsourcing decisions are often a result of overwhelming demand for lower cost HR services, the implication being that financially struggling organizations with poor HR outcomes (such as lower than average employee retention) might be more likely to choose to outsource HR.

### 1.3 Review of the Literature on Human Resource Outsourcing

As noted above the extant literature on HRO is heavily weighted towards work dealing with a description of HRO as an emerging phenomenon and prescriptive advice on how to engage in or increase the level of HRO. This section begins with a review of

the empirical literature and concludes with a summary of the practitioner and business articles.

### *1.3.1 Academic Literature Review*

Through the end of 2008 the academic journal Human Resource Management had only three articles dealing primarily with HRO and one with professional employer organizations (PEO). Klass, McClendon and Gainey (2001) authored the first study examining the relationship between organizational characteristics and the decision to outsource HR. This study split HRO into four categories: HR generalist activities, transactional activities such as payroll, human capital activities such as training and recruiting and selection activities. They sent surveys to 2,000 randomly selected members of the Society for Human Resource Management (SHRM) who had the job title Vice President or Director of Human Resources. They received data from HR executives in 432 organizations and found that the impact of organizational characteristics varied among the different types of HR activities outsourced. The primary measure was a rating of the degree of outsourcing using a 7-point scale for twenty different areas of HR in the design of programs and policies and the administration of programs and policies. Their factor analysis suggested four factors. One factor is HR generalist activities such as HR planning, employee relations, performance appraisal and safety. A second factor is transaction activities such as benefits, HRIS and payroll. A third factor is human capital building and maintaining activities such as training and employee assistance. The final factor is recruiting and staffing.

The organizations were measured on the following dimensions. Idiosyncratic HR practices or the extent to which the organization's HR practices were seen as unique were measured using four items. HR strategic involvement was measured using a two-item scale. Positive HR outcomes measured the extent to which the firm was performing well in employee motivation, cooperation and performance and this was measured using four items. Promotional opportunities were measured using a four point scale and included items on the availability of opportunities and existence of preferential treatment for internal candidates. Demand uncertainty measured the predictability of firm performance, product demand as well as environmental and overall uncertainty using a five-item scale. Pay level was measured using a dummy variable based on a single item asking whether the firm was leading the market in terms of pay for its HR staff. Firm size was measured in terms of full time equivalent employees. Primary industry was measured using 14 categories. Outsourcing by competitors was measured using a two-item scale.

Idiosyncratic practices were negative related to outsourcing HR generalist and human capital activities, which would be expected for firms with unique approaches to HR. Firms with strong HR strategy linkages outsource more specialist activities such as human capital and selection activities. A negative relationship was found between the outsourcing of human capital selection activities and two other dependent variables: positive HR outcomes and promotional opportunities. The pay level of HR staff was positively related to outsourcing these same two specialist activities. Demand uncertainty was positively related to outsourcing transactional activities and generalist activities. No relationship was found with firm size or HR outsourcing by competitors.

Cooke, Shen and McBride (2005) reviewed the literature on outsourcing HR as a competitive strategy. This review states that the empirical evidence on the reasons for outsourcing HR and results of HRO are “both fragmented and inconclusive” (Cooke, Shen and McBride, 2005, p. 414). Their review also contrasts the dearth of empirical work with the large amount of prescriptive literature on the financial and strategic reasons for outsourcing. Their article argues for applying the resource-based view of the firm (Barney, 1991) and institutional theory in the outsourcing decision making process. They examine the implications of HRO for the function and groups of people affected by the decision. For example, HRO liberates remaining HR professionals to perform more strategic and consultative work in line with Ulrich’s (1998) advocacy for the HR becoming a strategic partner.

Lieven and De Corte (2008) published the first study on the commitment of HR managers to the initial decision to continue an existing outsourcing relationship. They created a model of HR manager commitment in outsourcing relationships testing affective commitment and continuance commitment. They surveyed a stratified random sample of 478 firms in the Flemish part of Belgium and received usable responses from 186 HR professionals. This study found that affective commitment (desire for the relationship to continue) was related to the depth and frequency of HR outsourcing. Affective commitment was also related to a perception by HR managers that the HR vendors shared similar values with respect to managing people. Continuance commitment (keeping the relationship intact) was not related to the continuity of HR outsourcing.



Kabst and Giardini (2008) conducted a study in German to test whether or not RPO has a negative effect on the perceptions and evaluations of job applicants. In an experimental study with 160 students they found that the satisfaction with the process, the attractiveness of the organization and intention to accept a job offer decreased with increasing levels of HRO. Dasborough and Sue-Chan (2002) collected data from 117 HR professionals in Australia and found that RPO was associated with trust in the RPO vendor and with the need to reduce internal labor, but not fixed costs.

Gilley, Greer and Rasheed (2004) studied HRO and organizational performance in manufacturing firms. Their study included results from 94 firms and sought measures of financial and innovation performance. The findings provided modest evidence that outsourcing training and payroll was associated with measures of organizational performance. When firm size, measured by the number of employees, was added to their model as a moderator the association disappeared.

Two studies (Mahoney and Brewster, 2002; Eleanna and Papalexandris, 2005) reported that the HR services most commonly outsourced fall into one of the following categories: recruitment and selection, training and development, pay and benefits, mergers and outplacement, performance appraisal systems, HR planning, and organizational climate and culture. Through the end of 2008, *Human Resource Management Journal* had only had two articles with outsourcing in their titles or abstracts but neither of them dealt with HRO. Through December 2008, *Human Resource Development Quarterly* had published only two articles on outsourcing and training (Gainey & Klass, 2005; Leimbach, 2005).

### *1.3.2 Review of Business and Consultant Literature*

Business Week (Schwartz, 2008) issued a report on HRO innovation which noted that while early customers were moderately satisfied, they did not fully realize the anticipated benefits. Most are still waiting for improved business results and innovative process improvement along with the transformation of HR into a strategic function. The report concludes that the disappointment is related to an immature business model, the complexities of global HRO and unrealistic expectations. This report used telephone interviews with CFOs and HR executives in late 2007.

The results of an Equaterra study reported by Business Week (Schwartz, 2008) show limited success among clients achieving the expected benefits. On a five-point satisfaction scale where five is the highest, this is how HRO was rated on eight dimensions: focus on more strategic activities (2.9), cost reduction (2.9), better address compliance/regulations (2.8), process improvement (2.8), access to external skills/knowledge (2.7), upgrade/enhance/replace HRIT (2.5), cost savings to fund transformation (2.5), and improve business results (2.4). Another large area of disappointment is lack of innovation in recruiting and performance management which is likely because many HRO providers are stabilizing their offerings and still learning to build the infrastructure to meet the basic service level agreed upon. This leaves few resources to focus on improving the offering.

There have been successes. Manpower provides most HR services, including compensation, recruiting, training and labor relations for Motorola Brazil's 3,000 employees and 5,000 service providers. This partnership has reduced HR costs 40 percent (Schwartz, 2007). ADP (Schwartz, 2007) and SAP (Giacomelli, 2007) have

been using the current dissatisfaction to push clients into accepting greater standardization so that the providers are supporting a dozen or more infrastructures which erodes the anticipated profits. The Conference Board and Accenture reported that in a survey of 120 companies with revenues of at least \$1 billion, 76 percent were outsourcing one or more HR functions (Robert France Group, 2004).

Everest Research Institute (2008) focuses on multi-process HRO which is defined as including three or more processes or functions covering more than 3,000 employees. Multi-process HRO is contrasted with single process HRO called HR functional processes by Everest. Everest uses a pyramid to show HR strategy is excluded from HRO at the top of the pyramid and HRIS and employee contact centers are excluded at the bottom. The following functional services are processes that are outsourced: employee relations, performance management, regulatory and compliance, global mobility, training and development, recruitment and selection, compensation, benefits, payrolls and employee data management.

#### 1.4 The Evolution of Human Resource Outsourcing

HRO is the fastest growing segment of BPO with 18.2 percent of the overall BPO market, accounting for global 2006 revenues of \$26 billion (Brown & Hale, 2007). Orion Partners estimated the global size of the HRO market to be over \$23 billion with 128 full service deals signed (Hunter & Saunders, 2007).

The 2009 expenditure on HRO was predicted to be \$14 billion in 2005 showing projections can miss the mark (Yankee Group, 2005). HRO grew 4.7 percent in 2006, slowing to 3.8 percent in 2007 (Brown & Hale, 2007). HRO is maturing in a manner similar to IT outsourcing. In the late 1990s HR executives at BP Amoco and

consultants at a new company, Exult, pioneered the wide-scale outsourcing of the HR function with a \$600 million HRO contract.

#### *1.4.1 Human Resource Outsourcing Explodes*

HRO gained traction in the United Kingdom with the decision of British Petroleum to outsource much of its HR activities to Exult. Other early HRO relationships show the phenomenon has predominantly British roots: British Aerospace, British Telecom, Nortel, Bank of America, AT&T and CIBC. The United Kingdom represents 50 percent of the European market and the average contract value is \$300 million (Hunter & Saunders, 2007). Yet the European market is far from mature with 70 percent of HRO deals being first generation contracts (Hunter & Saunders, 2007). In Europe 19 percent of HRO deals were signed by public sector organizations.

The HRO trend caught on quickly in the U.S. In 2001, Unisys signed a \$200 million, seven year HRO contract and International Paper signed a \$685 million, ten year HRO contract. Prudential Financial signed a \$700 million, 10 year HRO contract and Procter & Gamble signed a \$400 million, 10 year contract in 2003 (Robert Frances Group, 2004). The leaders in providing HRO in 2006 were Hewitt with 33 deals valued at \$7.8 billion, Accenture with 21 deals worth \$4.9 billion and ACS with 8 deals worth \$2.5 billion (Hunter & Saunders, 2007). The midpoint of the first decade of the 21<sup>st</sup> century was a period of significant growth. The effects of competitive pressure are reflected in the pricing of total HRO services with the average price per employee served falling 55 percent from 1998 to \$325 in 2006 (Hunter & Saunders, 2007).

Equaterra (2006) released a summary of the major HRO deals from 2004 to 2006. In 2004, the market explosion was led by Accenture and Best Buy agreeing to a seven year contract covering 90,000 employees. In 2004, Accenture also signed a ten year agreement with Sandvik covering 37,000 U.S. and European employees. Hewitt signed a five year agreement covering Sun Microsystems' 30,000 employees and ten year agreement with Capgemini. Convergys signed the first major public HRO contract with the State of Florida for \$350 million covering 89,000 state employees. IBM entered the mega market with a 7.5 year agreement with William Company covering 4,000 employees.

Hewitt's number of new contracts peaked in 2005 with a 15 year agreement with Rockwell Automation covering 15,000 employees, a ten year contract with Pepsi-Cola valued at \$600 million covering 64,000 North American employees, a 7.5 year contract with Duke Energy valued at \$200 million covering 21,500 employees, a seven year contract with Marriott International valued at \$350 million covering 133,000 employees and a contract with Rohm & Haas covering 12,000 employees. In 2005, ACS signed a \$120 million HRO deal with Delta Airlines for seven years covering 50,000 employees and a \$72 million agreement with Chubb & Son covering 10,000 employees in the Americas. IBM began signing large agreements in 2005, including a seven year deal with Nestle USA covering 31,900 employees, a ten year agreement with NiSource valued at \$500 million covering 7,800 employees and a \$300 million contract with Dana Corporation covering 70,000 European and American employees. Convergys signed the largest deal with a \$1.1 billion, 13 year contract covering 60,000 E.I DuPont

employees and 102,000 retirees. Convergys also inked a ten year agreement with Whirlpool covering 68,000 European and American employees.

In 2006, the number of HRO deals remained healthy with two large Hewitt HRO contracts. One was a ten year agreement with Catholic Health Services covering 45,000 employees and the other was with Centrica in the United Kingdom covering 30,000 employees. Also in 2006, Accenture signed a seven year agreement with Unilever covering 200,000 employees globally. IBM signed a ten year agreement with CVS. In 2006 ADP signed an agreement with Synovus Financial covering 13,000 employees and an HR agreement with IKEA covering 90,000 employees worldwide. Arinso signed an agreement with Bank of America covering 10,000 Canadian and non-U.S. employees focused primarily on payroll and a similar agreement with Repsol YPF in Spain covering 20,000 employees in 2006.

The retained HR function after the implementation of total HRO contract experiences major disruption. The lack of clarity around these roles may lead the remaining staff to double-check the outsourcer rather than shifting to strategic, value-enhancing services. The ratio of HR staff to overall staff measured in full-time equivalencies may fall from 1:250 to 1:1,000 (Hunter & Saunders, 2007).

#### *1.4.2 Growing Pains*

At the First Annual Human Resource Summit in Tampa, Florida, in 2008, it was noted that the evolution of such wide scale or “Total” HRO is following the path of benefits anticipated from outsourcing a decade prior. The entrants to the field have experienced growing pains along with their clients. Hewitt’s HRO practice struggled considerably in 1996-1998. During that period, IBM moved into the space as a leader

along side Accenture and Convergys. In the early days of HRO, capabilities were promised that were not tested on multiple clients or for a global deployment. However there is little doubt that HRO combined with upgrading HRIT systems has been transforming the HR function, especially in the largest companies.

As is often the case with best practices, the contextual factors that led different organizations to be successful at outsourcing were not understood initially and were replaced by vendor stories of new clients signed. The number of companies failing to realize the expected benefits or experiencing an outright failure from their experimentation with HRO is growing. The resulting backlash is a normal part of the adoption cycle reminiscent of what was experienced with Six Sigma and business process re-engineering drives. The flurry of deals signed from 2004 to 2007 gave an illusion of success; but given the motives of the providers, one ought to question whether the white papers produced during this initial period were marketing jobs or careful introspective analyses. As HRO has entered a period of rationalization, it is a promising topic for contributing to our understanding of outsourcing business processes and the evolution of human resource management (HRM).

### 1.5 Advantages and Disadvantages of HRO

Outsourcing an HRM activity involves both direct and indirect costs and benefits to an organization. Some of the more obvious direct costs include the personnel costs of time spent in identifying the HRM activities to be outsourced, selecting a vendor or vendors, and managing the vendor relationship. In some cases outsourcing entails material and supply costs, training, travel, new equipment and

software. Direct benefits, on the other hand, include staff time saved and savings from additional operating efficiencies such as lower material, equipment and software costs.

### *1.5.1 The Case for HRO*

Selecting the right outsourcing partner is an ongoing challenge starting with the difficulty in determining evaluation criteria that satisfy the client organization's objectives for outsourcing. Kern, Willcock and Heck (2002) identify five types of benefits from outsourcing: financial, business, strategic, technical and political benefits. The most common benefit sought is cost savings and cost control. Another financial benefit is paying a fixed monthly sum for services on a "pay-for-use" basis which is commonly seen in outsourcing contracts. Business and strategic benefits include process reengineering, the ability to focus on the client's core competencies, and assisting with a merger or globalization. Technical benefits typically include increased expertise, improved services, new technologies, and technological innovation. A political benefit to the organization might be a reduction in the power of the executive managing the group by reducing the headcount.

Some potential indirect benefits of HRO are lower overhead and increased employee satisfaction due to new or improved services. Potential indirect costs include a reduction in employee satisfaction and engagement due to lower service quality or dissatisfaction with having to seek services in a new manner. Other qualitative factors that may have an impact on the organization include: the availability of HRM service, the quality of HRM service, the impact on organizational reputation with employees, recruits and customers, and any increase in legal, security and/or technology risks to the organization.



### *1.5.2 The Case against HRO*

In the book *Out of Site* Sullivan (2007) articulates the case against HRO making four points. First, outsourcing does not provide an organization with a competitive advantage. He argues that HR should enable the organization to compete head to head with talent competitors and offer things that differentiate the experience to attract the best talent. A solution to this issue is requiring an exclusivity agreement from the HRO vendor, but this would reduce the cost benefits accruing from the economies of scale.

Secondly, HRO limits the growth, the image and the capabilities of the HR function and stunts the development of HR Professionals. Outsourcing bad systems does ensure that the system will be fixed. Engaging consultants to help fix the systems might be a better way to increase the perceived value of the HR function. HRO will not improve internal image—no positive effect can have huge negative effect and it limits the ability of the HR team to become global HR function.

Thirdly, in most cases no “actual” cost-savings are realized. There is no data to prove that it works given the nascent stage of this industry. Vendors are proving value by listing customers. Sullivan (2007) suggests that HRO vendors offer reductions in costs or penalties, if they don’t meet quality time and cost promises. This advice was heeded by larger HRO customers. The concern that it will not save you money, if vendors make a profit was also shared with me by a CFO of a large Minneapolis company experimenting with Finance and Accounting Outsourcing (FAO) in India as well as creating their own Indian operation to compare the cost savings. Cost savings are not likely to occur unless a significant economy of scale is present; rather money is shifted from headcount to a vendor expense for activities essential to the organization.

Fourthly, Sullivan (2007) deals with the problem of maintaining company secrets and data security. Several of the problems Sullivan cited have been experienced by members of the HRO buyers group from 2000-2008. Once your HR staff is gone the organization is at the mercy of the HRO provider. The initial approach was to underprice the contract to get the organization hooked and then increase the price. Many vendors shifted their focus to the newest client after a deal was signed. Customization costs have been too high leaving many with “vanilla” HR systems. There have been complaints about great sales people being replaced by a rookie account manager post contract signing. Another concern is that in spite of the transfer of the work, outsourcing does not shift all legal liability to the vendor.

Sullivan (2007) concludes that if HR is a true business leader, it must accept responsibility and stop following fads. There is no evidence that an HR function is more strategic after signing and implementing a total HRO contract. Eliminating transactions does not automatically enable people to do strategic work. They could simply do less.

#### 1.6 Types of Human Resources Activities Outsourced

HRO varies from outsourcing a single process such a payroll or administration of a health care benefit plan to the total HRO deals described above. Two previous studies that provided lists of different types of HR activities outsourced were used to ensure that this analysis was inclusive of the work previously undertaken. Brown and Wilson (2005, p. 22) list twelve human resources services that are elements of HR business process outsourcing or HRO:

1. Benefits administration

2. Employment process outsourcing
3. Hiring, recruitment
4. HR/Personnel management
5. Payroll
6. Professional employer organizations (PEOs)
7. Recruitment process outsourcing (RPO)
8. Staffing services
9. Talent and human capital outsourcing
10. Training and staff development
11. Workforce consulting and management.

This list omits several other HRM activities, such as performance management and employee relations. Some authors have studied Professional Employment Organizations (PEOs). PEOs are companies that hire employees and lease them to other organizations. This study avoids the case of PEOs though this could be considered the most extreme form of HRO. One way in which this thesis adds to the HRM literature is expanding on Brown and Wilson's (2005) list above by exploring the following areas of HRM activities that may be provided internally or by an external party:

1. Recruiting and selection (Recruiting Process Outsourcing)
2. Training and development (Learning Outsourcing)
3. Benefits design and administration
4. Compensation and salary surveys
5. Performance Management
6. Mentoring and coaching
7. Employee relations/Labor relations
8. Employee assistance programs
9. Corporate relocation
10. Employee communication
11. Organizational design and development
12. HRIS/HRIT
13. Payroll

Each of these areas of HRM activities is described in the following section with some notes on the current level and trends in HRO.

### *1.6.1 Recruiting Process Outsourcing (RPO)*

Recruiting and selection activities include placing employment ads, accepting and screening resumes, initial contact interviews, referral of applicants to managers, and background and reference checks. The demand for these services can be highly variable and unpredictable making subcontracting or outsourcing a necessity during periods of rapid growth. Recruitment process outsourcing (RPO) has a long history and is growing rapidly. A natural outgrowth of mass purchasing of recruiting services, RPO has matured in terms of size, scope, and duration of contracts. A global shortage of skilled professionals (Cohen & Zaidi, 2004) is driving the demand for RPO. RPO taps into two core reasons for outsourcing gaining needed expertise and lowering costs. RPO providers offer expertise on demand by having retained teams of professional and seasoned recruiters combined with a solid track record of sourcing a multitude of professional positions, and advances in recruitment process engineering (Gerard, 2007).

RPO began in the higher volume staffing of non-exempt employees, where specific investments in technology and standardized processes provided an advantage over in-house delivery. The market now is solidly a part of exempt, mid-level professional hiring. RPO is also used in executive search or to find “purple squirrels”. Nearly 90 percent of new RPO relationships include professionals (Gerard, 2007). This is an area where the buyer mindset has evolved from outsourcing non-core recruiting functions to absolute critical recruiting activities.

It is more common for organizations to outsource the entire recruiting function and implement centralized hubs to drive optimal performance. RPO providers know the business well enough to increase the number of contractual performance-based service

level agreements (SLAs), which place their fees at risk in the case of bad hires or missed hiring goals. This comfort level is leading to longer contracts and some major RPO providers require a three-year minimum contract.

These market trends are demonstrated by the number of recently announced second-generation RPO deals. These relationships are more complex because of the learning achieved through the first relationship. This trend also tells us that clients believe in this model and that RPO is not just a quick fix. Another trend is the ability to partner with full-scale HRO providers. These partnerships can add significant value in terms of the talent management function. Today, 42 percent of the HRO contracts include recruiting and staffing, but the administration services-only structure remains dominant (Gerrard, 2007).

Many organizations outsource only some functions within the recruitment process; while others are selecting a vendor to manage the entire recruiting process from end to end. TalentTrack (Davis, 2007) conducted a four-year study comparing partial RPO to RPO involving the entire process and concluded that a partial approach is more expensive and yields only half as many hires. TalentTrack divides the recruiting process into three phases: talent planning, talent acquisition, and talent assimilation. Value dilution can occur because of the replication of sourcing and pre-qualifying steps, which is inefficient. Applicant interest and satisfaction may wane when asked the same questions by internal managers as asked by the RPO vendors and they may become impatient with delays in the hiring process.

### *1.6.2 Training and Development*

Training has been elevated in many organizations to a key business strategy (Friedman, 2006). The percentage of employee learning expenditures going to outside services increased from 20 percent in 1999 to 27 percent in 2004 (Sugrue & Rivera, 2005) according to the *ASTD 2005 State of the Industry Report*. Although delivery of training has long been outsourced by companies, the level of outsourcing is increasing rapidly. *Training* magazine reported that the percentage of organizations that outsourced some of the design of traditional training increased from 35 percent in 2004 to 38 percent and those outsourcing development increased from 41 percent in 2004 to 44 percent in 2005 (Dolezalek, 2005). HR Source is a vendor supporting a high-tech company in Boulder, CO, while some organizations are now outsourcing the entire training function. Most organizations outsource some classes and trainers. The sheer number of ASTD members and the size of their meetings is evidence of the HRM areas this area has the largest supply of vendors.

Driving the increase in outsourcing of training and development activities has been the rise in the number of training projects and the nature of those projects (Friedman, 2005). Learning management systems LMS are readily available to automate registration and tracking of employee training. Richman and Trondson (2004) note that training outsourcing includes learning infrastructure and technology, administration, learning content design, development of training, training delivery and strategic operations. They provide the example of Unilever which cut its training staff of 30 by half and still supported 1,000 managers in its executive development program and one half-time employee is managing the vendor relationship for all coaching.

Richman and Trondson (2004) propose an outsourcing--out-tasking continuum. Out-tasking is the most narrow where a vendor helps with specific tasks or portions of processes such as the learning management system LMS, system integration with HRIS and virtual learning. Selective outsourcing describes instances when vendors take complete responsibility for the control of selected processes or activities. Comprehensive outsourcing occurs when the vendor takes over a major portion of training such as infrastructure, administration, or design, development and delivery.

Learning activities include the technology and infrastructure, operations, content design, development and delivery, and strategic operations. Examples of infrastructure activities include LMS and content distribution network. Examples of administration and operations include learner registration, learner advising and class scheduling (including classrooms and instructors). Examples of content design, development and delivery include web-based conversion, content localization and content-vendor management. Strategic operations examples include setting direction and governance, organization needs analysis, measurement. Some strategic intervention example are executive development, performance consulting, and organizational development and change management.

Human capital tracking and knowledge management are elements of the “Learning Organization” (Senge, 1990). This is not universally performed by organizations, but has received considerable attention over the past decade. The ability to outsource these practices is linked to adopting an HR information system robust enough to include tracking employee abilities and process knowledge for coordinating current and future work.

### *1.6.3 Benefits Administration and Design*

This is one of the largest categories being outsourced as it meshes nicely with the providers of the insurance products that comprise the majority of an employee's benefit package. Fidelity is an example of a financial services provider that has offered a complete solution approach to many of its insurance clients. Jeffay, Bohannon and Laspisa (1997, 41) are three Hewitt employees who argue that HR outsourcing permits a company "to get better HR services faster—and possibly cheaper. They claim that if your HR department is not the best in the world outsourcing is likely to be a better option. This assumes that the fit (or suitability) of the HR practice is not as important as using the best practice. It is worth noting that their descriptions view HR professionals as providers, designers and business partners with little mention of an employee advocacy role. Hewitt has observed that the order of outsourcing in HRM began with benefits, compensation, payroll, training, and staffing. The current tide is shifting towards Total HR outsourcing.

### *1.6.4 Compensation and Salary Surveys*

Executive compensation is often done by consultants like the Hay Group, Hewitt Associates, Towers Perrin, and Watson Wyatt or accounting firms like Price Waterhouse Coopers. One advantage of outsourcing the salary survey process that is unique to this HRM activity is the issue of being charged with conspiring to set prices with other organizations. The employing organizations often avoid getting too deeply involved in collecting market data on pay rates by subcontracting this activity. The development of performance-based pay systems is often outsourced to firms like Hewitt Associates and Towers Perrin though the delivery typically has not been outsourced.



### *1.6.5 Performance Management*

This is an area often handled directly by line managers with support from HR. However, consultancies have long offered advice on the design of these programs. The rise of the internet enabled vendors with packages that handled the administration and development of performance management systems with web-based tools linking 360 degree feedback and MBO goals into corporate dashboards directly linked to manager performance and employee bonuses. Some organizations, such as Best Buy, use their outsourced call center as a first level resource for employees with concerns. However, the top level questions of Best Buy employees are redirected to in-house HR professionals.

### *1.6.6 Mentoring and Coaching*

The growth of outsourcing mentoring parallels concerns about same gender or ethnicity role models. Many of the providers are of the non-profit type in this space. In contrast, coaching has become a large cottage industry with thousands of independent contractors offering their services to executives and mid-level managers.

### *1.6.7 Employee Relations and Labor Relations*

Employee relations activities are typically considered a primary task of the line manager with support from HR professionals. HR call centers have centralized many of the routine employee relations tasks and may be in-house or outsourced. With respect to labor relations, union avoidance consultants are widely used in corporate America. For a unionized organization the use of professional negotiators and contract specialists is often employed during the collective bargaining process.

### *1.6.8 Employee Assistance Programs*

Employee assistance programs offer covered employees the opportunity to call someone for assistance when dealing with difficult issues, such as a gambling problem, family issues, or substance abuse. These programs offer the promise of greater anonymity to employees when the process is outsourced. This whole service has been developed outside the firm likely for this reason.

### *1.6.9 Corporate Relocation*

Many new employees receive a relocation package when joining an organization. Organizations that require managers to move geographically also need relocation services. Just as in the case of recruiting and selection the demand for relocation services is variable and often difficult to predict. When outsourcing corporate relocation, performance standards are important given the risk of losing new employees in the first year. Larger companies often need 40 staff members to handle relocations well (Cook, 1999). As a result, this is another HRM activity that has been outsourced for decades. Companies should monitor the cost per employee and the cost per mile to guard against the HRO provider entering into an exclusive contract with one moving company that charges above market rates.

### *1.6.10 Employee Communication*

Employee communications includes a set of activities that previously saw little external involvement and might not even have been part of the HR function. With the development of corporate intranets, metric dashboards and online employee surveys, more of these activities are being outsourced. The reasons might initially be lack of in-house expertise, but there are some economies of scale to be exploited.

#### *1.6.11 Organizational Design and Development*

Diagnosis by an outsider is often helpful and this activity is often provided by university based faculty or management consultants. Organizational design activities are often related to TQM efforts. This is an area that the strategy consultancies and HR consultancies cultivate due to the access to senior organizational leaders that is required for this activity. This can lay the groundwork for future deals. Succession planning is also included in this category. Most organizations of 500 or more employees report succession planning to be very important (Cook, 1999). Consultants are used in assessment and monitoring at several levels from CEO to VP, director, manager and key professionals.

#### *1.6.12 HRIS/HRIT*

Accenture built on its strength in IT outsourcing to link IT rollouts to HR via Enterprise Resource Programs such as SAP, PeopleSoft and Oracle. This is often the backbone of the multi-process HRO arrangements. There are significant economies of scale due to the licensing costs of ERP software imposed by Oracle and SAP. Several organizations use HRO as a way of getting access to web-based HR services for employees and managers and end up shifting aspects of performance management, tracking employee information and knowledge management to the vendor.

#### *1.6.13 Payroll*

Payroll processing involves perhaps the most transactional, routine activity involving HR and is the most frequently outsourced HRM activity. A perfect candidate for outsourcing for these reasons, this process has been outsourced by companies for four decades to firms like Ceridian and banks like Wells Fargo have added this as a

service for their business customers as it relates to their ability to help manage cash flow and process payments electronically.

This chapter described outsourcing generally and moved to a definition and description of HRO, a form of BPO. The academic literature was reviewed and a summary of the consultant and business literature of the past eight years has been prepared listing a case for and against HRO. Then 13 types of HR activities that are outsourced were identified. The next chapter moves a step further in explaining why HRO should or should not occur by examining several theories that should apply to this phenomenon and notes their predictions regarding the suitability of an HR activity to outsourcing.

## **Chapter 2: Theoretical Review**

There are several important theoretical perspectives applicable to outsourcing: economic theory (e.g. transaction cost economics, agency theory), sociological theory and management theory around competencies (e.g. the resource-based view of the firm (RBV), the knowledge-based view of the firm (KBV) and evolutionary theory). The predictions of transaction cost framework and competency-based views with respect to the suitability of outsourcing or integration decision often but not always overlap.

However, a tension arises when outsourcing could reduce financial costs by eliminating a core process or activity. These theories are used to suggest a set of six attributes that may influence suitability of an HRM process to outsourcing in general. The theories are employed again to predict the likely effect of HRO on employee satisfaction and retention. See Table 2.1 for a summary of the economic theories informing these dimensions. Refer to Table 2.2 for a summary of the theories and concepts utilized in identifying the most relevant attributes to be assessed.

### **2.1 Economic Theories**

Consultants and managers most often explain the decision to engage in human resource outsourcing (HRO) using economic justifications. In particular, most justifications refer to the notion of creating economies of scale or extensions of the theory of firm (Coase, 1937; Chandler, 1977). Neoclassic economic theories suggest both a rationale for the development of HRO as well as limits on the types of HRM activities that are suitable for outsourcing. This section focuses on the principles emerging from the concepts of economies of scale, transaction cost economics, (Hart, 1989; Williamson, 1975, 1985) asset specificity (Jensen and Meckling, 1976; Fama,

1980; Hart, 1989) and agency theory (Eisenhardt, 1989) and their relevance in predicting the suitability of outsourcing a business process such as HRO.

