

A Framework of Outsourcing Decision-Making for Human Resource Information Systems

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Abstract

This paper attempts to develop a framework for interrelationships among human resources information systems (HRIS), outsourcing, and corporate culture. This research investigates impacts of outsourcing HRIS on corporate culture. In this paper, we hypothesize that outsourcing corporate HRIS is less appealing (1) if the quality of product and customer service matters for a firm, (2) if a firm is concerned with a loss of intellectual property, and (3) if a firm requires maintenance of a distinctive human resource service function that is capable of meeting the challenges of fast changing customer demands in a dynamic business environment. In addition, this study argues companies must be aware of the total costs associated with HRIS before outsourcing its human resource functions. Finally, the impact on employee morale and performance must also be considered. By outsourcing HRIS, managers will be able to spend more time and resources dedicated to an employee's professional career development.

Keywords:

Human resource; Information systems; Outsourcing; Corporate culture

Introduction

The emphasis on human capital and knowledge creation to gain and sustain competitive advantage in today's highly competitive global economy has made the human resource (HR) function or system strategically important. HR system is one important component that can help an organization become more effective and achieve a competitive advantage [1]. In addition, Bowen and Ostroff [3] argue that the strength of the HR system can help explain how individual employee attributes accumulate to affect

organizational effectiveness. As the distinctions between HR strategy and competitive strategy begin to blur, the main objective of HR strategy is to guide the process by which organizations develop and deploy organizational and human capital to enhance their competitiveness [21].

Recent progress in information and communication technologies, especially the Internet has profound impact on the operations and management of traditional business functions, such as R&D, marketing, accounting and finance. In addition, technology is playing a significant role in transforming the way the workforce manages information, performs transactions, and collaborates for competitive advantage. The trend toward moving HR functions to the digital domain is speeding the pace of deploying solutions and clarifying business results and strategic goals. From the HR's perspective, technology development affects the entire workforce and delivers significant financial returns, which are an important part of HR's growth as a strategic and value-adding partner to the business.

Another growing trend in today's global economy is the emphasis on an organization's core competences, which are valuable, rare, costly to duplicate, and organizational specific resources and capabilities. As a result, the outsourcing of non-core activities to reduce costs and to increase efficiency and focus has become prevalent among corporations. However, from the labor's perspective, outsourcing represents a new threat contributing to job insecurity. The impact of outsourcing on employee morale and performance, as well as corporate culture could be significant. Other major concerns about corporate outsourcing include quality of services, privacy and security, and the potential lose of intellectual properties.

The purposes of this research are 1) to examine the current trend of applying technology to transform the traditional HR function and 2) to investigate the impacts of outsourcing HR function or system on employee and corporate culture. Several hypotheses are developed to build the framework for assist business executives in making the outsourcing decision on HR system.

Human Resource Information Systems (HRIS)

The advance of technology has significantly changed the practices in all business functional areas. Hendrickson [10] discusses the impacts of information technology on traditional HR processes in increasing efficiency (e.g., transaction and timeliness), effectiveness (e.g., accuracy, completeness and simplification of process), and new applications (e.g., computer-based training, online recruitment, and self-service HR).

HRIS merges traditional human resource management as a discipline and in particular its basic HR activities and processes with the information technology field. HRIS and HRIS administration comprise a distinct, supporting function within HR.

HRIS is a software package that offers a complete system for human resource activities that can either be done by outside sources or in-house. Employees can make use of the basic features of the software, such as filling out forms online, making changes based on life events, and getting information on their benefits at any time. Hendrickson [10] defines HRIS as integrated systems used to gather, store, and analyze information regarding an organization's human resources. Therefore, HRIS is not limited to the computer hardware and software applications that comprise the technical part of the system. HRIS also includes the people, policies, procedures, and data required to manage the human resources function [10].

Kovach [14] points out that the original purpose of HRIS was a business tool that allows for standardization in the gathering of information about and for a company's employees. As the workplace reshaped by the advancements of new technologies and business processes, the meaningful use of data as information is becoming more and more critical. As early as the mid-1990s, the focus had begun to shift to HRIS as an information resource because of their usefulness not only in HR decision making, but in strategic decision making as well [14]. Organizations must proceed cautiously and realize the associated costs, security, as well as the benefits with the implementation of HRIS.

