Strategic Potential of e-HRM in Outsourcing HR Functions

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ABSTRACT

The advancement of information technology has a dramatic impact on the practice of human resource management. More specifically the use of internet has changed many HR processes including planning, selecting, recruiting, compensation, performance management, and workflow. Therefore, many organizations are now adopting and structuring e-HRM. Academicians all around the world also become increasingly interested. However, there is no dedicated research on the role of e-HRM in outsourcing only HR functions. As a result, this paper intends to review current empirical work on electronic Human Resource Management (e-HRM) with specific attention to HR function outsourcing. The review reveals the strategic potential of e-HRM in achieving competitive advantages by making the HR department more efficient.

1. Introduction

One of the most critical aspects of an organization is the function of human resource management. The organization that realized the magnitude of this aspect tries to attract, develop, motivate and retain a pool of human resource capital blending quality and quantity (Igbinomwanhia, Iyayi & Iyayi 2013). The role of human resource (HR) function is not only to meet the talent required by the organization (Igbinomwanhia, Iyayi & Iyayi 2013) but also to assist attaining organizational objectives undertaking necessary measures and providing directions regarding every affair connected to the employee (Armstrong 2001). Despite the significant role performed by HR, there has been a continuous debate that it only plays the administrative roles rather contribute real values for the workforce (Nagpal 2008).

Enterprises today are facing intense competition locally as well as globally due to technological advancement and rapid progression of knowledge (Zhang & Ma 2005). To cope up with the given circumstances, it becomes imperatives for the organizations to think of strategies that would enable them to provide improved services while shrinking the cost at the same time (Igbinomwanhia, Iyayi & Iyayi 2013). Consequently, cutting down operating cost related to HR has turned out to be a key priority for HR department (Hewitt Associate 2009) as expenses interrelated with people being the significant

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cost in most organizations (Davies 2009). Therefore, outsourcing HR is turning out to be an approach to reduce the cost and providing better service (Rosenthal 2002) as a business can have the advantages by accessing unique expertise, knowledge and low-cost framework of the suppliers (Saha 2005). Besides, the rapid advancement of the internet has boosted the orientation and application of electronic Human Resource Management (e-HRM). A survey conducted by HR consultants all over the world also suggested that the number of the organization adopting and applying the notion of e-HRM is increasing (Strohmeier 2006).

Consequently, this field has drawn the attention of the academician rapidly and many HR related journals have demonstrated their interest by publishing special issue (Strohmeier 2006). There is a moderate number of empirical research and few review papers available encompassing various issues related to e-HRM. However, there is no dedicated paper giving special attention to e-HRM's role in outsourcing human resource functions. Therefore, this paper intends to review the existing literature focusing on the role of e-HRM in sourcing HR related activities. Besides, one relevant case study has also been reviewed in order to make this presentation more credible and worthy. So from the review, it has been observed that organizations embracing the idea have been able made their outsourcing activities faster and smoother. This would contribute to the existing stream of academic research related to e-HRM as it concentrates a niche area. Furthermore, the organizations are in a dilemma to take decisions on whether to resist or go with the trend; this paper would be a good source of insights to move forward and formulating their policy measures.

The rest of the paper is structured as follow: section 2 provides detail on the concept of human resource outsourcing with its potential benefits and risks, section 3 follows the research framework, and then section 4 includes the review of the literature related to e-HRM, and finally, section 5 encompasses the conclusion.

2.   Human resource outsourcing

A new era began in 1990 to deal with the business process in a challenging and competitive setup, and was regarded as outsourcing (Delen 2005, Euroforum 2004). In academic literature, the term 'outsourcing' has got some definitions. Brown and Wilson (2005) referred to outsourcing as an activity to acquire service other than an internal agent or source. It has been defined as referring any business related assignment or resources to an outside supplier or service agency having the expertise and knowledge to provide a specific solution at the right time, right place and right price (Hunter & Saunders 2005). Similarly, it has been referred to as circumstances where organization recruits vendor outside the organization with a view to seeking solutions to their internal business problems (CIPD 2009). In the case of outsourcing information technology Kern, Willcocks and Heck (2002) explained it as an exercise of making a contract to sell the assets of organization related to IT, personnel and other tasks to an external party for agreed terms and conditions. It has also been regarded as a relationship between the company and a vendor where the company borrows competencies, technical know-how, information, and service based on a contract for a specific period (Adler 2003). Besides, outsourcing is explained as acquiring continuing service form an external source which usually offers those opportunities for themselves (Linder 2004). Specifically, outsourcing of Human resource has been described as renting services related to HR from an external party (CIPD 2009). Tian (2007) defined Human resource outsourcing as procuring HR related knowledge, and expertise from an outside supplier generally does not render those facilities except to itself.

