Statistical analysis of outsourcing decisions in HR departments for the next decades

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Abstract. Human resource is the basis of all processes. It is an instrument that must be accepted despite all technological advances in a rapidly changing environment. The approach to this issue has begun to become more professional with the other processes followed. Thus, the problem is to understand the relationship between the decisions of the companies’ Human Resources department managers and HR consulting companies regarding their expectations from each other. Focusing on whether or not fundamental decision-making problem will be outsourced and also to obtain insight that would lead the way for all kinds of communication activities to be conducted towards the target population in the forthcoming days. A qualitative section of the study was conducted to thoroughly understand all the needs, expectations and experiences of HR professionals from various organizations composed a sample of 15 companies. The data were collected through in-depth interview method. A questionnaire was designed, variables required for the analysis were assessed and relationships with causalities were revealed by the statistical analyses. Results show the policies, which is dealt by the HR departments of the companies during outsourcing the needs. Population was determined to be the companies possessing HR departments. The sample was selected by cluster sampling method, and for quantitative part of this study is chosen from various industries and organizations since it is the one that requires ongoing in-house human resources functions from other 15 small to medium-sized companies located in Istanbul, Turkey. The questionnaire was administered personally and electronically. In selected companies, the researcher herself or with the help of HR itself administered the questionnaire personally. The contribution of this study will benefit the top managers’ strategic decisions and the way of generating procedures for the further studies relevant to outsourcing the services.

Keywords. Outsourcing, Human resources, HR consulting, Decision-making, Statistical analysis.

JEL. J24, O15, M12, M51, M55.

1. Introduction

Companies outsource human resource (HR) services for cost reduction, efficiency, service improvements, access to HR expertise and increased flexibility (Bendorf, Barge & Graziano, 2005; Lee,
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2007; Marquez, 2007; Oshima, et al., 2005). Therefore, it seems rational to contend that the outsourcing of HR related tasks play a significant role within organizations (Ruth et al., 2005). Thusly, many companies decide to outsource some policies designed to maximize organizational integration, employee commitment, flexibility and quality of work (Guest, 1987). Gottardello & Valverde (2018) articulated that on such an occasion of outsourcing human resource management activities with the aim of constantly looking for a more modernized organizational structure, focusing on core competencies.

It is emphasized that there is more than a decade of literature by management scholars that has analyzed the process, under which certain management functions, activities and processes previously carried out inside an organization are outsourced to external companies. One type of this activity is human resources outsourcing (HRO) (Bakanauskiene & Brasaite, 2011).

Outsourcing has emerged as a new economic strategy for human resources (HR). Further the changing business scenario with many mergers, acquisitions, layoffs have made the road clear for HR outsourcing (Tseng, 2011). Human resources outsourcing (HRO) involves contracting out (Lilly et al., 2005; Tremblay et al., 2008) qualified expertise to handle certain human resources (HR) activities outside the organization in order to gain access to specialized technical capabilities and services (Klaas et al., 2001), and thus manage more quickly and efficiently specific HR issues. Facing cutthroat competition, cost pressures and internationalization, more and more organizations rely on outsourcing and, in particular, HRO, to uphold profitability and ensure survival (Lahiri, 2015). Therefore, HR department has new responsibilities as potential vehicles for change (Conklin, 2005) and are required to revisit past decisions and even implement or find new ways of managing its workforce through new ideas or up-to-date HR policies (Alewell et al., 2009).

In the early 1990s, only tentative forecasts regarding the forthcoming expected growth of HRO were made (Cooke et al., 2005; Vernon et al., 2000). On the contrary, particularly in recent years, HRO has gained considerable attention as it is experiencing significant growth (CIPD, 2009; Cooke & Budhwar, 2009; Lawler & Boudreau, 2009). The popularization of outsourcing and managers’ interest in and demand for outsourcing services meant that outsourcing quickly became big business (Hirschheim & Lacity, 2000; Lonsdale & Cox, 2000). This naturally attracted an occupation of HR consulting companies eager to position themselves as experts on outsourcing and sell different types of outsourcing services. In consequence of the increased interest in and demand for outsourcing, the market for outsourcing services grew substantially.

