CHAPTER 2: REVIEW OF LITERATURE

2.1 Role of Internal and External Agents in HRM: Brief Overview

2.2 Role of Internal Agents in HRM
   2.2.1 Role of Line Managers in HRM
      2.2.1.1 Dimensions of Line Manager Roles
      2.2.1.2 Line Manager Roles: Key HRM Domains
      2.2.1.3 Rationale for Role of Line Managers in HRM
      2.2.1.4 Role of Line Managers in HRM: Barriers and Constraints
   2.2.2 Role of Top Management in HRM
      2.2.2.1 Dimensions of Top Management Roles
      2.2.2.2 Top Management Roles: Key HRM Domains
      2.2.2.3 Rationale for Role of Top Management in HRM

2.3 Role of External Agents in HRM
   2.3.1 External Service Providers: HR Outsourcing
   2.3.2 Dimensions of Human Resource Outsourcing
   2.3.3 Human Resource Outsourcing: Key HRM Domains
   2.3.4 Rationale for Human Resource Outsourcing
   2.3.5 Human Resource Outsourcing: Barriers and Constraints

2.4 Constructs to Measure Role of Agents in HRM

2.5 Alternate Variables to Measure Role of Agents in HRM
   2.5.1 Performance Measures as Outcome Variables
   2.5.2 Moderating Variables
   2.5.3 Mediating Variables

2.6 Internal and External Agents in HRM: An Indian Perspective
Chapter Overview

This chapter provides a review of the existing literature on the role of internal agents (line managers and top management) and external agents (external service providers) in HRM. This chapter begins with a discussion of role of internal agents in HRM. Thereafter, it elaborates on the role of external agents in HRM followed by an overview of different constructs used to measure the above roles. Finally, it gives an insight into the status of empirical researches undertaken on these roles in the Indian context.

2.1 Role of Internal and External Agents in HRM: Brief Overview

The rapid changes in the business environment have substantially transformed the roles of the HR professionals as well as the way people are managed in business organizations. In this context, Valverde et al. (2006) have recognized the contribution of internal agents viz. line managers and top management and external agents viz. external service providers in HRM.

Thus, it implies that agents other than the HR department may be involved in the management of people in organizations. Primarily research talks about two important categories of agents viz. internal and external agents.

Internal Agents: In today’s organizations, role of internal agents have changed and it continues to evolve with the changing needs of the organizations. Both line managers and top management are seen to be participating in management of HR, albeit with differing degrees of involvement (Valverde et al., 2006). Internal agents include:

- Line managers, who traditionally have been given responsibility for some operational aspects of managing people, but whose role in HRM has continued to increase (Hutchinson & Wood 1995; Keen & Vickerstaff, 1997; Perry & Kulik, 2008; Schuler, 1992; Storey, 1992).
Top management, who make strategic decisions (including HRM strategic decisions), establish the organization’s values and philosophy (Guest, 1997; Lepak & Snell, 1999a; Schuler & Jackson, 1999) and influence its whole approach to managing people (Stanton et al., 2010; Sisson & Storey, 2000).

External Agents: External agents include external HR service providers or HR outsourcing agencies usually contracted by organizations to provide administrative HRM services or professional, specialised HRM solutions (Cook, 1999; Young, 2000). The outsourcing of these activities has also been found to be on the increase (Hall & Torrington, 1998).

Valverde et al. (2006: 618-9) opine strongly in favour of distributing HRM responsibilities across agents:

“The HR function is not understood simply as the set of activities performed by the HR department, but as all managerial actions carried out at any level regarding the organization of work and the entry, development and exit of people in the organisation so that their competencies are used at their best in order to achieve corporate objectives……….. In this sense, agents other than the HR department may be involved in the management of people in organizations”.

Morley et al. (2006) noted that in recent times, more and more HR role is carried out in the organizations through internal and external devolution. Internal devolution involves transfer of HR responsibilities to line managers while external devolution deals with outsourcing of HR activities to external contractors. The concept of internal devolution is discussed in detail in sub-section 2.2 while description of external devolution is provided in section 2.3.

Several researchers have reported the role of internal agents viz. line managers and top management (Brewster et al., 2004; Harris et al., 2002; Larsen & Brewster, 2003; Legge, 1995; Morley et al., 2006; Schuler & Jackson, 1999; Thornhill & Saunders, 1998; Valverde et al., 2006) and external agents viz. external service providers (Delmotte & Sels, 2008; Klass et al., 2001; Morley et al., 2006; Valverde et al., 2006) in HRM.

The focus of scholars on role of internal and external agents in HRM is mixed. Generally, two types of studies are reported from literature viz. general studies on sharing of HR responsibilities and secondly, studies on specific HR areas (Casco’n-Pereira et al., 2006). The general studies talk about the role of agents in
overall management of human resources (Hall & Torrington, 1998; Sparrow et al., 1994), while in case of specific studies role of agents in specific HR areas has been explored (e.g. Currie & Procter, 2001; Dick & Hyde, 2006; McCarthy et al., 2010). Various reasons are cited for the increasing involvement and participation of the above agents in HRM such as emergence of flatter organization structures, changing division of labour, strategic integration, transaction costs, high quality, flexibility and high commitment (Guest, 1989; Morley et al., 2006).

2.2 Role of Internal Agents in HRM

The involvement of internal agents in HRM is becoming a global trend. The role of both types of internal agents viz. line managers and top management is growing. Maxwell et al. (2004) identified the potential enablers of line managers’ involvement in HR activities such as top management support for HR, integration of HR activities with organizational goals and benchmarking of HR.

Researchers in the area have reported that internal agents can be given more control of HRM strategy by allowing their involvement in decision making at the policy formation level as well as developing strategic partnerships between HRM, senior and line managers (Hall & Torrington, 1998; McCracken & Wallace, 2000). The involvement of top management ensures that HRM is given due consideration at top level and there is integration of HR policies and practices with the organizational strategy. As HR polices cascade down, line managers become important stakeholders in influencing how HR polices are interpreted and enacted. Previous research studies in the area suggest that the involvement of these two groups of managers in HRM is critical to the effectiveness of HR (Currie & Procter, 2001; Mayrhofer et al., 2004; Purcell & Hutchinson, 2007).

Prior literature also suggests that the role of internal agents in HRM is analysed on individual and separate basis (McCarthy et al., 2010). Moreover, research also indicates that internal agents understand the important role of HR in helping their organizations to gain competitive advantage (Papalexandris & Panayotopoulou, 2003). Research evidences reveal the positive implications of involvement of internal agents in HRM (Bond & Wise, 2003; Perry & Kulik, 2008). In addition to this, several potential benefits are linked with internal agents involvement such as
faster decision making (Budhwar, 2000a; Whittakker & Marchington, 2003), and facilitating individual and organizational performance (Watson & Maxwell, 2007).  

2.2.1 Role of Line Managers in HRM  

During the last three decades, considerable changes have influenced the roles of line managers when it comes to managing people. Line managers play an important role in HRM, since they are expected to create a synergy between human, financial and physical resources by allocating time, money and energy to the development of their subordinates (Brewster & Larsen, 1992). A number of research studies have indicated the significance of involvement of line and middle managers in HRM (e.g. Qadeer et al., 2011; Nonaka, 1988; Smith, 1997). Transfer of HR responsibilities to the line denotes that line managers should become more involved in HRM so that HR staff can take on a greater strategic role (Finegold & Frenkel, 2006; Legge, 1995; Sisson & Storey, 2000). Teo and Rodwell (2007) reported the importance of line managers in operationalization of HRM goals and further add that line or middle managers’ involvement in HR processes and activities release the HR managers from day-to-day functional roles.

Various descriptions have been used to explain the relationship between line and HR managers such as “the filling-in-the sandwich” (McConville & Holden, 1999), “partnership” (Hutchinson & Wood, 1995; Hall & Torrington, 1998), “piggy-in-the-middle” (McConville, 2006), “linking pins” (Likert, 1961). In this context, several researchers have used the term devolution and devolvement to define the role of line manager in HRM (Brewster & Soderstrom, 1994; Conway & Monks, 2010; McGovren et al., 1997; Morley et al., 2006). The word devolution means reallocation of personnel tasks to line managers (Armstrong & Cooke, 1992; Brewster & Larsen, 2000; Cunningham et al., 1996; Storey, 1992, Thornhill & Saunders, 1998). Morley et al. (2006) have used the term ‘internal devolution’ to describe role of line managers and argued that in case of internal devolution, line managers should play larger role in policy development besides carrying out the operational HR processes and activities.

The decentralization of HR responsibilities to the line is an important aspect of strategic HRM. Line management has been viewed as increasingly taking HR
responsibility (Clark, 1998). In many organizations today, line managers carry out activities which were traditionally performed by HR specialists. Line management traditionally have been given responsibility for some operational aspects of managing people, but their role in the HRM function has continued to increase in the present times (Storey, 1992). According to Green et al. (2006), partnership between HRM and line is getting acceptance in business organizations.

As suggested by Casco´n-Pereira et al. (2006), two types of studies on devolution can be identified: (1) general studies on HR areas being devolved (e.g. Budhwar, 2000a; Gautam & Davis, 2007; Hall & Torrington, 1998; Torrington & Hall, 1996) and (2) specific studies focusing on one single area (e.g. Bond & McCracken, 2005; Cunningham & Hyman, 1995; Currie & Procter, 2001; Dunn & Wilkinson, 2002; Marchington, 2001; Redman, 2001). The general studies on devolution focus on the HR functions that are devolved and provide an insight on how devolution can be undertaken in terms of what middle managers do. The studies impinge on the range of activities performed by middle managers in line function while the specific studies focus on precise HR activities. Some of the specific HR activities that have been explored by researchers include training and development, recruitment and selection, industrial relations, pay and reward and performance appraisal (Currie and Procter, 2001; Heraty & Morley, 1995; Hope-Hailey et al., 1997; Redman, 2001; Wood, 1995). On the basis of existing perspectives, a summary of characteristics of devolution is presented in Table 2.1.

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Characteristic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Khatri (2000)</td>
<td>Free information flow between HR and line</td>
</tr>
<tr>
<td>Casco´n-Pereira et al. (2006)</td>
<td>Devolvement of decision-making power</td>
</tr>
<tr>
<td>Green et al. (2006)</td>
<td>Partnership between HRM and line</td>
</tr>
<tr>
<td>Green et al. (2006)</td>
<td>Identification of HR problems done jointly</td>
</tr>
<tr>
<td>Nixon and Carroll (1994)</td>
<td>Developing soft skills among line managers</td>
</tr>
<tr>
<td>Mayne and Brewster (1995)</td>
<td>Devolvement is driven by both organizational and effectiveness criteria</td>
</tr>
<tr>
<td>Budhwar and Sparrow (1997), Harris et al. (2002)</td>
<td>Line managers given training in HRM</td>
</tr>
</tbody>
</table>

Source: Prepared by the Researcher
One of the major changes in HRM that affect the line managers is the advancement of technology. The growth in the field of information technology can simplify HR processes and deliver HR advice and services to the line managers (Papalexandris & Panayotopoulou, 2003). Renwick & McNeil (2002) noted that the use of information technology tools have made it possible for line managers to deal with some HR tasks without the assistance of the HR department, while in software industry line managers perform all the HR tasks on their own (Brewster & Larsen, 2000). Qadeer et al. (2011) have presented a detailed review of the relevant literature in the area and identified the supports and barriers for the line managers to take on HR responsibilities.

2.2.1.1 Dimensions of Line Manager Roles

Hall and Torrington (1998) studied the distribution of HR tasks between personnel specialists and middle managers. They found evidence of devolution of day-to-day personnel matters to line managers in UK. Valverde (2001) compared the contribution that the different HR agents make to the HR function. Findings of the study show middle managers’ involvement in operational level HR decisions and daily people management activities such as identifying training needs, carrying out performance appraisal and service delivery functions such as acting as trainers or interviewing candidates in a selection process.

Watson and Maxwell (2007) on the basis of case study evidence, argued that line managers' knowledge on the basis of their involvement in HR tasks may improve their performance in HR activities. Cascon-Pereira et al. (2006) identified the tasks that are devolved and degree of devolution along a number of dimensions. Cunningham and Hyman (1995) studied the changes in employee relation practices in UK and found that the organizations are adopting both hard and soft approaches for managing people as a result of which line manager are experiencing significant changes in their role.

Storey (1995) proposes that line managers should be closely involved as both the deliverers and drivers of HR policies. Gennard and Kelly (1997) concluded that with the emergence of SHRM, the line-personnel relationship has changed. The third *Workplace Industrial Relations Survey* (WIRS 3) puts forward that line
managers were spending more of their time on HR activities during 1980s (Millward et al., 1992).

Cunningham and Hyman (1999) reported that many organizations are increasingly devolving personnel responsibility to line managers. This has been attributed to growing competition. The study finds that devolved responsibilities of personnel are formally geared to securing commitment from employees by promoting an integrative culture of employee management through line managers. Renwick (2000) pointed out that both costs as well as benefits are associated with the involvement of line managers in HRM. The benefit includes willingness and flexibility of line managers to take on increased responsibility in HRM and feel it as a career-enhancing work, while organizational costs involve the line feeling under pressure to complete HR tasks owing to their involvement in HRM.

Bond and McCracken (2005) drawing on case studies research in four financial sector companies in Scotland proposed a model for line manager decision-making for dealing with requests for time off at short notice. The model outlined the important factors such as extent of devolution, company polices, type of emergency, operational constraints and employee commitment that effect the line managers decisions and leads to good and poor decision-making. However, these factors are mediated by line managers’ common sense or tacit knowledge in dealing with these areas.

