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Aligning OD & Change
HR's Role at the Strategy Table

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Global trends
and challenges
to the **HR profession**

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The outsourcing of HR activities is a management strategy that may be adopted in response to a number of pressures that an organisation is faced with. It is one aspect of business process outsourcing that is increasingly deployed by firms in order to enhance their organisational competitiveness. HR outsourcing can be defined as 'placing responsibility for various elements of the HR function with a third-party provider' (Turnbull, 2002, p.11). In spite of the perceived benefits of HR outsourcing and its growth predicted by consultancy firms and HR outsourcing market leaders, the growth of outsourcing remains cautious and the benefits of doing so prove limited. This paper provides an overview of reasons why firms outsource their HR activities, its growth trends, organisational change that may be triggered by the outsourcing decision, and the challenges that are presented to the HR function and professionals as a result. The paper argues that a number of conceptual ambiguities and operational pitfalls may dampen the effectiveness of HR outsourcing for user organisations.

Reasons for HR outsourcing

There are a number of strategic and operational reasons why organisations decide to outsource their HR activities (see Box 1). Some decide to outsource the entire function whereas others opt for partial outsourcing. Three major strands of theories have been developed to explain the strategic decision for adopting an outsourcing strategy. The first one is the 'core' and 'periphery' model advanced by Atkinson

(1984). Broadly speaking, core activities are those that the firm does best and/or are crucial to the firm's competitive advantage. These are the activities that must be kept in-house. By contrast, 'non-core' or peripheral activities are considered to have a lower impact on the overall performance of the organisation and can therefore be outsourced to external providers who can perform the tasks more efficiently or professionally. This model is supported by advocates of the resource-based view (RBV) of the firm. They believe that outsourcing can be a productive way to develop the core competence of the organisation – by implementing strategies that exploit their internal strengths and external opportunities, while at the same time avoid internal weaknesses.

A second strand of the theories on the decision-making process as to whether to 'make or buy' (goods) or 'supply or buy' (services) relates to Williamson's (1985) transaction cost economic model. According to this model, the decision as to whether to provide goods and services internally or to outsource rests upon the relative costs of production and transaction. In other words, if the costs of coordinating and managing the outsourcing relationship outweighs that of supplying the goods/services through the internal mechanism, then outsourcing should be used and vice versa.

A third theoretical argument on strategic HR outsourcing relates to Ulrich's (1998) influential thesis of the four roles

Outsourcing can be a productive way to develop the core competence of the organisation

of HR in which he proposed that HR should be a strategic partner, an administrative expert, an employee champion, and a change agent. Ulrich (1998) argues that HR professionals must embrace four new proactive roles as champions of competitiveness in creating and delivering value. He proposed a four-role model that is defined along two axes: strategy versus operations and process versus people (see Figure 1). The roles are: 'strategic partners' helping the business to successfully execute strategy; 'administrative experts' improving organisational efficiency by re-engineering the HR function and other work processes; 'employee champions' maximising employee commitment,

Figure 1. Ulrich's 4 Roles for the HR function

Focus	
Strategic and forward-looking	
STRATEGIC PARTNER	CHANGE AGENT
Activities	
Management of processes	*Management of people*
ADMINISTRATIVE EXPERT	EMPLOYEE CHAMPION
Operational and day-to-day	

Developed from Ulrich, 1998   Source: Marchington and Wilkinson (2002, p.248)

competence and their overall responsiveness to change; and 'change agents' delivering organisational transformation and culture change (Ulrich, 1998, pp.124-5). In this context, outsourcing is seen as a way of liberating the in-house HR professionals to perform a more consultative and

HR outsourcing: A trigger initiating new trends and organisational change

strategic role, designing and implementing programmes aimed to retain the workforce and enhance its performance by releasing the inherent value intrinsic in HR. This is a role where arguably HR can add the greatest value to the organistion that is difficult to be measured quantitatively.

In addition to these conceptual arguments as to whether a firm should outsource or not as their strategic choice, there are a number of operational reasons for which organisations may decide to outsource their HR activities. Box1 below summarises the strategic and operational reasons for HR outsourcing. It must be noted here that there is an overlapping area between strategic and operational reasons and that firms' priorities tend to change as their internal conditions and external environment evolve.

