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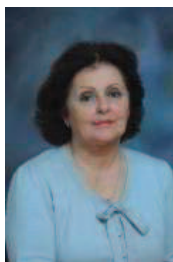
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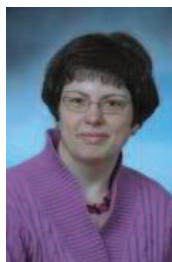
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## THE ANALYSIS OF HUMAN RESOURCE OUTSOURCING IN CENTRAL AND EASTERN EUROPE

Gizela ŠTANGL ŠUŠNJAR<sup>1</sup>, Agneš SLAVIĆ<sup>1</sup>, Nemanja BERBER<sup>2</sup><sup>1</sup>University of Novi Sad, Faculty of Economics, <sup>2</sup>Higher School of Professional Business Studies Novi Sad**Key words:** outsourcing, human resource management, Central – Eastern Europe, Serbia

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**Abstract:** Outsourcing is very popular in the field of business services and management. Business process outsourcing (BPO) is one of the key trends that are shaping the future of human resource management (HRM). The purpose of this paper was to illustrate the practice of outsourcing in human resource management functions in Serbia in comparison to the several European countries. Methodology used in the research was consisted of analytical exploration of available literature in the area of outsourcing, as well as from statistical analysis of the CRANET sample, which was used to determine actual level of outsourcing in HRM in companies around the world, and to make comparison between Serbian outsourcing practice and countries of Central Eastern Europe (CEE) region. Results of the analysis pointed out that outsourcing of many key functions of HRM such selection and payroll is still used lesser than pensions planning and training and development. Also, Serbian companies have low level of outsourcing usage. It has been detected a statistically significant differences in several areas of outsourcing in companies from CEE region and Serbia regarding the organization of HRM in companies.

## 1. INTRODUCTION

In contemporary competitive market there are various ways to gain competitive advantage successfully, with high level of productivity and profitability. Outsourcing is one of the ways that can be helpful in achieving this success, especially in HRM, which represents a set of general and specific activities, aimed to assure, maintain and use efficiently the staff of the economic agents (public utilities, banks, insurance companies etc) [10], by providing various benefits to the employees (incentives, increasing responsibility and incorporating new standards into traditional work approach).

Interest in this kind of practice was presented in researches from USA [18] EU countries [9; 1; 23] Australia [32] Hong Kong [4], Taiwan [28], Canada [33], etc.

The main goals of this paper were to explain the concept of outsourcing in HRM (HRO), as well as the practice of HR outsourcing in countries of Europe, with special regard CEE 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 wide area of HRM. Information was captured for countries of Europe and Serbia, and organizations from CEE countries were compared with Serbian sample. This was made since Serbia is a part of Central-eastern Europe (in political and economic meaning) and it participates in serious project named CEEIRT (Central and Eastern European International Research Team) that is designed to capture information and discover how best to develop HR practices to meet new and changing organizational needs. Statistical analysis was made using SPSS program, Version 17.0. There have been used several techniques such descriptive statistics and t-test of independent sample. Methodology used in the research included exploration of the Cranet questionnaire and sample of 1028 organizations.

## 2. THEORETICAL BACKGROUND

Outsourcing is considered an older business method [2]. HR outsourcing is the contracting out of parts or the whole of the

functions of HR to external providers, rather than performing all the HR functions in-house [26]. It peaked in the 1970s, when, as stated by Kakabadse and Kakabadse [15;16], large and diverse corporations were considered to be underperforming. HR outsourcing ranges from simply transferring noncore activities such as payroll and benefits administration to external providers, to the outsourcing of recruitment, training and even HR strategic planning. HR managers are expected to be more flexible, responsive, and efficient than personnel managers of old, and to contribute to the strategic decisions of their organizations. In response to this paradigm shift, many HR managers are turning to outsourcing as a way of meeting these demands [26].

More pronunciation of outsourcing came in the early 1980s with the onset of global recession. Outsourcing has become an important business approach, and a competitive advantage may be gained as products or services are produced more effectively and efficiently by outside suppliers [35; 24]. Outsourcing is described as letting go of the company's noncore elements to other companies which rather specialize in the fields where these particular elements will be necessary. Namely, outsourcing allows firms to focus on their core competences by relocating limited resources to strengthen their core product or service [20] and to strategically use outside vendors to perform service activities that traditionally have been internal functions [27; 7; 3]. A company can outsource its workers to another company, of a similar or a completely different field, to increase that company's work rate. It also gains flexibility and core stability, by focusing on the core elements of the firm, and other factors of improvement of the firm itself. Some of the elements include cost reduction, managing a high number of employees and others. On the one hand, HR outsourcing is seen an instrument creating time for HR to become a strategic partner and on the other hand as a cost cutting instrument gradually reducing HR staff [6].

