

HR issues to be considered when outsourcing services

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Although HR issues are crucial determinants of the success of service outsourcing processes, they are too often paid inadequate attention. The area of HR issues to be considered when outsourcing service provisions is currently under-researched. However, as this White Paper concludes, HR practices can and should be improved significantly in order to secure the most effective transfer of people and thereby ensure the success of the outsourcing project.

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Executive Summary

Two processes have a major impact on a successful transition: good contract performance and a positive outsourcing relationship. The first involves the design of the outsourced jobs. They must be designed to score high on skill variety, task identity, task significance, autonomy and task feedback, as this will promote motivation and job satisfaction. HR should be involved in this process.

The second process is the design of a robust Change Management (CM) programme. CM is an essential part of outsourcing but too little focus is paid on managing the psychological state of the employees. A high degree of participation is important as it correlates well with the success of change programmes. Commitment and job satisfaction should be monitored during the entire Change Management process as they predict employee turnover, absenteeism and performance.

Once the contract is in effect, performance management tools are an effective means of reaching the objectives specified in the contract. Where the outsourced employee is based at the client site, a 360-degree performance evaluation could be the best option. For these employees, e-learning may be the most effective learning tool, although it should be supplemented by coaching and mentoring initiatives.

The client and service provider must be aware of several potential legal issues relating to HR. The service provider must understand how to take over employees and may be legally responsible for any improper behaviour at the client site. However, the client may receive the legal status of co-employer if the outsourced employee is significantly attached to its organisation and should be aware of this fact.

Potential tensions may arise between the service provider and the client on all HR issues identified in this paper. They may agree on the preferred outcome but disagree on responsibility and who should pay. They may even have different desired outcomes. An HR alignment process is necessary and should take place early in the outsourcing process.



Action recommendations:

1. HR should always be involved in an outsourcing process – as early as possible
2. Outsourced jobs should be carefully designed to ensure a successful outcome of an outsourcing process
3. The Change Management programme should always focus equally on the psychological state of the employees as well as the practical activities
4. Commitment should be measured and monitored throughout the entire process

Introduction



Over the last 30 years, outsourcing has grown significantly and is now widespread across countries, industries and many business functions. It is estimated that the global outsourcing market was as extensive as \$500 billion in 2008 (Plunkett Research, 2009).

Two main strategic considerations have formed the basis of outsourcing during this period: Firstly, companies have focused on their core competencies through which they believe they can deliver unique value-added services. Support functions such as Facility Management, IT and HR have been considered non-core and have therefore been increasingly outsourced. Secondly, companies have strategically outsourced other activities for which they do not believe they have a critical strategy or the particular capabilities and competencies (McGregor & Then, 2003). The assumption is that if implemented intelligently, an outsourcing strategy can deliver a higher return on investment through lower costs and a better customer experience. This is because the service company can deliver better responsiveness and has experience not otherwise available internally (Mayer & Nickerson, 2005).

Research has contributed by documenting the many strategic and financial benefits of outsourcing. It has also improved understanding of the dynamics of what constitute a good outsourcing process (Donada & Nogatchewsky 2009).

The bulk of the research has focused on the strategic and financial area of outsourcing, which has left areas such as HR under-researched (Fisher et al., 2008). Although some research has been conducted with regard to contingent roles and jobs (Connelly & Gallagher, 2004), this research is not directly transferable to the area of outsourcing, as many of the outsourcing functions are long term (Fisher et al., 2008).

The way a company deals with transferring employees basically reflects how it sees and understands human behaviour. Despite the challenges associated with the transfer of a sizable number of people and the associated risks, discussions with executives involved in large outsourcing contracts confirm that human resource issues rarely are assigned very high priority. Issues such as core competencies, strategy, efficiency and synergies are much higher on the agenda. Yet HR issues are often pivotal for the success of outsourcing agreements (Jenster, 2005).

The complicated case of outsourcing

Managing people in organisations is not easy; attracting the right talent, motivating employees, developing their competencies, nurture and retaining them, while ensuring the lowest possible costs. At the same time, HR departments demand a great deal in return; employees are supposed to feel empowered, be innovative, have a high level of job satisfaction, be committed, have a low absence level and increase productivity every year.