Global trends of HR outsourcing practices

Empirical evidence from various sources, mostly through survey studies conducted by professional consultancy firms, points to the continuing growth of HR outsourcing as a global trend. This growth is pushed by organisations' needs to acquire outsourcing services, as well as pulled by the international HR outsourcing provider firms which are keen to expand their services in different business areas and geographical locations. According to Quisenberry (2006), the number of HR outsourcing agreements occurring globally had increased by 32% in 2005, while the global HR outsourcing market is estimated to grow by 11% in 2008, reaching an estimated value of US$33 billion (SBPOA, 2004). There is particularly a trend for multi-process HR Business Process

Outsourcing (BPO), that is, the provision of multiple HR services by one provider. According to the Shared Services and Business Process Outsourcing Association (SBPOA) (2004), the worldwide market for multi-process HR BPO is estimated to grow at 21% annually, reaching US$7 billion by 2008. Meanwhile, outsourcing providers are increasingly acquiring competitor firms in order to broaden their service delivery capabilities across various HR areas, such as organisational and people development, employee data management, workforce planning, and human capital services (SBPOA, 2004). While large multinational corporations (MNCs) are the main user firms of HR outsourcing, there are also emerging trends for HR outsourcing in the public sector (Davidson, 2005).

However, the growth of HR outsourc-

Box 1. Why do organisations outsource their human resource activities?

Strategic reasons for outsourcing HR activities

- Increased focus on core competencies – it is believed that HR departments often lack a clear strategic focus because they are preoccupied with operational activities. Outsourcing non-strategic activities allows them to move away from routine administration towards a more strategic role.
- Forging strategic partnerships – building internal core competencies through management and organisational development. Firms may outsource some HR activities to learn the latest techniques and then bring them back in-house for cost savings.
- Transfer of risk from the organisation to the supplier – for example, investment in new technology and experiment of new techniques.
- Reduce business risks – by involving knowledge experts that will anticipate and deflect problems before they develop.
- Decentralised structure – HR outsourcing is associated with decentralised or matrix structures and extensive internal networking. By outsourcing specialized services, the HR function can redeploy HR expertise from the corporate level to provide HR services at the operational level. Such generalists help operating managers access HR services, including those provided by vendor specialists.
- Reduction of bureaucracy and cultural change – an important rationale for outsourcing HR is to develop less bureaucratic HR departments, which are often criticised for the constraints they impose on operational flexibility. Successful outsourcing providers emphasise customer service that allows the HR executives to deal with only the most extreme cases. Outsourcing also replaces bureaucracy with market forces.
- Internal politics – downsizing has frequently required HR departments to share the pain of widespread organisational restructuring by reducing their staff. Outsourcing and staff reductions make the HR department look leaner and more like a real business partner.
- Reduced personal risk – one unspoken reason for outsourcing HR is that it enables an executive to cover up unsatisfactory performance. Outsourcing troublesome activities can reduce personal risk of an HR executive, as blame can be attributed to the service provider which can be replaced.

Operational reasons for outsourcing HR activities

- Cost saving – by reducing fixed costs, overheads and number of employees. The expectation that outsourcing will cut costs is consistent with the strategic management's view of competitive resource allocation. This perspective holds that all activities unrelated to strategic core competencies should be outsourced since economies of scale allow specialized vendors to provide services at lower costs.
- Increased flexibility of the HR capacity – when the HR department of a company is operating at full capacity, the company may prefer to outsource some activities rather than hiring more staff to handle periodical peak demands.
- Reduced distraction – allows business owners to focus on planning, operating and growing their business.
- Increased transparency of the cost of HR – ability to measure the benefit and cost against pre-defined service levels.
- Access to external skills – especially allows small businesses to gain expertise and resources associated with larger organisations.
- Reduction of liability or risk – especially for smaller firms that do not have the resources to employ specialists for the legal requirements of HR programmes.
- Acquiring legal expertise or knowledge of custom and practice specific to different countries, e.g. payroll and taxation system – this is particularly useful for multinational corporations (MNCs).
- HR information technology – investment and innovations in integrated HR information technology are often selling points of the HR service providers. Outsourcing HR allows user firms to access the technology without purchasing it and incurring risk of technological and skill obsolescence. It may also facilitate MNCs or multi-site organisations to standardise their HR information system (HRIS), thus streamlining their HR process.