The information and communication technologies (ICT) sector was a success story as many firms lacking required knowledge benefited from outsourcing and the service providers also found themselves rising rapidly (Corbett 2005). Gradually, other functional departments of the organization including finance, supply chain, and production opted for outsourcing having witnessed the favorable outcome of outsourcing in the ICT sector (Gilley & Rasheed 2000). Accordingly, the human resource department was next to follow the footstep of others accepting the philosophy of outsourcing (Greer et al. 1990). Along with the organisations, the phenomenon of HR functions outsourcing has also drawn the attention of many authors of academic world (Klaas et al 1999, Lawler 2005, Belcourt 2006, Cooke, Shen and McBride 2005, Schlosser, Templer and Ghanam 2006, Smith, Vozikis and Varaksina 2006, Wahrenburg et al 2006, Delmotte and Sels 2007, Ordanini and Silvestri 2008, Norman 2009, Chiang et al 2010, Braun et al 2011). Gilley, Greer, and Rasheed (2004) examined the association between

organizational achievements and human resource outsourcing and inferred that borrowing particular HR tasks may encourage general improvement within the organization. However, the opinion of Prahalad and Hamel (1990) has played a vital role in the debate of HR outsourcing as they claimed that the most crucial determinant of outsourcing should be the core competencies of the company.

On the other hand, Stroh and Treehuboff (2003) suggested concentrating core competencies internally and outsourcing only those facilities which are non-core as they do not consider sharing the company's unique advantages. Similarly, Hamilton, Eskin, and Michaels (1990) advised organizations to keep hold of those capabilities that award them competitive advantages. Lepak and Snell (1998) proposed a framework of virtual HR that offered specific principles of outsourcing HR activities covering two models namely transaction cost economics which implies that business should rent those tasks that undefined the organization (Williamson 1985) and resource-based view that recommend outsourcing jobs unimportant to critical competencies. Klaas et al. (2001) have initiated four groups of the HR function to be outsourced including general tasks like performance evaluation; human resource activities like motivating, training; transactional affairs like compensation structure and identification and selection of required talent for the organization. Besides, Alan Speaker constructed a tactical typology to direct which HR functions to be rented from external sources (Greer 2001). The typology defined HR tasks on two aspects: (a) relationship affairs like performance improvement, relationship with employee, discussion within the organization, managerial compensation, and negotiations with labor; transactional affairs like compensation methods, record book of employee, benefits management, retirement supervision, and transfer management and (b) tactical value of the affairs. Moreover, outsourcing these jobs would assist the organization to attain improved labor force concentrating on activities carrying high value (Gilley, Greer and Rasheed 2004).

There are some other rationales to outsource HR functions apart from academic theories of transaction cost economics, tactical view of HR and the notion of capability (Conklin 2005). These are money savings, unique knowledge, and expertise, decreasing threats and liability, and short term development of HR competencies to satisfy particular situation (Greer et al., 1999). However, the outsourcing decisions will not vary only within the HR activities but amid the organizations sooner or later as revealed by the research of Klaas, Paauwe, Boselie, and others (Conklin 2005). Also, in actual business circumstances, specifying a task as non-core may generalize the complexity of putting the organization in trouble (Heikkila and Cordon 2002). The discussion and justifications notified above recommend that the examination of variations in business activities, implications of performance, organizations, and points in time, will need detailed segmentations of facts and figures (Conklin 2005). Moreover, top personnel of the organization must think about to contrast between core and noncore competencies in deciding which human resource function would be a prospective contender for outsourcing (Conklin 2005).

