

CHAPTER 7: DISCUSSION, IMPLICATIONS AND CONCLUSIONS

There are seven sections in this concluding chapter. The first section deals with the research objectives. Section two gives brief description of the conceptual model. Section three describes the research methods. Section four discusses the contribution of the findings to the theory. The next section, five deals with the managerial implications. Section six is about the limitations of the study and directions for future research. The last section of this chapter, seven deals with the conclusions.

1.1 Research Objectives

Using the frameworks of Transaction Cost Economics (TCE) and Resource Based View (RBV) of the firm the present investigation was focused on how some important HRO activities like training, payroll, recruitment and selection, benefit administration and employee communication impact the firm performance. More specifically, the present study had the following objectives that were identified and derived from the literature review and research gaps:

- To empirically study the HR outsourcing of core and transactional activities using TCE and RBV theories.
- To study the influence of organizational characteristics and market variables on HRO.
- To study the effect of Amount of HRO on performance of firms.
- To investigate the overall effect of organizational characteristics, market variables and HRO activities on firm performance in India.

The study found that HR activities can be grouped into transactional and core activities. The transactional HR activities included Career Planning and Guidance, Employee Training, Performance Management, Compensation Administration and Human Resource Information

System while core HR activities included Human Resource Planning, Recruitment, Selection, and Induction. The study attempted to explore which of these HR activities are outsourced more at different levels of management – top management level, middle management level and lower management level. As we could not locate any studies on HRO at various management levels so far, we have explored it in this study.

1.2 The Conceptual Model

The conceptual model for the present study has been developed based on the extensive review of literature, primarily aimed at capturing Amount of HRO and its impact on firm performance (see Figure 7.1). The study included five dimensions of organizational characteristics suggested by Klaas (1999; 2001). Amount of HRO had two dimensions – Core and Transactional activities adapted from Klaas (1999; 2001). Firm performance was measured on three dimensions - financial, innovation and stakeholders’ performance (Gilley, Greer and Rasheed, 2004).