Gottardello & Valverde (2018) state that there has been a tremendous increase in the HRO of over the last decade. Nonetheless, despite the fact that there has been an evolution that have experienced outsourcing in the human resources context, when reviewing the researches on this field, it is

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taken into consideration that there has been scarce investigation of the evolution of human resource management from the empirically point of view, and outsourcing in organizations (Gottardello & Valverde, 2018).

In this article, in-depth interview method was adopted in order to present an in-depth understanding of HR outsourcing decisions and outcomes. The purpose of this study is twofold: (1) The predominant purpose is to interview various HR stakeholders within organizations who are likely to have different views of the insourcing or outsourcing decision, who could provide longitudinal accounts of the decision-making process, who could explain how decisions were embedded, as well as the outcomes of the decision. (2) In order to concentrate on to understand the relationship between the organizations’ human resources department managers and HR consulting companies, and their expectations to grasp the reasons underlying their preferences.

The study also seeks to analyze how the HR professionals comprehend HRO while specializing in human resources management. Besides, to obtain insight that would lead the way for all kinds of communication activities to be conducted towards the HR professionals in the forthcoming days will help the companies providing HR Outsource services.

Consequently, the research gives the clear idea of what are the future directions with reference to changing in-house HR functions and the priorities for HR Outsourcing in Turkey. Furthermore, shed some light on to HR consulting companies to expand the limits of their expertise.

2. Overview of HR vision

Most companies call human resources management as talent management and retention. Human resources management is not limited to a single specialty area. It is perceived as a long-term process. The process starts with the recruitment of the individual who would be most beneficial for the organization. At this point, the potential contribution of the employee is predicted. Since the productivity of the new employee will be positively reflected on the company, it is a must to develop the person, to take actions to maximize his/her potential, to organize training programs and career plans and to manage his/her performance. The employee should be managed right throughout the employment. Also, it is the responsibility of HR management to terminate the employee’s employment contract on proper terms, when necessary.

HR departments do not exist only to ensure the “good” of the company, but also the happiness of employees. This is considered to be one of the factors underlying the productivity. It is also crucial that they serve the role of a system where employees can share the problems they encounter during their daily work and positioned as accessible. HR departments are seen as strategic partners that contribute to the growth of the company. Establishing the right business strategies is not enough. So, they should carry out the decisions via selected right people in a well-established work environment provides a positive motivation.

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Structures of HR departments vary according to the size of the companies. This research focused mostly on large companies. But companies of smaller-scale, which have a relatively less institutional structure, are contacted as well. In large-scale companies, almost all HR transactions are performed in-house, but HR consulting can be used to provide support. Execution of processes by an in-house team is considered to allow better control and coordination. It is also more efficient in terms of time and budget. In large companies, due to the heavy workload, HR consulting can be used in order to enhance speed and accuracy of transactions. In smaller-scale companies that were interviewed, it is observed that certain processes were outsourced due to the lack of HR specialists. Establishing a team that has expertise in all areas is not considered to be a "good investment" within the current structures of these companies.

This is an area that HR managers perceive as problematic/criticize themselves. They believe that the biggest problem is the lack of confidence in their impartiality. Transparency against employees is very important for HR departments that are usually believed to be on the side of the board of directors.