### *2.1.1 Economies of Scale*

The theory of firm is rooted in neoclassical economic thinking. Clark (1908), Knight (1921) and Marshall (1920) collectively shaped the view that a firm can be thought of as a production function which transforms inputs into outputs according to the technology of the time. The firm thus operates in a market system dominated by decisions around supply, demand and price. In most cases one can assume a strategy like profit maximization to explain and predict the supply of inputs, demand of outputs and the pricing decisions of the typical firm. Economists note that there are internal and external “economies of scale” also referred to as increasing returns to scale. Internal economies of scale occur when an increase in the size of the firm causes a decrease in the long run average cost of each unit produced. Organizations or firms can lower the average cost of a good or service by increasing production due to higher utilization of fixed assets, such as purchasing power (for both inputs and capital), managerial assets, and marketing expenditures. This is an argument for an HRO provider to provide the tools offered in the best and most expensive human resource information system (HRIS) to smaller companies unable to afford an SAP or Oracle license of their own. As an HRO vendor may support several clients with a single license.

External economies of scale occur outside of a firm, at the industry level. Thus, when an industry can increase the scope of its operations through the creation of a better transportation network (e.g. intercontinental railroad) or communication network (e.g. the internet), there is a decrease in costs for each company working within that industry,

thus achieving external economies of scale. The adoption of common standards, such as a common human resource information system platform—for example, PeopleSoft or SAP-- facilitates the creation of economies of scale.

The commercialization of the internet and the creation of enterprise resource planning software has enabled the outsourcing of several human resource activities that previously could not be efficiently provided by a third party. HRO consultants often refer to certain HRM activities, such as payroll processing, as being transactional and therefore highly suitable to outsourcing due to the savings a firm could enjoy, arising from economies of scale. For example, a recent SAP white paper *How to Kill HRO* (Giacomelli, 2007) refers to the importance of gains from both internal economies of scale (e.g. more fully utilizing call center representatives) and external economies of scale (e.g. using a standard HRIS platform).

Two attributes of HRM activities relate to the gains afforded by economies of scale. The first attribute is the level of subject matter expertise required to do the activity. This is more important for smaller organizations that cannot spread the cost of HR specialists across the employee base on the organization. For example, a compensation analyst might cost a firm \$75,000 per year, but only have three months of work for an employer with 100 or fewer employees. Obtaining this compensation expertise from an external consultant makes more sense than it would for a larger firm that could fully utilize this employee and avoid the margin charged by a vendor. A second attribute is the frequency within which the HRM activity occurs with a given period of time. Activities that occur with high frequency, such as payroll processing and resume screening, create more opportunities for a robust market to develop as a

provider has many opportunities to try and fill customer needs and recoup the initial investment.

These considerations led to the inclusion of frequency and expertise required as criteria used to assess the selected HRM activities, in predicting the additional costs or benefits of outsourcing them. Due to economies of scale HRM activities requiring high levels of subject matter expertise are expected to be outsourced more frequently, especially by smaller organizations *ceteris paribus*. HRM activities that are highly repeated are also expected to be outsourced more frequently

### 2.1.2 Transaction cost economics

Ronald Coase (1937) bridged the theoretical gap between the assumption that resources are allocated according to the price mechanism and that allocation is dependent on the entrepreneur in this way: “Outside the firm, price movements direct production, which is coordinated through a series of exchange transactions on the market. Within a firm, these market transactions are eliminated and in place of the complicated market structure with exchange transaction is substituted the entrepreneur coordinator, who directs production.” (Coase, 1937, reprinted in Putterman & Kroszner, 1996, p. 91). The boundary created between hierarchy and market is dynamic. This theory acknowledges the fact that creating, executing, monitoring and enforcing a contract carries a cost. Therefore, it is rational for an organization to grow by performing activities internally as long as the total costs (including transactional costs) are less than the cost of obtaining the results of those activities from the market.

The initial TCE framework began with assumptions of perfect markets and has been extended to fit situations with imperfect markets. The framework was



significantly extended by Williamson (1975; 1985), who argued that incomplete contracts and relationships with asymmetric information and bounded rationality lead to integration rather than purchases from the market. Williamson (1988) also added opportunism as a problem. Specifically, the motives of the two parties are likely to conflict, consequently, the typical principal-agent problems are expected to impose costs.

By recognizing that there is a cost of using the price mechanism in negotiating and concluding contracts, Coase (1937) opened up the field of transaction cost economics which is very relevant to the outsourcing of business processes. This is also known as the “make-or-buy” decision. Costs come from learning about (discovering the true price) and negotiating over (distributing rents) the terms of trade. Transaction costs analysis combines economic reasoning with management theory to determine whether a firm will make or buy a given product or service. The economic structure of an organization can be described as market, hierarchy or alliance. Four factors yield transaction costs. The first is bounded rationality—human decision making is limited by the inability of actors to perfectly process information. The second is opportunism—people tend to behave opportunistically as each actor pursues his own interest. The third happens to be small numbers bargaining—this occurs when bargaining situations are few or infrequent or involve small quantities so that the cost of obtaining full information is prohibitive. The last is information impactedness—the asymmetrical distribution of knowledge among actors may leave one with a strategic advantage.

Williamson (1985) described the three dimensions of a process that affect who produces it most efficiently: 1) asset specificity—transactions which involve high

investments specific to a particular exchange relationship, 2) uncertainty—ambiguity of transaction definition and performance, and 3) infrequency—transactions which are performed less often. When a process has low asset specificity, low uncertainty and high frequency market exchanges are more likely.

Informational asymmetry is one source of costs in an outsourcing arrangement. It is difficult *ex ante* to assess vendor abilities and processes. Cultural and geographic differences may increase the asymmetry for smaller and less global organizations. Kern, Willcock and Heck (2002) label a consequence of the asymmetric information that exists in BPO as the *winner's curse*. Unlike the typical auction where the party who wins suffers the curse alone, in procurement auctions for an HRO contract both parties will probably suffer. A supplier winning a "cursed" deal can be expected to try to cut his losses by providing lower quality products or service to the customer. Alternatively, a provider winning a cursed bid may well drive a much harder deal—in terms of service guarantee or price—next time with the same firm and use *ex post* transaction costs to its advantage.

The *winner's curse* can have consequences for several parties, over months or even years. Kern, Willcocks and Heck (2002) suggest that the RFP process or auction may be better conceived as relationship-building exercises rather than one-off bids. In these situations an outsourcing consultant could assist both parties in arriving at greater clarity on the auction process, the services auctioned and their value. The contract facilitator can take steps to reduce the potential problem *ex ante* prior to the auction or help the parties after the auction *ex post*.

The transaction cost economics framework asserts that asset-specificity and incomplete contracts lead to vertical integration also known as the “make” decision. This framework is supported with empirical evidence using measures of lock-in and transaction complexity (Monteverde and Teece, 1982; Masten, 1984; Joskow, P, 1985). Klein et al. (1978) specifically described the “hold-up” problem arising from incomplete contracts, specific assets and opportunistic behavior *ex ante*. Hart and Moore (1990) formally model the hold-up problem with the development of property rights theory.

Previously, the costs of obtaining many HRM services outside the firm were prohibitive. However, with the advances in information and communication technology many HRM activities have been automated. Standardization has also been common in the 1990s with the rise of shared service centers within firms. Payroll processing is a perfect example of a process that can be almost entirely automated and it was the first HRM activity to be widely outsourced. As other HRM processes were standardized within the firm, managers realized that the transactional nature of many of these activities might benefit from even larger economies of scale than existed in a single firm. The size of these benefits might now outweigh the transaction costs that once existed preventing the development of a market of service providers.

The implication for this study is that *ceteris paribus* HRM activities that are highly transactional and defined as non-complex and occurring frequently, are more likely to be outsourced and the outsourcing of these activities is not likely to impose additional costs on the organization. Complex activities have higher transactional costs because they are not routine activities and are not easily standardized. Frequently

occurring activities more readily lend themselves to the advantage of economies of scale due to the superior ability to amortize the transaction costs of a larger number of these activities occurring in a given time period. This study specifically assesses 34 HRM activities with respect to their level of complexity and frequency of repetition.

### *2.1.3 Asset-specificity and idiosyncratic activities*

Economic theory also provides the concept of asset specificity or firm-specific assets (Jensen & Meckling, 1976; Fama, 1980; Hart, 1989), which implies that external parties are less likely to invest in acquiring information that is firm-specific and have less economic advantage in doing so than the firm itself. In other words many cases exist where assets are specific to a firm to such a degree that their value is much less in a second-best use. This is often referred to as “lock-in.” Consider the railway connecting the Iron Range of Minnesota to the port of Duluth. This railway has value to the owner of the iron ore to be shipped, but much less value to passengers wishing transportation between the two areas. If firm-specific assets are owned by different firms, this will lead to costly bargaining over the gains from trade. One or both parties may find themselves locked into a position where they are no longer competing with a sizeable number of agents in the entire market; therefore, the incentives are no longer there to represent their positions honestly. Williamson (1985) notes that this is a case of large-numbers bargaining being transformed into small-number bargaining. There are two primary solutions to this “hold up” problem-- integration of both assets by a single owner or the ability to place a reputational cost on the party using its strategic advantage to “hold up” the other party.

Williamson (1985) noticed that transaction costs become very important in situations where economic actors make relationship-specific investments. Bringing or retaining transactions inside the firm reduces opportunistic behavior and improves investment incentives. Hart (1989) extended the work of Williamson on asset specificity by examining how the use of assets will differ based on the rights of control provided by ownership.

In a world of incomplete contracts *ex post* residual rights of control are important because they influence asset usage during the contract period, *ex post* bargaining power and the *ex post* surplus in a contractual relationship. This is very relevant for a new industry such as HRO in which several vendors priced multiyear contracts at levels under their own cost. One should rightly worry about the holdup problem at contract renewal. Hart developed these ideas on the importance of asset ownership into a set of boundaries for the firm.

First, highly complimentary assets should be owned in common, which suggests a minimum size for the firm. One should therefore consider which HRM activities are highly complimentary to other key processes and avoid their outsourcing. Second, as firms grow managers are less important with respect to operations at the periphery. This echoes the advice about outsourcing non-core activities. Third due to hold up costs within the firm in the absence of lock-in effects non-integration is always better than integration, which suggests that organizations must be wary of the cost of bringing HRM activities back in-house at the end of a contract until such time as the market offers enough providers to ensure competition. These considerations offer insights into how to structure an HRO contract and which activities are less likely to be outsourced.

Concerns about how actual HRM activities and jobs are idiosyncratic or firm-specific, relate more directly to the question of which HRM activities may create indirect costs to the organization.

Idiosyncratic jobs originate from unique attributes associated with particular operations, workgroup members and organizational culture. Outsiders who lack this experience can achieve parity only by incurring the same startup costs as someone hired by the organization. Williamson, Wachter and Harris (1975) describe four sources of idiosyncrasy in the employment relationship: (1) equipment idiosyncrasy due to incompletely standardized use of equipment, (2) process idiosyncrasy adopted by employees in a specific context, (3) informal team accommodations developed through adaptation among parties in recurrent contact and (4) communication idiosyncrasy such as channels and codes used only within a particular organization.

The implications that apply to this study are that very firm-specific or idiosyncratic HRM activities require startup costs of the vendor equal to that of an internal employee. If HRIS systems have been tailored they are obviously incompletely standardized resulting in a reduction of the potential cost savings afforded by economies of scale. See concerns about this fact in recent consultant warning titled “How to make HRO fail” (Giacomelli, 2007). Concerns about process idiosyncrasy are related to the degree to which an HRM activity is interdependent on other processes in an organization, especially key processes. The level of concern can be greater if the HRM practice or connected processes are related to a core competence or unique characteristic providing competitive advantage under the resource based view of the firm.

Furthermore, if the startup costs mentioned by Williamson, Wachter and Harris (1975) are not incurred, one should expect differences in the quality of service provided. This may be a result of less effective team interactions, such as poorer understanding of management's HRM needs and/or inferior communication with employees and managers due to a lack of access to certain channels or understanding of organization-specific codes. An implication of asset-specificity is that the costs in procuring highly idiosyncratic or asset-specific services, such as HRM activities that are highly customized to the firm or are interdependent on other core processes are expected to be outsourced less frequently and to be associated with additional organizational costs *ceteris paribus*. This study specifically assesses 34 HRM activities with respect to their level of firm-customization and level of interdependence.

The HRO provider selection process can be divided into three phases: (1) information gathering, (2) bidding, and (3) managing the contract. Common problems in the information gathering stage include: insufficient information, misinformation, wrong assumptions, and information congestion. In the bidding stages, there may crop up issues such as misaligned bids, bidding to win no matter the costs, under-estimate of resources and capabilities required, and an above baseline cost/no possible profit margin. The operating contract phase can be negatively affected by: under-estimating the rigidity of the contract, over-estimating extra work and excess fees, under-estimating control and tightness of client contract management, revenue enhancement tactics, and other opportunistic behaviors.

Governance through markets can be described as short-term bargaining relationships between highly autonomous buyers and sellers (Ring and van de Ven,

1992). Safeguards are proposed to deal with risk by specifying behavior and dispute resolution mechanisms for dealing with asset specificity, performance measurement, and uncertainty (Poppo and Zenger, 2002).

The TCE framework predicts that if transaction specific investment is high then it must be developed internally or via the acquisition of an organization with that specific ability. Doz and Prahalad (1991) suggest that the TCE framework is limited as it focuses on single transaction as the unit of analysis. However, most organizations and industries experience repeated transactions between same partners. Ring and van de Ven (1992) also discuss this limitation and the key roles of trust and equity in inter-organizational relationships.

#### *2.1.4 Agency theory*

Agency theory (Fama, 1980; Jensen & Meckling, 1976) has been used to examine organizational performance and managerial decision making (Christen, Iyer, & Soberman, 2006). Agency theory can be applied to situations in which there is a delegation of work by one party (the principal) to another (the agent), who performs the work (Eisenhardt, 1989). For our purposes the principal is the purchaser or outsourcing firm and the agent is the vendor or outsourcing provider. The units of analysis differ from owner and manager and manager and employee relationships most often found in the literature, but are consistent with the conceptual framework (Milgrom & Roberts, 1992; Whitener, Brodt, Korsgaard, & Werner, 1998). There are two sources of agency problems: those arising from asymmetric information such as moral hazard and adverse selection and those arising from asymmetric interests between the principal and the agent (goal conflict). Goal conflict includes problems of risk sharing between the



principal and the agent due to differing risk preferences. Alchian and Demsetz (1972) addressed one problem resulting from asymmetric information (informational problems of monitoring effort in team production) in their suggestion that team production is a reason why firms emerge.

Moral hazard “arises from the problem that individuals will sometimes say what they do not mean or what they know not to be true,” while adverse selection “stems from the fact that individuals sometimes do things they said they will not do or do not do things they said they would” (Ben-Ner, Montias, & Neuberger, 1993, p.213). Williamson’s (1985) transaction cost framework considers moral hazard as post-contractual opportunism whereas adverse selection is deemed to be pre-contractual opportunism. Eisenhardt (1989) refers to moral hazard simply as the “lack of effort on part of the agent” and adverse selection as the “misrepresentation of ability by the agent” (p. 61). Both problems are relevant to the current state of HRO as vendors signing increasingly large contracts to replace entire HR departments are entering into uncharted waters and client firms face the risk of vendors misrepresenting their ability and underperforming on contract of five to seven years in duration.

Agency theory predicts that parties seek to ascertain the most efficient contract given their assumptions and boundary conditions, by assuming that individuals are self-interested, risk averse, and act with bounded rationality. Information asymmetry between principals and agents is a source of gain to the party with better information and a source of goal conflict. The outsourcing organization is the source of much of the relevant information about the costs of providing a given HRM service. In many cases HR consultancies are paid to acquire information about the efficiency and effectiveness

of HRM process for an organization. The HR consultancy has an incentive to withhold or alter some of this information, especially if their organization or an affiliated entity is selling HRO services.

In this case the principal must be aware that for an efficient contract to be reached there is a trade-off between the costs of incentives to elicit performance and the costs of monitoring. This may explain the rise of HRO contract consultants in bidding for HR providers and should be a source of concern when examining a bid from a firm that has recently served as an HR consultant. In situations in which it is difficult to monitor effort, incentive mechanisms are used in contracts between the principal and the agent which are based on the output of the agent. However, a complicated service such as an HRM process has a large quality component that is difficult to measure.

In conditions when it is possible to monitor effort through mechanisms such as information systems, monitoring is the preferred approach to countering agency problems with behavior-based contracts when a process is internal to a firm (e.g., salaries, hierarchical management). It is not readily apparent how this can be done with an HRO provider other than assuming that a firm's previous effort level should be similar to the effort expended when the process was internal to the firm. It would be interesting to gain access to organizations with HRO contracts and review the service level agreements for an insight into their approach to monitoring.

The implications of agency theory led to the development of the assessment of several HRM activities with respect to their level of firm-customization (asset-specificity), level of interdependence, and creation of organizational capital for the employee.

The most widely outsourced HRM activity is payroll processing, which has become a commodity, evidenced by the number and diversity of companies selling this service (e.g. ADP, Ceridian, EDS, Hewitt, and Wells Fargo). Payroll processing can be described as a frequently occurring HRM activity that is low in complexity, firm specificity, level of subject matter expertise required, and creation of employee social capital. The economic theories presented above would suggest that payroll processing is a good candidate for outsourcing and switching to an external provider is not likely to result in negative organizational outcomes.

The creation and adaptation of management practices has accelerated with the commercialization of the internet and ever faster computers. In many instances the transaction costs of providing many HRM services outside of the traditional HR function have fallen substantially. For example, new software allows a wide variety of HRM processes to be automated and managed remotely, which has opened up the possibility of shifting more HRM activities outside the firm by lowering transaction costs to a level below that of the gains to be derived from economies of scale. As a result, several new and existing businesses are exploiting this opportunity to help firms obtain these services more efficiently by transferring them outside the firm. This study argues that firm-specificity and agency considerations should also be incorporated in assessing the impact of outsourcing as an HRM activity on the organization.

A current risk to organizations utilizing HRO is the limited market competition amongst HRO providers for several HRM processes. This may be a short-term phenomenon, as exploiting new technology always takes some time. IT outsourcing took about a decade for the industry to rationalize. A new field of HRO consultants has

emerged that can help to protect the interests of the buyers of HRO services by reducing information asymmetries and by helping to prevent the HRO provider from capturing an excess level of the rents from the increased efficiency created by economies of scale. However, for HRM processes that are firm-specific, sporadic, or otherwise difficult to standardize there should be less ability to adopt HRO.

## 2.2 Sociological Theories

There are two popular theories from the discipline of sociology that suggest possible costs or benefits to outsourcing HRM activities. One is social networking theory. Another is social exchange theory. The idea of social capital can be modified into organizational capital an employee builds with other members of the organization which can be beneficial to both parties.

### 2.2.1 *Social Networking Theory*

Granovetter's (1973) social networking theory's basic argument is that an employee's relationship to family members, team members and close friends or one's "strong ties" do not provide an employee with as much diversity of knowledge as one's relationship to acquaintances, other coworkers and distant friends or "weak ties". Granovetter (1974) pioneered this theory and used it to explain differences in the success with which some people found jobs. The application to a firm's internal labor market seems an appropriate consideration in the context of HRO. The shifting of a provider of an HRM service to someone outside the firm will reduce by at least one the number of nodes an employee has connecting her to the internal labor market. Social exchange theory also posits that economic relations between individuals and firms are

embedded in a social network that offers greater utility than is captured by the idealized market.

Granovetter's (1982) concept of weak and strong ties may also affect the diffusion of knowledge to the provider of the HR service thereby reducing the quality of the HRM service. Many HRO contracts involve transferring work from HR generalist to a call center employee. Some delivery systems stress a single-point of contact in getting advice, such as a management coach or HR generalist supporting a particular business group, which would fit the strong-ties concept. The call center model, instead, stresses transferring the client to a subject matter expert based on the particular need, which fits the multiple weak ties concept. When strong ties emerge, communication patterns tend to be well developed and it is easier to exchange information and may lead to greater commitment to use the information due to higher trust.

### *2.2.2 Social Exchange Theory*

Gouldner's (1960) concept of reciprocity argues that people tend to return benefits given to them in a relationship and his work is considered the source of social exchange theory. Social change and the lack of change or stability occur as a result of negotiated exchange between two parties. Blau (1964) also described the formation and maintenance of relationships as being predicated on the reciprocation of valued resources. Social exchange theory has been extended to explain the development of relationships and their maintenance (Murstein et al., 1977). Social exchange theory emphasizes the importance of interpersonal trust in alliances and information exchange (Gulati, 1995; Ring & Van de Ven, 1992).

A social exchange takes place within the employment relationship when a psychological contract is created containing the perceived commitments or promises that employees believe their organizations have made to them. The concept of “breach” described by Morrison and Robinson (1997, 230) is “the cognition that one’s organization has failed to meet one or more obligations within one’s psychological contract in a manner commensurate with one’s contributions.” The possibility of a breach of contract may negatively impact employees’ feelings, attitudes, and behaviors.

Employees develop a comparison level against which they compare the give/take ratio to determine the fairness and the value of an employment relationship. This level will vary with some relationships being more giving and others being more taking. An internal relationship offers greater possibility for reciprocation and will thus be viewed as more positive to the employee in most cases. An obvious exception could be in the case where an employee wishes to share information that will remain confidential and not be shared with the firm as may be the case when employees use Employee Assistance Programs. The exchange in this case is likely to be more valuable when conducted by an anonymous party external to the firm.

Social exchange theory offers a rationale for why the external provision of certain HRM processes could have lower value to an employee. Many HRM activities involve the joint creation of an output (e.g. training, performance reviews, employee attitude surveys). In particular, consider the HRM processes surrounding effective performance management. The interaction that occurs during the performance review process involves discussion of career prospects, honest feedback about a subordinate’s performance and longer term potential with a firm and sometimes the promise of future

rewards. When this conversation occurs with a senior manager of the firm valuable information about employees is created in the mind of a decision maker with a stronger ability to positively or negatively affect the subordinate. Of course the value of the information shared in these conversations from the subordinate's perspective is a function of the degree to which the subordinate feels it improves his/her social capital within the organization and the subordinate employee's trust that such information will be shared within the organization accurately. Knowledge of a manager's ability to keep promises and serve as an effective conduit for positive information about one's abilities and potential is likely to induce more positive attitudes and behavior due to the possibility of social exchange, the potential for which is less when the performance review process is primarily managed by someone external to the firm.

Similarly certain types of training, such as management and leadership development, result in an exchange of value to the employee. Astute managers are carefully assessing the talent of those in the training and knowledge is shared that will permit a future exchange of value. If this training is performed exclusively by external parties, such opportunity for an internal exchange is reduced whereas the possibility of a future exchange being possible between the employee and HRO vendor could actually lead to the loss of a valuable employee due to external validation of value outside the firm.

### *2.2.3 Organizational Capital Theory*

Putnam's *Bowling Alone* (2000) popularized the term social capital and the typical use of this concept is at the societal level of analysis. The term can be traced back to 1916 when a state supervisor of West Virginia schools stressed the importance

of community involvement in school success (Putnam, 2000). Pierre Bourdieu (1977) uses the term in *Outline of a Theory of Practice* and later contrasted the concept with cultural, economic and symbolic capital. Several scholars have noted how social capital can produce inequality at a national level. A modification of this concept to the organizational level is argued to be relevant to employees affected by HRO and total HRO in particular. The concept of social capital has been applied to lower level of analysis-- the organizational level which might affect employee reactions and organizational performance if outsourcing certain activities, such as HRM, destroys this form of social capital.

Organizational capital is a subset of social capital that operates in the manner of leader-member exchange broadened to be the sum of all organizational members relationships held by a particular employee and then summed again for all members of the organization. Leader-member exchange theory can be described as the perceived quality of the interpersonal social exchange relationship between a leader—the immediate supervisor of a particular employee—and his or her subordinate (Liden & Maslyn, 1998). Rousseau (1999, p.9) defined this psychological contract as “the terms of an exchange agreement between individuals and their organizations.”

Tomer (1987) coined the term “organizational capital” to refer to the productive capacity that derives from the qualities of an organization's "people relationships." Social capital, on the other hand, has been used more generally to describe a social resource that enables actors to attain their ends rather than an organization's performance. Prescott and Visscher (1980) wrote about organizational capital. My use



of the term “organizational capital created for the employee” focuses on the aggregated value of a reduced version of social capital.

Organizational capital is the element that gives a learning organization its unique value via increased trust and institutional memory which could lead to deterioration in organizational performance. Many HRM activities, such as training and performance management, are essential in creating organizational capital. Transferring responsibility and performance of these activities could destroy organizational capital by eliminating important internal relationships. Another concern with respect to employee retention and employee satisfaction is the value of this organizational capital to the individual employee. It is possible that the provider of HRM services does matter to employees. For example training involving your executives and managers might be more valuable than that involving the non-affiliated best college professor or external professional trainer because the employee is interacting with a superior with valuable organizational power. Employees possessing higher levels of organizational capital would have increased switching costs when it comes to changing jobs. If an employee has been noticed in management training, mentoring and performance management processes by a senior manager that person might not leave for fear of losing a potential benefit such as a developmental assignment or promotion.

In summary, those HRM activities in which the strength of ties or social exchange theories would predict an improvement in employee knowledge or motivation fit under the category referred to by many consultants as relational HRM processes. Rather than rely on a split between transactional and relational processes this thesis examines 34 different HRM activities and assesses them using six dimensions:

complexity, repetition, firm specificity, interdependence, subject matter expertise required, and organizational capital created.

### 2.3 The Resource Based View of the Firm

One management theory that suggests that total HRO might create hidden costs to an organization is the application of the resource-based view of the firm to strategic HRM. The resource-based view of the firm evolved from the work of Edith Penrose (1959) on the theory of the growth of the firm. This theory focused on how firms decide what to produce, at what price and how (Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991; Conner, 1991). Building on this along with Porter's (1985) notion of competitive advantage, Barney (1991, p. 99) argued that a firm has "a *competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors." An organization has "a *sustained competitive advantage* when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors *and* when these other firms are unable to duplicate the benefits of this strategy" (Barney, 1991, p. 99). The resource-based theory of the firm contends that there are four requirements for human resources to be a source of sustained competitive advantage (Barney, 1991).

The first is that human capital must add value to production processes. The second stipulates that the skills sought by firms must be rare. Third, the investment in human capital cannot be easily imitated. The final requirement is that human capital must not be subject to replacement. If HRM is to be a source of competitive advantage, certain processes must not be able to be outsourced by the third and fourth requirements. This suggests that either certain HRM processes should not be

transferred to an external provider or that human-capital is not a likely source of sustained competitive advantage.

The notion that strategic HRM can build a resource conveying competitive advantage to an organization assumes the accumulation of human and physical resources to provide services in markets, the ability of managers to exploit human capital, and the importance of firm knowledge. Each organization or firm is a unique bundle of assets and resources conveying capabilities. The rents derived from these services are sustainable if they are simultaneously superior, imperfectly imitable, imperfectly substitutable, non-tradable or traded in imperfect factor markets. Teece, et al. (1997) extend this framework with the dynamic capabilities approach by looking at value, rarity, and imitability.

An empirical examination of Japanese automakers and the *keiretsu*, (Nagaoka, Takeishi and Noro, 2007) expands the make or buy framework to a three category choice: make internally, buy from the market or contract with an affiliated supplier under a long-term contract (relational contracting). Williamson (1985) and Baker, as well as Gibbons and Murphy (2002) acknowledge the importance of relational contracting. The resource-based view of the organization argues that core competencies should be developed internally, while all other activities are ideally outsourced.

Resource homogeneity (Barney, 1991) is an issue for organizations with great existing HR practices that adopt a total HRO approach under the logic that if all organizations implement the same strategies, they all will improve their efficiency and effectiveness to the same degree; thereby making it impossible to enjoy a sustained competitive advantage.

## 2.4 HRM and Organizational Performance

Numerous studies have provided evidence that HRM practices or bundles of practices affect employee productivity or organizational effectiveness. Bloom, Kretschmer, and Van Reenan (2006) find an association between management quality and work-life balances, but not productivity and work-life balance practices, once management quality is controlled for. Ben-Ner and Luis (2006) provide evidence about how firms switch HR systems. Bloom and Van Reenan (2005) developed a set of measures that correlated with measures of improved productivity and profitability for manufacturing firms in the United States and Europe. Erickson and Dyer (2005) examine horizontal fit—alignment of components of the HR strategy—along with vertical fit—alignment between HR strategy and core features of the business strategy—in an analysis of high reliability organizations. Capelli and Neumark (2001) find weaker evidence of a relationship between HR practices and firm performance using longitudinal data. Huselid (1995) finds a relationship between high performance HR practices and productivity, turnover and firm performance. Milgrom and Roberts (1995) create a model of complementarity with lattice and supermodular optimization and apply it to the case of Lincoln Electric Company.

Pöckerman and Ilmakunnas (2009) recently demonstrate that job dissatisfaction is related to job switches building on an extensive body of literature establishing the link between employee satisfaction and retention (Clark 2001; Clark, Yannis, and Sanfey, 1998; Delfgaauw, 2007; Flanagan, Strauss, and Ulman, 1974; Freman, 1978, Kristensen and Westergård-Nielson, 2004, and Lévy-Garboua, Montmarquette, and Simonnet, 2007).

The nature of services involves the simultaneity of production and consumption by both the consumer and the producer. Furthermore both service processes and outcomes are intangible thus the performance of front-line employees in meeting customer needs directly influences customer satisfaction with the service quality (Liao & Chuang, 2007; Liao & Chuang, 2004). Employees need more than the knowledge, skills, and abilities to meet customer needs—motivation is required. Employee satisfaction is associated with employee motivation and can translate into great customer satisfaction especially for certain industries, such hotels (Kattara, et al, 2008), retail (Simon, et al, 2008) and airlines (Babbar and Koufteros, 2008). A recent study by Liao, et al. (2009) reports that high performance workplaces can be related to knowledge-intensive service performance which is positively associated with customer satisfaction.

It is widely assumed that a primary goal of the for-profit organization is to maximize the return on all forms of its capital, tangible and intangible, financial and human. Human capital can be measured in terms of capacity, alignment and motivation (Gilbert, 1996). The practice of HRM seeks to maximize the return on a firm's human capital by increasing each of these three measures for a given investment. In other words, optimizing an organization's human capital requires that most able employees (100 percent of ability in the labor market) work on the right tasks (100 percent alignment with organizational goals) to their full capacity (100 percent effort). For example, an organization with an employee who is able to sell \$100,000 worth of goods per period, but who chooses to sell at 60 percent of her capacity is of equal value to the employee who is only able to sell \$60,000 worth of goods per period operating at his

full potential. Similarly, an organization that aligns 70 percent of the time spent by its R&D group on activities directly related to its goals obtains a greater value from the investment in the R&D team than the organization that is able only able to align 50 percent of the time spent by its R&D group on activities directly related to the corporate goal.

For HRO to affect organizational performance it is essential that HRM can affect organizational performance. Many of the studies in this area struggle with determining causality which is a problem with the cross-sectional design of this study, as well. However, the evidence of a link between HRO and organizational outcomes should help focus additional attention to the area and will hopefully motivate the design of studies better able to determine the direction of any relationship discovered. The next chapter presents a conceptual model based on the theories reviewed in this chapter about the relationship between HRO and employee retention and employee satisfaction. A set of hypotheses are developed in Chapter 3 and proxy variables are identified and used to test these hypotheses in the subsequent chapter.

