

ECONOMICS*Sociology***Ernesta Stasiulytė***Master of Business and
Administration**Faculty of Social Sciences**Kaunas University of Technology**ernesta.sta@gmail.com**Received:* February, 2011*1st Revision:* May, 2011*Accepted:* June, 2011

Ernesta Stasiulytė, Motives of Human Resource Management Outsourcing: a Case Study from Lithuania, *Economics & Sociology*, Vol. 4, No 1, 2011, pp. 116-125.

**MOTIVES OF HUMAN RESOURCE
MANAGEMENT OUTSOURCING: A
CASE STUDY FROM LITHUANIA**

ABSTRACT. This article analyzes main motives of human resource management outsourcing. By many authors, outsourcing is associated with increase of company's competitiveness, innovation, efficiency of activity etc. As human resource management is not the main activity of a company it can be transferred to services suppliers of the external form. These services have been recently put into market in Lithuania that is why it is important to discuss what motives encourage Lithuanian companies choose services' outsourcing of human resource management. To reveal these motives, case of the distinctive Lithuanian trading company UAB (Ltd.) "Laimalukės" was chosen and this case shows choice of HRM services outsourcing through the aspects of benefit for the company, employees and influence of competitiveness.

JEL Classification: O15,
M12, P2

Keywords: outsourcing, human resource management, motives of outsourcing, Lithuania.

Introduction

In order to achieve bigger efficiency of activity and saving the expenses organizations focus on their main competencies. It means that companies are capable to transfer their subsidiary activities to external services suppliers who can professionally implement the tasks that are set to them and help organizations achieve their work goals. Certain processes of organization's activity may be trusted to external services suppliers and human resource management can be one of the areas. Organizations which do not have their human resource managers or department external staff specialists may effectively help to manage.

Although human resource management outsourcing is not the new term in scientific literature and is widely described, still Delotte and Sels (2008) state that the motives of human resource management outsourcing are not analyzed enough. That is why this article discusses the main issue: why organizations choose human resource management services outsourcing? The object of this research – human resource outsourcing motives.

The aim of this article is to identify the main motives which promote organizations choose external specialists services in the area of human resource management. Main objectives of this article are: to reveal theoretical aspects of human resource management outsourcing motives; to reveal what are the motives that encourage Lithuanian companies to outsource human resource management. In order to achieve these objectives Lithuanian

trading company UAB (Ltd.) “*Laimalukss*” case was chosen; this company uses external human resource management services. For a research and data collection, interview method was used. Qualitative data collection was chosen by its advantage to find out opinion and attitude.

1. Defining outsourcing

As one of the essential business strategies outsourcing is used by majority of the companies for several decades. Reach for competitive advantage encouraged companies to look for new solutions in their business processes, that is why companies started to buy from external suppliers such activities as production operations, business services and even methods of running the business. While outsourcing demand was developing, such activities as IT, functions of payment for work, logistics and human resource management became outsourcing objects as well (Ghodeswar, Vaidyanathan, 2008). Such authors as Lankford W.M., Faramarz P. (1999) describe outsourcing as buying services or products from external organizations. In the area of services outsourcing is associated with process control transferring to external suppliers. For organizations which orient towards their main activities, outsourcing helps to transfer minor activities to the surface. As far back as 1985, professor M. Porter presented conception of value chain which singles out the main and the minor activities of organization and reveals which activities are important in order to achieve competitive advantage and which just support the main ones (Kippenberger, 1997). It may be stated that the main activities are associated with true value while minor ones are more associated with organization’s expenses. In latter case organization can save the expenses and bring up minor activities to the surface. That is how outsourcing demand for organization starts.

Usually, outsourcing is associated with particular benefits which organization gains when chooses this business solution. Cooke, Shen and McBride (2005) state that outsourcing is often associated with specialized services suppliers created extent economics, flexibility of organization, risk move and learning from external professionals. Since human resource management outsourcing is also one the business management solutions, further in this article the motives of choosing it will be discussed.

