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**HR OUTSOURCING TRENDS AND ITS EFFECTS ON THE ROLES OF HR
PROFESSIONALS**

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Management

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LIST OF TABLES	5
LIST OF FIGURES	5
TERMINOLOGY	7
ABSTRACT	9
1. INTRODUCTION	11
<i>1.1 Background of the study</i>	11
<i>1.2 Research problem</i>	12
<i>1.3 Structure of the study</i>	13
2. LITERATURE REVIEW	15
<i>2.1 HR outsourcing</i>	15
2.1.1 Definitions and HR outsourcing trends	15
<i>2.2 Reasons for HRO</i>	18
<i>2.3 Risks concerning HRO</i>	19
2.3.1 Arguments for and against HR outsourcing	21
<i>2.4 Theoretical perspectives on HRO</i>	24
2.4.1 Transaction Cost Theory	24
2.4.2 Limitations of TCT	27
2.4.3 Transaction Cost Theory in HRO	28
2.4.4 Resource-based view of the firm	32
2.4.5 Limitations of RBV	34
2.4.6 Resource-based view in HRO	35
<i>2.5 HR transformation</i>	37
<i>2.6 The implications of HRO in MNCs</i>	39
2.6.1 HR Business Partners	40
2.6.2 In-house HR professionals	42
2.6.3 Line Managers	43
2.6.4 Employees receiving HR services	43
2.6.5 Outsourced HR staff	44
<i>2.7 Summary</i>	45

3. RESEARCH METHODS	47
3.1 <i>Introduction</i>	47
3.2 <i>Research design</i>	47
3.3 <i>Data collection</i>	50
3.6 <i>Data analysis</i>	52
3.7 <i>Validity and reliability of study</i>	54
3.8 <i>Limitations of the study</i>	56
4. EMPIRICAL FINDINGS	58
4.1 <i>HRO trends and achievement of TCT and RBV ideas in companies</i>	59
4.1.1 <i>HRO trends and role today</i>	59
4.1.2 <i>Achievement of TCT and RBV ideas in companies</i>	62
4.2 <i>Intended and actual changes to the roles of HR professionals</i>	64
4.3 <i>Summary</i>	71
5. DISCUSSION AND CONCLUSIONS	74
5.1 <i>Discussion</i>	74
5.2 <i>Conclusions</i>	76
5.3 <i>Future research</i>	79
REFERENCES	81
APPENDIXES	92

LIST OF TABLES

Table 1.	HR outsourcing areas.....	16
Table 2.	Arguments for and against outsourcing.....	23
Table 3.	Main findings on TCT theory.....	31
Table 4.	Main findings on RBV theory.....	36
Table 5.	Demographics of participants.....	51
Table 6.	General characteristics of firms.....	51
Table 7:	Cross-referenced answers from different groups.....	71

LIST OF FIGURES

Figure 1.	Alignment of Business Organization and HR Organization.....	38
Figure 2:	HR roles and relationships after reorganization.....	41

TERMINOLOGY

HR:	Human Resource
HRO:	Human Resource Outsourcing
HRM:	Human Resource Management
HRBP:	Human Resource Business Partner
MNC:	Multi-National Corporation
SSC:	Shared Service Centre
TCT:	Transaction Cost Theory
RBV:	Resource Based View of the Firm

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ABSTRACT

The main purpose of this study was to explore HR outsourcing trends and its effects on the roles of HR professionals. The research had two main research questions: What changes can there be seen in HRO and how the ideas of TCT and RBV have been achieved in companies? What are the intended and actual changes to the roles of HR professionals?

The study was done as a qualitative multiple interview study. In the research eight different people were interviewed. Respondents consisted of HR researchers, HR consultants and HR professionals. The interviews were gathered in different cities from mid April to June 2010.

According to the research results HR's role is becoming more and more strategic and it's being seen more as a core function in company's decision-making process. Due to this transformation in HR the roles of HR professionals have been influenced and they need to adopt to a more strategic and business-thinking role.

KEYWORDS: HR outsourcing, Multi-national, shared service

1. INTRODUCTION

1.1 Background of the study

The purpose of this study is to examine HR outsourcing and its impact on HR professionals' roles. Outsourcing is a very current subject in the business world; has been for some decades. There are very few companies, which are not outsourcing some part of their operation. Corporations have started to concentrate on their core competences and leave the other functions to third party providers.

Today's business world is very global and dynamic so corporations seek to get competitive advantage over their competitors in order to make more profit and gain bigger market shares. After the depression in the US and Europe, companies try to be as efficient and cost effective as they can. Therefore they are having hard time figuring out how to cut costs and stay above their competitors in a fast changing market.

In the past decade HR transactions have been on a change. A large-scale survey (Vernon, Philips, Brewster & Ommeren 2000), placed in Europe, indicated that some 97% of the organizations in the survey outsourced some parts of their HR transactions. In a similar vein, a survey by Buck Consultants (Anon. 2000) states that since 1996 the number of companies outsourcing HR functions has risen 23 per cent.

The trend hasn't slowed down. A recent poll from the latest TPI index HOUSTON (PR Newswire 2009) shows that 2008 was a very strong year for the outsourcing industry. Contract values exceeded values for 2007. Also seen on another recent research by Watson Wyatt, large US employers continue to outsource administration, recruiting, payroll and HR functions (Miller 2009). So outsourcing is still a rising trend in the business world where companies have to get costs down and still keep efficiency at the optimal level.

Delmotte & Sels (2007) emphasize that a popular belief is that organizations use HRO only to cut costs but as many studies show cost reduction is not the only factor. A study by Beaman (2004) indicated that cost reduction is not the real payoff from HRO but the improved quality. Moreover HRO can bring specialized HR expertise, achieve flexibility, reduce risks and enhance access to advanced technology (Belcourt 2006; Lever 1997; Scott-Jackson et al. 2005).

So HRO is quite common among corporations but there is however little academic research done on the outcomes of HRO. There is a lot what is not known of the outcomes of HRO and in many cases the results are seen only after many years. As Cooke, Shen & McBride (2005) point out there is rather limited existing literature on HR outsourcing because both research and practice are in early stages of development. They also address that academic researchers as well as practitioners need more information and research on the implications that the changed role of HR will have on the business and the workforce (Cooke et al. 2005: 427).

1.2 Research problem

Outsourcing is a very wide subject and many studies on outsourcing have been made. However there are fewer studies about outsourcing HR transactions and its implications to the roles of HR professionals.

As Greaver (1999) points out, there are always problems with outsourcing even in the best of situations. Therefore it is important to have studies and surveys made for the managers who are planning to outsource parts of their HR transactions. Many managers are being forced to outsource parts of their department when there are greatly praised expectations of benefits but not enough information about the implications and challenges that outsourcing brings. Even though outsourcing is said to give cost cutting effects and efficiency to organizational structure there are many areas that are still in the dark. It is still unknown how effective outsourcing is.

Problems arise for HR when parts of its transactions are outsourced. Meanwhile as the costs are being cut there's always the question of service levels and efficiency. There are challenges especially for MNCs when such as linguistic problems, implementation for all units and employees and geographical problems arise.

Many organizations struggle with the outsourcing decision and are unsure if it is the right way to go. Outsourcing is not something that the organization can get out of easily if things go wrong. This study is therefore done to give a good understanding on what HR outsourcing is and what are its effects to the roles of HR professionals.

The empirical side of the study is to determine how the intended changes in HRO, those changes that HR academics are saying are happening, compare to the actual changes that HR professionals are saying. In order to determine this, the empirical side of the study focuses on these differences by analyzing the answers of academic researchers, HR consultants and HR professionals.

There are two research questions in this thesis:

- *What HRO trends are seen and how the ideas of TCT and RBV have been achieved in companies?*
- *What are the intended and actual changes in HRO to the roles of HR professionals?*

1.3 Structure of the study

The study has five main sections. The first section consists of the introduction and covers the background of the study, research problem and questions as well as the structure of the study.

The second section is the literature review. In this section HRO and its definitions and trends are presented. This section gives a good broad view on reasons for HRO and the risks concerning it. The literature review offers also two theoretical perspectives on HRO and therefore tries to explain the rationale behind HRO decisions. At the other half of this section HR transformation and the implications of HRO are presented.

Section three introduces the methods and research strategy used in the study. Here a view of data collection, data analysis, reliability and validity of the study as well as limitations of the study is given to the reader.

The fourth section covers the empirical findings section of this study. In this section the answers and opinions of respondents will be presented and the research questions are being given an answer through these interviews of HR professionals, consultants and researchers.

The fifth section consists of the discussion and conclusions as well as areas for future research.

2. LITERATURE REVIEW

2.1 HR outsourcing

2.1.1 Definitions and HR outsourcing trends

For the purpose of this study, HRO is defined as “an HR transaction, which normally would have been performed internally, that has been contracted to a third party provider.” As for transaction, it is meant as an administrative part of a function or practice e.g. HR.

Outsourcing has become a popular way for companies to concentrate on their core competencies and therefore get competitive advantage over their competitors. Especially in the 90's outsourcing became popular in HR when it was realized that core activities should stay in-house and non-core activities should be outsourced (Mullin 1996; Prahalad & Hamel 1990).

HRO is seen as a time when a company contracts with a third party provider to take care of an HR process previously performed by the company (Greer, Youngblood & Gray 1999). In a similar vein Domberger (1998) states that outsourcing is the process where processes traditionally carried out internally are being contracted to an external provider. In fact, Greaver (1998) suggests that outsourcing is the act of transferring organization's internal process and decision rights to an outside provider. In addition, Turnbull (2002) defines HRO as placing responsibility for various elements of the HR function with a third-party provider.

Outsourcing HR transactions is becoming more and more popular in today's business world and especially MNCs are having hard time in keeping costs and efficiency in order. There's also discussion about HR's situation and contribution to organizational performance (Ulrich 1998). In cost-conscious times the HR department is under a magnifying glass trying to struggle for

legitimacy and their role in organization. Therefore, many HR managers are certain that outsourcing their transactions, a more cost-cautious and efficient department is formed.

At 11% growth per year outsourcing is a rapidly growing sector. Last year a total of \$17.6 billion annualized contract value was recorded. Outsourcing industry therefore exceeded 2007 overall values. On IDC research it is argued that spending on HR transactions is forecast to reach \$126billion worldwide by 2010 (IDC Research 2005). Vernon et al.'s (2000) survey (see Table 1) on HR outsourcing revealed four major areas where companies outsource HR transactions. Training and development was the most common area. Recruitment and selection, payroll and workforce outplacement/reduction were also on the main list what HR practices companies outsource. Some 97% of companies studied therefore used at least one of the main service areas.

Table 1. HR outsourcing areas (Source: Vernon et al. (2000, p. 7).

Outsourced process	Percentage (%) of Respondents Using
Training and development	77%
Recruitment and selection	59%
Pay and benefits	30%
Workforce outplacement / reduction	29%

As seen, many corporations outsource HR transactions like training and development, recruitment and selection and payroll. However, some have decided to outsource their entire HR department, including the design of HR systems. This kind of action most definitely has an impact on organizational culture and performance (Klaas, McClendon, & Gainey 2001).

Number of studies (Andersen 1996; Harkings, Brown, & Sullivan 1995; Kakabadse & Kakabadse 2005) show that HR outsourcing is a growing trend and has increased substantially over the last decade. As seen on magazines like PR Newswire (see e.g. Jan. 20, 2009 issue) and People Management (various issues, e.g. Mar 20, 2008) polls and surveys indicate a rapid growth in HR outsourcing. There is discussion on how rapidly HR outsourcing shall grow but there are still many who believe that HR outsourcing will continue to grow at a great level (Cooke et al. 2005: 426).

Stroh & Caligiuri (1998: 6) argue that the effective management of HR internationally is a major determinant of success or failure in international business. In today's business world technology is an important part of everyday work and a vast number of HR transactions are technology based. Therefore there is an obvious relation with technology and the people involved (e.g. line managers, employees).

In a growing trend shared service centers (SSC) are being formed to cut costs, have more efficient HR actions in companies and create competitive advantage (Farndale, Paauwe & Hoeksema 2009: 544). Farndale et al. (2009: 547) point out that it is largely a factor of corporate strategy to create an SSC. Many MNCs are outsourcing their HR transactions and formulating these SSCs with the help of an outside provider. The idea is reasonable. But as Ulrich (1995: 13) points out corporations are having shared service centers without fully understanding why or how they work.

The most common strategic reasons behind the implementation of HR SSCs are to improve professionalization and to be more customer-oriented. Many organizations want to improve the quality, flow and management of work processes. It is also very common to form an SSC to reduce costs and to gain better quality of HR processes (Farndale et. al. 2009: 551).

To international HRM this development of SSCs is considerable. Sparrow, Brewster, & Harris (2004: 67) point out that shared service thinking and the

used technologies represent a force for a fundamental realignment of HR function. Moreover they argue that shared service thinking carries implications for the level centralization-decentralization and development evidenced across countries, regions and corporate headquarters. The economics of HR service provision changes and shared service thinking introduces competing dynamics for HR process standardization (Sparrow et al. 2004: 67).

