

HRM Outsourcing Processes in Australian Organisations

ABSTRACT

HR outsourcing research specifically on Australian organisation is limited and significantly less than research conducted internationally. The aims of this research were to examine the HR outsourcing processes and the criteria used to select HR outsourcing service providers. Results from a nationwide survey identified four HR outsourcing processes. Based on the different number and upon which steps emphasis was placed, the outsourcing processes were classified as screening and selecting, strategic fit, managing and monitoring, and measuring impact. These process types were compared with the generic outsourcing process derived from literature. In addition, the most important selection criteria used by Australian organisations when choosing a HR outsourcing service provider was found to be trustworthiness and reputation in the industry.

Keywords: HRM, outsourcing, outsourcing processes, Australian

INTRODUCTION

Outsourcing, in a general sense, has been of interest for both academics and practitioners over the past 15 years (e.g. Espino-Rodriguez & Padron-Robaina 2006; Beaumont & Khan 2005; Costa 2001, Greenwood 1998). Many literature reviews focused on the IT industry (Beaumont & Khan 2005), although more recent research has expanded into other fields (Smith, Vozikis & Varaksina 2006). The general consensus is that outsourcing is widely used in business to reduce costs and allow businesses to focus on core activities (Beaumont & Sohal 2004; Greer, Youngblood & Gray 1999; Lever 1997; Shen 2005; Sparrow & Braun 2007). Other articles have studied outsourcing human resources functions (Cooke, Shen & McBride 2005; Embleton & Wright 1998; Gainey & Klaas 2005; Greer et al. 1999; Klaas 2003; Klaas, McClendon and Gainey 2001; Laabs 1993a, 1993b; Smith, Vozikis & Varaksina 2006; Sparrow & Braun 2007).

There are numerous risks associated with outsourcing including failure to realise expected cost reductions, loss of control, loss of strategic flexibility, less than expected service and organisational resistance (Borg 2003; Cooke, et al. 2005; Khatri & Budhwar 2002). A means of minimising these and other risks is to apply a process that guides an organisation through the outsourcing tasks. The outsourcing process has been defined as a sequence of steps that define tasks and actions to be completed by the organisation. The literature on the HR outsourcing process has generally focused on these series of steps which are used together with practical suggestions and guidelines (Baden-Fuller, Targett & Hunt 2000; Embleton & Wright 1998; Greer et al. 1999; Lever 1997; Stroh & Treehuboff 2003). These steps describe the actions required to outsource one or more HR functions.

Research specifically on HR outsourcing within Australian organisations is limited (Sheehan, Nelson and Holland, 2002, Dasborough and Sue-Chan, 2002, Sheehan, 2009) as evidenced by a search on databases such as ABI Inform and Google Scholar. One of the few researchers investigating outsourcing within Australia is Sheehan (2009) who investigated the most likely HR functions to be outsourced and whether organisation size or sector affects the outsourcing decision and also the type of skills provided by the outsourcing service provider. The present study differs from this in that it

aims to identify the nature of the processes used for HR outsourcing experienced by mid to large Australian organisations.

The following section provides an overview of five HR outsourcing processes that are prominent in the literature. These five processes are used to develop a generic HR outsourcing process. This generic HR outsourcing process will be used as a basis for comparison with the survey findings of the outsourcing processes employed by Australian HR practitioners.

HR OUTSOURCING PROCESS

The HR outsourcing literature has proposed between three and five processes which are involved as shown in Table 1. In this context the term process refers to a series of steps which decision makers in organisations undertake when considering whether to outsource an activity or function and how they proceed with the outsourcing, and the management and evaluation of it. The steps as defined by each researcher are listed in columns and similar steps grouped in rows. Each unique step is given a step number as shown in the first column. Some process phases such as that of Lever (1997), Embleton and Wright (1998) and McClendon, Klaas and Gainey (2002) encompass more than one step and therefore are shown to span more than one row and also more than one step number.

Table 1: Outsourcing Process as Defined by Various Researchers

All researchers except Rajabzadeh and Rostamy (2008) combined steps 1a and 1b. Lever (1997) used the term 'Discovery phase' while Embleton and Wright (1998) used 'Strategic analysis', Greer et al. (1999) used 'Making the outsourcing decision' and McClendon et al. (2002) used 'The outsourcing decision'. The general aim being to evaluate the organisation's capabilities, strategies and goals and also review the value, cost and quality of HR functions performed in-house compared to outsourcing these HR functions. The result of this step is to determine which HR function(s), when outsourced will provide a competitive advantage for the organisation. Rajabzadeh and Rostamy (2008) divided step one into two phases, 'Consider organisations basic activities' and 'Evaluation of organisational potential' which when combined matches the first step of the other four researchers' processes.