HR management responsibility areas are Hiring: more people and hired in companies with large staff and higher turnover. So, more time is devoted to recruitment, finding the right candidate and interview processes. Since the turnover is higher in service sector than in manufacturing sector, more hiring is done and the process is more active. Career planning: is perceived as actions to meet employee expectations and to provide them with a more comfortable working environment. While these are performed for long-term in large companies, they are not encountered frequently in small companies. This is not a system well established in small companies yet. Processes management and organizational structure: is defined as the action taken in situations such as structuring of the company, building new positions or the management process. This is one of the areas where diversity and new ideas are needed. Compensation and benefits: is the process through which pay ranges and benefits of employees are determined. It is observed that HR departments may need sectorial information and desire to be aware of the changes/developments in the sector. Competency and assessment employees: verbal, quantitative and language abilities are assessed. In certain large companies, this includes behavioral assessments for employees in service-related positions. Administrative affairs and payroll: involves payment of employees’ salaries and processes related to legal obligations. Outsourcing decrease the problems related to legal processes and financial liability. Effective performance management and evaluation: perceived as the processes through which employees’ performances are measured and their career plans are directed in line with these measurements. Training: is important in terms of enhancing the motivation and productivity of employees. They are divided into professional, personal development, and technical training.
programs based on the sector. **Employee satisfaction and engagement** aim to understand needs and expectations of employees. It is believed to be indicative in determining the future course of the company.

### 3. Role of HR consulting

It is observed that almost all of the companies that were interviewed are in some kind of relationship with HR consulting. They did not want to provide any details about companies they work with in the appointment-taking stage. But they had a more easygoing approach during the interview. They receive services in different areas. They have common reasons/needs that compel them to seek consulting. Major reasons are: saving time, reducing the workload, the impossibility of having in-house expertise in every area, keeping abreast of developments and learning new ideas and methods to contribute to the growth of the company, and getting familiar with different sectors concerning process development.

All the interviewed companies use certain HR consulting services. However, it is observed that they may not prefer HR consulting for recruitment and selection services too much. Regardless of the company's size, the most important reasons for a company not to utilize HR consulting for recruitment and selection services in Turkey are indicated as **Budget**: costs are too high, **Internal capability**: needs can be fulfilled in-house, **Trust issue**: HR professionals do not believe in HR consulting can perform candidate screening as thoroughly and carefully as they would (this is widely argued especially by HR managers of relatively higher age group), also HR consulting may not keep their promises; **Lack of differentiation**: the fact that they themselves can reach the candidates found by HR consulting. Therefore, consulting companies do not make any difference in this sense.

As for services provided by HR consulting companies are; **Hiring**: in case speed and expertise and large data are needed: (a) If it is hard to locate candidates or the search for the position is confidential (b) If HR team is not wide enough and there is a time constraint (c) If the HR team does not have detailed information about the market. **Assessment**: in case of lack of system and need for approval mechanism/reference and impartiality: (a) If the company does not have any assessment tool (b) If the company looks for an academically or technically certified capability (c) If the assessment of an objective party is wanted. **Performance management and analyses**: assessments are usually conducted together. **Payroll**: in case of difficulty of tracking legal processes and heavy workload (a) If the company does not prefer to provide this service in-house (b) If the company does not want to be legally and financially liable (c) If the company does not want to undertake the workload. **Employee satisfaction and engagement**: occurs if the assessment and recommendations of an objective party are wanted just in case of impartiality. **Process management and design**: in case of need for know-how and analysis (a) when the company wants to design in-house processes, taking advantage of experiences in different sectors (b) if the

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A company wants to find and correct the defects and faults in its processes. **Compensation and benefits:** when there is a need for general sector information and objectivity (a) if the company has no detailed information about the sector (b) if they want to establish a fair structure within the company. **Professional training:** (a) when there is a need for guidance by an expert (b) when training is needed in areas that require expertise (c) when training is needed about different sector dynamics. **Organizational structuring:** (a) when there is a need for know-how and guidance and differentiation (b) when the company wants to design an organizational structure, taking advantage of experiences in different sectors.

### 4. HR consulting

#### 4.1. Decision Process

There are important criteria in selecting HR consulting to work with in hiring processes.