2.2 Reasons for HRO

Cooke et al. (2005: 417) point out that there are a number of strategic and operational level reasons why organizations outsource HR transactions. Demands for increased productivity, profitability and growth have forced organizations to re-think the position of HR transactions, which has moved toward strategic outsourcing services. In a similar vein Greer et al. (1999: 86), point out that HRO decisions are a response to a growing demand for reduced costs. Roberts (2001: 10) also argues that downsizing and tougher competition means that the HR department is under pressure to demonstrate value in terms of efficiency and effectiveness.

Outsourcing is seen as a way of giving HR professionals a more consultative and strategic role of designing and implementing programs aimed at retaining workforce and enhancing its performance (Cooke et al. 2005: 417). So more and more focus is put on to the role of HR professionals and non-core activities are stripped from their activities. This is also what Ulrich (1998) wrote on his thesis, suggesting that HR has four roles in an organization. HR should be a strategic partner, an administrative expert, and employee champion, and a change agent. Greer et al. (1999: 94) also point out that HR outsourcing is consistent with the business partner role that the in-house HR department is assuming.

The main reasons for HRO appears to be to seek specialist services, have cost reduction and enable HR professionals to take on a more strategic role. Cooke et al. (2005: 417) point out that most commentators are convinced that

outsourcing is seen as a strategic tool. Oates (1998) points out that the outsourcing decision is a strategic one and is taken at a senior level.

2.3 Risks concerning HRO

So outsourcing is very common and widely used. There are a lot of reasons supporting HRO and as the previous chapter presented many theories to back up these decisions. There are however great pitfalls also.

There is a lot of discussion on how effective outsourcing really is and very little research on the subject has been done. It is also hard to measure quantitative if the outsourcing decision has brought expected value. Outsourcing in general may lead to the reduction in the quality of products, or of the services provided (Cooke 2001; Marchington, Cooke, & Hebson 2003). Domberger (1998: 166) suggests that certain organizational transactional requirements, such as HR transactions, are often difficult to specify in a way that leads to observable and verifiable outcomes. This is because, it requires massive resources and expertise from an in-house monitoring team to monitor and measure these transactions.

Cooke et al. (2005: 420) point out that danger with HRO is that the service provider may have standardized all parts of its service in order to achieve economies of scale across clients. This can lead to a loss of the client company's unique organizational characteristics. Pickard (1998: 23) points out, that problems may also arise from a mismatch in culture between the outsourcing organization and the supplier. If the quality of services is unsatisfactory, the cost of an alternative solution may increase considerably and fast improvements may be difficult to gain. These alternative choices can mean switching suppliers, obtaining a long-term contract with the new supplier, or bringing the service back in-house (Caulkin 2002: 10).

From a strategic point of view, Ulrich (1998) argues that outsourcing HR transactions that are reliant on expensive IT systems frees internal HR professionals to have more standing in strategic decision making. However,

this is not easy to achieve and attempts to develop an HR information system would face operational problems (Liff 1997: 26).

More than often integration of internal operations is seen not as advantageous by all area of the organization. As Ruël, Bandaroum & Looise (2004: 103) point out that “when implementing eHRM on a global scale, it is not easy to make it appear advantageous on a local scale.” It is usually seen as a disadvantage when the local operation is transferred to another location, sometimes even abroad. However, as Farndale et al. (2009: 547) suggests, the integration can also increase the potential for organizational learning from which all parties can benefit. Also when dealing with one SSC, instead of many operations that are unaware of each other, it is possible that the function is more flexible to change when demands for change arise. Farndale et al. (2009: 548) point out that, it is foremost the problem of large organizations whether to centralize or decentralize their support functions. Decentralization gives local units the maintenance over these functions and giving them autonomy.

Many experts and managers have warned that outsourcing HR transactions can get too far. Many activities and policies that appear to be routine may turn out to be a key function that should stay in-house (Pickard 2000; Pickard 1998; Taylor 2001). In a similar vein, interviewees in Greer et al.’s (1999) study cautioned that outsourcing transactions could remove or distance the HR function from the employees. Cooke et al. (2005: 421) point out that HR departments run the risk of losing their identities and control with extreme outsourcing. In that case, a mixture of outsourcing and in-house activities appears to be the optimal solution under many circumstances. In fact, Greer et al. (1999: 92) point out that certain confidentiality and amount of control are important to preserve if dealing with activities that involve sensitive information.

HR is a service that is coproduced with line managers and employees. These HR professionals are being asked to help provide business solutions for employee problems. In addition, they are being challenged to develop core competencies and change their bureaucratic culture. This is because HR

departments should be more customer-focused and deliver value-added services (Cooke et al. 2005: 421). Therefore, according to Cooke et al. (2005: 421) outsourcing should be used in conjunction with an internal HR team focusing on core competencies to produce these solutions in partnership with an external HR service provider.

However, it is noticed that outsourcing is only one component of the strategic transformation process and the role of HR outsourcing depends on how senior HR managers view the role of the HR function (Cook et al. 2005: 421; Greer et al. 1999: 90). In a similar vein, Vernon et al.'s (2000) study revealed that the position and the influence of the HR transaction have not changed in the past decade. Furthermore, the study indicated that outsourcing is a business decision made by senior managers and it occurs outside the control of the impacted transaction. As Vernon et al. (2000) point out in their study outsourcing is more common where top management actively evaluates the performance of the HR transaction. In general, it seems to be that the more centralized the organization and HR transaction, the more HRO is likely to be used as a resource tool (Cooke et al. 2005: 421).

2.3.1 Arguments for and against HR outsourcing

There are various arguments for and against outsourcing. Shen, Cooke, & McBride (2004) reviewed what kind of benefits outsourcing has and what arguments are against it (see Table 2). On a newer literature review study, Cooke et al. (2005), list six arguments for outsourcing. First, it allows corporations to concentrate resources on their "core" competences where they have expertise and competitive advantage over their competitors. As Willman (1999: 25) points out, corporations have focused upon on their "core" activities, which led to increased specialization. Corporations are therefore concentrating to their primary competences and leaving "non-core" activities to someone else. This is why these "non-core" activities are likely to face outsourcing, as they are not valued as high as "core" competencies.

Second, outsourcing allows firms to profit from the rising competitive advantage of specialized service providers who have the expertise in the outsourced areas. As Gupta & Zhender (1994: 74) point out an outside supplier is focused on its own core business and therefore will provide service that is cheaper and more specialized. In addition Gupta et al. (1994: 74) argue that a specialized supplier has access to more advanced technology than the organization would be able to buy. Third, it gives firms flexibility when using outside providers. As Cooke (2001) mentions in a conference paper firms get greater flexibility and productivity by using temporary subcontractors to cover fluctuating demands for labor. Fourth, outsourcing gives opportunities for organizations to cut risk and uncertainty associated with the business to an outside provider. Outsourcing also enables organizations to keep future costs down by selecting the most competitive offer for renewing the contract (Domberger 1998: 159).

Final reason, that in Cook et al. (2005) study is presented, is that outsourcing relationships can create partnerships between contractors and clients which can lead to learning and cross-fertilization between the two firms (Child & Faulkner 1998; Powell, Koput & Smith-Doerr 1996). In fact, effective management of outsourced relationships becomes a core competence itself (Alexander & Young 1996: 118). Moreover if management of relationships is poor it reduces the opportunity for realizing competitive advantage as, therefore, service purchaser doesn't get to fully leverage the supplier's competence (Costa 2001: 220).

However, outsourcing still has its pitfalls, as noted in Table 2. Cooke et al. (2005: 416) point out that one of the most serious is maintaining the continuity of skill supply and the loss of in-house knowledge and capacity. Corporations may not realize that when outsourced the in-house knowledge on that process is no longer needed. This can cause long-term implications and reduce competitive advantage. In addition, Prahalad & Hamel (1990: 84) point out that outsourcing, while giving a shortcut to a more competitive product, typically doesn't contribute to building the people-embodied skills.

Second major concern is the loss of quality. As Cooke et al. (2005: 416) suggest employees often judge service quality by comparing their own expectations on the proposed change with their view of what the services should be or what it used to be. Switching from in-house to an external provider causes disruption to the continuity of the services and can cause unpredicted problems. In a similar vein, Gupta et al. (1994: 74) emphasize that because of outsourcing the organization is dependent upon its suppliers. This can create problems and loss of quality. Cooke et al. (2005: 417) point out, that there have been reports on the failures of outsourcing resulting from unfulfilled promises and expectations.

Table 2. Arguments for and against outsourcing. Source: Modified from Cooke et al. (2005: 416).

Perceived Benefits	Potential Adverse Consequences
Concentration on "core" competences	Discontinuity of skill supply
Supplier's expertise	Loss of in-house knowledge and capacity
Numerical flexibility	Loss of quality
Shift of risk and uncertainty	Higher total cost
Competitive offering process	Loss of employee moral
Organizational learning from specialist provider	Loss of long-term competitiveness

It is also important to understand how organizations make these outsourcing decisions when we know the reasons why they do it. There are a number of theories in literature with which scholars try to explain the rationale behind

HRO as a business strategy by managers. Probably the most commonly used theories are transaction cost theory (TCT) and resource based view of the firm (RBV). TCT gives an economical view and RBV a more strategic view of the decisions that managers make. As in many cases, there are limitations and criticism to these theories also and some of them are also presented in this section. The next chapter will present these two theories that are most commonly used in organizations when thinking about outsourcing.

2.4 Theoretical perspectives on HRO

2.4.1 Transaction Cost Theory

Transaction cost theory (TCT) was first introduced by Coase (1937). He considered the question of what drives organizational form. He recognized that, in addition to production costs, there are costs also in connection with how transactions are organized within organizations. These original six transaction costs are search costs, information costs, bargaining costs, decision costs, policing costs and enforcement costs.

- 1) Search costs occur when buyers and sellers find each other inside the marketplace
- 2) Information costs to the buyer come up when learning about the products and services of sellers happen.
- 3) Bargaining costs happen when buyers and sellers set the terms of contract for services bought.
- 4) Decision costs: for buyers when evaluating the terms of seller compared with other potential sellers.
- 5) Policing costs for buyers and sellers occur when ensuring that the contracted goods or services are in fact delivered as promised. Additional costs can occur if having to negotiate to do with late or inadequate deliveries.

- 6) Enforcement costs: buyers and sellers have to ensure that unsatisfied terms are remedied. These costs can vary from mutual agreements to the use of external third party to settle disputes with the transaction.

However, there are many variations on the definitions what transaction cost is and what constitutes transaction costs. Ouchi (1980: 130) defines transaction costs as costs that arise principally when it is difficult to determine the value of the goods or service. On the other hand, Robins (1987: 69) defined transaction cost as “those costs associated with an economic exchange that vary independent of the competitive market price of goods or services exchanged”. Milgrom et al. (1992: 29) explain transaction cost as “the cost of negotiating and carrying out transactions”. In addition, they classified transaction cost into two categories, the cost of co-coordinating and the cost of monitoring. These costs have been defined as the costs of monitoring the environment, planning and bargaining and cost of bringing sellers and buyers together. In addition, Domberger (1998: 69-70) introduced switching costs when moving from in-house to external provider, loss of in-house skills, loss of innovation and loss of control. As seen on chapter 2.3.1 on Table 2 many of these transaction costs, introduced by Domberger (1998) are linked to the pitfalls of outsourcing.

“The Economic Institutions of Capitalism” titled book by Williamson (1985) further developed TCT. He emphasized that the decision making process, as whether to outsource (goods or services) or not, involved transaction costs. Williamson stated that the decision whether to outsource or not relies on the relative cost of production and transactions. Williamson found out that organizations and markets differ in their organizational capacities.

TCT has been developed as an analysis of the costs of planning, adapting and monitoring tasks completion under alternative organizational structures (Williamson 1985). Transaction costs arise when negotiations, contracts between the parties and some post reasons like establishing relationships and operations are formed. Therefore decision makers need to reflect on the production and transaction costs associated with in-house services against the production and transaction costs when service is outsourced. All in all, the basic hypothesis of

TCT is that in-house relationships in which the supplier assets are specialized have lower transaction costs inside the organization than when the relationship occurs between organizations (Klein, Crawford, & Alchian 1978; Riordan & Williamson 1985; Demsetz 1988). It is that asset specialization increases the buyer's loss if the supply relationship is terminated. This potential loss provides the supplier an opportunity to bargain for a greater share of the value of the relationship. So when the supplier's assets become specialized, it is more reluctant to bear the costs of adapting to changes in the buyer's needs. TCT suggests that with organizational authority it is easier and more effective to bargain between units than by contracting in the market (Williamson 1975: 154).