Step 2 was defined by all five authors with the aim of selecting the most appropriate HR outsourcing provider. The organisation should determine the supplier's profile, request information such as capabilities, corporate culture, conduct site visits, and negotiate a mutually beneficial deal. Failure to select the right vendor could result in high switching costs and loss of negotiating position with a new vendor. Reference checks should be conducted and the vendor's capabilities and knowledge should be reviewed.

Step 3 was defined by two researchers, Lever (1997) and Greer et al. (1999). This step involves the transition of employees from the organisation to the HR outsourcing provider or to other positions within the organisation. The organisation must also consider and resolve conflict that could arise due to the change, such as loss or reduction of upward promotion or position opportunities due to the outsourcing decision.

Steps 4 and 5 are combined by all researchers except Greer et al. (1999) and Rajabzadeh and Rostamy (2008). These steps define the management of the outsourcing by the organisation. Successful management can only be achieved through careful monitoring of performance against predefined metrics and benchmarks. The management of the outsourcing provider will be different to the management of the HR function if it was performed in-house.

Greer et al. (1999) defined step 4 as 'Managing the vendor relationship' and Rajabzadeh and Rostamy (2008) used the title 'Implementing and monitoring' where the outsourcing provider's performance is measured and the relationship re-evaluated on a regular basis to ensure the organisation receives the maximum benefit. Step 5 defined by Greer et al. (1999) as 'Monitoring and evaluating vendor performance' and as 'Evaluation of outsourcing process' by Rajabzadeh and Rostamy (2008) is an extension of step 4 in which the outsourcing contract is either re-negotiated or terminated based upon the performance of the outsourcing service provider.

For the purpose of this study, steps in Table 1 formed the generic HR outsourcing process and five steps were identified. These were named Pre-outsourcing, Selecting a vendor, Manage the outsourcing transition, Management of the outsourcing contracts and Monitoring and assessing the impact. This

generic HR outsourcing process will be used as a basis for comparison with the HR outsourcing processes used by Australian organisations.

METHOD

The research objective was to examine the HR outsourcing practices in medium to large Australian organisations so the sample for this research was sourced from the Dunn and Bradstreet Company database that identified 2,127 mid to large Australian organisations. The non-probability sampling technique described by Saunders, Lewis and Thornhill (2007) was employed which relies upon self-selection sampling as data cannot be collected from the whole population and the data is to be used for statistical inference and be representative of the population. Given the desire to examine outsourcing across a large sample, a questionnaire was selected as the primary data gathering instrument. The questionnaire was developed after literature regarding outsourcing had been reviewed. The questionnaire was addressed to HR managers of the 2,127 organisations. A return rate of 8.17% was achieved with the return of 163 completed questionnaires.

The majority of the respondents were employed by organisations with between 101 to 250 employees (34.6%) with the second largest group being organisations between 251-500 employees (21.4%). This distribution matches the number of employees for medium to large Australian organisations.

MEASURES

The HR outsourcing processes used by the respondent organisations was obtained by presenting a list of process steps from which respondents were required to assess the use of each step, in their organisations, using a scale from 1 (Not taken at all) to 6 (Excellently done). The possible process steps were derived from the current literature (e.g. Baden-Fuller et al. 2000; Embleton & Wright 1998; Greer et al. 1999; Lever 1997). The magnitude of the mean for each process step denoted how well a particular step was taken by the respondent's organisations. Values above 4 were considered to represent average completion of the step based on the 6 point scale.

Apart from understanding the HR outsourcing process, outsourcing experience is also dependent on the capabilities of the HR outsourcing provider. Therefore, the criteria to select an outsourcing provider were also measured. A list of the selection criteria was provided, each with an associated scale where 1 represented 'Not important' to 5 that represented 'Extremely important'. The greater the average value for a particular selection criteria, the more important is that criteria when selecting a service provider.

RESULTS

The outsourcing process steps data was processed using factor analysis to identify any groupings of the respondent's responses. These groupings would then define particular processes with identified steps within the processes. The selection criteria data was analysed to determine the most important criteria for selecting a service provider.