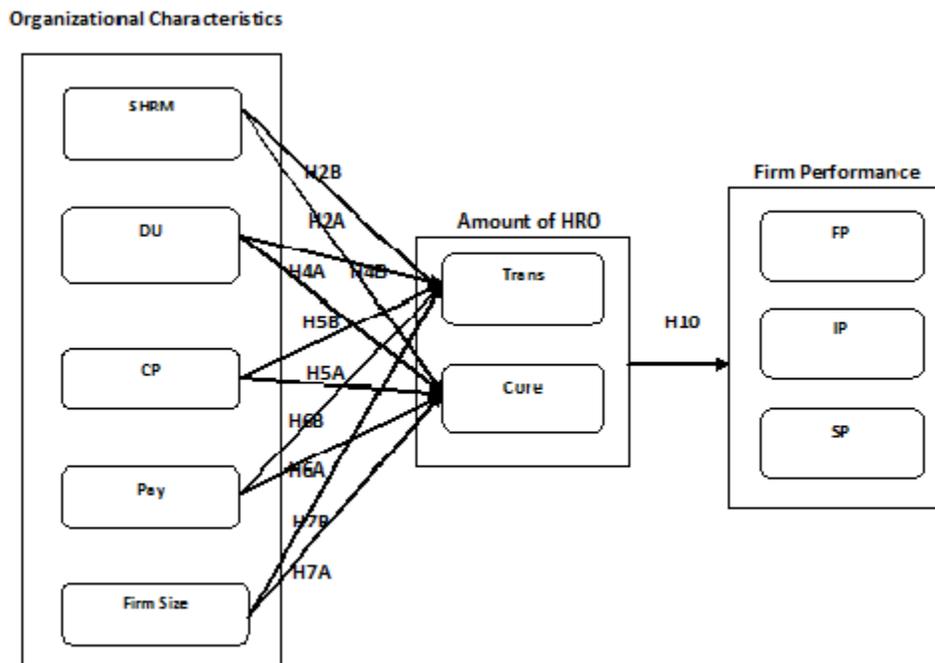


Figure 7.1 – The Model Tested in the Study

1.3 Research Method

In tune with the objectives of the study, research design was planned and carried out to empirically test the hypotheses. Appropriate instruments for measurement of each of the constructs were identified and developed based on past studies. A questionnaire was designed to measure Human Resource Outsourcing activities, organizational and market characteristics, and their impact on firm performance. The scale development process was followed as per previous studies in the field of HRO (Klass et al., 1998; 1999; 2001; and 2004). Offline and the online versions of the questionnaires were created using the Google document application template – email and social media.

The sample comprised 313 firms. The selected respondents were top level managers at the rank of at least HR Manager, or General Manager, or Vice President (HR), or Chief Financial Officer (CFO), or Chief Operation Officer (COO), or Chief Executive Officer (CEO) who have been working in the organization for at least 2 years. As many as 1500 online questionnaires were emailed and 200 offline questionnaires were administered to the respondents.

The data collection process yielded a total of 313 usable responses from both online (199) and offline survey (114) sources. The response rate was 18.41%. The sample is quite adequate for advanced statistical analyses (such as Structural Equation Modeling).

Advanced statistical analysis methods like EFA, CFA and Structural Equation Modelling using SPSS 20.0 and Amos 20.0 version were employed to test the hypothesized relationships. The

model fit indices like GFI, AGFI, RMSEA, NFI, and Chi Square/df were all within the recommended levels, which helped in further analyses of the data.

1.4 Summary of Major Findings of the Study

Out of the total 48 hypotheses at all the three levels, 26 hypotheses are supported at three different management levels; 12 supported at the top management level and 07 each were supported at middle and lower management levels. H5A, H5B, H6A, and H10E (four hypotheses) are supported at all the three management levels. Whereas H4A, and H4B (two hypotheses) are not supported at any of the management levels at all.

- Hypothesis 2 postulated that reliance on HRO-Core activities will be lower in firms where HR department is seen as a strategic partner to the firm whereas for the HRO-Transactional activities it will be higher. This hypothesis was supported only for Top management level. This hypothesis was not supported for middle and lower management levels for both HRO-Core Activities and HRO-Transactional Activities. One of the possible reasons is that the strategic decisions are normally taken by the top management; they play a crucial role in strategic decision making processes of the firm. The role of the managers at middle and lower management levels may not be very significant in strategic decision making processes; they are mainly responsible for implementing strategic decisions taken by the top management and not act on their own. Therefore H2A and H2B are supported at top management level as predicted but did not hold true for middle and lower management levels.

- Hypothesis 4 postulated that reliance on HRO-Core and Transactional activities will be higher in firms where there is substantial demand uncertainty. This hypothesis was not supported across all the management levels. Our understanding for unable to get support is that firms facing labor demand uncertainties will rely heavily on the Amount of HRO activities but the service provider will incur more cost in training and developing its employees to cater to the ever changing dynamic environmental demands. Organizational governance like renewal of contracts, delays in execution of contracts etc., rely on long term commitment between the vendor and the client. So any uncertainty during this slack period would be a costly affair on the part of service provider. Hence no support was found for H4A and H4B at all the three management levels.
- Hypothesis 5 postulated that firms having severe cost pressures are likely to rely less on HRO-Core activities and more on HRO-Transactional activities. This hypothesis was supported for all the three levels of management at HRO-Transactional activities. This result is similar to the findings of other studies (Klass et al., 2001). The implication from this result is that firms reporting severe cost pressures are most likely to save their costs by outsourcing their day to day mundane activities because this way they would like to concentrate on their forte and core issues. This will give immediate cost savings to the firms.
- Hypothesis 6 proposed that the firms following pay leadership strategy will rely less on HRO-Core activities and more on HRO-Transactional activities respectively. This hypothesis supported for middle and lower management levels at the HRO-Transactional

aspect but was not supported for top management level. Our understanding for the predicted relationship, reliance on HRO-Transactional activities in firms where there is pay leading strategy, not yielding results at the Top management level as expected is that at the top level the firms would like to attract and retain the talented persons. By letting out the transactional activities at this level it would deplete the resources invested on the talent. Hence firms which follow pay lead would like to rely less on outsourcing their core and transactional activities. Therefore support was found for H6B (middle and lower management levels) and H6A was not supported (at all management levels).