According to Williamson (1985) there are two human and three environmental factors that lead to rising transaction costs. These human factors are:

- a) Bounded rationality – humans' cognitive limitations rule out a complete evaluation of the consequences of all possible decisions.
- b) Opportunism – individuals will act to further their own self-interests.

The three environmental factors are:

- a) Uncertainty – it aggravates the problems that arise because of bounded rationality and opportunism.
- b) Small numbers trading – if only a small number of players exist in a marketplace, a transaction party may have difficulties in discipline the other transaction parties via the possibility of withdrawal or use of another player.
- c) Asset specificity – The party who has invested in the assets can have loss of investments if the party who hasn't invested in the assets decides to withdrawal from the transaction.

The TCT is based largely on these two human factors and the three environmental factors are formed based on the human factors. First of all, bounded rationality in an outsourcing context means that the impact of it depends on the skills and knowledge with which the client can draw on in specifying requirements, selecting appropriate suppliers and managing the

relationship. Basically, people cannot make perfect decisions even when they intend to. Secondly, opportunism means that people actually act in self-interests but also may act with guile. They can give false information or exaggerate the organizations and their abilities and knowledge to clients who have little experience or knowledge on their needs and prices (Bahli & Rivard 2003: 213). Kern, Willcocks & Van Heck (2002: 48) also point out that in case of opportunism it is also possible that suppliers may want to enter a new market, to dominate a market segment or to lock out competitors. Williamson (1996) has explained this theory a bit further in his later studies. He found out that TCT doesn't necessarily propose that all individuals will act opportunistically all the time. But given the right context, it assumes that some individuals will take advantage of others. It is also very difficult to predict when these opportunistic behaviors occur.

Research has shown that these two behavioral assumptions are actually relevant in the case of outsourcing. For instance, Aubert, Patry, & Rivard (2003) studied the case of an insurance company, Emptor, who had an unfortunate case on outsourcing. Their decisions on supplier selection, asset transfer, performance measures and arbitration mechanisms led to excessive costs for both parties, unrealistic deliverables and deadlines, poor service quality and, ultimately, contract failure. Even though the analysis made by Aubert et al. (2003) concentrated on the role played by these human factors it is noticeable that the client lacked the expertise with outsourcing, which played an important role in this case. It is noticeable that the TCT has its limitations. It is to this issue that this thesis now turns.

2.4.2 Limitations of TCT

Some authors (Stinchcombe 1983; Granovetter 1985; Eccles & White 1988) suggest that the TCT cannot be straightforwardly applied because organizations and markets are not discrete institutions. In a similar vein, Robins (1987) argues that the TCT assumptions have not been adequately examined and it has resulted in logical and empirical weaknesses' in published studies.

Robins (1987: 71) also points out that the TCT is built on an assumption that marketplace is always the same perfect structure (microeconomic theory). Therefore the limitation of TCT would be inhibited by the limitations of microeconomic theory and the limitations of a perfect marketplace. In an imperfect marketplace the TCT can be compromised.

On another, a more strategic view, Kakabadse & Kakabadse (2003) criticized, on their research on outsourcing best practices, that TCT as not taking account for the leadership and management skills to structure and manage supplier – buyer relationships. In addition, Nootboom (1996) points out in his research that TCT fails to acknowledge that exchanges between parties occur with the knowledge and experience of previous transactions.

While TCT is a very good framework of analysis for economical view on outsourcing it has its pitfalls. It has been mostly criticized for its reliability in diverse marketplaces and its responsiveness to individual leadership and management skills on contract relationships. Still it is a very good economical analysis theory widely used, including in HRO.

2.4.3 Transaction Cost Theory in HRO

Transaction cost theory states that transactions and exchange between corporations leads to an agreement. This agreement and its management create costs, transaction costs (Coase 1937; Williamson 1985). Williamson (1985) found out three kinds of transaction costs: information costs, negotiation costs and control costs. Information costs form on the process of finding a suitable counterpart with whom the outsourcing company wants to perform the transaction. Negotiation costs occur when counterparts figure out the contracting terms and other management issues. Lastly, control costs occur on the management and monitoring of the relationship and transactions. The decision makers have to somehow calculate and form an idea of the costs that the transaction brings. The decision, whether to perform the transaction internally or externally, is determined with transaction cost analysis.

In transaction cost analysis all costs are taken into account. These include both production costs and transaction costs. If overall total cost is lower, the transaction should stay in-house. On the other hand, if the costs are higher, the transaction could be better to outsource. Williamson (1985) listed three factors that are important in determining whether the transaction should be internal or external.

- 1) The degree of transaction specific investments made for the activity. This means that the more specific investment and only useful for a particular activity the higher probability that the transaction should stay in-house.
- 2) The frequency of the transaction. If the transaction is frequent and activity occurs often, the probability that the transaction should stay in-house is greater.
- 3) The degree of complexity and uncertainty in purchasing situation. The more complex the transaction and the more uncertain the situation, the higher probability that the company should perform the transaction in-house.

So first the decision makers need to determine the overall costs and analyze if the transaction should stay in-house or could it be outsourced. After that, Williamson's (1985) three influencing factors need to be taken on account. The first factor claims that if a specific HR transaction is only used in a particular activity it shouldn't be outsourced. Outsourcing this type of transaction can bring more costs than gain in a long-term period. In a similar way the second factor points out that a frequent transaction, e.g. a routine function, should stay in-house. If outsourced it can turn out to be a key function and therefore useless to be outsourced. If a transaction is unpredictable and cannot be handled outside the certain in-house circles, it shouldn't be outsourced claims Williamson's third factor.

HR transaction is seen as a function of HR. A specific transaction can be outsourced or not; mostly depending on its usefulness and how easily it can be

managed outside local environment. Organizations have been very active in outsourcing HR transactions or even whole HR departments and its functions.

As presented, TCT offers a useful framework for the analysis of make-or-buy decision. It is a widely used framework in today's business world and many MNCs use it in determining their outsourcing decisions. As noted earlier, cost reduction is usually one of the main reasons why corporations outsource their transactions. Moreover to the HRO, TCT offers good guidelines on asset specificity, frequency, and uncertainties of transaction, which all play a significant role in HRO.

Investments vary greatly when dealing with HRO. Williamson's framework suggests that if overall costs are lower than transaction costs, the transaction should stay in-house. Organizations can spend a whole lot of money when investing in HRO but they don't necessarily get the money back with productivity and synergy benefits. Overall costs can be greater than investment costs. For example an organization can outsource its recruitment and selection process to an outside provider. Recruitment and selection is just one part of the HR function and therefore not so expensive to be done elsewhere. It can bring cost savings and the recruitment process is done by outside professionals so employee quality and status can be improved. This type of HRO is also not as unpredictable as outsourcing e.g. the whole billing department or training and employee development function. As Williamson's (1985) frameworks' three factors suggest it is far more risky and unpredictable to determine total cost for outsourcing training and development transaction. It could be that the whole reason why organizations' employees succeed and are efficient is because the in-house training. When outsourced this competitive advantage can be turned upside down and organization can begin to lose its employees and efficiency.

According to Williamson (1985) the size of an organization is also important in TCT because when organizations' size increases, the advantage of keeping transaction in-house increases. The size of the organization can also influence the decision process whether to outsource HR transactions or not. However many MNCs have outsourced vast parts of their HR functions to an outside provider or formed shared service centers (SSC). It is uncertain what the effects

of these decisions are in a long run even if short-term periods give great cost cuts and efficiency advantages.

In HRO the transaction cost theory is a useful framework for analyzing the economical impact that outsourcing HR transactions brings. In the next chapter a more strategic view on decision-making is given through resource based view of the firm (RBV).

Table 3. Main findings on TCT theory (Source: Author).

Author	Theory	Main findings
Coase, R.H. (1937). The Nature of the firm.	TCT	Six basic types of transaction costs which affect to the overall costs of a good or service.
Ouchi, W. G. (1980). Markets, bureaucracies, and clans.	TCT	Transaction costs arise when it is difficult to determine the true value of a good or a service.
Williamson, O. E. (1985). The economic institutions of capitalism.	TCT	Further developed Coase's (1937) findings. Two human factors and three environmental factors that influence transaction costs.
Robins, S. A. (1987). Economics, Notes on Organizational use of transaction cost theory in the study of organization	TCT	Costs associated with an economic exchange. These costs include all search and information costs and the costs of monitoring and enforcing contractual performance.
Milgrom, P. & Roberts, J. (1992). Economics, Organization and Management.	TCT	Costs that are negotiated and carried out by transactions. Two categories: the cost of co-ordinating and the cost of monitoring.

Williamson, O. E. (1996). The mechanism of governance.	TCT	Explained his theory further about opportunism. Not all individuals act opportunistically but in the right circumstances individuals will take advantage on each other.
Domberger, S. (1998). The contracting organization: A strategic guide to outsourcing.	TCT	Transaction costs as switching costs. Carried out when moving from in-house to external provider. Loss-of-skills, loss of innovation, loss of control.

2.4.4 Resource-based view of the firm

Resource-based view of the firm (RBV) is a framework that is used to determine the strategic resource available to the organization. The main principle of RBV is that the basis of a firm's competitive advantage is primarily the application of available resources that the firm possesses (Wernerfelt 1984: 172; Rumelt 1984: 557-558). For the firm to gain competitive advantage it is required that these resources are heterogeneous and immobile in nature (Barney 1991: 105-106; Peteraf 1993: 180). So the resources of the firm are rare, imperfectly imitable, or non-substitutable and without managerial analyses sustained competitive advantage is unlikely (Barney 1991: 117).

As noted earlier the RBV is a resource-based framework for HR outsourcing decisions and gives another perspective against Williamson's (1985) transaction cost theory. RBV concentrates on strategic resources and their relation to the outsourcing decision. RBV focuses on those factors that help the organization to gain competitive advantage (Barney 1991: 101). In fact, Barney (1991) found out that these corporations that gain returns of profit have access to their key resources.

In RBV it is suggested that competitive advantage can be sustained when corporations have heterogeneous and immobile resources. This is however not

the case in all corporations. To have this potential it is necessary for a corporation to have resource that has four attributes (Barney 1991: 105-107).

- a) It must be valuable, in the sense that it exploits opportunities and neutralized threats in a corporation's environment. Competitive advantage can only be sustained if the resources that the organization uses are valuable. Resources are valuable if they can offer strategic implementation, which turns out to be efficient and effective.
- b) Resource has to be rare among a corporation's current and potential competition. Valuable resources possessed by large number of competitors or potential competitors cannot be sources of competitive advantage. A competitive advantage comes along when a corporation is implementing successfully a value-creating strategy that is not being simultaneously implemented by large number of other organizations.
- c) Resource must be imperfectly imitable, so that it cannot be easily copied and implemented by competitors. Corporations with such resources will have competitive advantage with their strategies when other corporations can either not conceive of, or not implement, or both, because they lack the necessary resources.
- d) There cannot be strategically equivalent substitutes for the resources that are valuable but neither rare nor imperfectly imitable. If the resource is valuable to an organization but it is commonly achievable and imitable it cannot achieve in competitive advantage over competitors. This assumption is based on a fact that organizations have unique historical conditions and imperfectly imitable resources that others are able to acquire and exploit some of those resources but it is dependent on their place in time and space. Once this particular unique time in history passes, organizations that don't have space- and time-dependent resources cannot obtain them anymore. Thus these resources are imperfectly imitable.

Barney (1991: 106) argues that these four attributes of organizational resources can be thought of as empirical indicators on how heterogeneous and immobile

an organization's resources are. Hence they indicate how useful these resources are for getting a sustainable competitive advantage. Barney (1991: 115) points out that resource-based view of the firm is a framework tool that suggests the kinds of empirical questions that need to be addressed in order to understand whether or not a particular organizational resource is a source of competitive advantage. In outsourcing this means that those resources that are not seen as valuable and imperfectly imitable can be outsourced without losing the organization's competitive advantage.

2.4.5 Limitations of RBV

Barney's (1991) theory of resource-based view of the firm has been criticized by many researchers (e.g. Peteraf 1993; Foss 1997; Priem & Bostler 2001; Porter 1990) as having too narrow a view on the basic requirements of the analysis. Peteraf (1993) enhances Barney's (1991) theory by adding four conditions which all have to be met if competitive advantage is to be gained. Foss (1997:11) has criticized Barney's (1991) theory as having too much terminology when non-homogenous terms are discussed (e.g. assets, resources, capabilities, and competences). He argues that knowledge assets are the most likely to give competitive advantage to an organization.

Priem & Bostler (2001) made four criticisms of Barney's theory of RBV. Firstly they argue that Barney's (1991) definition of competitive advantage is operationally invalid. Barney (1991: 106) defined competitive advantage as a value-creating strategy that is based on resources that are among other features available. This definition can be too circular and doesn't have any review on the external forces that can have an impact on the competitive advantage. Secondly Priem & Bostler (2001: 131) argue that with different resources configuration it is possible to have the same value for firms than with competitive advantage.