The typical reasons for outsourcing include seeking specialist services and expertise, cost reduction, and enabling HR specialists to take on a more strategic role [29]. Companies make a distinction between their core and non core elements, and according to them, their non core elements are subjects for outsourcing. Outsourced employees are ones which are not in a way substantial to the main practice of the company, but they provide their expertise to a

company that specializes in the field of the outsourced employees. That way, outsourcing is consistent with the business partner role that the in-house HR department is attempting to assume [11].

One more reason for outsourcing is cost reduction [2]. Outsourcing HR to another company will not only reduce costs of the company, but will also increase the income 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 non core are decreased. They include very important elements, such as regular salary, and those essential to the HR, such as training and other needs for employees themselves.

In the research of Susomrith and Brown [32] three common reasons for outsourcing HR functions were explained: to acquire specialized HR capabilities, to improve quality and efficiency, and to free resources to concentrate on the strategic role of HR.

Due to the fact that there is a distinction between core and noncore elements, companies might run into adverse effect as a result of outsourcing. Some positive results of outsourcing are greater flexibility, lower risk in core element stability and the concentration on elements essential to the primary duties of the business. However, there are some arguments against outsourcing which, in theory, outline potential disruption of businesses' work rate. With HRO, a company might experience the loss of skill, regardless of whether the element is core or noncore to the business. This way, the competitive side of the company is lessened and untrained or less trained employees carry out duties they are not experts in. External service providers cause disruption in the continuity of the services, often for a prolonged period of time and with unpredicted problems.

Despite the fact that companies approach outsourcing in a greater manner today, they are still "handling it with caution". Hammond [14] provides an example where companies were reluctant to outsource because of the success of the administrative staff in deals such as the BP-Exult deal. Some authors still argue [34] that outsourcing should be limited to a smaller portion of a department, not the whole one, which conflicts with the previous prediction. One is certainly clear, outsourcing is very complex and has no distinctive patterns. 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 and others [1]. On the other hand, in Hong Kong although respondents were generally favorable towards outsourcing, in practice its adoption and diffusion were in a nascent stage [4].

The extent of outsourcing is another issue that needs to be addressed. One of key arguments was provided by Fowler [8], who rather restricts full outsourcing with the argument for centrality of the function to the organization's culture and strategic objectives. He points out to the immediacy of some of the organization's decision making, which include industrial disputes and a market demand for discrete specialist provision, rather than a complete corporate service.

The right idea of activities which should be outsourced, and to what extent, solely depends on the organization of HRO. Several authors such as Gulati [12] and Klaas, McClendon and Gainey [19] have regarded this particular question – the implications for the manner organizations outsource their HR.

### 3. METHODOLOGY

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 CEE 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.

In CRANET research period from 2008 until 2010 there were involved 32 countries, but for this analysis authors decided to explore only data for organizations from CEE region. Countries involved in the research are: Bulgaria, Czech Republic, Estonia, Hungary, Slovakia, Slovenia and Serbia with total of 1082 organizations.

CRANET methodology was also used in research of Russian HRM practice [13] and often discussed in scientific papers

worldwide on many other HR activities such as compensations and benefits [30; 31], HRM outsourcing [32; 9], training and development [21; 22, 36], relations between corporate social responsibility and HRM [37]. Main areas in questionnaire obtained:

- HRM activity in the organization
- Staffing practices
- Employee development
- Compensation and benefits
- Employee relations and communication
- Organizational details

Questionnaire contained closed questions and respondents are requested to make their choice from sets of alternative, pre-formulated answers largely covering the specific areas of HRM to be studied. For HRO organizations were asked to measure the level of outsourcing from 0 (not outsourced) to 4 (completely outsourced). Methodology included the application of the program SPSS Version 17. The objectives of this analysis were to:

- Find out the level of the usage HRO in organizations in CEE region;
- Find out is there are some differences between HRO if organization has or does not have HR function (department).

### 4. RESULTS AND DISSCUSION

**Table 1. Level of use if external providers for HRM in Serbia (n=50)**

Descriptive Statistics	Mean	SD
Training and development	1,18	1,211
Recruitment	,41	,921
Payroll	,40	1,127
HRIS	,37	,799
Benefits	,24	,916
Selection	,20	,601
Pension	,15	,700
Workforce outplacement/reduction	,08	,487
Processing routine queries from managers/employees	,08	,350

Source: Authors' analysis

**Table 2. Level of use if external providers for HRM in CEE (n=978)**

Descriptive Statistics	Mean	SD
Training and development	1,34	1,260
HRIS	,90	1,269
Recruitment	,82	,997
Pensions	,77	1,432
Payroll	,62	1,302
Benefits	,46	,981
Selection	,44	,787
Processing routine queries from managers/employees	,33	,801
Workforce outplacement/reduction	,24	,677

Source: Authors' analysis

HR activities that are outsourced the most are similar in both groups of countries are *training and development* (M=1.18; SD=1.211 in Serbia and M=1.34, SD=1.26 in CEE), *HRIS* (M=0.37, SD=0.799 in Serbia and M=0.9, SD=1.269 in CEE) and *recruitment* (M=0.41, SD=0.921 in Serbia and M=0.82, SD=0.997 in CEE).