- Hypothesis 7 postulated that the Firm size and HRO-Core activities and HRO-Transactional activities are inversely related. This hypothesis is supported for top management level (HRO-Core) only but was not supported for top management level (HRO Transactional) and at middle and lower management levels. Our understanding for the support is that the top management level should be abreast of all the major developments in the industry and not only that they also need to be highly competitive to sustain the market pressures and to keep themselves up-to-date they require great deal of knowledge from others. Therefore, it is highly likely that the lower the firm size and the greater be will the rely on core HR activities. Our reason for this relationship getting no support is the fact that HRO is predominantly a novel trend and this experimentation is happening only at the larger firms that are ready to take calculated risks and they may also have the expertise of trained staff that is familiar with the current trends in HR (Ulrich 1996). The smaller firms are adopting the wait and watch approach since they do not have highly trained staff who can guide them about the issues in HRO. The absence

of critical mass may also reduce the chances of these firms in venturing into HRO. Therefore due to the countervailing effect of firms, no support was found for H7 (except H7A - Top HRO-Core).

- Hypothesis 10 postulates that there is a positive relationship between HRO-Core and Transactional activities and Firm Performance. This hypothesis was supported at the top management level (HRO-Transactional and stakeholders' performance, innovation performance and financial performance), middle management level (HRO-Core and stakeholders' performance, financial performance and HRO-Transactional and innovation performance) and lower management level (HRO-Transactional and stakeholders' performance, innovation and financial performance). However, support for this hypothesis was not found at top management level (HRO-Core and firm performance), middle level management (HRO-Core and innovation performance and HRO-Transactional and stakeholders' performance and financial performance) and lower level management (HRO-Core and stakeholders' performance, innovation and financial performance).

The reason for the support at the top management level for HRO-Transactional activities could be that at the top management level many firms may not be able to concentrate on the routine things and hence it is a good option to outsource transactional activities which not only save the time of the top management but also help in channelizing its energies towards core areas (Gilley, Greer and Rasheed, 2004). On the other hand, HRO-Core activities with firm performance at the top management level were not supported. The reason can be are not very often given to the third party vendor and are performed in house which will have great impact on the employees,

customers and suppliers in fact on the performance of the stakeholders. Therefore, at the top management level the relationships between HRO Core activities and Stakeholders' performance hold true in the inverse direction i.e., lesser the HRO Core activities higher will be the Stakeholders' performance, innovation and financial performance. Most of the day to day administrative HR activities have direct impact on the overall financial, innovation and stakeholders' performance of the firm.

At the middle management level, outsourcing of core activities of HR add value to the employees, customers and suppliers as the third party vendor would be able to provide high quality expertise and hence it impact the financial, stakeholders' performance. On the other hand, HRO-Transactional activities and innovation performance at the middle management level can achieve higher levels of attention on transactional activities such as training that may require innovativeness which can be achieved by getting the best services from outside vendor.

Transactional activities of HR like payroll can be given to the third party vendor because of their expertise and huge client base. These activities if performed in house would affect the cost and also the stakeholders like employees and customers. Therefore we found support for HRO-Transactional activities and innovation, financial and stakeholders' performance at the lower management level.

Our failure to get support at the middle management level (HRO-Core and stakeholders' performance, financial performance and HRO-Transactional and innovation performance) could be that many firms still like to keep their core activities like suppliers' relations, R & D, product

development, overall financial details etc of the middle level management with them. Giving these vital information to the outsource vendor may result in the opportunistic behavior by the vendor. Innovation performance may not reflect the HRO Transactional activities at the middle management level because the firms would not like to let out key innovation areas to the third party.