Kulik and Bainbridge (2006) found evidence of a trend within Australian organizations to devolve people management activities to the line. Results revealed that human resource managers and line managers have different views of the trend, with HR managers being more optimistic that the trend has had positive organizational outcomes and anticipating more devolution to occur in the future.

Hutchinson and Purcell (2010) analyzed the human resource management responsibilities of ward managers and paramedic supervisors in NHS trust. The results of the study reveal that the roles of these front-line managers have been enlarged without support from senior managers and the HR function due to which issues of role conflict and ambiguity, heavy workloads and stress increased.

Whittaker and Marchington (2003) explored the relationship between line managers and their HR counterparts. Findings of the study reveals that line
managers are satisfied with the support they receive in performing the devolved HR responsibilities and are keen to take on the responsibilities that are explicitly related to the development of their team. Most line managers report working closely with their HR counterparts. Cantrell and Miele (2007) report that line managers are now involved in various people management activities like staff planning, recruitment, performance management, staff development, pay, career development and communications.

Harris et al. (2002) studied the transfer of HR responsibilities in regulated environment in UK public sector organizations and revealed that line managers and HR specialists shared the responsibility of effectiveness and long-term sustainability with respect to increased regulatory environment. Larsen and Brewster (2003) reported that the HR tasks are increasingly transferred to line managers but the degree of involvement in such tasks differs across European nations.

Hsu & Leat’s (2000) study indicated the role of line managers in HRM decision-making. They revealed that line managers are influential in decision-making regarding training and development, recruitment and selection and workforce expansion and reduction. Conway and Monks (2010) analyzed the impact of organizational restructuring on the devolution of HRM to middle managers in the Irish health service. Results of the study pointed out that increased layers of bureaucracy brought about by the centralisation process create problems of decision-making by HR and middle managers.

Storey (1992) proposed a typology of senior and middle line managers which provides insights about the role that line managers can adopt in organizations. Two key dimensions of line managers’ role is identified which is integrated in a matrix. The first dimension reveals the extent to which a manager is commercially or technically oriented. The second dimension measures the degree to which a manager takes proactive or reactive decision. The integrated matrix presents four types of line managers i.e. Production manager, Manufacturing manager, Business manager and Sales manager.

The typology presents the responsibility for HR will vary according to the role that line managers will perform. Production manager is the traditional interpretation of
the role. Thus it is likely that training and development responsibilities would largely be the remit of the specialists in this situation. The manufacturing managers actively seek to find innovative ways. This type of line managers are more generalists, they have greater responsibility and they undertake a wide range of tasks. Under this typology, HR responsibility could be expected to be shared responsibility between the specialist and the manufacturing manager. The business manager has an awareness of the total organization and how it fits within its wider environment. Here, HR might again be a shared responsibility, but in this the line assumes the greater ownership. The fourth type of line manager is the sales manager. This type of manager continues to operate in a reactive environment but shifts in orientation from technical aspects of production to commercial aspects. While conceptually possible, Storey (1992) found little evidence of this type of line manager. The above typology of Storey (1992) is depicted in Exhibit 2.1

Exhibit 2.1: Typology of Line Manager Roles

Tulgan (2001) remarks that line manager roles in learning and development at work matters in the milieu of boundery-less careers. There are five non-monetary factors that are relevant to the boundery-less careers, where the career paths followed by people are no longer restricted to old pathways in one organization or one area of work:

- When they work – offer relief from gruelling schedules.
- Where they work – the options of elements of home working.
- What they do – downshifting as well as career advancement.
- Who they work with – the quality of networks and teams.
- What they are learning – not just for performance, but also for employability.

Gibb (2003) carried out a study on line manager involvement in learning and development at work. The benefits of increasing line involvement in learning and development at work is negated by the disadvantages in involving line manager. The study presented two explanations in the form of a continuum to justify the trend of line manager involvement in learning and development at work. The first continuum plots significance of line managers’ involvement from minimal to profound significance. The second continuum addresses the question of whether devolution is aligned with control or commitment systems.

According to minimal significance perspective greater line management involvement in learning and development is simply an extension of conventional management control. On the other hand, profound significance supports the shift to commitment systems with the re-invention of management that involve the growth of new HRM practices. The study concluded that although there are apprehensions about greater line involvement in learning and development at work which is negated by the greater anxiety to reaffirm work organization and management in an era of knowledge management.

Exhibit 2.2 presents the typology of different perspectives that can be used to map the role of line manager as developers. As evident from Exhibit 2.2, there are levels of correlation between line manager and the employer as descriptions of roles and careers for management change with changing organizational contexts.
Casco’n-Pereira et al. (2006) identified the following dimensions of devolution:

a) tasks/responsibilities  
b) decision-making power  
c) financial power and  
d) expertise power

The authors assessed the transfer of each of these dimensions in each personnel area. It is presumed that these four dimensions are likely to play a role in HR function’s devolvement to line managers. As some studies suggest, the reality of devolution is not simple and the transfer of HR functions to middle managers appear in a great variety of forms, not only in terms of different HR areas or activities but also in terms of different degrees – tasks, knowledge and expertise, financial power and decision-making power. The devolution of each of these dimensions may have a distinctive impact on middle managers perceptions.
McGuire et al. (2008) concluded that commercialization of the public sector has led to the enhanced staff performance and in this context the role of line managers become imperative. Exhibit 2.3 presents a framework for line managers’ HR involvement, the success of which depends on striking a balance between factors favoring devolvement and those inhibiting HR involvement.

Exhibit 2.3: A Framework for Line Manager-HR Involvement

<table>
<thead>
<tr>
<th>Enablers of line manager HR involvement</th>
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<tbody>
<tr>
<td>• Greater degrees of responsibility &amp; task variation</td>
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<td>• HR information systems</td>
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<tr>
<td>• Close relationships with employees</td>
</tr>
<tr>
<td>• Formation of strategic partnerships</td>
</tr>
</tbody>
</table>

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<tr>
<th>Public sector change driven by:</th>
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<tbody>
<tr>
<td>• Commercialisation</td>
</tr>
<tr>
<td>• High quality service delivery</td>
</tr>
<tr>
<td>• Greater financial and public accountability</td>
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<tr>
<td>• Cost rationalisation</td>
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<table>
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<tr>
<th>Line manager involvement in HR process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of change experienced in HR processes &amp; quality of service delivery</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inhibitors of line manager HR involvement</th>
</tr>
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<tbody>
<tr>
<td>• Lack of training &amp; support</td>
</tr>
<tr>
<td>• Excess Workload</td>
</tr>
<tr>
<td>• Short-term priorities surpassing long-term development initiatives</td>
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<tr>
<td>Political pressures</td>
</tr>
</tbody>
</table>

Source: Adapted from McGuire, D., Stoner, L. and Mylona, S. (2008). The role of line managers as human resource agents in fostering organizational change in public services. Journal of Change Management, 8(1), 73-84

In order to illustrate the divergent view points of the researchers regarding the role of middle managers in strategic change, Floyd and Wooldridge (1992), (1994), (1997) and Wooldridge and Floyd (1990) have developed a typology that helps us to recognize the role of middle managers to the realization of strategy and the conditions necessary for this to take place. The framework is outlined in Exhibit 2.4 and it reveals the upward and downward influence of middle managers in the strategic change process allowing for a consideration of an enhanced role of middle or line managers in acting as change agents for employees.
In upward influence, middle managers are engaged in ‘championing alternatives’ and ‘synthesising information’ roles. In championing alternatives role, middle managers conceive business opportunities that fall outside an organization’s current concept of strategy. In their synthesising information role, middle managers also supply executive management with information about emerging issues, e.g. internal or external developments, and events and trends viewed as consequential to the organization. In doing this, middle managers serve an important role in identifying strategic issues. In downward influence, middle managers carry out the roles of ‘facilitating adaptability’ and ‘implementing deliberate strategy’. Middle managers may stimulate emergent strategic change from employees which may not be anticipated in the deliberate strategy set out by executive management.

Exhibit 2.4 Typology of Middle Manager Influence

<table>
<thead>
<tr>
<th>Behavioural Activity</th>
<th>Upward Influence</th>
<th>Downward Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Championing Strategy</td>
<td>Synthesising Information</td>
<td></td>
</tr>
<tr>
<td>Facilitating Adaptability</td>
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2.2.1.2 Line Manager Roles: Key HRM Domains

A number of scholars have carried out studies dealing with specific areas of HR devolution. For instance, Marchington’s (2001) and Fenton-O’Creevy’s (2001) studies of middle managers attitudes towards employee involvement, Redman’s (2001) study about devolvement of performance appraisal function, Currie and
Procter’s (2001) work on the area of pay and Dunn and Wilkinson’s (2002) study in the area of absence management.

Bond and Wise (2003) carried out a study to know the familiarity of line managers in executing the legal and company family leave policies as well as the training support provided to them. The result obtained from the case studies of four financial sector organizations found that line managers’ training on the above stated area is limited, as a consequence of which, HR specialists’ role is to provide information and training to line managers for effectiveness. Heraty and Morley (1995) carried out a study to find out the issues involved in devolving training and development to line and the resultant consequences. The result of the study concluded that there is evidence of devolvement of operational issues and concerns but it found little evidence of devolvement of strategic issues like policy development. Factors such as importance of the activity from a strategic perspective, the issue of ownership, differing perspectives between line managers and specialists and the organizational support for line managers to conduct training and development activities in a competent manner were responsible for complete devolvement to the line.

Rockart (1988) found that the growth in information technology has increased the business opportunities so is the role of line managers in system formation and execution. Siugzdiniene (2008) points out that as organizations are striving to make HRD function leaner and more strategic; line managers are increasingly becoming responsible for performing HRD activities in order to facilitate employee learning and development. The increased expectation about line managers’ role in HRD has necessitated substantial investments in capacity development of line managers. Study by Industrial Relations Services (1994) found different perceptions depending on the different HR areas devolved. In this study it was found that line managers would be most likely to have responsibility for issues related to departmental performance and least responsible for issues that required a singular stance and homogeneity of policy.

Andolšek and Štebe (2005) studied the influence of organizational characteristics (size, age, numerical flexibility, HRM strategies, HRM policies) and situational factors (sector, state) on devolution of HRM in five European countries. The focus of the study was on the following HR areas: recruitment, pay, training, industrial
relations and workforce reduction. The results of the study revealed that devolution is dependent on external institutional factors and institutional environment is the main factor that encourages or limits the devolution.

Renwick and MacNeil (2002) studied the role of line managers in developing employee careers, the change that is expected from them and the impact of such changes on their careers. It was concluded that in the competitive business environment, line managers are looking for the ways and means to enhance the performance of their employees as well as their own performance in both problem solving and goal achievement.

Watson and Maxwell’s (2007) study focused on the areas where line managers are involved in HRD activities, their knowledge of HRD roles and responsibilities and the underlying difficulties they face in discharging such activities. Findings reveal that line manager through assistance from HRD professionals have started adopting HRD roles.

Wood (1995) measured line management responsibility focusing specifically on selection. Respondents were asked if in their plant line management takes responsibility for initiating and carrying out their own selection, with personnel as a support. Selection was chosen as the focus because of its centrality to personnel management. Moreover, it is likely to be the first element in any delegation of personnel matters to line managers.

Gautam and Davis (2007) studied the devolvement of pay and reward, recruitment and selection, training and development, industrial relations and workforce an increasing line management responsibility for the above stated HR areas. MacNeil (2003) explored the role of line managers in facilitating creation and transfer of tacit knowledge in teams as well as the barriers concerning the transfer of tacit knowledge between individuals and teams and finally emphasized the importance of developing line managers as facilitators. MacNeil (2003) highlighted that as competitive business pressures results in centralized structures, flatter management layers, adoption of team-working processes and employee empowerment, line managers offers key role in contributing to strategic HRM outcomes by encouraging knowledge sharing in teams. Table 2.2 presents a summary of key HR domains explored by researchers in this area.
Table 2.2: Key HR Domains vis-à-vis Line Manager Roles

<table>
<thead>
<tr>
<th>HR Domain</th>
<th>Researchers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee engagement</td>
<td>Marchington (2001), Fenton-O’Creevy’s (2001)</td>
</tr>
<tr>
<td>Identification of training needs</td>
<td>Green et al. (2006), Watson et al. (2007)</td>
</tr>
<tr>
<td>Performance appraisal</td>
<td>Redman (2001), Andersen et al. (2007)</td>
</tr>
<tr>
<td>Counseling</td>
<td>Nixon and Carroll (1994)</td>
</tr>
<tr>
<td>Compensation</td>
<td>Currie and Procter (2001), Hope-Hailey et al. (1997)</td>
</tr>
<tr>
<td>Absence management</td>
<td>Dunn and Wilkinson’s (2002)</td>
</tr>
<tr>
<td>Legal and family leave policies</td>
<td>Bond and Wise (2003)</td>
</tr>
<tr>
<td>Training and development</td>
<td>Heraty and Morley (1995)</td>
</tr>
<tr>
<td>System formation and execution</td>
<td>Rockart (1988)</td>
</tr>
<tr>
<td>Employee learning</td>
<td>Siugzdiniene (2008)</td>
</tr>
<tr>
<td>Career management</td>
<td>Renwick and MacNeil (2002)</td>
</tr>
<tr>
<td>HRD</td>
<td>Watson and Maxwell (2007)</td>
</tr>
<tr>
<td>Industrial relations; health &amp; safety</td>
<td>Hope-Hailey et al. (1997)</td>
</tr>
<tr>
<td>Workforce expansion &amp; reduction</td>
<td>Kramar and Lake (1998)</td>
</tr>
<tr>
<td>Managing change</td>
<td>Cunningham and Hyman (1995)</td>
</tr>
<tr>
<td>Reward management</td>
<td>Brown and Purcell (2007)</td>
</tr>
<tr>
<td>HR planning, recruitment, selection</td>
<td>Srimannarayana (2010)</td>
</tr>
<tr>
<td>Recruitment, pay, training, industrial relations and workforce reduction</td>
<td>Andolšek and Štebe (2005), Gautam and Davis (2007)</td>
</tr>
<tr>
<td>Quality circles, appraisal, discipline, staffing levels, empowerment, team briefing, recruitment and dismissal</td>
<td>Cunningham and Hyman (1995), Hall and Torrington (1998)</td>
</tr>
</tbody>
</table>

Source: Prepared by the Researcher

Hope-Hailey et al. (1997) have found that line-HR responsibilities differ according to the specific HRM area. The HR function, for example, may still retain certain areas such as IR, pay and benefits, organizational health and safety, recruitment and selection whereas line managers take more responsibility for work force expansion and reduction (Hope-Hailey et al., 1997; Kramar & Lake, 1998).

