

# Human Resource (HR) Outsourcing in European Compensation Management in the Light of CRANET Research

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*Abstract: The purpose of this paper is to explore the practice of outsourcing in Human Resource Management (HRM) in countries of Europe-EU and Serbia. An analytical exploration of available literature in the area of outsourcing was made, as well as a statistical analysis of the CRANET research data to determine the actual level of outsourcing in HRM in companies around the world, and to make comparison between Serbian compensation outsourcing practice and countries of 20 EU countries. Results of the analysis pointed out that outsourcing of payroll and benefits is used lesser than outsourcing in the field of pensions. Serbian companies use outsourcing at a new low level. There are statistically significant positive correlations between outsourcing of payroll, pension and benefits among each other, and with the number of employees in HR department. A multiple regression model was used to explore the predictors of HR outsourcing. The differences between EU countries in the area of compensation outsourcing have been discussed.*

*Keywords: HR; Human Resource; outsourcing; compensation; EU; Serbia; Cranet*

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## 1 Introduction

In today's turbulent economic and political environment modern organizations are searching for possibilities to ensure competitiveness, as well as, sustainable and long term development. The last economic crisis, followed by political, cultural, social and moral crisis, made new conditions for organizations, and many of them could not survive. This is even more important in the context of international business and all the issues arising from it [13, 21]. Since there is a higher link to foreign consumers, competitors and suppliers [22] there is also a higher sensitiveness of organizations regarding changes on international market. The improvement of the quality of business processes is the fact that enables higher competitiveness [25]. In order to survive and develop business, management and organization gain special importance especially when we talk about intellectual capital, where human capital is one of the most important [35, 51].

Human resource management includes different possibilities and activities for successful human capital management in organizations. There are numerous researches made in the recent years related to the themes which are important for the HRM development, such as strategic human resource management [14, 26, 50, 51], human resource information system [31, 39, 45, 46], human resource outsourcing [1, 7, 10, 20, 23, 24, 44, 47], compensation [9, 20, 42, 43], CSR and HRM [6], etc. Human resource outsourcing gains special importance in this research.

The usage of the external providers, or outsourcing, is one of the ways that can be helpful in achieving business success in the field of HRM. Namely, HRM represents a set of general and specific activities, aimed to assure, maintain and manage people in one organization and it is recognized as the factors that contribute to the competitiveness of organizations [2, 5, 6, 8]. Interest in this kind of practice was presented in researches from EU countries [1, 10, 23], Australia [47], Hong Kong [16], Taiwan [41], Canada [48], USA [29], etc.

The main goal of this paper is to present the practice of HR outsourcing (HRO) in the area of compensation in countries of Europe, with special regard to EU countries in the comparison with the Republic of Serbia. Authors made statistical analysis of the data collected in the research period from 2008 until 2010, under international CRANET project. Special attention was dedicated to the area of external providers and outsourcing practices in area of compensation inside the HRM. Information was captured for countries of EU region and Serbia, and a comparison has been made. It was interesting to see the practice of HRO in these two regions, especially in the light of Serbian process of approaching and future accession to the European Union. Statistical analysis was performed using the SPSS program. Statistical techniques, including the descriptive statistics, Spearman rho correlation and a multiple regression model have been used.

The paper consists of three parts. In the first part, the authors presented basic assumptions on outsourcing, its advantages and disadvantages, research from the past related to the HR outsourcing. The second part of the paper is dedicated to the presentation of the methodology and data used for the analysis. The authors presented CRANET project and main dependent and independent variables for regression model. The third and final part of the paper includes the summary of all results of the theoretical and empirical analysis, as well as the discussion of the main differences between EU countries and Serbia in area of compensation outsourcing. The empirical data used in the present research, pointed to the actual practice of HRO in the area of compensation and to the organizational predictors of the usage of HRO. This paper adds new value to the concept of HRO since this area of HRM is insufficiently explored.

## 2 Theoretical Background

Outsourcing is considered an old business method [3]. It peaked in the 1970s, when, as stated by Kakabadse and Kakabadse (2000), large and diverse corporations were considered to be underperforming. More pronunciation of outsourcing came in the early 1980s with the onset of global recession. Outsourcing became an important business approach and accordingly, a competitive advantage may be gained if products or services are produced more effectively and efficiently by outside suppliers [32, 52]. It also gains flexibility and core stability by focusing on the core elements of the firm, and other factors of improvement of the firm. Some of these elements included cost reduction, managing a high number of employees, etc. This action can be applied to both requirements for components and business services (which include HR) [3].