HR Outsourcing Processes

The results of the HR outsourcing process data analysis aimed to identify sequences of activities that are conducted by an organisation prior to, during and after outsourcing a HR function. This sequence of activities constitutes the outsourcing process.

Table 2 illustrates that all steps except conducting due diligence, transferring in-house staff to the providers, outsourcing in progress and evaluating providers' performance against KPI were completed to at least an average level of satisfaction. All other steps were judged to have been completed at an above average level.

Table 2: HR Outsourcing Processing Steps

Factor analysis was employed to reveal grouping of the steps from the respondent data. The factor analysis was performed two times, the first to confirm that the data was suitable for factor analysis and to determine the number of factors to extract. The subsequent factor analysis was performed to refine the variable to factor loadings.

The unrotated component matrix identified four component factors and a loading of seventeen variables on these factors. There are two variables that contribute to two factors. To minimise this coupling the matrix was rotated.

The variable loading on the factors have changed resulting in one variable; *transition of the function to the provider(s)* loading on two factors. The loading coefficients of this variable on the two factors were too similar necessitating the removing this variable.

The factor analysis was repeated with the only change being the removal of this one variable. The final rotated component matrix is given in Table 3.

Table 3: HR Outsourcing Process Factors Identified

Based upon the variable to factor loadings, factor 1 consisted of the steps *assessing cost, initial screening of providers, selecting a provider(s), conducting due diligence, developing the contract and initiate the contract* and was denoted as the ‘screening and selecting’ process. This process represented the largest percentage of variance (44.24%) from the factor analysis. This is the process with the greatest number of steps which focuses on the analysis and evaluation of the outsourcing decision before initiating the contract. This process corresponds to published literature such as the outsourcing process steps defined by Greer, Youngblood and Gray (1999).

Factor 2 contained *formulating HR vision, assessing impact to in-house customers, assessing impact to organisation, evaluation outcomes against HR vision and evaluating providers’ performance against KPI* and was denoted as the ‘strategic fit’ process. This process represented 9.54% of the variance from the factor analysis. This process concentrates on the evaluation of the outsourcing decision and then moves to evaluating the performance of the HR outsourcing provider. Factor 3 included *interacting with providers, monitoring performance and managing providers* and was denoted the ‘monitoring and managing’ process. This process represented 7.02% of the variance from the factor analysis. These process steps focus on the management of the service providers with no emphasis placed on the pre-outsourcing steps of identifying and selecting a service provider.

Factor 4 consisted of *transferring staff* and *outsourcing in progress* variables and was named the 'measuring impact' process. This process represented 6.84% of the variance from the factor analysis. This is the process with the least steps and without the transferring staff step it describes the outsourcing process in a single step.

Table 4: Selection Criteria for HR Outsourced Functions

Based on the results as shown in Table 4, the most important criteria for selecting an outsourcing provider is their trustworthiness and their reputation in the industry. Also, of importance is their cost structure and history with the organisation. The least important criteria were the service provider's financial position and the cultural similarity to the organisation.

DISCUSSION

Outsourcing Process

The outsourcing process consists of the steps required to outsource a HR function. The data analysis identified four types of the outsourcing processes used by the respondent's organisations. These processes were termed; screening and selecting, strategic fit, managing and monitoring, and measuring impact and are shown in Figure 1.

Figure 1: Outsourcing Processes

Based on the literature the general outsourcing process may be defined using five steps; *pre outsourcing* (Baden-Fuller, Targett & Hunt 2000; Embleton & Wright 1998; Gainey, Klaas, & Moore, 2002; Greer, et al. 1999; Hindle 2005; Lever 1997; McClendon, et al. 2002), *selecting a vendor(s)*: (Baden-Fuller, et al. 2000; Embleton & Wright 1998; Greer, et al. 1999; McClendon, et al. 2002), *manage the outsourcing transition* (Greer, et al. 1999; Lever 1997), *management of the outsourcing contract* (Baden-Fuller, et al. 2000; Embleton & Wright 1998; Gainey, et al. 2002; Greer, et al. 1999; Lever 1997; McClendon, et al. 2002) and *monitoring and assessing the impact* (Baden-Fuller, et al.

