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## Business management using HR outsourcing

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### ABSTRACT

The position of enterprises on the market depends largely on how they react to ongoing changes. Focusing on the core business of the company requires a lot of effort. For this reason, additional or side activities are carried out by external companies. Outsourcing is increasingly becoming a strategic choice of the way the company operates. One of the examples of using outsourcing is delegating HR tasks. At the beginning, the theoretical aspects of outsourcing were presented in general terms, while in the further part, issues related to HR outsourcing, in particular – definitions, benefits from the implementation of outsourcing and the applied methodology were discussed.

**Keywords:** outsourcing, enterprise, management

### 1. INTRODUCTION

Modern and well-managed enterprises increasingly focus on their basic goals, outsourcing auxiliary services to specialized external companies. Following H. Ford's words: "If there is something we cannot do more efficiently, more cheaply and better than our competitors, there is no point in us doing it; we should hire then someone who will do it better. These words go to the very core of outsourcing. The principle is the assumption that every single action can be outsourced to an external company that specializes in this type of

service. Outsourcing is promoted as one of the most powerful trends in human resources management (Stroh L., Treehuboff D., 2003, p. 19-28).

In the field of outsourcing, the following hypothesis has been formulated: Properly planned and carried out outsourcing of HR functions contributes to strengthening the position of the company on the market. The aim of the publication is to present outsourcing of HR functions as a strategy supporting effective business management. The attainment of the objective is supported by the interview questionnaire and critical analysis of the available literature on the subject, in particular national and foreign academic publications.

## 2. THE CONCEPT AND ESSENCE OF OUTSOURCING

The concept of outsourcing comes from a combination of three words: *outside* – *resource* – *using* – and it means using external sources to support business processes. Outsourcing is based on the assumption that any activity that can be implemented inside an enterprise can be outsourced to an external company. There is a large variety of definitions of outsourcing in the literature. The table below presents selected ones.

**Table 1.** Selected definitions of outsourcing.

| Author        | Definition  |
|---------------|---|
| M. F. Corbett | Outsourcing is the employment of external groups to perform tasks that the enterprise does not want or cannot perform itself (Corbett M. F. 2004, pp. 8-9).   |
| M. F. Greaver | Outsourcing is the transfer of internal tasks of the organization, its employees, machines, devices, equipment, technology or other resources related to their implementation as well as decision-making powers regarding their use, to external service providers, according to the resolutions contained in the terms of the agreement (contract) (Greaver, M.F. 1999, p.3) |

Source: The article author's own study.

Numerous corporations today are outsourcing specific systems. Also, both service quality of the vendor and trust, cooperation, and communication are important for outsourcing success (Grover V., Cheon M. J., Teng J. T., 1996, p. 3).

Outsourcing is one of the tools by which an enterprise can achieve a business goal (Commons J. R. 1931, pp. 648-657). It means commissioning some of the company's tasks to an external company (Kubr M. 2002). It is therefore a conception of expanding access to

material, information and other intangible resources, including HR, without increasing the size of the parent organization.

Outsourcing has emerged as an important economic and social phenomenon that has generated intense interest from practitioners, the popular media, and policy makers. Outsourcing affects thousands of companies and employees every year. Recent studies indicate that 85 per cent of all companies outsource at least one function generating billions of dollars in outsourcing contracts (Logan M. S., 2000, p. 21-32).

The main reasons for outsourcing are: cost reduction, quality improvement, shortening of business time, new sources of income, better risk management, greater competitiveness, access to external expertise, and improvement of company results. Outsourcing is promoted as one of the most powerful trends in human resources management (Melcourt M. 2006 p. 269-279).

Initially, outsourcing was only a method of reducing costs in the enterprise (Goo, Jahyun 2007, p. 2107-2125). Later, its influence on reducing the risk of running a business and securing it against unfavourable changes was also discovered. Currently, outsourcing is a dynamically developing economy branch, and its application has turned into a strategic choice of the way the company operates.