HR outsourcing is defined as placing responsibility for various elements of the HR function with a third-party provider [49]. In one way, HR outsourcing is seen as an instrument of creating time for HR to become a strategic partner, and in another way, as a cost cutting instrument, gradually reducing HR staff [19]. Outsourcing allows firms to focus on their core competences by relocating limited resources to strengthen their core product or service [30] and to strategically use outside vendors to perform service activities that traditionally have been internal functions [15, 38].

The typical reasons for outsourcing include seeking specialist services and expertise, cost reduction, and enabling HR specialists to focus on strategic role. Outsourcing of the HR activities to another company will not only reduce the costs of the company, but will also increase the possibilities for investment in the core elements of the business. HRO decisions are frequently a response to an overwhelming demand for reduced costs for HR services. The costs that were intended for the elements that were considered noncore are lessened. They include very important ones, such as regular salary, to those essential to the HR, such as training and other needs for employees. In the research of Susomrith and Brown (2013) three common reasons for outsourcing of HR functions were underlined: to acquire specialized HR capabilities, to improve quality and efficiency, and to free resources to concentrate on the strategic role of HR. Besides, some reasons for HRO are improving productivity, flexibility, speed and innovation in developing business applications, access to new technologies and skills, transform organization, increase service value, etc. [17, 40]. The benefits and arguments *for and against* HRO authors Cooke, Shen and McBride have discussed in their theoretical research in 2005 (Table 1).

Table 1  
Perceived Benefits and Potential Adverse Consequences of Outsourcing

<b>Perceived Benefits</b>	<b>Potential Consequences</b>
Concentration on in-house expertise	Discontinuity of skill supply
Specialist supplier's economies of scale	Loss of in-house knowledge and capacity
Numerical flexibility	Reduction in quality
Shift burden of risk	Higher total cost
Competitive tendering process	Loss of employee morale
Organizational learning from specialist provider	Loss of long-term competitiveness

*Source: Cooke, Shen and McBride (2005)*

Although Cooke, Shen and McBride (2005) found that 97% of organizations use external providers for at least one HR function, outsourcing is still considered “handle with caution”. For example, in Germany many firms have never explicitly considered outsourcing of HR functions. HR outsourcing includes broad range of internal HR functions and the respective, externally procured personnel services such as temporary agency work, payroll accounting, interim management, outplacement services, HR consulting, placement services [1]. In contrast, in Hong Kong, although respondents were generally favorable towards outsourcing, in practice its adoption and diffusion were in a nascent stage [16]. In the article on the development in human resource outsourcing (HRO) in recent years, particularly in the light of the economic recession prevailing since 2007, authors established that companies are increasingly outsourcing a routine HR processes, but in some cases also the critical HR processes are in view to cut costs. But, the same authors stress that while such a strategy could be viable in the short term, its long-term strategic effectiveness is questionable [7].

One more interesting theoretical issue is to determine, mostly outsourced, HR activities. Braun, Pull, Alewell, Störmer, and Thommes (2011) reported the existence of common outsourcing practice: among 1021 firms interviewed, 61.7% buy training services from an external service provider; 54.3% use external legal advice; 49.8% buy services in temporary agency work; 33.6% ask for consulting services and 31.8% use the assistance of external service providers in headhunting. A smaller share of firms procure payroll accounting, placement services, recruitment support, outplacement and interim management externally, or even outsource the complete HR function and purchase all personnel functions externally. Presenting research results from Belgium, Cooke, Shen and McBride (2005) emphasized training and development, staffing, payroll and benefits administration as functions for outsourcing, while Delmotte and Sels (2008) emphasized that 71.8% of organization outsource payroll. Hungarian organizations outsource several HR activities, and around 58% of them use outsourcing for payroll [33]. In Australia recruitment and selection, training, occupational health and safety, payroll and employee benefits have been found as

