Chapter 2
Outsourcing the HR Function in the New Economy: Literature, Facts, and Research Agenda

Mireia Valverde
Universitat Rovira i Virgili, Spain

Sergi Romeu
Universitat Rovira i Virgili, Spain

José Luís Gascó
University of Alicante, Spain

ABSTRACT
In the current changing economic environment, organisations are searching for ever more flexibility in their quest towards competitiveness. One of the avenues towards flexibility is the outsourcing of some business processes, whether it is to achieve cost cutting or acquire expertise from external organisations. The HR function or some of its components have also been subjected to outsourcing for some time. However, the decision of what to outsource, how, when, and to whom in HR is not exempt from risks. This chapter reviews the existing literature on outsourcing the HR function that has addressed these questions and generates an agenda for research in order to orient researchers’ efforts to reach more conclusive evidence about the practice of HR outsourcing.

INTRODUCTION
The new economy immerses businesses in an ever more competitive world. New and changing factors, such as the unstoppable development of new technologies, the de-regulation of markets, more volatile demand or the global “liquid” business environment (Bauman, 2007) brings organisations to find new ways of coping and surviving this environment. In this highly competitive, information overloaded environment, organisations find it difficult to be specialists in all of their processes, at the same time that they deal with the challenges of retaining talent (skills and commitment) in all their activities. In the quest to achieve efficiency and competitiveness, organisations may consider
to externalise or outsource some of their processes as a means to optimise the use of their resources.

Outsourcing organisational activities is not a new phenomenon. However, some of the characteristics of the current business environment mentioned above, not only enable its growth but also allow for whole new sectors to develop under the premises of outsourcing, like in the case of externalising customer services in call centers. Furthermore, outsourcing is now not only more possible but also may make more sense in the new economy, where organisations are conceptualised more as networks than as self-contained units of operation. The benefits of outsourcing have been well reported in the literature. However, outsourcing is a choice not devoid of certain risks and flaws.

In this context, outsourcing Human Resource Management (HRM) activities (otherwise known as HRO – Human Resource Outsourcing) is a possibility that organisations need to consider. But, what activities should be outsourced (some, such as recruitment and selection, have been long carried out by external companies)? Should companies consider outsourcing HR activities on a one to one basis, or part away with whole blocks of the function? Should they do it on a once-off or ongoing basis? Should they outsource for specific purposes when the need arises or make it part of their business strategy? Is outsourcing of the HR function for every organisation? And more consequentially, what are the implications of outsourcing HRM activities for the internal HR departments and their so contested and intended strategic role in the organisation? How may it affect the HR department’s competency and skill set?

To date, in order to answer these questions, the study of outsourcing has been mainly supply lead, that is, consultants tending to write on why outsourcing is good and providing data on the extent to which it is used (e.g. Rippin & Dawson, 2001) and it may be used (e.g. Syedain, 2009). However, few theoretical reflections and empirical contributions have been carried out in this regard.

Therefore, this chapter aims to review the literature on HRM outsourcing and put forward a research and practice agenda for this topic. The chapter draws from both practitioner and academic literatures, and it covers the questions that have been posed with regards to why companies should outsource some or many of their HR function, what HR activities are most commonly or are most likely to be outsourced, and how companies undertake and manage this decision.

The chapter is arranged along the following structure: First, we will deal with the concept of outsourcing as a general business process and its rationale. Then, we will move on to the definition of HRO (Human Resource Outsourcing). This will be followed by an analysis of the triggers that make companies take the decision to outsource some of their HR activities, and the related advantages that this decision may bring about. A parallel section deals with the problems and limitations to HRO. The following section deals with how much of the HR function gets outsourced, detailing the activities that are more likely to be outsourced, and making special emphasis on available international comparative data. Next, just before concluding, there is a key section of the chapter, devoted to identifying and outlining the research lines that future investigations should take in the topic of HRO.

OUTSOURCING BUSINESS PROCESSES, OUTSOURCING HRM

The concept of outsourcing has been very loosely defined in the literature, many times to the point that almost any form of procurement of goods and services by an organisation could be included in this concept (Gilley & Rasheed, 2000). In general, and from an intuitive point of view, however, it is widely understood that outsourcing consists of contracting out some activities that may otherwise be carried out by the company. In this sense, Gil-