2000; Embleton & Wright 1998; Gainey, et al. 2002; Greer, et al. 1999; Lever 1997; McClendon, et al. 2002). This process will be denoted “the generic HR outsourcing process” and describes the outsourcing process at a conceptual level without attempting to define specific steps. This research has attempted to define the HR outsourcing steps in greater detail. The four processes identified in this research are composed of various steps from the most complicated process with six steps to the simplest process with two steps. All four processes match, at some level, to existing literature. A comparison between the ‘screening and selecting’ process as defined from this research and *the generic HR outsourcing process* is shown in Table 5.

Table 5: Comparison of ‘Screening and Selecting’ and the Generic HR Outsourcing Process

A comparison between the ‘strategic fit’ process as defined in this research and *the generic HR outsourcing process* is shown in Table 6. The ‘strategic fit’ process focuses more on the early steps of the process; formulating HR vision, assessing impact to in-house customers, assessing impact to organisation which correspond to *the generic HR outsourcing process* pre outsourcing step.

Table 6: Comparison of Strategic Fit and the Generic HR Outsourcing Process

A comparison between the ‘managing and monitoring’ process as defined from this research and *the generic HR outsourcing process* is shown in Table 7. The ‘managing and monitoring’ process focuses more on the later steps; interacting with providers, monitoring performance and managing providers which correspond to ‘management of the outsourcing contracts’ and ‘monitoring and assessing the impact’ steps in *the generic HR outsourcing process*.

Table 7: Comparison of Managing and Monitoring and the Generic HR Outsourcing Process

A comparison between the ‘measuring impact’ process as defined from this research and *the generic HR outsourcing process* is shown in Table 8. The ‘measuring impact’ process focuses more on the later steps similarly to the ‘managing and monitoring’ process. However, the step ‘outsourcing in

progress' encompasses 'management of the outsourcing contracts' and 'monitoring and assessing the impact' steps in *the generic HR outsourcing process*. This process also includes the transferring staff step which matches 'manage the outsourcing transition' step in *the generic HR outsourcing process*'.

Table 8: Comparison of Measuring Impact Process and the Generic HR Outsourcing Process

The 'screening and selecting' process was the only one of the four that explicitly contained the HR outsourcing service provider selection step although this step must be undertaken to some degree by all processes. The analysis found that a service provider's trustworthiness and reputations were the most important criteria used by the respondent's organisations when choosing a vendor. These criteria agree with literature which stated that an organisation should consider the service provider's knowledge, culture, capabilities and reputation (Baden-Fuller, et al. 2000; Embleton & Wright 1998; Greer, et al. 1999). It was interesting to note that financial strength and cultural similarity were found to be the least important criteria for the surveyed organisations. This may be due to the level of outsourcing these organisations undertook. The outsourcing of transient HR functions, that is functions that are required intermittently such as recruitment and employee benefits, poses minimal financial risk to the organisation if the outsourcing service provider finds itself in financial difficulty. Also, the cultural difference between the service provider and the organisation would have minimal impact on the outsourcing of transient HR functions.

LIMITATIONS AND FUTURE RESEARCH

A couple of limitations to this research should be acknowledged. The quantitative process consisted of self-administered questionnaires sent only to HR managers of medium to large organisations resulting in a maximum of one respondent per organisation. Therefore, only a one dimensional view of the organisation was acquired from the perspective of the respondents. In order to obtain more accurate and valid research data, the information could have been collected from more than only one person per organisation.

The scope of this research only encompassed medium to large Australian organisations. By replicating this study in different countries and comparing the results these differences may be correlated with location specific factors such as socioeconomic environment, political influences and industry profile.

The information for this study was derived predominantly from HR managers. Therefore to obtain a broader perspective further research from the view point of the employee might be considered. Research which examines outsourcing from the perspective of the provider might also help to provide additional insights.

CONCLUSION

This research identified the HR outsourcing processes and the HR outsourcing vendor selection criteria used by Australian organisations. The organisations employed one of four outsourcing processes with the most complex process matching the generic HR outsourcing process. The other three processes contained few steps and partially matched the generic HR outsourcing process. This result confirms that HR outsourcing processes used by Australian organisations agree with processes defined in the literature. In addition, Australian organisations employ a different type of HR outsourcing process reducing in complexity from generic HR outsourcing process.

The analysis also found the selection criteria used by the organisations when choosing a service provider. The two most important criteria were the vendor's trustworthiness and reputation. The two least important criteria were the vendor's financial standing and cultural similarity with the organisation.

