INTERNATIONAL HRM

CHAPTER 8 OUTSOURCING AND HRM

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INTRODUCTION

In recent years, outsourcing has grown in scale, scope, and geographical reach due to advancements in transportation and communication technologies, increased market competition, management trends, and global trade liberalization. While outsourcing has dominated, there's also a trend of firms bringing work back in-house due to risks and quality concerns.

These trends pose challenges for human resource management, including adjusting employees during transitions, coordinating across organizations, and outsourcing HR functions.

CONCEPTUALIZING OUTSOURCING

The decision to outsource work has several distinct dimensions.

Where to carry out activities

Inside or outside the firm, referred to as insourcing versus outsourcing.

What to outsource

Either workers or activities, categorized as primary (integral to the firm's value chain) or support activities (facilitate the value chain).

The location of outsourced operations

Historically domestic, but now extending nationally and internationally, known as offshoring when crossing international boundaries.

EMPLOYMENT RESTRUCTURING AND THE OUTSOURCING DECISION

Companies can establish a subsidiary, use a third-party subcontractor, or initiate a joint venture. Managers must choose between dismissing the workforce or transferring them. Retaining staff during outsourcing helps transfer firm-specific knowledge but may conflict with cost-saving measures.

Choosing an intermediate organizational form like a subsidiary or joint venture can provide continuity in management and reduce disruption to employees. National context influences the costs and benefits of these choices.

01 Transfer of undertakings legislation

02 Industrial relations systems.

TRANSFER OF UNDERTAKINGS LEGISLATION

In the US, employee protection during outsourcing is minimal. Japan's Labour Contract Succession Law allows employee transfer to a separate company in specific instances. The EU's Acquired Rights Directive ensures robust employee rights during ownership transfers, including preserving collective agreements and consulting employee representatives. However, protection levels vary among EU states; for instance, UK legislation offers partial safeguards, while the Netherlands mandates consultation with works councils and unions during transfers.

INDUSTRIAL RELATIONS SYSTEMS

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Negotiation and consultation rights affect employees' participation in restructuring decisions, with stronger representation rights in some European countries.	The bargaining power of trade unions influences job security provisions and workers' ability to contest outsourcing decisions.	Differences in bargaining coverage and labor market regulations affect the cost differentials between in-house and outsourced workforces, influencing outsourcing incentives.	Union strategies can vary, from strategic campaigns to organizing subcontractors, impacting outsourcing decisions and labor market dynamics.

COORDINATION OF HRM ACROSS ORGANIZATIONAL BOUNDARIES

The following areas of HRM tend to be the focus of coordination efforts.

Employee selection and skill development	Work design	Scheduling and flexibility	Performance management
Clients may aim to set uniform standards for employee qualifications and training among subcontractors	Clients may promote common work design principles like team collaboration, participation initiatives, and shared procedures	Clients often require suppliers to be flexible in adjusting production volume quickly, impacting scheduling practices and necessitating greater employee schedule flexibility	Lead firms may align incentives to encourage shared goals, like achieving sales or performance targets

THE OUTSOURCING OF (PARTS OF) THE HR FUNCTION

HR outsourcing, driven by factors like cost reduction and technological advancements, has become common. It involves firms delegating HR functions to specialized consultants or technology providers, or engaging large global providers.

Firms weigh pros like cost reduction and access to better technology against cons like loss of control and morale issues.

Managers choose between integrating HR functions before outsourcing or letting providers transform them. Establishing Shared Services Centers (SSCs) is common, allowing for better standardization and cost savings.

STUDY CASE

·"The outsourcing of HRM by P&G and Unilever"

This case study examines the outsourcing strategies of two major companies in the consumer goods industry: Procter & Gamble (P&G) and Unilever.
Both companies needed to streamline their operations and increase efficiency. Before outsourcing HR services to IBM, P&G chose a more centralized approach by establishing a global shared service center (GBS).

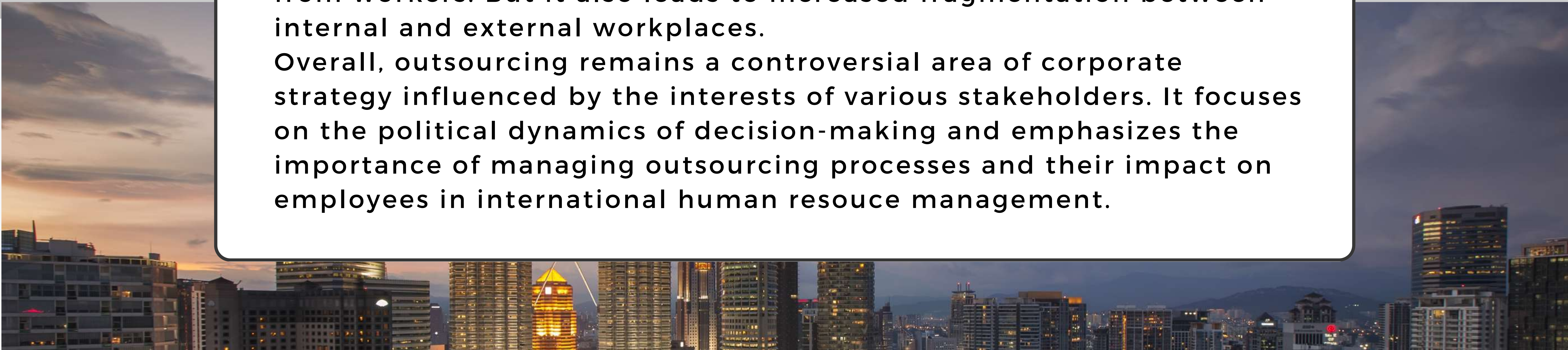
Despite the initial challenges, both companies continued outsourcing after the initial contract ended. P&G moved to Capita and Unilever partnered with his Accenture to focus on improving aspects of recruitment and talent management.

CONCLUSION

Outsourcing is an important aspect of HRM strategy for domestic and international companies. Companies have a variety of outsourcing options, but their decisions are often driven by institutional constraints. Despite these limitations, companies may find ways around them.

The outsourcing trend is contributing to both the standardization and fragmentation of wages and conditions across countries. It could undermine collective bargaining institutions or force concessions from workers. But it also leads to increased fragmentation between internal and external workplaces.

Overall, outsourcing remains a controversial area of corporate strategy influenced by the interests of various stakeholders. It focuses on the political dynamics of decision-making and emphasizes the importance of managing outsourcing processes and their impact on employees in international human resouce management.



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