### **Chapter 3: Conceptual Model and Hypotheses**

Building from the evidence presented in the previous chapter that HRM activities and systems can affect firm performance, this chapter develops a conceptual model of how switching the provider of the HRM activity may affect employee attitudes and behaviors (Figure 1.1). A model of the proposed level of HRO is presented in Figure 1.2. Several hypotheses are developed based on the expected effects of outsourcing specific HRM activities on outsourcing levels and organizational outcomes.

#### **3.1 Human Resource Outsourcing**

Outsourcing any business process involves both direct and indirect costs and benefits. Some of the more obvious direct costs include the personnel costs of time spent identifying the business processes to be outsourced, selecting a vendor or vendors, and managing the vendor relationship. Outsourcing may entail reductions or increases in material and supply costs, training, travel, new equipment and software. Other direct benefits include staff time and labor costs saved and savings from additional operating efficiencies such as lower material, equipment and software costs.

A potential indirect benefit or cost of outsourcing a business process may accompany a change in employee satisfaction and engagement due to new or improved services or lower service quality. Dissatisfaction with having to seek desired services in a new manner may lead to temporary or lasting declines in employee satisfaction depending on the importance of the process to the employee. The effect on employee satisfaction resulting from the outsourcing of a business process may change over time

as most changes result in higher initial resistance. Considering HRO specifically, some qualitative factors that may have an impact on employee satisfaction and engagement include the availability of HRM service, the quality of HRM service, the impact of the HRM service on organizational reputation with employees, potential employees and customers. Changes in the provider of an HRM service may also change the legal, security and/or technology risks faced by the organization.

Outsourcing activities not well suited to outsourcing because they involve one's employees may lead to reductions in the quality of the activity that are difficult to measure in the monitoring of a contract, but are still felt by employees or managers. Many HRO providers are trying to push the embrace of a single standardized delivery model to receive the benefits of economies of scale and economies of scope. Replacing a well functioning process with a new standardized process may lead to managers and employees to perceive the HRM services received are inferior to the services previously provided by the internal HR department in ways difficult to predict and measure post outsourcing transition.

### *3.1.1 Types of HR Activities*

Prior research on HRO established that the commonly outsourced HR services fall into one of the following categories: recruitment and selection, training and development, pay and benefits, mergers and outplacement, performance appraisal systems, HR planning, and organizational climate and culture (Mahoney and Brewster, 2002; Eleanna and Papalexandris, 2005). These categories were used as a starting point in the development of a list of HRM activities to explore. This study contributes to the



literature by exploring a wider list of specific HRM activities and measuring the level of HRO in 2007.

A comprehensive list of HRM activities was developed by interviewing more than twenty HR and finance executives working for a variety of large organizations in nine major industries. These organizations included 3-M, Allele, Best Buy, Cargill, CSC, Dakota County, Ceridian, General Mills, HB Fuller, Hewitt Associates, Imation, Maurice's, Medtronic, Northwest Airlines, Polaris, Sun Microsystems, United Health Group, US Bancorp, and Wells Fargo. These interviews followed a semi-structured format.

The following questions were asked. "Describe the link between HR and your organization's vision and goals." "What are the key HR initiatives for the current year?" "Describe your organization's philosophy towards HRO." Which HR activities is your organization currently outsourcing and which HR activities are you planning to outsource?" and "What HR activities would you never outsource?" About half of the interviews were conducted in person and half via a scheduled phone call. Most meetings concluded with a request to review and complete the pilot survey and in several instances I was able to ask for input as to which HRM activities were missing. I also received feedback to keep the survey to one double-side page from several participants who took a longer four-page survey. Contact information for several HR professionals that might complete the HRM Attribute Survey was also received from several of these executives. The length of these interviews ranged from 30 to 60 minutes.

Prior to these interviews a list of 28 HRM activities was created from a review of the literature (Mahoney and Brewster, 2002; Eleanna and Papalexandris, 2005) to help direct the conversation about which activities should be explored. Interviewees found it easier to begin with a list and offer what was missing, what was less important or which categories should be more granular. What follows are some examples of how the list evolved. Addressing employee complaints was split into one category dealing with complaints about managers and a category dealing with complaints about other employees. Mentoring and coaching were originally one single category. The category, expatriate assignments, is one that was also initially one single category and later was split into two. Some of the HR leaders suggested that the HRIS and executive recruiting categories be added during the interview phase used to refine the questionnaire design.

The goal of these initial interviews was to select a set of activities covering the entire domain of HRM and to include activities thought to be both well suited to HRO and poorly suited to obtain contrasting measures. One activity omitted was payroll processing. This was for two reasons. First, in many organizations this responsibility belongs to the finance department. The role of the HR department is to ensure that hours are reported in a timely and accurate manner and to determine the rates of pay. Secondly, this activity is the most commonly outsourced HR-related process. Payroll processing has become its own industry with providers in three segments, payroll processing specialists (Ceridian), HR consultancies (Towers Perrin) and banks (Wells Fargo). The list of activities to be included on the questionnaire was refined and

expanded to 34 HRM activities by the end of the interviewing phase which ended shortly after the pilot survey in early 2007.

### *3.1.2 Relational and Transactional HRM Activities*

Conversations with consultants at Accenture and Hewitt Associates revealed the belief that HRM activities could be listed on a dichotomous scale of relational to transactional. Trying to press these consultants and the executives interviewed on precise definitions was not very fruitful. Transactional activities are described as perfect candidates for outsourcing as they tend to be routine and add little value to the organization as they are less *strategic*— another word with a nebulous meaning among practitioners.

Relational HRM services are described as high-touch activities which involve creating a type of social capital for the employee and/or organization during their provision. This is the result of a social exchange that takes place between HRM service provider and the employee (e.g. management training) or due to the provider's position within the firm's hierarchy (e.g. performance review, mentoring). There is a general belief that outsourcing HRM processes that are highly relational in most cases will be viewed negatively by employees and will negatively affect employee satisfaction and retention. This belief is consistent with Hirschman's (1970) notion that voice is important and that an external party is an imperfect substitute for an internal member of the management team.

However, one important exception surfaced during the interviewing phase. In some cases an employee's sense of confidentiality is greater when the provider is external to the firm. This may be a reason why Employee Assistance Programs are

often contracted out with few concerns. The key concern here is that the service be delivered objectively and not have an effect on the employee's work relationship. Employees may have similar preferences for assessment of ability in the pre-employment stage and for certain types of leadership development, which involve exploring areas of weakness.

### 3.2 The Conceptual Model: Six Dimensions of HRM Activities Relevant to Outsourcing

Creating hypotheses that are both complete and parsimonious involves a tension (Colquitt, LePine & Noe, 2000). Several constructs or dimensions might be chosen to represent the facets of HRM activities likely to affect employee attitudes and behaviors; however, selecting too many increases the chance that they will be highly correlated with each other. Furthermore, an overabundance of constructs creates an overly complex model. The following six dimensions are used to assess HRM activities and inspire a set of hypotheses intended to both reduce multicollinearity and facilitate model comprehension. These dimensions are complexity, repetitiveness, interdependence, firm-specificity, expertise required, organizational capital created. The explanatory power of these theoretical views may depend on the context surrounding the outsourcing relationship (Takeishi, 2001). For this reason several control variables are included in the empirical analysis.

The transaction cost economics (TCE) framework suggests five attributes of HRM activities that may create problems for an organization seeking services from the market rather than the internal hierarchy of the firm. Tasks that are complex, infrequently repeated, firm-specific, interdependent on other internal business

processes, or that require significant subject matter expertise are more difficult to procure via a contract compared to their opposites— tasks that are simple, frequently repeated, generic, independent of other business processes or require little specialized expertise. The definition of transactional processes, described by many providers and consultants, includes many of these elements; however, they are not mutually exclusive. For example, a process may be highly firm-specific, but may not be highly interdependent on other processes.

Social networking theory and organizational capital theory suggest another dimension that might be related to employee satisfaction with a business process that affects them in their job, such as HRM activities. The concept of organizational capital captures the notion that individuals may have expectations of a future gain when a service is provided by a fellow employee embedded in the social network of the organization. Organizational capital is viewed as a form of social capital that may be created during the delivery of several HRM activities, such as performance reviews, managerial training and mentoring. Switching the provider of these types of HRM activities may lead to negative organizational effects possibly exceeding the cost savings accruing from the substitution of labor costs for an HRO contract.

Each of these six dimensions— complexity, repetitiveness, firm-specificity, interdependence, expertise, and creation of organizational capital— are defined and described in more detail below. A follow-up activity from the interviews used to determine the list of HRM activities to measure was a request that each executive identify a subject matter expert, typically one level below the HR director or vice-president who could rate the HRM activities on each of these six dimensions believed to

be relevant to outsourcing. Additional subject matter experts were identified during the primary survey process.

In 2007 and 2008 responses were received from 42 HR professionals to the Global HRM Attributes Questionnaire (See Appendix). These respondents completed a questionnaire which asked them to rate the degree to which a list of 34 HRM activities agreed with descriptions of the six dimensions described above using a 5-point Likert scale. This was a convenience sample of eight HR professionals identified by the interviewees in the first phase of this project in Minnesota and 34 HR professionals or line managers familiar with the HR function with operations in California. Several surveys were collected as a result of networking with members of professional HR organizations in Southern California such as Professionals in Human Resources Association (PIHRA) and the Staffing Management Association (SMA) of Southern California. A few dozen surveys were also received from the employers of students of California State University.

Of the 42 surveys received 14 were not included in the analysis because they were incomplete or they were judged to have too little HR experience or worked in a job with inadequate exposure to the overall HR function. The responses from individuals with two or fewer years of HR experience were not included. The data used came from seven HR vice-presidents or directors, 12 HR managers, eight lower-level HR professionals and eight line managers. The average length of work experience dealing with HR issues is 12 years.

The first page of the Global HRM Attributes Questionnaire included a short definition of each dimension. The following two pages then listed the 34 HRM

activities in the row headings and the attribute to be rated in the column headings. The subject matter experts were asked to use a 5-point scale with 1 being the lowest and 5 being the highest. The raters were also asked to assess the overall suitability to outsourcing of each of the 34 HR Activities.

Table 3.1 provides an assessment of the HRM activities against the six dimensions believed to be associated with suitability for outsourcing. Table 3.2 lists the number of HRM activities rated high or low by the subject matter experts for each of the six dimensions. Averages and measures of variance are provided for each dimension in the later tables of Chapter 3 (3.14-3.20).

### *3.2.1 Complexity*

HRM activities vary in their complexity. Complexity is defined as having several steps that depend on the context and other factors, such as timing and types of employees involved. The more complex the activity is the more difficult it will be to standardize. Non-complex HRM processes are suited to automation as well as outsourcing. Non-complex HRM activities could include activities that could be provided by offering direct employee access to enterprise resource planning databases based on information entitlements (employee, manager, HR) to answer questions (e.g. vacation days remaining, level of co-payments for health insurance) or update employee preferences or information (e.g. increase retirement plan contributions, change address). Table 3.3 shows examples of HRM activities that were rated high and low in complexity. Table 3.14 offers additional statistics on the ratings.

The description of complexity used in the survey that asked subject matter experts to assess the level of complexity reads as follows: “activities and processes

with many steps that depend on the context and other factors such as timing, type of employee affected, current organizational performance, etc.” With respect to complexity four HRM activities received an average score of 3.9 or higher (one half a standard deviation from the grand mean of 3.3) and are thus labeled complex. Five activities received an average score of 2.7 or lower and are labeled non-complex.

Higher levels of outsourcing are expected in the case of a non-complex process, such as relocation or tuition reimbursement, compared to complex processes. This is because these HRM activities are expected to be more difficult to outsource and lead to the first hypothesis on complex HRM activities.

H1A: Non Complex HRM activities will have **higher** levels of outsourcing.

Higher levels of outsourcing complex HRM activities are expected to be less common. Outsourcing these processes may reduce employee satisfaction and retention. Complex activities introduce difficulties in developing service level agreements and monitoring the quality of delivery. This poses difficulties for HRO providers in accurately predicting the profitability of an initial relationship. For these reasons, it is likely that given the infancy of HRO, several contracts will encounter these problems and the consequences will be felt first by employees receiving lower quality service. It is expected that this effect will be reduced over time.

Outsourcing highly complex processes may negatively affect employee satisfaction or retention as they are predicted to be less suitable to outsourcing and may encounter quality problems due to both monitoring and agency issues according to



economic theory. This leads to the second hypothesis regarding complex HRM activities.

H1B: Outsourcing higher levels of complex HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

### 3.2.2 Repetitiveness

HRM activities vary in how often they are repeated over the course of a year. Repetitive activities are those that occur frequently in a very similar or identical form. Tasks that are repeated frequently lend themselves to specialization due to their numbers. Table 3.4 shows examples of HRM activities that are high and low in repetitiveness. Table 3.15 offers additional statistics on the ratings.

Like non-complex processes, repetitive processes are also good candidates for automation as they can take greater advantage of gains accruing from returns to scale. The item used to label HRM activities as highly repetitive reads as follows: “activities and processes that occur in basically the same form multiple times per year.”

With respect to repetitiveness four HRM activities received an average score of 3.5 or higher (one half a standard deviation from the grand mean of 2.9) and are thus labeled repetitive. Seven HRM activities received an average score of 2.2 or lower and are labeled non-repetitive. Higher levels of outsourcing a repetitive process, such as resume screening, are expected relative to less commonly performed processes. This is because these HRM activities are expected to be more attractive to outsourcing providers due to economies of scale that can generate savings to be shared with the outsourcing organization. This leads to the first hypothesis on repetitive HRM activities.

H2A: Repetitive HRM activities will have **higher** levels of outsourcing.

Activities that are repeated in essentially the same form are often standardized and offer gains from labor specializing in the activity or process. For this reason it is expected that HRO providers will react to these opportunities quickly and a market for these services will be quick to appear. Outsourcing a repetitive activity may increase employee satisfaction with the HRM service as it may permit 24/7 accessibility to the service or some other form of quality enhancement a result of greater specialization and utilization of a call center not economically feasible for smaller organizations to provide internally.

This leads to the following hypothesis.

H2B: Outsourcing higher levels of repetitive HRM activities will be **positively** related to employee retention (lower voluntary employee turnover).

### *3.2.3 Firm-Specificity*

The firm-specificity of an HRM activity could be related to a unique production or distribution process, regulatory requirement, or simply an idiosyncrasy that arose from past practice. One example is designing and delivering training in the operation of a unique piece of manufacturing equipment. Another example is mentoring and coaching a new team member about corporate values and norms needed to rise up the corporate ranks. Firm-specific HRM activities affect the ability of employees to perform their job, but may be difficult to efficiently outsource, due to the problems that accompany the creation of asset-specific value outside the organization. Table 3.5

shows examples of HRM activities that vary in the level of firm-specificity. Table 3.16 offers additional statistics on the ratings.

Firm-specific HRM processes present difficulties to outside providers. The opposite of a firm-specific process is one that is standardized and can be effectively applied to many firms, like handling the relocation needs of new employees or request for tuition reimbursement. The item used to label HRM activities as high in firm-specificity reads as follows: “activities and processes that must be tailored or customized depending on the firm and its industry, size, or other particular attributes.”

With respect to firm-specificity, three HRM activities received an average score of 3.7 or higher (one half a standard deviation from the grand mean of 3.1) and are thus labeled firm-specific. An example is designing the organizational structure. Four activities received an average score of 2.5 or lower and are labeled non-firm-specific. As the key HRM activity becomes more customized to the organization, it should be less likely that a vendor can provide this service at a lower cost than the organization. This leads to the first hypothesis with respect to HRM activities that are firm-specific.

H3A: Firm-specific HRM activities will have **lower** levels of outsourcing.

Activities that are highly firm-specific require greater investment in a relationship for a successful outsourcing relationship to occur. The contracting and monitoring costs associated with a multi-year agreement are also high; therefore, it is expected that HRO providers will react to these opportunities more slowly and it may take a decade or more for a competitive market to emerge for these services.

A state of the art compensation program developed by a top consultancy can lead to increased motivation, just as the training delivered by an external sales expert can result in superior development of a sales person's ability to negotiate. These cases involve more generic or transferable expertise that is less reliant on firm or organization-specific information. Employee performance reviews are believed to be most motivational when they are based on factual, detailed information about performance related to the job (Longenecker, Sims, Jr. & Gioia, 1987). If the client pays the vendor to learn this information, then this is an asset-specific investment, which raises the specter of opportunistic behavior on the case of the vendor.

Quality issues may surface when firm specific activities are outsourced as the amount of time for firm specific information to flow to the service providers is expected to be longer due to the need for information to cross firm boundaries twice. Employees are likely to notice canned services and may be disappointed by services that don't fit as well as those they replaced, and this may lead to lower job satisfaction. This leads to the next hypothesis with respect to HRM activities that are firm-specific.

H3B: Outsourcing higher levels of firm-specific HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

#### *3.2.4 Interdependency*

The level of interdependence of an HRM activity on other business processes may multiply the impact of changes in the HRM activity on organizational performance. So, if HRO leads to a qualitative improvement this effect may be magnified. Similarly, if there is a hard-to-measure negative effect, the repercussions might become significant. Coordination of processes is likely to be more difficult when

control and ownership reside outside the firm boundaries. Employees, especially managers, are likely to detect problems with integration of highly interdependent HRM processes as they experience delays or inconsistent information or service. Table 3.6 shows examples of HRM activities that vary in the level of interdependence. Table 3.17 offers additional statistics on the ratings.

Activities that are highly interdependent require a larger number of internal parties to agree on the outsourcing decision. This increases the costs of creating the initial contract and will lead to higher monitoring and contract enforcement costs; therefore, it is expected that HRO providers will provide these opportunities after smaller projects are demonstrated to be effective and greater knowledge of the interrelationships is gained.

On the questionnaire completed by subject matter experts, the description of HRM activities that are highly interdependent reads: “activities and processes that depend on other business process to be performed effectively or if performed poorly negatively affect other business activities or results.” With respect to interdependence two HRM activities received an average score of 3.4 or higher (one half a standard deviation from the grand mean of 2.7) and are thus labeled interdependent. An example is designing the organizational structure. Three activities received an average score of 2.1 or lower and are labeled non-interdependent.

H4A: Non-interdependent HRM activities will have **higher** levels of outsourcing.

HRM activities that are highly interdependent on other business processes present difficulties to both employees in the firm outsourcing the activity and to outside

providers. Quality issues are expected to surface when highly interdependent activities are outsourced as the amount of time for information to flow to the service providers is expected to be longer due to the need for information to cross firm boundaries twice. This is compounded by the fact that most HRO agreements are for seven years or more.

One example from a retail firm with tens of thousands of employees shows how this can lead to longer response times for employee relations issues. An employee calling an HR contact center offsite may be routed from Level 1 (an external HR generalist) to Level 2 (an external HR specialist) to Level 3 (an internal HR professional) for resolution of an issue that crosses boundaries outside what HR could contract with the HRO provider. Under the previous HR generalist model the employee would have the same point of contact.

During discussions with executives and managers of firms in knowledge intensive industries that employ hard to find, highly compensated scientists, engineers and programmers it was revealed that outsourcing highly interdependent HRM processes is a source of concern. The difficulty of foreseeing how switching a process like performance management and bonus allocations to an external provider with a goal of standardizing procedures can be limiting to managers who are used to dealing with retention issues creatively. The length of HRO contracts may make it impossible to create programs such as a phantom stock or targeted stock option program for groups such as R&D or cross-functional teams. This leads to the next hypothesis regarding interdependent HRM activities.

H4B: Outsourcing higher levels of interdependent HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

### 3.2.5 Expertise

The level of subject matter expertise involved in performing an HRM activity may be associated with outsourcing. HRM processes requiring high levels of expertise typically rely on highly skilled professionals to perform them. Smaller organizations in particular may find the cost of hiring a compensation manager as a regular employee too high relative to the use of consultants. In some instances such as salary surveys, legal restrictions may exist which further increase the cost of directly employing talent for these activities. Table 3.7 lists the HRM activities on the extremes of required subject matter expertise. Table 3.18 offers additional statistics on the ratings.

The item used to label HRM activities as requiring a high level of generic expertise reads as follows: “activities and processes that require a high degree of specialized skill, education or training to be performed, such as drafting complicated legal documents.” Three HRM activities received an average score of 4.1 or higher (one half a standard deviation from the grand mean of 3.6) and are thus labeled expert. An example is job analysis and evaluation. Three activities received an average score of 2.9 or lower and are labeled non-expert. It expected that this relationship is positive

H5A: HRM activities high in required subject-matter expertise will have **higher** levels of outsourcing.

Activities that require high levels of expertise lend themselves naturally to the provision by outside experts, be they attorneys, actuaries or management consultants. Organizations have a long history of outsourcing these activities and, typically, only the largest organizations have found it cost-effective to hire significant number of individuals with the required deep knowledge to perform such tasks. Employees are

probably willing to accept the provision of such HRM services by outsiders due to perceptions of higher quality or simply as the acceptance of past practice or commonly performed practice. The next hypothesis focuses on the increased satisfaction with quality enabled by outsourcing expert activities.

H5B: Outsourcing higher levels of HRM activities high in required subject-matter expertise will be **positively** related to employee retention (lower voluntary employee turnover).

### *3.2.6 Organizational Capital Creation*

HRM activities vary in the degree to which they create organizational capital for the employee or manager. Table 3.8 shows examples of HRM activities that are high and low in the degree to which they facilitate the creation of organizational capital. Table 3.19 offers additional details on the ratings.

Three HRM activities received an average score of 3.6 or higher (one half a standard deviation from the grand mean of 3.0) and are thus labeled organizational capital creating. An example is mentoring. Three activities, such as salary surveys, received an average score of 2.4 or lower and are labeled non-organizational capital creating.

Outsourcing an HRM activity that creates organizational-capital is problematic. The item used to label HRM activities as high in creating social capital read as follows: “activities and processes that when delivered by someone inside the firm potentially improve the relationship between the recipient and the provider to an extent that could result in more favorable treatment in the future due to better awareness of the recipient’s abilities, track record or other relevant factors.”



H6A: Organizational capital creating HRM activities will have **lower** levels of outsourcing.

HRM activities falling into the high organizational capital-creating category are expected to be less suited to outsourcing and will meet with resistance from employees and managers. Such processes may create organizational capital for individual employees by letting a future manager observe one's ability (e.g. delivery of a performance review) or building a network within the organization (e.g. development of customized training programs). This leads to the next hypothesis regarding organizational capital.

H6B: Outsourcing higher levels of organizational capital creating HRM activities will be **negatively** related to employee retention (higher voluntary employee turnover).

In summary, each of these six dimensions leads to two hypotheses. One about the level of HR outsourcing to be expected due to economic and social factors, and another hypotheses about the impact on employee retention. Each of these relationships is predicted to be linear. Table 3.9 summarizes the direction predicted for each of the three independent variables tested in the next chapter via the regression models. Table 3.10 recaps the hypotheses derived from these predictions. Figures 1.1 and 1.2 show the relationship predicted between outsourcing HRM activities and the three dependent variables: employee retention, employee satisfaction and customer satisfaction.

### *3.2.7 HRO and Employee Retention, Employee Satisfaction and Customer Satisfaction*

The previous six sets of hypotheses predict positive and negative effects of HRO based on the underlying attributes of the HRM activities involved. Much of the

strategic HRM literature suggests that HRM practices can be a source of sustained competitive advantage. The implication of this is that outsourcing any strategic HRM activity should be detrimental to some aspects of organizational performance. The path of this effect could be through lower employee performance due to lower satisfaction and engagement leading to higher voluntary turnover and lower customer satisfaction.

The next set of hypotheses assumes that most HRM activities have a strategic component and add to overall employee well being. Replacing the customized fit of an internal group of HR professionals with a cookie-cutter approach of an HRO provider engaged in full outsourcing or several vendors providing different HRM activities is predicted to have negative consequences. Instead of specifying which types of HRM activities should or should not be outsourced, these hypotheses take a stronger stand and look at the basic decision to engage in any significant level of HRO.

The logic is that if excessive HRO has a negative effect on employee satisfaction, it may negatively affect employee retention. HRO levels that are too high may negatively affect customer satisfaction. See Figure 1.1.

H7A: Higher levels of HRO will be **negatively** related to higher employee satisfaction.

H7B: Higher levels of HRO will be **negatively** related to employee retention (lower voluntary employee turnover).

H7C: Higher levels of HRO will be **negatively** related to higher customer satisfaction.

### **3.3 Correlations of HRM Attributes**

It is possible that two or more of the six attributes believed to be associated with suitability of outsourcing are highly correlated. Table 3.11 presents the correlation

matrix of the six HRM attributes and the raters' assessment of the overall suitability to outsourcing of each HRM activity. Complexity is highly correlated with expertise (0.79) and firm-specificity is moderately correlated with both complexity (0.63) and interdependence (0.61). An examination of the correlation with the raters' assessment of the suitability to outsourcing shows a negative correlation between all six dimensions. The direction of the repetitiveness dimension is surprising. Less surprising is the fact that the strongest correlation existed between organizational capital created for the employee and the suitability to outsourcing.

The average ratings for each dimension were broken into their principal components using un-rotated factor analysis. Table 3.12 shows that most of the variance can be explained by two components and that four components account for more than 90 percent of the variance. Table 3.13 suggests that complexity, firm specificity, interdependence and expertise could be combined into one factor with repetitiveness and organizational capital being other factors explaining differences in perceived suitability to HRO.

The next chapter describes the questionnaire design and the method used to collect data on HRO levels. First, the proxy variables are explained, the surveying process is reviewed and the sample characteristics are described. The thesis continues by presenting the descriptive results and the tests of the hypotheses developed above.

## **Chapter 4: Research Methods**

### ***4.1 Data Collection Procedures***

Most of the data used in this study was collected through a series of survey questionnaires. In a small number of cases in-person or telephone interviews were conducted to better understand the reasons for outsourcing levels. These conversations were also used to encourage HR professionals to complete the questionnaires on behalf of their organization. Data collection involved both paper and online versions of the questionnaire. Nearly one hundred organizations were invited personally by the researcher to complete a paper version of the questionnaire. (See Appendix A for the paper version and three online versions of the questionnaire.) Nearly one thousand organizations were invited to participate by one of two market research firms, Greenfield Online and Market Tools. The data collected provides a cross-sectional study of organizations of various sizes in several industries for the year 2007. It should be noted that although the final online deployment was in 2008 respondents were directed to provide figures for 2007.

Prior to data collection, attention was given to the size of the sample needed to make inferences about HRO. Three issues were considered. The number of participants was considered to ensure adequate power for hypothesis testing. The incidence of HRO was a factor in framing the targeted organizations. As a result, very small (less than 50 employees) organizations were not targeted because such organizations are less likely to engage in many of the HRM activities being studied and, therefore, would not be able to outsource them. Organizations with less than ten employees were screened from the data collection process wherever possible. This

work will be extended into a longitudinal study so some attention was given to the possibility of attrition, as well.

Concerns about the effect size led to a power analysis prior to data collection. A power analysis utilizing G\*Power version 3 software for the overall equation which assumed an R-squared in the range of 0.15 and  $\alpha = 0.05$ , to ensure adequate power ( $\beta = 0.80$ ), showed that at least 178 organizations would need to complete the questionnaire (Buchner, Erdfelder and Faul, 2001; Erdfelder, 1996). This calculation assumes seven predictors and 20 controls (including industry and region which require 14 and four dummy variables, respectively). An R-squared of 0.20 is relatively conservative, with studies using similar numbers of predictors finding an R-squared above this level (Aryee et al., 1999; Fagenson-Eland, Marks & Amendola, 1997; Whitely et al., 1992). Changing the R-squared to 0.10 increases the target sample size to 257. This sample size may not be sufficient for adequate power for each predictor as this estimate only assures adequate power for the overall equation, but this analysis provided a starting point in planning the approach to collecting data. Data collection continued with three online deployments until this threshold was reached.

## ***4.2 Dependent Variables***

### ***4.2.1 Voluntary employee turnover (TO).***

This was measured by asking each organization's respondent to refer its data archives for 2007. Each organization reported the overall level of employee turnover and voluntary turnover. This was a required question and an interviewee was required to answer it to be considered a participant and receive an aggregated report of the study's findings. Overall employee turnover was defined as "employee initiated and

employer initiated turnover.” Planned retirements were included in the overall turnover category. The voluntary turnover figure was defined as “employee initiated turnover” and excluded planned retirements. The reason for excluding planned retirements is that a planned retirement is not expected to signal employee dissatisfaction with the organization and is not expected to be influenced by the decision to increase HRO.

In an attempt to sensitize the informant to the measure of interest, the questionnaire turnover item requests a breakdown into voluntary and overall turnover. In reviewing the online responses, the data was checked to verify whether the number provided for voluntary turnover was lower than or equal to the overall turnover rate. Responses from those surveys in which this was not the case were discarded as this was taken as evidence that the respondent was not carefully reading the questionnaire or able to obtain this information and thus the accuracy of all responses was suspect.

#### *4.2.2 Organizational Employee Satisfaction (EESAT).*

Measures of employee satisfaction have been validated in numerous studies with the most common items listed in Fields (2002). The design of the organizational questionnaire assumed that the overall employee satisfaction measure collected by most organizations would be similar enough to compare with other overall employee satisfaction measures. Overall employee satisfaction was measured by asking four questions relating to overall organizational employee satisfaction score, total possible points for the score, creator of the survey used and the year in which the data was collected.

This data collected was transformed to a percentage of the maximum score possible to create a variable (EESAT) with a possible value ranging from 0 to 100.

Care was taken to include only variables relating to organizations with employee satisfaction data from the most recent two years, 2005 through 2007. An analysis was conducted to see whether the type of survey used mattered as the organizations used several vendors. The introduction of dummy variables for survey creator into the overall equations did not suggest a material effect. A distinction between employee satisfaction and employee engagement appeared to be clear amongst the respondents supplying this information based on follow-up conversations and the fact that no organizations provided the same score for both categories. Also, many organization provided data for one measure or the other, but not for both. As the number of responses for employee engagement was lower than employee satisfaction, the results are not reported.

#### *4.2.3 Organizational Customer Satisfaction (CUSTSAT)*

The level of overall customer satisfaction was estimated by asking each respondent to provide the organization's most recent overall customer satisfaction score, the total possible points, the year the customer satisfaction survey was conducted and the creator of survey used. This data collected was transformed into a percentage of the maximum score possible to create a variable (CUSTSAT) with a possible value ranging from 0 to 100. The variable was included only for organizations with customer satisfaction data from the most recent two years, 2005 through 2007. An analysis to see whether the type of survey used mattered did not suggest a material effect. Given the multitudes of customer satisfaction survey instruments in use, it is expected that greater measurement error issues will exist compared to employee satisfaction.

### **4.3 Control Variables**

The three types of control variables used are those most commonly used in studies of organizations: size, industry and location. These variables should account for many of the fixed effects related to the responding organization's annual revenues, number of employees, location of its headquarters and industry.

#### *4.3.1 Size: Employees and 2007 Revenues (EES and REV07)*

Size was measured in two ways. First the number employees (EES) measured by full time equivalents at the start of 2007 was collected via the questionnaire. This number was cross-checked with the Hoovers database (2008) to determine if the responses seemed to reflect the entire operation or a particular establishment. The second measure of size was the 2007 annual revenues measured in millions of U.S. dollars (REV07). Revenue numbers were also cross-checked or identified using Hoovers (2008).

#### *4.3.2 Industry and Region*

The organization's primary industry was coded using the North American Industrial Classification (NAIC) system at the two digit level. Some of these categories were combined due to small numbers of respondents in industries such as agriculture and mining. Each responding organization was coded by their state or country in which their headquarters was located (REGION). For the organizations headquartered in the United States, one of the four regional codes was assigned (NORTHEAST, MIDWEST, SOUTH, and WEST).