2. Outsourcing of human resource management services

Human resource management in organization can be performed by several main ways: by performing all human resource management functions even when staff manager is present, when middle chain employees perform human resource management functions and themselves taking care of human resource management by realizing it in virtual space and using collective services centres as well as invoking human resource management outsourcing (Martin *et. al.*, 2008). Since human resource management is not the main activity in organization, it can be transferred to external services supplier. Authors Simmonds and Gibson (2008) define outsourcing of human resource management services as “specific clearly defined transfer of activity to external company”. It means that the aim of this function or essence is transferred or sold to the third part.

Outsourcing of human resource management services is not the new activity in business world. Authors Hunter, Saunders (2004) state that certain human resource management activities externally were bought by suppliers in 1970. Outsourcing of human resource management services began from such activities as payment of pensions, calculating salaries, employees transfer, motivation systems creation, instructions and development of employees’ services offering. Yet in latter ten years opinion towards buying human resource

management services had changed and instead of repetitive administrative activity buying was considered as value adding strategic activity. Outsourcing of human resource management services is especially popular in the USA, as Borg H. (2003) states. As this author explains, increasing companies' interest in human resource management services is because functions performed by staff department for companies' employees takes a lot of time and has little value for organization's activity. The author as well notices human resource management specialists' change of role – organizations increasingly demand for strategic partner who would be aware of business environment and internal staff is not necessarily have such competencies. Eventually, companies are looking for various ways to decrease expenses and internal staff refusal may be one of the ways.

Such authors as Cooke *et. al.* (2005) and Belcourt (2006) point out which human resource management functions in contemporary business organizations are usually bought from external services suppliers. These functions are:

- staff training and developing, organizing the programmes, research of training need;
- search and selection of staff and its competence investigation, negotiations;
- calculating of work salary, compensations, motivation programmes;
- reorganizing and firing of staff, employees' dismissal conversations;
- employees' health and industrial safety.

Yet human resource management services from outside suppliers may be considered not only as all staff functions transfer, but also sharing the staff activities with external consultants. Wide network of communications allows companies share activities with external consultants and effectively manage company's staff (Gallagher, 2000). Valverde, Ryan (2006) state that less popular but relevant to organizations are services associated with strategic human resource management solutions, for example, realization of variation, change of organization structure or specific human resource management policy creation. On purpose to form clearer opinion about what staff activities are tend to be transferred to external services suppliers, it is necessary to analyze the motives which are used by organizations in order to buy external human resource management services.

3. Theoretical substantiation of motives which determine outsourcing of human resource management

As Reddington *et. al.* (2005) states, transferring of human resource management's activities to external services suppliers must associate with company's long-term strategy and has to be done in such a way that would help company seek for its purpose in the market. That is why such aspects as company's encounter with *competitiveness*, necessity to perform *shake-up or reduction of employees' number* have to be analyzed. Companies can choose external suppliers of human resource management services for their experience and *competency* in these areas. Meanwhile Smith, Vozikis and Varaksina (2006) emphasize that outsourcing of human resource management services can affect not only expenses but also company's capability *to service clients with quality* so company can choose human resource management services in order to achieve *added value*.

Such authors as Galanaki, Papalexandri (2007) state that majority companies' outsourcing of human resource management services sees the benefit in saving expenses by not hiring all day working staff manager and transferring human resource management services to external specialists. By doing this services suppliers gain economies of scale effect which they partly give to their clients. Besides, very common reason is *the lack of competence in human resource management area* which is compensated by external specialists. The latter ones much more invest to this competence development than companies' managers so they can professionally perform human resource management function. Delmotte and Sels (2007)

as well support existence of exclusive competence which human resource management specialists have. They also emphasize that saving of expenses should not be one of the most analyzed motive. These authors believe in *human resource management quality* and possibility to have *access to the newest technologies* and *decrease of risk*.

Although outsourcing of human resource management services is not as popular in Lithuania as bookkeeping or IT services¹, still organizations help to find its benefit. Buying human resource management services from external suppliers is organization's strategic solution which is associated with changes in organization itself and its employees. Common reason for choosing these services is the lack of knowledge in human resource management and *the lack of time for this area* because organization *concentrates on its main activities*. Thereby, it is possibility to ensure effective human resource management because external suppliers have bigger practical experience and newest information as well as possibility to save expenses as there is no need to pay fixed salary to staff manager and external suppliers are paid for certain service.