Outsourcing has become an important strategic tool in today's competitive business environment (Zhu, Z., Hsu, K., & Lillie, J., 2001, p. 373-378). Outsourcing is the strategic use of outside resources to perform activities that are usually handled by internal staff and resources. By using a well-managed outsourcing agreement, companies can gain in markets that would otherwise be uneconomical (Elmuti, D., 2003, p. 33-42).

### **3. OUTSOURCING OF HR FUNCTIONS**

The personnel function is one of the most important functions in every company since the object of its interest are people. HR functions became the subject of outsourcing. Human resource outsourcing has become a major part of human resource (HR) (Lilly, Juliana D., David A. Gray, and Meghna Virick 2005, p. 55).

HR outsourcing may include the delegation of processes related to company administration, HR and payroll policy, settlement of payroll, recruitment of employees as well as HR software and applications support. As part of HR outsourcing, enterprises most often provide external companies with the following services:

1. Preparing and conducting trainings
2. General recruitment as well as for senior positions
3. Calculation of salaries
4. Outplacement
5. Formation of health and safety conditions
6. Service for employees seconded to work abroad (Cook M. F. 2003, pp. 31-33).

Personnel outsourcing is a method of improving the manner of performing the tasks which lie within the scope of the personnel function and which are not a direct source of income for the organization, by commissioning them to a specialist external company (Upton D. 2006, p. 211). Outsourcing of this kind should be implemented in stages, which should include:

- stage 1 – defining organizational goals and HR functions to be separated,
- stage 2 – analysis of benefits and costs with the use of outsourcing of the personnel function,
- stage 3 – analysis of opportunities and risks resulting from the use of outsourcing of the personnel function,
- stage 4 – creating the project schedule,
- stage 5 – preselecting outsourcing companies,
- stage 6 – preparation of requests for quotation,
- stage 7 – selection of an outsourcing company,
- stage 8 – negotiating the terms and conditions of the outsourcing contract,
- stage 9 – keeping the company employees informed about outsourcing,
- stage 10 – development of the schedule of initiating cooperation,
- stage 11 – management of relationships among the employees of the service provider and the service recipient,
- stage 12 – monitoring of the service provider's effectiveness and compliance with the regulations (Cook M. F. op cit., p. 39).

The most important benefits of using the outsourcing of the HR function include:

- employment reduction,

- the opportunity to focus on the core business of the company,
- support of qualified personnel of an outsourcing company,
- reduction of costs related to employee training,
- no expenditure on equipment and computer programs for human resources employees,
- taking over responsibility for the correctness of conducting HR processes by an external company,
- the ability to avoid additional costs, such as: social packages,
- guarantee of confidentiality of information.

Apart from obvious advantages, outsourcing also brings some risks, especially if entrepreneurs choose an unreliable outsourcing company. The most often indicated hazards are:

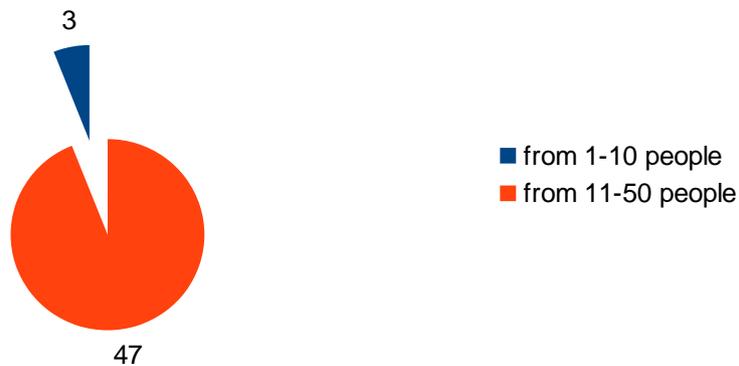
- 1) dependence on one outsourcing service provider,
- 2) fixed costs - most often outsourcing contracts for periods not shorter than 12 months,
- 3) lack of sufficient adjustment of the offered solutions to the organization,
- 4) insufficient or lack of education of the company's own HR specialists,
- 5) unreliable performance of duties by an outsourcing company.