the top five outsourced HR functions [47]. Since there are continuing pressures to improve administrative efficiency in human resource management (HRM), both the professional and academic literature propose “payroll” as an ideal candidate for outsourcing in order to drive costs down. While key payroll activities were more costly when outsourced, there were efficiency gains in supplementary activities and lesser investment in IT software and maintenance [20]. According to a Greek author, the human resource services that are outsourced can fall into one of the following four categories: recruitment and selection, training and development, pay and benefits, and merger-outplacement-downsizing [34]. Besides, one more interesting research was conducted in Greece examining the effects of company internationalization on the practice of HRM outsourcing: foreign multinationals (MNCs) will use this practice more than native companies [23]. When speaking about MNCs, it is important to mention the research of Poór et al. (2015) on the development of HRM in subsidiaries of MNCs in CEE region. They found that the HRO was mostly used for training/development and recruitment, in periods, 2008/2009 and 2012/2013. The findings of the 2000 CRANET research showed that HRM outsourcing is used to a lesser extent in Greece than other Western economies and that MNCs outsource more HRM services than Greek companies. Authors Štangel Šušnjar, Slavić and Berber (2013) explored which HR activities are outsourced the most. Those were training and development, HRIS and recruitment. Also, the mentioned authors explored differences between those companies that have HR department and those that do not have regarding the usage of HRO. It has been found that companies in the CEE region without HR department, in the case of several HR activities use external providers more than those companies, which have established a separate HRM department. Authors found statistically significant differences ( $p < 0.05$ ) in t-test. According to theory and past research results, compensation is one of the most often outsourced HR function. According to Belcourt (2006) HR functions which can be outsourced in the area of compensation are: payroll, benefits, compensation administration, and pension.

Since compensation is one of the most outsourced HR activities, the authors explored empirical data on HRO in this area.

### **3 Methodology and Sample**

The main goals of this paper were to explain the concept of outsourcing in HRM, as well as the practice of HR outsourcing in countries of Europe, with special regard to the EU in comparison with the Republic of Serbia. Authors made statistical analysis of the data collected for the research period, 2008 through 2010, under the International CRANET project. This international organization under the management of the Cranfield School of Management organizes

comparative researches on the policies and practices of human resource management, by using a standard questionnaire. The survey is undertaken approximately every four years which is important for achieving specific kinds of results, in particular country-comparative longitudinal analyses [11, 12]. The purposes of the survey are to provide high quality data for academics, for public and private sector organizations, as well as for students of the field, to inform research and to create new knowledge about human resource management across the world. Despite the limitations of the survey methods, and the methodological constrains, the Cranet network's surveys are providing large-scale empirical data since 1990. Doing so, contributing meaningfully both to the description and understanding of the developments of HRM practices in a continuously growing number of countries and to the theoretical developments in comparative HRM [28]. The questionnaire is divided into six sections:

- Section I: HRM activity in the organization
- Section II: Staffing practices
- Section III: Employee development
- Section IV: Compensation and benefits
- Section V: Employee relations and communication
- Section VI: Organizational details

The questionnaire contained closed questions and respondents were requested to make their choice from sets of alternative, pre-formulated answers largely covering the specific areas of HRM to be studied. The research data was processed by using SPSS and MS EXCEL programs. Special attention was dedicated to the area of external providers and outsourcing practices in wide area of HRM. Information was captured for countries of European Union and Serbia, and a comparative analysis between EU countries (n=3795 companies) and Serbia (n=50 companies) has been made in area of HRO. It will be interesting to see the practice of HRM in these two regions, especially in the light of Serbian process of approaching and future accession to the European Union.

Main research goals proposed in this paper were:

- To identify the level of the usage of external providers for elements of compensation – payroll, pension and benefits in the EU and Serbia.
- To compare and analyze differences between usage of external providers for compensation elements in the EU and Serbia.
- To explore relations between outsourcing of payroll, pension and benefits, and number of employees in the organization, as well as the existence of HR department.
- To explore the predictors of HR outsourcing of payroll, pension and benefits.

The focus of the comparison and analysis is to find the similarities and differences of HRM practices in 20 countries of EU compared to the Serbian findings. Comparison between Serbia and EU was made through descriptive statistic technique. Descriptive statistics was used to explore the level of usage of HRO in several HRM activities related to the compensation system (pensions, payroll and benefits) and to identify those practices that are outsourced the most. In the CRANET research the outsourcing practice was measured by a five-level scale from 0=not outsourced, to 4=outsourced completely. In addition, we used Spearman rho correlation to identify links between HRO for compensation and number of employees in organizations. This test was used since it is the most common non-parametric measure used when data are not normally distributed, as in this case. Spearman's is a non-parametric equivalent of Pearson's correlation that can show whether and how strongly pairs of variables are related. The authors' idea was to explore whether there are correlations between variables related to the outsourcing practice in the area of compensation (interval variables). Besides, a multiple regression model has been used to explore the predictors of HR outsourcing. As predictors we used: number of employees in the organization, number of employees in the HR sector (the log of these variables), sector of business (private or public), industry (service or production), HRO for pension, payroll and benefits, the existence of HR strategy (written, unwritten and no strategy), and the usage of HRIS for payroll (yes or no).