(Sources: developed from Oates, 1998; Cook, 1999; Greer et al., 1999, Cooke et al., 2004)

ing has not followed the anticipated speed predicted by some commentators. Nor has the scope of the outsourcing been as radical as some may assume. For example, only a small proportion of 3% of organisations surveyed by SBPOA in 2005 reported that they outsourced the entire HR function (Pickard, 2006). It is reported that the diversity of the HR function makes it difficult for firms to outsource its HR function as a whole to a single service provider to gain economies of scale. Instead, they may outsource single processes to different service providers. Single-process outsourcing is therefore believed to be the main growth area (Pickard, 2006).

In addition, differences exist in the use of HR outsourcing in different parts of the world, from the developed economies to the less developed economies like Greece, India and China. These differences arise from the size of the businesses, the degree of sophistication of the HR function, the extent of development of the HR outsourcing market, cultural norms and other institutional factors in specific countries and regions. Below are some examples of research evidence on a number of regions and countries in the world.

North America: A recent survey conducted in the US by Hewitt Associates (Zagata-Meraz and Frighetto, 2005) found that organisations are satisfied with their HR outsourcing decision and plan to outsource more HR activities by 2008. This survey was conducted in 129 large U.S. organisations representing nearly 2 million employees. The most commonly outsourced activities, either partially or totally, include outplacement services, employee assistance programmes, defined contribution plans

The size of businesses in a country's economy has a direct impact on the role of the HR function and the way HR outsourcing is used as an organisational strategy

and defined benefit (pension) plans. This study also revealed that by 2008 US organisations also plan to outsource leave management, learning and development, payroll, recruiting, health and welfare, and global mobility.

It is reported that North America is the main market of HR outsourcing (Pickard, 2006), where super-large organisations make up a relatively large proportion of businesses and where the HR function is arguably more sophisticated. These conditions provide the strategic need for, as well as the economies of scale of outsourcing. It is also reported that external HR service providers are seeking super-large manufacturing firms as the main clients for the services (Pickard, 2006). This business intent may exclude countries whose economy is staked primarily by small businesses outside the manufacturing sector, such as Greece (see further discussion below).

Europe: The Cranet survey on HR policies and practices conducted by the Cranfield School of Management and William M. Mercer Inc. in 1999 (Vernon et al., 2000) revealed that there was an increasing trend of outsourcing HR in Europe. This survey was based on responses from HR directors and managers in 3,964 organisations (employing over 200 employees) across Europe. From the organisations surveyed, 97% stated using HR outsourcing for at least one HR activity, while 40% reported increased usage of HR outsourcing during the period 1996-1999. The major HR activities outsourced include training and development (77%), recruitment and selection (59%), pay and benefits (30%), and workforce outplacement/reduction (29%). In particular, France, Belgium and the Netherlands showed increased levels of HR outsourcing, leading to the conclusion that HR outsourcing is influenced by national forces as well as the industry sector and organisational size (Vernon et al., 2000). Austria, Switzerland, Denmark, Spain, Finland, Greece, Italy, Ireland, Norway, Portugal, Sweden and the United

Kingdom were also found to use HR outsourcing, though at lower levels. Figure 2 below shows the levels of HR outsourcing in Europe for the three main HR activities outsourced.

Greece: As mentioned above, the size of businesses in a country's economy has a direct impact on the role of the HR function and the way HR outsourcing is used as an organisational strategy. Greece is a case in point. In Greece, over 99% of the registered businesses are small or micro in size (National Statistical Service of Greece, 2002), and the HR outsourcing market is described as limited and immature by both user and provider firms. Prouska's study (2006) found that Greek-owned organisations are unfamiliar with the concept of outsourcing compared to the multinational corporations in the sample. The extent, frequency, and rationale for HR outsourcing decisions in Greek organisations were found to be attributed to three main factors: the size of firms in Greece, HRM practices in Greece, and the educational level of HR professionals in Greece. Prouska's (2006) finding on the impact of organisational size on the use of HR outsourcing supports that of Vernon's et al.'s study (2000) on the levels of HR outsourcing in Europe.