Meanwhile author Gallagher (2000) singles out such essential reasons for choosing outsourcing of human resource management services as decrease of expenses, better quality of services, customers' services and management of changes in organization. According to Cooke *et. al.* (2005), need for production extent, yield and growth of organization forces to look through internal processes of human resource management and may encourage choosing strategic outsourcing and not singling services. It is necessarily connected with the need to decrease company's expenses in order to perform human resource management functions. Strong competition in the market determines that function of organization human resource management experiences pressure to perform effectively and show peak value to the organization itself.

Irrespective of motivation human resource management outsourcing will not be successful if this process is not performed correct. Authors Simmonds and Gibson (2008) single out culture and trust of external services suppliers in organization as the main premises for successful outsourcing of human resource management. These authors state that some organizations are more suitable for outsourcing than the others. Outsourcing programmes have to adjust to every needs of organization. Meanwhile sometimes outsourcing agreements can encourage opportunistic behaviour of services suppliers. Trust between organizations may decrease when either of the parties has doubts about applied means.

In this case Galanaki, Papalexandri (2007) emphasize company's experience in outsourcing relations. If the company has not enough experience with external human resource management services' suppliers it can be hard for its managers or employees to properly explain what should be expected. That is there might be disappointment from the company's side. It is possible that supplier of the services has little experience in human resource management area and each project in a company may be the new experience. In this case company that supplies staff services learns and improves; however, company which buys the services does not get ultimate benefit. Smith *et. al.* (2006) complement previously mentioned authors stating that organizations can be afraid of big expenses and unexpected additional resource which may occur in order to realization of the services. What is more, manager of organization may lack of proactive sophisticated attitude towards suppliers of the services and which may cause lack of trust between organization and external supplier.

¹ New human resources management tendencies (2004)

4. Presentation of the case and research methods

In order to analyze motives for which Lithuanian companies choose human resource management services, UAB (Ltd.) “*Laimalukss*” case was depicted. This company was selected for the analysis because UAB (Ltd.) “*Laimalukss*” chooses outsourcing of human resource management services and representative Lithuania’s trading organization. In 2006 there were 21212 trading companies in Lithuania. They made 28.9% of all the companies in the country. 17% of all working employees were in trading business. In 2006 were 17% of all the surplus values in the country created. Trading sector in Lithuania develops in the fastest rate and plays very important role in country’s economy. It may be stated that in trading companies’ activities new human resource management models are implemented and because of there are a lot of companies in the market each of them is searching competitive exclusion.

UAB (Ltd.) “*Laimaliukss*” activity is commission wholesale when the main work is trading by the third countries assignment. In this case this company is trading representative². Meanwhile the biggest value in wholesale sector is generated in small and medium companies³. The company which is analyzed may be assigned to small type company as there work less than 50 employees⁴. Apart from this, company’s that is analyzed legal status is one of the most popular in Lithuania – even 51.51% of all working companies are private limited ones. Out of them even 73.18% have from 10 to 19 employees. In this particular company work 15 employees. It may be stated that for research was chosen representative Lithuanian trading company which seeks competitive advantage in the market.

UAB (Ltd.) “*Laimalukss*” is responsible for wholesale hair care help trading in the whole Lithuania. Alongside the products, company offers for its clients added value as well – it arranges seminars on the innovation and technology topics, also the clients are taught how to use the products that they buy.

The method of research is half structural interview with company’s “*Laimalukss*” manager. Some questions were foreseen and others were raised off-the-cuff during the conversation. Half structural interview was chosen because it is suitable method to find out about evaluation and opinions (Rupšienė, 2007). Interview was chosen intentionally in order to realize manager’s experience and to hear how he values outsourcing of human resource management services. Interview was very helpful for the research because it made possible to listen what respondent says and see how he reacts to the raised questions and how he behaves in his environment.