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Table 1: Outsourcing Process as Defined by Various Researchers

Step	Lever (1997)	Embleton and Wright (1998)	Greer et al. (1999)	McClendon et al. (2002)	Rajabzadeh and Rostamy (2008)
1a	Discovery	Strategic analysis	Making the outsourcing decision	The outsourcing decision	Consider organisation basic activities
1b					Evaluation of organisation potential
2	Negotiation	Selecting the provider	Selecting and negotiating with outsourcing vendor	Selecting the outsourcing vendor	Studying outsourcing pattern
3	Transition		Managing the outsourcing transition		
4	Assessment	Managing the relationship	Managing the vendor relationship	Managing the vendor relationship	Implementing and monitoring
5			Monitoring and evaluating vendor performance		Evaluation of outsourcing process

Table 2: HR Outsourcing Processing Steps

Steps	Mean	Std. Deviation
Formulating HR vision	4.00	1.588
Assessing cost	4.32	1.505
Assessing impact to in-house customers	4.21	1.509
Assessing impact to organisation	4.52	1.344
Evaluation outcomes against HR vision	4.02	1.495
Initial screening of providers	4.42	1.420
Selecting a provider(s)	4.61	1.234
Conducting due diligence	3.77	1.628
Develop the contract	4.35	1.345
Initiate contract	4.16	1.405
Transition function to provider(s)	4.27	1.513
Transferring staff	2.38	1.812
Outsourcing in progress	3.50	1.812
Interacting with providers	4.69	1.139
Monitoring performance	4.61	1.240
Evaluating providers performance against KPI	3.80	1.511
Managing providers	4.35	1.187

Table 3: HR Outsourcing Process Factors Identified

	Component			
	1	2	3	4
Formulating HR vision		.722		
Assessing cost	.634			
Assessing impact to in-house customers		.723		
Assessing impact to organisation		.749		
Evaluation outcomes against HR vision		.761		
Initial screening of providers	.778			
Selecting a provider(s)	.739			
Conducting due diligence	.661			
Developing the contract	.816			
Initiate contract	.706			
Transferring staff				.882
Outsourcing in progress				.608
Interacting with providers			.696	
Monitoring performance			.788	
Evaluating providers performance against KPI		.629		
Managing providers			.842	

Table 4: Selection Criteria for HR Outsourced Functions

Criteria	Mean	SD
Competitive price	3.27	1.39
Culture similarity	2.87	1.41
Well known	3.39	1.27
Trustworthy	4.06	1.18
Financial strength	2.56	1.22
Recommendation by others	3.05	1.40
Previously used	3.29	1.49

Table 5: Comparison of ‘Screening and Selecting’ and the Generic HR Outsourcing Process

Screening and Selecting Process	The Generic HR Outsourcing Process
Assessing costs	Pre outsourcing
Initial screening of providers	Selecting a vendor(s)
Selecting a provider	Selecting a vendor(s)
Conducting due diligence	Selecting a vendor(s)
Developing the contract	Selecting a vendor(s)
Initiating the contract	Manage the outsourcing transition Management of outsourcing contracts Monitoring and assessing the impact

Table 6: Comparison of Strategic Fit and the Generic HR Outsourcing Process

Strategic Fit Process	The Generic HR Outsourcing Process
Formulating HR vision	Pre outsourcing
Assessing impact to in-house customers	Pre outsourcing
Assessing impact to organisation	Pre outsourcing
	Selecting a vendor(s)
	Manage the outsourcing transition
Evaluating outcomes against HR vision	Monitoring and assessing the impact
Evaluating providers performance against HR vision	Management of outsourcing contracts Monitoring and assessing the impact