Managing people who are outsourced is even more challenging. The people issues are more complicated because several workplaces and customers are involved. Often employees are working remotely from the service provider's offices, and frequently the service providers are forced to take on employees who may not fit in well with the organisation.

Many of the key challenges identified in this paper are 'normal' HR challenges. However, the outsourcing aspect adds a unique dimension to these issues and HR managers would be making a mistake if they addressed these challenges without taking this special context into account.

Outsourcing itself is not a homogenous category. It can take many forms, each of which may involve different HR challenges and opportunities. A particular outsourcing situation may be classified using five different dimensions:

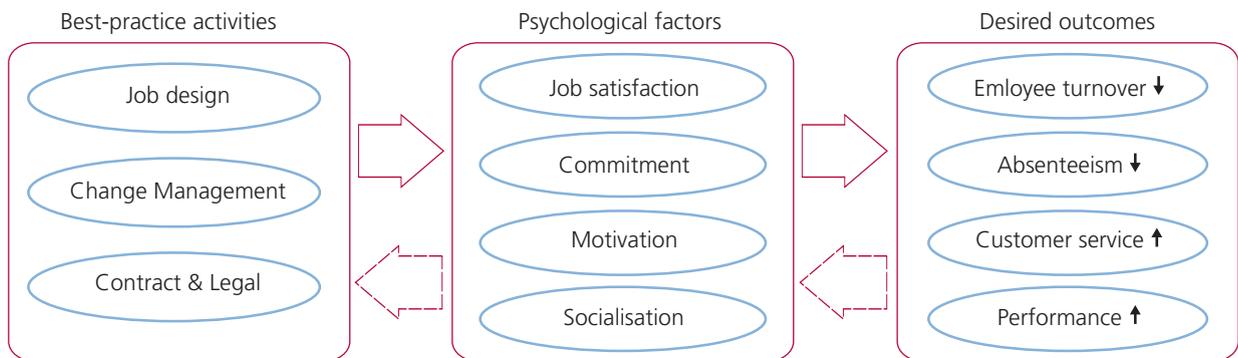
- The physical location. Is the work performed at the client site, at the service provider or at a remote location (such as India)?
- Exclusivity. Is the outsourced employee working for one client or multiple clients such as through route-based services, call centres or IT-based services?
- Value-added work. Is the work considered strategic and likely to add high value (such as IT), of low strategic importance (such as cleaning), or in-between (such as payroll)?
- How the work is designed. Is the outsourced worker performing a single task or multi-skilled work? Can the employee decide how to perform the job? Does the job provide feedback on how well the job is done?
- Where the employees come from. Will the employees be transferred from the client to the service provider? Is the work performed solely by employees from the service provider or is it a combination of both?

The service provider's HR departments are usually well aware of some of these special challenges (although they are not always addressed). However, the unique nature of HR issues when outsourcing may be a new experience for the client organisation – especially if the outsourcing process is a first-time event. The outsourcing process may well be enhanced if the service provider shares experience and best practices with the client organisation.

HR challenges in outsourcing

The service provider and the client have a mutual interest in conducting the outsourcing process in the best possible way while establishing a proactive and positive ongoing relationship. Both share a number of possible positive outcomes. Figure 1 illustrates the desired outcomes from an HR perspective: low employee turnover, low absenteeism, high-quality customer service and high performance. These outcomes are achievable only through the result of an integrated and coordinated effort by the service provider and the client.

The desired outcomes can be achieved using best-practice activities within job design, change management and contract formulation. These activities should continuously be reassessed by monitoring the psychological impact on the employees' attitudes toward the activities, the job, the service provider and the client.



An outsourcing situation often involves a multitude of HR issues. This article identifies some of the key challenges faced by the service provider and client during outsourcing. Table 1 below provides an overview of the key challenges.