- To be able to understand the culture and expectations of the company, and find suitable candidates
- To have investigated the company in advance
- References of the company
- To have a good command of the market and sector dynamics
- Expertise in hiring and HR outsourcing
- To have a large candidate pool
- Experience in similar positions
- Expert and proactive consultants
- To make an effort to generate solutions
- To be able to come up with creative and alternative search channels

To have performed a thorough analysis of the company and to be able to understand the expectations, companies expect the HR consulting to act and provide guidance not as an external entity, but as an internal structure within the company. The need for the consulting “to understand us better than we do” is emphasized. This is believed to be a factor that accelerates the process and makes sure it proceeds properly. One of the important characteristics that differentiate HR consulting is the consultant. Most of the participants indicated that consultants themselves play an important role in selecting the HR consulting. Consultants are expected to have strong communication skills and be successful in building and maintaining relationships with others. They are also expected to generate alternatives and offer solutions when faced with a problem or trouble.

The HR consulting is expected to use their own candidate pool and have alternative channels that would shorten and accelerate the recruitment process. This is to prevent the HR consulting from presenting the HR manager with the excuse of “not being able to find any candidate”. Having recruited people in a similar sector or a similar position creates the perception that they would be able to find candidates more quickly. References are important at this point. Brands with which the HR

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consulting has previously worked provide information about its way of working and the quality of service delivery.

4.2. Motivation
There are characteristics appreciated in hiring processes. Success in candidate recruitment is an important motivation to work together. It refers to the ability to find candidates and conduct screenings in a short time, to prepare short list with full of best fits, to make sure that the right candidate is reached at the right time, and to present detailed candidate profile reports. The participants state time saving and decreasing the workload to be the most important criteria.

HR Consulting need to understand the corporate culture of the companies. Needs and expectations differ according to the codes of this culture. The ability to understand and analyze these plays an important role in customer’s satisfaction. Consultants who have experience in the sector are believed to be more successful in both adapting to the corporate culture and analyzing the competitiveness.

Companies place great importance to follow-up and transparent debriefing as well as to keep the HR managers updated during the recruitment process and have a result-oriented approach in terms of time saving.

Having a good command of the sector and having done a competitive research are considered to be impressive in hiring process. This requires asking questions that HR professionals cannot, to be able to interview candidates from competitors and grasp necessary information. Many participants stress that they have no information about who works in competitors and within the sector, and what kind of benefits they receive. Companies especially refrain from asking questions about pay ranges and they want to find out this information through HR consulting. On the other hand, since they do not want to reach out to the employees of the competitors themselves, they want to interview them through an intermediary.

4.3. Barriers
Although there are characteristics appreciated in hiring process, there are also not. HR consulting who come to the first meetings without doing preliminary research, trying to get the contract before understanding the company’s culture, starting the candidate search without understanding the company’s needs, and incompatibility between the short lists and requirements defined by the company are perceived negatively. HR managers found the time that the consulting company takes to know the company and trying to do the work before understanding the culture, needs, and expectations is a waste of time and labor.

It is discomforting to reach mismatched candidates and to present them as right. To work in haste budget focused approach is perceived negatively
as well as making out an invoice at the beginning of the project. This makes the company bear an unnecessary cost if the project cannot be completed.

Failing to conduct processes in collaboration with the company and incongruity is another barrier that can be explained as not complying with the time plan, not keeping the company updated during the process, not being transparent about the developments. HR managers are perceived as unsuccessful by their top management once a problem caused by the HR consulting is not communicated. When they fail to inform the companies about issues such as delays and not being able to find proper candidates up to the last minute, they put HR managers in a tight spot before their own managers. Consequently, careless approach and incompetence of consultants is unappreciated characteristics.

5. Methodology

In the qualitative part of the study, a total of 15 face-to-face in-depth interviews were performed. The population is selected as the large companies operating in different sectors and having different work structures such as manufacturing companies, banks, FMCG (Fast Moving Consumer Goods), and service sectorial in Turkey, headquarter in Istanbul. The population consists of senior level HR professionals who were deemed to most suitable group to survey as they are assumed to be in the best position to have a holistic view of all HR functions and their ability to decide about outsourcing. Only people who have not participated into any research within the last 6 months, and never have participated into a research of a related category were considered eligible to participate to this research. When the researchers saw fit, certain participants were checked through phone call. The interviews were conducted in Istanbul, at times and locations chosen by participants. Audio recording was made when permitted by the interviewees. The researchers themselves conducted interviews. In the questionnaire part of the study, cluster-sampling method was used to distribute online survey questionnaire, a total of 200 sets. The companies in question were supposed to represent the idea, which will be evaluated. Open-ended questions were deeply analyzed and interpreted. 10 sets of questionnaire from the sample were removed due to incomplete information, resulting in a total usable sample of 190 sets, so the effective response rate of 95%. A sample of the questions and the name of the companies included in the research were shown in Table 1.
### 6. Findings