#### **4.4 Independent Variables**

The previous chapter described the process used to determine the HRM activities to be explored. The final questionnaire asked each organization to estimate the 2007 level of outsourcing of each of the 34 HRM activities. It also asked for the year in which significant outsourcing of that activity first began. However, some respondents did not enter an amount for each category. Table 4.9 reports the number of responses received for each HRM activity divided into two columns. The first column lists the results received from those organizations for which 2007 revenue information was available. The second column lists the responses from organizations for which the only measure of size available was the number of employees measured in 2007 full-time equivalents (FTEs).

Six HRM activities were added to the questionnaire as the research progressed. The activity 'Coaching' was split out from 'Mentoring and Coaching'. 'Expatriate Selection' and 'Expatriate Training' replaced the single category of 'Expatriate Assignments'. Finally 'Interviewing Exempt Employees', 'Executive Recruiting' and 'HRIS/Employee Data Management' were added. Each change was adopted as a result of feedback from the interviews of HR executives during the survey development stage. The number of responses for these categories is substantially lower primarily because they were not asked during the first online survey. Several organizations did not have union employees or foreign employees which naturally decreased the number of responses for the union and expatriate HRM activity items.

#### **4.5 Data Collection Procedures**

The HRO survey includes items requesting an estimate of the percentage of time and effort allocated by internal and external providers for 34 human resource management activities. This survey also collected data on organizational performance (employee satisfaction, turnover) and demographic (e.g. size, industry, location) characteristics.

The majority of the data analyzed was collected from three online deployments of the survey questionnaire. Online research is a fast, inexpensive way to reach large numbers of diverse potential subjects unconstrained by geography and time of day. An online survey offers freedom from the discomfort of face-to-face questioning or other negative social cues that discourage increase socially desirable responses and may encourage participants to be more honest and self-disclosing than an interview.

Dozens of human resource professionals were also invited to complete a paper version of the questionnaire through my networking activities. Two survey vendors were engaged to reach a national cross-section of HR professionals. Both Market Tools and Greenfield Online (GFOL) are market research firms that have a panel of professionals who have indicated a willingness to complete surveys on business topics. Market Tools sent invitations to participate for the first online deployment of the survey in 2007. Market Tools also deployed the final version of the survey in early 2008, but this deployment requested 2007 data on HR outsourcing levels.

In the first Market Tools deployment the invited participants included professionals working in human resources and finance as well as corporate executives as we were uncertain about the response rate for this type of survey. Each of these

individuals was employed at a level necessary to obtain the organizational data needed and was believed to have a general sense of the level of HRO given his or her position. In the second Market Tools survey deployment only HR professionals were invited to participate. Greenfield Online distributed electronic mail invitations to its panel of HR and finance professionals in 2007. See Appendix B for copies of these questionnaires.

For publicly traded companies, the 2007 revenues and number of employees were validated against public records for accuracy. In some cases the respondents appeared to be regional or departmental managers as their reported employee and revenue numbers were lower than the numbers reported to the Securities and Exchange Commission. The revenue data from these cases was not included. The outsourcing measures were included if this was the only measure that appeared questionable as it is believed that HRO levels are likely to be common to their entire organization. In the case of most privately held companies, 2007 revenues and employee levels were verified using a database published by Hoover's. The same process was used to validate the overall response for inclusion in these results. In the case of most organizations in the public administration category, using 2007 revenues as a measure of size did not make sense and, therefore, this measure of size was not used.

Fortunately, in most cases the employment levels could be verified using this process.

#### *4.5.1 Response Rates Postal Mail Campaign*

The first approach taken to gather data via a targeted mail campaign was not successful. Questionnaires and an invitation letter were addressed personally to the most senior HR executive at the 1000 largest firms sorted by revenues pulled from

Hoover's Million Dollar Database. This mailing included a one-page, double sided questionnaire with instructions to fax the survey or return it in the enclosed stamped envelope. The mailing also included an invitation letter with instructions and an invitation to participate. Participating organizations were promised a report of the aggregated findings as an incentive to participate. The invitation letter was from the University of Minnesota, Carlson School of Management Dean, Alison Davis-Blake. This invitation was intended to communicate the importance of the research project.

The invitations and questionnaires were mailed in April 2006 at the discounted rate by the university mail center in an envelope with the Dean of the Carlson School of Management's address as the return address. Unfortunately, no completed surveys were returned by mail. The self addressed, stamped envelopes were mailed from post offices in Denver, Boston and St. Paul, to see if there was a problem with the printed postage codes on the return envelopes. Two of the three envelopes returned suggesting that the primary problem might have been the difficulty getting the survey in front of the executives and motivating them to respond. It is possible that sending the letters with first-class stamps (Dillman, 2000) might have increased the chance that they would have reached the HR executives. Others suggested that for a survey of this length enclosing a dollar with a personal appeal from the student researcher might have resulted in obtaining some responses.

#### *4.5.2 Response Rates- Web-based Surveys using Market Tools Panel*

The first Web-based survey opened on February 18, 2007 and closed on February 27, 2007. An email invitation was sent was sent to 2,393 individuals in the Market Tools database. These individuals were selected from their pool of individuals

willing to complete surveys on topics they selected, aged 18 or older, working for an organization with ten or more employees and employed in a position with one of the following job titles: CEO/President/Owner/GM/Partner, CFO/Treasurer/Controller, Director/Asst. Director/Department Head Manager/Asst. Manager, Staff VP, or other Human Resources professional. From this pool of pre-qualified individuals 942 (39.4 percent) accessed the survey website from the link in the email text.

The survey asked each respondent to rate their level of familiarity with the HR function at their organization and 215 individuals who responded that they were very unfamiliar or somewhat unfamiliar with the HR function of their organization were screened out at this point. This provided a sample of 771 respondents who completed a portion of the survey, of whom 142 completed the entire survey. Of this number, 58 responded that they were unfamiliar with HR (a response of 1 or 2 on a 5-point Likert scale) and these responses were also screened out. These responses appeared to be very reasonable. Upon screening for suspicious turnover rates or HR employee counts only five responses were discarded.

After reviewing the responses 84 organizations had completed enough of the survey to be useful and were retained. The median time to complete the entire survey was 16 minutes, the mean time was 196 minutes (just over three hours), but this is skewed upward by a few extreme cases. When a respondent left the browser open the timer continued running until the survey was saved or submitted. As a result, some responses showed a completion time of several days. The median time spent on the survey accounts for these large outliers. For those individuals who completed only a

portion of the survey, the median was one minute and the mean was two hours and six minutes.

The second Market Tools deployment was launched on May 20, 2008, and closed on May 20, 2008. This survey was sent to several thousand panel members who identified themselves as working in human resources. Of this group 1,098, opened their email and clicked on the URL with the pre-screening question. Of these 399, (36.3 percent) were screened out on the first question which asked them to rate their level of familiarity with their organization's HR department using a 5 point scale. The number who selected "3" was 337 and the number who selected "4" was 362. None of the respondents selected "5". Of this number 215 (32 percent of those responding to the email) completed the survey. Validation of the occupation titles of this group of 215 revealed that 13 percent were not in or no longer in HR; most of these responses were dropped after the following process to validate the accuracy of the information provided.

Two completed surveys were dropped for obviously erroneous entries. Sixteen completed surveys were eliminated due to a missing or unclear organization name. Another sixteen were eliminated as the number of employees was less than ten. Eleven respondents answered that they did not know some key items. Twenty six were dropped for not responding to the items on employee retention. An additional 14 responses were dropped after screening for implausible turnover or HR headcount numbers (e.g. the voluntary turnover was reported to be higher than the overall turnover). Another 13 were eliminated because their data looked suspicious during the validation process with external sources. Finally, 28 responses were dropped due to

missing data issues, and so the final number of useable responses was 103 (48 percent of the pre-qualified sample and 9 percent of the total number responding to the email invitation).

#### *4.5.3 Response Rates- Web-based Surveys using Greenfield Online Panel*

This Web-based survey opened on September 17, 2007 and closed on September 27, 2007. An email invitation was sent to 650 individuals in the Greenfield Online pre-screened database of HR professionals, financial managers, presidents and CEOs. The criteria used to select participants from Greenfield Online's panel were twofold. The respondent needed to be employed by a for-profit firm with at least 100 employees. Of the 361 targeted individuals who started the survey, 292 failed to complete the survey or entered suspicious data. Of the 69 usable responses an additional five were discarded after carefully comparing each of the responses with publically available data which suggested that the response represented only a portion of the organization, such as one retail location, rather than the entire enterprise.

#### **4.6 The Data Set Descriptive Statistics**

Data was collected on the 2007 outsourcing levels from more than 400 organizations. Of these, 294 organizations provided data on the primary dependent variables and met the aforementioned stringent standards of verification for accuracy. The current dataset is a representative sample of organizations doing business in the United States. A handful of these organizations are headquartered outside of the United States. This sample is very representative of the United States economy in terms of industry and geographic location. The participating organizations represent 19 different industry groups. A comparison of the percentage of respondents by industry to the

share of that industry group as a percentage of national gross domestic product is provided in Table 4.1a. These results show very good coverage by the primary industry type.

A study by Orion Partners (Hunter & Saunders, 2007) reported the distribution of HRO transactions in Europe by industry are as follows: telecommunications (21 percent), government (19 percent), manufacturing (19 percent), financial (19 percent), other services (11 percent), energy (7 percent) and media (4 percent). Some of these results are comparable to the sample collected for this study: information/media (5 percent), public administration/government (5 percent), manufacturing (18 percent), financial and real estate (11 percent). A large difference should be expected in the area of government given the relative size and level of services provided by governments in Europe. Consider that much of the work done by the 12 percent of the sample in health care and social services would be provided by the government in Europe.

Table 4.1b shows that industry breakdowns were relatively the same for the three online deployments: the biggest difference being that the 2007 Market Tools panel had roughly twice the number of manufacturers. The surveys collected directly by the researcher were also skewed towards manufacturing enterprises and firms in financial services. The 2008 Market Tools deployment had the highest level of participation from health care and social services organizations. The Greenfield deployment had the highest percentage of participation from retailers.

The largest number of responses (18 percent) came from manufacturing, followed by health care (12 percent), accommodation and food services (10 percent) and professional and business services (9 percent). The most underweighted sector is



public administration sector (5 percent), which represents about half of this industry's share of gross national product. Health care and retail (5 percent) were the most over weighted sectors if measured by gross national product with the number of participating health care organizations constituting about double their share of the economy.

The majority (85 percent) of the organizations included represent the private sector. Of the private sector organizations, 35 percent were publicly traded companies. As mentioned previously, the reported revenues were matched with public records for accuracy. Both the non-profit and public sectors consist of about 8 percent of the sample (See Table 4.2a).

Table 4.2b shows the breakdown by sector of completed survey received from each of the four sources. These figures show that a higher percentage of responses were obtained from publically traded companies. This is partially due to the Greenfield Online screening process which excluded governmental agencies. The screening process also lowered the number of responses from non-profit-sector organizations in the 2007 Market Tools and the Greenfield Online deployments.

Table 4.3 provides an analysis of the geographic distribution of respondents and reveals that the sample is spread across the United States and a comparison of the states included with each state's share of national GDP reveals fairly representative coverage. This sample appears over weighted in Minnesota and underweighted for New York and Texas. No observations were collected from Alabama, Alaska, Montana, North Dakota, New Hampshire, Oklahoma, South Dakota, Wyoming and Vermont.

The sample analyzed includes small to very large organizations measured in terms of total employment. A breakdown is provided in Table 3.4a. The distribution is

as follows: organizations with less than 100 employees (18 percent), organizations with 100-499 employees (40 percent), organizations with 500-999 employees (8.5 percent), organizations with 1,000-4,999 employees (15 percent), organizations with 5,000- 9,999 employees (6 percent), organizations with 10,000- 49,000 employees (6.5 percent) and 50,000 or more employees (6 percent).

Comparing the size of organizations participating in the three online survey deployments by examining Table 5.4b, one sees that the Greenfield deployment is skewed towards organizations between one hundred and one thousand employees. Both Market Tools deployments had a significant number of organizations responding with less than one hundred employees and fewer organizations over 100,000 employees.

The sample includes 30 of the 2007 *Fortune* 500 companies. Revenue information was requested of organizations participating in the later survey waves, as the participation of a significant number of smaller organizations was not anticipated in the first survey deployment. Financial databases were used to obtain 2007 revenues for companies that did not report this number, as well as to verify the number supplied. Revenue information was obtained for 240 organizations (82 percent) of the sample and is biased towards larger companies (see Table 4.5). Organizations with revenues less than \$10 million comprise 21 percent of the sample. Another 22 percent of the sample had 2007 revenues between \$10 and \$100 million. For about 12 percent the revenues were between \$100 million and \$ 1 billion and for another 26 percent the revenues exceeded \$1 billion. These percentages are calculated from the total number of 294 participants of which 2007 revenue data was not available for 18 percent of participants.

Table 4.6 reports the descriptive statistics on the dependent variables. Voluntary employee turnover data was collected from 271 organizations, which is 92 percent of the sample. The mean value was 16 percent and the median value was 15 percent. Some organizations reported no voluntary turnover and the highest level reported was 200 percent. Such high levels are not uncommon for retailers, hotels and restaurants. Overall employee turnover was collected from 288 organizations, which is 98 percent of the sample. The mean value was 25 percent, but the median value was 10 percent. This level is certainly affected by economic factors and was expected to be larger and have higher variation. The standard deviation was 34 for overall turnover compared to 22 for voluntary turnover.

Employee satisfaction scores were collected from 96 organizations, which is 33 percent of the sample. Customer satisfaction scores were received from 69 organizations, which is 24 percent of the sample. Companies were more guarded with organizational performance measures than in the case of data on their outsourcing levels. At these levels the statistical power is not adequate to recommend hypothesis testing using multiple regression analysis on these dependent variables.

Table 4.6b provides the breakout of the descriptive statistics by source for each deployment type. The means of the primary dependent variable of interest—voluntary turnover—ranged from 14 percent for the paper surveys to 19 percent for the Greenfield Online group. The median values were almost identical at 10 to 11 percent. Examining the overall turnover means, the 2008 Market Tools deployment had the highest overall turnover at 31 percent in contrast to 21 percent for the 2007 Market Tools deployment. The median overall turnover ranged from 10 percent for Greenfield

Online to 15 percent for the paper surveys and 2007 Market Tools panel. The employee satisfaction and customer satisfaction measures had relatively small differences in means and medians by source.

Table 4.7 reports results on the number of organizations responding to the outsourcing questions for each of the HRM activities in 2007 as well as the approximate level of outsourcing by these organizations. The “level of HRO” measure is based on the answer to the 34 items asking “Estimate the percentage of work measured in terms of time or effort spent on each of the following HRM activities by external parties/vendors (i.e. consultants, independent contractors, service providers).”

As expected, the mean values tend to be low. Outsourcing many of these activities is a new phenomenon. The most common response for every category of HRM was zero. Similarly, the median value for every HRM activity except pre-employment testing and EAP programs was zero. By this measure, the ten most heavily outsourced HRM activities in order of reported percentage outsourced are: EAP programs, pre-employment testing, technical and computer training delivery, management training delivery, salary surveys, employee attitude surveys, annual benefit enrollment, development of customized training programs, relocation assistance, resume screening and executive recruiting.

Comparing the level of variance measured by the standard deviation the following five HRM activities had standard deviations greater than 25: EAP, pre-employment testing, salary surveys, technical and computer training delivery, employee attitude surveys, relocation assistance, and annual benefit enrollment. The HRM

activities with the lowest standard deviations 10 or less were: succession planning, organizational design, and communicating culture and vision.

Table 4.8 provides the percentage of the sample that reported zero, low, moderate and high levels of HRO. Given the estimation involved in assessing the percentage of work measured in terms of time or effort spent on each of the following HRM activities by external parties/vendors dividing the responses into these four categories should greatly reduce the level of measurement error.

Reviewing the results using these categories shows that EAP is the most heavily outsourced HRM activity followed by pre-employment testing, salary surveys and employee surveys. This compares to Lawler's (2006) finding that EAP and benefits were the most frequently completely outsourced HRM activities. The HRM activities most frequently found in the moderately outsourced category are: management training, benefits enrollment, and computer and technical training. This compares to Lawler's (2006) findings that benefits and employee training were partially outsourced HRM activities. The HRM activities most often placed in the low outsourcing category include: executive recruiting, pre-employment testing and benefits enrollment. Lawler (2006) found that HR planning, strategic planning, performance appraisal and organizational design were the usually not outsourced at all.

Table 4.9 lists the number of organizations responding to the item requesting an estimation of the level of HRO for each activity for which 2007 revenue data was also available. As previously mentioned, several smaller organizations cannot be located in the Hoover's database (2008) and may have chosen not to provide revenue data or were not asked for it in the initial deployments. Several governmental entities that

participated would not be able to report revenue as it is not a metric used. As a result, the analysis will be conducted both excluding and including revenue as a measure of size.

The three online surveys combined with the effort spent in getting HR professionals to complete paper versions of the survey yielded enough data to detect a relationship between HRO and voluntary turnover of a moderate size. The effect of outsourcing any one particular HRM activity is expected to be lower than that of outsourcing a bundle of HRM activities. However, the number of responses collected should be enough to determine whether bundles of HRM activities with a particular attribute thought to be related to suitability for outsourcing has an effect on the organizational variables obtained.

## **Chapter 5: Empirical Results**

### **5.1 Base Model with Controls**

Tables 5.1a and 5.1b show the base model used to test the hypotheses. This model includes three typical control variables used in organizational analysis: size, industry, and location. The dependent variable is the voluntary employee turnover percentage in 2007 for the participating organizations.<sup>1</sup> The base model includes two variables that control for size of the organization: 2007 annual revenues (REV07) measured in millions of dollars and number of employees measured as FTEs (EES). The primary industry classification of the organization is also controlled for at the 2 digit NAIC level by using 14 dummy variables for those industries representing organizations consisting of at least 2 percent of the sample. Agriculture (11) and Mining (21) are combined into the variable AGMIN<sup>2</sup>. Wholesale Trade (42) and Retail Trade (44 - 45) are combined into the variable TRADE. Finance and Insurance (52) and Real Estate and Leasing (53) are combined into the variable FIRE. The other categories are Utilities (22), Construction (23), Manufacturing (31 to 33), Transportation and Warehousing (48 & 49), Information (51), Professional, Scientific and Technical Services (54), Educational Services (61), Health Care and Social Assistance (62), Arts, Entertainment and Recreation (71), Accommodation and Food Services (72) and Public Administration (92). The omitted variable includes those organizations in the following industries: Management of Companies and Enterprises (55), Administrative, Support and Waste Remediation (56), and Other Services (81).

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<sup>1</sup> Revenue, number of employees and turnover data is assumed to represent the year 2007 or the level as of 12/31/2007. The majority of data reported was for 2007 in a small number of cases only 2006 data available and in this case this was used.

<sup>2</sup> NAIC 2 digit codes in parentheses.

Finally, the region in which the headquarters was located was controlled for by using a dummy variable for each of the four regions defined by the U.S. Census Bureau (Northeast (NEAST), Midwest, South, and West). Those organizations located outside the U.S. are the base group for comparison.

The regression model used is

$$Y_{it} = X_{it} \beta + e_{it}$$

In this model  $Y$  is the dependent variable,  $X$  represents the matrix of independent variables,  $u_i$  represents individual fixed effects and  $e_{it}$  represent errors that must meet the **iid** (independently and identically distributed) assumption. One assumption of OLS is that  $e_{it}$  is independently and identically distributed. This is not likely to be the case and as information on location is available but cannot be accounted for with individual dummy variables for each state and country a different method of regression estimation should be used before making inferences about the results.

Three types of regression analyses were performed using the software program, Stata 10.0 (2008): traditional ordinary least squares (OLS) regression, OLS regression with White adjusted standard errors, and finally the preferred specification— an OLS regression using standard errors clustered by region. The formulae for the three types of variance estimators are provided below (Sribney, 2007):

The OLS variance estimator is

$$V_{OLS} = s^2 * (X'X)^{-1}$$

where

$$s^2 = (1/(N - k)) \sum_{i=1}^N e_i^2$$

The Robust (unclustered) variance estimator is:

$N$



$$V_{\text{robust}} = (X'X)^{-1} * [ \sum_{i=1} (e_i * x_i)' * (e_i * x_i) ] * (X'X)^{-1}$$

The Robust cluster variance estimator is:

$$V_{\text{cluster}} = (X'X)^{-1} * \sum_{j=1}^{n_c} e_j * (X'X)^{-1}$$

Comparing the difference between robust and robust clustered estimation requires the following consideration. If the variance of the clustered estimator is less than the robust estimator, the cluster sums of  $e_i * x_i$  have less variability than the individual  $e_i * x_i$  (Sribney, 2007). The summing process of the  $e_i * x_i$  cancels out some of the variation. A comparison of the standard errors shows this is not the case. In OLS the squared residuals are summed rather than multiplied by the  $x$ 's and then squared and summed. If the OLS model is a better fit because the residuals are uncorrelated with the  $x$ 's, then the expected values of the OLS and robust estimators of variance would be about the same, which also was not the case.

As there is a reason to expect some of the residual variance to be common based on similarities due to region (state or foreign country) only the results with the clustered standard errors are described in the body of the text. It is not believed that the errors are clustered in multiple dimensions. The errors may be nested or occur in two dimensions with errors varying in multiple clusters of the other. If this dataset involved different years, then this would be a better specification. The clustered standard error model specification is assumed to be the best and will produce unbiased estimates of the coefficients and better estimates of variance which are important for making inferences about the data.

The overall regression equation for the base model is highly statistically significant with an F statistic of 4.40 ( $p=0.000$ ). One industry dummy variable (utilities) is significant at the 0.05 level and is associated with lower voluntary turnover. The dummy variable for both Midwestern states is significant at the 0.05 level and the dummy variables for Southern and Western states are significant at the 0.10 level and are associated with higher voluntary turnover compared to non-US companies. The R-squared value is 13.8 percent. The adjusted R-squared value of 5.5 percent is quite small. The lack of significance for the control variables in this base model should not be a concern as *a priori* there is no reason to expect the control variables to be individually or jointly associated with the dependent variable—voluntary employee turnover.

Including additional organizations for which annual revenue data was not available increases the power to detect the effect of relevant variables. However, an important variable is being omitted which creates a different problem with the specification. When regression analysis is conducted on the larger sample which excludes the revenue variable for a second measure of organizational size, the F-statistic remains highly significant at 4.68 ( $p = 0.000$ ). Two of the industry dummy variables are significant at the 0.05 level (agriculture and mining, and utilities. Two other industry variables are significant at the 0.10 level (wholesale and retail trade and public administration). Each of these industries is associated with lower turnover. All four regional dummy variables are significant at the 0.05 level and the coefficients are positive meaning that they are associated with higher voluntary turnover than the base

category of non-US organizations. However, the adjusted R-squared suffers when the revenue variable is dropped, falling from 5.5 percent to 1.7 percent.

In order to test whether the source of the data (Market Tools, Greenfield Online or direct contract with the researcher) is biasing the results, dummy variables were created for each of the three online survey deployments and added to the above model with the paper questionnaires representing the base group. Each of these three dummy variables lacked significant t-statistics at the 0.10 level. An examination of the F statistic of 0.40 showed that a test for joint significance of these variables could also be rejected with a 0.10 level of confidence.

### **5.2a Model One: The Zero Outsourcing Variable with Revenues**

In Tables 5.2a and 5.2b Model One introduces the first independent variable (ZERO\_OS) which measures the use of HRO. ZERO\_OS is a dummy variable that equals one, if the organization reports zero outsourcing of any HR categories. Recall the survey asked respondents to estimate the levels to the nearest 10 percent, so these may in fact be very low HR outsourcers rather than the pure case of absolutely no HRO. This ZERO\_OS variable is significant at the 0.05 level and is negative as hypothesized with a coefficient of -6.6. This finding provides evidence that HRO is associated with an increase in voluntary employee turnover. In other words, those organizations not engaging in HRO have higher employee retention (lower voluntary turnover) after controlling for size, industry and location. The overall model is highly significant with an F-statistic of 5.33 (p=0.000). The partial F test on the addition of ZERO\_OS yields an F-statistic of 5.03 (p =0.03). This provides evidence supporting a primary hypothesis

of this thesis that HRO may affect organizational performance in areas outside the financial calculation of the direct labor savings minus the cost of the HRO contract.

Of course in this basic model and the subsequent models it is possible that an omitted variable that is correlated with HRO is driving this result. It is plausible that one or more HR strategies separate from outsourcing HRM activities are related to employee turnover. An example of this could be that organizations focused on improving productivity through their people may also be less likely to outsource HRO activities.

The coefficient of negative 6.6 is interpreted as follows: not outsourcing any HR activities, all else equal, is associated with more than six percentage point drop in voluntary turnover. The ZERO\_OS increases the explanatory power compared to the Base Model by about a percentage point as the R-squared increases to 15.0 percent and the adjusted R-squared increases to 6.4 percent. Several control variables are significant at the 0.05 level. Industry remains important for utilities and is associated with lower voluntary turnover. The regional dummy variables for each region except the Northeast are significantly positive at the 0.05 level compared to the non-US organizations. Organizations in the South have the highest average voluntary turnover *ceteris paribus*.

### **5.2b Model One with Zero Outsourcing Variable without Revenues**

Table 5.2b shows the results from the larger dataset that omits revenue as a control variable. The HRO variable (ZERO\_OS) adds to the explanatory power of the model with a partial F-statistic of 7.96 (p=0.07). The absolute magnitude of the coefficient for ZEROOS is greater at a negative 8.6, representing a larger drop in

voluntary turnover for organizations eschewing HRO. The ZERO\_OS coefficient is significant at the 0.01 level. The overall model is highly significant with an F-statistic of 5.33 ( $p=0.000$ ).

Similar to the model with revenues included, several control variables are significant at the 0.05 level. Industry remains important for both the utilities and agriculture and mining sectors and is associated with lower voluntary turnover. Each of the four regional dummy variables is significant and positive at the 0.05 level compared to the non-US organizations. Organizations headquartered in the Northeast have the smallest increase in voluntary turnover.

As a proxy for bundles of HRM activities with specific attributes two sets of six index variables were created by taking the average percentage of HRO for each of the HRM activities determined by the subject matter experts to be high or low in a particular attribute (see Chapter 4). The variables created were labeled high or low followed by the attribute (e.g. LOCOMPLEX, HIREPEAT) to test whether outsourcing bundles of HRM activities with attributes that might make them more or less suited to outsourcing, was associated with a change in voluntary turnover of employees. Each of these twelve index variables was tested individually and the results are listed in Table 5.3 which includes revenues. The following five types of HRM activities had partial F scores (significant at the 0.05 level) that suggested they significantly added to the regression equation: highly complex (HICOMPLEX), highly repeated (HIREPEAT), low in interdependence on other process (LOINTER) and low in the creation of organizational capital (LOORGCAP). When tested in the model in which revenues were

excluded, Table 5.4 shows that only two dimensions (HICOMPLEX and HIEXPERT) were significant at the 0.05 level.

Next all of the twelve HRM index variables (six in the high category and six in the low category) for each organization were added to the regression equation as a group. Examining the F statistic shows that they are not jointly significant with a partial F value of 1.42 ( $p = 0.19$ ) as shown in Table 5.5.

Tables 5.5a and 5.5b show the F statistics for two other tests of joint significance. The five index variables that were individually significant in the model with revenues as preciously noted (HICOMPLEX, HIREPEAT, LOFSPEC, LOINTER, and LOORGCAP) were added as a group (Best 5 Individual Indices) and their joint significance was tested. This test yields an F statistic of 1.34 which is not significant at the 0.10 level. The six index variables of HRO activities predicted to affect voluntary turnover in the theoretical framework previously developed were tested. This test produced results supporting the hypotheses of this thesis. Each of these index variables were added to the regression equation for Model Two. The F statistic of 2.38 shows these variables to be jointly significant at the 0.05 level given the specification that includes revenues as a control; without revenues the p-value increases to 0.10. These results suggest continuing on to model two which adds measures of the HRM activities predicted to be associated with employee reactions and behaviors.

### **5.3a Model Two: Zero Outsourcing Variable and Indices of HRM Attributes with Revenues**

The regression equation for Model Two that uses the sample with revenues as a control is highly significant with an F statistic of 4.95 ( $p=0.000$ ). When revenues are

omitted the F statistic is 7.78 ( $p=0.000$ ). The amount of variance explained in Model Two is larger than in Model One with an R-squared of 17.8 percent and an adjusted R-squared of 6.8 percent when revenues are included and 14.1 percent and 5.0 percent when revenues are omitted.

The ZERO\_OS variable remains significant at the 0.01 level and is negative as hypothesized with an effect size of -8.1. The magnitude is lower than Model One which excludes the six HRM attribute bundle variables. The interpretation is that any use of HRO is, all else being equal, associated with an increase in employee turnover; however, this effect can be mitigated by only outsourcing certain types of activities. One dimension (HIREPEAT) is associated with lower voluntary turnover at the 0.06 level of significance. The effect size of HIREPEAT is -0.17 times the value of the index variable (0-100 percent); so an organization outsourcing 100 percent of the complex HRM activities would have voluntary turnover 16 percentage points lower than if it outsourced zero repetitive HRM activities *ceteris paribus*.

### **5.3b Model Two: Zero Outsourcing Variable and Indices of HRM Attributes without Revenues**

The model run on the larger sample omitting revenues is highly significant with an F statistic of 7.78 ( $p=0.000$ ). The amount of variance explained is smaller than with preferred specification including revenues, suggesting that revenue is an important control variable with an R-squared of 14.1 percent and an adjusted R-squared of 5.0 percent. The ZERO\_OS variable is significant at the 0.01 level with an effect size of -9.1. None of the individual index variables are statistically significant at the 0.05 level.

#### **5.4a Model Three: Zero Outsourcing Variable and Highly Outsourced HRM Activity Dummies with Revenues**

Model Three replaces the measures of outsourcing levels by measuring HRM attributes with a dummy variable coded 1, if the estimated amount of outsourcing of those HRM activities is greater than 50 percent of the total time and effort spent on them by the organization. Such a proxy might be better than the index variables as the percentage estimates are subject to greater measurement error. In other words, the percentage estimate of the amount of the activity provided by external vendors is likely to be imprecise, but a senior HR professional should have a good sense of whether more than half of any HRM activity is provided by vendors and external parties. The disadvantage related to the index approach is the loss of information embedded in percentage estimates. A test of the joint significance of all six dummy variables yields an F statistic of 3.40 ( $p=0.008$ ).

Not outsourcing (ZERO\_OS) is still associated with lower turnover with an effect size of -6.8 percentage points ( $p=0.03$ ). The six index variables are jointly significant; but only HIREPEAT is associated with voluntary turnover. The relationship is in the direction predicted with an effect size of -23.6 ( $p=0.006$ ) suggesting that high outsourcing of frequently repeated HRM activities is associated with better employee retention. Model Three provides weak support that outsourcing activities which require high subject matter expertise (HIEXPERT) is associated with lower voluntary turnover with an effect size of -8.2 ( $p=0.09$ ).