### 2.2.1.3 Rationale for Role of Line Managers in HRM

The concept of shared responsibility for HRM by both line management and HR specialists is being recognized within the literature and there is constant debate about the same. A number of reasons are cited about the same ranging from the requirement for speed, adaptability and flexibility of HRM offerings in dynamic and changing environments (Renwick, 2000), the plan of cost reduction, increased
utilization of HR capital (Budhwar, 2000a, Renwick, 2003) and the adherence of SHRM philosophy of integrating HRM policy and practice with the needs of business (Ulrich & Brockbank, 2005).

Positioning the HRM responsibility at a local level through line management provides managers the opportunity to be directly involved in the HRM issues affecting their own staff and department. The logic behind this rationale is that an employee’s line managers may be more properly placed to interact, translate and disseminate HR policy and practice to bring out commitment and performance (Larsen & Brewster, 2003; Renwick, 2000). The reallocation of HR responsibilities results in motivating employees through nurturing effective control as line managers are in regular contact with the employees. In addition to this, the reallocation of HR function to line managers has a positive effect on organizational performance (Harrison, 2005). Gibb (2003) has associated devolvement with increase in quality at work, development of a wide range of people related capabilities, alignment of HRD with broader organization’s strategic goals and transformation of managers as better people managers.

With the line managers assuming an increased role in the transactional delivery of people processes, HR managers may be released from this task thus, enabling them to focus on strategic value adding activities (Cunningham & Hayman, 1999). The decision to devolve HRM to line management may increase the speed of decision-making on HRM issues as evidenced in the findings of Larsen and Brewster (2003) and Renwick (2000). Their studies established that devolution may limit the repetition of effort within HRM delivery and reduce financial costs through reducing headcounts of HR and by enabling them to focus on strategic value adding activities as opposed to those of a transactional nature.

Research findings on the extent of devolvement to the line have been mixed (Brewster & Larsen, 2000; Budhwar, 2000b; Harris et al., 2002). However, a number of studies support the positive impact of devolution on different measures of organizational performance. Participation between HR and line helps in enhancing organizational performance (Gennard & Kelly, 1997; Guest, 1987; Thornhill & Saunders, 1998). Budhwar (2000b) revealed the positive implications of the devolvement of HRM to line managers on a firm’s performance.
Renwick (2003), based on interviews with line managers on their experiences in handling HR work that has been devolved to them in three different work organizations located in UK, found that significant organizational benefits exist from involving the line in HR work like line willingness and flexibility to take on increased responsibility and accountability in HR work. Adams’ (1991) research indicated that innovations in HR occurred where personnel is decentralized to line managers.

Andersen et al. (2007) revealed that strategic integration and devolvement of HRM is accomplished to a fair level in the organizations and the amount of configuration of HRM with business objectives and strategies is associated with firm performance. In this context, line management training in HR practices had an optimistic association with firm performance. The condition of HRM in Australian organizations can be improved by enhancing training and support of line managers in the devolvement of HR practices.

Hutchinson and Purcell (2003) indicated that line manager involvement in coaching, guidance and communication positively influences organizational performance. Mcguire et al (2008) found that devolvement of HR responsibilities to line managers has enhanced the public services as well as improved employee performance as a result of swiftly dealing with the workplace problems and faster decision-making.

Dopson and Stewart’s (1990) and Kanter’s (1982) studies revealed that an organization’s competitive advantage will increasingly depend on the degree to which middle managers have a greater input into the strategy and policy arena. Middle managers make vital contribution to organizational performance (Currie & Proctor, 2005; Floyd & Wooldridge, 1994, 1997; Huy, 2001). Hutchinson and Purcell (2010) on the basis of case study research in NHS trust reported that frontline managers are important to the delivery of effective HRM and thus strongly influence organizational performance and service delivery.

Research studies have stressed the importance of organization of HRM within the company in order to improve the organizational performance (Brewster et al., 1997; Budhwar & Sparrow, 1997). In this context, the main features of HRM organization as highlighted in different studies includes integration of HRM and
business strategy (Boswell, 2006; Truss & Gratton, 1994) and distribution of roles and influence of HRM specialists and line managers (Andolšek & Stebe, 2005; Hall & Torrington, 1998). Results of the Dany et al. (2008) study pointed out the moderating impact of distribution of roles and influence between HRM specialists and line managers on the link between HRM integration and organizational performance. Further, the results reveal that level of integration and distribution of roles and influence between HRM specialists and line managers has positive performance implications only in particular situations.

Brown and Purcell (2007) study reported the positive impact of line manager involvement in reward management on organizational performance. Many researchers have indicated that line participation and decision-making in HR activities helps in enhancing organizational performance (Azmi, 2010; Gennard & Kelly, 1997; Guest, 1987; Thornhill & Saunders, 1998). Line manager involvement in communication, guidance and coaching, positively influences organizational performance (Hutchinson & Purcell, 2003). Purcell and Hutchinson (2007) reported that front-line managers act as agents in the HRM performance chain and the quality of leadership behaviour and satisfaction with HR practises have a strong effect on employee attitudes. Mitsuhashi et al. (2000) analysed the line and HR executives’ perceived effectiveness and importance of HR departments. The results of the study revealed the differences between the perceived effectiveness of the entire HR function as rated by HR and line executives.

2.2.1.4 Role of Line Managers in HRM: Barriers and Constraints

There is a clear difference between the rhetoric of devolution and what actually happens in practice (Casco’-Pereira et al., 2006). Although there is evidence of increased line involvement in the management of human resources, there is still some resistance to the uptake of HR responsibilities at the line level (Cunningham & Hyman, 1995, 1999; Currie & Procter, 2001; Poole & Jenkins, 1997; Renwick, 2000). Cunningham and Hyman (1995) pointed out that organizations are finding it difficult to transfer the HR vision of senior management down to the line since line managers lacked the necessary skills as well as resources. Further, Cunningham
and Hyman (1999) reported that many organizations have devolved personnel responsibility to line managers as a result of restructuring of personnel activity but line managers are not satisfied with the training provided to them by personnel department to deal with HR matters. Tensions exist between line managers and personnel and the function appears to be vulnerable to further contraction.

There is still some concern that several barriers remain to the adoption of general joint arrangements. Within the process of devolution, the configuration of responsibilities is still to be resolved (Renwick, 2000). Marchington (1999) has explained that leaving too much to the line may result in inattention and inconsistencies in approach and retaining too much control with HR runs the risk that problems will not be dealt with using an appropriate business focus. McGovern et al. (1997) reported in their study that line managers are disinclined in taking HR tasks viewing it as illogical. As a consequence of this, HR departments are hesitant to transfer responsibilities to line owing to their knowledge, skill and capability to bear these tasks. Renwick (2003) pointed out that devolution involves significant organizational costs like the line feeling under pressure to complete HR tasks amongst other duties and not seeing themselves as experts in HR work. Harris et al (2002) too concur with this view and point out that lack of specialist knowledge among the line managers was a hurdle in performing HR tasks effectively in the UK. Francis and Keegan (2006), Purcell and Hutchinson (2007) and Renwick (2000) pointed out that line manager involvement in HRM needs substantial improvement.

Thornhill and Saunders (1998) have argued that the absence of a designated human resource specialist role actually results in quite negative consequences where the scope for strategic integration is significantly impaired. Line managers may resist empowerment initiatives and fail to see the benefits of the changes. McConville (2006) reported that apprehensions do exist regarding the new role of line managers. The study suggests that middle managers intention to be proactive in HRM enhances their role but adds substantial workload as a result of which problems inflate. As a result, counseling line managers may be important since driven by budgetary pressures, line managers generally choose to concentrate more on production matters (Armstrong, 1998; Cunningham & Hyman, 1999).
other hand, HR specialists consider that line managers may not have the skills to take on personnel responsibilities effectively (Torrington & Hall, 1996).

Several scholars found that authority to make final decisions on HR by line was missing (e.g. Armstrong, 1998; Cunningham & Hyman, 1995; McConville & Holden, 1999; Patton, 2003). Schuler and Huselid (1997) consider HR-line partnership is not happening in all companies. Hope-Hailey et al. (1997) concluded that devolution to line remains problematic.

It has been noted that little has changed in the inimical attitudes of line management towards personnel (Legge, 1978). Many researchers have reported low degrees of devolution (Cunningham & Hyman, 1995, 1999). There has been little training of line managers dealing with HR issues (Renwick, 2003). The ability and willingness of line managers to carry out HR tasks remains a challenge (Bond & Wise, 2003; Currie & Procter, 2001). Hall and Torrington (1998) point to making sustained efforts to vest HRM responsibility with line. Watson et al. (2007) observed that reducing the workloads of line managers and good relations with HR are means to develop greater devolution. Line managers should be given more decision-making power (McCracken & Wallace, 2000).

In this context, McGovern et al. (1997: 26) concluded:

“the prospects for full-blown devolvement to the line are not promising given the current priorities of these businesses. Attempts to devolve HRM to the line may be possible but only if accompanied by increased monitoring on the part of the HR specialists”.

Rather than devolution of responsibilities, what is in fact needed is a partnership between HR and line managers as suggested by Currie and Proctor (2001). Kinnie (1990) studied the multi-dimensional aspect of devolution and argued that devolving authority necessarily involves devolving decision-making capacity in financial terms. McConville and Holden (1999) opine that if associated budgets are not devolved along with the responsibilities and tasks then what is being devolved is actually a liability.

Armstrong (1998) adds that if authority involves personal influence arising from knowledge or position then the devolution of expertise must be another dimension of devolution. The devolution of expertise extends devolving not only the tasks but the skills and knowledge to perform these tasks. Given the critical role of
counseling, (Nixon & Carroll, 1994) managers need to develop their counseling skills to turn out to be completely successful in their management roles. Gennard and Kelly (1997) have suggested that extensive participation between HR and line managers can create mutual benefit for both as they jointly contribute to solve business problems. Hence, organizations need to undertake a thorough examination of factors that enable successful adoption of devolution.

2.2.2 Role of Top Management in HRM

Globalization has ushered a new era in business world where national boundaries become irrelevant and organizations are competing with each other across border (Ansoff, 1991). In a knowledge driven global economy, it is intellectual and social capital rather than natural resources, financial or physical capital that is the key source of competitive advantage (Finegold & Frenkel, 2006).

In the face of this increasing international competition, Beer et al. (1984) stressed the need to focus on the value of investments in human resources as it provides a major source of competitive advantage. It is important for the top managers to evolve strategies to attract, motivate, and retain the best talent in the organization. Researchers in the area of HRM have contributed a significant amount of literature on the role and the job of top managers in an organization vis-à-vis people related issues (Chung et al., 1987; Harper, 1993; Jonas et al., 1990). Valverde et al. (2006) reported the contribution of top management in HRM. They indicate that top management make strategic decisions (including HRM strategic decisions), establish the organization’s values, goals and philosophy and influence its approach and ideology to managing people. As a result of this, top management have been identified as an important agent in HRM.

On the basis of empirical analysis Valverde et al. (2006) found evidence that top management is involved in variety of HR activities at different levels of HRM decision-making ranging from operational decision making, daily people management to a smaller degree even in administrative and technical activities. Researchers in the area have recognized the contribution of senior management in developing and implementing the strategic direction of the HR function (Guest 1997; Lepak & Snell 1999; Macky & Boxall, 2007; Stanton et al., 2010).
2.2.2.1 Dimensions of Top Management Roles

Studies in the field of HRM have reported the role of top management in the management of people in organizations (Finegold & Frenkel, 2006; Storey, 1992; Valverde et al., 2006). Recent research has examined the importance of the chief executive officer, top management team and board of directors as strategic assets (Fisher & Dowling, 1999). Hambrick and Mason (1984) term it as the upper-echelon. The upper echelons contribute to the firm’s awareness of the competitive environment. The top management team comprises of key functional heads where top executives play a key role in selecting, training, evaluating, and rewarding their immediate subordinates.

The influence of top management on HRM policies and practices is acknowledged by several writers (Heneman et al. 2000; Khilji, 2002; Tsui & Milkovich, 1987). Upper echelons notion also make out that certain traits of top managers may be related to firm performance (Hambrick & Mason, 1984). Khilji (2002) recognized the pivotal role of top managers in modifying the HR image of their organizations. Top managers should offer transformational leadership by sharing their vision with employees. An HR function that is perceived by key actors in the corporation to have a high degree of reputational effectiveness is more likely to succeed in enacting strategic roles. Top management is recognized as the most powerful force facilitating HRM and serve as a key to attain and sustain competitive advantage (Porter, 1991; Tracey, 2002).