Figure 2. Levels of HR Outsourcing in Europe
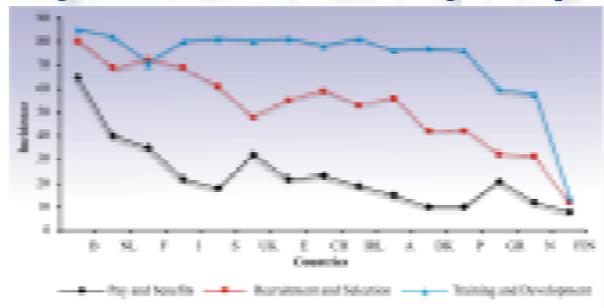
More generally, studies of Galanaki and Papalexandris (2005) and Prouska (2006) provide more detailed analysis which supports Vernon et al.'s (2000) argument that there are apparent differences on the extent and frequency of HR outsourcing in Greece in comparison to other developed EU countries. Based on the evidence from the Cranet survey (Vernon et al., 2000), Galanaki and Papalexandris (2005) argue that the Greek market of HRM services is still at an initial stage of development, with

limited credibility, while the customers lack the experience of managing outsourcing relations and are reluctant to establish a partnership-type HRM outsourcing agreement. In addition, Prouska's study (2006) of 105 private sector organisations operating in Greece revealed that the majority of organisations studied are outsourcing HR activities partially and on a project basis. The rationale for the HR outsourcing decision is one of pragmatic nature, with the prevailing reason for outsourcing being the access to expertise and skills which are not available in-house (Prouska, 2006). The most commonly outsourced HR activities are training, selection, health, safety and welfare, coaching and counseling, recruitment, and payroll. Other HR activities outsourced by Greek private sector organisations to a lesser degree include development, performance management,

employee relations, HR information services, HR strategies, HR planning, retiree administration, and employee relocation (see Figure 3).

In short, HR outsourcing in Greece takes a much more pragmatic and incremental approach than what has been prescribed for large firms. HR outsourcing decisions are made with an operational rationale and on a short-term basis rather than as a long-term strategic intent. This leaves the role of the in-house HR personnel stable in the organisation, since no significant restructuring takes place in order to assume that there is a change in the focus of the in-house HR function.

Asia: HR outsourcing activities are also found in Asia, albeit to a considerably lesser extent than in Europe or the US. The major-

ity of outsourcing user firms appear to be western MNCs. According to Hewitt Associates (2004), the trend towards outsourcing HR services in Asia Pacific had achieved an annual growth of 17.52% between 1999 and 2004. In addition, the 'Outsourcing in Asia-Pacific' survey (Hewitt Associates, 2004) conducted by HR consulting firm Hewitt Associates in 2003 on 524 firms in Asia revealed that 39% of participants are already using outsourcing for their HR processes. Perceived benefits of cost reduction and the desire to focus on core competencies are the main reasons for outsourcing the HR function. Social security benefits, payroll processing, recruitment and training and development are the main HR activities to be outsourced (see Table 1).

It is apparent that the degree of development of the HR outsourcing market in a country plays an important role in shaping the HR outsourcing pattern, disregard the degree of its economic development. This is found in the case in Asia. For instance, research conducted by Khatri and Budhwar (2001) on strategic HR issues in Singapore revealed that organisations do not extensively consider HR outsourcing due to poor quality of service and competency level of consultants in the market. However, potential HR activities for outsourcing include (i) mundane, administrative and no-value added activities, (ii) recruitment of contract workers and sourcing of high executive positions and specialists, and (iii) specialized or one-

Table 1. Human Resources Forecast by Process in Asia Pacific
(US$ millions)