HR outsourcing as an organizational strategy has increased substantially over the last decade. HR outsourcing is not a fad, and it can enhance the HR value chain as well as support the development of HR as a business partner and strategic contributor to the organization's goals (Ch. R. Greer, S. A. Youngblood, D. A. Gray 1999, p. 85-96).

#### 4. THE RESULTS OF OWN RESEARCH

The research was conducted in a group of 50 randomly selected enterprises operating in the Częstochowa district. The survey tool was a questionnaire consisting of 8 closed questions. The study was conducted at the headquarters of these companies. The respondents were asked 20 closed questions, the majority of which were multiple answer questions.

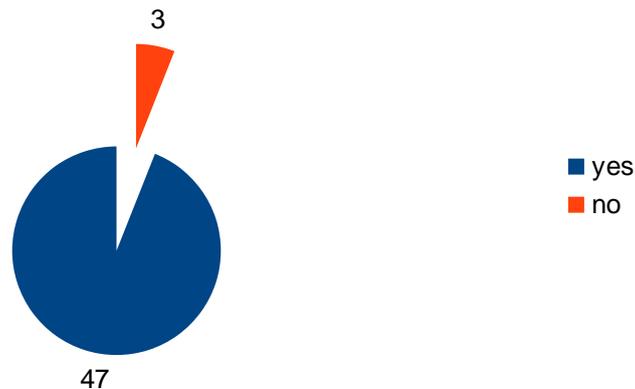
In 47 surveyed enterprises there are no more than 10 employees, and in the remaining 3 – from 10 to 50 people (Figure 1).



**Figure 1.** Number of people employed in the enterprise

Source: The article author's own research.

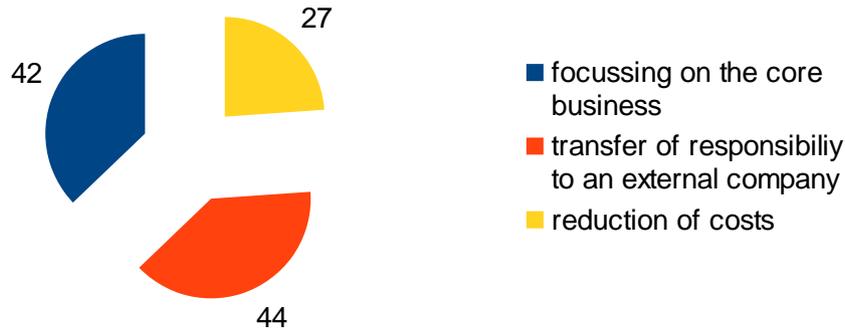
47 surveyed entrepreneurs use the services of external companies on the basis of personnel outsourcing. Only 3 entrepreneurs stated that they did not use this form of cooperation (Figure 2).



**Figure 2.** Using personnel outsourcing

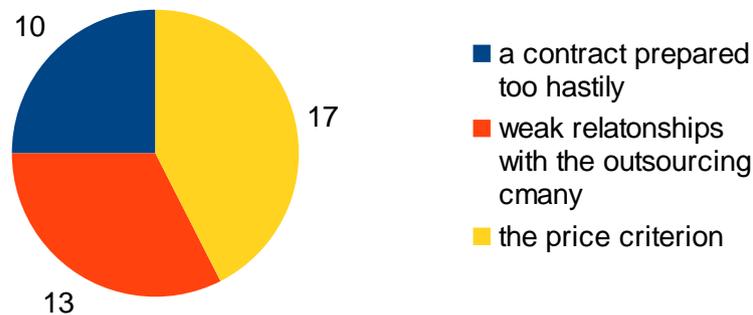
Source: The article author's own research.

When asked about the main reasons for making a decision on outsourcing, the entrepreneurs had the possibility to choose multiple answers. Most of them – 44 indicated the transfer of full responsibility to an external company. For 27 entrepreneurs, the reduction of costs in the company turned out to be decisive, while the opportunity to focus on the core business of the company was important for 42 entrepreneurs (Figure 3).