Finegold and Frenkel (2006) conducted a study in eight biotech firms of USA and Australia and cited a number of factors that are responsible for top management involvement in people management. Generally four approaches viz. no in-house HR, tactical HR, strategic HR and hybrid: evolving from tactical to strategic HR, are followed across these eight firms depending on the size of the firm and financial resources available with the firm. It was found that in knowledge driven industries, top management plays a key role in people management and are directly or indirectly involved in a number of HR related tasks in their organizations.

Kirkpatrick & Locke (1991) reported the executive human resource management responsibilities of CEOs are vital because having the right managers in place has a real impact on organizational performance. Senior managers who are ineffective
can keep a company from reaching its goals (Finkelstein, 1992). Novicevic and Harvey (2001) speak out that the top management has to look for suitable ways to generate a sustainable competitive advantage through HR efforts. Thornhill and Saunders (1998) reported the role of top manager in establishing the organizational structures that support adaptability and policies to promote optimistic employee relations.

Sheehan (2005) reported that the role of the CEO is crucial in the realization of expected HRM outcomes. Examples of such roles include decision to make HR a part of the senior committee and direct HR reporting relationship to the CEO. Moreover, CEOs involvement ensures that all these activities receive due consideration and present an integrative approach to HRM. Various researchers (e.g. Golden & Ramanujam, 1985; Lawler et al., 1995) have also argued the importance of direct access to the CEO through a formal reporting relationship. Sparrow and Marchington (1998) pointed out the importance of informal interaction of HR managers with senior management executives and the association that is developed between them. Exhibit 2.5 presents the proposed influences on strategic HRM integration.

### Exhibit 2.5: Proposed Influences on Strategic HRM Integration

<table>
<thead>
<tr>
<th>Moderating Influences</th>
<th>Organizational Responses</th>
<th>Expected Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• HR manager’s commitment to strategic HR initiatives</td>
<td>• HR representation at the senior committee level</td>
<td></td>
</tr>
<tr>
<td>• HR manager’s commitment to business values</td>
<td>• Direct HR reporting relationship to CEO</td>
<td></td>
</tr>
<tr>
<td>• Business acumen</td>
<td>• Increase in line managers HR responsibilities</td>
<td></td>
</tr>
<tr>
<td>• Top management commitment to HR initiatives</td>
<td>• Full integration of HRM with business strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Integrated HR policy design</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Integration of HR responsibilities within line management activities</td>
<td></td>
</tr>
</tbody>
</table>

Researchers in the area of HRM (Budhwar, 2000a; Kane et al., 1999) have recognized the role of top management direction and support as an important determinant of HRM success. In this context, analysts have mentioned the importance of direct access to the CEO through formal reporting relationship (Golden & Ramanujam, 1985; Nininger, 1980). Welbourne and Cyr (1999) revealed the role of CEO in developing the competence of employees. Buyens and De Vos (2001) recognized the importance of HR function in translating the business strategies and top managers’ perceptions of HRM. Further, reported that integration of HRM with business strategies was comparatively higher in the organizations where top management considered employees as strategic assets. Brown and Purcell (2007) opined that senior management is involved in development of reward strategy and final approval of rewards to employees.

Martell and Carroll (1995) conducted a study in specific firms affiliated with Fortune 500 companies on the role of the top management team in executive human resource management vis-a-vis organizational performance. Organizational performance was considered as dependent variable where as executive human resource management practices (i.e. staffing, compensation, performance appraisal and training) were considered as independent variable and strategic business unit competitive strategy (using Michael Porter’s generic strategies) was a control variable. The results revealed in the light of the role of top management several executive human resource management practices associated with firm performance.

Truss et al (2002) presented the results of a longitudinal study conducted between 1992 and 2000 within two organizations viz. Chelsea and Westminster NHS trust and Citibank, an investment bank. In both organizations, the study reveals the key role of senior managers in influencing the HR department’s role. In case of Trust, the chief executive owed a place for HR director as well as was made a member of the Trust’s strategic executive group to discuss strategic HR issues where as in case of bank similar type of role is played senior managers.

Based on the findings of the study, a model is presented in Exhibit 2.6 to extricate the different factors that control the HR department’s role. In the model various organizational environment factors are presented which have an impact on HR department’s main role set members viz. senior managers and line managers. The
signals sent to the HR department regarding the role to be played which in turn affects the resources allocated to the function. Further, within the HR department certain attributes and behaviour are differentiated and finally the output is in the form of HR reputational effectiveness.

Exhibit 2.6: Factors Influencing the Strategic Role of HR Department


Hutchinson and Purcell (2010) conducted study on HRM responsibilities of frontline managers such as ward managers and paramedic supervisors in NHS trust and concluded that support of senior managers is important for these managers to carry out HR function.
Ohtaki (2005) reported the changing role of CEO in HRM in line with the changes in HRM. The study further talks of integration of HRM into the organization’s business planning process. This new role puts forward the new challenges for CEOs to build sustainable businesses

2.2.2.2 Top Management Roles: Key HRM Domains

Armstrong and Brown (2008) noted that top management has a central role to play in implementation of performance management. They have to communicate that performance management is an essential part of the managerial practices of the business organizations and the effectiveness with which line managers executes their performance management responsibilities is one of the measure used when appraising their performance. Top management should ensure that line managers do not feel pressurized in this exercise and view this as an innovative and developmental approach. Moreover, line managers should be involved in the design, development and evaluating the effectiveness of performance management processes.

In Buyens and De Vos’s (2001) study revealed that top management viewed HR function as important way through which change management programmes can be developed and carried out effectively. Further, research indicates that other HRM functions such as employment relationship, motivation of employees are considered equally important by top managers. Martell and Carroll (1995) conducted a study on top management team from HRM perspective and concluded that top executives are involved in selection, training, performance evaluation and compensation of their subordinates. Moreover, Carroll and Gillen’s (1987) study also found evidence of CEO’s involvement in selection and appraisal of managers. Cunningham and Hyman’s (1995) study reveals that the control of senior management on HR planning decisions is more in comparision with line managers. Whittaker and Marchington (2003) on the basis of case study research found evidence of involvement of senior managers in different HRM areas such training and development, recruitment, selection, performance appraisal. Moreover, senior managers involvement ensures that people management issues are given due consideration at board level. Valverde et al. (2006) reported the involvement of top
management across a wide range of HR processes and activities such as training and development, staff reduction, health and safety, collective bargaining and performance appraisal. Ohtaki (2005) carried out a study on the role of CEO in HRM and found that involvement of CEO is important for compensation, performance appraisal, career development and talent management.

2.2.2.3 Rationale for Role of Top Management in HRM

Papalexandris and Panayotopoulou (2005) reported that CEO’s participation and decision-making in HR activities have helped the organizations to gain competitive advantage. Collins and Clark’s (2003) study reveals that top managers’ social networks intervenes the relationship between HR practices and firm performance. Senior managers’ involvement in HRM activities enhances the HR effectiveness and firm performance (Andersen et al., 2007).

Drawing on case study research, Stanton et al. (2010) pointed out the important role of CEO in providing leadership and resources to create distinctive HR systems. In addition to this, senior managers also play a crucial role in translating the HR messages across the management hierarchy. In this perspective, researchers (e.g. Bowen & Ostroff, 2004; Macky & Boxall, 2007) have argued that the involvement of senior management contributes in achieving business goals and enhance organizational effectiveness.

Klein et al. (2001) and Lado and Wilson (1994) reported that CEO’s involvement in HRM ensures close interaction between different groups of managers which encourages the sharing of information which is important for the formulation and implementation of HRM infrastructure for achieving the goals of the organization. Papalexandris and Panayotopoulou (2003) reported that CEOs acknowledge the crucial role of HR to gain competitive advantage over domestic and foreign players.

Pfeffer and Davis-Blake (1987) noted that senior managers play a key role in managing the crucial resources such as financial support and people to HR departments therefore, increasing the HR department’s capacity to carry out HR processes. Ohtaki (2005) reported that the contribution of CEO in HRM is important since it articulates the vision of the company and its HR policies.
2.3 Role of External Agents in HRM

External agents are often involved in the management of people in organizations (Valverde et al., 2006). External agents include external HR service providers or HR outsourcing agencies which are hired by the business organizations to provide professional HRM solutions (Cook, 1999). Human Resource Outsourcing (HRO) has emerged as a global phenomenon indicating the widespread use of external agents in HRM.

In this context, Morley et al. (2006) have used the term “external devolution” which implies outsourcing HR activities to external contractors. External devolution is based on transaction cost model. The transaction cost model places substantial importance on make or buy decisions (Gunnigle, 1998). It is pointed out that if an organization is not able to provide a particular HR service at a cheaper rate when compared with external HR service providers, then organizations should buy such services from HR outsourcing agencies. In addition to this, some other factors such as demand and supply contribute to HR outsourcing.

Moreover, the dynamic business environment of the new age economy has completely changed the nature of competition faced by business organizations. In order to compete in the market place, business organizations need access to latest technology which requires huge investments as well as time for establishing the same in-house. That is why most companies decide to outsource some of their HRM functions. Also, it provides opportunity to invest in the core areas and enhance the competitiveness of the firm.

2.3.1 External Service Providers: HR Outsourcing

Human resources are the most valuable assets of any organization as the organization's success lies in their hands and constitute an important source of competitive advantage (Khatri, 2000; Wright & McMahan, 1992). Jackson and Schuler (2000) identify HR as the potential contributor to the creation and realization of the organization’s goals. Consequently, HR practices have the potential to be key drivers of overall firm success. In order to ensure that its employees remain satisfied, the company has to have a specialized human resources department that most of the times proves to be a costly affair. Business
organizations are realizing the role of various other entities such as external service providers in HRM providing services so as to save cost and time.

Valverde et al. (2006) argued in favour of the role of external service providers or outsourcing agencies in HRM. There are many entities involved in management of HR function (Khatri & Budhwar, 2002). Human resource outsourcing has completely transformed the landscape of HRM practices in organizations.

As a result of this transformation, organizations are fast realizing the importance of focusing on core HR activities and outsourcing their non-core, administrative activities. The role of external HR service providers is becoming increasingly popular and the number of companies outsourcing their HR activities continues to rise (Kosnik et al., 2006). Various researchers have explored the role of external consultants in HRM (e.g. Kitay & Wrght, 1999; Redman & Allen, 1993; Torrington & Mack, 1986). Analyzing the role of external service providers such as consultants is critical for passing on new management practices between industries (Littler, 1982). Moreover, the role of external service providers in HRM has emerged as a popular subject of inquiry in the academic literature in the past few years.

2.3.2 Dimensions of Human Resource Outsourcing

Bryce and Useem (1998) described outsourcing as the contracting out of a company’s major functions and activities to an external service or goods provider. In other words, outsourcing consists in conducting one or more organizational activities, using external agents (Lacity & Hirschheim, 1993). Adler (2003) defined it as a process in which a company contracts with a vendor and rents its skills, knowledge, technology, service and manpower for an agreed-upon price and period to perform functions for a client. Lever (1997) defined it as a long-term contract relationship that the enterprise received business services from the outsourcing vendor.

Outsourcing is a historical and well recognized practice and HRM outsourcing itself is a quite traditional practice (Kakabadse & Kakabadse, 2002). Different studies have revealed that HRM outsourcing continued to rise in the areas of HRM consulting and the design of HRM tools (Banham, 2003; Cook, 1999). Gay and
Essinger (2000) and Mehrotra (2005) have identified HRO as the fastest growing area of outsourcing. Turnbull (2002) defined HR outsourcing as placing responsibility for various elements of the HR function with a third-party provider. History of HRO can be traced back to more than five decades, when Automatic Data Processing set up its payroll processing services in the US. Now, the company has more than $7 billion annual revenues and 40,000 associates (www.citehr.com). External service providers such as Hewitt and Exult are offering solutions to meet HRO needs of the organizations in a big way thus, enabling them to focus on their core business activities. The services offered by these companies in the HR area includes training, legal advice, consulting, headhunting, audit of HR policies and procedures, labour relations, maintenance of personnel records, employee development program, HR information systems, benefits, job description process, exit interviews, performance management process and compensation (Alewell et al., 2009; Tremblay et al., 2008).

Although different researchers have defined the concept in their own words but the underlaying assumption remains the same. It can be concluded that HRO is a process in which a company utilizes the services of a third party (HR outsourcing agency or external HR service provider or consultants) to take care of its HR functions. External HR service providers or HR outsourcing agencies are part of outsourcing industry which are usually contracted by organizations to provide administrative HRM services or professional, specialized HRM solutions (Cook, 1999; En-shun, 2007).

A company may outsource a few or all of its HR related activities to a single or combination of service providers located anywhere in the world. According to Seth and Sethi (2011), HR outsourcing service providing firms can be divided into five categories depending on the services they offer as:

- Professional Employer Organization (PEOs),
- Business Process Organization (BPOs),
- Application Service Providers (ASPs),
- E-services and
- Hybrid Outsourcing Firms

In the above mentioned categories, the PEOs are the ones that assume full responsibility of a company's HR functions where as others such a BPOs, ASPs and e-services provide web based HR solutions like database maintenance, HR
data warehousing, maintaining records, developing and maintaining HR software's etc. In case of hybrid outsourcing firms, if organizations are having apprehensions of outsourcing all their HR tasks to a PEO then it considers outsourcing of labor-intensive HR functions. For instance, several business organizations use recruitment agencies to find suitable candidates while prefer to retain control of other HR activities such as salary negotiation, hiring and firing employees.