From tables 1 and 2 it can be stated that outsourcing related to the HRIS (human resource information system) is used more in CEE countries than in Serbia, but generally outsourcing for HRIS is positioned in the top of each group. Outsourcing for pension is used at lower level in CEE countries, while in Serbia this external service is not almost used (M=0.15, SD=0.700). Training is defined more broadly than just the acquisition of knowledge, skills or abilities; it means the process of changing behavior and attitudes of employees in a manner that will contribute to achieving organization's objectives (21; 22). Shih and Chiang [28] made study to explore the relationships between the decisions to outsource the company's recruiting and training activities and the effectiveness of these decisions. From data of 125 Taiwanese firms they found

that outsourcing recruiting is positively related to line managers' perceived human resource function effectiveness, but they failed to find any relationship between outsourcing training and human resource effectiveness. Selection activity is in all three explored samples positioned at the lower place. Namely, many organizations find that the selection of the recruits is one of the most important things in process of staffing and total HR management, so they do not use outsourced services for selection of candidates. The lowest use of outsourcing is for processing routine queries from managers/employees. For example, results from a nationwide survey identified recruitment and selection, training, occupational health and safety, payroll and employee benefits as the top five outsourced HR functions in Australia [32] which are similar with those explored in CEE and Serbia. Generally, from the descriptive analysis technique we can conclude that all companies in each sample group use outsourcing relatively modest (M min=0.08, M max=1.39 (out of 4.00)).

Here it is important to mention one research from 2012 for CEE countries, where it was found that in Serbia external service providers were most used in training and development activities (70%). They were also often involved in recruitment (50%) and selection (55%), performance evaluation (50%) and area of compensation and benefits (45%). The practice of companies in this respect either didn't change or where it did, companies reported a decrease in use of these external partners [25], which are also in the line with given results of the analysis.

One more interesting point was to explore the usage of HRO and the existence of HR department in organizations. *T test of independent sample* was used to identify whether organizations which do not have HR department use outsourcing more or less than those that have department for HRM, and to measure the actual level and significance of those differences. T test was used to explore

sample from CEE countries and for Serbian sample it has been used nonparametric test, Mann Whitney's test.

**Table 3. Level of use if external providers for HRM in CEE countries (n=978) depending the existence of HR department in company**

Group Statistics				
Do you have HR department?		N	M	SD
	Yes	599	,53	1,215
Pensions	No	314	,91	1,550
	Yes	575	,69	1,361
Benefits	No	316	,56	1,160
	Yes	583	,41	,867
Training and development	No	318	1,23	1,327
	Yes	593	1,40	1,220
Workforce outplacement/reduction	No	312	,21	,658
	Yes	585	,25	,689
HRIS	No	312	,66	1,082
	Yes	590	1,03	1,341
Recruitment	No	325	,76	1,016
	Yes	598	,84	,986
Selection	No	317	,36	,762
	Yes	593	,48	,797
Processing routine queries from managers/employees	No	302	,37	,824
	Yes	565	,31	,790

Source: Authors' analysis

**Table 4. T test for CEE countries sample**

Independent Samples Test		Levene's Test for Equality of Variances		t-test for Equality of Means				
							95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Lower	Upper
Use of external providers in payroll	Equal variances assumed	24,625	,000	2,912	921	,004	,085	,437
	Equal variances not assumed			2,768	573,144	,006	,076	,446
Use of external providers in pensions	Equal variances assumed	13,408	,000	2,179	887	,030	,022	,416
	Equal variances not assumed			2,098	576,331	,036	,014	,423
Use of external providers in benefits	Equal variances assumed	20,354	,000	2,144	897	,032	,012	,281
	Equal variances not assumed			1,970	509,318	,049	,000	,293
Use of external providers in training and development	Equal variances assumed	3,374	,067	-1,984	909	,048	-,345	-,002
	Equal variances not assumed			-1,934	602,997	,054	-,350	,003
Use of external providers in workforce outplacement	Equal variances assumed	1,894	,169	-,732	895	,464	-,128	,059
	Equal variances not assumed			-,743	661,167	,458	-,127	,057
Use of external providers for HR information systems	Equal variances assumed	26,621	,000	-4,203	900	,000	-,543	-,197
	Equal variances not assumed			-4,487	757,464	,000	-,532	-,208
Use of external providers for recruitment	Equal variances assumed	,451	,502	-1,185	921	,236	-,216	,053
	Equal variances not assumed			-1,174	648,189	,241	-,218	,055
Use of external providers for selection	Equal variances assumed	7,644	,006	-2,189	908	,029	-,227	-,012
	Equal variances not assumed			-2,219	671,482	,027	-,225	-,014
Use of external providers for processing routine queries from managers/employees	Equal variances assumed	2,918	,088	1,042	865	,298	-,053	,172
	Equal variances not assumed			1,029	593,549	,304	-,054	,173

Source: Authors' analysis

In case of CEE countries, from 978 organizations, we can see that there is a difference between those companies that have and those that do not have HR department (tables 3 and 4).