Payroll services	387.60	761.20
Benefits administration	285.00	535.65
Education and training	182.40	555.99
Recruitment and staffing	137.94	347.98
Personnel administration	82.08	167.16
Other HR functions	66.12	191.97
Human Resources total (US$ billions)	1.14	2.56

Source: Hewitt Associates (2004)

day training courses (Khatri and Budhwar, 2001, p.182). Similarly, according to the Watson Wyatt's Greater China e-HR survey of 268 firms in the region (cited in China Staff, November 2002), a major reason for the lack of outsourcing and shared services of the HR function is the lack of options for outsourcing and shared services. Hewitt Associates' (2004) survey also found that while a small number (6.5%) of companies in Southeast Asia expressed their intent to evaluate the outsourcing strategy in the future, many are reticent to outsource HR activities due to a perceived lack of qualified suppliers in the market (Hewitt Associates, 2004).

China: The same Hewitt Associates' (2004) survey further revealed that many companies in China are either unfamiliar with the processes and procedures of HR outsourcing or are unfamiliar with the players in the market. In China, HR outsourcing is still a new concept unfamiliar to the majority of Chinese organisations. Their target user companies are primarily western MNCs. In addition, it may be difficult for Chinese companies to justify a decision to outsource on the basis of potential cost reductions because administrative labour is still relatively cheap in China and it may actually cost more to outsource the function than to keep it in-house. Despite the fact that large-scale redundancy has been going on for the last decade in the state sector, organisational leaders are still unwilling to perform the task of laying off employees – a consequence which outsourcing the HR activities may bring upon. By contrast, western MNCs are the main drivers of HR outsourcing in the Chinese market both as user firms and as supplier firms. A number of international HR outsourcing operators are moving into the Chinese market, including Towers Perrin and Affiliated Computer Services (McDougall, 2005).

It must be noted that although the concept of HR outsourcing is novel to the Chinese organisations, using external providers for certain HR activities is by no means a new practice. Chinese firms have started to use external providers for their training and development activities since the early 1980s (Cooke,

The reduction or loss of on-site HR staff as a result of outsourcing may lead to work intensification for line managers

2005). There has also been an increasing use of external providers for recruitment, especially for headhunting managerial and professional staff since the 1990s. Given the rapid growth of the number of recruitment and headhunting agencies in China in recent years, some of them large MNCs such as Manpower, recruitment is undoubtedly one of the HR activities that have the highest use of external services (Cooke, 2005).

Effectiveness of HR outsourcing

Despite the hype of HR outsourcing as a managerial strategy to enhance the strategic role of the in-house HR function and organisational performance, its effectiveness has not been evaluated systematically. This is in part because it is often very difficult, if not impossible, for knowledge intensive and firm-specific activities such as that of the HR function to be fully measured by observable and verifiable outcomes (Cooke et al., 2005). In addition, effective monitoring and measuring of these activities requires enormous resource and expertise from an in-house monitoring team. Whilst it is not the intention of this paper to design techniques for measuring the effectiveness of HR outsourcing, it is our intention to bring to the readers' attention a number of pitfalls that can lead to a reduction in the benefits of HR outsourcing. Taking into account these pitfalls and meeting the challenges that arise from the outsourcing relationship is particularly important for firms that outsource their HR function on a large scale.

Firstly, from the operations point of view, much coordination and relationship building is required across organisational level in order to provide a seamless and coherent set of HR services to the workforce and line managers. Who does what, when and how are not always clear-cut when multiple

parties are involved. This is especially the case for firms that use several outsourcing providers for different aspects of the HR function, i.e. single-process outsourcing (Pickard, 2006).

Secondly, the reduction or loss of on-site HR staff as a result of outsourcing may lead to work intensification for line managers who not only have lost their on-site support from their HR colleagues, but also have to stand in to perform some of the HR tasks themselves or to provide answers to HR problems for their staff. This is in part because staff and line managers do not always feel comfortable or convenient to contact the HR outsourcing provider at a remote location to discuss and solve their HR problems. In addition, large scale HR outsourcing often relies on the introduction of sophisticated HR information technology that requires employees to acquire and update their personnel/personal information through self-help on-line services. When the unplanned time line managers and other staff spend in carrying out the HR tasks is calculated, the actual cost savings of HR outsourcing may be significantly less than anticipated. This is especially the case when the majority of the employees are highly paid professionals of knowledge intensive firms.