Traditionally, HR activities have been performed in-house; however, gradually HR activities are being outsourced to external service providers (Jamrog et al., 1997; Stewart, 1996). The concept of HRO has grown in popularity since the early 1990s, particularly in the USA, where up to 90 per cent of the companies outsource some HRM activity (Cook, 1999; Mahoney & Brewster, 2002). For instance, one of major development in HRO is the 1999’s deal involving BP and Exult in which Exult was contracted to take up ownership and management of all global transactional and administrative HR services for BP (Adler, 2003). Since then HRO has grown with external HR service providers focusing on more complex HR solutions than simply processing of routine HR services. The results of the 2004 survey conducted by the Society for Human Resource Management revealed that 60% of the business organizations participating in the survey had outsourced at least one HR service (Esen, 2004).

It is generally observed that transition from internally managed HR functions to externally managed HR functions, is a sensitive issue as the culture of the service provider and that of the organization may be different. Organizations create teams to facilitate this transition and monitor the agency over a period and evaluate their performance. As a result of outsourcing of HR process and activities, HR managers get more involved in strategic decision-making (Khati & Budhwar, 2002).

Nowadays, most organizations prefer to focus on their core competencies and choose to outsource their non-core activities to external service providers. Trends point towards increased outsourcing in the new and emerging technology area, with focus on the application service provider model where enterprises outsource their entire HR-related processes, including recruitment, retention and related areas (Klass et al., 1999; Klass et al., 2001).
2.3.3 Human Resource Outsourcing: Key HRM Domains

The prior literature on HRO can be clubbed into the two types of studies viz. general studies on HRM being outsourced and studies focusing on specific HR areas. The general studies on HRO talk about the reasons and rationale for the growth of HRO while in case of specific studies, the focus of the researchers remained on specific HR areas outsourced. Given that HRM service vendors specialise in the services they provide to their clients, they benefit from economy of scale results and these benefits are transferred to their clients (Galanaki & Papalexandris, 2005; Galanaki & Papalexandris, 2007). Another reason why some companies may turn to outsourcing is the requirement for know-how. Many vendors have already made major investments in HRM tools and techniques and can spread their costs over many clients. Outsourcing offers knowledge and competencies that may not exist in-house (Galanaki & Papalexandris, 2005).

Different types of activities may be outsourced by an organization e.g. administrative and regulatory, transactional activities (like pay-roll administration, healthcare, pension, administration of training, retirement, relocation administration and other benefits), developmental, advisory and change management (Alewell et al., 2009; Gilley et al., 2004; Tremblay et al., 2008). Kitay and Wright (1999) conducted a study to explore the relationship between management consulting industry and management of human resource in Australia. The findings of the study reveal that the use of management consultants in management of human resource has increased significantly.

Kodwani (2007) studied the underlying reasons that are encouraging business organizations to outsource HR tasks. In order to cut costs and fully focus on the core business activities, business organizations are reducing manpower from their payrolls. As a consequence of which HRO is becoming the buzzword for the corporate world. Outsourcing of HR tasks is adopted by different organizations irrespective of size. Embleton and Wright (1998) identified the issues relevant to successful outsourcing. They concluded that organizations where outsourcing is part of an overall corporate strategy and employees are aware of the overall situation are successful. Coggburn (2007) investigated HRO in public sector. The study provides a conceptual framework that helps to analyze the appropriateness of HR outsourcing.
Galanaki and Papalexandris (2005) opined that the continuous development of HRM services market goes hand-in-hand with the development of the HRM practice in general. Lawler et al. (2004) and O’Brien (2005) reported the popular HRO contract of British Petroleum in 1999 with Exult. Since then HRO activity has amplified to the point of being persistent and decisively ingrained facet of private sector HR strategy. Several researchers have stated that HRO has increased considerably over the years (e.g. Andersen, 1996; Harkins et al. 1995; Woodall et al., 2002). Both qualitative and quantitative reports from various sources provide proof of this growth (Maurer & Mobley, 1998; Mobley, 2000; Pricewaterhouse Coopers, 2002).

Various research studies have reported that training is one of the commonly outsourced HR function (e.g. Cook, 1999; Cooke et al., 2005; Galanaki & Papalexandris 2005; Vernon et al., 2000). Galanaki et al. (2008) studied outsourcing of training function and proposed two types of training models viz. generic and specific. Generic models deals with the generic training for development of competencies while in case of specific models, job-or-company specific training such as induction training, job specialization is provided to employees.

Mahoney and Brewster (2002), Papalexandris et al. (2001) have recognized that HR that are outsourced can fall into one of the following categories viz. recruitment and selection, training and development, pay and benefits etc. In addition to the above mentioned functions, following categories have also been constantly mentioned in the literature viz. HR planning, performance appraisal systems, and organizational climate and culture (Cook, 1999). Shaw and Fairhurst (1997) study found that training and development along with facilities management were the most likely areas to be outsourced, while industrial relations expertise was the least likely area.

Hall and Torrington (1998) in their study established the probable HR activities to be outsourced i.e. recruitment and selection, training and management development, outplacement, health and safety, quality initiatives, job evaluation and reward strategies. These activities are considered for outsourcing either because they were considered non-core or because the organization may not have the expertise to handle them internally. Vernon et al. (2000) conducted a study on
four different areas of HR outsourcing such as training and development, recruitment and selection, pay and benefits, and workplace outplacement/reduction.

Galanaki and Papalexandris (2005) studied the practice of outsourcing human resource management functions such as training, staffing, rewards and restructoring in Greece. Primarily outsourcing activities include small portion of HRM such as payroll functions (Adler, 2003), however, it has steadily developed to cover several human resource functions (Lever, 1997). Table 2.3 presents a summary of key HR area being outsourced.

<table>
<thead>
<tr>
<th>Researchers</th>
<th>HR Domain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alewell et al. (2009)</td>
<td>Training and development, legal advice, temporary agency work, HR consulting, headhunting, payroll accounting, placement services, selection of personnel, outplacement services, interim management, complete outsourcing of HR</td>
</tr>
<tr>
<td>Chiang et al. (2010), Kulik and Bainbridge (2006), Woodall et al. (2009)</td>
<td>HR planning, recruitment and selection, employee relations, HRIS, payroll, compensation and reward, performance appraisal, benefits administration, training and development, health and safety, employee services</td>
</tr>
<tr>
<td>Cook (1999)</td>
<td>Performance appraisal systems, HR planning, organizational climate and culture,</td>
</tr>
<tr>
<td>Delmotte and Sels (2008), Tremblay et al. (2008), Vernon et al. (2000)</td>
<td>Training, payroll, recruitment and selection, career guidance, appraisal, outplacement, labour relations, benefits</td>
</tr>
<tr>
<td>Mahoney and Brewster (2002), Papalexandris et al. (2001)</td>
<td>Recruitment and selection, pay and benefits, training and development, merger-outplacement-downsizing</td>
</tr>
<tr>
<td>Smith et al. (2006)</td>
<td>Payroll administration, training/development, executive coaching, HRMIS, healthcare benefits administration, recruitment (executive &amp; non-executive), strategic business planning</td>
</tr>
<tr>
<td>Galanaki and Papalexandris (2007), Galanaki and Papalexandris (2005)</td>
<td>Recruitment and selection, training and development, pay and benefits, merger-outplacement-downsizing performance appraisal systems, HR planning, organizational climate and culture</td>
</tr>
<tr>
<td>Shaw and Fairhurst (1997)</td>
<td>Training and management development, recruitment and selection, outplacement, health and safety, quality initiatives, job evaluation, reward strategies and systems</td>
</tr>
<tr>
<td>Klaas et al. (1999)</td>
<td>HR planning, EEO/diversity, recruitment and selection, organizational development, safety &amp; health, performance appraisal</td>
</tr>
</tbody>
</table>

Source: Prepared by the Researcher

50
Gainey et al. (2002) study reported that companies outsource approximately 30 percent of their HRM training functions directly allied to core capabilities but mainly this has led to enhanced performance with improved training design. Greer et al. (1999) study emphasized not to outsource the employee relations and performance management that are sometimes outsourced along with some related functions such as payroll administration and benefits concurrently as a bundle.

### 2.3.4 Rationale for Human Resource Outsourcing

Studies on HRO have provided substantial support to companies for pursuing the same (e.g. Dell, 2004; Greer et al., 1999). There are a number of financial issues that induce business organizations to adopt HRO. HRO is considered by organizations to accomplish operational costs savings through economies of scale provided by external HR service providers, avoid investment for HR technology upgrades or permanent HR staff on company pay rolls into variable costs (Fernandez et al., 2006; Koch et al., 2004; Lawther, 2003).

Several studies highlighted the outsourcing benefits such as decreased costs, a better focus on HRM issues which are immediately associated with the company’s success and higher quality customer service (Csoko, 1995; Greer et al., 1999; Simmonds and Gibson, 2008 Woodall et al., 2002). Outsourcing can be a key value-added activity when pooled with effective restructuring. Marinaccio (1994), asserts that outsourcing along with improved engineering processes may increase the efficiency of business processes while retain product quality. Lever (1997) argued that the value-added activity that outsourcing brings should finally augment strategic capabilities and benefit the firm's performance with regard to gaining a competitive edge, managing market risks, maximizing returns and strengthening internal capabilities. Lever (1997) claimed that benefits that outsourcing brings should ultimately increase strategic capabilities and firm performance.

HRO provides the organizations flexibility to purchase the best available talent or technology, thus, offering employees more ease through self-service applications (Fernandez et al., 2006; Koch et al., 2004; Wilson, 2003). Marinaccio (1994) adds that outsourcing enhances organizational efficiency. Greer et al. (1999) and Rainey
Hirschman’s (2000) study reported that reducing cost while at the same time maintaining at-least equal levels of quality and strategic focus will enhance the competitive advantage of an organization. This has led to expansion in the use of external service providers for HRM functions. In the perspective of this fact, there is significant growth in academic research which provides a strong list of factors that support the decision to outsource human resource activities (e.g. Greer et al., 1999; Hendry, 1995; Klaas, 2003; Klaas et al., 1999; Klaas et al., 2000; Klaas et al., 2001; Lepak et al., 2005; Lepak & Snell, 1999b; Lever, 1997).

According to the transaction cost theory, activities that are not firm-specific are more likely to be outsourced, whereas the resource-based viewpoint advocates that activities not critical to core competencies should be outsourced (Williamson, 1975). Lepak and Snell’s (1998) model of virtual HR based on transaction cost economics (Williamson, 1975, 1985; Coase, 1937) and resource-based perspective offers a useful framework to select the HR activities that should be outsourced. Researchers in the area of HR outsourcing have mostly based their studies on transaction cost economics theory to delineate the conditions under which HR outsourcing is useful for the organizations (Hart, 1988) and apparent benefits associated with such outsourcing (Klaas et al., 1999). Ulrich (1996) reported that outsourcing of HR practices can be helpful to the development of the core competence of organizations and integrating HR practices with corporate strategy.

Greer et al.’s (1999) study pointed out that occasionally HR outsourcing is driven by the evolution of the HR function within the organizations. Baron and Kreps’ (1999) analytical model emphasized that activities of low strategic importance and low task should be outsourced. Besides the conceptual logic offered by transaction cost economics and the strategic HR perspective, other underlying principles for HRO are cost savings, decrease in risk, specific expertise and brief expansion of HR capabilities to meet extraordinary circumstances (Greer et al., 1999).

Adler (2003), Oshima et al. (2005) concluded that HRO provided the time to HR professionals to support business activities. Gilley et al. (2004) conducted an
empirical study to establish the relationship between the outsourcing of activities such as training and payroll, and firm performance as well as the outsourcing-performance relationship and firm’s size. Results of the study revealed that outsourcing of training and payroll have positive influence on firm performance where as the outsourcing-performance relationship and firm’s size were unconvincing.

Gilley and Rasheed (2000) studied the extent of outsourcing across a wide range of business activities as well as depth of outsourcing within each activity and found no direct effect of outsourcing on performance. However, outsourcing had positive influence on firm’s performance following cost leadership and innovative differentiation strategies, as well as for firms operating in stable environments.

Klaas et al. (1999) based their study on transaction cost economics to examine the relationship between organizational characteristics and the degree of reliance on HR outsourcing. Results of the study revealed that perceived benefits from HR outsourcing will vary with a number of organizational characteristics. Klaas (2003) studied the relationship between small and medium-sized enterprises and the professional employer organizations and outlined a structure to examine the HRO factors in small and medium-sized enterprises.

According to the U.S. General Accounting Office (U.S. G.A.O, 2004), whether the drivers are mundane or elegant, it likely depends upon the specific HR activity being outsourced. Lower-tiered activities such as payroll are mostly allied with cost savings whereas higher-tiered activities like performance management systems, workforce planning are related to gain expertise or to respond quickly. Some studies on HRO indicated that most of HRO tends to be for the lower-tiered, transactional activities, thus, reflecting the large number of mundane as different to elegant drivers (Rainey, 2005, McClendon et al, 2002).

Outsourcing HR functions has positive bearing on employee satisfaction, motivation and efficiency. These facets of HRO make it essential for considering the effects of HRO on firm performance. In this context, Gainey and Klass (2002) reported that outsourcing of HRM training function has led to better training design with enhanced performance. HRO is highlighted as a cost-saving strategy by external consultants and HR service providers. Usually, the external HR service
providers which specialize in HR services, offers lower costs than client because of economies of scale, greater efficiency and higher levels of expertise.