2.1   Potential risk and benefits

As the trend of HR outsourcing is rising rapidly, almost every organization is engaging them in its sphere as revealed by the research work of Hewitt Associates where 94% of the respondents admitted the fact of outsourcing at least one HR function (Gurchiek 2005). This is due to the potential benefits organizations can have when they seek external help for any business case (CIPD 2009). Moreover, the research of CIPD (2009) revealed that the primary reasons for performing outsourcing activities are cost minimization (61%), access to information and knowledge (71%) and superiority (64%). The prospects and benefits of outsourcing HR functions be also contained in the work of many authors and literature ((Belcourt 2006; CIPD 2009; Tian 2007; Saha 2009; Kang and Wu 2009; Nagpal 2008). The following section would cover some of the potential benefits of HR outsourcing based on the existing literature:

Saving money has been considered as one of the primary reasons for outsourcing as organizations believe the expert agency can spread the cost more efficiently and economy of scale can be achieved (Belcourt 2006). Outsourcing performed for financial benefits ranges from 10-20% with a regular average of 15% (Henneman 2005; Adler 2003; Oshima, Kao and Tower 2005). Besides, it has been revealed that administrative work can be lessened to by half and focus on tactical issues can be increased by 40% if organizations rent external service (Oshima, Kao and Tower 2005). Therefore, organizations today decided to concentrate on their unique competency and outsource secondary

function form a source for which it is a core (Belcourt 2006) like practiced by Nike (Leavy 2005). Moreover, lack of technical capacity, to access new technology to managing employee data effectively and to lessen the transaction time seeking technical service has become a stable driver in the outsourcing trend (LaCity & Hirshheim 1995). Similarly, providing better service by improving quality has been considered as a crucial benefit for outsourcing particularly for the organizations whose focus is on servicing the client in terms of quick response and flexibility (Belcourt 2006). As outsourcing parties have been able to provide the required benefits many firms have achieved control in their service department (Cooke 2004). Apart from these, inspired by the philosophy of outsourcing from someone who possesses superior competencies and can do better, some companies consider outsourcing for any function seemed to be complicated by them like law and policy directing HR, training that would upgrade the skills and confidence of the employee (Belcourt 2006). However, like other significant decisions outsourcing an HR function has limitations and is not risk-free as half of the respondents expressed that they found managing outsourcing activities costlier and the service level did not reach their satisfaction benchmark (Albertson 2000). Outsourcing performed poorly in comparison other process designed to save cost like reengineering can save 50% cost whereas external source contributes only 10-15% on an average (Bryce & Useem 1998). Due to not reaching cost efficiency more than 30% of the agreements related to outsourcing did not continue (Geary & Coffey-Lewis 2002).

Failure to the trade-off between the core and non-core competencies sometimes allows organizations to outsource its unique capabilities which may risk the company's superiority in the long run (Tian 2007). For instance, U.S. based bicycle manufacturer 'Schwinn' outsourced bicycle frame to Giant Manufacturing, a Taiwanese organization which destroyed the business of Schwinn entering the bicycle market a few years later (Belcourt 2006). Besides, outsourcing can have adverse effects on employee performance and their spirits (Elmuti & Kathawala 2000). About 33% of the HR top executives oppose outsourcing activities as they think can lose their jobs, may be required to work for some other organizations or administration may not consider them as competent as an external source (Babcock 2004). The culture of an organization may break down due to outsourcing as it gives the employee the feeling of separation and reduces their skill levels instead of energizing and valuing them (Belcourt 2006). Employees who are transferred may have a disturbing experience and alteration in culture (Belcourt 2006).

Moreover, too much outsourcing may put a barrier to the growth and path of innovation of the organization. Unexpected consequences may arise including the sale of company secrets and technical expertise by the outside agency to any competitors (Belcourt 2006). Moreover, the outsourcing employee can gradually make the organization more dependent on them leaving the company hollow inside (Belcourt 2006). Besides, acquiring external help for HR function may make HR department to perform less work which in turn result in less interaction with the customers and may face a decline in the image of HR department internally (Sullivan 2002). However, it is revealed that about 1% to 20% of the HR functions being outsourced have been transferred back internally even though the limitations and risks (Gurchiek, 2005; Pollitt, 2004).

3.   Research framework

There is an adequate number of articles available for this review as it is one of the current topics of interest in the broader area of human resource management. The online library of the East West University and a few other universities were selected to access information. Elsevier, Ebsco and online searches using Google Scholar, Emerald were also used. As a source, the internet was chosen because of its extensive networking of resources. Specialists wrote sources selected from the internet in their areas and published on trustworthy sites, in refereed journals, or on professional organizational sites. Descriptive search items like outsourcing, outsourcing HR function, and e-HRM, e-recruiting, e-learning were used to retrieve research from the library and online databases. The relevance and reliability of all the sources were measured in this literature review. In searching all papers, peer---reviewed journals, time of journal submission, and journal acceptance ratio were considered to analyze and to assess the articles. The preliminary resources were chosen by reviewing the article extracts and then deciding if the contents were appropriate to the keywords.