#### **5.4b Model Three: Zero Outsourcing Variable and Highly Outsourced HRM Activity Dummies without Revenues**

Interestingly, when the revenue variable is omitted and the extra observations are included, the results are fairly consistent. The overall model is highly significant ( $p=0.000$ ) and the joint test of significance of all six dummy variables on Model Three run on the larger sample, without the control for revenues, yields an F statistic of 3.33 ( $p=0.009$ ).

Not outsourcing any HRM activities (ZERO\_OS) is associated with lower turnover with an effect size of -8.4 percentage points ( $p=0.008$ ). Only one of the dummy variables are individually significant; LOREPEAT is associated with reducing voluntary turnover with an effect size of -22.3 ( $p=0.05$ ) suggesting that high outsourcing of infrequently repeated HRM activities is associated with better employee retention, a benefit worthy of further exploration. Several industry groups are significantly associated with lower voluntary turnover, and each US region is associated with higher turnover than the non-US companies.

#### **5.5 Model Four: Zero Outsourcing Variable and All 34 HRO Outsourcing Level Estimates with Revenues**

Table 5.8 shows the results for Model Four estimated outsourcing levels of each of the 34 HRM activities. Due to issues with missing data for many of these categories, the number of observations for all 34 of these variables drops to 110 organizations. The reduction in power makes it less likely that statistically significant results will be found; however, when added as a group these variables are jointly significant with an F statistic of 9,705.1 ( $p=0.00$ ), and, therefore, the overall model is not significant at the 0.10 threshold making the results in Table 5.8 unworthy of much attention. Dropping

the control variable for revenue only adds 15 observations and fails to change the overall lack of significance of the regression equation; so the results for the regression omitting revenues are not reported.

Given that the addition of 34 variables in itself greatly affects the power to detect significant associations, each of the 34 HRM activity levels (measured as percentage of total time spent on activity) were entered individually and the partial F-statistics were reviewed to see whether they should be added to the model. Each overall regression was significant at the 0.01 level with the R-squared values ranging from 12.7 to 28.5 percent. Table 5.9 reports the F statistics and related p-values, as well as the number of observations for each of the HRM variables.

Outsourcing job analysis is weakly (0.10 level of significance) associated with lower voluntary employee turnover, whereas outsourcing resume screening and benefit enrollment is modestly (0.05 level of significance) associated with better employee retention. Outsourcing succession planning is associated with higher voluntary turnover and outsourcing employee recognition plans is weakly associated (0.10 level of significance) with decreased employee retention.

The fact that few individual HRM activities, when outsourced, were associated with employee turnover is not surprising. The magnitude of the effect of outsourcing any one activity was not expected to be very large. However, as more and more HRM activities were outsourced, especially those theoretically expected to be not suitable to outsourcing, the effect on employee attitudes and behavior was predicted to be magnified.

## 5.6 Model Five: Only Five HRO Outsourcing Level Estimates with Revenues

The final step to test the hypotheses of this thesis is to perform regression analysis on Model Five that includes only those HRM activity variables that individually added to the regression equation, based on the partial F-test results in Table 5.9. The regression equation for Model Five does not include the ZERO\_OS variable. The five HRO variables included in Model Five are: Job Analysis (Q9), Resume Screening (Q12), Annual Benefit Enrollment (Q14), Employee Recognition Programs (Q20), and Succession Planning (Q30). A partial F-test on the addition of all five of these variables yields an F-statistic of 7.22 ( $p=0.000$ ). The amount of variance explained according to the R-squared is 29.4 percent and the adjusted R-squared is 15.1 percent.

While reviewing Table 5.10a, one observes that when these five HRM activities are included only outsourcing succession planning (Q30) is significant at the 0.05 level with a coefficient of 0.47. This can be interpreted to imply that each ten percent of this activity outsourced is associated with a 4.7 percentage-point increase in voluntary turnover. The direction is positive as predicted given the organizational capital created by succession planning. There is weaker evidence that outsourcing the annual benefit enrollment process (Q14) is statistically significant ( $p=0.10$ ) with a coefficient of -0.07. This can be interpreted to mean for a firm outsourcing this entire process (100 percent HRO), that voluntary employee turnover is predicted to be seven percentage points lower *ceteris paribus*.

### **5.7 Model Six: Zero Outsourcing Variable and Five HRO Outsourcing Level Estimates with Revenues**

Table 5.10b shows the results for Model Six when ZERO\_OS is included with the five HRM activities variables (Q9, Q12, Q14, Q20, Q30). A partial F-test on the addition of all five HRM variables, but excluding ZERO\_OS, yields an F-statistic of 6.62 ( $p=0.000$ ). The overall model is highly significant with an R-squared of 29.8 percent and an adjusted R-squared of 15.0 percent.

In this model the ZERO\_OS variable loses statistical significance. As in the previous model only succession planning (Q30) ( $p=0.004$ ) is significant. The coefficient of 0.46 is positive and thus outsourcing succession planning is associated with higher voluntary turnover. Each ten percent of this activity outsourced is associated with a 4.6 percentage-point increase in voluntary employee turnover. The variable measuring annual benefits enrollment remains is weakly significant ( $p=0.08$ ) with a coefficient of -0.08, and is, therefore, associated with improved employee retention.

### **5.8 Model Seven: Employee Satisfaction and HRO**

The concerns about the power to detect a relationship with employee satisfaction were well founded. The model using regional controls and number of employees to control for size, but omitting industry effects, has an F-statistic that is significant at the 0.01 level. However, as Table 5.11 shows no statistically significant relationship exists with ZERO\_OS or any of the six measures of bundles of HRM activities (HICOMPLEX, LOWREPEAT, etc). The variable measuring the bundle of HRM activities rated as highly interdependent (HIINT) had the strongest evidence of statistical significance with a p value of 0.11.

### **5.9 Model Seven: Customer Satisfaction and HRO**

Concerns about the power to detect a relationship with customer satisfaction were even greater. A model using only regional controls and number of employees to control for size, but omitting industry effects, was highly significant overall with an F statistic of 4.92 ( $p=0.0014$ ). Table 5.12 shows a highly statistically significant relationship exists with overall customer satisfaction (CUSTSAT) and ZERO\_OS, but this does not hold for any of the six index variables, which bundle HRM activities by attribute. The relationship between customer satisfaction and HRO merits additional investigation in future studies.

### **5.10 Level of HRO and HRM Attributes**

Table 5.13 shows the results of the White corrected, robust standard errors regression of the total number of raters assessing each of the 34 HRM activities as possessing the attribute on the mean level of reported HRO by the organizations participating in the HRO survey. These results show a highly significant model with a negative relationship between HRO level and three attributes: complexity ( $p = 0.02$ ), firm specificity ( $p = 0.06$ ), and subject matter expertise required ( $p = 0.03$ ). The relationship between expertise and HRO is negative, which is contrary to the prediction. There is no relationship between the other three dimensions and the level of HRO.

Table 5.14 repeats the analysis but regresses the mean assessment of each of the 34 HRM activities on the six attributes identified previously on the mean level of reported HRO. These results show a statistically significant negative relationship between HRO level and two attributes: interdependence ( $p = 0.03$ ) and organizational capital created ( $p = 0.001$ ). In short, these results support two to three of the six

hypotheses with subject matter expertise operating in a direction opposite from the prediction and repetitiveness lacking any indication of an association.

### **5.11 Review of the Hypotheses**

The seven sets of hypotheses are reviewed with the evidence supporting or refuting each. Note that the results driven by attributes on the HRM activities are review by attribute. So when reviewing the association of each of the six attributes on the outcome variables, the discussion begins with overall outsourcing levels (hypotheses 1A - 6A) and then moves to voluntary employee turnover, one of the potential hidden costs or benefits, (hypothesis 1B-6B).

The first set of hypotheses (labeled with an “A”) all use the level of HRO as the dependent variable. The second set of hypotheses (labeled with a “B”) all use the 2007 level of voluntary employee turnover as the dependent variable. Note that the predicted direction need not be the same as the prediction of TCE for observed levels in the market are expected to have a stronger affect than the predictions of a potential hidden cost of outsourcing an activity.

#### *5.11.1 Complexity*

H1A: Non Complex HRM activities will have **higher** levels of outsourcing.

This hypothesis has some support as complex HRM activities are associated with higher HRO levels at a 0.02 level of significance in Table 5.13, which uses the number of high ratings for level of complexity assigned to each HRM activity as the independent variable. The sign of the coefficient is

negative as predicted. This relationship is not present, if the mean rating of complexity is used.

H1B: Outsourcing higher levels of complex HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

Outsourcing complex HRM activities is positively associated with employee retention at the 0.02 level of significance when using the index variable. So hypothesis H1B is not supported. It is possible that in most organizations employees prefer an outsider to perform complex HRM activities for reasons of quality, such as greater availability (24/7 versus 9 to 5) or higher levels of expertise. This relationship holds in both the sample with revenues as a control and the larger sample without revenue data.

There is no association when using the dummy variable for 50 percent or greater outsourcing of complex HRM activities. Vendors may do a better job with complex HRM practices, in general.

### *5.11.2 Repetitiveness*

H2A: Repetitive HRM activities will have **higher** levels of outsourcing.

Repetitive HRM activities are not associated with higher HRO levels using either independent variable. This hypothesis is not supported.

H2B: Outsourcing higher levels of repetitive HRM activities will be **positively** related to employee retention (lower voluntary employee turnover).

Repetitive HRM activities are associated with employee retention at the 0.01 level of significance when using the dummy variable for levels 50 percent or greater. This relationship holds both in the sample with revenues as a control and the larger sample without revenue data. There is no association when using the index variable measure for repetitive HRM activities.

#### *5.11.3 Firm-specificity*

H3A: Firm-specific HRM activities will have **lower** levels of outsourcing.

This hypothesis is not supported, as firm-specific HRM activities are associated with higher HRO levels at a 0.12 level of significance in Table 5.13 which uses the number of high ratings as the independent variable. Table 5.14 reports that the statistical significance of this relationship diminishes further when the mean rating of firm-specificity is used.

H3B: Outsourcing higher levels of firm-specific HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

There is no support for this hypothesis provided by Models Four or Five.

#### *5.11.4 Interdependence*

H4A: Interdependent HRM activities will have **higher** levels of outsourcing.

This hypothesis has modest support as Table 5.13 provides evidence that the number of highly interdependent HRM activities is associated with lower HRO levels at a 0.06 level of significance. The sign of the coefficient is negative as predicted. The statistical significance of this relationship improves



to 0.03 when the mean rating of interdependent HRM activities outsourced is used. See Table 5.14.

H4B: Outsourcing highly interdependent HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

There is no support for this hypothesis provided by Models Four or Five.

#### *5.11.5 Required Subject Matter Expertise*

H5A: HRM activities high in required subject-matter expertise will have **higher** levels of outsourcing.

This hypothesis is supported as HRM activities requiring high subject-matter expertise are significantly associated with higher HRO levels ( $p=0.025$ ) in Table 5.13. The relationship is negative as predicted. However, the significance of the relationship evaporates in Table 5.14 when the mean rating of subject-matter expertise is used.

H5B: Outsourcing HRM activities low in required subject-matter expertise will be **negatively** related to employee retention (lower voluntary employee turnover).

HRM activities low in required subject-matter expertise are weakly associated with higher employee retention at the 0.09 level of significance when using the dummy variable for levels 50 percent or greater, but only for the data set with revenues as a control variable. This is the opposite of the predicted direction so this hypothesis is not supported. One source of support for this relationship is noting that outsourcing job analysis is associated with lower voluntary employee turnover in Table 5.9. The strong significance of

succession planning in Model Five might be evidence in support, if one believes that succession planning is an activity requiring high subject-matter expertise.

#### *5.11.6 Organizational Capital Creation*

H6A: Organizational capital creating HRM activities will have **lower** levels of outsourcing.

This hypothesis is supported as the evidence suggests that HRM activities creating organizational capital are moderately associated with higher HRO levels ( $p=0.001$ ) in Table 5.14. The direction of the relationship is negative, meaning that activities creating lots of organizational capital are not outsourced as frequently. However, the significance of the relationship vanishes in Table 5.13 when the number of high ratings of organizational capital creation is used.

H6B: Outsourcing organizational capital creating HRM activities will be **negatively** related to employee retention (lower voluntary employee turnover).

Organizational capital creating HRM activities are weakly associated with employee retention at the 0.07 level of significance when using either the index variable or the dummy variable for levels 50 percent or greater on the smaller sample including revenues as a control. This time the direction is as predicted by social capital theory which suggests that activities creating significant social capital for the employee by the provider are less suitable for outsourcing as this capital is outside the organization and less able to help the employee in the future. However, this relationship holds only in the sample with revenues as a control.

Examining those HRM activities for which outsourcing is associated with higher voluntary employee turnover, succession planning stands out as an activity high in organizational capital creation potential. Model Five shows a highly significant relationship for succession planning, though in the opposite direction, possibly supporting the subject matter expertise hypothesis.

#### *5.11.7 HRO and Organizational Outcomes*

H7A: HRO will be **negatively** related to employee retention (lower voluntary employee turnover).

This hypothesis has the strongest support throughout the analyses. From the first model the findings have consistently shown that the organizations engaged in HRO have higher voluntary employer turnover compared to those with a negligible level of HRO. The size of the effect is in the double digits and should be something to note for organizations as reducing turnover by ten percent has large saving potential. Once again, it should be mentioned that causality is indeterminate. It is possible that organizations with higher voluntary turnover have turned to HRO as a means of getting better quality HRM services. The consistency of this finding in a well specified regression model begs further investigation.

H7B: HRO will be **negatively** related to higher employee satisfaction.

There is no support for this hypothesis. However, the primary issue is one of inadequate power to detect an association given the much smaller number of organizations providing data on employee satisfaction compared to retention.

H7C: HRO will be **negatively** related to higher customer satisfaction.

One of the more intriguing and unexpected findings is that the evidence suggests a relationship between HRO and customer satisfaction scores in 2007. In spite of the very low power of the test due to a mere 69 observations, there appears to be a strong and sizable relationship between customer satisfaction scores and the use of HRO. An improvement of nine percentage points is noteworthy, as is the level of significance ( $p=0.01$ ). This is a finding that merits additional attention.

It was expected that any relationship between customer satisfaction and the use of HRO would be a result of employee satisfaction and/or employee retention. Unfortunately the limited amount of data collected, prevents the use of structural equation tools to conduct path analyses or similar methods. The manner in which employee satisfaction and customer satisfaction differed from voluntary employee turnover as the results were transformed into a 100 point scale to permit a common unit of comparison. This was not needed for voluntary turnover which is a metric that is well known by HR professionals completing the questionnaire and there is little variation in how this is calculated. Some information may have been lost in the translation. It is possible there is more noise in the employee satisfaction results than the customer satisfaction results given the larger number of approaches to measuring this construct, but that is primarily speculation.

## **5.12 Limitations**

As is the case with most social science research, especially exploratory studies, there are several limitations that must be considered when reflecting on the results of this thesis. Some limitations arise from the methods used to collect and analyze the data. Other limitations arise from the fact that this study is based on the work of many others and it is assumed that their findings are strong enough to build upon. For example this study is based on the belief that outsourcing certain HRM activities may be helpful or harmful to the organization in terms of employee satisfaction and turnover. These in turn might affect financial performance by changing customer satisfaction. An alternative explanation for the negative relationship between HRO and employee retention and customer satisfaction could be that organizations that engage in higher levels of HRO have less effective HRM practices overall these other factors are the cause of lower satisfaction and retention levels. In addition there are four other types of limitations to consider.

### *5.12.1 Causality and Direction of the Relationship*

It is important to note that methods used to obtain the results do not and cannot tell us about the direction of the relationship; therefore, causality could plausibly run in either direction. It is possible that organizations that choose to outsource an activity or most HRM activities might do so knowing they have lower than average employee retention and hope that the HRO vendor can provide these services better than the current HR staff.

As the data set is cross-sectional a researcher is unable to observe how individual organization performance varies with variations in the level of HRO. The use

of a cross-sectional methodology makes it difficult to establish whether examined variables are truly antecedents of organizational performance. For example, an organization adopting total HRO to improve HR services may find that the improvements take a few years to be fully realized and even longer for employees to notice.

#### *5.12.1 Temporal Factors*

Secondly, there may be a temporal factor at work that causes employee angst to be greater during periods of transition to more wide-scale HRO that will diminish with time. The natural resistance to change may blunt positive reactions to HR service improvements. This point is important to consider as the total HRO phenomenon is just a decade old. Also, the data was collected over a particular 18 month period covering 2007 and 2008 and over this span of time relevant factors might have changed affecting the estimates and responses of individuals. The cross-sectional approach of this study imposes limitations a longitudinal design could address. Thus, future work should look at changes in HRO levels and changes in employee turnover over time.

#### *5.12.3 Omitted Variable Bias*

Third, the model specification suffers from omitted variables which could lead to inconsistent results (Cameron and Trivedi, 2005, p. 92). The amount of variance explained by the base model is modest with an  $R^2$  of 13.8 percent (adjusted  $R^2$  of 5.5 percent). The first model improves the variance explained very modestly with an  $R^2$  of 15.0 percent (adjusted  $R^2$  of 6.4 percent). The most complete model reaches an  $R^2$  of 17.8 percent (adjusted  $R^2$  of 6.8 percent).

An earlier study included a measure of organizational age (Gilley et al, 2004) which was not included as a variable here. Other important variables that may explain variance include intangible measures of strategy and managerial attitudes. For instance, the attitude of the executive team about the importance of people and the ability of the HR function to affect employee retention may be important. Finally, it is unfortunate that a reasonable instrumental variable could not be identified to address concerns about endogeneity.

#### *5.12.4 Nature of the Sample*

The nature of the sample could be problematic for several reasons. First, the data was not collected from a randomized stratified sample. Some of data should be treated as coming from a convenience sample as it was collected from 43 organizations, mostly located in Minnesota and California, willing to share data with the researcher. While, it is uncommon in social science research, particularly management research to achieve a sample with these ideal statistical properties this does not remove the fact that the inferences are necessarily much weaker. The remaining 251 observations were collected from a nationally representative panel.

There is no known reason that a properly managed online panel should provide results that different from the traditional mail-based surveys with lower response rates. Online panel data is not random and may or may not be representative, which is why such care was taken to compare the industry, location and size data to national averages. This problem exists with the average industrial organization psychology lab study. With respect to validity Azar (2000) found that researchers got similar results with

college and Web samples. The market research companies used took precautions to address the concerns of Sparrow (2007) in the selection of participating panel members.

#### *5.12.5 Potential Problems with the Respondents*

The reliance on an individual to collect and report archival data from his or her organization creates many opportunities for measurement error. First, as much of the data used was collected from one respondent from the organization the potential exists for common method bias to contaminate the results. Second, it is possible, that in spite of the screening measures taken, the HR professionals responding may not have been very knowledgeable about the true outsourcing levels, or may not have spent enough time to provide accurate information. One way of addressing the issue of respondents not being able to estimate HR outsourcing levels to the nearest ten percent, was to create variables measuring zero outsourcing and outsourcing of 50 percent or more of an activity. The reasoning behind this approach is that senior HR professionals should be more accurate in estimating whether an HR process is entirely outsourced, not outsourced at all or partially outsourced.

### **5.13 Future Directions**

Given the first-of-its kind nature of this work it would be interesting to conduct a couple of case studies with organizations undergoing radical HRO efforts along with similar organizations electing to remain with the status quo. It would be ideal to find an organization that would permit direct surveying of their employees about their experience with the changes caused by HRO to see if they diminish over time and if they can be correlated to employee intentions to leave and employee engagement. As previously mentioned, it is critical to follow-up with the participating organizations to



track how HRO levels are changing over time. This should be supplemented with some qualitative analysis for the reasons certain types of HRO are increased or decreased. It might also be interesting to measure what percent of HR activities are conducted by HR functional staff and HR generalists versus line managers. Total HRO necessitates a major change in the HR function.

#### **5.14 Conclusions**

This study attempted to shed light on the extent of HRO occurring in the United States and the relationship between outsourcing HR activities and several organizational outcomes. This study has three sets of questions probing HRO. First, which HR activities are being outsourced, to what extent and by whom? Tables 4.7 and 4.8 list the levels of HRO for about 300 organizations with demographic data about the respondents in tables 4.1 through 4.5. Second, what attributes make a business process, such as HRO, well suited for outsourcing? Chapter two examined the theoretical lenses that suggest the suitability for outsourcing of business processes based on the underlying attributes of the process. Chapter three synthesized the assessment of several dozen HR professionals as to the attributes of 34 distinct HR activities enabling the creation of a set of hypotheses in the conceptual framework developed in chapter four and tested in chapter five. Third, what relationship exists between employee retention and the type and level of HRO? While exploratory in nature, the empirical analysis suggests that something is at work in the relationship between HRO levels and organizational outcomes and that theory can help predict the types of HRM activities likely to be suited to outsourcing.

Reviewing the results a few themes emerge. First, the evidence suggests that outsourcing HRM activities may be associated with important organizational outcomes: voluntary employee turnover and possibly customer satisfaction. An important caveat is that this is the first multi-industry study of this topic and the overall number of organizations providing data is very limited. In particular it should be stressed that the sample sizes for both the employee and customer satisfaction measures are very small.

Second, the type of HRM activity appears to be related to the relationship with employee turnover. Additionally there is some evidence that economic and management theories can predict the attributes of HRM activities that make them well suited or poorly suited to outsourcing. The predictions of transaction cost economics predict the prevalence of HRO. It is not expected that this relationship extends to the relationship between HRO and employee retention, which makes sense given that TCE focuses on where work should be performed and not on the effect of the provider of HRM services on employees in the client organization. The evidence suggests that social capital created in organizations (organizational capital) is associated with the relationship between HRO and retention.

It is hoped that this pioneering and exploratory study will encourage continued scholarly analysis of this trend in human resource management. Continued work on HRO should help organizations more effectively decide on the type of activities to be outsourced, the degree to which activities can be outsourced and the less tangible costs and benefits of doing so.

Figure 1.1  
HRM Attributes Predicted to be Positively Related to Desirable Organizational  
Outcomes

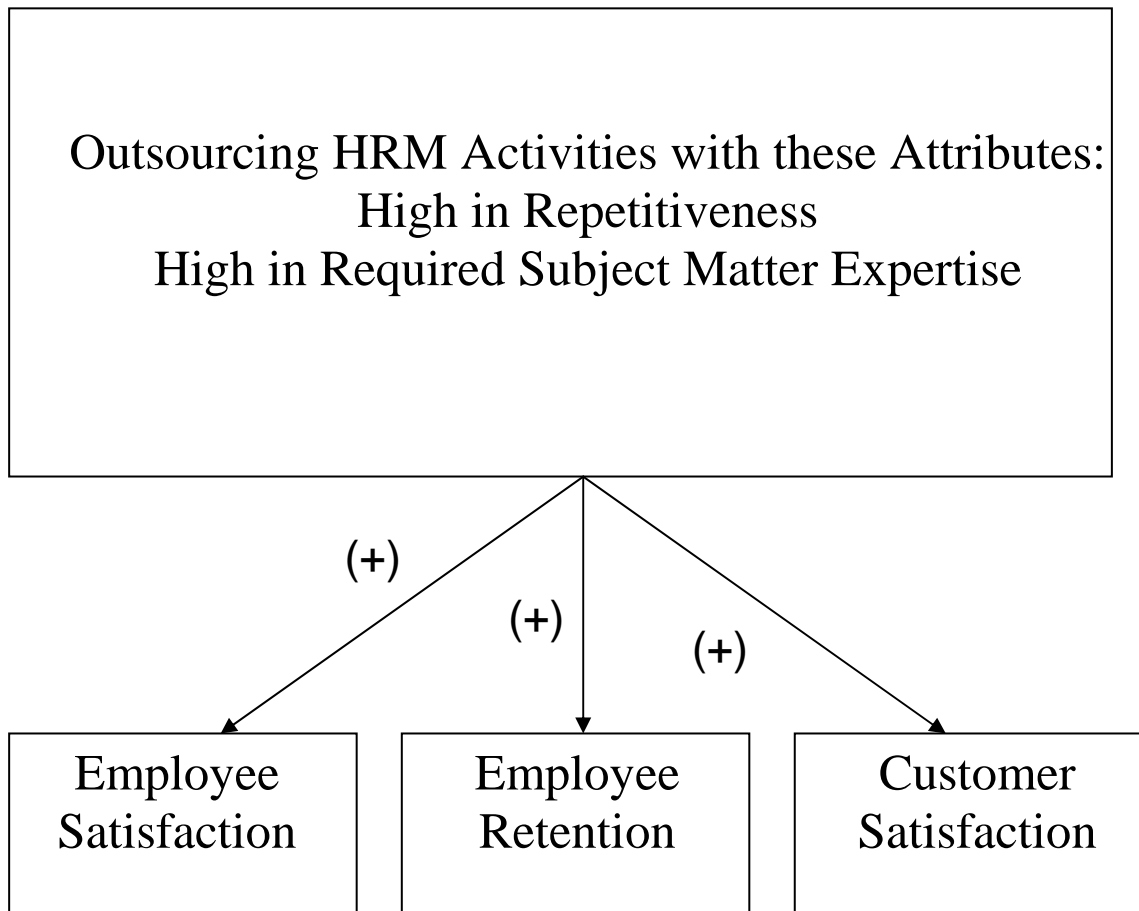


Figure 1.2  
HRM Attributes Predicted to be Negatively Related to Desirable Organizational Outcomes

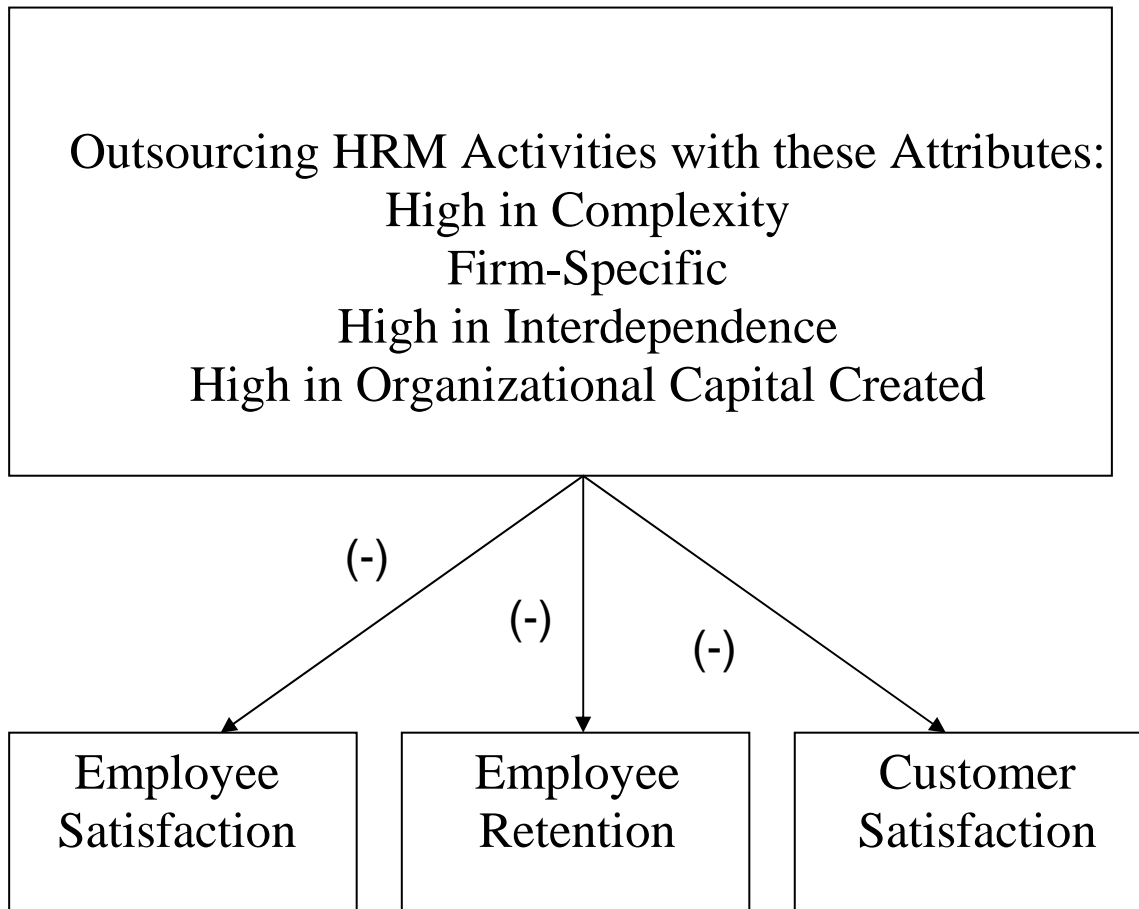
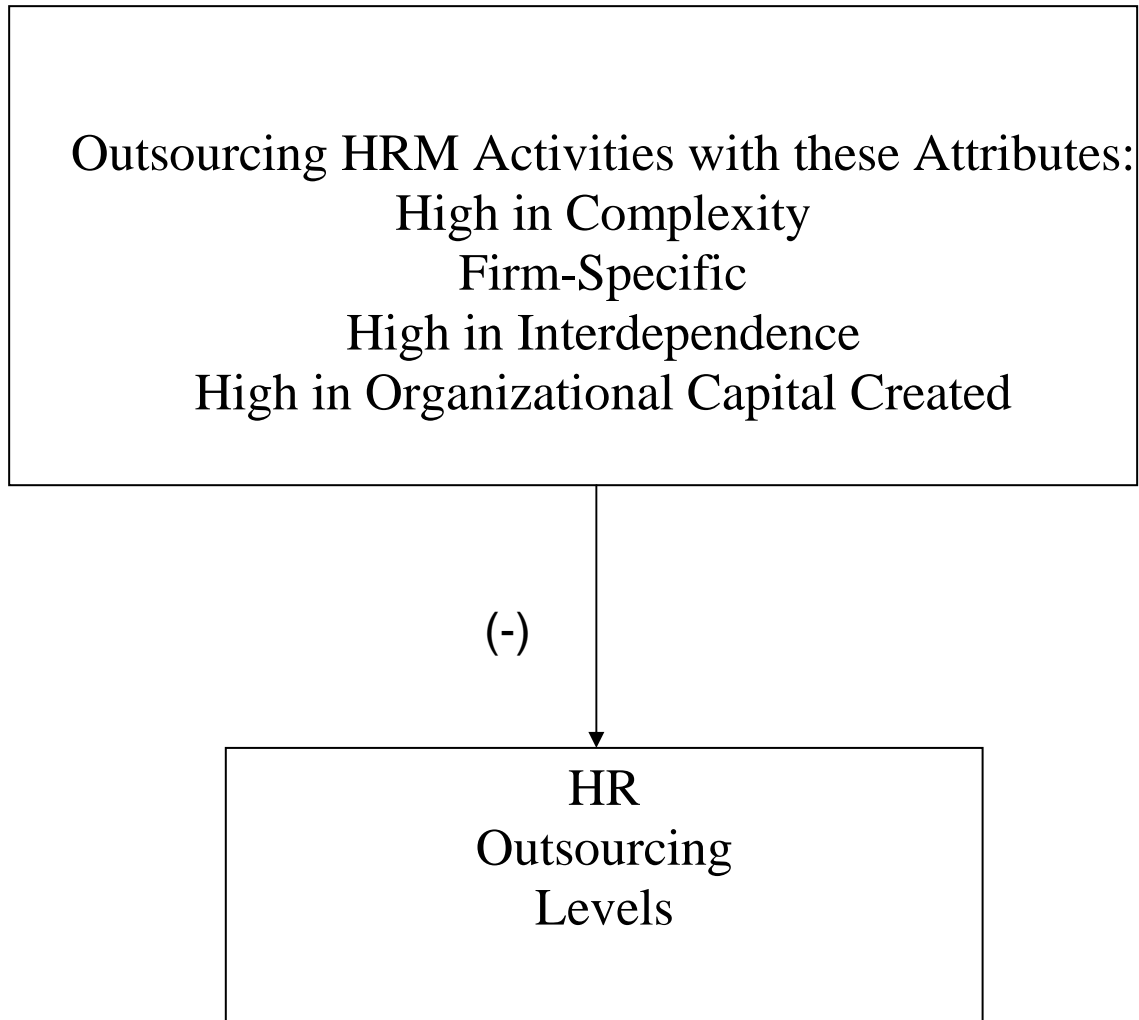
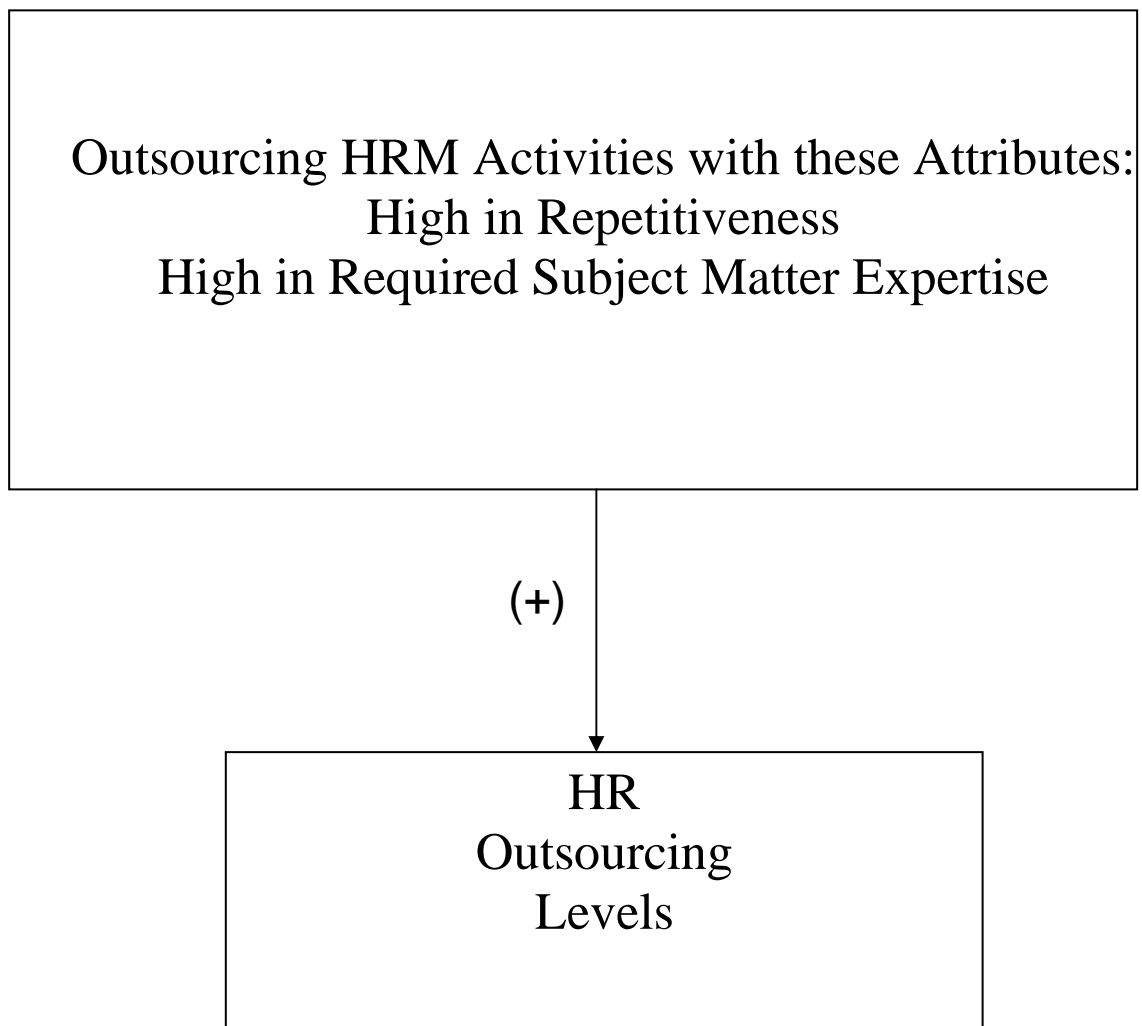