The findings of the research, the qualitative data revealed outcomes, suggest that almost all off the companies interviewed with have outsourced HR functions in one or the other company. Significant number of HR professionals of service companies has adopted the HR outsourcing in order to deal with high employee turn over rates in the sector. HR professionals has an opportunity to focus on core business strategies by outsourcing of HR functions, thus it allows them to release from not value-added administrative activities. Findings indicate that the outsourcing decision was made based on the strategic and operational benefits, and organizational and situational characteristics affected the process of decision-making.

Results also revealed that quality of service that meets the expectations and cost benefits are the important factors leading the HR professionals to outsource the HR activities. Building attentive and interactive customer relationships is another important outcome of this research that brings reliability and consistent with good quality of service delivery. Providing the company with regular updates in short intervals with accessible consultants and having an approach giving priority to the company delivers a significantly positive effect. In other words, providing proactive services is candid in difficult times, present novel solutions, and action
plans by HR consulting are advantageous. HR consulting companies with good reputation such as experience with HR outsourcing and good quality of service delivery also the determining factors of decision-making for HR professionals who to work with. Further, the majority of the participants indicate that the relationship with consultants appears to be very crucial and plays a substantial role in selecting the HR consulting.

6. Conclusion and recommendations

This research has addressed the issue of HR outsourcing practices in Istanbul, Turkey based large and medium sized companies from various industries. Evidence from this study and other studies in the outsourcing literature suggests that HR practices suitable for outsourcing are those in which quality and expertise knowledge is required. Some researchers (Beregszasz & Hack-Polay, 2015; Galanaki & Papalexandris, 2007; Kakabadse & Kakabadse, 2002) claim that there has been a substantial increase in the HR outsourcing over the last decade. Due to rapidly changing business and HR environment, this research demonstrates expectations are also increasing accordingly.

Findings of this research have shown that, human resources management is defined as an organic structure that establishes connection between the company and the employee. The most important feature of HR departments is to help employees develop and provide them guidance to advance in their careers while working to ensure their satisfaction. The research illustrates that HR departments offer various services in-house or through HR consulting. Existing HR consulting in the market is differentiated in terms of segment and specialty. Some provide sectorial expertise (such as finance and FMCG). Others specialize in providing level-specific candidates (managerial or non-managerial levels). Companies have strong expectations from consulting companies and they do not establish continuous relationships unless these expectations are met. Saving time through companies’ sound management of the process, reduce the workload in the company thanks to the expertise and speed of the consulting company, and ability to access right candidates. Being able to follow not only the internal structure, but also the sector - to be knowledgeable about the market dynamics are the other factors. The HR consulting has a "to do list" to be preferred by companies. These can be counted as knowing the company well and conducting the search accordingly, employing suitable consultants for the corporate culture, strong communication skills, responsive, and bringing in the right candidate at the right time.

The ground up consulting company should emphasize its features that differentiate itself from competitors. It is observed that there is a need for a company in challenging areas. The company should offer a specialization in a certain sector for instance on finance, FMCG, and Y-Gen. HR consulting rather focus on marketing activities, diffuse sectorial information, adapt to changing environment, be innovative to survive and

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stay competitive. Taken all these into consideration entail HR professionals comprehend the business and recognize that HR departments must be managed in a business-like manner. For further studies, it is recommended that the perception of HR management that is constantly changing with rising trends should be examined in a wider context and a similar study should be compared with HR consulting companies.

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