They also point out that the theory has limited prescriptive implication and the role of product market is underdeveloped. According to them it is difficult if not impossible to find such resources that would satisfy all the Barney's criteria on the attributes of organizational resources. Fourthly Priem & Bostler (2001:

131) point out that Barney's (1991) theory ignores external forces concerning the industry when it argues that an organization can be profitable in a highly competitive market as long as it can exploit these key resources that create competitive advantage.

2.4.6 Resource-based view in HRO

The resource-based view of the firm is a useful tool in HR outsourcing decisions because outsourcing can be a productive method in developing core competencies in the area of HR. Originally rediscovered by Wernerfelt (1984) the resource-based view of the firm was developed by Barney (1991) to a useful theory. Barney (1991: 99) argues that organizations "obtain sustained competitive advantage by implementing strategies that exploit their internal strength (strategic value) by responding to environmental opportunism, while neutralizing external threats and avoiding internal weaknesses." In other words those internal functions that create little strategic value should be outsourced and more concentration should be put on the core competencies.

In order to gain competitive advantage organizations have been forced to concentrate on their core competencies and outsource other non-core competencies (e.g. Domberger 1998). Cooke (2003: 47) points out that core activities and competencies are dynamic; hence organizations are in an occurring move in determining what are core and non-core competencies and which of these functions should be outsourced and what should stay in-house.

Barney's four attributes are a good way to determine competitive advantage resources in an organization. Organizations can use these attributes in determining if a particular resource is valuable, rare, imperfectly imitable and strategically important. If a resource has all of these four attributes it is a valuable resource to the organization.

It would be unwise for an organization to outsource these resources since they are a vital part of its operations. Hence it should be thought and planned very

carefully which resource to outsource instead of outsourcing the whole HR department and hope for the best.

Table 4. Main findings on RBV theory (Source: Author).

Author	Theory	Main findings
Wernerfelt, B. (1984). A Resource-based View of the Firm.	RBV	An organization's resources at a given time and place can be defined as those assets which are tied to the firm, e.g. brand names, in-house knowledge, personnel skills, trade contracts.
Barney, J. B. (1991). Firm Resource and Sustained Competitive Advantage.	RBV	Four attributes that indicate how heterogeneous and immobile an organization's resources are in order to gain competitive advantage. Resource must be valuable, rare among competition, imperfectly imitable; it cannot be strategically equivalent substitute.
Peteraf, M. A. (1993). The Cornerstone of Competitive Advantage: A Resource-Based View.	RBV	Enhances Barney's (1991) theory. Four conditions which all needs to be met if competitive advantage is presented. Resource homogeneity, ex post limits to competition, imperfect resource mobility, ex ante limits to competition.
Foss, N. J. (1997). Resource, Firms and Strategies: A Reader in the Resource-based Theory of the Firm	RBV	Criticized Barney's (1991) theory. States that knowledge assets are the most likely to give competitive advantage.
Priem, R. L. & Bustler, J. E. (2001). Is The Resource-based "View" a Useful Perspective for Strategic Management Research?	RBV	Four main criticisms. 1) The Barney's (1991) definition of RBV is operationally invalid. 2) Even with no competitive advantage it can give the same value to an organization as having different resource configurations. 3) The role of product market is underdeveloped. 4) The theory ignores external forces as having any influence in firm's profitability.

This chapter has presented two theories explaining HRO decisions. TCT and RBV are two of the most commonly used theories when explaining outsourcing decisions. The literature review turns now into the changing HR and presents the implications of HRO in MNCs.

2.5 HR transformation

HR is in a bit of a transformation cycle when HR departments are expected to operate as a business within a business rather than as a set of HR practices (Ulrich, Younger & Brockbank 2008: 829). As Ulrich et al. (2008: 829) point out whereas before HR department was seen as a part of a company's strategy they are now expected to have own strategy that defines objectives and goals and how are they going to achieve these.

Ulrich et al. (2008: 830) mentions that traditionally HR's contributions have been measures by the quantity or cost of activities e.g. the percentage of employees who received training, or financial costs due to employee benefits. This is no longer the case as HR departments are now seen as part of the company's objectives in order for them to succeed keeping their competitive advantage (Ulrich & Smallwood 2004). As Christensen (2005) points out with this new HR department's strategy and vision it can be organized to deliver this vision and outcomes. Basically the whole HR department can be arranged and organized because of these new goals and objectives given to them by the company's headquarters.

Ulrich et al. (2008) suggest two basic premises for how to organize an HR department so that these new goals and visions can be met. They suggest that HR organization should firstly be organized to reflect the business organization in which HR operates and secondly HR department should reflect this business organization structure by adapting five roles and responsibilities.

Because HR department is a business within a business it should be structured to reflect the structure of the whole company (Ulrich et al. 2008: 830). There are usually three basic ways in which a company operates (see Figure 1): single/functional business, holding company or allied/diversified organization.

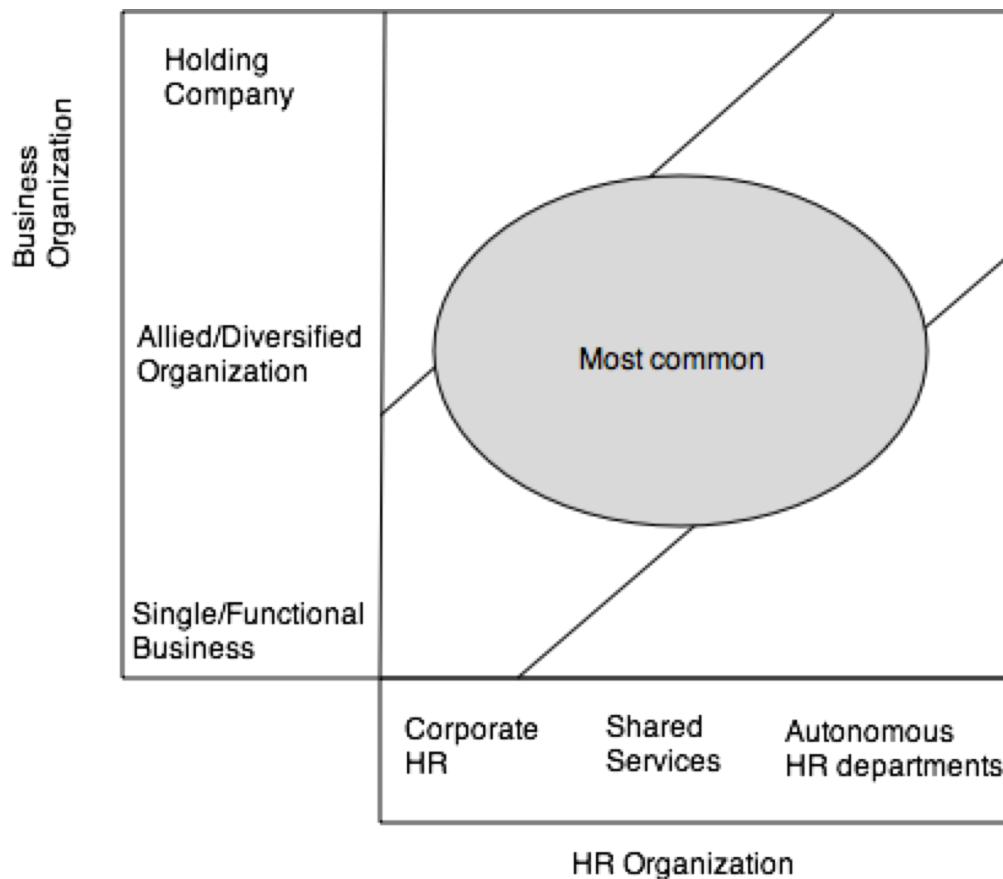


Figure 1. Alignment of Business Organization and HR Organization (Modified from Ulrich et al. 2008: 831).

Single/functional businesses are often start-ups and small companies and they compete by gaining leverage and focus. They do not need a full-time HR professional as the line manager can handle the basic HR activities. As companies grow they hire someone to oversee HR. Usually this HR professional is part of the management team and resides at corporate as the

policies and plans are the same between the HR and the corporation (Ulrich et al. 2008:831). In bigger companies HR departments and staffs grow as well, but as Ulrich et al. (2008) point out as long as the organization remains a single line of business, HR expertise resides at corporate.

A holding company is quite the opposite of a single/functional business. It is consisted of multiple, unrelated, independently managed businesses. As Ulrich et al. (2008) point out pure holding companies are rare but there are some resurgence of holding company structure with large and well-capitalized private equity and investment firms. When it comes to HR there is often little or no HR at a corporate level as each business creates and manages its own autonomous HR practices based on their specific needs.

The most common business organizational structure is allied/diversified business. They are not pure and single business but don't operate as a holding company either. These organizations create operating units to compete in different markets and try to find synergy among them (Ulrich et al. 2008: 834). Ulrich et al. (2008) point out that best of these organizations focus on aligning their businesses around a core set of strategic capabilities that are leveraged across operations. This brings us to a new way of organizing HR resources, shared services (Bergeron 2003; Ulrich 1995). A shared service is a way to cut costs and simplify the structural processes.

2.6 The implications of HRO in MNCs

However common, outsourcing HR transactions can have serious implications for the employees and the culture in an organization. As previously presented, outsourcing has its opportunities and great benefits but it can have pitfalls especially to the individuals involved. Cooke et al. (2005: 422) point out that the most obvious groups of people likely to be affected are HR professionals, line managers, employees who receive the services, outsourced HR staff who provide the services and potential job applicants. These stakeholder groups can be affected in cultural, relational and technological levels. The following

chapters will introduce these different stakeholders and what kind of impact might HRO have on them. In this thesis it is assumed that these different stakeholders work or have relations in a MNC since the implications are more visibly seen on big corporations rather than in small corporations.

2.6.1 HR Business Partners

There are many changes to the roles of HR professionals due to HRO. However in this thesis the empirical part concentrates mostly on the new more strategic role in HR and therefore the main role change in this thesis is considered to be the change from an administrative role towards a more strategic business partner role.

HR is changing and due to this a more strategic role for HR department is being formed. This has changed HR professionals' roles, which were only administrative before, towards more business-oriented types. These new roles are called HR Business Partners (HRBP).

Ulrich's definition on HR professionals' roles has been most influential in academic research (Ulrich 1997; Ulrich & Beatty 2001; Ulrich & Brockbank 2005). Original definition for strategic partner is "partner with senior and line managers in strategy execution" (Ulrich 1997: 30). In a more recent research Ulrich & Beatty (2001: 294) refine strategic partner as a "player whose aim is to add value through acting as a coach, architect, builder, facilitator, leader and conscience".

Although the term and role of HRBP has been known for some time there are concerns of the adoption of the strategic partnership by HR professionals (Rynes 2004; Francis & Keegan 2006). HRBP seems to be a moving concept between newly former SSCs (such as payroll and recruitment) and centres of HR expertise (e.g. employee relations and management development). The strategic role seems to be defined quite loosely and therefore precariously positioned to changing relationships in both internal and external to the HR function (Reilly, Tamkin & Broughton 2007; Watson 2001; Guest & King 2004; Hope-Hailey, Farndale & Truss 2005). Therefore Pritchard (2010) suggests that

there is need for research that examines how individuals construct and see the terms “strategic” and “partner” in their identity.

Pritchard (2010) points out that usually the implementation of Ulrich’s ideas results in a “three legged stool model”. In her research Pritchard (2010) noticed that reorganizing HR department around key roles and processes reflected this three-legged stool model (see Figure 2). Due to this reorganizing the strategic partner was presented as a repositioning of the previous HR generalist role (Pritchard 2010: 179). This change was necessary when HR operations were integrated after the change. The new HRBPs took the role of shaping HR strategy and development in line with the business strategy. They also aligned HR interventions and processes. This change is seen in many occasions and more strategic HRBP roles are being formed.