Figure 1.3  
HRM Activity Attributes Predicted to Lead to Lower Outsourcing Levels



**Figure 1.4**

HRM Activity Attributes Predicted to Lead to Lower Outsourcing Levels



**Table 2.1**  
 Table of Theoretical Predictions by Business Process Attribute  
 (Six Dimensions)

Dimension	Economies of Scale	Transaction Cost Economics	Firm-Specificity Idiosyncrasy	Agency Theory
A. Complexity		-		
B. Repetitiveness	+	+		
C. Firm-specificity		-	-	-
D. Interdependence on other internal processes		-	-	-
E. Subject-matter expertise required	+			
F. Organizational capital created for the employee				-

Table 2.2  
Definitions of Six Dimensions Related to Suitability for Outsourcing and Applicable Theories and Concepts

Dimension	Definition	Applicable Theories and Concepts
A. Complexity	Activities and processes with many steps that depend of the context and other factors such as timing, types of employees affected and current organizational performance.	Transaction Cost Economics
B. Repetitiveness	Activities and processes that occur in basically the same form multiple times per year.	Economies of Scale Transaction Cost Economics
C. Firm-specificity	Activities and processes that must be tailored or customized depending on the firm and its industry, size, or other particular attributes.	Transaction Cost Economics Asset Specificity Agency Theory
D. Interdependence on other internal processes	Activities and processes that depend on another internal business process to be performed effectively or if performed poorly negatively affect other business activities or results.	Transaction Cost Economics Agency Theory Social Exchange Theory
E. Subject-matter expertise required	Activities and processes that require a high degree of specialized skill, education or training to be performed, such as drafting complicated legal documents	Economies of Scale
F. Organizational capital created for the employee	Activities and processes that when delivered by someone inside the firm potentially improve the relationship between the recipient and the provider to an extent that could result in more favorable treatment in the future due better awareness of the recipient's abilities, track record or other relevant factors.	Agency Theory Organizational Capital Theory Social Exchange Theory Social Networking Theory
E. Suitability of HRM activities to Outsourcing		Resource-Based View of the Firm and Strategic Human Resource Management



Table 3.1  
Assessment of 34 HRM Activities Using Six Dimensions Associated with Suitability  
for Outsourcing

Dimension	HRM Activities Rated High	HRM Activities Rated Low
A. Complexity	6. Union/labor relations management 9. Job analysis and developing job descriptions 33. Interviewing for exempt positions 34. Executive recruiting	10. Relocation assistance and reimbursement 11. Employee assistance program 26. New employee orientation sessions and training 27. Tuition reimbursement
B. Repetitiveness	1. Addressing employee concerns about co-workers (non-management) 3. Communicating performance results to employees 8. Pre-employment testing and assessment 12. Resume screening 13. Interviewing for non-exempt positions 21. Responding to questions about pay and benefits 26. New employee orientation sessions and training 33. Interviewing for exempt positions	5. Design of organization structure 7. Conducting employee attitude/opinion surveys 14. Annual employee benefit enrollment 16. Salary surveys 18. Design of group level bonus programs 31. Expatriate selection and assignment 32. Expatriate training and preparation
C. Firm-specificity	5. Design of organization structure 23. Development of customized training programs 25. Delivery of management training	10. Relocation assistance and reimbursement 11. Employee assistance program 12. Resume screening
D. Interdependence on other internal processes	5. Design of organization structure 34. Executive recruiting	10. Relocation assistance and reimbursement 12. Resume screening 28. Mentoring
E. Subject-matter expertise required	5. Design of organization structure 9. Job analysis and developing job descriptions 28. Mentoring	7. Conducting employee attitude/opinion surveys 10. Relocation assistance and reimbursement 34. Executive recruiting
F. Organizational capital created for the employee	28. Mentoring 29. Coaching 33. Interviewing for exempt positions	8. Pre-employment testing 10. Relocation assistance and reimbursement 16. Salary surveys

Table 3.2  
List of the 34 HRM Activities Rated Either High or Low on Each of the Six Dimensions  
Associated with Suitability for Outsourcing

Dimension	Number of HRM Activities Rated High	Number of HRM Activities Rated Low
A. Complexity	4	4
B. Repetitiveness	8	7
C. Firm-specificity	3	4
D. Interdependence on other internal processes	2	3
E. Subject-matter expertise required	3	3
F. Organizational capital created for the employee	3	3

Table 3.3  
Complex HRM Activities

<b>Low in Complexity</b>	<b>High in Complexity</b>
10. Relocation Assistance & Reimbursement	6. Union Labor Relations Management
11. Employee Assistance Program	9. Job Analysis
26. New Employee Orientation & Training	33. Interviewing for Non-Exempt and Exempt Positions
27. Tuition Reimbursement	34. Executive Recruiting

Table 3.4  
Repetitive HRM Activities

<b>Low in Repetitiveness</b>	<b>High in Repetitiveness</b>
5. Design of organization structure	1. Addressing employee complaints about co-workers (non-management)
7. Conducting employee attitude/opinion surveys	3. Communicating performance results to employees
14. Annual Employee benefit enrollment	8. Pre-employment testing and assessment
16. Salary surveys	12. Resume screening
18. Design of group level bonus programs	13. Interviewing for non-exempt positions
31. Expatriate selection and assignment	21. Responding to questions about pay and benefits
32 Expatriate training and development	26. New employee orientation sessions and training
	33. Interviewing for exempt positions

Table 3.5  
Firm-Specific HRM Activities

<b>Low in Firm-Specificity</b>	<b>High in Firm-Specificity</b>
10. Relocation assistance and reimbursement	5. Design of organization structure
11. Employee assistance program	23. Development of customized training programs
12. Resume screening	25. Delivery of management training
27. Tuition reimbursement	

Table 3.6  
Interdependent HRM Activities

<b>Low in Interdependence</b>	<b>High in Interdependence</b>
10. Relocation assistance and reimbursement	5. Designing the Organization Structure
12. Resume Screening	34. Executive Recruiting
27. Tuition Reimbursement	

Table 3.7  
HRM Activities Requiring Subject Matter Expertise

<b>Low in Required Expertise</b>	<b>High in Required Expertise</b>
7. Conducting Employee Attitude/Opinion Surveys	5. Designing the Organization structure
10. Relocation assistance & reimbursement	9. Job Analysis and Evaluation
27. Tuition Reimbursement	34. Executive Recruiting

Table 3.8  
Organizational Capital Creating HRM Activities

<b>Low in Organizational Capital Creation</b>	<b>High in Organizational Capital Creation</b>
8. Pre-employment testing and assessment	28. Mentoring
10. Relocation assistance and reimbursement	29. Coaching
16. Salary surveys	33. <i>Interviewing for exempt positions</i> (17. Delivery of employee performance reviews)



Table 3.9  
 Direction of Predicted Effect of HRM Attribute on HRO Levels, Employee Retention,  
 Satisfaction and Customer Satisfaction

<b>HRM Activities High in:</b>	<b>Level of HRO</b>	<b>Employee Retention &amp; Satisfaction</b>	<b>Customer Satisfaction</b>
Complexity	Negative	Negative	Negative
Repetitiveness	Positive	Positive	Positive
Firm-Specificity	Negative	Negative	Negative
Interdependence	Negative	Negative	Negative
Required Subject Matter Expertise	Positive	Positive	Positive
Creation of Organizational Capital	Negative	Negative	Negative
<b>HRM Activities Low in:</b>			
Complexity	Positive	No prediction	No prediction
Repetitiveness	Negative	No prediction	No prediction
Firm-Specificity	Positive	No prediction	No prediction
Interdependence	Positive	No prediction	No prediction
Required Subject Matter Expertise	No prediction	No prediction	No prediction
Creation of Organizational Capital	Positive	No prediction	No prediction

Table 3.10  
List of Six Core Hypotheses

Hypothesis	Dependent Variable a) Level of HRO	Dependent Variable b) Voluntary Turnover
#1 Complexity	Non-complex HRM activities will have <b>higher</b> levels of outsourcing.	Outsourcing higher levels of complex HRM activities will be <b>negatively</b> related to employee retention (lower voluntary employee turnover).
#2 Repetitiveness	Repetitive HRM activities will have <b>higher</b> levels of outsourcing	Outsourcing higher levels of repetitive HRM activities will be <b>positively</b> related to employee retention (lower voluntary employee turnover).
#3 Firm-specificity	Firm-specific HRM activities will have <b>lower</b> levels of outsourcing.	Outsourcing higher levels of firm-specific HRM activities will be <b>negatively</b> related to employee retention (lower voluntary employee turnover).
#4 Interdependence on other internal business processes	Non-interdependent HRM activities will have <b>higher</b> levels of outsourcing.	Outsourcing higher levels of interdependent HRM activities will be <b>negatively</b> related to employee retention (lower voluntary employee turnover).
#5 Subject-matter expertise required	HRM activities high in required subject-matter expertise will have <b>higher</b> levels of outsourcing.	Outsourcing higher levels of HRM activities high in required subject-matter expertise will be <b>positively</b> related to employee retention (lower voluntary employee turnover).
#6 Organizational capital created for the employee	Organizational capital creating HRM activities will have <b>lower</b> levels of outsourcing.	Outsourcing higher levels of organizational capital creating HRM activities will be <b>negatively</b> related to employee retention (higher voluntary employee turnover).

Table 3.11  
Correlation Matrix of the Average Ratings of HRM Dimensions & Suitability of Outsourcing

Average	Complexity	Repetitive-ness	Firm Specificity	Inter-dependence	Expertise	Organizational Capital
A. Complexity	1.0000					
B. Repetitiveness	-0.0430	1.0000				
C. Firm-specificity	<b>0.6269</b>	-0.2571	1.0000			
D. Interdependence on other internal processes	<b>0.5980</b>	-0.2404	<b>0.6081</b>	1.0000		
E. Subject-matter expertise required	<b>0.7904</b>	0.0042	<b>0.6627</b>	<b>0.5885</b>	1.0000	
F. Organizational capital created for the employee	0.4192	0.2909	0.3567	0.4546	0.3137	1.0000
E. Suitability to Outsourcing	-0.2527	-0.2582	-0.1682	-0.2638	-0.2654	-0.4928

Table 3.12  
Principal Components and Eigenvalues

Component	Eigenvalue	Difference	Proportion	Cumulative
Component 1	3.22013	1.94343	0.5367	0.5367
Component 2	1.2767	0.609448	0.2128	0.7495
Component 3	0.667253	0.29725	0.1112	0.8607
Component 4	0.370003	0.0726157	0.0617	0.9223
Component 5	0.297387	0.12886	0.0496	0.9719
Component 6	0.168528	.	0.0281	1.0000

Table 3.13  
Principal Components

	Component 1	Component 2	Component 3	Component 4	Component 5	Component 6
A. Complexity	0.4870	0.0462	0.3215	-0.1888	-0.6019	0.5093
B. Repetitiveness	-0.0703	-0.8217	0.3106	-0.0056	0.3943	0.2606
C. Firm- specificity	0.4654	-0.1896	-0.0035	0.7607	0.3294	0.2455
D. Interdependence on other internal processes	0.4585	-0.1201	-0.3796	-0.5887	0.5004	0.1853
E. Subject-matter expertise required	0.4788	0.0257	0.5067	-0.0988	0.0959	-0.7031
F. Organizational capital created for the employee	0.3191	0.5212	-0.6319	0.1714	-0.3379	-0.2893

Table 3.14  
Rating of the Complexity of HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	7	13	3.3	1.3		27
2	6	15	3.5	1.3		27
3	5	14	3.4	1.3		27
4	7	11	3.3	1.3		27
5	8	13	3.3	1.4		27
6	2	17	4.0	1.2	High	26
7	7	5	2.9	1.1		27
8	8	11	3.2	1.4		27
9	2	20	4.0	1.1	High	27
10	18	1	2.2	0.9	Low	27
11	16	6	2.6	1.3	Low	27
12	10	8	3.0	1.1		27
13	11	6	2.7	1.1		27
14	8	14	3.4	1.4		27
15	8	13	3.4	1.5		27
16	9	9	2.9	1.2		27
17	12	11	3.1	1.5		27
18	6	17	3.7	1.5		26
19	4	14	3.6	1.2		27
20	11	7	2.8	1.3		27
21	11	8	3.1	1.2		27
22	11	9	2.9	1.4		27
23	8	15	3.6	1.4		27
24	6	13	3.4	1.3		27
25	5	15	3.5	1.2		27
26	19	4	2.3	1.2	Low	27
27	13	3	2.2	1.2	Low	26
28	7	17	3.6	1.3		26
29	7	18	3.6	1.3		27
30	8	14	3.4	1.5		27
31	6	12	3.3	1.3		26
32	5	13	3.4	1.4		26
33	0	4	3.8	0.9	High	8
34	0	5	4.1	1.0	High	8
Average			3.3	1.3		25.7

Table 3.15  
Rating of the Repetitiveness of HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	7	5	3.7	1.3	High	27
2	5	3	3.4	1.2		27
3	10	5	3.6	1.3	High	27
4	5	4	2.7	1.4		27
5	4	4	2.2	1.2	Low	27
6	3	4	3.1	1.6		22
7	5	5	1.9	1.1	Low	24
8	9	5	3.9	1.3	High	27
9	5	3	2.7	1.4		27
10	4	5	2.3	1.4		25
11	6	3	3.0	1.4		26
12	6	4	3.9	1.4	High	27
13	9	3	3.9	1.4	High	27
14	4	4	2.0	1.4	Low	27
15	5	5	3.4	1.5		27
16	4	5	2.1	1.2	Low	27
17	10	4	2.6	1.5		27
18	6	4	1.8	1.0	Low	26
19	4	4	2.3	1.4		27
20	6	4	3.0	1.6		27
21	4	5	3.6	1.3	High	27
22	5	4	2.9	1.5		27
23	3	5	2.6	1.3		27
24	4	5	2.9	1.5		27
25	9	4	2.8	1.4		26
26	5	3	3.7	1.5	High	27
27	3	3	2.7	1.3		25
28	9	5	3.5	1.4		27
29	6	4	3.4	1.4		26
30	9	5	2.7	1.4		27
31	7	3	2.2	1.2	Low	23
32	6	5	2.2	1.2	Low	23
33	9	4	3.6	0.9	High	8
34	7	4	2.8	0.9		8
Average			2.9	1.3		25.2

Table 3.16  
Rating of the Firm Specificity of Outsourcing HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	13	6	2.6	1.3		29
2	13	11	2.9	1.5		27
3	9	9	3.0	1.2		29
4	8	14	3.3	1.5		28
5	6	18	3.8	1.3	High	29
6	7	13	3.3	1.5		24
7	11	11	3.0	1.4		28
8	15	10	2.8	1.5		29
9	7	16	3.6	1.5		28
10	18	8	2.4	1.3	Low	28
11	15	6	2.4	1.1	Low	27
12	15	4	2.4	1.1	Low	29
13	11	9	2.8	1.1		28
14	8	11	3.2	1.3		29
15	7	16	3.6	1.5		27
16	10	10	2.9	1.4		27
17	9	12	3.1	1.2		28
18	7	16	3.4	1.4		28
19	6	15	3.6	1.3		28
20	10	9	2.9	1.4		26
21	8	12	3.2	1.2		27
22	14	6	2.7	1.2		29
23	4	23	4.0	1.2	High	29
24	9	10	2.9	1.1		29
25	3	18	3.7	1.0	High	29
26	7	10	3.1	1.3		28
27	15	6	2.3	1.4	Low	27
28	8	13	3.2	1.3		27
29	8	16	3.4	1.5		27
30	7	12	3.1	1.2		24
31	3	4	3.3	1.9		7
32	3	3	3.0	1.7		7
33	2	4	3.3	0.9		8
34	3	3	3.0	0.9		8
Average			3.1	1.3		25.4



Table 3.17  
Rating of the Interdependence of HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	13	6	2.4	1.4		27
2	13	7	2.5	1.5		27
3	10	12	3.1	1.6		27
4	16	7	2.5	1.4		27
5	5	18	3.9	1.4	High	27
6	13	7	2.5	1.6		23
7	13	7	2.4	1.4		25
8	13	4	2.4	1.3		26
9	15	9	2.6	1.5		27
10	16	2	2.0	1.1	Low	23
11	15	2	2.1	1.3		25
12	18	3	2.0	1.2	Low	25
13	12	6	2.5	1.3		24
14	11	7	2.7	1.4		25
15	10	7	2.8	1.4		25
16	13	6	2.4	1.3		23
17	10	12	3.1	1.4		25
18	9	12	3.1	1.6		24
19	9	8	2.8	1.2		25
20	13	6	2.5	1.2		25
21	13	5	2.5	1.2		25
22	15	9	2.6	1.5		25
23	11	11	2.9	1.5		25
24	12	8	2.6	1.5		25
25	10	7	2.7	1.3		25
26	13	5	2.4	1.4		25
27	14	2	2.1	1.2		23
28	13	7	2.6	1.4	Low	25
29	12	9	2.8	1.5		25
30	8	12	3.2	1.6		25
31	10	7	2.7	1.4		22
32	9	8	2.9	1.5		22
33	2	3	3.3	1.5		7
34	2	4	3.4	1.8	High	7
Average			2.7	1.4		23.9

Table 3.18  
Rating of the Subject Matter Expertise Required for HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	4	18	3.7	1.1		26
2	3	16	3.8	1.1		24
3	3	11	3.4	1.0		27
4	2	17	3.9	1.1		26
5	2	23	4.2	1.0	High	27
6	2	17	4.1	1.1		23
7	9	4	2.7	1.1	Low	25
8	8	13	3.4	1.4		27
9	2	21	4.2	1.0	High	27
10	15	7	2.7	1.4	Low	26
11	6	13	3.5	1.3		26
12	7	9	3.2	1.1		27
13	4	10	3.4	1.1		27
14	3	18	3.8	1.0		27
15	2	17	4.1	1.0		25
16	5	13	3.5	1.2		25
17	3	16	3.7	1.1		27
18	2	15	3.8	1.1		26
19	5	11	3.3	1.2		27
20	6	8	3.1	1.1		25
21	1	15	3.9	0.9		25
22	7	8	3.1	1.1		27
23	4	20	4.1	1.2		26
24	3	16	3.9	1.1		26
25	2	16	3.7	0.9		26
26	6	10	3.2	0.9		26
27	14	2	2.4	0.9		25
28	4	16	3.8	1.2	High	26
29	4	17	3.8	1.3		25
30	2	18	3.9	1.0		24
31	3	15	3.8	1.2		21
32	4	15	3.7	1.2		20
33	0	3	3.7	1.0		7
34	0	5	4.1	0.9	Low	
Average			3.6	1.1		24.4

Table 3.19  
Rating of the Organizational Capital Created for the Employee by HRM Activities —  
Subject Matter Experts

Item	Number of 1 - 2 ratings	Number of 4 - 5 ratings	Mean	Standard Deviation	High or Low	Number of Raters
1	9	11	3.1	1.5		23
2	8	9	3.0	1.4		22
3	6	11	3.3	1.5		23
4	5	11	3.4	1.3		22
5	7	7	3.0	1.4		23
6	8	7	3.0	1.3		20
7	9	6	2.7	1.4		22
8	10	3	2.4	1.2	Low	23
9	7	5	2.8	1.1		22
10	14	5	2.3	1.4	Low	24
11	8	8	2.8	1.4		24
12	12	6	2.7	1.4		23
13	8	8	2.9	1.3		23
14	11	9	2.6	1.3		24
15	12	5	2.7	1.2		24
16	13	3	2.4	1.1	Low	24
17	6	11	3.3	1.3		24
18	9	8	3.0	1.4		23
19	6	9	3.2	1.2		24
20	7	15	3.4	1.3		24
21	10	10	3.1	1.5		24
22	9	7	2.8	1.3		24
23	8	9	3.0	1.3		24
24	10	6	2.8	1.2		24
25	5	10	3.3	1.0		24
26	7	11	3.1	1.2		24
27	8	8	2.8	1.3		23
28	5	16	3.8	1.3	High	24
29	5	17	3.8	1.4	High	24
30	7	12	3.1	1.5		24
31	9	6	2.8	1.4		20
32	10	6	2.7	1.3		20
33	1	4	3.6	1.0	High	7
34	1	4	3.4	1.3		7
Average			3.0	1.3		22.2

Table 4.1a  
Overall Data Set —  
Distribution by Industry  
North American Industrial Classification System (NAICS) Code

NAICS Code(s)	Description of NAIC 2 digit classification	Industry Percentage of 2006 US Gross Domestic Product <sup>3</sup>	Percentage of Combined Sample	N
11	Agriculture	1.3	1.7	5
21	Mining	1.8	0.3	1
22	Utilities	1.7	1.4	4
23	Construction	5.1	2.7	8
31, 32, 33	Manufacturing	19.9	17.7	52
42	Wholesale Trade	4.7	2.0	6
44	Retail Trade	5.5	8.2	24
48	Transportation/Warehousing	3.1	5.4	16
51	Information	5.2	4.8	14
52	Finance & Insurance	7.7	9.2	27
53	Real Estate	10.1	1.4	4
54, 55	Professional and Business Services	7.6	9.2	27
	Administration, Support, Waste	2.6		
56	Management		1.4	4
61	Educational Services	0.8	3.1	9
62	Health Care & Social Services	6.0	11.9	35
71	Arts, Entertainment & Recreation	0.8	3.1	9
72	Accommodation & Food Services	2.7	9.9	29
	Other Services (Except Public Administration)	2.3		
81	Administration)		1.7	5
92	Public Administration	11.1	5.1	15
	Total	100.0	100.0	294

Sources: U.S. Census Bureau, Statistical Abstract of the United States: 2007  
<http://www.census.gov/prod/2006pubs/07statab/manufact.pdf>;  
[http://www.workforce.az.gov/admin/uploadedPublications/2100\\_gdp.xls](http://www.workforce.az.gov/admin/uploadedPublications/2100_gdp.xls)

<sup>3</sup> The 2006 GDP percentages were calculated by author from data taken from the Bureau of Economic Analysis. Note that in 2006 4.7% of establishments are manufacturing sector, but these establishments represent 12.5% of employment and 19.9% of Gross Domestic Product.

Table 4.1b  
Overall Data Set — Listed by Source  
Distribution by Industry  
North American Industrial Classification System (NAICS) Code

Description of NAIC 2 digit classification	% of Sample Paper surveys	% of Sample MarketTools 2007 Panel	% of Sample MarketTools 2008 Panel	% of Sample GFOL 2007 Panel
Agriculture	0.0	1.2	3.9	0.0
Mining	2.3	1.2	0.0	0.0
Utilities	0.0	1.2	1.9	0.0
Construction	0.0	1.2	2.9	6.3
Manufacturing	34.9	21.4	10.7	12.5
Wholesale Trade	0.0	3.6	1.9	1.5
Retail Trade	7.0	9.5	3.9	14.1
Transportation/Warehousing	9.3	3.6	4.9	6.3
Information	9.3	2.4	1.9	9.4
Finance & Insurance	16.3	7.1	8.7	7.8
Real Estate	0.0	3.6	0.0	1.5
Professional and Business Services	7.0	11.9	9.7	6.3
Administration, Support, Waste Management	2.3	1.2	1.0	1.5
Educational Services	2.3	2.4	5.8	0.0
Health Care & Social Services	4.7	7.1	19.4	10.9
Arts, Entertainment & Recreation		3.6	2.9	4.7
Accommodation & Food Services	2.3	10.7	12.6	9.4
Other Services (Except Public Administration)	0.0	0.0	0.0	7.8
Public Administration	2.3	7.1	7.9	0.0
Total	100.0	100.0	100.0	100.0
n	43	84	103	64

Table 4.2a  
Overall Data Set –  
Distribution by Sector (For-profit, Government or Non-Profit)

Sector	% of Combined Sample	N
For-Profit	85.0	250
Publicly traded	35.0	103
Privately held	50.0	147
Government	7.5	22
Non-Profit	7.5	22
Total	100.0	294
N	294	

Table 4.2b  
Overall Data Set – Listed by Source  
Distribution by Sector (Private, Public or Non-Profit)

Sector	% of Combined Sample	% of Sample Paper surveys	% of Sample Market Tools 2007 Panel	% of Sample Market Tools 2008 Panel	% of Sample GFOL 2007 Panel
Private	85.0	90.6	90.5	70.0	98.4
Publicly traded	35.0	60.4	34.5	26.3	32.8
Privately held	50.0	30.2	56.0	43.7	65.6
Public	7.5	4.7	9.5	10.6	1.6
Non-Profit	7.5	4.7	0.0	19.4	0.0
Total	100.0	100.0	100.0	100.0	100.0
n	294	43	84	103	64

Table 4.3  
Overall Data Set –  
Distribution by Geographic Location of Organization Headquarters

Location	2007 State GDP as a Percentage of US GDP	% of Combined Sample	N
Alabama	1.2	0.0	0
Alaska	0.3	0.0	0
Arizona	1.8	2.0	6
Arkansas	0.7	1.3	4
California	13.2	14.6	43
Colorado	1.7	0.3	1
Connecticut	1.6	2.0	6
Delaware	0.4	0.3	1
District of Columbia	0.7	1.0	3
Florida	5.3	3.4	10
Georgia	2.9	3.0	9
Hawaii	0.4	0.3	1
Idaho	0.4	1.0	3
Illinois	4.4	3.4	9
Indiana	1.8	2.0	6
Iowa	0.9	1.3	4
Kansas	0.9	1.3	4
Kentucky	1.1	2.0	6
Louisiana	1.6	0.3	1
Maine	0.4	0.3	1
Maryland	2.0	1.7	5
Massachusetts	2.6	2.7	8
Michigan	2.8	4.1	12
Minnesota	1.9	8.5	25
Mississippi	0.6	0.3	1
Missouri	1.7	2.7	8
Montana	0.2	0.0	0
Nebraska	0.6	0.6	2
Nevada	0.9	0.3	1
New Hampshire	0.4	0.0	0
New Jersey	3.4	1.0	3
New Mexico	0.6	0.7	1
New York	8.0	5.1	15
North Carolina	2.9	3.1	9
North Dakota	0.2	0.0	0
Ohio	3.4	4.4	13
Oklahoma	1.0	0.0	0
Oregon	1.2	1.3	4
Pennsylvania	3.9	4.8	14
Rhode Island	0.3	0.7	2
South Carolina	1.1	1.0	3
South Dakota	0.2	0.0	0
Tennessee	1.8	2.0	6
Texas	8.3	4.8	14
Utah	0.8	1.0	3
Vermont	0.2	0.0	0
Virginia	2.8	2.7	8



Table 4.3 (Continued)  
Overall Data Set –  
Distribution by Geographic Location of Organization Headquarters

Location	2007 State GDP as a Percentage of US GDP	% of Combined Sample	N
Washington	2.3	2.7	8
West Virginia	0.4	0.3	1
Wisconsin	1.7	2.4	7
Wyoming	0.2	0.0	0
<b>Total US</b>	<b>100.0</b>	<b>98.8</b>	<b>291</b>
<i>Non-US</i>			
Netherlands	n/a	0.3	1
Switzerland	n/a	0.3	1
UK	n/a	0.3	1
<b>Total Non-US</b>		<b>1.2</b>	<b>3</b>
Grand Total		100.0	294