Table 1: Overview of HR challenges during outsourcing

Key Challenges	Implications for Service Providers	Implications for Client Organisations
Organising and designing the work	<ul style="list-style-type: none"> • Meaningful and interesting work • Defining knowledge and skills needed for outsourced work • Role definition and stress 	<ul style="list-style-type: none"> • Appropriateness of blended teams
Change management	<ul style="list-style-type: none"> • Socialisation into multiple organisations • Differing approaches to socialisation based on the nature of the outsourced relationship • Maintaining service continuity to meet contract obligations • Transition of former client employees to service provider 	<ul style="list-style-type: none"> • Core employees' acceptance of outsourced workers • Role of core employees in socialising outsourced workers
Creating job satisfaction & commitment	<ul style="list-style-type: none"> • Measuring and monitoring job satisfaction & commitment • Designing meaningful work 	<ul style="list-style-type: none"> • Allowing jobs to be designed to meet the satisfaction of outsourced employees
Managing performance	<ul style="list-style-type: none"> • Employee discretion in performance • Assessing employees working at the client site • Obtaining knowledge needed to perform the work • Career versus task-oriented training 	<ul style="list-style-type: none"> • Managing role conflict • Participating in evaluating outsourced worker performance • Obtaining and integrating knowledge created on the project
Managing turnover and absenteeism	<ul style="list-style-type: none"> • Creating higher commitment for own organisation than for client • Maintaining service continuity to meet contract obligations • Transition of former client employees 	<ul style="list-style-type: none"> • Appropriateness of hiring service provider employees
Legal obligations	<ul style="list-style-type: none"> • Responsibility for discriminatory actions of client • Transferring employee obligations 	<ul style="list-style-type: none"> • Creating joint employment relationships
Aligning interests	<ul style="list-style-type: none"> • Managing potential tensions between service provider and client through alignment process 	

Source: Fisher et al. (2008), Aspector

Job design



One of the most robust and researched job design models is the Job Characteristics Model (JCM) developed by Hackman & Oldham in 1976. The model identifies five important dimensions – or characteristics - of work that result in motivation and job satisfaction (Foster, 2000). The five characteristics are:

- Skill variety (extent to which the worker is able to do different tasks)
- Task identity (degree to which the worker can see his work from beginning to end)
- Task significance (degree to which the worker's efforts are seen as important and significant)
- Autonomy (degree to which the worker has control and has the discretion to do his job)
- Task feedback (degree to which the job provides feedback for how well the job is done)

The input from the five characteristics can be used to calculate an individual Motivating Potential Score (MPS) for each job (Foster, 2000). The MPS predicts the level of motivation and employee engagement mediated by the individual employee's need for growth.

The client and service provider must also be aware of this when formulating contracts. Service Level Agreements (SLA) and Key Performance Indicators (KPI) that are too detailed and strict can reduce autonomy to near zero. Similarly, an input-based specification of the scope of services may also significantly reduce autonomy.

If handled correctly, outsourcing-bundled service tasks can potentially score high on many of these dimensions. Task significance, for example, should improve, as the client may consider the service task insignificant when conducted in-house but the service provider may consider it an important and core task. Skill variety may also increase, as the service provider may use multi-skilling to enhance the variety of the employee's daily work.

The earlier in the contract negotiation phase these elements are considered the better, as once agreed, the contract may hinder job design elements such as the physical location, the length of time each task is supposed to take, the number of sites where services are delivered, etc. It is therefore recommended that a job analysis is carried out to determine how each job scores on JCM before the jobs are finally agreed by the client and service provider.

Change Management

It is in both the service provider's and the client's interest that the employee's transition is successful and that the outsourced employee is fully socialised into the new organisation. Such employees have a higher level of job satisfaction (Chao et al., 1994), provide better service, are more customer-oriented and take fewer sick days. Naturally, socialising outsourced employees is more complex if the employee is located on the client's site (Fisher et al., 2008). The employees must learn the culture, policies, equipment and politics of the service provider's company as well as being expected to learn the same for the client organisation.

A successful transition must meet two goals. The first is to manage the psychological state of the employees during the transition. This is by no means easy. A McKinsey survey (2006) concluded that change management projects significantly and negatively affected important psychological emotions.

Table 2: Effects on psychological emotions during change

	Successful projects	Unsuccessful projects
Anxiety	44%	51%
Confusion	22%	43%
Frustration	23%	44%
Fatigue	24%	34%
Resistance	24%	28%

Source: McKinsey, 2006

Other surveys reach the same conclusion. Worrall & Cooper examined the psychological effect of change on managers and concluded that 51% of managers' motivation was negatively affected, 48% experienced a lower sense of wellbeing and 47% felt a lower loyalty towards the organisation (Green, 2007).