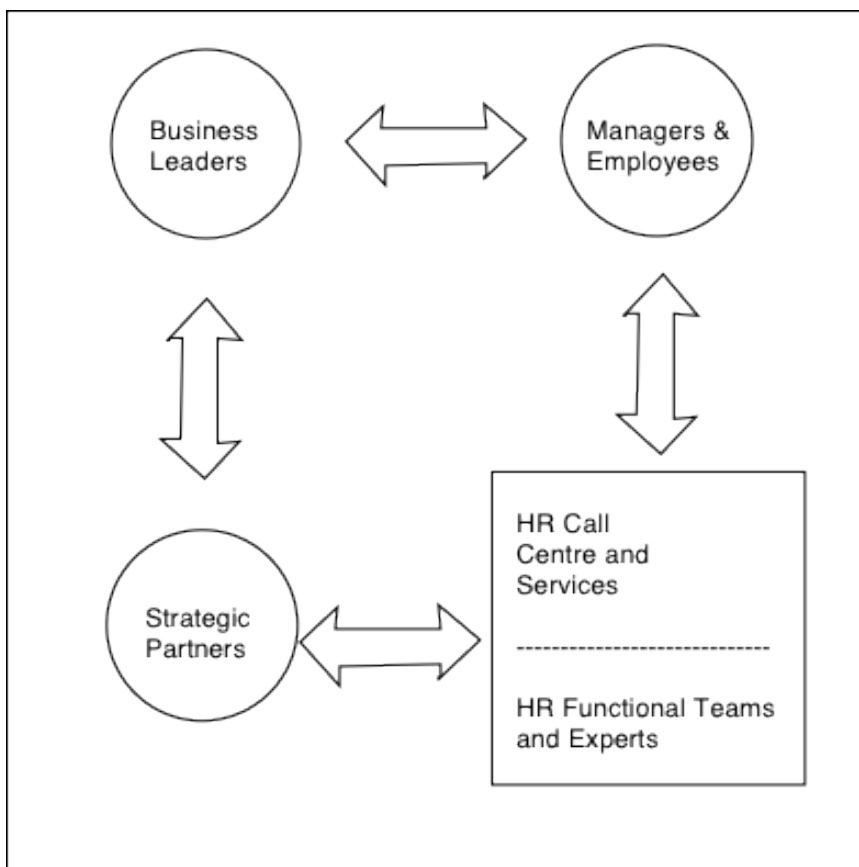


Figure 2. HR roles and relationships after reorganization (Source: Pritchard 2010).

2.6.2 In-house HR professionals

HRO can affect in-house HR professionals in terms of the nature of their work and career patterns. However, Cooke et al. (2005: 423) point out that there are very few detailed studies done on these aspects. Ulrich (1998) proposed that HR work is shared in varying proportions between four roles with line management, employees, external consultants, and other groups. But as Procter & Currie (1999: 1079) point out Ulrich doesn't discuss the process of interaction, which this dividing of work is determined. There is no account taken on relationships and negotiation either.

HRO can create job losses, but also the create need for monitoring and evaluating the service provider's performance and HRO also requires reorganization for the in-house HR staff (Pickard 2000b). Cooke et al. (2005: 423) point out that there are many issues concerning career prospects of the HR staff in HRO. When HR transactions are outsourced, fewer career development opportunities are available for the in-house HR staff. Especially those with specialist skills instead of generalist skills are in danger. There's also the possibility that broad HR experience is harder to obtain because of limited number of activities performed in-house. Furthermore, Cooke et al. (2005: 423) emphasize that with more and more specialized transactions in many organizations, it is harder to figure out how to train HR professionals.

HRO may affect the in-house HR staff in ways such as job intensification, change in job content and reduction of career development opportunity. It is also possible that stress levels increase due to the relationship with the service provider, which can strain and have unsatisfactory results (Cooke et al. 2005: 424). Procter & Currie (1999; 1079) suggest that the role that HR professionals play is dependent on the interaction between them and other groups both within and outside the organization.

2.6.3 Line Managers

HR's objective in recent years has been to increase line management involvement in HR decisions and ownership (Cooke et al. 2005: 424). It has been argued that the most common pattern of policy decision making in Europe involved sharing both the HR specialists and the line management (Vernon et al. 2000). This has long been recognized by researchers (e.g. Currie & Procter 2001; Marchington & Parker 1990; McConville & Holden 1999; Procter & Curries 1999).

Therefore line managers have influence on the decisions or changes that HR function may face. In fact, Currie & Procter (2001: 65) point out that "...middle managers may have a more important role in contributing towards strategic change than may be commonly assumed..." As the line managers have an important role in HR transactions it is worth pointing out that outsourcing these HR transactions may bring inconvenience and work intensification to the line managers also (Marchington & Wilkinson 2002). This is probably the situation in many outsourcing cases that not only the people directly involved to the outsourcing transaction are affected but other groups also that have influence on the practices of that particular transaction.

Cooke et al. (2005: 424) point out that there are also problems with everyday work when line managers don't have their HR colleagues at hand to call for help. The outside HR service provider is most probably located in a different place and therefore some jobs can be quite hard to explain via electronic devices.

2.6.4 Employees receiving HR services

Outsourcing HR transactions can have a significant impact on the daily routines of both in-house employees and those working for the service provider. Cooke et al. (2005: 424) point out that outsourcing HR transaction is different from other outsourcing decisions that organizations make. In HRO delicate and

confidential information concerning employees is given to an outside provider, e.g. payroll and social security details. This kind of outsourcing may unsettle the employees.

Adaptation is also required from the employees when ways of obtaining HR assistance and information is outsourced and in many cases packed to a self-help online service where employees of the client organization input and update their personal data. Furthermore, the implementation of these systems can cause problems and extra costs when there is incompatibility of IT systems, lack of in-house expertise to maintain the system and lack of willingness of employees to use the system (Cooke et al. 2005: 424).

2.6.5 Outsourced HR staff

HR work is usually seen as skilled and knowledge-intensive work where employees have certain status (Cook et al. 2005: 425). Many researchers have argued that the tacit knowledge, which these employees have, is vital for the organizational competitiveness (e.g. Cooke 2002: 966; Pavitt 1991: 41).

When outsourcing this type of work the employees of the service provider may have low job security and specific knowledge of the firm may be lacking as a result of multi-client services and the standardization of work processes (Cooke et al. 2005: 425). It is argued that lacks of critical expertise and a customer service focus, or failure to take interest in client's HR services are the main reasons why HRO relationships fail (Greer et al. 1999: 91-92).

As seen on Table 2 (p. 23), the transfer of existing HR employees to the external service provider can bring its own complications in the employment relationships (Cooke et al. 2005: 425). At the same time loss of in-house skills is happening when HR staff is re-employed to the service provider. It is studied that work intensification and increased performance monitoring are common features of post-transfer working life (Cooke et al. 2004). The new employer has a great opportunity to improve organizational performance by creating change

through reducing staff numbers and introducing new skills and working practices (Domberger 1998: 151).

This loss of in-house expertise rises the question as to what extent the client organization can expect their ex-employees to be loyal and commitment in providing their services. These ex-employees may feel “dumped” by their formal employer and the new organizational values of the service provider may not be in line with those of what they are used to (Cooke et al. 2005: 426). All of these issues can be more disturbed if the new employer has also taken staff from other client organizations and the work environment consists of multiple cultures and identities (Rubery, Cooke, Marchington, & Earnshaw 2003: 284-285). Employees are also expected to accept the new organizational culture (Deakin 2002: 194; Marsden 1999: 21) and to use their initiative “to advance the achievement of the organization’s objectives” (Simon 1991: 32).

It is clear that these issues also create challenges for the new employer. “The outsourcing firm has to manage a fragmented workforce, one where employees have different employment packages.” (Cooke et al. 2005: 426). Moreover, the outsourcing firm has to implement a coherent HR strategy and a consistent organizational culture while delivering customized HR services to its client organizations (Cooke et al. 2005: 426).

2.7 Summary

This section has covered the literature review part of this thesis. As the thesis is about HR outsourcing the first parts of the literature review regarded HR outsourcing definitions and trends. As stated HRO is very popular according to the literature and the most usual HR transactions to be outsourced are training and development, recruitment and selection, pay and benefits and workforce outplacement/reduction.

Demands for productivity and profitability have led to outsourcing. Companies have many reasons for outsourcing but the most common reasons seem to be

cost cuts and to have specialist services from a third party. This section also addressed some risks concerning HRO and gave for and against arguments for HRO. It is always not clear how effective outsourcing has been and it can lead to bad relationships between the company and outside vendor that create problems.

The literature review also gave perspectives on HRO through two theories, transaction cost theory (TCT) and resource-based view of the firm (RBV). These theories explain how and why HR outsourcing decisions are made. These theories are linked to the research question and empirical findings on how the goals of these theories are achieved in companies.

Lastly this section introduced literature about HR transformation and the changes in roles for the HR professionals. This section is also the one that the empirical findings reflect on according to the research question on the roles of HR professionals.

3. RESEARCH METHODS

3.1 Introduction

As the previous section reviewed the existing literature regarding to this study, the fourth section describes the empirical findings and the research methods used. This third section presents how data for the study was collected in order to answer the research questions. This section consists of research design, data collection, data analysis, validity and reliability of study and limitation of the study.

The purpose of this study is to get a deeper understanding on the role change implications of HR outsourcing and what these changes are doing to the roles of HR professionals. In order to achieve this purpose, interviews were made with academic HR researchers, HR consultants and HR professionals.

3.2 Research design

This study was done by qualitative methods based on an exploratory method used in data collection. Data collection was done by using personal interviews from HR professionals, HR consultants and HR researchers. As usually, a qualitative method involves just a small number of respondents, but with an in depth answers from those who were interviewed. This sort of research problem needs to give quite free hands for the interviewees in order to get satisfactory answers.

Another method, a quantitative research aims at large sample of respondents in order to get statistical significance. In this research the statistical significance would have been very hard to gather due to quite small number of respondents. Therefore a qualitative method was chosen to get in depth answers and information in order to answer the research problems.

Yin (2003) points out that a research strategy is used for three purposes; explanatory, descriptive or exploratory. The research is exploratory when the researcher makes insights in different areas of his research and tries to assess the phenomenon in a new light. Therefore most time is spent when the researcher wants to clarify his/her own understanding of the problem. Usually an exploratory research is at hand when a search of literature, expert interviews or focus groups interviews are done (Saunders, Lewis and Thornhills 2007).

A descriptive research method is used when the researcher has a clear picture of the phenomenon on which he or she will collect the data (Saunders et. al., 2007). According to Ghauri and Gronhaug (2005) in descriptive research the problem is structured and well understood.

This study, as pointed earlier, is based on a qualitative method. In qualitative research words are understood as a central analytic unit (Denscombe 2000). In addition Flick (2007) points out that qualitative research uses text as empirical material. It starts from the concepts of social science construction of realities under study and is therefore interested in the perspectives of the respondents.

Moreover Flick (2007) has identified common characteristics of qualitative research, which he outlines as follows

- By analyzing interaction and communication in the making. This can be based on observing or recording practices of interacting and communicating and analyzing this material.
- By analyzing documents such as text, images, films or music.

Flick (2007: IX) also states "Qualitative research is intended to approach the world out there and to understand, describe and sometimes explain social phenomena from the inside in a number of different ways."

When doing qualitative research, extensive data will be collected in order to achieve the purpose of the study. Because there are no quantitative methods which to use and analyze the researcher must rely on the data from the interviews.

Yin (2003) points out that in collecting and analyzing empirical evidence there are different strategies that can be used. Researcher can experiment, do a survey, archival analysis, historical or a case study. Moreover there are three conditions on which these strategies distinguish; the type of research question, the extent of control a researcher has over actual behavioural event and the degree of focus on contemporary as opposed to historical events. Yin (2003) adds that case studies are preferred when research question involves "how" and "why" or when the researcher has little control over events or when the focus is on a contemporary phenomenon within some real-life context.

Case study is commonly used and Saunders et al. (2007: 139) define it as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence." Case study often involves primary data collection through multiple sources such as reports, personal interviews and observations (Ghauri & Gronhaug 2005). Furthermore Yin (2003) emphasizes that the unique strength of case studies is that they are able to deal with variety of evidence i.e. documents, artefacts, interviews and observations.

Yin (2003) has identified four types of case study designs. Single-case (holistic) design, single-case (embedded) design, multiple-case (holistic) design and multiple-case (embedded) design. Single-case is appropriate when there is a particular critical case with which an established theory is tested (Ghauri & Gronhaug 2005). A single-case study is also used when the case is unique or extreme. Multiple-cases however do not involve rare or critical cases (Ghauri & Gronhaug 2005). In multiple-cases design every case has to serve a particular purpose and therefore each case has to be selected in order to serve the research purpose.

This study is conducted by using multiple interview design since the respondents were from different companies and backgrounds and therefore much needed different perspectives on research problem was got. It can be said that in this study the "cases" are the people inside the companies because this

study does not try to explain phenomena in a company but rather the opinions and discussion with the individuals inside a company.

3.3 Data collection

The research was conducted by interviewing eight persons within a period of three months from mid April to June 2010 and took place in multiple cities and organizations. Two interviews were done with researchers at Vaasa University in collaboration with the University of Twente in the Netherlands. Another six interviews were done in four different companies varying from HR professionals to HR consultants. The idea was to get as differential answers as possible by interviewing three different groups of people; researchers, professionals and consultants. With these groups the intended vs. actual changes could possibly be noticed due to variance of answers in the interviews. With this type of research the best way to get information were direct observations, in this case interviews. As Ghauri & Gronhaug (2005) describe there are various ways of collecting data through interviews, by mail, by phone and face to face.

Moreover Yin (2003) states that interviews are the most important source of information. Most of these interviews were done face-to-face and only one by phone due to limited time. The interviews were conducted by following set of questions that needed to be answered in order to obtain relevant data. The interview questions were as open as possible in order to get as variable and open answers as possible.