Mayfield, *et al.* [18] provides a comprehensive framework that advances the research on HRIS. The development of the framework is based on general system theory, pertinent academic research, and practitioner observations. The model addresses all major HRIS components such as organizational vision, strategic integration, personnel development, communication and integration, records and compliance, knowledge management, HR analysis, and forecasting and planning.

In addition, Mayfield, *et al.*'s model illustrates that HRIS are an essential factor in a competent, learning organization. Nevertheless, HRIS are often misunderstood and misapplied because of incomplete conceptualizations that do not focus on strategic vision as the central force [18]. It is very important that the implementation of HRIS is driven by corporate strategic vision in an open system, where IT facilitates communication freely between integrated features. Mayfield, *et al.* argue that such information sharing is crucial to learning organizations that view

employees as their main competitive advantage.

Overall, Hendrickson [10] asserts that a functional HRIS must create an information system that enables an assimilation of the policies and procedures used to manage the firm's human capital as well as the procedures necessary to operate the computer hardware and software applications. However, some disadvantages of HRIS must also be considered. They are the unknown costs and expenses, and the fact that not all pieces of the HRIS are always implemented. Rosenthal [20] conducts a survey on HRIS implementation and found only a fraction of HRIS use a small portion of the systems capacity. In addition, a quarter (23%) use only four core modules, i.e., the core HR system, base benefits, compensation, and compliance and regulatory reporting, while ignoring others. Further, 30 percent responded that purchased but never implemented their recruitment, employees and manager self-service, and competency and career development modules [20].

Despite the shortcomings related to the costs of the HRIS, many companies are now applying HRIS to their business action plans. The United States Government has even implemented its own HRIS. In July 1997, the President's Management Council (PMC) tasked the Human Resources Technology Council¹ to review ongoing agency efforts. The PMC recognized the need for a Government wide HRIS strategy, including the need to define and standardize essential functional and information requirements.

Finally, HRIS are the systems for both emerging and existent businesses. Currently HRIS are efficient and effective systems available for managing an organization's human resource function and system. In order to make the systems more efficient and effective, more research and fine tuning of the systems are needed to achieve better results.

Outsourcing and HRIS

Outsourcing is a management strategy by which an organization outsources major, non-core functions to specialized, efficient service providers. Companies have always hired special contractors for particular types of work, or to stabilize peaks and valleys in their workloads. Companies are always partnered with and formed long-term relationships with firms whose capabilities complement their own. In addition, companies have always contracted for shared access to resources that were beyond their individual reach – whether it be buildings, technology or people. However, the difference with simply subcontracting and outsourcing is that outsourcing involves the wholesale restructuring of the corporation around core competencies and outside relationships².

Statistics show that three-quarters of U.S. and European multinationals use outsourcing or shared services to support

¹ The Human Resources Technology Council advises the federal Government on government-wide IT issues affecting personnel and payroll.

² "Top Ten Outsourcing Survey," *The Outsourcing Institute*. Retrieved May 1, 2007, from http://www.outsourcing.com/content.asp?page=01i/articles/intelligence/oi_top_ten_survey.html&nonav=true.

financial functions, but less than half consider outsourcing to be cost effective, according to *PricewaterhouseCoopers' Management Barometer Survey* (PwC, www.pwc.com). Despite this finding, 29% of the companies expect to increase their outsourcing of financial functions³. Dan DiFilippo, a global leader for performance improvement and U.S. leader for governance, risk, and compliance at PwC argues that companies that turn to outsourcing for cost savings should conduct comprehensive feasibility studies to better understand their potential return on investment⁴. Before entering outsourcing arrangements, companies must conduct a proper cost-benefit analysis. Of the respondents to the PwC survey, 31% see limited or very little benefit to outsourcing, 44% report that their organizations have saved a moderate amount, and 3% saved a great deal⁵.

As for the effectiveness of outsourcing or cutting the costs of operating HRIS, according to the Institute of Management & Administration (IOMA) survey, adapting or migrating HRIS applications to the Web or corporate intranet is the number-one cost-cutting strategy (39.4%) [5]. Other ways to cut HRIS operating costs include the improvement of department efficiency (36.6%), cut back on staff costs (35.2%), self-service (32.4%), and Web-based recruiting (29.5%) [5]. In addition, there are a number of other areas that respondents have targeted to cut costs in their HRIS operations, such as the use of an application service provider (ASP) to deliver HRIS applications.