Our data did not find support for the HRO-Core with firm performance – stakeholders, innovation and financial performance at the lower management level. Our explanation for this insignificant relationship is that it is highly likely that there exist not many core activities at the lower management level. Some of these core activities at the low management level are performed in-house because the cost of acquiring the outsourcing services would be high. The firm's management would not be interested in investing so much for low management level. So these activities are kept in-house. Hence it is not surprising that these relationships were unsupported.

1.5 Contribution to the Organization Theory

This study contributes to the HRO literature in many ways. First, it provides a comprehensive theoretical framework which includes dimensions of organizational characteristics, amount of HRO and firm performance (Ulrich, 1996; Klass et al, 1998; and 2001).

Second, most of the Indian HRO literature is anecdotal or descriptive, and normative or prescriptive. We did not come across any empirical study of HRO in India. The present study fills this gap by significantly contributing to the existing body of knowledge in HRO in general and scant body of empirical literature on HRO in India in particular. .

Third, development of a comprehensive model proposed in this study would help in better understanding of the HRO area and would open new horizons to explore further.

Fourth, not many studies have been empirically conducted using both TCE (Williamson, 1986; 2000) and RBV (Barney, 1991) theoretical perspectives. So in this study these two important theories have given a better picture about the outsourcing of core (strategic) and non-core (transactional) HR activities. TCE takes cost and governance mechanisms into consideration whereas RBV focuses on the strategic role of resources in the firm for building competitive advantage. The hypotheses formulated and tested have these two theoretical underpinnings and hence contribute a great deal in the expansion of knowledge in this field.

Fifth, the study has designed and developed reliable and valid measurement instruments to measure multiple constructs. The three measurement scales namely – organizational characteristics, Amount of HRO and firm performance have been tested through rigorous statistical analyses which include EFA, CFA, convergent validity, discriminant validity and SEM. The scales used in this study satisfied the measurement criteria of reliability and validity. Therefore these instruments can be used in further studies.

Sixth, this study also highlights the importance of management levels and HRO. Each level has its own significance and importance on amount of human resource outsourcing. This is the most important contribution of the study.

1.6 Managerial Implications

Because of the nature and structure of the study, there are many important implications for the managers and HR practitioners. First, as the LPG (liberalization, privatization and globalization) are dominating the market place, organizations have become much more careful in their utilization of resources. Hence HRO becomes all the more important in how to apply and make use of human resources internally/externally.

Second, there are very few studies that have empirically investigated the effect of organizational and market characteristics on HRO and Human Resource Outsourcing on firm performance. In view of growing practice of HRO in firms, including Indian firms, practitioners would benefit from the results of an empirically tested model. It provides insights into the outsourcing of various HR activities and their impact on firm performance. More importantly, the results from the study may provide some input on when to outsource or avoid outsourcing an HR activity (Gilley, Greer, and Rasheed (2004). So when HR managers think of the HRO at their firms they should first consider at what level of management they require the service providers and to what extent.

Third, it is a unique contribution to check which HR activities are outsourced more and at what level. This way the management can plan better outsourcing of their Human Resources activities. HR managers may consider firm's cost pressures, pay leadership strategy before thinking of HRO-Core and Transactional activities at all the top, middle and lower management levels.

Fourth, our findings also suggest that firms outsourcing Top management level Core, and Transactional, and Middle management level Core HR activities tend to have higher financial and stakeholders' performance which include employee satisfaction, better compensation to the employees and suppliers and customer relations. Practitioners must be able to justify their investments in outsourced activities through this evaluation.

Fifth, HRO-Lower management level Transactional activities has significant relationship with all the dimensions of firm performance – stakeholders, innovation and financial. The findings recommend that the transactional activities at the lower management level can be outsourced so that the firms can concentrate on their core and strategic activities efficiently. HR practitioners at the firm may plan to decide the lower level activities to be outsourced more clearly.

