Outsourcing Human Resource Management: A Comparison of Russian and U.S. Practices

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Our objective is to determine the current state of outsourcing of HRM functions at companies operating in Russia, both Russian and Russian-based foreign companies, and compare and contrast the results with the findings of the Society for Human Research Management (SHRM) study of outsourcing practices at American companies in the United States. The comparison reveals the differences and similarities in terms of reasons for outsourcing as well as the obstacles and problems in implementing HRM outsourcing decisions to a foreign setting.

I. Introduction

Many activities are currently being outsourced all over the world in service, production, and consulting; outsourcing is growing dramatically. Business process outsourcing (BPO), for example, is predicted to yield over $50 billion in revenues worldwide by the end of 2004 (Dearlove, 2003). Currently 58 percent of companies outsource at least one of their Human Resource Management (HRM) activities (HRM Outsourcing Survey, SHRM, 2004). According to a survey by The Conference Board, 50 percent of companies reported that they achieved their goals of outsourcing HRM functions, and as many as 42 percent accomplished some of their goals (Bates, 2002).

There are many definitions of outsourcing. One recent study defined it as a process in which "a company contracts with a vendor and rents its skills, knowledge, technology, service, and manpower for an agreed-upon price and period to perform functions the client no longer wants to do" (Adler, 2003: 53). Information technology and management information systems led the way in outsourcing, but recently outsourcing has been expanded to other operations. Outsourcing is now of major importance in the HRM area; it has come to the foreground as the role of HRM in contemporary business environment has gained particular emphasis. HRM is the second most likely corporate business function to be outsourced, according to a study by American Management Association (HRM Focus, 1997). Outsourcing activities initially encompassed only small segments of HRM such as payroll functions (Adler, 2003), but has gradually grown to encompass many human resource functions (Lever, 1997).
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II. Literature Review

HRM outsourcing has received considerable attention by business firms, and many articles investigate its different aspects, such as managerial motivation, company performance, HRM business processes, service providers, and how outsourcing affects organizations. Lever (1997), for example, identifies four stages of outsourcing: discovery, negotiation, transition, and assessment. Cooke (2004) cites the growing complexity of the legal environment, technology, and organizational changes as the main factors conducive to the decision to outsource. Adler (2003) adds to this list intense competition, industry changes, globalization, restructuring, and downsizing. Additionally, outsourcing is mandated quite often by the need for specific expertise, a new developmental stage of organizational HRM that has exceeded the firm’s existing capacity, advances in Human Resource Information Systems (HRIS), cost savings (Babcock, 2004), and increased risk exposure (Greer et al., 1999; Klaas, 2003).

Among the advantages of outsourcing are decreased costs, a better focus on HRM issues directly tied to the company’s success, and higher quality customer service (Greer et al., 1999). Outsourcing can be an important value-added activity when combined with effective restructuring. Marinaccio (1994), for example, claims that outsourcing along with improved engineering processes may increase the efficiency of business processes while maintaining product quality. In Gainey and Klaas’s (2002) study, companies reported that they outsourced approximately 30 percent of their HRM training functions closely connected to core capabilities, and in most cases this outsourcing led to improved performance as well as improved training design. Greer et al. (1999), however, asserted that employee relations and performance management should not be outsourced at all, unlike some related functions, such as payroll administration and benefits, that are sometimes outsourced simultaneously as a bundle. The value-added activity that outsourcing brings should ultimately enhance strategic capabilities and benefit the firm’s performance with respect to maximizing returns, gaining a competitive edge, managing market risks, and strengthening internal capabilities (Lever, 1997).

However, outsourcing has pitfalls that should not be ignored, including factors such as high transaction costs, potential lower service quality, and loss of control over outsourced processes. Therefore, a careful analysis is always required to determine the wisdom of outsourcing (Quinn and Hilmer, 1994). For instance, Brenner (1996) believes that HRM functions are no longer viewed as a core value-adding corporate component, but rather as a process that can be measured on the same scale as other