In Table 2 and 3 the sample of organizations from the EU countries and Serbia have been presented, which were involved in the CRANET research in the period from 2008 to 2010, and also the industry and sector distribution of the sample.

Table 2  
The number of companies from EU and Serbia involved in the research

State	Frequency	Percent	Cumulative Percent
Austria	203	5.3	5.3
Belgium	240	6.2	11.5
Bulgaria	267	6.9	18.5
Cyprus	90	2.3	20.8
Czech Republic	54	1.4	22.2
Denmark	362	9.4	31.6
Estonia	74	1.9	33.6
Finland	136	3.5	37.1
France	157	4.1	41.2
Germany	420	10.9	52.1
Greece	214	5.6	57.7
Hungary	139	3.6	61.3
Ireland	103	2.7	64.0
Italy	157	4.1	68.0
Lithuania	119	3.1	71.1

Netherlands	116	3.0	74.1
Slovakia	225	5.9	80.0
Slovenia	219	5.7	85.7
Sweden	282	7.3	93.0
United Kingdom	218	5.7	98.7
Serbia	50	1.3	100.0
<b>Total</b>	<b>3845</b>	<b>100.0</b>	

*Source: Authors' analysis*

From Table 2 we can see the number of organizations that are included in the research.

Table 3  
The industry in which companies from EU and Serbia operate

<b>Industry</b>	<b>Frequency</b>	<b>%</b>
Agriculture, hunting, forestry, fishing	82	2.1
Energy and water	138	3.6
Chemical products: extraction and processing of non-energy minerals	120	3.1
Metal manufacturing; mechanical, electrical and instrument engineering	509	13.2
Other manufacturing	482	12.5
Building and civil engineering	162	4.2
Retail and distribution; hotels; catering; repairs	334	8.7
Transport and communication	225	5.9
Banking; finance; insurance; business services	393	10.2
Personal, domestic, recreational services	31	.8
Health services	184	4.8
Other services	134	3.5
Education	145	3.8
Social services	63	1.6
Public administration	311	8.1
Other	386	10.0
<b>Total</b>	<b>3699</b>	<b>96.2</b>
Missing	146	3.8
<b>Total</b>	<b>3845</b>	<b>100.0</b>

*Source: Authors' analysis*

From Table 3 we can see the industry in which organizations from sample operate. The most presented industry is metal manufacturing, mechanical, electrical and instrument engineering (13%), other manufacturing (12.5%), banking, finance, insurance, and business services (10%) and retail, distribution, hotels and catering (8.7%).

## 4 Results of the Research

From Figure 1 we can see that outsourcing in the field of pension is used widely in EU countries, while in Serbia this external service is almost not used ( $M=0.15$ ,  $SD=0.700$ ). In Serbia compensation outsourcing is used mostly in the area of payroll ( $M=0.4$ ,  $SD=1.127$ ), while EU has even higher level usage of it ( $M=0.88$ ,  $SD=1.429$ ). Results from a nationwide survey identified payroll and employee benefits as two of the top five outsourced HR functions in Australia (Susomrith and Brown, 2013) which are similar with those explored in EU and Serbia. Generally, from the descriptive analysis technique we can conclude that all companies in each sample group use outsourcing for these compensation elements relatively modest ( $M \text{ min}=0.08$ ,  $M \text{ max}=1.39$  (out of 4.00)).