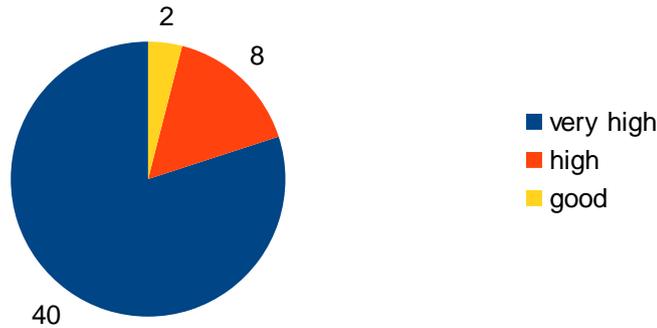
**Figure 3.** The motives of making a decision on outsourcing  
Source: The article author’s own research.

17 respondents considered using only the price criterion to be the biggest mistake made during the implementation of the outsourcing service, another 13 pointed to weak relationships with the outsourcing company, and for 10 respondents the biggest mistake was a contract prepared too hastily without proper consideration. This situation is illustrated in Figure 4.



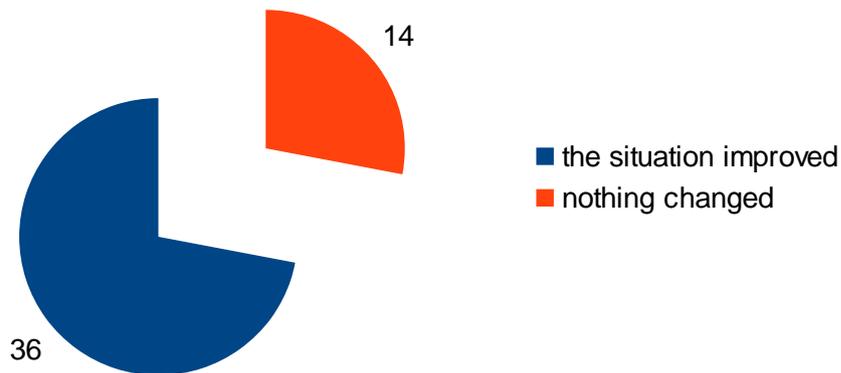
**Figure 4.** Mistakes made during the implementation of the outsourcing service  
Source: The article author’s own research.

When asked about the level of satisfaction from the selection of outsourcing, the vast majority – 40 respondents, pointed to a very high level of satisfaction, another 8 reported a high level of satisfaction, and only 2 considered their level of satisfaction with outsourcing as good (Figure 5)



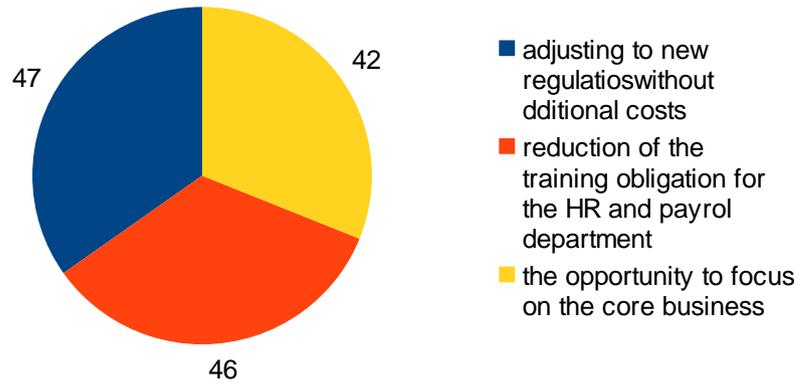
**Figure 5.** The level of satisfaction from the selection of outsourcing  
Source: The article author's own research.

36 surveyed entrepreneurs pointed to the improvement of the company's situation after the implementation of the HR outsourcing service. However, according to 14 respondents, the decision on personnel outsourcing did not change anything in the functioning of the enterprise (Figure 6).