Many specialty HR systems are available (e.g., employee expense management systems and performance systems) that can be integrated into the existing HRIS. For instance, integrating payroll into HRIS, beefing up screening for new hires, and farming out selected HR functions and tying them into the HRIS infrastructure to improve the efficiency of the benefits department by means of outsourcing [5].

Outsourcing, if done correctly, can improve service quality, save money and time⁶. However, statistics show that 80% of outsourced customer service ventures do not reduce overall costs. In a survey done by Deloitte Consulting of 25 large companies, 70% had a significantly negative experience with outsourcing projects, and were dissatisfied with its cost savings and complexity⁷.

When an executive looks at outsourcing the companies HR functions, they can be benefited by maximizing resources and making service improvements, to freeing up in house staff to focus on more strategic staffing issues [12]. When outsourcing occurs within a company all management and staff will undergo a reshaping of roles, but they need not always be viewed in a negative context [4]. Executives and managers need to be ready to deal with change caused by outsourcing as much as employees.

According to the Society for Human Resource Management's (SHRM) *Human Resource Outsourcing*

³ "Is outsourcing cost-effective? New research results disagree," *HR Focus*, January 2005, p.8.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ "Why outsourcing succeeds or not" *HR Focus*, Vol. 82, 2005, pp.1-3

⁷ *Ibid.*

Survey Report published in July 2004, it found that 58% of organizations outsource some or all of their HR functions. The interesting point is that HRIS are somewhat less likely to be outsourced than other HR functions, with only 4% of those firms questioned outsourcing their HRIS completely. Another 11 percent partially outsource HRIS. There were 32% of the respondents plan to outsource more HR functions in the next five years [17].

In addition, the SHRM's 2004 survey also shows that 56% of the 169 surveyed HR professionals said their companies outsourced HR functions to save money or reduce operating costs, and 41% to reduce the number of HR staff and related expenses. Some organizations have already been disappointed because outsourcing did not bring the expected cost savings for the anticipated reasons. For instance, about 80% of outsourced customer service endeavors do not reduce overall costs. The problems are usually poor planning and execution⁸.

A major reason for outsourcing failure is the problem-filled existing systems. Outsourcing is never a fix for poor internal systems. 70% of the companies said they have had significant negative experiences with outsourcing projects and were dissatisfied with its costs and complexity. The need for more senior management attentions and skills than anticipated. Additional costs came from unexpected complexity of the outsourcing process and lack of transparency in vendor pricing or cost structures.

Business executives should also realize that cutting costs and focusing on core competences are not the only benefits from outsourcing. Linder [15] argues that outsourcing can be a means of acquiring new capabilities and bringing about fundamental strategic and structural change. Outsourcing can be used to rapidly scale up a new business, fix a key process that stands in the way of growth, signal broad change and focus on adding value, and improve core operating capabilities radically [15].

Corporate Culture

Every organization has a culture. A firm's culture is a set of values, beliefs, and norms of behavior shared by its members that influences employee preferences and behaviors. It sets the context in which relations among members develop, and it provides the basis for implicit contracts between them [19].

Besanko, *et al.* [2] contend culture creates value for firms in three ways. Culture reduces information processing demands on individuals within the firm. It complements formal control systems and reduces the costs of monitoring individuals. In addition, culture shapes the preferences of individual toward a common set of goals.

Friday [7] defines corporate culture in three different ways: First, culture is the sum total of ways of living built up by a group of human beings and transmitted from one generation to another. Second, culture is the values shared by the people in a group that tend to persist over time even when group membership changes, and the behavior patterns or

⁸ *Ibid.*

style of an organization that new employees are automatically encouraged to follow by their fellow employees. Third, culture is the way things get done around this place.

Corporate cultures define such factors as whether it is a fun work environment, the hours that employees work per day, the dress code, how employees interact and work together, and more [6]. It is management's responsibility to make sure that all new hires fit in the company's corporate culture. To insure employees understand the company's goals, training program and training materials help entrench quality compliance attributes. Training program will also reinforce basic concepts such as proper methods to document work activities, making notation corrections with initials and dates, and following written procedures and standard operating procedures can instill basic desired behaviors into the corporate culture. Another key tool for educating employees is the company's employee manual. Employee manuals contain significant information that communicates the corporate culture [6].