Greer *et al.* (1999) identified five factors that facilitate HR outsourcing viz. downsizing, rapid growth or decline, globalization, increased competition, and restructuring, based on the extant literature and interviews with senior HR executives. HRO is carried out for both operational and strategic reasons. Based on the results of the study, procedure for selecting vendors, managing the outsourcing transition, managing vendor relations and monitoring vendor performance is proposed. HRO can enhance the HR worth as well as reinforce the growth of HR as a business partner and strategic contributor to the organization’s goals.

According to Csoko (1995), outsourcing carries benefits such as cost reduction, increased service quality and increased access to experts in specialized areas. The key considerations following HR outsourcing is the need for increased focus on core business and cost reductions (Van Hoek, 1999), greater business flexibility and need for specialized expertise (Bettis *et al.* 1992; Jennings 1996; Quinn *et al.* 1990). Outsourcing decisions usually target a minimum of 15 per cent cost saving and sometimes in the range of 20-25 per cent (Bounfour, 1999; Jennings, 2002).

Several researchers have highlighted HRO as advantageous in terms of both service delivery and the enhancement of the strategic position of HR (Brenner, 1996; Laabs, 1993; Switser, 1997). Both the resource-based view of the firm (Barney, 1991) and the transaction-cost economics model (Williamson, 1985) seem to influence firms’ HR outsourcing decisions.

A number of studies have evaluated the make-or-buy decisions in favour of outsourcing of HR functions (Autor 2003; Belcourt, 2006; Cooke *et al*., 2005; Gainey & Klaas 2003; Greer *et al*., 1999; Klaas *et al*., 2001). The extent of outsourcing HR tasks varies between firms and sectors (Cooke *et al*., 2005). Cost and quality are the focal points of outsourcing research and make-or-buy decisions of the firms are based on transaction cost theory (Williamson *et al*., 1975).

Klein (2004) reviewed the empirical researches on make-or-buy decisions which have been conducted on the basis of transaction cost theory. The results of the study revealed that many important determinants which describe firm structure and environment as well as underlying relation between outsourcing effects and
make-or-buy decisions have been overlooked. Structural and contingency factors such as firm size may have a strong impact on outsourcing decisions (Jack et al., 2006; Marlow, 2006; Mayson & Barrett 2006). Becker and Gerhart (1996) discussed about cost vis-a-vis value aspect of HR outsourcing. This viewpoint points out that organizations should assess both cost centres (e.g., benefits administration) and value aspect (e.g. recruitment and hiring) of HR outsourcing.

Klass (2003) concluded that cost has major influence on the decision to outsource HR activities as it is difficult for many companies to maintain professional HR staff for internally developing required HR services. Moreover, outsourcing of HR activities offers an organization unique edge over competitors and save the resources for other operations. Saha (2005) reported that organizations are looking for HR service offerings to integrate process management with strategic human capital. Klaas et al. (2001) and Lepak et al. (2005) based their viewpoint on resource based view and concluded that organizations should deliver those services in-house that are core to their competitiveness and outsource those services that are considered peripheral. Table 2.4 presents the summary of key benefits of HRO.

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Benefits of HRO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quinn and Hilmer (1994)</td>
<td>Helps focus on core competencies</td>
</tr>
<tr>
<td>Becker and Gerhart (1996)</td>
<td>Cost vis-a-vis value aspect of HR outsourcing</td>
</tr>
<tr>
<td>Ulrich (1996)</td>
<td>Helps in integrating HRM with corporate strategy</td>
</tr>
<tr>
<td>Greer et al. (1999)</td>
<td>Operational and strategic benefits</td>
</tr>
<tr>
<td>Baturina (2003)</td>
<td>Benefits through expertise and reliability of vendors</td>
</tr>
<tr>
<td>Csoko (1995), Simmonds and Gibson (2008, Woodall et al. (2002))</td>
<td>Cost reduction, increased service quality and access to experts competency in specialized areas</td>
</tr>
<tr>
<td>Bettis et al. (1992), Jennings (1996), Quinn et al. (1990)</td>
<td>Cost reductions, greater business flexibility and need for specialized expertise</td>
</tr>
<tr>
<td>En-shun (2007)</td>
<td>Access to latest technology and critical expertise</td>
</tr>
<tr>
<td>Belcourt (2006), Benson and Littler (2002), Galanaki et al. (2008)</td>
<td>Cost reduction, improvement in quality, focus on core and excluding non-core training tasks, reduces head count, improves labour flexibility</td>
</tr>
<tr>
<td>Saha (2005)</td>
<td>Helps in linking process management with strategic human capital</td>
</tr>
</tbody>
</table>

Source: Prepared by the Researcher
Cooke (2004) viewed the rising intricacy of the technology, legal environment and organizational changes as the key features encouraging the decision to outsource. Adler (2003) appends to the list the factors such as intense competition, globalization, downsizing, industry changes and restructuring as the major reason for outsourcing. Moreover, outsourcing is also guided by the need for specific expertise, a new developmental stage of organizational HRM that has exceeded the firm's existing capacity, advances in HR information systems, increased risk exposure (Greer et al., 1999; Klaas, 2003) and cost savings (Babcock, 2004).

2.3.5 Human Resource Outsourcing: Barriers and Constraints

HR outsourcing has received ample research attention, however, very few studies have addressed issues like the conditions that promote or hinder the outsourcing decision processes. Although HRO offers significant organizational benefits, it suffers from low quality of service, high transaction costs and loss of control over outsourced HRM function. Quinn’s (1999) study revealed that outsourcing can fail owing to the wrong assessment of need for outsourcing. The study further adds that lack of interest of managers to analyze outsourcing need can also lead to its failure. Although HRO helps organizations to focus on their core business but outsourcing frequently fails short of anticipation (Barthélemy & Adsit, 2003).

Khatri and Budhwar (2002) found that competency level of external HR service providers and poor quality of service inhibit organizations in outsourcing human resource activities. Moreover, HR strategy and organizational culture are other important factors that influence the organizational tendency to outsource HR activities (e.g. Khatri & Budhwar, 2002; Ulrich, 1996). Since organizational culture is developed over period of time, it is difficult for external consultants to comprehend the same immediately and perform the HR tasks in light of organizational culture.

Barthélemy and Adsit (2003: 87) analyzed the outsourcing deals in Europe and US and delineated the “seven deadly sins” responsible for unsuccessful outsourcing. It includes outsourcing core activities, selecting the wrong vendor, writing a poor contract, overlooking personnel issues, losing control over the outsourced activity, overlooking the hidden costs of outsourcing and failing to plan an exit strategy.
Ulrich (1996) highlighted that outsourcing restricts the organizations to develop unique expertise within the employees and therefore gives rise to incompetence. Klass et al.’s (2001) revealed that external HR service providers need considerable investment to identify the requirement of the organization which increases the cost, therefore, making outsourcing less attractive. Barney (1991) pointed out that it is difficult to communicate the tacit knowledge and experience of employees to external service providers, thus, making the case for providing training in-house.

Enshun (2007) identified different types of risks faced by organizations while outsourcing HRM functions (i.e. strategic; contractual and operational risks). In strategic risk, outsourcing of core HRM functions results in short-term benefits while in the long run, organizations may face problems due to loss of in-house expertise (Greer, et al., 1999; Stroh & Treehuboff, 2003; Laabs; 1998). Contractual risk is the result of fixed agreement between service provider and the organization without any flexibility. The third type of risk is operational risk which includes operational performance such as lower levels of service quality, unexpected business interruptions, poor understanding with service providers and inadequate monitoring of performance of vendors. Kodwani (2007) highlighted different types of challenges for HRO. It includes political risk, resistance from employees in accepting the change and vendor selection.

Lawler and Mohrman (2003) reported the general problems of HRO such as poor service, loss of internal expertise, contractor not performing as expected and unexpected resources required to manage outsourcing relationship. The problems or risks associated with outsourcing are explained by Roberts (2001:239-49) as:

“Organizations are afraid of losing some control over the delivery of outsourced services and finding themselves overly dependent on the vendor or liable for the vendor’s actions. Outsourcing sensitive information, particularly confidential information, has inherent liability if information security is breached by the vendor”.

A study by Simmonds and Gibson (2008) highlighted the roadblocks linked with outsourcing HR functions. Exhibit 2.7 presents a two part model for managing the outsourcing of HRD function. Part one of the model is based on four elements (i.e. prioritize, select, trust and monitor) while part two of the model is important for managers to chart the decisions of different aspects of outsourcing HRD against specificity/complexity of training needs and risk/value of assets.
Stroh and Treehuboff (2003) presented a model that retaining some in-house expertise for the function being outsourced and outsourcing only non-core activities. Exhibit 2.8 presents the above model.

The following factors can be critical to making and implementing a successful outsourcing decision (Laabs, 1993).

- Describing outsourcing objectives clearly before making an outsourcing decision
- Organizations should consider who will manage outsourcing decision and why
- Looking into the short as well as long term objectives
- Determining the company’s culture support for an outsourcing decision
- Choosing the nature of operation viz. centralized or decentralized before outsourcing

Paul (2003) opines that cost should not be considered as the only deciding factor to outsource non-core HR activities but others factors such as cultural fit and a commitment to quality shall be taken into consideration. Organizations must look into the range of services which a vendor has to offer as well as its expertise and experience in offering such services. Based on the type of function an organization has to outsource, it can select an appropriate outsourcing firm. Baturina (2003) focused on the reliability of service provider and its expertise in providing the HR solutions as important facilitating factors for HR outsourcing.

2.4 Constructs to Measure Role of Agents in HRM

Constructs are latent or unobservable variables that cannot be measured directly but can be measured by one or more indicators or items (Ahire et al., 1996; Hair et al., 2008; Malhotra & Dash, 2011; Schumacker & Lomax, 2004). Researchers in the area have identified several constructs to measure the role of internal and external agents in HRM. Review of prior studies throws light on these constructs and items used to measure them. At the same time, several researchers have related the measures of role with measures of organizational performance and effectiveness (Budhwar, 2000a; Budhwar & Sparrow, 1997; Hutchinson & Purcell, 2003; Mcguire et al., 2008; Valverde et al., 2006).

Since most studies in the area have focused on only one or at best two agents, different measures exist to evaluate the roles of both internal and external agents in HRM. For instance, Budhwar (2000a) studied the role of line managers through devolvement of HRM responsibilities using items like primary responsibility with
line managers for HRM decision-making, change in the responsibility of line managers for HRM vis-à-vis pay and benefits, recruitment and selection, workforce expansion and reduction, training and development, health and safety and industrial relations.

In other similar research studies, researchers have used different constructs to measure the involvement of line managers in decision-making (e.g. Budhwar & Boyne, 2004; Gautam & Davis, 2007). Andolšek and Štebe (2005) identified devolution as a construct to study line managers’ responsibility for HRM decisions in European organizations. The extent of devolution was mapped in light of different HRM functions like recruitment, training, industrial relations and workforce reduction.

A number of researches carried out in the area have used items from Cranet survey (e.g. Andolšek & Štebe, 2005; Brewester et al., 1997; Dany et al., 2008; Papalexandris & Panayotopoulou, 2003; Papalexandris & Panayotopoulou, 2005). Cranet survey or Cranfield Network on European HRM is a comprehensive survey of comparative HR practices across several countries. Broadly, the survey covered two dimensions viz. integration and devolvement.

Valverde et al. (2006) studied the participation of internal and external agents in HRM activities at various levels of HRM decision-making viz. strategic, policy, operational and administrative. They investigated the distribution of HR responsibilities among agents across wide range of HR areas such as training and development, resourcing, change management etc. Dany et al. (2008) explored the role of HR specialists and line managers in five HRM areas such as pay and benefits, recruitment and selection, training and development, industrial relations and workforce expansion/reduction using the items developed in Cranet survey.

Casco’n-Pereira et al. (2006) identified various dimensions of devolution such as decision-making power, task/responsibilities, financial power and expertise power. These four dimensions were explored vis-à-vis different HRM functions viz. recruitment and selection, training and development, compensation, leadership, health and safety, communication, dismissals, motivation and team management. Hope-Hailey et al. (1997) investigated the role of line managers in people
management practices in light of dimensions such as access to strategic decision-making and HR functions.

Research studies on role top management in HRM have identified several issues to measure the level of involvement of top level people in HR related issues. For instance, Sheehan (2005) reported that CEOs play a key role in the involvement of HR at the strategic decision-making level. In addition to this, CEO’s involvement in HRM decision-making ensures that HR strategy is integrated with the corporate strategy. Drawing on the prior research studies, Azmi (2011) argued that training and sensitization of top managers in HRM practices is important for determining relationship with HR practices and strategy. The study further explored a number of issues such as role of top management in HRM, consistency of HR activities with organizational vision etc.

Role of external agents in HRM too has been explored from different perspective. Gilley et al. (2004) studied the degree of outsourcing of HR activities viz. payroll and training. Galanaki (2008) investigated different aspects of outsourcing training to external service providers. Klass et al. (1999) explored HR outsourcing focusing on four types of HR activities viz. transactional, generalist, human capital and recruitment and selection as measures. Klass et al. (2001) investigated outsourcing of HR practices by six measures such as idiosyncratic processes, HR strategic involvement, positive HR outcomes, promotional opportunities, demand uncertainty and outsourcing by competitors.