Sources: Bureau of Economic Analysis Gross Domestic Product by State and new NAICS estimates for 2007 <http://www.bea.gov/regional/gsp/>

Table 4.4a  
Overall Data Set –  
Distribution by number of Employees

Number of Employees (FTEs)	Percentage of Combined Sample	N
<100	17.7	52
100-249	26.9	79
250-499	13.6	40
500-999	8.5	25
1,000-4,999	15.0	44
5,000-9,999	6.1	18
10,000-49,999	6.5	19
50,000-99,999	3.4	10
100,000+	2.4	7
<b>Total</b>	<b>100.0</b>	<b>294</b>

Table 4.4b  
 Overall Data Set – Listed by Source  
 Distribution by number of Employees

# of Employees	% of Combined Sample	% of Sample Paper surveys	% of Sample Market Tools 2007 Panel	% of Sample Market Tools 2008 Panel	% of Sample GFOL 2007 Panel
<100	17.7	9.3	20.2	27.2	4.7
100-249	26.9	11.6	34.5	17.5	42.2
250-499	13.6	11.6	15.5	11.7	15.6
500-999	8.5	2.3	6.0	11.7	11.0
1,000-4,999	15.0	25.6	10.7	16.5	11.0
5,000-9,999	6.1	11.6	6.0	3.9	6.2
10,000-49,999	6.5	11.6	4.8	7.8	3.1
50,000-99,999	3.4	16.3	1.2	0.9	1.6
100,000+	2.4	0.0	1.2	2.9	4.7
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
n	294	43	84	103	64

Table 4.5  
Overall Data Set –  
Distribution by 2007 Revenues

Revenues in \$ millions	Percentage of Combined Sample	N
<10	21.1	62
10 - 49	16.0	47
50 - 99	5.8	17
100 – 249	4.8	14
250 – 499	3.7	11
500 – 999	3.1	9
1,000 – 4,999	10.2	30
5,000 – 9,999	4.1	12
10,000 – 24,999	5.1	16
25,000 – 49,999	4.1	12
50,000 +	3.4	10
<b>Total</b>	<b>81.7</b>	<b>240</b>
Not applicable or not reported	18.3	54
<b>Total</b>	<b>100.0</b>	<b>294</b>

Table 4.6a  
Overall Data Set –  
Descriptive Statistics for Organizational Performance Dependent Variables

Dependent Variable	N	Mean	Min	Median	Max	Standard Deviation
Overall Turnover	288	25	1	10	296	34.0
Voluntary Turnover	271	16	0	15	200	22.0
Employee Satisfaction	96	78	20	80	96	15.0
Customer Satisfaction	69	84	50	85	100	11.0

Table 4.6b  
Overall Data Set – Listed by Source  
Descriptive Statistics for Organizational Performance Dependent Variables

Dependent Variable	Sample from paper surveys	Sample from Market Tools 2007 Panel	Sample from Market Tools 2008 Panel	Sample from GFOL 2007 Panel
Voluntary Turnover				
Count (n)	32	83	99	60
Mean	14	15	17	19
Min-median-max	1-11-45	0-10-99	0-10-175	1-10-200
Overall Turnover				
Count (n)	39	83	102	64
Mean	23	21	31	22
Min-median-max	1-15-100	1-15-100	1-12-296	2-10-190
Employee Satisfaction				
Count (n)	12	31	31	19
Mean	71	75	83	78
Min-median-max	12-77-90	40-80-95	45-85-96	20-81-96
Customer Satisfaction				
Count (n)	6	22	23	18
Mean	83	82	85	84
Min-median-max	60-85-95	50-83-98	65-85-100	58-89-100

Table 4.7  
 Reported Outsourcing Levels of 34 HRM Activities— Overall Data Set  
 Sample Descriptive Statistics

Item	Description of HRM Activity	N	Mean	Median	Mode	Standard Deviation
1	Addressing employee complaints about co-workers	294	5.5	0	0	12.8
2	Addressing employee complaints about mgmt.	293	5.2	0	0	13.3
3	Communicating performance results to employees	292	5.0	0	0	12.8
4	Communicating culture and vision to employees	290	4.0	0	0	10.4
5	Design of organization structure	288	4.0	0	0	10.0
6	Union/labor relations management	273	6.9	0	0	17.2
7	Conducting employee attitude/opinion surveys	287	15.5	0	0	29.1
8	Pre-employment testing and assessment	293	22.7	5	0	33.6
9	Job analysis and developing job descriptions	294	7.9	0	0	17.9
10	Relocation assistance and reimbursement	285	12.2	0	0	27.1
11	Employee assistance program	289	31.3	5	0	41.9
12	Resume screening	288	10.5	0	0	22.1
13	Interviewing for non-exempt positions	286	5.7	0	0	14.9
14	Annual employee benefit enrollment	293	15.4	0	0	25.9
15	HRIS/HRIT & employee data management	198	9.7	0	0	21.5
16	Salary surveys	285	16.4	0	0	30.3
17	Delivery of employee performance reviews	287	4.8	0	0	14.0
18	Design of group level bonus programs	283	5.8	0	0	16.5
19	Merit pay increase planning & implementation	282	3.9	0	0	12.8
20	Employee Recognition programs	282	7.5	0	0	18.7
21	Responding to questions about pay & benefits	281	7.7	0	0	17.3
22	Tracking employee training & competencies	287	6.6	0	0	18.3
23	Development of customized training programs	280	13.0	0	0	24.2
24	Delivery of technical and computer training	286	17.5	0	0	29.2
25	Delivery of management training	280	16.6	0	0	27.2
26	New employee orientation sessions & training	281	4.7	0	0	12.3
27	Tuition reimbursement	281	5.4	0	0	18.8
28	Mentoring	282	4.6	0	0	14.0
29	Coaching	201	5.0	0	0	13.5
30	Succession planning	190	3.7	0	0	9.4
31	Expatriate selection and assignment	189	4.1	0	0	15.1
32	Expatriate training and preparation	187	4.4	0	0	14.1
33	Interviewing for exempt positions	158	7.7	0	0	16.7
34	Executive recruiting	179	9.8	0	0	20.2

Table 4.8  
 Reported Outsourcing Levels of 34 HRM Activities— Overall Data Set  
 Sample Results by Level of Outsourcing (None, Low, Moderate, High)

Item	Description of HRM Activity	N	Level of Outsourcing			
			None 0%	Low <25%	Moder- ate 25-50%	High >50%
1	Addressing employee complaints about co-workers	294	66.3	28.9	3.7	1.0
2	Addressing employee complaints about mgmt.	293	66.9	29.0	1.7	2.4
3	Communicating performance results to employees	292	72.3	22.9	3.1	1.7
4	Communicating culture and vision to employees	290	73.8	22.4	3.1	0.7
5	Design of organization structure	288	71.9	24.3	3.5	0.3
6	Union/labor relations management	273	71.8	19.8	5.1	3.3
7	Conducting employee attitude/opinion surveys	287	58.5	23.7	5.6	12.2
8	Pre-employment testing and assessment	293	44.4	30.4	8.9	16.4
9	Job analysis and developing job descriptions	294	67.0	24.5	5.4	3.1
10	Relocation assistance and reimbursement	285	68.8	17.5	3.2	10.5
11	Employee assistance program	289	43.6	23.2	4.2	29.1
12	Resume screening	288	66.0	20.8	8.3	4.9
13	Interviewing for non-exempt positions	286	72.7	21.3	4.2	1.7
14	Annual employee benefit enrollment	293	51.2	30.4	10.6	7.8
15	HRIS/HRIT & employee data management	198	63.6	25.3	5.6	5.6
16	Salary surveys	285	60.0	21.1	6.3	12.6
17	Delivery of employee performance reviews	287	79.1	15.3	3.1	2.4
18	Design of group level bonus programs	283	76.0	17.7	4.2	2.1
19	Merit pay increase planning & implementation	282	79.8	17.0	1.1	2.1
20	Employee Recognition programs	282	70.2	21.3	5.0	3.5
21	Responding to questions about pay & benefits	281	65.8	24.9	6.4	2.8
22	Tracking employee training & competencies	287	74.2	18.8	3.1	3.8
23	Development of customized training programs	280	59.3	23.9	9.3	7.5
24	Delivery of technical and computer training	286	56.6	21.3	10.1	11.9
25	Delivery of management training	280	52.1	27.1	11.1	9.6
26	New employee orientation sessions & training	281	74.0	20.3	4.6	1.1
27	Tuition reimbursement	281	83.6	10.0	2.8	3.6
28	Mentoring	282	78.0	16.7	3.5	1.8
29	Coaching	201	72.6	22.9	3.0	1.5
30	Succession planning	190	74.2	23.2	2.1	0.5
31	Expatriate selection and assignment	189	84.1	11.6	2.1	2.1
32	Expatriate training and preparation	187	79.7	16.0	2.1	2.1
33	Interviewing for exempt positions	158	61.4	29.7	5.7	3.2
34	Executive recruiting	179	58.1	31.3	6.1	4.5



Table 4.9  
Number of Responses to Questions on the 2007 Outsourcing Levels of HRM Activities  
For which Employee or Revenue data was available

Item	Description of HRM Activity	Employee Data for the Organization Available	Revenue Data for the Organization Available
1	Addressing employee complaints about co-workers	294	249
2	Addressing employee complaints about mgmt.	293	248
3	Communicating performance results to employees	292	247
4	Communicating culture and vision to employees	290	245
5	Design of organization structure	288	244
6	Union/labor relations management	273	231
7	Conducting employee attitude/opinion surveys	287	243
8	Pre-employment testing and assessment	293	248
9	Job analysis and developing job descriptions	294	249
10	Relocation assistance and reimbursement	285	243
11	Employee assistance program	289	245
12	Resume screening	288	243
13	Interviewing for non-exempt positions	286	242
14	Annual employee benefit enrollment	293	248
15	HRIS/HRIT & employee data management	198	170
16	Salary surveys	285	243
17	Delivery of employee performance reviews	287	247
18	Design of group level bonus programs	283	244
19	Merit pay increase planning & implementation	282	241
20	Employee Recognition programs	282	240
21	Responding to questions about pay & benefits	281	240
22	Tracking employee training & competencies	287	246
23	Development of customized training programs	280	238
24	Delivery of technical and computer training	286	244
25	Delivery of management training	280	239
26	New employee orientation sessions & training	281	240
27	Tuition reimbursement	281	241
28	Mentoring	282	241
29	Coaching	201	176
30	Succession planning	190	166
31	Expatriate selection and assignment	189	165
32	Expatriate training and preparation	187	165
33	Interviewing for exempt positions	158	140
34	Executive recruiting	179	154

Table 5.1a  
 Base Model: Control Variables Only (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)  
 Clustered Standard Errors (44 states)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	7.898979	5.282422	0.142
<b>Control Variables:</b>			
<i><b>Organizational Size</b></i>			
2007 Annual Revenues (millions USD)	.0000394	.0000551	0.478
2007 Number of Employees (FTEs)	.0000234	.0000499	0.641
<i><b>Primary Industry</b></i>			
Agriculture/Mining	-7.902853	4.377089	0.078*
Utilities	-11.00497	4.294763	0.014**
Construction	-2.57119	7.298506	0.726
Manufacturing	1.634809	4.334459	0.708
Wholesale/Retail Trade	-6.792012	5.800727	0.248
Transportation	.9760438	6.889505	0.888
Information	-1.708421	6.748445	0.801
Finance/ Insurance/ Real Estate	2.736909	5.375252	0.613
Business & Professional Services	-5.91882	5.592723	0.296
Education	-3.379645	5.30471	0.527
Health Care	-4.298047	4.862731	0.382
Arts/Entertainment	28.32484	32.90703	0.394
Accommodations	8.994614	6.614966	0.181
Public Administration	-5.587327	4.003577	0.170
<i><b>Geographic Location</b></i>			
Northeast	4.606825	3.258067	0.165
Midwest	8.296525	3.280203	0.015**
South	12.62101	4.218294	0.005***
West	11.40035	4.138594	0.009***
(Non-US omitted)			
<b>Model Statistics</b>			
R-squared	0.1376		
Adjusted R-squared	0.0551		
F (20, 43) Clustered S.E.	4.40		
Probability > F	0.0000		
Observations	230		
* P < .10, ** P < .05, *** P < .01			

Table 5.1b  
 Model 1: Control Variables Only (Omits Revenue)  
 2007 Voluntary Employee Turnover (percent per year)  
 Clustered Standard Errors (46 states)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	15.31225	6.292134	0.019**
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	.0000267	.0000464	0.567
<b>Primary Industry</b>			
Agriculture/Mining	-15.17442	6.871341	0.032**
Utilities	-18.91196	6.591541	0.006***
Construction	-12.40966	9.460624	0.196
Manufacturing	1.282274	3.60223	0.724
Wholesale/Retail Trade	-14.37592	7.390217	0.058*
Transportation	-8.009214	7.825197	0.312
Information	-10.77433	8.452524	0.209
Finance/ Insurance/ Real Estate	-5.628383	7.484657	0.456
Business & Professional Services	-12.19733	7.663086	0.118
Education	-10.59828	7.465132	0.163
Health Care	-11.64544	7.285372	0.117
Arts/Entertainment	5.543222	19.50073	0.778
Accommodations	-1.169864	8.252483	0.888
Public Administration	-13.90214	7.036125	0.054*
<b>Geographic Location</b>			
Northeast	6.162712	2.928647	0.041**
Midwest	8.431873	2.674957	0.003***
South	12.1846	3.603967	0.002***
West	11.19445	3.630372	0.003***
<b>Model Statistics</b>			
R-squared	0.0855		
Adjusted R-squared	0.0168		
F (19, 45) Clustered S.E.	4.68		
Probability > F	0.0000***		
Observations	273		

\* P < .10, \*\* P < .05, \*\*\* P < .01

Table 5.2a  
 Model 1: Zero HRO Added (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)  
 Clustered Standard Errors (44 states)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	9.663429	5.005167	0.060*
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	.0000292	.0000562	0.606
2007 Number of Employees (FTEs)	.0000235	.0000508	0.646
<b>Primary Industry</b>			
Agriculture/Mining	-6.869611	4.038616	0.096
Utilities	-12.44497	4.069768	0.004***
Construction	-3.47774	7.149895	0.629
Manufacturing	1.164622	4.980577	0.816
Wholesale/Retail Trade	-6.839816	6.307179	0.284
Transportation	.4318982	7.267218	0.953
Information	-2.280872	6.81002	0.739
Finance/ Insurance/ Real Estate	1.684288	5.077322	0.742
Business & Professional Services	-5.681683	5.327863	0.292
Education	-4.570093	5.158425	0.381
Health Care	-4.636327	4.919322	0.351
Arts/Entertainment	27.10281	32.91878	0.415
Accommodations	9.31419	6.76815	0.176
Public Administration	-5.873514	4.266821	0.176
<b>Geographic Location</b>			
Northeast	4.939482	2.808039	0.086*
Midwest	7.582959	2.75875	0.009***
South	12.24166	3.939043	0.003***
West	10.80927	3.678249	0.005***
<b>Independent Variables:</b>			
<i>Zero Human Resource Outsourcing</i>	-6.620418	2.822128	0.024**
Partial F-statistic	5.03	0.0302**	
<b>Model Statistics</b>			
R-squared	0.1500		
Adjusted R-squared	0.0641		
F (21, 43)	5.33		
Probability > F	0.0000***		
Observations	230		
* P < .10, ** P < .05, *** P < .01			

Table 5.2b  
 Model 1: Zero HRO Added (Omits Revenue)  
 2007 Voluntary Employee Turnover (percent per year)  
 Clustered Standard Errors (46 states)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	17.10177	6.673608	0.014**
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	.0000241	.0000461	0.604
<b>Primary Industry</b>			
Agriculture/Mining	-13.7215	6.574874	0.043**
Utilities	-20.50836	6.814048	0.004***
Construction	-13.27032	9.435607	0.166
Manufacturing	1.217133	4.29504	0.778
Wholesale/Retail Trade	-14.57422	7.893869	0.071*
Transportation	-8.138339	7.843791	0.305
Information	-11.78648	8.265555	0.161
Finance/ Insurance/ Real Estate	-6.94133	7.517517	0.361
Business & Professional Services	-11.43734	7.329961	0.126
Education	-12.01022	7.576455	0.120
Health Care	-11.87317	7.373585	0.114
Arts/Entertainment	5.961133	19.40937	0.760
Accommodations	-.1689117	8.279582	0.984
Public Administration	-14.33287	7.398417	0.059*
<b>Geographic Location</b>			
Northeast	6.534254	2.950272	0.032**
Midwest	7.896956	2.371254	0.002***
South	12.05298	3.586083	0.002***
West	10.7795	3.309974	0.002***
<b>Independent Variables:</b>			
<i>Zero Human Resource Outsourcing</i>	-8.570191	3.037597	0.007***
Partial F-statistic	7.96	0.0071	
<b>Model Statistics</b>			
R-squared	.1044		
Adjusted R-squared	.0333		
F (20, 45) Clustered S. E.	5.33		
Probability > F	0.0000***		
Observations	273		

\* P < .10, \*\* P < .05, \*\*\* P < .01

Table 5.3  
 Partial F-Statistic Test for Indices of HRM Attributes  
 Dependent Variable: Voluntary Turnover  
 All Measures of Six Dimensions High and Low  
 Clustered Standard Errors 44 states  
 Revenues Included  
 N=230

<b>Index Variable Description</b>	<b>Abbreviation</b>	<b>F (1, 43)</b>	<b>P-value</b>
<b>Partial F test for each individually</b>			
High Complexity	HICOMPLEX	6.60	0.0137**
Low Complexity	LOCOMPLEX	1.63	0.2016
High Repetition	HIREPEAT	4.36	0.0427**
Low Repetition	LOREPEAT	2.25	0.1411
High Firm Specificity	HIFSPEC	0.00	0.9622
Low Firm Specificity	LOFSPEC	3.18	0.0817*
High Interdependence	HIINTER	0.20	0.6597
Low Interdependence	LOINTER	5.36	0.0255**
High Subject Matter Expertise	HIEXPERT	2.91	0.0951*
Low Subject Matter Expertise	LOEXPERT	1.25	0.2707
High Organizational Capital Created	HIORGCAP	0.27	0.6043
Low Organizational Capital Created	LOORGCAP	5.74	0.0211*

Table 5.4  
 Partial F-Statistic Test for Indices of HRM Attributes  
 Dependent Variable: Voluntary Turnover  
 All Measures of Six Dimensions High and Low  
 Clustered Standard Errors 44 states  
 Revenues Omitted  
 N=273

<b>Index Variable Description</b>	<b>Abbreviation</b>	<b>F (1, 45)</b>	<b>P-value</b>
<b>Partial F test for each individually</b>			
High Complexity	HICOMPLEX	8.18	0.0064***
Low Complexity	LOCOMPLEX	0.01	0.9289
High Repetition	HIREPEAT	2.68	0.1087
Low Repetition	LOREPEAT	0.02	0.9029
High Firm Specificity	HIFSPEC	0.96	0.3334
Low Firm Specificity	LOFSPEC	0.87	0.3571
High Interdependence	HIINTER	0.05	0.8169
Low Interdependence	LOINTER	1.62	0.2094
High Subject Matter Expertise	HIEXPERT	4.21	0.046**
Low Subject Matter Expertise	LOEXPERT	0.31	0.5817
High Organizational Capital Created	HIORGCAP	0.00	0.9594
Low Organizational Capital Created	LOORGCAP	1.05	0.3112

Table 5.5a  
 Partial F-Statistic Test for Joint Significance of Indices of HRM Attributes  
 Dependent Variable: Voluntary Turnover  
 Clustered Standard Errors  
 Revenues Included as Control

Index Variable Description	Degrees of Freedom	F	P-value
<b>Including Revenues</b>			
All 12 HRM Indices High & Low	12, 43	1.42	0.1923
Best 5 Individual Indices	5, 43	1.34	0.2652
6 HRM Indices Predicted by Model	6,43	2.38	0.0448**
6 HRM Attributes Greater than 50% Predicted by Model	6,43	2.63	0.0029**



Table 5.5b  
 Partial F-Statistic Test for Joint Significance of Indices of HRM Attributes  
 Clustered Standard Errors  
 Revenues Omitted

Index Variable Description	Degrees of Freedom	F	P-value
<b>Excluding Revenues</b>			
All 12 HRM Indices High & Low	12, 45	1.34	0.2284
Best 2 Individual Indices	2, 43	3.14	0.0535*
6 HRM Indices Predicted by Model	6, 45	1.90	0.1023
6 HRM Attributes Greater than 50% Predicted by Model	6,45	8.73	0.0000***

Table 5.6a  
 Model 2: Zero HRO & Indices of HRM Activities Added (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	11.5921	4.701676	0.018**
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	.0000579	.0000471	0.226
2007 Number of Employees (FTEs)	.0000201	.0000439	0.650
<b>Primary Industry</b>			
Agriculture/Mining	-7.306482	4.316558	0.098*
Utility	-7.691458	5.281511	0.153
Construction	-2.243833	7.91372	0.778
Manufacturing	2.493025	5.208906	0.635
Wholesale/Retail Trade	-6.730202	6.658844	0.318
Transportation	1.454075	7.422632	0.846
Information	.1267949	5.873379	0.983
Finance/ Insurance/ Real Estate	3.289272	4.835737	0.500
Business & Professional Services	-6.440562	5.335049	0.234
Education	-3.586169	4.660957	0.446
Health Care	-4.117627	4.743449	0.390
Arts/Entertainment	27.80409	32.80383	0.401
Accommodations	10.16123	6.726915	0.138
Public Administration	-5.772908	4.511569	0.208
<b>Geographic Location</b>			
Northeast	3.998746	2.570898	0.127
Midwest	6.00883	2.520107	0.022**
South	12.19061	3.826577	0.003***
West	9.151451	3.15718	0.006***
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-8.15935	3.19678	0.014**
<b>Indices of HRM Activities by Attribute</b>			
Hi Complexity	-.1576131	.1450562	0.283
Hi Repetition	-.1668122	.0863527	0.060*
Hi Firm Specificity	.0185408	.0633935	0.771
Hi Interdependence	.1754039	.1352198	0.201
Hi Subject Matter Expertise	-.1187417	.18458	0.523
Hi Organizational Capital	.1737387	.1090272	0.118
<b>Model Statistics</b>			
R-squared	0.1782		
Adjusted R-squared	0.0683		
F (27, 43) Clustered S. E.	4.95		
Probability > F	0.0000***		
Observations	230		

\* P < .10, \*\* P < .05, \*\*\* P < .01

Table 5.6b  
 Model 2: Zero HRO & Indices of HRM Activities Added (Omits Revenue)  
 2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	19.08929	6.393431	0.005***
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	.0000329	.000039	0.403
<b>Primary Industry</b>			
Agriculture/Mining	-13.14799	5.646342	0.024**
Utility	-17.81117	7.395544	0.020**
Construction	-10.53939	8.918228	0.244
Manufacturing	2.790952	4.730875	0.558
Wholesale/Retail Trade	-15.93611	8.607454	0.071*
Transportation	-8.345297	8.381179	0.325
Information	-11.27459	8.074023	0.169
Finance/ Insurance/ Real Estate	-4.895887	7.291637	0.505
Business & Professional Services	-12.95372	7.544528	0.093*
Education	-10.8342	6.585954	0.107
Health Care	-11.89422	7.285093	0.110
Arts/Entertainment	7.775445	19.47846	0.692
Accommodations	.2228838	7.837167	0.977
Public Administration	-14.78673	7.710906	0.062*
<b>Geographic Location</b>			
Northeast	4.709864	2.971674	0.120
Midwest	5.682092	2.546802	0.031**
South	11.74804	3.344484	0.001***
West	8.400588	3.17361	0.011**
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-9.125789	3.391904	0.010**
<b>Indices of HRM Activities by Attribute</b>			
Hi Complexity	-.1890089	.1339648	0.165
Hi Repetition	-.2045047	.1461383	0.169
Hi Firm Specificity	.2582038	.2049971	0.214
Hi Interdependence	.0412752	.1663884	0.805
Hi Subject Matter Expertise	-.1403182	.1413755	0.326
Hi Organizational Capital	.1036271	.124983	0.411
<b>Model Statistics</b>			
R-squared	0.1475		
Adjusted R-squared	0.0574		
F (26, 45)	5.10		
Probability > F	0.0000***		
Observations	273		
* P < .10, ** P < .05, *** P < .01			

Table 5.7a

Model 3: Zero HRO & HRM Activity Dummy Variables Added (Includes Revenue)  
2007 Voluntary Employee Turnover (percent per year)

	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>
<b>Intercept</b>	9.896204	4.856846	0.048**
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	.0001284	.0000518	0.017**
2007 Number of Employees (FTEs)	-8.97e-07	.0000397	0.982
<b>Primary Industry</b>			
Agriculture/Mining	-6.217806	4.009836	0.128
Utility	-12.35228	4.025552	0.004***
Construction	-2.121219	7.375122	0.775
Manufacturing	1.765811	5.199485	0.736
Wholesale/Retail Trade	-6.677564	6.469585	0.308
Transportation	-9.913519	7.314604	0.893
Information	-1.803541	4.956948	0.718
Finance/ Insurance/ Real Estate	2.3393	5.103595	0.649
Business & Professional Services	-5.225644	5.266088	0.327
Education	-3.795561	5.501906	0.494
Health Care	-2.897613	4.589556	0.531
Arts/Entertainment	29.39921	33.04056	0.379
Accommodations	9.923444	6.768966	0.150
Public Administration	-5.221723	4.078463	0.207
<b>Geographic Location</b>			
Northeast	4.667926	3.226358	0.155
Midwest	6.834874	2.870845	0.022**
South	11.32795	3.943203	0.006***
West	9.584692	3.502733	0.009***
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-6.754869	2.971091	0.028**
<b>HRM Activity Dummy Variables</b>			
Hi Complexity > 50%	-5.437021	7.312448	0.461
Hi Repetition > 50%	-23.60403	8.197429	0.006***
Hi Firm Specificity > 50%	6.700332	4.617127	0.154
Hi Interdependence > 50%	10.15044	7.562677	0.187
Hi Subject Matter Expertise > 50%	-8.16275	4.711559	0.090*
Hi Organizational Capital > 50%	12.44772	8.181902	0.135
<b>Model Statistics</b>			
R-squared	0.1799		
Adjusted R-squared	0.0702		
F (27, 43)	9.94		
Probability > F	0.000***		
Observations	230		

\* P < .10, \*\* P < .05, \*\*\* P < .01

Table 5.7b

Model 3: Zero HRO & HRM Activity Dummy Variables Added (Omits Revenue)  
2007 Voluntary Employee Turnover (percent per year)

	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>
<b>Intercept</b>	16.9104	5.445292	0.003***
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	.0000229	.0000316	0.472
<b>Primary Industry</b>			
Agriculture/Mining	-12.12175	5.500031	0.033**
Utility	-23.53659	9.293381	0.015**
Construction	-12.52455	9.229355	0.182
Manufacturing	.9995351	4.335495	0.819
Wholesale/Retail Trade	-13.42125	6.760186	0.053*
Transportation	-10.86137	9.247715	0.246
Information	-13.69248	7.61915	0.079*
Finance/ Insurance/ Real Estate	-4.53933	6.680953	0.500
Business & Professional Services	-10.05201	6.328775	0.119
Education	-10.2547	6.534775	0.124
Health Care	-9.747361	6.285485	0.128
Arts/Entertainment	7.862991	19.41657	0.687
Accommodations	1.161551	7.175993	0.872
Public Administration	-12.28264	5.606085	0.034**
<b>Geographic Location</b>			
Northeast	6.842736	2.473879	0.008***
Midwest	6.201296	1.893918	0.002***
South	11.15754	2.80236	0.000***
West	8.949652	2.549027	0.001***
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-8.434861	3.048075	0.008***
<b>HRM Activity Dummy Variables</b>			
Hi Complexity > 50%	-13.1886	8.982383	0.149
Hi Repetition > 50%	-34.32973	16.77483	0.047**
Hi Firm Specificity > 50%	26.06483	18.68309	0.170
Hi Interdependence > 50%	17.26058	13.58718	0.210
Hi Subject Matter Expertise > 50%	-3.06607	5.567986	0.585
Hi Organizational Capital > 50%	4.78366	7.950167	0.550
<b>Model Statistics</b>			
R-squared	0.1619		
Adjusted R-squared	0.0733		
F (26, 45)	25.08		
Probability > F	0.000***		
Observations	273		

Table 5.8  
 Model 4: All 34 HRM Activity Percentage Variables (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	20.1044	10.70872	0.069*
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	.0000299	.0002108	0.888
2007 Number of Employees (FTEs)	.0000151	.0001128	0.894
<b>Primary Industry</b>			
Agriculture/Mining	-15.21969	9.444861	0.116
Utility	-18.60587	14.4083	0.205
Construction	.5526302	10.45485	0.958
Manufacturing	-12.99923	13.19725	0.332
Wholesale/Retail Trade	1.528304	12.84957	0.906
Transportation	2.056552	10.48457	0.846
Information	-15.9907	10.56778	0.139
Finance/ Insurance/ Real Estate	10.01511	12.90185	0.443
Business & Professional Services	.5547788	11.35106	0.961
Education	-12.93016	11.426	0.266
Health Care	-3.272798	7.597988	0.669
Arts/Entertainment	61.51339	52.73575	0.252
Accommodations	-10.10511	10.70842	0.352
Public Administration	-11.13376	10.28447	0.287
<b>Geographic Location</b>			
Northeast	-10.12145	7.47949	0.185
Midwest	.2507519	4.686989	0.958
South	6.1644	10.07708	0.545
West	5.824214	4.976966	0.250

Table 5.8 (continued)  
 Model 4: All 34 HRM Activity Percentage Variables (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Independent Variables:</b>			
Outsourcing Levels of HRM Activities (percentage of total activity provided by external parties)			
1. Addressing employee complaints about <b>co-workers</b>	.7720484	.4879279	0.123
2. Addressing employee complaints about <b>management</b>	.017323	.5035677	0.973
3. Communicating performance results to employees	.0123757	.2697121	0.964
4. Communicating culture and vision to employees	.0963625	.2799882	0.733
5. Design of organization structure	-.2119184	.294514	0.477
6. Union/labor relations management	-.1879119	.1603582	0.249
7. Conducting employee attitude surveys	-.1303296	.2142129	0.547
8. Pre-employment testing and assessment	.3008594	.1197886	0.017**
9. Job analysis & developing job descriptions	.0135351	.0859358	0.876
10. Relocation assistance and reimbursement	-.0600842	.1680617	0.723
11. Employee assistance program	-.1446686	.1206816	0.239
12. Resume screening	-1.041097	.6234658	0.104*
13. Interviewing for non-exempt positions	.2986582	.3681531	0.423
14. Annual employee benefit enrollment	-.4157309	.2385163	0.090*
15. HRIS/HRIT & employee data management	.3475582	.3129717	0.275
16. Salary surveys	-.0574892	.1509458	0.706
17. Delivery of employee performance reviews	-.3124894	.3195611	0.335
18. Design of group level bonus programs	.6633116	.436673	0.138
19. Merit pay increase planning & implementation	-.0368892	.5444133	0.946
20. Employee recognition programs	.1789689	.1947434	0.365
21. Responding to questions about pay & benefits	.0926439	.2116637	0.664
22. Tracking employee training & competencies	-.7929841	.4282456	0.073*
23. Development of customized training programs	.0543732	.1234568	0.662
24. Delivery of technical & computer training	.1862984	.2327424	0.429
25. Delivery of management training	.1216698	.1301484	0.356
26. New employee orientation sessions & training	-.4147245	.2605297	0.121
27. Tuition reimbursement	-.1454565	.2201173	0.513
28. Mentoring	-1.818085	.5367884	0.002***
29. Coaching	.9743611	.4285784	0.029**
30. Succession planning	.8360146	.4094491	0.049**
31. Expatriate selection & assignment	-.9981652	.3435131	0.006***
32. Expatriate training & preparation	.8292646	.3332161	0.018***
33. Interviewing for exempt positions	.7479563	.257807	0.006***
34. Executive Recruiting	.09917	.1770967	0.579
<b>Model Statistics</b>			
R-squared	0.5166		
Adjusted R-squared	0.0332		
F (33, 34) Clustered Standard Errors/OLS	NA/1.07		
Probability > F	NA/0.4032		
Observations	111		
* P < .10, ** P < .05, *** P < .01			

