

The Outsourcing Function for Human Resource Projects: A Path-Goal Theory Approach

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Abstract— Existing research has focused on the utilization of outsourcing as a function for human resources. However, applying project management principles to human resource outsourcing has not been studied. This report examines the application of project management principles when outsourcing specific functions of human resources, specifically through a path-goal theory of leadership. This theoretical discussion examines the strengths and weaknesses associated with outsourcing human resource functions. Next we discuss the relevance of project management principles to the function of outsourcing. By doing so, we conclude that the path-goal theory of leadership is an appropriate approach for human resource project managers when aligning tasks to staff competencies. In particular, the leadership styles of supportive and participative were most relevant approaches to such decision-making practices. It was found that outsourcing relational components of organizational tasks were not recommended due to the negative impact on organizational culture.

Keywords: Human resource management, Outsourcing, Path-goal theory, Project management.

I. INTRODUCTION

With the rise of global competitive industries has come the required implementation of outsourcing various projects and programs. Human resources have adopted outsourcing as a means to improve performance; however, Butler and Callahan (2012) have noted that existing literature fails to empirically confirm this. Human resource outsourcing has demonstrated benefits in terms of developing strategic partnerships and relaying employee concerns to top decision makers within a company (Davidson, 2005). As a rapidly growing practice, the management of human resource (HR) outsourcing certainly carries both challenges and benefits, which must be weighed. Identifying strategic improvements to the practice of outsourcing human resources, in light of the Path-Goal Theory, developed by Martin Evans and further expanded by Robert House (Langton, Robbins, & Judge, 2016), is necessary in managing a program and or project.

The foundation of this theory rests on the fact that the leader is responsible for instilling the necessary information, support, and resources to his or her followers in order for them to achieve their desired goals (Robbins & Judge, 2009). Better put, “The term *path-goal* implies effective leaders clarify followers’ paths to their work goals and make the journey easier by reducing roadblocks” (Langton, Robbins, & Judge, 2016, p. 386). The path-goal leader is one who aids his or her subordinates by providing pathways that lead to the desired outcomes of both the organization and individuals

(Schriesheim & Neider, 1996). Within the path-goal theory, Robert House proposed four specific leadership behaviors; those being a directive leader, supportive leader, participative leader, and achievement-oriented leader (Robbins & Judge, 2009). Each of these leadership behaviors can be exhibited contextually, due to the flexibility of the leader. The path-goal leader will demonstrate one or more of the above leadership behaviors, as they deem fit, based on the needs and pathway subordinates should follow.

Considering the path-goal theory is contextually contingent, the leader’s behavior is determined by either the environmental structure and or characteristics of their subordinates (Indvik, 1986). Indvik (1986) continues by clarifying the environmental structure to include task structure, norms among work groups, and formal authority styles within the organization. Whereas, Robbins and Judge (2009) clarify the subordinate structure as perceived organizational control, background experience, and perceived ability. Therefore, the essence of the path-goal leadership theory is where a leader’s behavior is determined only once he or she considers the environmental and subordinate structures; at which point the leader can then create a supportive pathway for subordinates to follow in order to achieve the desired outcomes, both organizationally and personally.

Even though a plethora of literature focuses on the independent concepts of outsourcing human resource functions and the path-goal theory, existing research fails to align both, in an attempt to further improve human resource projects. Thus, it is necessary to examine the path-goal theory leadership approach when selecting outsourcing as a necessary function for human resource projects. As defined by Lilly, Gray, and Virick (2005), this report will refer to outsourcing as a strategic action to allow external vendors the responsibility to complete a specific HR activity for an organization.

The purpose of this exploratory research study aims to provide a theoretical discussion examining the path-goal theory through a closer analysis of existing literature and outsourcing approaches. The following report will provide a literature review discussing the usage of outsourcing to improve human resource functions; an analysis surrounding the strengths and weaknesses associated with current outsourcing practices; and a synthesis of required outsourcing changes to improve strategic human resource management projects. A discussion and recommendations will identify that, during outsourcing, the path-goal leader must ensure each team member is working in line with their areas of competencies and receiving the necessary supports, from leadership, to further enable them to work productively. As employees’ roles are defined around their competencies, such outsourcing functions can more easily be identified.

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Furthermore, both leader and team members must set clear goals with a focus on results, in a supportive and participative organizational climate.