Tremblay et al. (2008) explored HR outsourcing in Canadian organizations using organizational and strategic variables viz. management support, benchmarking, outsourcing experience, HR strategic role, union, pay policy transaction attributes such as specific complexity, HR variability, measurement problems, risks of outsourcing (HR risks, provider risks and business risks).

Since most studies in the area focus on a single agent, therefore, a comprehensive construct definition is not available in the extant literature. Assimilating the scattered viewpoints, a list of constructs identified from the literature on role of internal and external agents in HRM is presented in Table 2.5.
<table>
<thead>
<tr>
<th>Researchers</th>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Agents viz. Line Managers and Top Management</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agrawal (2010)</td>
<td>Line HR relationship</td>
<td>➢ Line manager confidence in HR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Line-HR partnership</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Collaborative problem solving</td>
</tr>
<tr>
<td>Andersen et al. (2007)</td>
<td>Line management devolvement</td>
<td>➢ Involvement of line managers in execution of HR practices</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Line managers training in the firm to execute HR practices</td>
</tr>
<tr>
<td>Andolšek and Štebe (2005)</td>
<td>Devolution</td>
<td>➢ Responsibility for HRM decision to line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Changes in the process of devolution</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Levels of devolution</td>
</tr>
<tr>
<td>Brandl et al. (2009)</td>
<td>Perceived importance of managerial/HR activities</td>
<td>➢ Formulation of vision and strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Instructing and training, planning, staff development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Communication of values and attitudes, handling conflicts, delegation handling information, supervision/coaching, negotiations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Follow up/monitoring, problem solver/expert, reporting ,staff well-being</td>
</tr>
<tr>
<td>Brewster &amp; Hegewisch (1994),</td>
<td>Devolvement</td>
<td>➢ Primary responsibility with line managers for HRM decision-making</td>
</tr>
<tr>
<td>Budhwar (2000a; 2000b),</td>
<td></td>
<td>➢ Change in the responsibility of line managers for HRM</td>
</tr>
<tr>
<td>Budhwar &amp; Sparrow (1997)</td>
<td></td>
<td>➢ Percentage of line managers trained in HRM functions such as</td>
</tr>
<tr>
<td></td>
<td></td>
<td>performance appraisal, training and development</td>
</tr>
<tr>
<td>Brewster &amp; Larsen (1992)</td>
<td>Devolvement</td>
<td>➢ Scope of HR activities devolved to line managers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Degree to which HRM function is involved in corporate strategy</td>
</tr>
<tr>
<td>Brewster et al. (2004), Nehles et al. (2006)</td>
<td>Line manager involvement</td>
<td>➢ Level of participation in HR functions</td>
</tr>
<tr>
<td>Budhwar &amp; Boyne (2004)</td>
<td>Line manager and top managers’ role</td>
<td>➢ Transfer of responsibility for HRM to line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ HR department is represented at board level</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ Participation of HR department in managing change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ HR participation in formation of corporate strategy—from the outset</td>
</tr>
<tr>
<td></td>
<td></td>
<td>➢ HRM considerations built into organization strategy</td>
</tr>
<tr>
<td>Researchers</td>
<td>Construct</td>
<td>Items</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Casco’n-Pereira et al. (2006)     | Devolution                                     | - Task/responsibilities
- Decision-making power
- Financial power
- Expertise power |
| Conway & Monks (2010)             | Middle manager perspective of HR               | - Primary responsibility for HR activities (workforce practices, appraisal, training, development, recruitment and selection, grievances) |
| Dany et al. (2008)                | Distribution of influence between HR specialists and line managers in HRM | - Responsibility for HRM decisions vis-à-vis recruitment and selection, training and development, pay and benefits, industrial relations and workforce expansion/reduction |
| Gautam & Davis (2007)             | Devolvement                                    | - Primary responsibility for implementing HR policy decisions
- Direction of line management responsibility for HRM |
| Heraty & Morley (1995)            | Line managers’ role                            | - Responsibility for major policy decisions on training and development
- Responsibility for managing training and development activities |
| Hope-Hailey et al. (1997)         | Change in line managers role and responsibilities, access to strategic decision-making | - Transfer of people management responsibilities to the line
- Shift in responsibility for decision-making in HR issues to line managers
- Integration with strategic direction |
| Hsu & Leat (2000)                 | Responsibility for HRM functions               | - Line management responsibility for pay and benefits, recruitment and selection, training and development, industrial relations, health and safety, and workforce expansion/reduction |
| Kulik & Bainbridge (2006)         | Distribution of people management activities among agents | - Primary responsibility for people management activities like HR planning, performance management, training, recruitment, industrial relations etc. |
| Larsen & Brewster (2003)          | Line management responsibility for HRM         | - Responsibility for HR policy decisions (pay, training, industrial relations)
- Direction of change in HR responsibility of line management for pay, training, industrial relations etc. |
<table>
<thead>
<tr>
<th>Researchers</th>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maxwell &amp; Watson (2006)</td>
<td>Line managers perspective on involvement in HRM</td>
<td>- Line managers understanding of HR strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Ownership of the HR strategy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Line managers involvement in HR activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- HR specialists’ support of line managers in HR activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Competence of line managers in HR activities</td>
</tr>
<tr>
<td>Papalexandris &amp; Panayotopoulou (2003)</td>
<td>Role of line managers</td>
<td>- Major decisions on pay and benefits, recruitment and selection, training and development, labour relations, downsizing</td>
</tr>
<tr>
<td>Papalexandris &amp; Panayotopoulou (2005)</td>
<td>Line managers’ HRM responsibility</td>
<td>- Involvement of line managers in decisions on pay and benefits, recruitment and selection, training and development, industrial relations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Line managers were given support for their HR responsibilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Line managers receive training for people management skills</td>
</tr>
<tr>
<td>Srimannarayana (2010)</td>
<td>Line management involvement in HRM</td>
<td>- Extent of responsibility of line managers in HRM activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Variation in line managers’ involvement in HRM activities</td>
</tr>
<tr>
<td>Watson &amp; Maxwell (2007)</td>
<td>Line managers’ role in HRM</td>
<td>- Line managers’ views on their role HR activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Line managers’ ranking of most important HR activities (like team briefings, identification of training needs, performance appraisal, evaluating training)</td>
</tr>
<tr>
<td>Zhu et al. (2008)</td>
<td>Devolvement</td>
<td>- Line management responsibility for HR practices in the organization (like recruitment and selection, compensation, training, performance assessment)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Percentage of line managers formally trained to perform HR activities</td>
</tr>
<tr>
<td>Valverde et al. (2006)</td>
<td>Distribution of HR responsibilities</td>
<td>- Participation in HRM activities</td>
</tr>
<tr>
<td>Becker &amp; Huselid (1998)</td>
<td>Role of top management in HR strategy</td>
<td>- HR managers viewed as partners in the management of the business</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Effort to align business and HR strategies</td>
</tr>
<tr>
<td>Bowen et al (2002)</td>
<td>Top managers role</td>
<td>- Top manager consider HR department as important</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- HR department works with senior management on key strategic issues</td>
</tr>
<tr>
<td>Researchers</td>
<td>Construct</td>
<td>Items</td>
</tr>
<tr>
<td>----------------------</td>
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<td>----------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Green *et al.* (2006) | Top management role in HRM          | ➢ Top management incorporates HR information (plans, activities etc.) when establishing the organization’s direction  
➢ Top-level managers are trained to integrate all functions into the decision-making process |
| Poole & Jenkins (1997)| Top management role                | ➢ HR representation on the senior committee level                   
➢ HR managers part of strategic planning process  
➢ HR managers have appropriate input into strategic decisions. |
| Schuler (1992)       | Linking HR-strategy                | ➢ Direct reporting relationship with the CEO                          
➢ Good informal relationship  
➢ HR representation on the senior committee |
| Sheehan (2005)       | Top management role                | ➢ HR representation at the senior committee level                   
➢ HR part of the senior decision-making processes  
➢ Direct reporting or informal relation between HR manager and CEO |
| Wood (1995)          | Top managers role in HR strategy   | ➢ HR specialists participation at board level to strategy             
➢ Line manager initiates and carries out selection.  
➢ Personnel issues incorporated with business |

**External Agents viz. External Service Providers**

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
</table>
| Alewell *et al.* (2009)| Triggers of explicit HR procurement decisions for different HR functions | ➢ Changes in manpower requirement  
➢ Changes in manpower endowment  
➢ Manpower balance in HR department |
| Benson & Littler (2002)| Outsourcing and workforce reductions | ➢ Causes  
➢ Decline in demand, increase in labour and non-labour costs  
➢ Objectives  
➢ Improve labour productivity, improve decision-making  
➢ Effects on employees  
➢ Employee job satisfaction, changes in employee duties |
<table>
<thead>
<tr>
<th>Researchers</th>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
</table>
| Chiang et al. (2010)| HR outsourcing                   | ➢ Potential areas of HR outsourcing  
➢ HR planning, recruitment and selection, training and development, employee relations, performance appraisal, health and safety, payroll, compensation and reward, benefit administration, employee services  
➢ Idiosyncratic HR Practices  
➢ Organization way of managing HR is unique  
➢ Organization manage HR like most other firms do  
➢ Overall outsourcing emphasis  
➢ Organization outsource many staff functions  
➢ HR Strategic Involvement  
➢ Involvement of HR in major strategic decisions |
| Delmotte & Sels (2008) | HR outsourcing                   | ➢ Strategic involvement of HR  
➢ Contribution of HRM to the strategic objectives of the organization  
➢ Devolution of HR activities  
➢ Evolution of the HR head count |
| Klass et al. (1999) | Transactional, human capital, HR generalist, recruitment and selection activities | ➢ Design and delivery of: HR planning, employee relations, EEO/diversity, organizational development, safety & health, performance appraisal, HRIS, payroll, training exempt employees, training non-exempt employees, employee assistance programs, recruiting exempt employees, recruiting non-exempt employees, selecting employees |
| Klass et al. (2001) | HR outsourcing                   | ➢ Idiosyncratic processes, HR strategic involvement, positive HR outcomes, promotional opportunities, demand uncertainty and outsourcing by competitors |
| Tremblay et al. (2008) | Organizational and strategic variables, transaction attributes, risks of outsourcing | ➢ Management support, benchmarking, outsourcing experience, HR strategic role, outsourcing experience, union, pay policy  
➢ Specific complexity, HR variability, measurement problems  
➢ HR risks, provider risks and business risks |

*Source: Compiled by the Researcher*
2.5 Alternate Variables to Measure Role of Agents in HRM

Prior studies on role of internal and external agents have suggested the positive implications of redistribution of HR activities among agents on certain outcome or endogenous/dependent variables like overall performance and effectiveness (e.g. Azmi, 2010; Bond & Wise, 2003; Dany et al., 2008; Gilley et al., 2004; Renwick; 2003; Valverde et al., 2006). Researchers like Perry and Kulik (2008) have linked the role of internal agents with effectiveness of people management in organizations.

However, various studies on role of internal and external agents have indicated that performance is not the direct outcome of this redistribution of roles but that alternate variables affect this causal chain too. Alternate variable includes moderating or interacting variables and mediating or intervening variables.

A moderating variable changes the relationship or strength of relationship between two related variables viz. exogenous and endogenous variables (Frazier et al., 2004; Hair et al., 2008). Hence, moderation effect is an interaction whereby the effect of one variable depends on the level of another. Absence of significant moderating effects makes the interpretation between the predictor and outcome construct easy. Moreover, lack of relationship between moderator, predictor and outcome variables helps to differentiate moderators from mediators.

Mediating variable is a third variable/construct that intervenes between two other related constructs. In model testing, hypothesized mediating effect can produce both direct and indirect effects (Hair et al., 2008). Direct effect relationships link the two constructs with a single arrow while indirect effects involve series of relationships with at least one intervening construct. Hence, indirect effect is a sequence of two or more direct effects and is characterized by multiple arrows. Exhibit 2.9 illustrates moderation and mediation effect.
2.5.1 Performance Measures as Outcome Variables

Several research studies have indicated the positive impact of internal and external agents’ involvement in HRM (Guest, 1987; Valverde et al., 2006). Internal devolution entails the involvement of internal agents in HRM viz. line managers and top management while in external devolution involvement of external agents’ viz. external HR service providers is assessed. In this context, researchers found positive support of internal devolution on different measures of organizational performance. Some studies have specifically established that participation between HR and line helps in improving organizational performance (e.g. Azmi, 2010; Gennard & Kelly, 1997; Thornhill & Saunders, 1998).

Budhwar (2000a) reported the positive implications of devolution of HRM to line managers on a firm’s performance. Renwick (2003) argued in favour of devolving HR tasks to line managers since significant organizational benefits exist.
from involving the line in HR work. Moreover, devolvement of HR responsibilities helps in configuration of HRM with business objectives and strategies associated with the firm performance (Andersen et al., 2007). Various researchers have reported the positive implications of line managers’ involvement in HRM decision-making on organizational performance (Hutchinson & Purcell, 2003; Mcguire et al., 2008).

Hutchinson and Purcell’s (2010) study revealed that front-line managers’ involvement is important for the delivery of effective HRM. The most important features as highlighted in different studies is the roles and influence of HRM specialists and line managers as defined and distributed within the firm (Andolšek & Stebe, 2005; Hall & Torrington, 1998). Additionally, Dany et al. (2008) argued in favour of the moderating impact of distribution of roles and influence between HRM specialists and line managers on the link between HRM integration and organizational performance. Hall and Torrington (1998) pointed out the need for exploring the role of line managers in HRM and its impact on the effectiveness of people management.