Table 5.9  
 Partial F-statistics for each of the 34 HRM Activity Variables  
 Added to Base Model Individually with Standard Errors Clustered by Region (Includes  
 Revenue)

<b>HRM Activity Measures of Outsourcing (as a percentage of total)</b>	<b>Coefficient</b>	<b>F- statistic</b>	<b>P-Value</b>	<b>R- squared</b>	<b>N</b>
1. Addressing employee complaints about co-workers	-0.011	0.02	0.8924	0.132	222
2. Addressing employee complaints about management	-0.073	2.35	0.1324	0.135	221
3. Communicating performance results to employees	-0.110	2.36	0.1314	0.136	221
4. Communicating culture and vision to employees	-0.025	0.06	0.8089	0.133	219
5. Design of organization structure	0.075	0.45	0.5060	0.134	218
6. Union/labor relations management	-0.025	0.26	0.6159	0.136	206
7. Conducting employee attitude surveys	0.015	0.07	0.7870	0.135	217
8. Pre-employment testing and assessment	-0.043	1.52	0.2242	0.137	221
9. Job analysis & developing job descriptions	-0.103	3.60	0.0646*	0.139	222
10. Relocation assistance and reimbursement	-0.053	1.70	0.1991	0.138	216
11. Employee assistance program	-0.015	0.16	0.6951	0.127	218
12. Resume screening	-0.153	5.58	0.0228**	0.136	217
13. Interviewing for non-exempt positions	-0.032	0.16	0.6909	0.147	216
14. Annual employee benefit enrollment	-0.087	4.83	0.0334**	0.205	221
15. HRIS/HRIT & employee data management	-0.025	0.15	0.7003	0.141	154
16. Salary surveys	0.012	0.16	0.6887	0.132	216
17. Delivery of employee performance reviews	-0.022	0.06	0.8130	0.140	220
18. Design of group level bonus programs	-0.054	0.86	0.3603	0.138	217
19. Merit pay increase planning & implementation	0.053	0.27	0.6091	0.146	215
20. Employee recognition programs	0.101	3.01	0.0900*	0.140	215
21. Responding to questions about pay & benefits	0.067	1.35	0.2515	0.138	215
22. Tracking employee training & competencies	0.055	0.62	0.4336	0.138	219
23. Development of customized training programs	0.027	0.49	0.4885	0.137	212
24. Delivery of technical & computer training	-0.009	0.03	0.8535	0.138	217
25. Delivery of management training	-0.006	0.03	0.8619	0.136	213
26. New employee orientation sessions & training	0.048	0.17	0.6823	0.136	214
27. Tuition reimbursement	-0.029	0.15	0.7032	0.138	214
28. Mentoring	0.072	0.60	0.4437	0.139	214
29. Coaching	0.181	2.51	0.1219	0.229	155
30. Succession planning	0.455	8.01	0.0075***	0.255	150
31. Expatriate selection & assignment	0.046	0.27	0.6085	0.215	149
32. Expatriate training & preparation	0.148	1.45	0.2361	0.218	149
33. Interviewing for exempt positions	0.045	0.28	0.6004	0.285	128
34. Executive Recruiting	-0.023	0.12	0.7335	0.231	140



Table 5.10a  
 Model 5: Five HRM Activity Percentage Variables Added (Includes Revenue)  
 2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	3.952251	10.73376	0.715
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	-.0000243	.0000562	0.669
2007 Number of Employees (FTEs)	.000094	.0000771	0.231
<b>Primary Industry</b>			
Agriculture/Mining	-10.38681	6.359843	0.111
Utility	-14.98607	5.74447	0.013**
Construction	-2.158869	7.997558	0.789
Manufacturing	-3.93924	5.972365	0.514
Wholesale/Retail Trade	-3.615899	7.611393	0.638
Transportation	3.776564	11.37293	0.742
Information	-.9556312	6.776035	0.889
Finance/ Insurance/ Real Estate	9.15848	9.39571	0.336
Business & Professional Services	-3.275264	7.66939	0.672
Education	-3.917103	5.652033	0.493
Health Care	-3.961403	5.482741	0.475
Arts/Entertainment	54.97429	46.20086	0.242
Accommodations	2.823648	9.921508	0.778
Public Administration	-6.767738	5.710643	0.244
<b>Geographic Location</b>			
Northeast	7.214191	10.63103	0.502
Midwest	15.05961	9.773448	0.132
South	17.81121	10.37789	0.094*
West	15.86213	9.901494	0.118
<b>Independent Variables:</b>			
Q9 Job Analysis & Evaluation	-.0577238	.0729718	0.434
Q12 Resume Screening	-.1532881	.1154969	0.193
Q14 Annual Benefit Enrollment	-.0724548	.0429686	0.100*
Q20 Employee Recognition	.1002115	.0652734	0.133
Q30 Succession Planning	.4654468	.1447534	0.003***
<b>Model Statistics</b>			
R-squared	0.2982		
Adjusted R-squared	0.1498		
F (26, 37)	8.55		
Probability > F	0.0000***		
Observations	150		
* P < .10, ** P < .05, *** P < .01			

Table 5.10b  
 Model 6: Zero HRO & Five HRM Activity Percentage Variables Added (Includes Revenue)

2007 Voluntary Employee Turnover (percent per year)

	Coefficient	Standard Error	P-value
<b>Intercept</b>	7.434341	10.93115	0.501
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Annual Revenues (millions USD)	-.0000239	.0000582	0.684
2007 Number of Employees (FTEs)	.0000824	.0000776	0.296
<b>Primary Industry</b>			
Agriculture/Mining	-9.623101	6.363882	0.139
Utility	-15.48787	5.590317	0.009***
Construction	-1.843076	7.919598	0.817
Manufacturing	-3.406318	6.10262	0.580
Wholesale/Retail Trade	-4.010583	7.50104	0.596
Transportation	4.301661	11.85839	0.719
Information	-.7730659	6.799719	0.910
Finance/ Insurance/ Real Estate	9.145551	9.159407	0.325
Business & Professional Services	-3.195277	7.526121	0.674
Education	-4.438768	5.483179	0.423
Health Care	-3.869924	5.531597	0.489
Arts/Entertainment	54.47168	46.35166	0.247
Accommodations	3.403919	10.05096	0.737
Public Administration	-6.840063	5.815668	0.247
<b>Geographic Location</b>			
Northeast	4.920939	10.80453	0.651
Midwest	12.34088	10.10628	0.230
South	14.90879	10.40799	0.160
West	13.20428	10.01483	0.195
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-4.963809	4.732212	0.301
Q9 Job Analysis & Evaluation	-.0609467	.0733325	0.411
Q12 Resume Screening	-.1600636	.1150554	0.172
Q14 Annual Benefit Enrollment	-.0805952	.0448083	0.080*
Q20 Employee Recognition	.0932954	.0661005	0.166
Q30 Succession Planning	.4590321	.1492732	0.004***
<b>Model Statistics</b>			
R-squared	0.2982		
Adjusted R-squared	0.1498		
F (26, 123)	8.55		
Probability > F	0.000***		
Observations	150		
* P < .10, ** P < .05, *** P < .01			

Table 5.11  
 Model 7: Zero HRO (Omits Revenue)  
 Regressed on 2007 Employee Satisfaction Scaled to Percentage of Maximum Score

	Coefficient	Standard Error	P-value
<b>Intercept</b>	73.36015	10.75641	0.000
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	-.0000171	.0000114	0.143
<b>Geographic Location</b>			
Northeast	2.800367	11.2101	0.804
Midwest	8.230758	10.87696	0.454
South	4.952988	11.05635	0.657
West	4.322057	11.13808	0.700
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	-.9916174	7.155279	0.891
<b>Model Statistics</b>			
R-squared	0.0249		
Adjusted R-squared	-0.0408		
F (6, 34)	2.57		
Probability > F	0.0365***		
Observations	96		

\* P < .10, \*\* P < .05, \*\*\* P < .01

Table 5.12  
 Model 7: Zero HRO (Omits Revenue)  
 Regressed on 2007 Customer Satisfaction Scaled to Percentage of Maximum Score  
 Using Robust Standard Errors

	Coefficient	Standard Error	P-value
<b>Intercept</b>	75.27858	11.70021	0.000
<b>Control Variables:</b>			
<b>Organizational Size</b>			
2007 Number of Employees (FTEs)	.0000198	7.11e-06	0.009***
<b>Geographic Location</b>			
Northeast	3.729693	11.97295	0.758
Midwest	6.682477	11.93972	0.580
South	12.14596	11.70842	0.308
West	6.584533	11.89044	0.584
<b>Independent Variables:</b>			
<i>Zero HR Outsourcing</i>	9.343181	3.322002	0.009***
<b>Model Statistics</b>			
R-squared	0.1535		
Adjusted R-squared	0.0716		
F (6, 62)	3.25		
Probability > F	0.0076***		
Observations	69		
* P < .10, ** P < .05, *** P < .01			

Table 5.13  
 Number of High Ratings of HRM Attributes  
 Regressed Individually on Average Level of HRO Using Robust Standard Errors

<b>Attribute</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>	<b>R-squared</b>	<b>F- statistic</b>
Complexity	-30.846	12.960	0.023	0.1261	5.67**
Repetitiveness	0.830	10.930	0.940	0.000	0.01
Firm Specificity	-19.884	12.532	0.122	0.039	2.53**
Interdependence	-45.418	23.029	0.057	0.1987	3.89*
Expertise	-27.209	11.609	0.025	0.0834	5.49**
Organizational Capital	-29.562	20.949	0.168	0.0676	1.99*

Table 5.14  
 Mean Rating of HRM Attributes  
 Regressed Individually on Average Level of HRO Using Robust Standard Errors

<b>Attribute</b>	<b>Coefficient</b>	<b>Standard Error</b>	<b>P-value</b>	<b>R-squared</b>	<b>F- statistic</b>
Complexity	-2.449	2.372	0.309	0.0353	1.07
Repetitiveness	-0.359	1.616	0.826	0.001	0.05
Firm Specificity	-3.739	3.315	0.268	0.061	1.27
Interdependence	-5.665	2.536	0.033	0.137	4.99**
Expertise	-1.599	1.776	0.375	0.013	0.81
Organizational Capital	-7.765	2.158	0.001	0.207	12.94***

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## Appendix A: Global Study on HRM Activity Attributes

This survey collects data on dimensions of human resource management (HRM) activities that may signal their suitability for being outsourced. It should take approximately 20 minutes to complete this survey for someone familiar with these HR activities. Your responses are **confidential** and only aggregate results of this research will be reported.

If you have any questions, please contact Thomas Norman at 310-243-2146 or or tom@hrostudy.com or visit [www.hrostudy.com](http://www.hrostudy.com) for more info.

**Please return completed survey by mail, email or fax to 310-217-6964.**

### Instructions

This survey was designed to collect information about the attributes of several human resource management activities that occur in most organizations. The intent is to improve our understanding of several facets of these activities and processes that may affect the ease with which they can be provided by a party outside the organization. Below is a more detailed description of each attribute.

- (a) highly complex- activities and processes with many steps that depend of the context and other factors such as timing, type of employee affected, current organizational performance, etc.
- (b) repeated many times per year- activities and processes that occur in basically the same form multiple times per year.
- (c) requires a high degree of firm customization- activities and processes that must be tailored or customized depending on the firm and its industry, size, or other particular attributes.
- (d) highly interdependent on other internal processes- activities and processes that depend on another business process to be performed effectively or if performed poorly negatively affect other business activities or results.
- (e) requires a high level of subject matter expertise- activities and processes that require a high degree of specialized skill, education or training to be performed, such as drafting complicated legal documents.
- (f) creates social capital for employee depending on the provider- activities and processes that when delivered by someone inside the firm potentially improve the relationship between the recipient and the provider to an extent that could result in more favorable treatment in the future due better awareness of the recipient's abilities, track record or other relevant factors.
- (g) requires a high degree of personalization to the employee- activities or processes that must be tailored or personalized to the employee recipient. This might include activities in which the output is co-created such as the creation of a development plan or individual goals for the quarter.
- (h) highly suitable for outsourcing- activities and processes that if provides by someone outside the firm are likely to be done either more effectively with no reduction in efficiency or more efficiently with no reduction in effectiveness.

**Section I. Human Resource Management Activity Assessment**

Report the extent to which you agree with each of the following statements about the HRM activities listed below using the following scale.

Very low                  Low                  Moderate                  High                  Very high  
 -1-                          -2-                          -3-                          -4-                          -5-

	(a) is highly complex (not routine)	(b) is repeated many times per year	(c) requires a high degree of firm customization	(d) is highly interdependent on other business processes
EXAMPLE: Interviewing for exempt positions	5	5	1	3
1. Addressing employee complaints about <b>co-workers</b>				
2. Addressing employee complaints about <b>management</b>				
3. Communicating performance results to employees				
4. Communicating culture and vision to employees				
5. Design of organization structure				
6. Union/labor relations management				
7. Conducting employee attitude/opinion surveys				
8. Pre-employment testing and assessment				
9. Job analysis and developing job descriptions				
10. Relocation assistance and reimbursement				
11. Employee assistance program				
12. Resume screening				
13. Interviewing for non-exempt positions				
14. Annual employee benefit enrollment				
15. HRIS/HRIT & employee data management				
16. Salary surveys				
17. Delivery of employee performance reviews				
18. Design of group level bonus programs				
19. Merit pay increase planning & implementation				
20. Employee Recognition programs				
21. Responding to questions about pay and benefits				
22. Tracking employee training & competencies				
23. Development of customized training programs				
24. Delivery of technical and computer training				
25. Delivery of management training				
26. New employee orientation sessions and training				
27. Tuition reimbursement				
28. Mentoring				
29. Coaching				
30. Succession planning				
31. Expatriate selection and assignment				
32. Expatriate training and preparation				
33. Interviewing for exempt positions				
34. Executive recruiting				

Report the extent to which you agree with each of the following statements about the HRM activities listed below using the following scale.

Very low                  Low                  Moderate                  High                  Very high  
 -1-                          -2-                          -3-                          -4-                          -5-

	(e) requires a high level of subject matter expertise	(f) creates social capital for employee depending on the provider	(g) requires a high degree of personalization to the employee	(h) is highly suitable for outsourcing
EXAMPLE: Creating a development plan	2	5	5	2
1. Addressing employee complaints about <b>co-workers</b>				
2. Addressing employee complaints about <b>management</b>				
3. Communicating performance results to employees				
4. Communicating culture and vision to employees				
5. Design of organization structure				
6. Union/labor relations management				
7. Conducting employee attitude/opinion surveys				
8. Pre-employment testing and assessment				
9. Job analysis and developing job descriptions				
10. Relocation assistance and reimbursement				
11. Employee assistance program				
12. Resume screening				
13. Interviewing for non-exempt positions				
14. Annual employee benefit enrollment				
15. HRIS/HRIT & employee data management				
16. Salary surveys				
17. Delivery of employee performance reviews				
18. Design of group level bonus programs				
19. Merit pay increase planning & implementation				
20. Employee Recognition programs				
21. Responding to questions about pay and benefits				
22. Tracking employee training & competencies				
23. Development of customized training programs				
24. Delivery of technical and computer training				
25. Delivery of management training				
26. New employee orientation sessions and training				
27. Tuition reimbursement				
28. Mentoring				
29. Coaching				
30. Succession planning				
31. Expatriate selection and assignment				
32. Expatriate training and preparation				
33. Interviewing for exempt positions				
34. Executive recruiting				

**Section II. Respondent Background**

1. How many years of HR experience do you have? \_\_\_\_\_
2. What is your current job title? \_\_\_\_\_
3. How many employees work at your organization? \_\_\_\_\_
4. Is your organization a non-profit, government entity or agency or for-profit firm? \_\_\_\_\_
5. Optional: Organization Name \_\_\_\_\_

For a copy of the aggregated results of this study, please provide an email address: \_\_\_\_\_



## Appendix B First Survey on Global HRO Levels

### Carlson School of Management Global Study of Human Resource Outsourcing

This survey collects data on the outsourcing of human resource management (HRM) activities and potential effects on organizational outcomes. It should take approximately 20 minutes to complete this survey for someone familiar with their organization's HR function. Your responses are **confidential** and only aggregate results of this research will be reported.

Please contact Thomas J. Norman at 612-626-8304, [tnorman2@csom.umn.edu](mailto:tnorman2@csom.umn.edu) or visit [www.hrostudy.com](http://www.hrostudy.com) for more info.

**Please return completed survey by mail or fax to 612-624-8360.**

**Name of Organization:** \_\_\_\_\_

1. Estimate the percentage of time or effort spent on each of the following HRM activities by a) internal employees (i.e. HR, managers, other employees) and b) external parties/vendors (i.e. consultants, independent contractors, service providers). **Note: These two numbers should total 100%** (i.e. each row should sum to 100%).

If applicable, provide to the best of your knowledge the year your organization began outsourcing each HRM activity.

	(a) % Spent by Internal Staff	(b) % Spent by External Vendors	(c) Year Began Outsourcing
EXAMPLE: Pre-employment testing and assessment	85%	15%	2001
1. Addressing employee complaints about <b>co-workers (non-management)</b>			
2. Addressing employee complaints about <b>management</b>			
3. Communicating performance results to employees			
4. Communicating culture and vision to employees			
5. Design of organization structure			
6. Union/labor relations management			
7. Conducting employee attitude/opinion surveys			
8. Pre-employment testing and assessment			
9. Job analysis and developing job descriptions			
10. Relocation assistance and reimbursement			
11. Employee assistance program			
12. Resume screening			
13. Interviewing for non-exempt positions			
14. Annual employee benefit enrollment			
15. Salary surveys			
16. Delivery of employee performance reviews			
17. Design of group level bonus programs			
18. Merit pay increase planning & implementation			
19. Employee recognition programs			
20. Responding to questions about pay and benefits			
21. Tracking employee training & competencies			
22. Development of customized training programs			
23. Delivery of technical and computer training			
24. Delivery of management training			
25. New employee orientation sessions and training			
26. Tuition reimbursement			
27. Mentoring and coaching			
28. Succession planning			
29. Expatriate assignments			
30. HRIS/HRIT & employee data management			
A. Overall Time Spent on Attracting, Selecting & Recruiting Activities			
B. Overall Time Spent on Compensation, Benefits & Rewards Activities			
C. Overall Time Spent on Training & Developing Talent Activities			
D.* Overall Time Spent Directing Talent and Aligning Employees w/ Goals			

\* **Directing & Aligning Talent:** does this activity align employee effort and/or direct employee behaviors with the organizational vision & values? (i.e. help employees to *know what is expected* of them?)

2. Considering ALL OF the human resource management activities your organization is CURRENTLY outsourcing—

How have the results with HR outsourcing in each of the categories below compared with your <b>EXPECTATIONS</b> ?	(5) Much Higher	(4) Somewhat Higher	(3) Met Expectations	(2) Somewhat Lower	(1) Much Lower
a. the <i>strategic impact</i> on the HR function (ability to have internal staff focus more on strategy)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. the impact on <i>organizational effectiveness</i> in terms of human capital management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. the impact on creating <i>standardized practices</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. the level of improvement in <i>self-service</i> functionality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. the change in <i>service quality</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. the reduction in <i>direct costs</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. the reduction in <i>indirect costs</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. the degree to which <i>capital costs</i> were avoided or reduced?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. your ability to manage <i>outsourcing vendor relationships</i> ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. the <b>OVERALL</b> impact on the organization?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. As of 1/1/2007 how many employees work at your organization measured as FTEs (full-time equivalents) in the following roles? (Note: People managers include anyone with at least one person reporting to them.)

Total # of employees: \_\_\_\_\_ Total # of people managers: \_\_\_\_\_ Total # of employees located **outside** US \_\_\_\_\_

Total # of HR employees: \_\_\_\_\_ HR Generalists: \_\_\_\_\_ Staffing: \_\_\_\_\_ Compensation: \_\_\_\_\_ Training: \_\_\_\_\_

4. For most recent year available provide the **overall** level of employee turnover (company initiated and employee initiated) which should include layoffs, terminations and resignations and/or **voluntary** (employee-initiated) turnover.

Overall (employer & employee initiated) turnover: \_\_\_\_\_%

Voluntary (employee initiated only) turnover: \_\_\_\_\_%

5. If your organization conducts an employee satisfaction and/or engagement survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (Example: *Employee Engagement: 4.2 out of 5 possible points in 2005 Gallup.*)

Employee Satisfaction: \_\_\_\_\_ out of \_\_\_\_\_ Year \_\_\_\_\_ Type/Vendor Used: \_\_\_\_\_

Employee Engagement: \_\_\_\_\_ out of \_\_\_\_\_ Year \_\_\_\_\_ Type/Vendor Used: \_\_\_\_\_

6. If your organization conducts a customer satisfaction/loyalty survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (Example: *Customer Satisfaction: 78 out of 100 in 2006 developed internally.*)

Customer Loyalty/Satisfaction: \_\_\_\_\_ out of \_\_\_\_\_ Year \_\_\_\_\_ Type/Vendor Used: \_\_\_\_\_

7. Enter the name and information about the survey respondent.

Name of the person who completed this survey: \_\_\_\_\_

Current Job Title: \_\_\_\_\_ Years of Experience with this Organization: \_\_\_\_\_

For a copy of the aggregated results of this study, please provide the email address of the appropriate contact:

\_\_\_\_\_

## Appendix C: Second Survey on Global HRO Levels

### Global Study on Human Resource Outsourcing

This survey collects data on the outsourcing of human resource management (HRM) activities. It should take approximately 20 minutes to complete this survey for someone familiar with their organization's HR function. Your responses are **confidential** and only aggregate results of this research will be reported.

**Please return completed survey by mail or fax to 310-217-6964.**

1. **Name of Organization:** \_\_\_\_\_  
**Location of Headquarters (State/Country):** \_\_\_\_\_  
**Primary Industry or NAIC Code** \_\_\_\_\_

2. (a) Estimate the percentage of work measured in terms of time or effort spent on each of the following HRM activities by external parties/vendors (i.e. consultants, independent contractors, service providers). Use your best guess.  
 (b) If applicable, provide to the best of your knowledge the year your organization began outsourcing each HRM activity.

REQUIRED	(a) % Work Done By External Vendors	(b) Year Began Outsourcing
EXAMPLE: Pre-employment testing and assessment	85%	2005
1. Addressing employee complaints about <b>co-workers</b> (non-management)		
2. Addressing employee complaints about <b>management</b>		
3. Communicating performance results to employees		
4. Communicating culture and vision to employees		
5. Design of organization structure		
6. Union/labor relations management		
7. Conducting employee attitude/opinion surveys		
8. Pre-employment testing and assessment		
9. Job analysis and developing job descriptions		
10. Relocation assistance and reimbursement		
11. Employee assistance program		
12. Resume screening		
13. Interviewing for non-exempt positions		
14. Annual employee benefit enrollment		
15. HRIS/HRIT & employee data management		
16. Salary surveys		
17. Delivery of employee performance reviews		
18. Design of group level bonus programs		
19. Merit pay increase planning & implementation		
20. Employee recognition programs		
21. Responding to questions about pay and benefits		
22. Tracking employee training & competencies		
23. Development of customized training programs		
24. Delivery of technical and computer training		
25. Delivery of management training		
26. New employee orientation sessions and training		
27. Tuition reimbursement		
28. Mentoring		
29. Coaching		
30. Succession planning		
31. Expatriate selection and assignment		
32. Expatriate training and preparation		
33. Interviewing for exempt positions		
34. Executive recruiting		

**Please return completed survey by mail or fax to 310-217-6964.**

2. Please provide the following information about your workforce (estimate if needed).

Average tenure: \_\_\_\_\_ (years)                      Average years of education: \_\_\_\_\_ (HS = 12, MA =14)  
Proportion of workforce that is unionized or covered by a collective bargaining agreement: \_\_\_\_\_ %  
Proportion of part-time employees: \_\_\_\_\_ %    Number of contingent (seasonal, contract) workers \_\_\_\_\_

3. REQUIRED How many employees (measured in FTEs) work at your organization in the following roles?

Total # of employees: \_\_\_\_\_ Total # of people managers: \_\_\_\_\_ Total # of employees located **outside** US \_\_\_\_\_

4. How many employees (measured in FTEs) work at your organization in the following roles?

Total # of HR employees: \_\_\_\_\_ HR Generalists: \_\_\_\_\_ Staffing: \_\_\_\_\_ Compensation: \_\_\_\_\_ Training: \_\_\_\_\_

5. REQUIRED For most recent year available provide the **overall** level of employee turnover (company initiated and employee initiated) which should include layoffs, terminations and resignations and/or **voluntary** (employee-initiated) turnover.

Overall (employer & employee initiated) turnover: \_\_\_\_\_ % (include planned retirements)

Voluntary (employee initiated only) turnover: \_\_\_\_\_ % (exclude planned retirements)

6. If your organization conducts an employee satisfaction and/or engagement survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (*Example: Employee Engagement: 4.2 out of 5 possible points in 2005 Gallup.*)

Employee Satisfaction/Engagement: \_\_\_\_\_ out of \_\_\_\_\_ Year \_\_\_\_\_

Type/Vendor Used: \_\_\_\_\_

7. If your organization conducts a customer satisfaction/loyalty survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (*Example: Customer Satisfaction: 78 out of 100 in 2006 developed internally.*)

Customer Loyalty/Satisfaction: \_\_\_\_\_ out of \_\_\_\_\_ Year \_\_\_\_\_

Type/Vendor Used: \_\_\_\_\_

Please enter the name and information about the survey respondent.

Name of the person who completed this survey: \_\_\_\_\_

Current Job Title: \_\_\_\_\_ Years of Experience with this Organization: \_\_\_\_\_

For a copy of the aggregated results of this study, please provide the email address of the appropriate contact:

\_\_\_\_\_

## Appendix D: Third Survey on Global HRO Levels

### Global Study on Human Resource Outsourcing

This survey collects data on the outsourcing of human resource management (HRM) activities. It should take approximately 15-20 minutes to complete this survey for someone familiar with their organization's HR function. Your responses are **confidential** and only aggregate results of this research will be reported.

**Please return completed survey by email to [tom@hrostudy.com](mailto:tom@hrostudy.com) or fax to 800-728-5503.**

1. **Name of Organization:** \_\_\_\_\_  
**Location of Headquarters (State/Country):** \_\_\_\_\_  
**Primary Industry (SIC or NAIC Code if known)** \_\_\_\_\_  
**Annual Revenues for 2007** \_\_\_\_\_

2. (a) Estimate the percentage of work measured in terms of time or effort spent on each of the following HRM activities by external parties/vendors (i.e. consultants, independent contractors, service providers).

Use your best guess rounding to the nearest 10 percent, if necessary.

(b) If applicable, provide to the best of your knowledge the year your organization began outsourcing each HRM activity.

	(a) % Work Done By External Vendors	(b) Year Began Outsourcing
EXAMPLE: Pre-employment testing and assessment	85%	2005
1. Addressing employee complaints about co-workers		
2. Communicating performance results to employees		
3. Communicating culture and vision to employees		
4. Design of organization structure		
5. Conducting employee attitude/opinion surveys		
6. Pre-employment testing and assessment		
7. Job analysis and developing job descriptions		
8. Relocation assistance and reimbursement		
9. Employee assistance program		
10. Resume screening		
11. Interviewing for non-exempt positions		
12. Interviewing for exempt positions		
13. Executive recruiting		
14. Annual employee benefit enrollment		
15. Managing Health Insurance Programs		
16. Managing Retirement Programs		
17. Salary surveys		
18. Merit pay increase planning & implementation		
19. Delivery of employee performance reviews		
20. Responding to questions about pay and benefits		
21. Employee recognition programs		
22. Tracking employee training, skills & competencies		
23. Development of management training		
24. Delivery of management training		
25. Delivery of technical and computer training		
26. Development of customized training programs		
27. New employee orientation sessions and training		
27. Tuition reimbursement		
28. Mentoring		
29. Coaching		
30. Succession planning		
31. HRIS/HRT & employee data management		
32. Union/labor relations management		

2. REQUIRED How many employees (measured in FTEs) work at your organization in the following roles?

Total # of employees: \_\_\_\_ Total # of people managers: \_\_\_\_ Total # of employees located **outside** US \_\_\_\_

3. REQUIRED Please provide the following information about your workforce (estimate if needed).

Average tenure: \_\_\_\_ (years) Average years of education: \_\_\_\_ (HS=12, BA=16, MA=18)  
Proportion of workforce that is unionized or covered by a collective bargaining agreement: \_\_\_\_%  
Proportion of part-time employees: \_\_\_\_ % Number of contingent (seasonal, contract) workers \_\_\_\_

4. How many employees (measured in FTEs) work at your organization in the following roles?

Total # of HR employees: \_\_\_\_ HR Generalists: \_\_\_\_ Staffing: \_\_\_\_ Compensation: \_\_\_\_ Training: \_\_\_\_

5. REQUIRED For most recent year available provide the **overall** level of employee turnover (company initiated and employee initiated) which should include layoffs, terminations and resignations and/or **voluntary** (employee-initiated) turnover.

Overall (employer & employee initiated) turnover: \_\_\_\_% (include planned retirements)

Voluntary (employee initiated only) turnover: \_\_\_\_% (exclude planned retirements)

6. If your organization conducts an employee satisfaction and/or engagement survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (Example: *Employee Engagement: 4.2 out of 5 possible points in 2005 Gallup.*)

Circle One: Employee Satisfaction / Employee Engagement: \_\_\_\_ out of \_\_\_\_ Year \_\_\_\_

Type/Vendor Used: \_\_\_\_\_

7. If your organization conducts a customer satisfaction/loyalty survey, please provide the most recent overall score for your organization along with the total points possible and information on the type or vendor used, if applicable. (Example: *Customer Satisfaction: 78 out of 100 in 2006 developed internally.*)

Circle One: Customer Loyalty/ Customer Satisfaction: \_\_\_\_ out of \_\_\_\_ Year \_\_\_\_

Type/Vendor Used: \_\_\_\_\_

Please enter the name and information about the survey respondent.

Name of the person who completed this survey: \_\_\_\_\_

Current Job Title: \_\_\_\_\_ Years of Experience with this Organization: \_\_\_\_\_

For a copy of the aggregated results of this study, please provide the email address of the appropriate contact:

\_\_\_\_\_