There was found a significant difference between companies that don't have and those that have HR department in areas of external providers for payrolls (p<0.006 two-tailed), pension (p<0.036 two-tailed), benefits (p<0.049 two-tailed), HRIS (p<0.000 two-tailed),

training and development ( $p < 0.048$  two tailed) and selection ( $p < 0.027$  two-tailed).

From the above tables we can see that companies in CEE use external providers differently if they have a HR department. Namely, in case of payroll ( $M=0.79$ ), pension ( $M=0.91$ ) and benefits ( $M=0.56$ ) companies that do not have HR department use external providers more than those companies that have one. In case of training and development ( $M=1.40$ ), workforce outplacement ( $M=0.25$ ), HRIS ( $M=1.03$ ), recruitment ( $M=0.84$ ), and selection ( $M=0.48$ ). The difference between the mean values of the characteristics of the groups was small (eta squared from 0.001 to 0.019).

**Table 5. Level of use if external providers for HRM in Serbia (n=50) depending the existence of HR department in company**

Ranks			
	Existence of HR department?	N	Mean Rank
Payroll	No	18	21,36
	Yes	23	20,72
Pensions	No	16	19,00
	Yes	23	20,70
Benefits	No	17	20,21
	Yes	23	20,72

**Table 6. Mann Whitney test for Serbian sample**

Test Statistics <sup>b</sup>									
	Payroll	Pensions	Benefits	Training and development	workforce outplacement/reduction	HRIS	Recruitment	Selection	Processing routine queries from managers/employees
Mann-Whitney U	200,500	168,000	190,500	175,500	157,500	182,500	150,000	172,000	181,000
Wilcoxon W	476,500	304,000	343,500	365,500	277,500	318,500	303,000	325,000	457,000
Z	-,278	-,195	-,300	-,1,568	-,826	-,376	-,1,783	-,1,120	-,224
Asymp. Sig. (2-tailed)	,781	,232	,765	,117	,409	,707	,075	,263	,823

Source: Authors' analysis

## 5. CONCLUSION

In this paper authors investigated, explained and provided examples and some current trends of HRO. Detailed literature survey calling on many notable authors from all around the world was made. We tried to involve the organization of HRM in companies (with the question whether company has or not HR department) for exploration of the usage of outsourcing of HR activities. Our findings are in the line with other researches that have been done in the area of outsourcing and external providers.

Critical reviews emerge in constant motion whether it is a smart move to outsource, and that it might or might not be effective to the business. With HRO businesses focus more on the core elements, by selling out the noncore elements in order to reduce the cost and invest in the expertise of the core elements. On the other hand, although outsourcing is described as beneficiary for organizations since 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 CEE region and Serbia, we can conclude that companies still do not use this possibility to a large extent. CRANET and CEEIRT projects provided great samples of organizations suitable for this research.

If we make difference between those companies that have HR department and do not have the same, it is seen that for companies in CEE region in case of several HR activities it was found that companies without HR department use external providers more than those companies where it has been established department. Here authors found statistically significant differences ( $p < 0.05$ ) in t-test. In Serbian companies we could not find any statistically significant relationship on this question ( $p > 0.05$ ) in Mann Whitney test. External providers are used at low level and in almost all HR activities companies that have HR department use external providers more than those companies that do not have this kind of department. Only

Training and development	No	19	19,24
	Yes	25	24,98
Workforce outplacement	No	15	18,50
	Yes	22	19,34
HRIS	No	16	19,91
	Yes	24	20,90
Recruitment	No	17	17,82
	Yes	23	22,48
Selection	No	17	19,12
	Yes	23	21,52
Processing routine queries	No	16	20,19
	Yes	23	19,87

Source: Authors' analysis

In case of Serbia we could not find any significant differences between organizations that have and do not have HR department in the use of outsourcing. Interesting is that in this sample results for payroll showed that if there is no HR function or department the usage of outsourcing is higher. In other cases, if there is HR department the use of external providers is greater (for pension, benefits, training and development, HRIS, recruitment, selection, etc).

in cases of payroll and processing routine queries from managers we can see higher usage of external providers when companies do not have HR department.

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