Every organization has a different type of culture. When companies decide to partner or form a strategic alliance, it is important for each company to know each others culture; each of the cultures should be compatible. Organizational focus should be on production, administration, entrepreneurship, and integration. The culture of a business needs to support each of these areas in order to become strong.

Change is also important for a corporate culture. How an organization handles change says a great deal about their culture. A recent study noted that executives identify creating an organization and culture that can adapt effectively to change as very important, few are satisfied with their organization's capability in this area⁹.

Overall, HR function plays an important role in creating and shaping corporate culture. The outsourcing of business functions, particularly the HR function, may have strong impacts (either positive or negative) on corporate culture and employee attitude and behavior. Management must be aware the intangible benefits and costs of associating with HRIS outsourcing.

A Framework of Decision-Making for HRIS Outsourcing

There has been a great deal of research and studies done on corporate culture, outsourcing, and HRIS; however, there have been only menial research and studies done on Outsourcing HRIS and the effect that it has on the corporate culture. Hagood and Friedman [9] argue that the need for a framework to measuring the performance of the HRIS in order to justify the value-added contribution of the HRIS to accomplishing the organization's mission. For example, the U.S. Central Intelligence Agency (CIA) developed and

implemented a balanced scorecard-based performance measurement system [13] for its HRIS to justify cost and highlight the effectiveness of the system.

We examine factors that directly contribute to the effectiveness of HRIS outsourcing. The framework is to assist corporate management in making the decision for HRIS outsourcing.

Quality

Main issues associated with quality and outsourcing include: the agreement on quality standards and practices, information sharing, and policies and procedures governing service delivery. It can be difficult for outsource service companies to understand your expectations for quality at a low price and consistent performance. This is much less likely to happen with an in-house HR manager. If an agreement between a company and the outsource service company can not be met, it may be worth keeping HR in-house. Geisel [8] contents that "If you want an outsourcing provider to meet specific customer service goals, you first have to establish benchmarks and determine which goals are reasonable."

Overall, the main goal of quality is cutting costs, while still maintaining a quality product and/or service. When it comes to outsourcing, recent surveys show that improving customer service quality has supplanted cost-cutting as a driver of outsourcing [8]. Therefore we hypothesize that

If quality is a important factor in a companies mission, then outsourcing will be less appealing

Service

HR outsourcing continues to be a popular business strategy. Although companies are now gaining more experience with the realities of outsourcing, still many are confronting unrealistic expectations. For instance, the cost savings and service quality they hoped for may not materialize. Major reasons are: Lack of planning and implementation, not including vendor accountability, and the lack of opportunity to measure results are key factors in whether or not a company is happy with outsourcing¹⁰.

The concern on service is about the cost that the outsourcing service invests to insure a unique service for a company. Depending on the service your company requires, the cost of personalization can be relatively low or extremely high. With the advancement in technology, the cost of personalization has lowered. If customization requires a great deal of knowledge of your company, outsourcing can become more risky. If outsourcing is done correctly, however, it can improve a company's service quality; if done incorrectly the venture can "bring lower service quality and the employee complaints that lower quality can spawn¹¹." For a company to succeed at

⁹ "Cultural value analysis" (2006). *Accenture*. Retrieved May 3, 2007, from http://www.accenture.com/Global/Services/By_Subject/Corporate_Strategy/CultureValueAnalysis.htm

¹⁰ "Why outsourcing succeeds or not" *HR Focus*, Vol. 82, 2005, pp.1-3

¹¹ *Ibid*.

outsourcing HR systems, they must fully map out their expectations, or the venture will not pay off as well as it should. Henneman [11] argues that failure often is caused by not setting expectations upfront and instead concentrating solely on service levels that govern the contract. Therefore, we hypothesize that

If a company requires unique HR services, then outsourcing may not be an option.

Cost

Measuring and predicting the present and future cost of outsourcing is essential. When many companies decide to outsource, they find that there are a great deal of costs that they did not count on. This is why it is so important for companies to do their research before making such an investment. When companies do not do their research, many find out that it is costing them more money to outsource than it would for them to do the job in house. When comparing companies to go with, it is a good idea to set benchmarks of current internal costs and internal quality expectations. Then the internal cost needs to be compared to what outsource service companies can offer and at what price. In a study done by the *Yankee Group*, it shows that only 48 percent of key decision makers agreed that HR outsourcing had delivered the promised return on investments they expected [12].