Thirdly, large-scale HR outsourcing often involves radical downsizing of the in-house HR team, organisational restructuring, work

re-organisation and the introduction of new HR informational technology system. This may trigger a significant level of organisational change that requires intensive communication, training and the use of other change management techniques. The direct and indirect cost of managing organisational change is often not assessed. Since the majority of organisational changes are deemed unsuccessful (Buchanan and Huczynski, 2004), often due to the poor management of the change process and the inherent complexity of IT changes, employees may experience a high level of frustration, as was found to be the case in Cooke's study (2006). This emotional cost should not be underestimated, although it is difficult to calculate precisely how costly this would be in terms of, for example, reduced productivity and employee retention problems.

While hard evidence on the financial savings of adopting HR outsourcing seems to be limited, there have been reports of limited success in some very high profile HR outsourcing deals such as that between BP and Exult (Hammond, 2001). A survey conducted in 2005 by Towers Perrin, a consultancy firm, of 47 companies that had outsourced their HR functions with large contracts revealed the fact that they were largely unsatisfied with the outsourcing arrangements. Most of them 'reported little or no success in improving productivity for HR or line man-

agement or in speeding the transformation of the function from tactical to strategic' (cited in Chartered Institute of Personnel and Development (CIPD), 2006, p.11). Only 40% of those that had been outsourcing for a number of years reported that there had been improvements in service quality after a typical 'two-year dip' following a short period of 'honeymoon'. By contrast, about 90% of them felt that outsourcing had led to cost efficiency gain (cited in CIPD, 2006, p.11). This finding highlights the fact that financial gain appears to be the major benefit of HR outsourcing. However, this financial assessment does not necessarily include the evaluation of employee satisfaction level with the HR function as a whole and the wider cost of implementing the HR outsourcing.

Indeed, there is evidence that suggests that many organisations remain prudent in their perception about the success of outsourcing. According to a study commissioned by Northgate Information Solutions, a UK outsourcing firm, which interviewed 100 senior managers from UK companies employing between 400 and 10,000 people, many companies are mistrustful of outsourcing HR, despite recognizing the benefits of removing administrative work from staff (Hammond, 2002). As a consultant at William M Mercer observed, 'HR outsourcing has become a trend, but it is yet to prove a success' (Hammond, 2001, p.8).

Fourthly, another pitfall of HR outsourcing is that the service provider may have a vested interest in standardizing all parts of their services in order to achieve economies of scale from different clients. This may lead to the loss of the user organisation's unique organisational characteristics to its disadvantage. In addition, it is believed that many problems could arise from a mismatch in cultures between the host operation and the supplier (Pickard, 1998). When the quality of services provided by an HR outsourcing provider is deemed unsatisfactory, the costs for an alternative solution, such as switching supplier, obtaining a long-term contract with the new supplier, or bringing the service back in-house, may increase considerably and any immediate improvements may be difficult to materialise (Caulkin, 2002).

Fifthly, as with other forms of inter-organ-

isational relationships such as joint ventures and alliances, there are several inherent risks with HR outsourcing. Some are specific to the HR function. These include: confidentiality and employee data protection issues, and the effect of unintentional leakage of organisational know-how and core competence. The latter enables competitors to imitate the practices and may lead to the loss of competitive advantage of the HR outsourcing user firm. This is an intangible cost that may be difficult to evaluate.

Sixthly, from a strategic point of view, most commentators would agree that

Communication can be more difficult when there is geographical, organisational, as well as cultural separation

outsourcing the administrative types of HR activities is plausible. Ulrich (1998) argues that outsourcing the transactional type of HR activities that are heavily reliant on expensive IT systems staffed by people who are not necessarily experts in HR unleashes internal HR professionals to engage in strategic decision making. However, this cannot be easily achieved because outsourcing the function alone does not automatically elevate the in-house HR team's organisational position. Whilst not all organisations outsource their HR function in its entirety or the bulk of it, those that do so may encounter a number of conceptual and practical challenges to the HR function and HR professionals. It is to these issues that we now turn.