5. Human resource management outsourcing motives case study in Uab (Ltd.) “*Laimalukss*”

In order to achieve its goals UAB (Ltd.) “*Laimalukss*” practices following activities: sales of the products, marketing, professional service (consulting clients on products issues), logistics, finance and staff managing. The main activity is sales of the products and one of the most important tasks is increasing the sales by effectively satisfying needs of the clients. *By concentrating on the main activity company is tend to transfer minor activities to external services suppliers.* Now the company uses staff services and logistics outsourcing and plans to buy bookkeeping services from outside. Since the company is a land carrier of SIA “*Laimalukss*”, manager coordinates outsourcing solutions with owners of public company but the manager has enough freedom to choose what services should be outsourced.

² Lithuanian trading companies association

³ NORD/LB (2005).

⁴ Small business conception <http://nvc.itl.lt/psl.php?fl=sam1>

During the interview with company's manager it was interesting to know what motives encourage buy external human resource management services.

5.1. The choice of outsourcing partners and human resource management activity

The manager revealed that in human resource management area he *is tend to outsourcing certain services* which external suppliers realize during limited projects term. It means that company is not signed long-term collaboration treat with external services supplier and hires him only when there is a need.

Manager reasoned that company is small enough and constant work of external specialists would not be effective that is why manager addresses to them only for solutions of certain questions. However, influence on his choice of human resource management services is *mutual trust, partnership history and clear process*. Collaboration with certain partner is encouraged by future result and lesser risk contrariwise when each task changing supplier. Manager seeks to maintain formal but also warm and friendly relationship with external human resource management specialists.

Manager stated that he is tend to outsource such human resource management activities as search and selection for employees, their training, decreasing the number of employees, their firing, implementation of salary system and preparing position instructions.

5.2. Motives of human resource management outsourcing

When asked why he chooses outsourcing of human resource management services, manager points out that in this area he himself lacks competence and knowledge. None the less important are legal questions which can be resolved by professional staff specialists, more effectively than he. So the manager is tend to *reduce possible risk* because of his *lack of competence* in human resource management area and transfer this function to external staff specialists. None the less is important time saving. The manager says that it is more important to him to devote his power to selling the products in Lithuanian market and do not waste time to minor questions which can be solved by external services suppliers. His future vision is to concentrate on selling, marketing and professional service activities and the rest transfer to external service suppliers. On manager's opinion, it is not only saving the expenses and time but also achieving efficiency. Human resource management specialists' help is also very important during the changes in company. Since company experienced shake-up and decrease of employees' number, external staff specialists helped him to realize these processes more effectively just for experience in this area alone.

5.3. The value of human resource management outsourcing

When asked where he sees benefit of buying human resource management services externally, manager first of all mentioned the benefit for his employees. As employees know that company collaborates with staff specialists they feel bigger supervision and responsibility for the work. Employees' competency and behaviour is evaluated and they can receive comments from external staff manager. What is more, external human resource management services help the manager to maintain discipline and encourage better collaboration of employees.

Apart from this, manager points out that outsourcing of human resource management services ensures clearness at work. It means that external services suppliers help manager to define effective company's structure and functions of each employee. Besides much help from external suppliers manager gets in the case of conflict with employees because in his

opinion it is always important to hear several opinions about situation. External staff specialists agree with manager in solution of conflicts and help him see human resource management gaps and communicate with employees. In manager's opinion external staff specialists interference during conflicts gives more objectiveness to solutions. It is important not only for harmony between employees but also quality of services to the clients. Manager states that staff problems cost more than outsourcing of human resource management services because staff problems always have influence on the clients. The biggest value of outsourcing is clarity, order in company and effective solutions of problems. Besides outsourcing helps company to reach bigger competitiveness because human resource management specialists while working with employees develops them professionally. By having high competence employees company becomes more competitive because it can serve clients effectively.