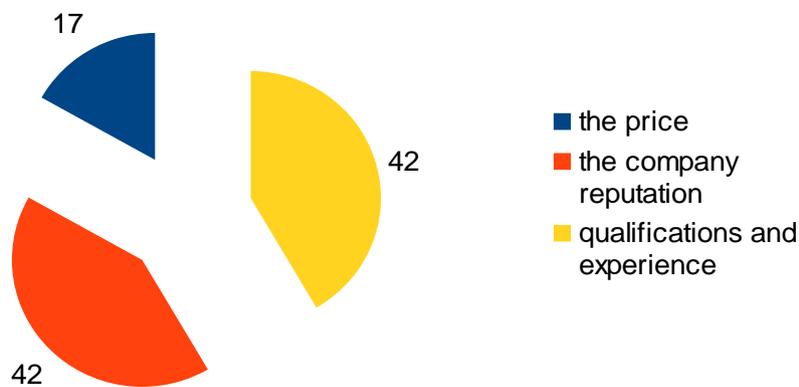
**Figure 6.** The situation of the company after the implementation of the HR outsourcing service  
Source: The article author's own research.

According to the surveyed entrepreneurs, the main advantages of the introduction of the personnel outsourcing service were adjusting to rapidly changing regulations without bearing additional costs (47), the possibility of abandoning the continuous process of improvement and development of the HR and payroll department (46) as well as the opportunity to focus on the core business (42). The above situation is illustrated in Figure 7.



**Figure 7.** Benefits from the introduction of personnel outsourcing  
Source: The article author's own research.

When asked about the motives when selecting an outsourcing company, the entrepreneurs could choose multiple answers. To 42 respondents, the most important were the qualifications and experience as well as the reputation of the outsourcing company, while to 17 surveyed entrepreneurs, the price offered by the outsourcing company was equally important (Figure 8).



**Figure 8.** Factors determining the choice of an outsourcing company  
Source: The article author's own research.

The conducted research allows to conclude that the phenomenon of personnel outsourcing is known to entrepreneurs and that they use it to a large extent. The vast majority of respondents are satisfied with the use of outsourcing and believe that the situation in the company has improved as a result of commissioning the performance of personnel functions to an external company. According to entrepreneurs, the most important advantages of using HR outsourcing are the possibility of adapting to rapidly changing regulations, reducing the costs associated with the maintenance of the HR department and the opportunity to focus on the company's core business. All these may result in achieving a competitive advantage. When selecting an outsourcing company, the price factor is still important, but the reputation and qualifications as well as experience of the external company are definitely prevalent, thus contributing to the security and reliability of the services provided.

## **5. CONCLUSIONS**

Outsourcing is a dynamically developing branch of the economy. Currently, more and more enterprises outsource the performance of auxiliary functions to a specialized external company. Also, personnel functions have become the object of interest of outsourcing, primarily due to the fact that most often they do not generate profits directly and do not create the value of the enterprise. This is the main reason why personnel outsourcing is increasingly commissioned to a specialized external company.

HR outsourcing has its supporters as well as opponents. Its supporters believe it is a method of reducing costs which allows to focus on the company's core business. It also contributes to gaining an advantage on the market and eliminates the need for employee training. Transferring the HR function to the outside of the company means the ability to adapt to constantly changing regulations. This in turn creates a sense of security and certainty of reliable performance of obligations and duties imposed by tax law acts.

In addition to numerous benefits from the use of personnel outsourcing, it also carries certain risks, such as the danger of losing control over commissioned tasks or errors in HR and payroll settlements. There is a large number of companies on the market that provide services in the field of personnel outsourcing, which do not necessarily meet the highest quality standards. This compels enterprises to conduct a thorough analysis of the assessment process of outsourcing companies.

In the light of the research conducted by the author, it has been confirmed that personnel outsourcing constitutes an important element of the company's strategy, which leads to gaining a competitive advantage on the market. The success of the contract commissioning the performance of HR functions brings the company measurable benefits that have an effect on the company's performance and improve its market position.

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