The interviews were conducted in Finnish, except one in English since the interviewee was from abroad. Finnish seemed to be the best language to do the interviews because in English certain points could have been missed. Each interview lasted for about 35 to 50 minutes.

Table 5. Demographics of participants.

Company Name	No. Of participants	Job Position Held	Gender
A	1	Researcher	M
B	1	Assistant professor	M
C	1	HR director	F
D	2	HR manager	M, F
E	2	Senior advisor, Senior manager	M, M
F	1	HR professional	M

Table 6. General characteristics of firms.

Company Name	Location	No. Of Employees	Age of Business	Core Business
A	Vaasa	Not known	Not known	University
B	The Netherlands	Not known	Not known	University
C	Espoo	< 60 000 (worldwide)	4	IT
D	Helsinki	< 160 000 (worldwide)	12	Consultancy
E	Espoo	40	5	Consultancy
F	Helsinki	50	6	IT

3.4 Development of Interview Questions

The interview structure consisted of eight main questions, with which to get enough information to the collection of data for the research questions. Although the interview questions were in English the most interviews were done in Finnish and therefore the questions were translated also into Finnish.

At the beginning of the interview some background data of the interviewee and the company were conducted. The actual interview questions were the same in every interview case and no modifications were done depending on the interviewee. These eight guideline questions were the foundation and during the interviews more specific questions were asked according to the situation.

3.5 Choice of respondents

In order to get as differential views as possible, three different groups for interviews were chosen. HR researchers, HR consultants and HR professionals each have different points of view and opinions on HR outsourcing and its effects on the roles of HR professionals. It was important to get such key informants who could be able to answer all the aspects of the research. The researchers were familiar with HR practices and outsourcing in general. The consultants and professionals were especially HR oriented and therefore qualified to give answers.

3.6 Data analysis

Yin (2003:109) states: "data analysis consists of examining, categorizing, tabulating, testing or recombining both quantitative and qualitative evidence to address the initial prepositions of a study". In addition he explains that there are five specific techniques for analysing case studies: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis.

When conducting qualitative research there are set of procedures. According to Saunders et al. (2007) these are categorization, unitizing data, recognizing relationships and developing the categories, developing and testing theories to reach conclusions.

Categorization: involves classifying data into meaningful categories; data from theoretical framework or collected data. These categories provide relevant structures to a research project by helping to organize and analyze the data further

Unitizing data: refers to categorizing units such as numbers of words, sentences or complete paragraph of data. This can be achieved by using one or more of some analytical technique as described earlier by Yin (2003). This technique allows researcher to recognize patterns in data, which indicates how to analyze data further.

Recognizing relationships and developing categories: the analysis continues by searching key elements and pattern relationships in data.

Developing and testing theories to reach conclusions: the connection between categories needs to be tested in order to get conclusions of the actual relationship. For this to happen certain hypothesis needs to be developed.

This study was based on the assumption that three different groups of individuals were interviewed. Therefore different and as variable perspectives as possible were gotten. As stated earlier, HR professionals, HR researchers and HR consultants each have a unique perspective on HR outsourcing and its effects on the jobs of HR professionals. As for analysis the answers of these different groups were cross-referenced with each other so it could be seen what kind of differences there were and how well they answered the research questions. The questions were categorized according to the research questions and then the contents of the questions were analysed.

3.7 Validity and reliability of study

Yin (2003) states that it is possible to judge the quality of research because the research is supposed to represent a logical set of statements. In order to establish the quality of an empirical research there are four tests that can be used: construct validity, internal validity, external validity and reliability.

Construct validity means establishing correct measures for the concepts being studied. Yin (2003) further explains that in order to meet the test of construct there are two steps a researcher must be sure to cover: selection of the specific types of changes that are to be studied and demonstrate that the selected measures of these changes reflect the specific types of change that have been selected.

Internal validity means that a casual relationship has to be established by addressing rival explanation, explanation building, and using logic models (Yin 2003). In addition Ghauri & Gronhaug (2005) state that internal validity means that the results obtained within the study are true.

External validity means that the domain to which the study's findings can be generated need to be established. Ghauri & Gronhaug (2005) emphasize that the investigator must have a representative sample for the research.

Adding interview structure in appendix 1 ensured the construct validity. The interviews were conducted in a language that was understood by both sides in order to reduce misunderstandings and to get as good answers as possible. All of the participants had a long and good history and understanding in HR practices and therefore were competent to give answers and their opinions to this study.

External validity was also ensured because the study obtained data from multiple key sources and players in the HR outsourcing business and relied also on secondary data such as companies where the interviewees were from and personal observation.

However Yin's (2003) research on this matter is the most known it is concentrated more on quantitative methods and their validity. In qualitative

methods the validity often comes to the point how well the research explains what the researcher says would be measured or explained. Mason (1996: 147) further explains that in qualitative methods a researcher should ask “how well matched is the logic of the method to the kinds of research questions you are asking and the kind of social explanation you are intending to develop.” Furthermore in qualitative research the interpretations of the data can affect validity since they are subjective. In a similar vein Creswell & Miller (2000) suggest that the validity is affected by researcher’s own perception of validity in the study.

Reliability of the study means that the operations of the study, such as the data collection procedures, can be repeated with the same results. As Yin (2003) states the objective is that if a different investigator follows the same procedures as described by the earlier investigator and conducts the same case study, he should end up with the same findings and conclusions. In order to ensure the reliability of this study Appendix 1 has the interview structure included at the end of this thesis so that other investigators can repeat the same study.

The reliability of the study is often also affected on interviews due to distortion from respondents’ information. Huber & Power (1985: 172) introduce four reasons why a respondent may provide inaccurate data:

- They are motivated to do so
- Their perceptual and cognitive limitations result in mistakes
- They lack crucial information in relation to the question
- They have been questioned by using an inappropriate data gathering procedure.

Sometimes respondents might be motivated to misinform when it could have effect on their careers or the organization. It is also possible for the respondent to be bias because he/she wants to appear more knowledgeable or more important than he/she really is. Huber & Power (1985) also point out that motivationally induced inaccuracies may be introduced intentionally but they can also develop unintentionally. Because of this fact the identity of the

respondents and companies participating have been protected and respondents are only referred as “respondent A, B...” There is also nothing confidential information about any company presented in this study. Another fact that affects the reliability of the study is memory bias. It is especially strong when respondents need to recall a decision making process (Larimo 1987; Björkman 1989). However in this study there is no concentration on certain decision-making processes but rather a general perspective on HRO matters.

Third source of data inaccuracy according to Huber & Power (1985) is the respondents’ lack of knowledge of what has been going on in the organization. There can be second hand information or imagination in answers. This was limited by asking questions of HRO trends and role changes that are happening rather than asking some changes in organizations that happened years ago. The data inaccuracy due to lack of knowledge was also limited by choosing respondents who had recent and enough knowledge about HR transactions and outsourcing in general.

3.8 Limitations of the study

The study has several limitations that should be taken into account. First the findings of this study maybe limited since all except one respondent were Finnish. Therefore the opinions and examples are mostly concentrated on Finnish companies and people. However two of the companies where respondents work are big multi-national corporations and therefore bring some global perspective to the answers.

Secondly all of the companies where respondents work were not directly only HR consultancy firms etc. But since HRO affects most companies that have HR department or some HR transactions it is safe to assume that the respondents were qualified to participate in this study.

Thirdly this study interviewed eight different respondents and therefore the empirical findings rely only on those eight opinions and therefore findings

cannot be generalised to concern the ideas and opinions of majority of HR researchers, consultants and HR professionals.

4. EMPIRICAL FINDINGS

The fourth section of this study is empirical findings. In this section the results of the interviews are presented and the respondents' views and opinions are being introduced. With the data collected the research questions were tried to answer.

The structure of these findings follows the structure of section 2. Literature review. The section is divided into two different areas according to the research questions: 4.1 HRO trends and achievement of TCT and RBV ideas in companies and 4.2 Intended and actual changes in HRO to the roles of HR professionals. As noted in chapter 3.5 Choice of respondents three different groups were interviewed in order to get idea of the intended and actual changes that are happening in HRO as well as to the roles of HR professionals. Table 7 at chapter 4.3 Summary shows the intended and actual changes that were observed among respondents.

The interviews consisted of eight main questions and other complementary questions were also asked according to the situation. The questions were grouped into these two sections in order of their relevance to the research question. The citations from interviews are straight citations from own words of the interviewee. Although the identity of the respondents is not revealed it is noted whether the citation is from HR researchers, HR consultants or HR professionals' answers.

As for clarification the term "strategic HR" is defined as a transformation from traditional administrative department to a more central function in the corporation.

4.1 HRO trends and achievement of TCT and RBV ideas in companies

4.1.1 HRO trends and role today

It was quite common that the main reason the respondents said about outsourcing was that companies want cost savings. In today's business world large companies have to make decision for which is cheaper and more efficient and then make decisions whether to outsource or not. Usually non-core processes are outsourced and companies give their energy and expertise to those core processes that really can have competitive advantage. Competition and requirements to cut costs have forced companies to lay their interests on their core processes.

Researcher: "Companies need to make decisions based on what is cost-efficient and what processes they want to do themselves and what to give to service providers"

Many companies want to focus on certain processes and therefore need to think what can be outsourced. In outsourcing the tempting part is that the company buys a service from an outside vendor and therefore take no risk for having permanent employees. There is always the fact that many processes might be best to take outside since the necessary talent for certain processes might not be located inside the parent company and therefore outsourcing would allow the use of professionals for certain processes.

It was also pointed out by several respondents that outsourcing isn't necessarily so common that has been thought. Corporations have been starting to be more cautious about outsourcing than about ten years ago when outsourcing was a big and growing trend. There is also a big difference when talking about domestic or multi-national organizations. In smaller companies outsourcing is not so common especially in HR.

The most common practices that are outsourced in HR seem to be payroll and data processing. Also recruitment and in some parts training was answered to

be most likely outsourced in HR. There were a lot of discussion about the effectiveness of outsourcing and whether it is the right way to go in some cases.

Professional: "Typically in HR payroll and recruitment have been outsourced but today companies are realizing that in recruitment there are lots of different stages and it is very difficult to find good talent in a totally outsourced recruitment process."

Consultant: "When reading recent research it is noticeable that outsourcing might not even be efficient and cost-effective solution."

There has been a lot of discussion on the role of HR and the literature says that the role is becoming more and more a strategic one. Most respondents were confident that the role has to and will become more strategic but the transformation is slow. Especially in Finnish companies many companies have not yet adopted this role.

Professional: "The role depends on the company. In our company HR is a big and visible function that has a say in strategic decisions. Many of my colleagues have gone to different companies and said that there you have to fight for HR to be seen as a strategic function."

Whilst the literature in fact says that companies have concentrated on making HR's role more strategic the reality is that only a few have achieved in that goal. HR would really have to show to the rest of the company that they matter through numbers and talent if they want to be taken seriously as a truly strategic partner. It is seen that to HR there are no same performance indicators as companies have for sales, marketing and R&D departments. This undermines HR's role because they really can't show in numbers what kind of a job they're doing.

There was a lot of discussion, especially with HR professionals, that the role is not yet strategic in many cases. In large MNCs HR can have truly a strategic role and have their director in the core management team of the company. But in many cases HR manager is seen only in extended team, not in the core management team itself. Therefore HR is seen as a supporting function and not as a truly strategic part of the company. One respondent emphasized that

people are the business and HR's role is to make sure that today's and future's business requirements are met. When understood that HR can add value to the other functions and even competitive advantage the role is seen as strategic.

Professional: "We have our HR director in the core management team. When I think about many Finnish companies I realize that in practice HR is never in the core team but maybe just on the extended team."

Outsourcing in HR depends greatly on the company. Many do not need to outsource much (especially smaller companies) but cost-savings and concentration on core-competencies have pushed MNCs to outsource parts of HR. Payroll is the most common function to be outsourced and with it often parts of the financial management functions also. Many respondents also said that recruitment is common in HR to be outsourced. This raised some important questions also. If the whole recruitment and selection process is outsourced how can companies be sure that they get the most qualified and talented people among their ranks?

In several interviews there was also discussion on a quite new area of outsourcing business. These companies are service providers that rent HR professionals and directors to companies that need help. This sort of rental HR service is still quite new and especially in Finland there are not many companies who offer this kind of a partnership to companies.

Often companies outsource only sections and parts of the recruitment and selection process to service provider. This also rises problems in borderline cases when nor the company or the new partner know whose territory a particular function belongs to. This often results in bad and ineffective relationships among partners.

Consultant: "Everything can be outsourced whether it's a big or a small company. Question is what to outsource and on what level. Relationships between vendors aren't always easy and in interface cases there can be argument on who's going to deal with the problem if it's not precisely explained in the terms of the contract."