5.4. Disadvantages of human resource management services

The manager was also asked what disadvantages he sees in outsourcing human resource management. It can be stated that all the minuses come from the fact that staff specialists are not permanent employees of the company. That is why external staff manager can not see everyday situation in the company and mood of employees as well as their success and failures at work. So external staff specialists do not have objective information which is connected with employees' activity and is composed of routine details. However, sometimes these details can be the main sources of complaint or conflicts and for the lack of knowledge external services can not be implemented effectively.

5.5. Perspectives of human resource management outsourcing in the company

Besides outsourcing activities that were mentioned and that analyzed company buys from external suppliers, in future manager sees the need to outsource staff development services as well which would include stronger and weaker employees' competencies as well as research of team work development. Besides manager feels the need for more consultative format of services. He needs external specialists' advises on such questions as relationship between workers, work ethics and reach for result, effective task accomplishment and implementing the changes. Considering that company had bought employees' reorganizing services it may be stated that the support of external specialists during changes in the company and their help during resistance towards changes is also important for the manager of the company.

5.6. Influence of human resource management services on company's employees

Outsourcing of human resource management services was change itself in the company and innovation to employees. That is why manager was asked how external staff specialists were accepted by its employees. Manager emphasizes that he did not feel resistance or dissatisfaction from employees' side because they see the benefit of external specialists in the company. Staff specialists collaborates with employees and try to find out their work problems so not only the manager but also employees themselves may get help in order to achieve more effective activity. Besides employees can get answer to the questions they are concerned with from the specialists and have mediator in solving the problems with manager.

6. Theoretical analysis and case comparison

After theoretical analysis of human resource outsourcing motives and after collecting qualitative data, a comparative table is made. Table 1 shows main motives of human resource management outsourcing that are found in scientific literature and main motives that are revealed in the case study.

Table 1. Motives of human resource management outsourcing

Scientific literature review	Case study
<i>Concentration on main activities</i>	Better concentrate on marketing and sales.
<i>Lack of competence in human resource management</i>	External specialists have better competence in change management and problem solving.
<i>Work quality</i>	Employees competence at work. Better services quality. Staff problems always have influence on clients. Clearness a work.
<i>Cost saving</i>	Saving expenses.
<i>Decrease of risk</i>	Reduce possible risk, while having less experience in human resource management.
<i>Lack of time and resource</i>	Not to waste time on not core questions that might be solved by external services providers.
<i>Gain competitiveness</i>	High competence employees help company become more competitive.
<i>Access to the newest technologies</i>	–

Table 1 show that almost all motives that found in scientific literature are revealed by the case study. Moreover, after the case study these motives are more explained and it is more clear what these motives means to one of Lithuanian companies. Only one motive – access to the newest technologies – was not found during the case study. It might be stated that mostly all human resource management outsourcing motives are related to better company competence and through this – to bigger competitiveness.

Conclusions

UAB (Ltd.) “Laimalukss” encourages human resource management outsourcing for several reasons. When various scientific literature is overlooked and some essential motives are overlooked it can be noticed that UAB (Ltd.) “Laimalukss” chooses outsourcing on the same factors. First of all, company chooses outsourcing because external specialists have bigger competence in the area of human resource management and may transfer the risk on them. Meanwhile manager of the company tends to concentrate on the activities of the biggest value – marketing and trading. None the less important motif of outsourcing is saving time. Besides manager stresses the better quality of customer services and employees work effectiveness. Meanwhile the employees themselves get help for important work questions. This helps company reach bigger competitiveness which is based on trained and professional employees. Essential result which the company receives is effective work process insurance and not lesser expenses.

For the manager of the company the biggest outsourcing value is associated with employees’ competence and developing of effectiveness. Besides external human resource management specialists help the manager to solve conflicting situations, to evaluate more objectively staff problems and realize the changes. This is associated with staff specialists’

experience which is wanted by the manager. Outsourcing success has influence on quality of customer services and their satisfaction. In managers' opinion staff problems are felt by the clients, that is why it is worth to pay external consultants for effective solutions of the problems.

It may be stated that outsourcing of human resource management services gives the company more benefit than disadvantages because manager indicates one minus of external services – that is limited work time of the specialists in the company and not completed cognition of employees. Although company buys external services only when there is a need, still it chooses strategic outsourcing because collaborates with services suppliers as with strategic partner and buys such management functions which are associated with strategic changes in the company.