II. LITERATURE REVIEW

Human resource outsourcing is considered to be one of the best uses of organizational resources, rather than just a means for cost savings and reduction of employees (Davidson, 2005). However, Davidson's (2005) position on outsourcing may still be contrary to the cost saving intentions of most businesses. In a 2004 survey, it was discovered that HR projects, involving employee background check, assistance and counseling, and Flexible Spending Accounts were the areas that were entirely outsourced (Lilly et al., 2005). The question organizations must ask themselves is not, how can we outsource HR? But rather, which areas of HR are most appropriate to outsource, in an effort to not compromise a strategic vision and goal? Human resources functions appropriate for outsourcing should be classified as both transactional activities and low in strategic value (Gilley, Greer, & Rasheed, 2005; Greer, 2001). Such functions could include, but not limited to, relocating administration, payroll, employee records, and benefits are strong candidates for outsourcing; rather than relational items, such as training and performance evaluation (Gilley et al., 2005). Baron and Kreps (1999) suggest outsourcing tasks that require employees unaffected by the organizational culture, where lack of expertise or cost of expertise are barriers, and tasks that do not require managerial supervision.

In terms of risks associated with outsourcing the size of an organization does not determine risk, especially in terms of outsourcing IT functions, but rather the strength of the organization will determine the risk level associated with outsourcing functions (Peak, Windsor, & Conover, 2001). Companies who have stronger market position have a decreased level of risk, as compared to companies with weaker market position.

Therefore, an improved approach to managing human resource outsourcing is for organizations to identify which HR functions have lower relational dependencies and are strictly transactional. Once these areas are determined, only then can organizations begin outsourcing such processes while lowering the risks, without compromising their strategic vision

A. An Analysis of Existing Practices Associated with Outsourcing Human Resources

Outsourcing of human resource functions does come with the best intentions and must be considered within various industries. As Richards (2004) noted, "...in outsourcing and offshoring...HR must constantly look for, and drive to, new solutions that improve cost structures and operating efficiency" (p. 19). There have certainly existed a number of poignant issues surrounding the notion of offshore outsourcing of human resources. In a study comparing equivalent call centers between the UK and India, Cacanans (2004) discovered the challenge of employee turnover facing human resource departments. On average, UK employees, in these centers, remained in their role for at least three years, while those in India would see turnover rates nearly every eleven months. As a result, there existed a direct link between higher customer service failures in India (Cacanans, 2004).

This begged the question, why is the turnover rate so high offshore? As Cacanans (2004) pointed out, research discovered that middle management was almost non-existent, which obviously led to an organizational gap requiring HR attention.

Economic attention has gravitated toward the recessionary impact felt globally. An observed trend found during economic slowdowns points toward organizations utilizing outsourcing predominantly for cost savings advantages; even though it has been shown that over a long period of time, customer relations are strengthened through service and quality, as opposed to price (Edgell, Meister, & Stamp, 2008). Former economic slowdowns have demonstrated that service and quality supersede cost savings (Edgell et al., 2008). Furthermore, another current issue within business affairs concerns the affects of global sourcing on exchange rates. At one time, it was thought that when a country's dollar depreciated, outsourcing would be less appealing due to the increased costs. However, Kotabe (2008) pointed out that a depreciating dollar has minimal effects on an organization's pursuit to outsource. This has been identified through four main reasons (Kotabe, 2008). First, companies have realized that the time it takes to partner with overseas suppliers is too substantial in light of the fluctuating exchange rate. Second, domestic suppliers have been known to increase their prices, in accordance to the exchange rate. Third, considering organizations are developing international relationships with overseas suppliers, the fluctuating exchange rate is not viewed as a significant problem. Finally, those companies with global operations in a variety of locations have been known to place more emphasis on their suppliers in one country over another (Kotabe, 2008).

In an effort to relay customers away from negative experiences associated with offshore call centers, human resource departments have made significant cuts in customer representative positions, by outsourcing the development of web-based self service and voice automation tools (Snow, 2005). Snow (2005) purports that the future of perfecting these tools will be priority for organizations, as language and service advancements are made. In addition, web and voice automation tools have the potential for mass savings, without the human resource frustrations of employee turnover and insufficient training and management. Cacanans (2004) identified how many companies have realized that offshore outsourcing has led to increased costs and a decrease in customers, due to inadequate service. Thus, options are beginning to arise out of the pursuit of outsourcing, as organizations are beginning to view the strengths and weaknesses of offshore human resource functions.

B. An Improved Project-Approach to Outsourcing Human Resource Functions

Human resource outsourcing has been widespread among a vast number of industries. Barron and Kreps (1999) suggest three rationales for integrating such a process into an organization's human resource functions. Firstly, there is a transactional benefit associated with outsourcing. Companies gain flexibility as they negotiate the outsourced labor to contingent workers and independent contractors for specific project or program needs. However, organizations that benefit from a transactional perspective capitalize when they evaluate

contract timelines, in terms of incentives associated with longer-term relationships versus shorter. Such contract timelines should be implemented within the project scope and planning. Secondly, there is the benefit from a social perspective. The social status accompanied with being an employee can be conferred as *membership*. However, not all employee relationships are dependent. When roles are acted upon and not dependent on each other, only then can these positions successfully be outsourced. Such examples include, security, maintenance, and operations of a warehouse. Finally, there is the rationale associated with administrative benefits. Project skillsets, such as a web designer, that are used more infrequently by a company can lower administrative costs. Furthermore, lower level roles, such as clerical duties, may offer less expense, when contracted out to third party vendors. Lastly, any HR task in which a project manager has little experience in managing or chooses not to manage, may offer better administrative reasons for outsourcing.