Even though HR outsourcing has become a very popular business move, many are still battling unrealistic expectations that the cost savings and service quality they hoped for may not materialize.¹² Many of the main reasons for this are due to lack of planning and implementations, not making vendors fully accountable for the service they provide, and the lack of measuring results¹³.

In the July 2004 issue of IOMA's *Pay for Performance Report* states that a major downfall of outsourcing HR is that it takes an average of at least five years until companies start to see a cost savings. When deciding to outsource, only certain kinds of tasks can be outsourced, those that can be set down as a set of rules. That which requires more creativity is more difficult to manage at a distance¹⁴. In addition, a survey by IDC (www.idc.com) reports that world-wide HR business process outsourcing (BPO) will be the fastest growing segment of the HR service spending market. The top reason that many employers outsource HR is the desire for more services at a lower cost. Perceived savings stem from having fewer in-house HR staff. Therefore, we hypothesize that

If companies are not aware of the added costs of outsourcing, then it could end up costing the company more money to outsource than keeping HR

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ "A Look at the Pros & Cons of Outsourcing HR & Compensation," *IOMA's Pay for Performance Report*, Vol. 4, 2004, pp.4-7.

functions in house

Employee Impact

Another issue that needs to be considered is the impact on employee morale and performance¹⁵. In most cases, when outsourcing key functions in a company employees will see it as a very negative company change. By outsourcing many menial HR tasks, organizations are able to maximize resources and making service improvements, freeing up in house staff to focus on more strategic staffing issues [12]. Outsourcing has allowed companies to spend more time training employees and provide counseling services, thus increasing employee satisfaction [12].

Management must communicate the benefits of outsourcing and convince employees to overcome the sense of job insecurity and low morale. Senior management involvement, role clarity, change management and proper governance structures are crucial in an organization that outsources. Within that involvement, it is important that management educates "the HR professionals and the entire workforce to ensure they understand how the outsourcing relationship will work and what their roles are in making it work efficiently" [12]. Therefore, we hypothesize that

If companies apply HRIS outsourcing, then managers are able to apply more time to employee training and career development

Intellectual Property

Many feel that the biggest problem with outsourcing HR functions is the opportunity of an outsider getting a hold of a company's intellectual property. Intellectual property (IP) is the product of the mind or the intellect. IP rights may be protected by law in the same way as any other form of property. Owners of intellectual properties have legal rights to specific knowledge and/or creativeness of the human mind, not necessarily the intellectual work.

When companies decide to outsource any business functions, they need to be aware of this risk. In being aware of their risks, companies can decide exactly what functions they will outsource and which ones are too valuable to be shared with another company. Therefore, we hypothesize that

If companies are concerned with the loss of intellectual property within a department, then they should keep that department in house

Conclusion

Today's new HR paradigm reflects an era of strategic management that emphasizes knowledge-based competition. Therefore, HR systems are being designed to develop and reinforce ideas of intellectual capital and knowledge management that propel strategy formation [21].

¹⁵ *Ibid.*

Tansley, *et al.* [22] conduct a case study and demonstrate the reason for the limited impact of the HRIS was that those who were involved in the introduction of the HRIS had a restricted view of the potential of the system, seeing it merely as a tool to automate HR information, rather than informing or transforming HRM in the company. Mayfield, *et al.* [18] also argue that HRIS are often misunderstood and misapplied because of incomplete conceptualizations that do not focus on strategic vision as the central force. An HRIS must be driven by strategic vision and it should be an open system, where IT facilitates communication freely between integrated features. Such information sharing is crucial to learning organizations that view employees as their main competitive advantage [18]. Therefore, a comprehensive and effective HRIS must be driven by organizational vision, value, and culture. A synergistic HRIS will enable organizations to realize visions through their employees – the most important assets in the organizations.

Rapid advancing information and communication technologies and fast evolving business environment have significantly affected the roles and operations of HR function. The challenge for HR professionals is to integrate the traditional HR functions of the organization seamlessly with other business value-adding activities because HR information is now being recognized for its potential in strategic planning and decision support. Business executives must recognize total outsourcing is rarely the solution for cutting costs and focusing on core competencies. This research provides a framework to assist business executives in making the decision for outsourcing HRIS. Companies need to plan carefully and evaluate the trade-offs before handing over their HR systems to outsourcing providers.

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