References

- Belcourt, M. (2006), *Outsourcing – The benefits and the risks*, Human Resource Management Review, vol. 16, pp. 269 – 279.
- Borg, H. (2003), *Outsourcing of human resources*, (n.d.). (Referred on 6/03/2011). Available at:
<http://www.mah.se/upload/Omv%C3%A4rlden/Cerrio/Outsourcing%20of%20HR,%20Hakan%20Borg,%20May%202003.pdf>
- Cooke, F. L., Shen, J., McBride, A. (2005), *Outsourcing HR as a Competitive Strategy?* Human Resource Management, vol. 44, no. 4, pp. 413-432. (Referred on 6/03/2011). Available at: <http://arrow.unisa.edu.au:8081/1959.8/27578>.
- Delmotte, J., Sels, L. (2007), *HR outsourcing: threat or opportunity?* Personnel Review, vol. 37, no. 5, pp. 543 – 563.
- Galanaki, E., Papalexanderi, N. (2007), *Internationalization as a determining factor of HRM outsourcing*, International Journal of Human Recourse Management, vol. 18, no. 8, pp. 1557–1567.
- Gallagher, P. (2000), *Human Resource Planning*, Scitech Educational.
- Ghodeaswar, B., Vaidyanathan, J. (2008), *Business process outsourcing: an approach to gain access to world-class capabilities*, Business Process Management Journal, vol. 14, no. 1, pp. 23-38.
- Hunter, I., Saunders J. (2004), *The Future of HR and the New Need for Change*, Thorogood.
- Kippenberger, T. (1997), *The Value Chain: the Original*, The Antitode, vol. 2, no. 5, pp. 7-10.
- Lankford, W.M., Faramarz, P. (1999), *Outsourcing: A Primer*, Journal Management Decision, vol. 37, no. 4, pp. 310-316.
- Lietuvos prekybos įmonių asociacija. *Lietuvos prekybos sektoriaus plėtros galimybės 2008-2012 m.* [Lithuanian Trade Association. *Development Opportunities of Lithuanian Trade Sector 2008 - 2012*] (Referred on 6/03/2011). Available at: <http://www.lithuanian-trade.com/lt.php/statistika>
- Martin, G., Reddington, M., Alexander, H. (2008), *Technology, outsourcing and Transforming HR*, Amsterdam, Elsevier/Butterworth-Heinemann.
- Naujos personalo valdymo tendencijos [New Tendencies in Personnel Management, in *Lithuanian*] (11/01/2004). *Verslo žinios*, 19. (Referred on 6/03/2011). Available at: <http://archyvas.vz.lt/news.php?strid=1118&id=213950>
- NORD/LB (2005), *Lietuvos smulkaus ir vidutinio verslo analizė [Lithuanian Small and medium Business Analysis]*. (Referred on 6/03/2011). Available at: www.dnbNord.lt/files/Ataskaitos/Aktualios%20temos/svv%20lietuvoje.pdf

- Rupšienė, L. (2007), *Kokybinio tyrimo duomenų rinkimo metodologija* [*Qualitative research data collection methodology*], Klaipėda: Klaipėdos universiteto leidykla.
- Simmonds, D., Gibson, R. (2008), *A model for outsourcing HRD*, *Journal of European Industrial*, vol. 32, no. 1, pp. 4-18.
- Smith, P. C., Vozikis, G. S., Varaksina, L. (2006), *Outsourcing Human Resource Management: A Comparison of Russian and U.S. Practices*, *Journal of Labor Research*, vol. 27, no. 3., pp. 305-321.
- Smulkaus verslo samprata* [*Small Business Concept*]. VŠĮ Neįgaliųjų verslo informacijos centras. (Reffered on 6/03/2011). Available at: <http://nvic.iti.lt/psl.php?fl=sam1>
- Valverde, M., Ryan, G. (2006), *Distributing HRM responsibilities: a classification of organisations*, *Personnel Review*, vol. 35, no. 6., p.p. 618 – 636.