Studies on the psychological effects of outsourcing show that outsourced employees feel an increased level of anxiety. For some, this experience is long term (Morgan & Symon, 2006). Often employees have difficulty understanding their new situation and many have difficulty achieving closure due to the need to liaise with old colleagues. Some counselling during the transfer process will lower the level of anxiety and thus the risk of experiencing stress or long-term illness in much the same way as outplacement counselling during layoffs. The counselling can include coaching, interviews and training and can be offered individually or in groups.

Transition & Transformation Process

The primary objective of the transition and transformation process is to coordinate a set of activities in a way that delivers the services to the client without disruption. The service provider and the client must therefore agree to a transition and transformation process (one example is shown in the text box below). There is evidence to suggest that both will benefit from a structured process involving both parties as well as HR as early as possible.

Frequently, outsourcing contracts fail or succeed based on how well the employee transfer process is managed. The HR issues in terms of transferring outsourced employees is key, and HR resources representing the customers side and the service provider's side must be involved as early as possible in the outsourcing process (Jenster, Erdahl et al., 2005).

Phase 1 – Planning and alignment:

Based on the nature of the customer and supplier relationship – and the contractual terms and obligations concerning a tender process – the outsourcing company will need to define the scope and planning of the project, the critical success factors and the direction that the outsourcing project should take. The key output could be a Strategic Sourcing Paper that documents the scope of services to be reviewed in Phase 2, the sourcing process e.g. formal tender vs. individual agreement, time frame, and a high-level business case stipulating the effect and expected outcome of the process. Input normally comes from desk-top data collection, analysis and meetings attended by the outsourcing organisation and potential partners.

Phase 2 – Selection of partner and agreement of scope:

After selecting the partner(s) for the outsourcing project, a more rigorous data collection and validation process is required in terms of defining the people and processes to be outsourced. This part of the process often involves a significant investment of resources across the organisation and assessing the portfolio of facilities; however, it must produce a very robust baseline of current performance against which future improvement can be measured.

Staff from the main support functions such as HR, IT, Corporate Real Estate and general management as well as, if possible, the senior-level management of the in-house service team should be included. The fundamental output of this phase would be an implementation plan with identified areas for job optimisation, staff training and resource investment.

Phase 3 – Transition and mobilisation:

Once the outsourcing contract is formulated and signed, it is imperative that the service provider can understand the culture of the client and show commitment to socialising and aligning the delivery set-up with this reality.

Communication to all employees and especially the employees directly involved in the outsourcing process must be carefully considered. Many will be affected by the process of transferring a certain activity previously undertaken in-house.

Communications must be carefully planned and all affected employees should always receive a personal letter and attend an interview with a manager before a wider communication is distributed.

The up-qualification and thereby training of outsourced staff is a key to success in any service outsourcing programme. A well planned effective training programme can disseminate suitable knowledge and cut down an organisation's time to competence. Organisations short of these training resources often fail in the integration process, as training is imperative for helping employees to understand new work requirements, skill-upgrades and the service and management policies of the new employer.

In the process of assessing the outsourced employees, experience shows that normally the client, not the service provider, should handle any dismissals. Recruitment should be carried out using normal recruitment procedures. A high degree of involvement from managers representing the client as well as those from the service provider is important at this stage.

Phase 4 – Operation:

The outsourced employees are now ready to embark on a new career and new daily job practices with the service provider while possibly working at the same premises with familiar colleagues. They may however experience a dramatic change in management behaviour and support – preferably in a positive sense as they are now core rather than non-core employees.

Career planning, job assessment, performance criteria evaluation, continuous training programmes, new tools and methods as well new management behaviour will now be part of their daily routines. Also the facilitation of networking to integrate the employees, both socially as well as professionally, is important and makes them feel they belong with their new employer.

The four phases briefly describe a service outsourcing process in ISS. Evidence suggests that most outsourcing processes focus primarily on successful service delivery, with too little emphasis on managing psychological effects on employees. While the formalities of handing over the project often run smoothly, HR effects are sometimes neglected. The costs can be high as employee turnover can be significant during the transition stage.

As with most other HR aspects in outsourcing, the issue of the difficulties experienced by employees who are transferred remains under-examined and often poorly understood (Morgan & Symon, 2006). Experience shows that outsourced employees have a more positive view of their career development with the service provider compared with their client – which is in line with the expectations of the Job Characteristics Model (Kessler et al., 1999). Other research indicates negative relations with the client arise after the transfer, which create a long-term negative impact and increase work-related injury and absenteeism (Mayhew et al., 1997; Morgan & Symon, 2006).