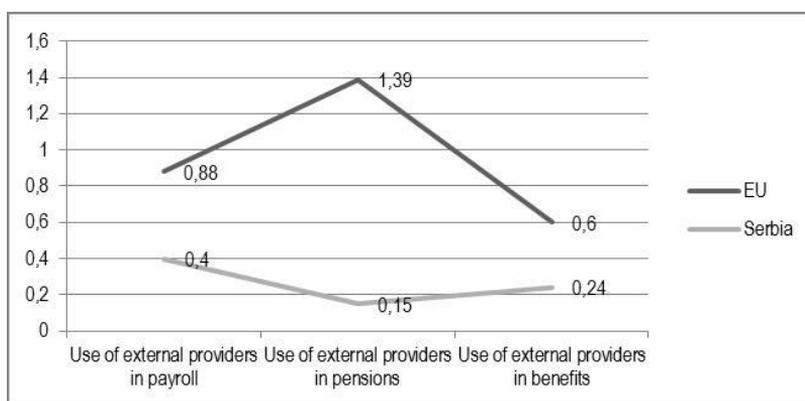


Figure 1

Comparative presentation of the usage of external providers for certain elements of compensation (statistical means) in EU and Serbia

It is important to mention one research from 2012 for the Central and Eastern Europe countries, where it was found that in Serbia external service providers were mostly used in training and development activities (70%). They were also often involved in recruitment (50%) and selection (55%), performance evaluation (50%) and at least in the area of compensation and benefits (45%). The practice of companies in this respect either have not changed a lot, or companies reported a decrease in use of these external partners [36], which is also in the line with given results. Serbian companies use outsourcing in a very small percentage, especially on pension (only 5%) and on benefits (7.3%). The largest usage of outsourcing is related to the payroll (14.3% of companies).

If we analyze the EU averages, we can see that there is a large gap between the EU and Serbia concerning their outsourcing practice. What may be the reason for it?

One answer may be that Serbia was the last country that entered the privatization process among other former Socialistic countries, with very high rate of unemployment and inflation, and relatively low level of economic growth. Besides, the social-political regime's changes after year 2000 influenced changes in the area of business, too, but there are still a lot of problems. A typical problem occurs in relation to the organization and management of the state-owned and public companies that are privatized (in very questionable manner, since the majority of those companies are unsuccessful today and they are existing on the edge of the bankruptcy) or are still state-owned and are going through restructuring process. Because of the underdeveloped market and general low level of professionalization in the area of human resource management in Serbia, HRO is used less than in the countries of EU. It has to be underlined that FDIs have many positive effects on Serbian economy (joint ventures, Greenfield, etc.). Foreign investors beside technology of production usually introduce totally new business concept especially in area of organization and management knowledge, and of course, in human resource management, too. One of these concepts is definitively HRO, which is used broadly in developed market economies.

In EU the average usage of payroll outsourcing is 32.1%; for benefits it is 29.8%; while for pension it is 48.7%. But there are also several differences among EU countries. For example, Belgium firms use outsourcing more than companies in any other EU country, so it will be very interesting to analyze these trends. In Figure 2 the graphical presentation of the usage of outsourcing of payroll, benefits and pension are given. It is obvious that the smallest divergence is in the area of benefit outsourcing, while the largest is in the area of pension administration. Many countries such as Belgium, Denmark, Finland, Austria, Finland, France, Germany, Italy, Sweden, Ireland, Netherland and UK use pension outsourcing between 40 and 80 percentage of companies. Then again, countries like Bulgaria, Czech Republic, Cyprus, Estonia, Greece and Lithuania use pension outsourcing only between 5 and 17 percentage of companies. This is a large diversity among EU countries. It has to be underlined that highly developed countries where are the headquarters of MNCs are, use outsourcing more than countries that are in the early stages of economic development (like Bulgaria, Czech Republic, Estonia, Slovenia, Slovakia, often called Central Eastern European countries). In the area of payroll and benefits there is smaller diversity in the usage of external providers.

Spearman's correlation was used to identify if there are any statistically significant relations between the level of outsourcing in the area of compensation and number of employees in company and number of employees in HR sector in those companies. According to the results of the correlation test for the EU sample - presented in table 4 - it is obvious that there is a strong positive correlation between payroll outsourcing and pension ( $r_s=0.443$ ,  $p=0.000$ ), payroll and benefits ( $r_s=0.408$ ,  $p=0.000$ ) and benefits and pension ( $r_s=0.425$ ,  $p=0.000$ ).

Table 4  
Level of usage if external providers for HRM in EU (n=3795) and correlations

	Total number of employees	Total number employed by HR department	Use of external providers in payroll	Use of external provider in pension	Use of external providers in benefits
Total number of employees	(1.000)				
Total number employed by HR department	<b>.795**</b>	(1.000)			
Use of external providers in payroll	<b>-.056**</b>	.010	(1.000)		
Use of external providers in pensions	.016	.032	<b>.443**</b>	(1.000)	
Use of external providers in benefits	.027	<b>.068**</b>	<b>.408**</b>	<b>.425**</b>	(1.000)

\*\* . Correlation is significant at the 0.01 level (2-tailed).