Besides, the case study of 'CIBC' was also reviewed. The case is reviewed because the organization CIBS is a larger organization having an employee around 44000 and has reputation

regarding advances in e-HRM. This case selection process is valid and proper as it is not the paper's intent to simplify in a statistical method across all companies rather is to explore and to make a theoretical generalization (Yin, 1994).

4.   The e-HRM: Concept and role in outsourcing the HRM function

The speedy progress of the Internet facilities all over the world throughout the last decade has also facilitated the execution and use of electronic Human Resource Management (e-HRM) (Strohmeier 2006). The numbers of companies embracing the philosophy of e-HRM and initiating its application within the organization are rapidly growing as published by the work of many HR specialists (CedarCrestone 2005). Similarly, scholars and academicians around the globe have also found interests in e-HRM, and a fair number of empirical researches exist regarding this issue (Townsend & Bennett 2003; Stanton & Coovert 2004 and Viswesvaran 2003). However, the findings of these researches are still imprecise due to a multidisciplinary approach as well as a random spread in plentiful journals (Anderson, 2003; Lievens & Harris 2003; Welsh et al. 2003).

The notion of e-HRM has been explained as an approach and means to executing the human resource management related tactics, policies and systems in organizations through continuous assistance and complete application of web-based knowledge and technology (Ruel, Bondarouk and Looise, 2004). Later the definition has been clarified more by Strohmeier (2007) from the perspective of technology and company explaining that to assist communications and interactions between two or more individuals in carrying shared HR tasks e-HRM is anything but the use of information technology. However, these two definitions consider e-HRM from a technical view and process view that might arise misunderstanding making it hard to decide where knowledge discontinue, and organization continue (Barley 1988). Therefore, the distinctive meaning of technology has been questioned by Orlikowski and Scott (2008) and recommended to regard them as from the history and theory perspective. However, e-recruiting (use of web sites to attract applicants for the company, Dineen & Noe 2009) has gained much attention in e-HRM research (Dulebohn & Stone 2013). Some of this kind of research focused on the impact of website features (Dineen & Noe, 2009) while some other emphasize factors influencing a job-seekers intention to choose prospective jobs (Stone, Lukaszewski and Isenhour 2005). Besides, few pieces of research in e-HRM have been done regarding the usefulness of selection process over websites (Dulebohn & Stone 2013). Also, much of this work consider the aspect of uniformity of computer-based and paper recruitment examination as well as behavior inventories (Potosky & Bobko 2004).

Moreover, few pieces of research focused on the application of the online-based process to improve the efficiency of the HR system like the use of the electronic job evaluation system (Payne et al. 2009). Besides, several studies focused on electronic payment and benefits structure (Dulebohn & Marler, 2005). Apart from these, electronic performance appraisal system has also contained in few articles (Cardy & Miller 2005), and within it, Payne et al. (2009) contrasted the effectiveness performance evaluation structure in terms of online and offline. Also, many studies have considered the aspect of monitoring performance (Aiello 1995)

Table 1: Few papers that examine different issues associated with the implementation and use of an e-HRM

	Issues addressed	Methodology	e-HRM focus
Heikkilä	Societal: Cognitive, regulative and normative influences on e-HRM practices in Chinese MNC subsidiaries	Cross-case interviews in 10 subsidiaries of MNCs in China	e-HRM was hybridized to include some standard processes from HQ but also some adapted systems to support local needs
Tansley et al	Team: Hybrid project team with a mix of knowledge and skills	Interpretive case study	e-HRM but limited discussion of the technology itself
Maier et al.	Individual: Attitudes to new IS which influence job	Positivist survey	e-Recruiting, but only generic statements about

	satisfaction and labor turnover		how this changes roles
Dery et al.	Organization: Network formations around the legacy and new HRIS	Interpretive case study	HRIS as an actor in the HRIS change project

Source: Grant, D., & Newell, S. (2013).