Sixth, Strategic HR oriented firms differ from the traditional HR firms in terms of determining the level of HR outsourcing. Top management level may be more strategic and wish to acquire specialized expertise in core HR activities such as recruitment, and selection from the HR outsourcing vendors to gain competitive advantage. Therefore, traditional HR firms which keep more and more activities in house can also think about HRO to sustain in business, in the changing scenario of the business, and achieve competitive advantage. Most of the core activities at the top management level are performed in-house where as the middle and lower management level core activities can be outsourced. This study has provided empirical support to prove this point.

Seventh, findings of this study also indicate that Demand Uncertainties is not associated with amount of HRO at any management level. For those firms that compete in relatively unstable

environments, the need for flexibility to reduce the fixed costs will be higher. Hence firms have to make an informed choice about outsourcing decisions i.e., whether to keep an activity in-house or outsource it in view of labor Demand Uncertainties.

Eighth, pay lead policies and amount of HRO are significantly related to each other. Our study provides empirical proof in this regard. Firms that follow pay lead policy will not only attract talented professionals but also be able to retain them by paying best in the industry. Therefore, HR managers can design and develop pay plans for all the three levels of management.

Having pointed out implications of the research, the limitations and scope for future research are discussed in the next section.

1.7 Limitations and Scope for Future Research

Although this research made significant contributions to the HRO literature in relation to organizational and market characteristics, and firm performance, it is important to consider the results of this study in the light of some limitations as described below:

First, data were collected from a single respondent (CEO/Director/VP/General Manager/Deputy General HR manager) from each organization. Though the respondents were qualified enough to have knowledge about their HRO practices, and decisions, the data from a multiple respondents would have been better. Future research can take note of this lacuna by collecting data from at least two or more senior respondents from each firm as the outsourcing decision encompasses several other actors in the firm.

Second, this study did not include the behavioral aspects like trust and commitment of the vendors and clients which might also influence the contract mechanism to a great deal. Future research may take behavioral aspects into consideration.

Third, though the scales met the reliability and validity criteria, there is a vast scope for further improving some of them. These include pay, promotional opportunities, idiosyncratic HR practices and outsourcing by competitors. Therefore, future studies should develop more robust and comprehensive measurement scales for these dimensions.

Fourth, future studies should investigate the hypothesized relationships across industries. An adequate sample should be obtained from each industry so that industry-wise analysis can be done. This would reveal industry-specific relationships, if they exist. Further, the performance of the companies which are at different levels of HRO can be compared by dividing the sample into low and high on HRO and studying them thoroughly.

Fifth, performance implications of outsourcing decisions of the firm, using mediating and moderating variables such as satisfaction with HRO decisions, can also be looked into in the future studies.

Sixth, future research can also focus the industry-wise or sector-wise analysis and check the impact of industry on the relationship between HRO and firm performance.

Seventh, given the nature of the study, it would be interesting to conduct case studies research with firms using HRO and firms maintaining the traditional way of operations.

1.8 Conclusions

This study has attempted to shed more light on the relationships between dimensions of organizational characteristics viz., strategic HR involvement, demand uncertainties, cost pressures, pay and firm size and amount of HRO – Core and Transactional activities and firm performance viz., financial, innovation and stakeholders' performance in India. This study has made two significant contributions.

First, earlier studies have tested only the organizational, market variables with amount of HRO while a few studies have also tested the amount of HRO with one or two activities of HR and its impact on firm performance. In this study we have successfully made an attempt to bring together the organizational characteristics, amount of HRO and the firm performance in one single model.

Second, previous studies on HRO have focussed only on taking the HR activity as a whole without considering differences at the top, middle and lower management levels. We have argued that the basis for outsourcing decisions of HR activities at different levels like top management, middle management and lower management will vary across and within organizations.

It is hoped that this exploratory kind of attempt will help in understanding the phenomenon of HRO. More work on this area of knowledge would help better understand the intricacies of HRO and give some directions to the firms in deciding which type of activity to be outsourced and at what level.