Participation is an important process tool. This should be an important element of any change management process, especially in outsourcing situations. Evidence suggests that a high degree of participation during a change such as outsourcing correlates well with a successful outcome (Lines, 2004) and thereby also with the profitability of the contract. It is therefore recommended that change processes contain a high level of participation as early as possible and during all stages.

Participation is defined as: “a process where employees have some influence over their work and their work conditions (Heller et al., 1998) and can take many forms, as shown in table 3. Participation can be anything from information meetings to autonomous teams to employee representatives on the board.

Table 3: Classification of participation

Classification of participation	Examples
Where in the organisation?	Strategic, tactic or operational
Forms of participation	Direct/representative, individual/collective, financial
Degree of influence	Information, consultation, influence, right to veto, autonomy
During which phase in the transition?	Planning, agreeing, implementation, evaluation
Authenticity of participation	Pseudo, authentic

Source: Aspector, Heller et al., 1998

Participation impacts an outsourcing process in several ways. Firstly, a high degree of participation can minimise the impact of employees’ natural resistance created by such a change (McCharty, 1989; Lines, 2004). Conversely, a lack of participation during certain periods of the change process correlates with high levels of stress and a poor work environment (Cooper et al., 2001).

Legal obligations

Outsourcing raises several legal aspects. Firstly, there is the obligation to take over the client's employees as well as its assets if the outsourcing situation requires this. During this process, local and EU rules – such as the Acquired Rights Directive - must be observed. Most jurisdictions will consider a transfer to the outsourcing provider to be automatic under the law and the outsourcing provider will thus have to take over the relevant employees under their existing terms and conditions.

As rules may differ from country to country, it is important to know local rules. It is normally considered good practice for the outsourcing provider to take over service staff with their normal terms and conditions, such as salaries, severance pay, seniority, union agreements and social benefits such as pension, etc. However these rules vary across national borders. For example, in some countries, extra-legal pension rights do not transfer automatically. It is important that due diligence is performed by the outsourcing provider as this will, for example, serve to correctly describe the liabilities associated with such a take-over and capture the terms and conditions of employment to be observed.

The second aspect of legal considerations is behaviour on client sites. This includes the behaviour of the client's and the service provider's employees. The service provider may also be held liable for the behaviour of the client if the service provider was aware of the situation or should have known about it and taken action (Fisher et al., 2008). It may be difficult for the service provider to monitor the behaviour of all outsourced employees, and legal training, such as sexual harassment training, may be costly and difficult to perform. HR managers working for the service provider must assist the Key Account Manager or the manager on site to provide training and guidance in such situations.

A third aspect is the issue of joint employment relationships (Fisher et al., 2008). It is desirable that the outsourced employees develop an attachment to their place of work i.e. to the client organisation, as this improves their commitment and therefore improves the desired outcomes shown in figure 1. Ironically, this dual attachment may create legal issues. Several US laws – such as the Family and Medical Leave Act and The Fair Labor Standards Act – state explicitly that a joint-employment relationship may exist in the context of outsourced work. Laws in other countries and regions differ, as do the means by which to measure whether an organisation qualifies as a legal co-employer.

Employee engagement & commitment



The two most important psychological constructs in this particular context are employee engagement and commitment. They represent the two most researched areas within industrial psychology over the past 20 years and the survey measurements are among the most robust (Judge et al., 2001; Fedor et al., 2006).

Employee engagement

Implementing a robust means of measuring employee engagement should be a high priority. It should provide a stable measurement as it correlates well with many important items such as employee turnover, absenteeism and overall performance. Job engagement is defined here as “a measure that reflects how employees feel about their work on the basis of a cognitive evaluation of the job”. The questionnaire should be designed to measure a number of different aspects, such as training, quality of supervision, how employees get on with colleagues, their work environment, etc. Recent research has successfully revealed the correlation between the job design as measured by the Job Characteristics Model and employee engagement (Foster, 2000).

A high score on employee engagement predicts higher performance, lower absenteeism and higher customer service through the lower frequency of other negative behaviour such as lateness and poor-quality input.