The previous studies regarding e-HRM recommended that it can enhance the effectiveness of HR related activities, facilitate service delivery, and can play the role strategic driver by transforming the place of HR tasks (Martin, Reddington and Alexander 2008, Hendrickson 2003). e- HRM can be applied to activities like regular dealings and record keeping; routine HR tasks like hiring, retaining, motivating talent of the organization, designing performance and compensation appraisal system; and transformational conduct that create values for the company (Thite and Kavanagh 2008). However, most of the studies emphasize two benefits of e-HRM for the functions related to HR including (a) the progress of competencies and minimization of costs connected with HRM (Buckley et al. 2003) and (b) performing the strategic role of catalyst for HR activities itself (Gardner, Lepak and Bartel 2003). As an innovative and strategic oriented function of HR, Human resource outsourcing and e-HRM can play a significant role to build future HR structure (Kanter 2003). Human resource outsourcing and e-HRM have the similarities in the progress patterns, and both of them might have similar kind of influence on the effectiveness and role of HR related activities (Tremblay, Patry and Lanoie 2008). (Aguinis & Lawal (2012) introduced an original function of e-HRM called e-Lancing or internet freelancing with which employer of an organization can place jobs or any assignment over websites as well as recruit personnel or communicate any outside source from anywhere around the world. Besides, e-selection within e-HRM has been gained the attention of many authors where it has been considered for performing essential HR functions electrically including job evaluation, recruiting and selection, employment scrutiny, supervision and validation (Stone et al. 2012); thus enabling an organization to perform globally. Moreover, once an organization started to outsource HR function like training and motivating employee, the use of e-HRM can offer useful service to the organization as it establishes IT empowered system like computer supported education and training program (Hendrickson 2003). Similarly, the work of Conklin (2005) revealed the same idea that an organization can outsource their HR functions smoothly, effectively and quickly once it set up an electronic infrastructure.

The CIBC case

CIBC composed of about 44000 employees of who 450 works in the HR department, is one of the most prominent organizations that outsource a significant percentage of its HR tasks including compensation methods, a dedicated center for job query, benefit management, employee well-being, and safety solutions, and technical knowledge of HR to an outsourcing agency specialized in HR services namely Electronic Data Systems (EDS) (Brown 2001). CIBS reduced the number of HR executive to half by transferring about 200 HR personnel to EDS as justified by the vice president of the bank that company strength does not lie in numbers rather HR should be energized with the contribution it can make in meeting company objectives (Brown 2001). The outsourcing enables CIBC to enhance its services and improving automation which in turn untie the HR division from thinking regular transaction affairs and make them focus more policy and strategically related issues to shift the business advance (Brown 2001). Thus, releasing human resource department from expensive, time killing and increasingly difficult management of numerous HR activities and shifting the routine administration of many HR tasks to an outsider specialized in it has been recognized and valued. And, this would not only help the organization to reduce its cost by gaining economy of scale and acquiring competencies from the modern technical know-how but also assist in achieving long-run success and unique advantage by concentrating and practicing tactical as well as a strategic phenomenon (Tian 2007).

5.   Conclusion

Human resource outsourcing (HRO) is an innovation and has been accepted widely all over the world to outsource the business process. Different types HR functions including compensation management, performance evaluations, the selection process, benefits management, application

screening, health and safety, retirement policy have been considered to be outsourced by many organizations to attain the economy of scale, efficiency, flexibility, improve service and to access HR expertise. However, outsourcing also has its dark sides if it is not planned and managed properly. It can destroy the organizations competitive advantages; reduce the moral of internal employee and values. Therefore, many scholars suggested outsourcing only non-core competencies.

Moreover, for the efficient and smooth operation of the outsourcing process application of the e-HRM concept has gained momentum. The e-HRM can play a significant role in outsourcing HR function with its information and technology empowered system. However, debate exists whether too much outsourcing or outsourcing more of HR functions will demoralize the HR department of the organization or not. Based on the existing literature and case studies it is concluded that the company should not resist outsourcing as it would make the Human resource department more efficient. Properly managed outsourcing will allow the HR department to leave the traditional routine job and to spend more time thinking of strategic issues which will move forward the business.

However, successful outsourcing largely depends on the proper management of agent selection, negotiation of the agreement and supervising the planning (Belcourt 2006). To select a vendor a company should set up a request for proposal (Belcourt 2006) and establish a team to appraise invited bids as this arrangement gave success to many companies (LaCity & Hirschheim 1995). While negotiating the agreement organization should not entertain the vendor to make the provisions as it might not include the performance benchmark or penalty clauses (LaCity & Hirschheim 1995). Finally, building and nourishing a rapport with the vendor is essential so that they can comprehend the particular requirements and can serve the highest interest of the organization.

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