Azmi (2011) explored the role of top management in HRM and its relationship with HRM effectiveness and organizational performance. The results revealed the positive implications on the performance of the organization. Gilley et al. (2004) conducted a study to find out the link between HR outsourcing and firm performance by investigating the influence of HRO processes on different types of performance measures viz. innovation, financial and stakeholder performance. The finding of the study revealed that outsourcing of some HR activities have positive implications on firm performance.

Benson & Littler (2002) studied the outsourcing and workforce reductions to establish the relationship between outsourcing and performance outcomes through a number of indicators like reduction in labour costs, improvement in labour flexibility, productivity, decision-making, customer service and job enrichment and communications.

Table 2.6 presents the performance measures identified from internal and external agents’ literature.
<table>
<thead>
<tr>
<th>Researchers</th>
<th>Construct</th>
<th>Items</th>
</tr>
</thead>
</table>
| Azmi (2010, 2011)    | Organizational performance      | ➢ Objective Performance  
• Sales  
• Shareholder returns  
• Return on capital employed  
➢ Subjective Performance  
• Overall performance of the company |
| Andersen et al. (2007) | Firm performance                | ➢ Return on equity  
➢ Return on assets  
➢ Market growth  
➢ Profitability |
| Dany et al. (2008)   | Organizational performance      | ➢ Profitability  
➢ Product/service quality  
➢ Level of productivity  
➢ Rate of innovation  
➢ stock market performance |
• Return on assets  
• Return on sales  
• Overall financial performance  
➢ Innovation Performance  
• R&D outlays  
• Process innovations  
• Product innovations  
➢ Stakeholder Performance  
• Employment growth/stability  
• Employee morale  
• Customer & supplier relations |
| Benson & Littler (2002) | Performance outcomes           | ➢ Reduce labour costs,  
➢ Improve labour flexibility  
➢ Improve labour productivity  
➢ Improve decision-making  
➢ Improve customer service |
| Perry and Kulik (2008) | People management effectiveness | ➢ Effectiveness of people management issues in the organization  
➢ Overall effectiveness of people management activities in the organization |
• Profitability  
• Return on equity  
• Return on assets  
➢ Organizational Effectiveness  
• Timely adaptation of company products and services  
• Timely adaptation of company strategy  
• Achievement of quality  
• Achievement of employee satisfaction  
• Achievement of customer satisfaction |

Source: Compiled by the Researcher
2.5.2 Moderating Variables

Several researchers have explored the role of a number of interacting variables viz. age of the organization, organizational size, sector, nature of the organization, life cycle stage of the organization etc. in the relationship between role of agents and performance (Andersen et al., 2007; Andolšek & Štebe, 2005; Budhwar, 2000b; Lawler et al., 1995; Perry & Kulik, 2008).

A number of scholars have identified organizational characteristics and contingent variables such as size of the organization, technology adopted, age of organization, ownership, life-cycle stage of organization as moderators in the studies on role of agents (Budhwar, 2000a; Budhwar & Sparrow, 1997). Miller and Tolouse (1986) have reported the impact of size of the firm on CEO role.

Gilley et al. (2004) studied the moderating effect of firm size on training and payroll outsourcing vis-à-vis performance. Tremblay et al. (2008) studied the relationship of HRO with size, industry and ownership structure (public versus private). The results of the study revealed that smaller and larger organizations are expected to outsource HR activities then medium-sized organizations. Galanaki et al. (2008) studied the moderating effect of perceived benefits such as cost, flexibility and quality benefits from outsourcing of training services on extent of outsourcing in training services. The results revealed that availability of training services in the external market moderates the perceived benefits from outsourcing of training services. Chiang et al. (2010) reported the influence of organizational characteristics such as ownership on degree and type of HR outsourcing. Table 2.7 provides a list of moderating variables identified by different researchers in the studies linking role of internal and external agents in HRM with performance and effectiveness.

<table>
<thead>
<tr>
<th>Researchers</th>
<th>Moderating Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andolšek and Štebe (2005)</td>
<td>- Organizational characteristics</td>
</tr>
<tr>
<td></td>
<td>- Size</td>
</tr>
<tr>
<td></td>
<td>- Age</td>
</tr>
<tr>
<td></td>
<td>- Numerical flexibility</td>
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<tr>
<td></td>
<td>- HRM strategies</td>
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<tr>
<td></td>
<td>- HRM policies</td>
</tr>
<tr>
<td></td>
<td>- Situational factors</td>
</tr>
<tr>
<td></td>
<td>- Sector</td>
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<td></td>
<td>- State</td>
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</tbody>
</table>

Table 2.7: Moderating Variables Identified in Literature
<table>
<thead>
<tr>
<th>Researchers</th>
<th>Moderating Variables</th>
</tr>
</thead>
</table>
| Andersen *et al.* (2007) |  - Firm size  
|                      |  - Industry sector                                                                    |
| Budhwar (2000)       |  - Contingent variables  
|                      |   - Age of the organization  
|                      |   - Size of the organization  
|                      |   - Life cycle stage of the organization (growth or turnaround)  
|                      |   - Nature of the organization (Private or Public sector)  
|                      |   - Presence of unions  
|                      |   - Presence of HR strategies                                                        |
| Budhwar & Sparrow (1997) |  - Contingent variables  
|                      |   - HR strategy  
|                      |   - Flexible form of employment and ownership  
|                      |   - Life cycle stage of organization  
|                      |   - Size  
|                      |   - Age  
|                      |   - Union membership  
|                      |  - Non-contingent factors  
|                      |   - Institutional factors  
|                      |   - National culture  
|                      |   - Dynamic business environment  
|                      |   - Business sector  
| Dany *et al.*, (2008) |  - Size  
|                      |  - Age  
|                      |  - Characteristics of the markets (growing, stable or declining)  
|                      |  - Industry Sector (Primary, Secondary, Tertiary)  
| Galanaki *et al.* (2008) |  - Perceived benefits from outsourcing training services  
|                      |   - Cost benefits  
|                      |   - Flexibility benefits  
|                      |   - Quality benefits  
| Perry and Kulik (2008) |  - Organizational size  
|                      |  - Organizational age  
|                      |  - Manufacturing  
|                      |  - Public sector  
|                      |  - Organization strategy  
|                      |  - Dynamic growth  
|                      |  - Extract profit  
|                      |  - Public sector  
|                      |  - Manufacturing  
|                      |  - Organizational performance  
| Miller and Tolouse (1986) |  - Size  

72
2.5.3 Mediating Variables

Previous studies on role of internal and external agents have indicated the indirect relationship between the role of internal and external agents in HRM and effectiveness of HRM (Guest & Conway, 2011; Hope Hailey et al., 2005). For instance, Larsen and Brewster (2003) reported the possible outcome of line managers’ involvement in HR practices such as effects on the size and shape of HR department; effects on the shape of the organization and effects on the shape and role of HR department, besides enhancing organizational effectiveness (Schuler, 1990).

Several indicators of status of HRM have been identified in different research studies viz. position of HR departments, representation of HR department at board level, position and responsibility of HR executives, HR executives’ role in...
strategic decisions, general managerial training to HR executives, relationship of HR executives with CEO (e.g. Budhwar, 2000b; Budhwar & Boyne; 2004; Green et al. 2006; Hope-Hailey et al. 1997; Mayrhofer & Brewster, 2005; Sheehan, 2005; Teo & Crawford, 2005; Truss, 2003; Wood, 1995).

2.6 Internal and External Agents in HRM: An Indian Perspective

While most of the studies on role of internal and external agents vis-à-vis HRM have been conducted in the Western world (e.g. Finegold & Frenkel 2006; Gratton et al., 1999; Larsen & Brewster, 2003; Mahoney & Brewster, 2002; Papalexandris & Panayotopoulou, 2005; Renwick & McNeil, 2002; Shen, 2005; Valverde et al., 2006; Whittaker, 1990), the role of these agents remains largely unexplored in Asia and more specifically in India except for a few studies (e.g. Azmi, 2011; Budhwar & Sparrow, 1997; Khatri & Budhwar, 2002; Saha, 2005; Singh, 2009; Zhu et al., 2008).

Emerging markets across the globe are the drivers of economic growth, with lower operating costs and rapidly growing markets that are hard to match in more developed economies. The focus of multinational corporations has been to move business operations to Asian countries, particularly India. With a growing consumer base and a rapidly advancing economy, India is regarded as one of the most valuable emerging markets (Budhwar, 2001).

In India, economic reforms have attracted a large number of multinationals as a result of which there is paradigm shift in the HRM scenario. Moreover, India is witnessing unparalleled growth and its economy is progressing at a rapid pace (Budhwar & Varma, 2010; Grossman, 2008). These developments in the Indian economy have prompted global institutions like World Bank to depict that India will turn out to be the world’s fourth largest economy by 2020. This growth has fuelled numerous HR challenges for business organizations in India (Sodhi, 1994; Venkata Ratnam, 1995).

Owing to the changes in the business landscape in India, companies are shifting their attention towards more and more HR-centric approaches. Consequently, the role of agents in HRM is also becoming increasingly evident. A few empirical evidences have emerged from time to time supporting this contention. Budhwar
and Sparrow (1997) analyzed the degree of devolvement of responsibility for HRM to line managers in India. A number of contingent measures and organizational practices were found to determine the level of devolvement in Indian organizations which showed similarities with UK, Italy and Germany.

Bhatnagar and Sharma (2004) investigated line managers’ perception of strategic HR roles. Findings of the study show that there was no difference in the perception of the strategic partner role among line managers of public sector and multinational firms. However significant difference existed in the perception of HR managers and line managers.

Srimannarayana (2010) conducted an empirical study to evaluate the level of responsibility of line managers in HR activities. The results reveal that line managers have moderate responsibility for all HR functions. The level of responsibility of line management seems to be more in performance management and training and development related activities and less in compensation related activities. On the basis of ownership of the organizations, nature of business, length of service and functional area of line managers significant differences exists for certain HR activities.

Gopalakrishnan (2008) has argued for placing HR on line managers’ agendas. He contends that the line must understand that their main job is to manage people. HR should help managers to rediscover how to manage. Managers would need guidance to reconnect with the people and HR can help them fulfil this role.

Aggarwal (2010) analyzed the working relationship between line and human resource in different organizations across variety of sectors in India. HR-line relations are average to low in most organizations, however, there are areas where both value the roles played by each other. Azmi (2010) explored the relationship between devolution of HRM and organizational performance in India. The findings of the study revealed that devolution of HRM had a significant, direct and positive impact on organizational performance.

Azmi (2011) talked about importance of top managers’ training in HRM practices for exploring its relationship with HR practices and strategy. Additionally, Azmi’s study delves into a number of issues such as role of top management in HRM and uniformity of HR activities with organizational vision etc.
Budhwar and Sparrow (1997) reported the importance of personnel representation at board level in the integration of personnel function with corporate strategy. Moreover, they also stressed on greater interaction between top management and HR department so as to ensure that people related matters are given priority.

Role of external agents in HRM has recently received ample research attention in India. Across the globe the use and importance of HR outsourcing varies. Variations may be because of the size of the businesses, the degree of sophistication of the HR function, the extent of development of the HR outsourcing market, cultural norms, employment regulations and labour market characteristics in specific countries and regions. The general trends towards HRO reveal that the use is much less in Asian countries than in Europe and USA. A major reason for low uptake of HRO and shared service activities among Asian countries is the perceived poor quality of service and competency level of consultants in the market and the associated lack of options. Concerns about data security and loss of management control are also important reasons for not outsourcing. The majority of outsourcing user firms in the Asia region appears to be MNCs. HR outsourcing services providers’ clients in India include GE Capital, Ford Motors, Hyundai Motors, HSBC and other companies.

Result of HR outsourcing in Asia-Pacific online survey by Hewitt way back in June 2002 with respect to the Indian market reveals three models of outsourcing viz.

a) Outsourcing of the complete HR function - more prevalent among foreign companies that have established operations in India.

b) Outsourced expertise – where staff expertise is provided as an outsourced service rather than processing services, observed particularly among small and medium sized companies that find difficulty retaining skilled, senior HR staff.

c) The outsourcing of HR processes, including payroll (inclusive of timesheets processing, salary, pay slips, issuance of checks, deduction, computation etc) and benefits processing.

In the Indian context, the role of external agents in HRM is explored in several studies. For instance, Saha (2005) conducted a study on HR outsourcing and concluded that in order to gain competitive advantage, multinational corporations
are realizing the importance of outsourcing their entire HR function. In addition to this, several operational and strategic rationales are identified for HR outsourcing like need for specialised expertise, HR information technology, cost savings, vendor efficiencies and service, firm’s HR capacity, reduction of risk, to improve the overall business performance to achieve competitive advantage.

Singh (2009) reviewed the scope and development of HRO in India. The study further explored various types of HR outsourcing and rationale for outsourcing human resource functions. In India, business organizations are outsourcing a range of HR activities such as recruitment, compensation etc. Chiamsiri et al.’s (2005) study focused on the concept of offshore outsourcing by giving an overview of key information technology enabled services outsourced in India. In addition to this, the study looks at the potential changes in nature of the services outsourced in India and issues related to HRM approach.

Seth and Sethi (2011) studied various types of HR outsourcing and the factors that should be considered before outsourcing of different HR activities. The results of the study revealed that the decision of HR outsourcing is dependent on factors like affordability, flexibility, availability of adequate resources and acceptability. In addition to this, the study also suggests pre-requisites for successfully carrying out HR outsourcing.