Challenges of HR outsourcing to the HR function and HR professionals

At a conceptual level, a number of questions arise regarding the utility of Ulrich's (1998) four-block model of the role of HR (see Figure 1). While the model looks very neat and rational on paper, it may be problematic to implement, as was found in Cooke's study (2006). This is because the totality of the HR function cannot be neatly carved into four squared blocks to be delivered from differ-

ent sources based on the prima facie evidence of cost effectiveness. The intertwined nature of the HR activities and the intangible role of the HR cannot be cut up in a simplistic way as they are the core threads that form the HR fabric of the organisation.

At an operational level, if such a model were to work, then some links need to be provided to create a seamless HR function by integrating the four blocks. One potential problem of the four-block model is that, instead of being a one-stop shop for line managers to get HR solutions, they may have to contact people in each block for various information and advice. In large organisations operating with multiple sites and operational partners, who to contact for what advice may not always be clear and information sought may be disjointed and even contradictory. In addition, knowledge and operational gaps exist between and within the blocks. It is unclear who takes the driving seat; who should come up with the solutions and ensure their implementation; and how the four blocks should communicate and HR data be coordinated.

The issue of coordination is even more complicated for MNCs. Communication can be more difficult when there is geographical, organisational, as well as cultural separation. National and organisational cultural differences, specificities of employment legislation of each country and so forth all make the organisational change and the process of HR outsourcing more challenging. Some countries are more developed than others and the cost of HR may vary, some may already have low cost, while other countries need to reduce cost. Therefore, a pan-European or global solution may not be realistic or operable and level of local resistance tends to be high. In order to provide more tailored HR solutions, some MNCs may decide to outsource aspects of the HR function of particular subsidiaries to local service providers. This practice will
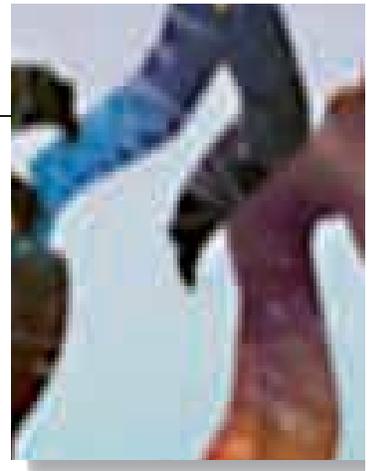
fill the gap of in-house expertise but is likely to reinforce the fragmentation of the HR function of the MNC. This adds further challenges to the in-house HR function at strategic level.

In short, if the in-house HR team is to secure its strategic role in the organisation, then it needs to address a number of issues: how will the in-house HR department manage its multi-sourced HR functions? What control mechanisms are in place to operate such a system successfully? How can they make sure the HR input reaches the strategic level when the HR functions are delivered by a potentially large and growing collection of specialised and self-contained units both internal and external to the organisation? How should the two-way relationships between the role of outsourcing provider(s), in-house HR, line management, HR strategy and the business strategy be developed and maintained? Given the fact that most outsourcing relationships incurs more problems than anticipated, some of which with serious implications, how can the in-house HR team disassociate itself from these operational problems and diffuse discontent from its 'clients' on the one hand, and try to enhance its strategic position on the other?

Finally, HR outsourcing may impact on the in-house HR professionals in a number of ways, most notably, in terms of the nature of their work and their career patterns, although detailed studies on these aspects remain scarce. When HR activities are outsourced, fewer career development opportunities will be available for the in-house HR staff, especially those with specialist instead of generalist skills. Where only a limited number of activities are performed in-house, broad or general HR experience will be more difficult to obtain, which is necessary to gain an overview of the function and for career progression. Furthermore, the practice of increasing specialisation apparent in many outsourcing provider firms raises important

questions in how HR professionals are to be trained. It is arguable that existing training for the HR profession is generalist-oriented. This is running parallel to an increasing demand for specialists in a wide range of different functional areas, from recruitment to pay, and from training and development to outplacement. ∎

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