Commitment

The second important construct is commitment, which can be defined as a person's emotional and behavioural attachment to an organisation, team or person (Spector, 2006). Employee commitment can be understood and measured on two levels; its focus and its dimension (Meyer, 1997). Different focuses include the organisation, department, management, colleagues, etc. Different dimensions include affective (a desire to stay with the company due to emotional attachment), normative (a moral obligation to stay with the company) or continuance (stay due to a cost-benefit analysis). How the employee scores on the two levels will affect his or her behaviour during an outsourcing situation. If the commitment to the organisation is high, then the outsourced employee may consider leaving, as that commitment will have to be transferred to the service provider. If the commitment is largely cost-benefit orientated, the outsource process may have little or no impact on turnover and absenteeism.

Commitment has become a central concept due to its high correlation with productivity, employee turnover, motivation and job satisfaction (Fedor et al., 2006). Research shows that two aspects are important for maintaining or even increasing commitment in times of change. Firstly, it is important that employees feel that the change is positive and that the demands are small (Fedor et al., 2006). This should be possible in outsourcing given the right amount of attention to job design and change management. Secondly, it is important that the process is seen as fair and just (Meyer, 1997).

Both constructs are psychological and are therefore not obvious to the naked eye although higher employee turnover and absenteeism may indicate a low score on both. It is recommended that both constructs are measured and monitored.

Performance Management

The outsourced employees are expected to perform and act in accordance with objectives set by both the service provider and client. Performance management tools are effective means of meeting these objectives. Performance management can be defined as the process of directing and supporting employees to work as effectively and efficiently as possible in alignment with the organisation (Armstrong, 2006). Outsourcing raises a number of specific issues regarding to how effective performance management can be carried out.

When setting the objectives – or goals – it is good practice to set challenging but achievable objectives and formulate them in agreement between the manager and the employee. This will ensure that the objectives motivate and improve performance. Studies show that if the objectives set are too low, too high or too vague, the objectives may have no effect or may even have a negative effect on motivation and job satisfaction levels. Also, if the objectives are set by the manager with no real buy-in on the part of employees, the objectives will have little effect.

Objectives are more likely to be met if the manager communicates clearly why the objectives must be met as well as clearly defining the objectives themselves. Where possible, the objectives and targets should be stated in quantitative terms and should include behavioural expectations.

A clear and structured evaluation process has a positive influence on motivation and job satisfaction as it may provide clarity concerning what is expected and feedback. Once a year, objectives should be set for each outsourced employee. These must clearly define what is expected of the employee in various aspects of the job role. Progress reviews can take place informally throughout the year, but there may also be formal interim reviews at pre-agreed times such as every month or quarter.

Some outsourcing situations – especially where the work is performed at the client site - may prove more challenging for performance evaluation, as the manager may have limited opportunity to monitor and observe performance and behaviour. In these cases, a 360-degree performance evaluation may be necessary, which is a more costly but increasingly effective method (Draig & Hannum, 2006).

Training and development programmes are necessary to continuously deliver a high level of customer service and maintain a high performance level. The manager can create a personal development plan for each outsourced employee as an integrated part of setting objectives. The training usually involves task-specific (or client-specific) training as well as general (service–provider-orientated) training.

A good training programme increases commitment levels (Gallagher & McLean Parks, 2001). It is also documented that self efficacy and employee engagement correlates well with training initiatives. In practice, it may be difficult to train outsourced employees off-site due to the cost of bringing them together as well as the lack of support and cover at the client site. Coaching and mentoring should always supplement the training initiatives.

The performance management processes and documentation may often be introduced by HR. Historically, line managers have often felt the ownership has resided with HR departments and have therefore filled in the forms simply to please HR. The impact of many performance management programmes has therefore been limited. The trend for HR departments to be considered business partners has changed this somewhat (Armstrong, 2006) and HR managers are now seen as facilitators and partners for the line managers, coaching and mentoring the line managers rather than owning the process itself. Where HR departments take on this role, performance management programmes work more efficiently.

In many situations, coaching and ongoing feedback form an effective tool for managing performance between formal reviews. Many outsourcing situations make this difficult, however, as outsourced employees may work alone and have no daily contact with a manager. Evidence suggests that even a little and informal amount of coaching and feedback can have a positive impact on performance commitment levels. Processes should be put in place where possible for managers to provide regular coaching and feedback. Coaching requires a specific set of skills and it may be necessary to train the managers responsible.