The role in HR is changing but has not yet reached the stage of a strategic role that has been written in the literature for over a decade. There is still a lot of work that needs to be done in order to achieve that status. Payroll, recruitment and selection and in parts training and coaching are the most common functions to be outsourced in HR.

In summary outsourcing is seen among interviewees as cost-efficient and effective when done right. Outsourcing isn't necessarily so common that has been thought and there's evidence that in some cases it isn't even efficient.

4.1.2 Achievement of TCT and RBV ideas in companies

Theories behind outsourcing decisions were also discussed, as transaction cost theory (TCT) and resource-based view (RBV) seem to be the most common theories explaining outsourcing decisions. These theories are behind the decisions when companies decide to outsource HR transactions. Usually costs are being calculated and then decisions are being made based on those figures of what would be the most cost-effective solution. Theories are then so being used but usually decision makers are not aware that thinking about cost-efficiency is an actual theory that is being used in practice. This was not surprising.

Researcher: "Transaction cost comes in when thinking what's cheaper, should we outsource this or not? Secondly RBV used when thinking how important HR is to our company. It is always important but they need to think that is this really our core competence with which we get competitive advantage. If not then outsource it."

Consultant: "I believe that those theories are the most commonly used when thinking why companies outsource their HR transactions and especially when thinking if an outsourcing project was successful or not they are useful tools for researchers."

Professional: *“When our customers outsource e.g. IT solutions it is thought profoundly by practice based not through theories. Of course there are lots of same elements as in theories.”*

Usually theories are born from observations of practice. Williamson’s (1985) TCT theory’s main goal is to realize that the decision to outsource involves transaction costs. The theory’s hypothesis is that those in-house transactions that are specialized have lower transaction costs inside the organization than when outsourced to a third party (Klein et al. 1978; Riordan & Williamson 1985; Demsetz 1988). According to the interviews this idea is often realized among companies. However there were indications that sometimes companies don’t know what they’re getting into. Outsourcing can simply be mimicking of other companies. This can lead to bigger costs than when the transaction is kept in-house.

Consultant: *“In some cases it is not clear in the organization why certain transactions are being outsourced. They simply don’t know what they are getting themselves into. This can lead to bad relationships between parent company and third party provider.”*

Barney’s (1991) RBV theory on the other hand suggests that certain transactions are more valuable and can create competitive advantage to the organization than others. Therefore according to RBV those transactions that are non-core should be outsourced. In companies resource-based thinking is, according to the interviews, another largely used method when determining outsourcing decisions. Usually in HR these non-core transactions are e.g. payroll or recruiting, which are not seen important or value adding functions. However many respondents said that sometimes companies lose the big picture and do not see the potential harm when outsourcing the whole recruitment department.

Professional: *“Sometimes companies do not realize that outsourcing recruitment and selection can lead to unwanted employees and the real talent and most suitable people are not found.”*

Researcher: *“Outsourcing has failed if you do not upgrade recruitment when there are new channels for people to get in touch with companies. You need to make it more advanced and then the real talent comes in. If you cannot make that change you might not survive in the competition.”*

Resource-based decisions are often made and usually alongside with transaction cost thinking. Basically these two theories do not exclude each other and can be used simultaneously.

4.2 Intended and actual changes to the roles of HR professionals

The second research problem is what implications and changes appear in the role of HR professionals when companies decide to outsource their HR processes. It was also the idea to get intended and actual changes from different respondent groups so that comparison could be done. At the end of this section Table 7 shows the main differences of the respondents' ideas of intended and actual changes in HR professionals' roles.

HR transformation is seen as a process in which HR is seen more and more a strategic part of a company.

Researcher: *“HR is really becoming more central board room issue. Because of that HR departments need to be changed and transformed to really deliver. They need to have well structured strategic plans.”*

HR transformation has been discussed for ten years and companies are still not there. The role should become more strategic and HR needs to be able to understand business as whole, not just personnel matters that have traditionally belonged to HR. So the “old” HR needs to become more strategic and therefore give competitive advantage for the company. HR is also the department that can develop leadership, know-how and efficiency.

One respondent also gave some examples of MNCs that had done HR transformation processes. In one case a big American chemical company wanted to change everything and tried to put HR to their core focus strategy.

This resulted in life-long employment issues and they couldn't ensure employment since so much had changed. Still a total transformation was done.

Researcher: *"The role of HR changed drastically with these changes. HR became much smaller unit and HR professionals gave a more professional work instead of administrative work. The whole HR structure changed."*

As for HR outsourcing itself this transformation drives HR to concentrate on its core processes and this usually leads to outsourcing of non-core functions. This transformation also leads to standardization of processes and therefore to a more efficient processes.

Since HR is moving to a more strategic role the actual roles of HR professionals are changing also. It was very clear among respondents that most of the new roles of HR professionals are also more strategic. The understanding of business itself becomes important and a wider area of knowledge must be handled. As in many cases the literature and practice can be somewhat different.

Researcher: *"There's this huge gap between theory and practice. It's different what should happen and what actually happened. Basically these new changes can be considered very easily. That means that at least those HR employees that were in-house are now laid off or put to another career path."*

Consultant: *"When becoming more strategic it means that HR professionals must be more business-driven and to be able to understand what that means."*

Consultant: *"I see that the demand to HR professionals is that it is not enough to know e.g. legislation but you need to have wider understanding and experience."*

Not only do HR professionals have to have wider understanding of business they have to be able to adapt to their new roles and job descriptions. In many cases it the person is not willing or able to adapt and absorb more know-how then it is very likely that he/she needs to find a new job. Because demands are increasing to the HR department it is essential that knowing and able persons are working there. Because companies outsource their HR practices the in-

house HR must support business and control partner companies to where the outsourcing has placed.

Consultant: "One client told me that HR needs to be able to show their operations in numbers in order to present themselves. Especially HR managers have to be some sort of generalists in today's business world. Therefore it is often seen that a general manager gets promoted to the position of HR manager rather than an HR employee."

A lot of discussion about HR business partners (HRBP) has been seen in the literature. In practice it is also well known that these HRBP exist but it is unclear if people actually know how to operate strategically.

Researcher: "For me HRBP means that HR professional is fully aware of the business and what it means running the business. If you want to manage a company strategically HRBP understands what kind of information you need to be able to run that business."

So HRBPs are dealing with other parts of the company but also in a position to influence the relationship between the company and service provider where HR processes have been outsourced. Even though HRBP roles have been known for ten years or so it is still quite a new subject.

Consultant: "Today's HR faces lots of pressures. This is why HRBP still seems to be a new thing because competencies are difficult and slow to develop."

Professional: "More and more HR professionals are now hired from business background rather than pedagogical or psychological backgrounds. This supports the idea of HRBP roles."

In some companies HRBP roles work very well but those companies seem to be quite innovative and in many cases business partner roles are yet to reach a strategic role that would be required. It seems though that this is where HR's role is going to be. In comparison in the 80's HR was seen only as a unit, which was doing recruiting and billing. HR was not involved in any strategic decisions. Now you cannot leave HR out of many decisions and therefore

companies need an HR department that understands these decisions in a strategic point of view.

It was important to find out what respondents thought of the positive and negative effects of HRO to the roles of HR professionals. Since there are lots of changes to the roles of HR professionals due to HRO it is important to know more about these role changes.

There are lots of different opinions on advantages and disadvantages of HRO to the roles of HR professionals. Mostly HRO is seen as a positive thing when it works. It brings those core processes back to the employees, who can then concentrate on those processes only, when unnecessary processes have been outsourced. This allows HR professionals to improve their knowledge and know-how in certain core competencies and not needing to be good in every parts of HR processes. They can therefore become true HRBPs and widen their expertise. There can be seen some sort of specialization in this because HR professionals can work in a smaller sector and learn more about those processes.

There are downfalls in this matter. There is always the danger that specialization goes too far and HR professionals lose the overall vision of the business. It is also possible that the expertise of new HRBPs isn't enough to handle the relationships between parent company and the service provider. Those HR professionals who have been working in HR for many years may find it hard to adapt to their new roles and job descriptions.

Researcher: "If you were a long-term employee you might think that you cannot deal with the new changes and you can't cope with them. You might be considered as outdated by your new colleagues."

Due to outsourcing many jobs might be reduced in the parent company and therefore job losses are imminent. Many respondents had the same opinion that there are only three possibilities in these situations. HR professionals can find themselves working in a similar position for the outside vendor if they need capable employees to manage their new processes that have been outsourced by the parent company. Another possibility is to get a new position in the

parent company and take the role of HRBP or get transferred to another department. This requires adaptability and more or less business-driven approach to work. Third option is that the HR professional has to find a new job in another company if he/she can't adapt to the new roles in the parent company and don't want or can't go working for the outside vendor. So possible job losses are a reality in HRO cases.

Professional: "Pressure is harder and workload increases due to the changes in HR. For the new HR people it gives interesting career opportunities but for the old-timers it can create problems."

These new changes can create great opportunities for HR professionals career-wise. There are however always disappointments and job losses.

Researcher: "Some might have thought that I'm going to be an HR manager or you were an HR manager and then the transformation came in that might not be the case anymore."

HRO seems to be some sort of risk factor for HR people because the roles can change drastically and HR needs to show their expertise due to the pressure from other departments. HR professionals need to show that they can handle these new changes. In one case a good point of view came up regarding HR managers. In HRO situations it takes good self-confidence and good management from the HR manager to bring these changes into working reality. No doubt there are resistance and fear among HR professionals and they need to rely on their HR manager to do the right thing. If the HR manager feels that he/she is not able to handle these new changes it takes also courage to admit this to his/her own manager.

In general these new role changes are seen as more positive than negative development among respondents. The transition face at the beginning is always the hardest and most problems rise there. The biggest problems seem to be with the fact that not all HR professionals can adapt to their new job descriptions and there are always job losses in outsourcing situations. Positive effects are however considerable. Due to HRO the new roles of HR professionals are deeper and require more expertise than before. HR professionals can specialize

to certain processes and not need to be experts in every area of HR. Learning is therefore greater and due to this many HR professionals and managers are very good at what they do. This was not the case some decades ago.

There are lots of barriers for outsourcing HR transactions and therefore many implications to the roles of HR professionals. In practice many MNCs do not have unified global processes and therefore it is very hard to outsource processes in multiple countries when companies do not have a clear concept.

In HR there can be resistance to change because many HR professionals believe that no outside service provider can do their job better. Also outsourcing usually means standardization of services and practices and the main goal besides cost cuts is that processes are unified and simplified. Many HR professionals are however creative persons and might find it hard to stick to the standardized processes. Therefore resistance to change can be great.

There can be problems for HR professionals in changing jobs and new challenges that HRO brings along. It was clear among respondents that most of all HRO brings problems to people.

Researcher: "Problem might be that people that were in HR might feel that they can't deal with these changes or their competence is not good enough"

Professional: "When outsourcing comes to HR people might have to leave or look another opportunities elsewhere. The change brings problems for people."

Therefore it is important in HRO cases for the HR department to show their know-how and importance. As for organizations' management outsourcing creates certain issues. Everywhere it is said that people are the business and they are the core process in every company. Still outsourcing is common and people are being laid off.

Common issue and barrier in HRO is costs. Is outsourcing so effective in the end? Certainly cost cuts are made and usually it's working but what happens to the quality of HR services in the end?

Researcher: "I think that in most cases companies are always attracted when something is cheaper. But the thing is that HR is different. Sometimes cost cuts

are not the most effective way to go if you want to upgrade your HR department. In most cases upgrades can lead to even more costs but to a good outcome."

In MNCs there are always barriers between countries when centralized processes need to be outsourced. In a global firm different countries want to do things in a bit different way and standardization of processes bring problems. Sometimes full standardization is not even possible but outsourcing needs to be done country by country. It is very difficult to find a global outsourcing partner that has local knowledge in every country.

Professional: "For example Siemens had outsourced processes country by country. They had some 57 different SAP systems and 100 different payroll producers. You can do outsourcing in many different ways. There will always be problems."

There are many other barriers including recruitment and selection and also training. In many cases parts of recruitment process is outsourced. In these cases HRBPs and the outside vendor need to be making good collaboration with each other because there is increasing need for good talent. Recruitment services need to be up to date and advanced so that the real talent is found. Sometimes improving and upgrading these recruitment processes is not about cost savings but the need to have good recruitment services or otherwise competitors can get the talent.

In training many general business issues are outsourced but the training of specialized corporate matters are nearly always done in-house. But everything else that can be done outside is usually done so. Here there is very little resistance because it is a common thing to do.

The roles of HR professionals are changing towards a more strategic and business-thinking requiring roles. This requires wider knowledge and know-how, which is not easy to obtain. As pointed out by many respondents the change towards a more strategic HR and therefore to changed roles on HR professionals is time taking.

4.3 Summary

All of the respondents were qualified to be part of this thesis due to their own work experience and general knowledge on HR. There was good variance in opinions of the respondents. It was noticeable that HR professionals tend to have slightly different point of view than HR researchers and consultants. HR professionals have experienced and seen what HRO is in practice whereas HR researchers and consultants have the most recent academic research at their disposal.