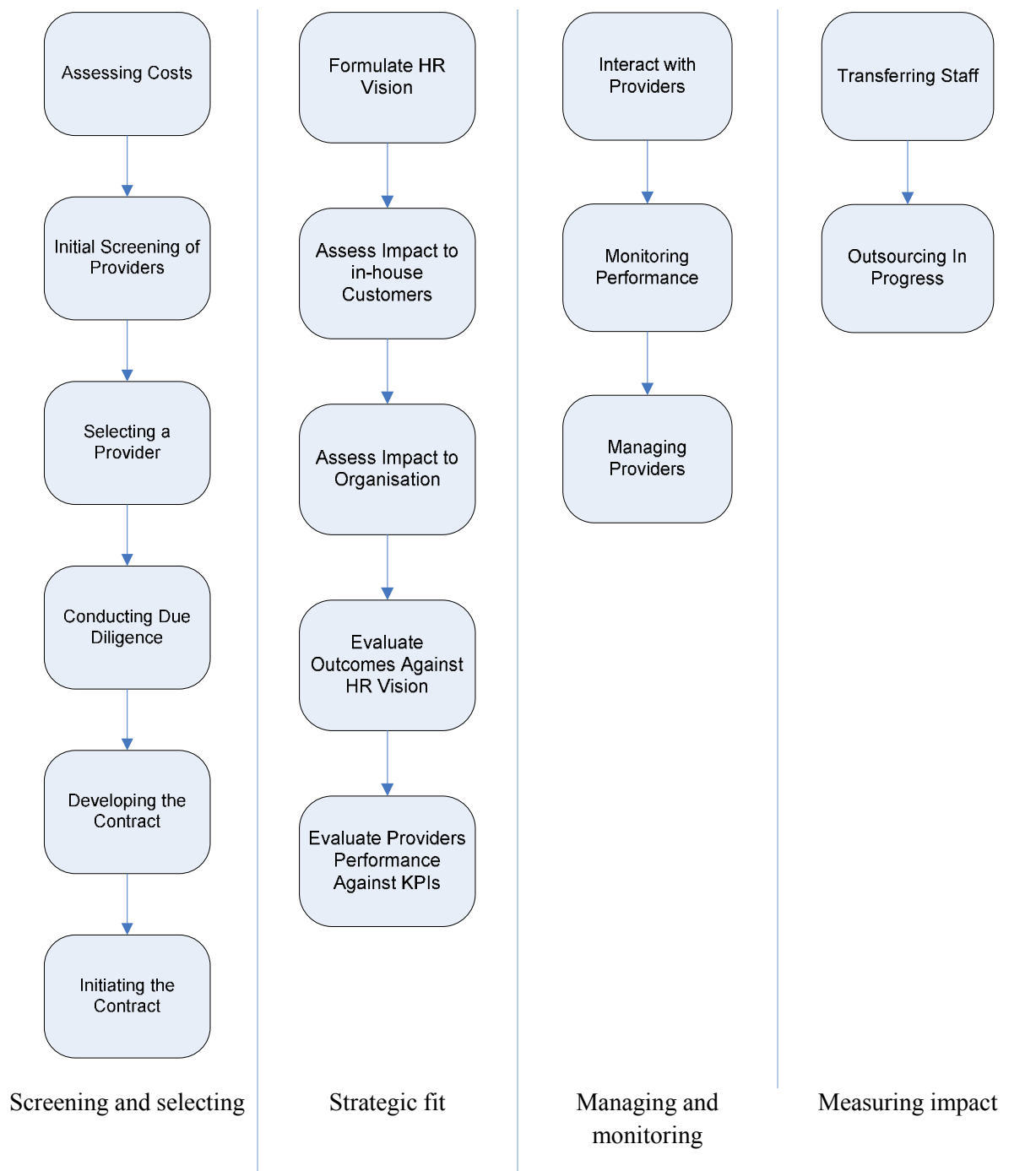
Table 7: Comparison of Managing and Monitoring and the Generic HR Outsourcing Process

Managing and Monitoring Process	The Generic HR Outsourcing Process
	Pre outsourcing
	Selecting a vendor(s)
	Manage the outsourcing transition
Interacting with providers	Management of the outsourcing contracts
Monitoring performance	Monitoring and assessing the impact
Managing providers	Monitoring and assessing the impact

Table 8: Comparison of Measuring Impact Process and the Generic HR Outsourcing Process

Measuring Impact Process	The Generic HR Outsourcing Process
	Pre outsourcing
	Selecting a vendor(s)
Transferring staff	Manage the outsourcing transition
Outsourcing in progress	Management of the outsourcing contracts Monitoring and assessing the impact

Figure 1: Outsourcing Processes



HRM Outsourcing Processes in Australian Organisations

Pattanee Susomrith

School of Management Edith Cowan University, Joondalup, Australia

Email: p.susomrith@ecu.edu.au

Professor Alan Brown

School of Management Edith Cowan University, Joondalup, Australia

Email: alan.brown@ecu.edu.au