Managing staff turnover and absenteeism

Staff turnover can be defined in terms of several dimensions. Voluntary vs. involuntary is the most common. While this dichotomous distinction is useful, one must respect that many cases fall between these two categories. Instances such as leaving due to pregnancy, leaving due to the relocation of a spouse or resigning in order to avoid expected involuntary termination all seem to involve voluntary and involuntary aspects (Maertz & Champion, 2001). This means that often statistics are not completely comparable as the large grey area is often randomly assigned to either of the two dimensions.

Turnover and absenteeism are both significant disruptions in any outsourcing process. Although some employee turnover is expected – and perhaps even desirable (Hollenbeck & Williams, 1986) – it has several negative consequences. Firstly, the level of customer service will be negatively affected due to the loss of important knowledge on the client's organisation, lower productivity among the 'survivors' and a possible shortage of service staff. Secondly, general job satisfaction among the remaining outsourced employees will decrease. Thirdly, the profitability of the contract is often greatly affected by turnover and absenteeism.

Staff turnover, absenteeism and alignment of interests between the service provider and the outsourcing company are issues which require much management attention. This topic will be described in future white papers.

Conclusions

HR outsourcing considerations are complicated by a number of issues. For example, the outsourced employees may be located permanently at the client site, they may feel jointly committed to the client and the service provider, the contract may restrict how a job can be designed to enhance motivation and job engagement, legal and physical restrictions may exist, etc.

The outsourced jobs should be designed to score high on skill variety, task identity, task significance, and autonomy and task feedback. Extensive research has documented that this will promote motivation and job engagement. Many outsourcing jobs can be designed to score high on most dimensions, however this must be considered during the early part of the contract negotiation stage.

Change Management is an essential part of outsourcing – especially when employees are transferred. A Change Management programme has two goals; to manage the psychological state of employees and to ensure services are delivered to the client without disruption. Often too little focus is put on the first goal, and many change projects fail as a consequence. It is recommended that more emphasis is put on the first goal. One important process tool that will help in this context is participation. A high level of participation correlates well with the success of change programmes. Commitment and job engagement are the two most important psychological building blocks during an outsourcing arrangement. Both have been extensively researched and predict important outcomes, such as employee turnover, absenteeism and performance. Both are easy to measure and should be monitored during the entire process. They provide valuable information on the likely outcome of the outsourcing process while highlighting areas that are beginning to derail and require attention. Performance management is an effective way of achieving the objectives set by both the service provider and client. However, outsourcing may make ongoing and informal coaching and feedback more difficult, especially if the outsourced employee is working on multiple client sites. In these cases, a 360-degree performance evaluation may be the best option. For employees based at client sites, e-learning may be the most effective learning tool although it should be supplemented with coaching and mentoring initiatives.

Employee turnover and absenteeism can significantly impact the profitability of the outsourcing contract, the customer service level and the quality of the relationship between the service provider and the client. Some level of employee turnover is probably desirable, but proactive steps to minimise this should be taken. Job engagement and commitment levels predict turnover and absence levels. These should be monitored and steps taken when necessary. Service providers face the challenge of encouraging the transferred employees to commit more to their organisational and behavioural guidelines than to their clients.

Outsourcing creates a number of HR-related legal issues that both the client and the service provider must take into consideration. The service provider must understand the local rules covering the legal obligation to take over employees. The service provider may also be legally responsible for any improper behaviour on the part

of the client at the client's site as well its own employees' behaviour. The client should be aware that if an outsourced employee is significantly attached to the client organisation, the client may be assigned the legal status of co-employer.

Tension may arise between the service provider and the client relating to all of the key HR challenges. They may agree on the preferred outcome but disagree on responsibility and who should pay. Or they may have different desired outcomes regarding other challenges. It is important that both the service provider's and the client's HR departments are involved from the very beginning of the outsourcing process. An alignment process for the people issues benefits both parties and should take place early in the outsourcing process.

Overall, it must be concluded that while HR issues are crucial to the success of the outsourcing contract, experience shows that too little emphasis is paid during early contact between the service provider and the client. It is also an area that is vastly under-researched, and more evidence and best practice tools are needed. Some indications reflect that HR practices can be improved significantly during outsourcing.

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