As seen in the research questions the idea was to study the intended and actual changes in HRO to the roles of HR professionals. This is why three different groups were selected. As for intended changes HR researchers and consultants are usually the most qualified to answer due to literature knowledge and consulting work, whereas HR professionals have the actual knowledge from practice and therefore possess the most cutting edge information from the field. In purpose to get good and clear comparison between these results Table 7 shows the answers of HR researchers and consultants in comparison to HR professionals' answers. The answers are from the main points of the interview and research problems and not all smaller topics are included.

Table 7. Cross-referenced answers from different groups. (Source: Author).

Theme	HR researchers and consultants (Intended changes)	HR professionals (Actual changes)
HRO trends and role today	<ul style="list-style-type: none"> • Outsourcing not necessarily that common • Becoming more and more core focus in companies • Strategic role stronger • Foreign literature suggests that the 	<ul style="list-style-type: none"> • Outsourcing not so common that has been thought • Lots of discussion but not yet strategic in most cases • Still administrative and operational function

	<p>role has changed. In Finland not yet reality.</p> <ul style="list-style-type: none"> • Outsourcing usually cost effective and shows good results • Literature says that outsourcing is effective 	<ul style="list-style-type: none"> • If understood correctly in management, HR is a central function • In large companies the role is more visible and more strategic • Not the case in small companies • Not clear whether outsourcing works and is effective
Theories in practice	<ul style="list-style-type: none"> • TCT and RBV theories the most common • Cost-cuts and non-core processes usually the main reasons to outsource 	<ul style="list-style-type: none"> • Calculating costs and comparing to a third party provider common • Non-core activities are being outsourced • Downfall: might not be aware what are doing and end up with bad relationships and more costs
Roles of HR professionals	<ul style="list-style-type: none"> • More strategic role • More responsibility and good knowledge required • HR should be able to show their importance in numbers to the management • HRBP roles are becoming more common and important • If not able to adapt to new roles there's possibility to lose one's job 	<ul style="list-style-type: none"> • Has been discussed for a decade. Still administrative roles in most parts • Those who should be HRBPs would need to have a very good understanding of the business. This is not yet happening • In competencies there is a huge difference between administrative roles and these new more strategic roles

It is noticeable that the intended and actual changes are somewhat different. In many answers the intended and actual changes were nearly the same but it seems that whereas literature suggests something has already happened the actual changes are not yet there. This was usually the answer gotten from HR professionals that literature, especially in the USA, is far more ahead than where companies are in Finland.

Both theory and empirical findings show that HR is in constant transformation. When competition gets harder companies have to cut costs and get competitive advantage. Often cost-efficiency is achieved due to outsourcing although it is not yet clear if outsourcing is even effective in the long run. Sometimes costs rise because of bad relationship between the parent company and an outside vendor.

Based on the interviews HRO is very current and changing subject that seems to have lots of different opinions and viewing angles. The general opinion among respondents' was that HR is going to be a more strategic function in companies but development is slow and there are many steps still to be taken.

5. DISCUSSION AND CONCLUSIONS

5.1 Discussion

The purpose of this study has been to examine HR outsourcing and its effects on HR professionals' roles. The literature review presented HRO trends and definitions as well as risks concerning HRO and what positive and negative points are found. It also gave insight to the changing HR and the implications of HRO to the roles of HR professionals. In addition it explained HR outsourcing decisions through two different theories: Transaction cost theory (TCT) and Resource-based view of the firm (RBV). There are many more theories with which organizations can assess their need for outsourcing HR transactions. Porter's (1985; 1990) value chain is also a useful model in determining what organization's primary and secondary activities are. Borg (2003) also presented selective and full outsourcing model. In selective outsourcing the organization outsource one part of their transactions like security that they do not want to do in-house. In full outsourcing the whole function or process like HR is outsourced to an outside vendor. Full outsourcing has more risks than selective outsourcing and whilst full outsourcing could be done in a year, the effectiveness of that outsourcing decision is seen only after many years (Borg 2003: 11). These theories were not primarily discussed during the interviews but it is recognized that other theories can be found also.

According to the interviews the most common HR transactions to be outsourced are payroll, recruitment and selection and training in some parts. Outsourcing is not necessarily as common as the literature presents it. There are vast differences in outsourcing when dealing big multi-national companies vs. smaller companies. Smaller companies do not necessarily have the resources to outsource many HR transactions or do not need third party services. Therefore, as many respondents said, HRO is not necessarily so common in Finland since many of the companies operating here are small or medium-sized companies. When dealing with MNCs the outsourcing of HR transactions is much more

common however it is indicated that many companies are now in-sourcing or contracting in those transactions that had been outsourced. This is because e.g. outsourcing has led to more costs than anticipated or efficiency is not what was predicted. In addition, in many cases outsourcing has led to bad relationships between the parent company and third party provider and therefore companies see that it is actually easier just to do the processes themselves.

The existing literature on HR outsourcing is still limited as HRO is going through its early development stages (Cooke et al. 2005: 426) and it is still a quite under-researched subject.

According to the literature as well as the interviews the most common reasons for HRO seem to be cost cuts and concentration on core competencies. Respondents also pointed out that sometimes it isn't even about costs but simply because a third party provider can do a better job in certain processes than the parent company could. Therefore outsourcing is used. The literature proposes that outsourcing nearly always cuts costs but according to the interviews the case is not always this. Outsourcing has been seen to lead much bigger costs in the end that had been planned. Therefore many respondents criticized that outsourcing is not always effective and companies should really know what they are doing. It has seen that often companies outsource because their competitors do it also. In worst scenario outsourcing leads to loss of competitive advantage and therefore puts the company's survival in jeopardy.

As discussed in the literature review and seen in the interviews HRO creates new roles for existing HR professionals. This can sometimes create problems inside the parent company, as there is ignorance and fear of job losses among employees. New more strategic and less administrative roles also require HR professionals to have more knowledge on business and many have hard time to adapt to their new roles. One respondent gave a good example when she stated that usually HR employees have come from pedagogical or psychological backgrounds and therefore lack business thinking. This can be one explanation to the fact that HR professionals' roles have not yet reached the state of a strategic role as companies are now realizing that employees from economics

and business administration backgrounds can be quite useful in HR roles as well.

As there is limited amount of research done on HR outsourcing it is difficult to have conclusions on what types of HR transactions should be outsourced and are those decisions even effective at the end as mentioned in the findings of the interviews. Many implications of these outsourcing decisions are seen only after many years and results are not necessarily positive. Therefore more research on this subject should be done. This is further discussed in chapter 5.3 Future research.

5.2 Conclusions

The main aim for this research was to explain HRO trends and its implications to the roles of HR professionals through the use of relevant academic literature and empirical findings.

First research problem was to find out what trends are seen in HRO and how the ideas of two main theories presented in literature review (TCT & RBV) have been achieved in companies.

The very first point that many respondents noted was that HRO is not necessarily as common as it is being presented in the literature. The most common practices that HR departments outsource are payroll, data processing, recruitment and selection and in parts training. Payroll was seen as the most rational choice for outsourcing since it holds little value-adding purposes for the company. Although one respondent pointed out that companies could get valuable information to be analyzed from payroll data e.g. sick leaves and therefore get a more comprehensive view on the welfare of its employees.

In the literature the role of HR is said to be transforming into a more strategic role. However according to the interviews this much-presented strategic change in HR has not yet been reached in many companies. There are forerunners and innovative companies who have wittingly made HR departments as a core unit

in the company and therefore e.g. HR managers are seated in the core management team. However in majority of companies HR is still seen more or less as an administrative function. As most of the respondents were Finnish it transpired that in many Finnish companies HR is still seen only as an administrative function and not strategic at all.

Another part of this research question was to find out how the ideas and goals of two most common theories (TCT & RBV) were achieved. As discussed in the literature review TCT and RBV explain the rationale why organizations outsource HR transactions. According to the interviews calculation of costs is very common as well as categorizing core and non-core transactions in a company. It is also notable that not all decisions are made based on these assumptions, as there can be reasons of productivity, effectiveness and know-how involved. Not always does e.g. cost calculations necessarily mean that a transaction should be outsourced. There were many examples among respondents where outsourcing had led to even more costs than when done in-house. In the line with RBV theory companies make outsourcing decisions based on the importance of a certain transaction. Some part of HR are always more important to the company than others. Here lies another pitfall of outsourcing. If the company doesn't really know what value a certain transaction possesses and outsourcing decision is made too hastily it can lead to loss of competitive advantage. One example of this was the recruitment and selection outsourcing process, which according to couple of respondents can lead to unwanted employees and the real talent is never found.

It seems that the rationale behind HRO decisions is often cost or resource based but bad decisions are sometimes made and outsourcing doesn't meet the expectations of management and employees. Therefore the ideas and goals of TCT and RBV are not always sufficient.

The second research problem was to find out what are the intended and actual changes to the roles of HR professionals.

As noted earlier, the literature suggests that HR is becoming more and more a strategic function and therefore the roles of HR professionals change. Based on the interviews this strategic role is not yet reality in many companies and the

roles of HR professionals are somewhere between administrative and strategic. When this transformation to a more strategic role is progressing the roles of HR professionals are becoming more reliant on business thinking and a wider area of knowledge needs to be handled.

This more strategic role and business thinking among HR professionals is called HR business partner (HRBP) who act with other parts of the company but also are in a position to influence the relationship between the company and service provider. Therefore a more business-thinking role among HR professionals must be absorbed. It came clear during interviews that these HRBP roles are slow to adapt into working environment and even though the term HRBP has been known for a decade it still isn't in practical use. In addition, not all HR professionals' roles should become BP roles but rather those roles that have the most interaction with other parts of the company and third party providers.

HRO brings a lot of positive and negative effects to the roles of HR professionals. Due to outsourcing the roles of HR professionals change also. Usually when a company decides to concentrate on their core competencies it relieves HR professionals from other non-core activities and enables them to concentrate on core activities. This process allows HR professionals to learn more in a smaller sector of processes and combined with business thinking they can evolve to true HRBPs, which is required when creating relationships with outside service providers and when dealing with e.g. line managers in the parent company. Many HR professionals have not yet absorbed the roles of HRBPs as they lack the necessary business thinking. This is perhaps because usually their background is not from business but from pedagogical or psychological backgrounds and this limits their understanding of how business works.

As shown in Table 7 in chapter 4.3 the intended and actual changes seem to have variance and HR researchers and consultants have different perspectives and knowledge on HRO compared to the ones working in HR i.e. HR professionals. Intended changes in the roles of HR professionals seem to be that the roles become more strategic and more responsibility and knowledge from employees is required. Therefore these HRBP roles become more dominant and

at the same time HR departments have to be able to show their importance in numbers to the management board. In reality according to HR professionals the role of HR is still more administrative than strategic and in many companies the change is very little compared to the situation a decade ago. Moreover HRBPs roles are not yet absorbed and business knowledge and thinking among HR professionals is still limited.

The respondents were also asked about the barriers that can cause problems in HRO situations. One big problem, especially in MNCs, can be that the company doesn't have unified global processes and therefore outsourcing in a large scale brings barriers to the local concepts. There isn't usually such a global service provider that could handle all the countries at once, hence outsourcing needs to be done country by country.

Those HR professionals that were working in an area that has been outsourced might find themselves in situation where they need to find new jobs. It is not always possible for the parent company to move them to another position especially if they lack the necessary skills and experience. So HRO brings problems to strategic practices but most of all to the people influenced by it.

This study has researched HRO and its effects on the roles of HR professionals. The study gives a good view on HRO and how the roles of HR professionals change due to outsourcing of HR transactions.

5.3 Future research

As mentioned in various cases the research on HRO is still pretty under-researched and its affects on HR professionals' roles has not yet been researched very much. A much larger scale research could be done as this research only interviewed eight professionals and presented their experiences and opinions on this matter. There are therefore opportunities to expand this study by redefining the research questions. A bigger focus group from MNCs could also help to see what kinds of results are gotten in an international environment. Since nearly all of the respondents of this study were Finnish

their experiences rely mostly on domestic issues, although few respondents had experience from managing HR departments of large MNCs.

There is much to research on this subject and this thesis only gives a general idea of what's happening in HR and therefore new and deeper research could be done.

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APPENDIXES

Appendix 1.

Structure of the interview

Basic info

Name:

Title:

What kind of experience do you have on HR?

Why do you think that outsourcing is so common?

What is HR's role today?

What kind of a role does outsourcing play in HR?

What kind of transformation is happening in HR and how is it affecting HR outsourcing?

What are these new changes doing to the roles of HR professionals?

What are the seen advantages of HR outsourcing to the role of HR professionals?

What are the seen disadvantages of HR outsourcing to the role of HR professionals?

What are the main problems (barriers) in HRO and for the roles of HR professionals?