*Source: Authors' analysis*

The results of the non-parametric correlations (Spearman's rho) suggested that the relationship between outsourced elements of compensation, such as payroll, pension and benefits are statistically significant and positive - meaning that an increase in the usage of outsourcing of payroll indicates increase of outsourcing of pension and benefits. In the case of correlations analysis between the number of employees in the company and the existence HR department and the elements of compensation (payroll, benefits, pension) weak statistically significant negative correlations have been found between payroll and number of employees in companies ( $r_s = -0.56$ ,  $p = 0.001$ ) and weak positive correlation between number of employees in HR department ( $r_s = 0.068$ ,  $p = 0.00$ ).

According to results of correlation test for Serbian sample – presented in Table 5 – it is obvious that a strong positive correlation exists between payroll outsourcing and pension ( $r_s = 0.334$ ,  $p = 0.035$ ), payroll and benefits ( $r_s = 0.794$ ,  $p = 0.000$ ) and benefits and pension ( $r_s = 0.500$ ,  $p = 0.001$ ). The results of the non-parametric correlations (Spearman's rho) suggests that the relationship between outsourced elements of compensation such is payroll, pension and benefits are statistically

significant, positive and its means that an increase in the usage of outsourcing of payroll indicates an increase of outsourcing of pension and benefits. In the case of correlation analysis between the number of employees in the company and HR department and payroll, benefits and pension there were no statistically significant correlations found.

Table 5  
Level of use if external providers for HRM in Serbia (n=50) and correlations

	Total number of employees	Total number employed by HR department	Use of external providers in payroll	Use of external provider in pension	Use of external providers in benefits
Total number of employees	(1.000)				
Total number employed by HR department	.212	(1.000)			
Use of external providers in payroll	-.020	.383	(1.000)		
Use of external providers in pensions	-.038	.021	<b>.334*</b>	(1.000)	
Use of external providers in benefits	.074	.212	<b>.794**</b>	<b>.500**</b>	(1.000)

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*.. Correlation is significant at the 0.01 level (2-tailed).

*Source: Authors' analysis*

To explore the influence of the number of employees, sector of business, industry, the existence of HR strategy and the usage of HRIS on HR outsourcing for payroll, benefits and pension, a multiple regression model was used.

In the analysis, a special attention was paid to the problems of multicollinearity, which is frequently present in the analyses due to their high inter-correlations.

SPSS achieved no multicollinearity (tolerance<.10 and VIF>10.0) in this model. In addition, there were no autocorrelation detected (Durbin-Watson coefficient was <2.00).

Table 6  
Regression model for HR outsourcing in total sample

	Payroll			Pension			Benefits		
	B	t	Sig.	B	t	Sig.	B	t	Sig.
Const.	1,721	7,911	,000	,660	2,594	,010	,061	,360	,719
LN SIZE	-,066	-1,855	,064	,008	,204	,839	,000	-,007	,995
LN SIZE HRM	,037	,987	,324	,010	,231	,817	,047	1,630	,103
Sector	-0.320	-4.304	0.000	0.198	2.303	0.021	-0.105	-1.817	0.069
Industry	-0.100	-1.738	0.082	-0.014	-0.205	0.838	-0.024	-0.544	0.586
HRO pensions	0.248	13.061	0.000	0.329	13.061	0.000	0.208	12.252	0.000
HRO benefits	0.349	12.252	0.000	0.478	14.804	0.000	0.215	14.804	0.000
HR strategy	0.089	2.328	0.020	-0.088	-1.995	0.046	0.051	1.728	0.084
HRIS for pay	-0.844	-8.418	0.000	-0.030	-0.258	0.797	0.064	0.808	0.419
ANOVA	F	Sig	Df	F	Sig	Df	F	Sig	Df
	90.672	0.000	8	84.242	0.000	8	83.295	0.000	8
Model	R	R <sup>2</sup>	Adj R <sup>2</sup>	R	R <sup>2</sup>	Adj R <sup>2</sup>	R	R <sup>2</sup>	Adj R <sup>2</sup>
	0.524	0.275	0.272	0.51	0.260	0.257	0.508	0.258	0.255

Source: Authors' analysis

A multiple regression was run to predict HR outsourcing for payroll from number of employees in organization (log), number of employees in HR sector of organization (log), sector, industry, existence of HR strategy, the usage of HRIS for compensation, and the usage of HR outsourcing for other two elements of total compensation (pension and benefits). These variables statistically significantly predicted HR outsourcing for payroll,  $F(8, 1916) = 90.672$ ,  $p < 0.005$ ,  $R^2 = 0.275$ . Variables: sector, HRO for pension, HRO for benefits, the existence of HR strategy and the usage of HRIS added statistically significantly to the prediction,  $p < 0.05$ .

In the case of HR outsourcing for pension the same variables statistically significantly predicted the usage of outsourcing,  $F(8, 1916) = 84.242$ ,  $p < 0.005$ ,  $R^2 = 0.260$ . Variables: sector, HRO for payroll, HRO for benefits, the existence of HR strategy added statistically significantly to the prediction,  $p < 0.05$ .

A multiple regression was also run to predict HR outsourcing for benefits from number of employees in organization (log), number of employees in HR sector of organization (log), sector, industry, existence of HR strategy, the usage of HRIS for compensation, and the usage of HR outsourcing for other two elements of total compensation (pension and payroll). These variables statistically significantly

predicted HR outsourcing for payroll,  $F(8, 1916) = 83.295$ ,  $p < 0.005$ ,  $R^2 = 0.258$ . Variables: HRO for pension and HRO for payroll only added statistically significantly to the prediction,  $p < 0.05$ .

### **Conclusions**

In this paper the authors investigated, explained and provided examples and some current standards of human resource outsourcing (HRO), one of the key trends in the modern business. Implementing HRO practice, businesses may focus more on the core elements, by selling out the non-core elements, in order to reduce the cost and invest in the expertise of the core elements. Although outsourcing is described as beneficiary for organizations since it provides greater flexibility, which results in higher HR expertise, and better strategy with the elements essential to the business, from the analysis of samples from EU and Serbia, we can conclude that companies still do not use this possibility to a large extent which is in the line with other researches that have been done in the area of outsourcing and external providers in human resource management. The CRANET project provided a great sample of organizations suitable for this research.

Beside the fact that companies use HRO for payroll, pension and benefits at low level, it is important to emphasize that outsourcing is mostly used for payroll and pension as an administrative HR task, while benefits, which are today mostly interesting area in compensation in HRM, are outsourced in smaller percentage of companies in EU and Serbia. This is because benefits such flexible benefits, paternity leave, workplace child care, carrier break schemes, education break, cafeteria approach, etc. have great importance for employees and their motivation and satisfaction, so this can be a reason why many companies still do not use outsourcing for this special element of contemporary compensation package. Serbian companies use outsourcing at a very low level. This is influenced by slow and low level of economic development, in recent years and by insufficient knowledge and development in the area of HRM.

The results of the correlations suggested that the relationship between outsourced elements of compensation such is payroll; pension and benefits are statistically significant and positive, but weak or moderate (between 0 and 0.5; and 0.5 and 0.8). In the case of correlations analysis between the number of employees in the company and in HR department and payroll, benefits and pension there were no statistically significant correlations, so we did not confirmed these relations.

A multiple regression was run to predict HR outsourcing for payroll from number of employees in organization, number of employees in HR sector of organization, sector, industry, existence of HR strategy, the usage of HRIS for compensation, and the usage of HR outsourcing for other two elements of total compensation (pension and benefits). The variables of sector, HRO for pension, HRO for benefits, the existence of HR strategy and the usage of HRIS are statistically significant factors in the prediction of HR outsourcing for payroll. In case of HR outsourcing for pension the same variables statistically predicted the usage of

outsourcing, while HR outsourcing for benefits is predicted by HRO for pension and HRO for payroll.

Based on the theoretical background and presented empirical research, Human Resource Outsourcing may have significant benefits, but contemporary organizations interested in its implementation, should carefully analyze all data related to HRO, including all possible advantages and disadvantages. Since there are strong demands for cost cutting and downsizing, external providers are sometimes a very helpful solution. In contrast, the possible loss of loyalty, moral of employees and loss of knowledge-base can be quite a problem for future business development, which is predicted to be increasingly based on information, IT and knowledge.

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