Rationale for utilizing outsourced projects within an organization certainly reflects the benefits from a transactional, social and administrative perspective. Through a consideration of these functions, only then can organizations develop an improved approach to outsourcing human resource functions.

Bush (2009) purports that the four types of path-goal theory leadership styles (directive, supportive, participative, and achievement-oriented) would be useful when contracting out functions. In particular, she adds that a supportive leadership style would bode well to outsource roles where employees find their work either mundane or unchallenging; whereas, participative leadership compliments the idea of hiring independent contractors, considering the need for outsourced organizational tasks to be supported and equipped with adequate training. It is critical that projects led by HR leaders, who are tasked with developing contractual relationships, must be held accountable for results (Bush, 2009).

C. Required Change Factors for Developing Project Management in Human Resources

Effective human resource management within a program is pinnacle to the outworking of a project. The Project Management Institute (2008) clearly depicts this when they state “[b]y looking at the portfolio of components, the human resources function can identify the skills and qualifications needed for success and then work to ensure skilled resources are available when needed. The human resources function also works to facilitate resource realignment and mitigate the negative impact on people resulting from organizational changes that result when portfolio components are delivered” (p. 13). In other words, portfolio managers and human resources must work closely together in identifying staffing needs and required competencies in relation to the strategic business plan of the organization.

According to the Project Management Body of Knowledge [PMBOK] (2013), the human resource function of an organization oversees four areas in a program management. First, is the actual human resources planning. This area can take on three unique approaches to laying out the plan. One method is to categorize the organization under

either a hierarchal, matrix-based, or text-oriented chart. Another method is through networking with staff at various levels within the organization in order to understand first-hand the pressing needs on employees. Finally, is through organizational theory; which aims to apply proven principles in understanding the behavior of individuals, teams, and business units.

The second function of human resources is found in the acquirement of a project team. Five approaches, as provided by the PMBOK (2013) are discussed. Most notably is the acquisition function, which stresses the need to outsource HR services when staff is not competent for completing particular tasks.

The third function of human resources for program management is in the development of a project team. The PMBOK (2013) emphasizes the need to build a team that exemplifies cohesion, trust, and competency.

The final function serves as the management of the project team. Four approaches, as indicated by the PMBOK (2013) coincide to program management; those being, a collective work of observations and conversations with project team members, scheduled formal and informal project performance appraisals, creating a culture where differences of opinion are welcomed through healthy conflict management, and the management of an issue log for resolving expected and unexpected issues and obstacles.

In application to effective outsourcing practices, there is no question that strong effective leadership can best aid in developing successful outsourced HR projects focused on results; particularly those functions where in-house skills are absent (PMBOK, 2013). As discussed earlier by Bush (2009), both Supportive and Participative leadership styles are most significant to managing human resource outsourcing. Belcourt and McBey (2008) discuss three leadership traits in successful outsourcing, as identified by the Human Resource Outsourcing Association. Such traits include leaders who can develop benchmarks and data that are meaningful, effective change management skills, and the ability to develop contract and performance management skills. However, as cited by Belcourt and McBey (2008) the Centre for Outsourcing Research and Education identify two major problems arising from ineffective leadership and management of outsourced projects. First, is a lack of defining service. If the contractual work has unclear timelines, schedules, terms, and conditions, the project is likely to fail. Additionally, is a failure to manage. It is suggested that a person be assigned the role of monitoring the contractual workers in order to ensure results.

As human resource functions are outsourced, human resource personnel require strong leadership, in order to ensure results and clear expectations. By opening regular lines of communication, human resource departments can better monitor projects, in order that both the organization’s leaders overseeing the outsourced projects and contractual workers are kept accountable.

III. DISCUSSION AND IMPLICATIONS OF THE STUDY

As supported in this discussion is the need to integrate the Path-Goal theory into an effective outworking of program management within HR outsourcing. If Bush (1999) is correct

in stating that the style of participative leadership is most effective in outsourcing functions, then one must need to better understand how this style is defined. Gustafson and Kleiner (1994) assert that participative leadership is best exercised when team members are empowered by a leader who facilitates an environment where there is shared responsibility between employees and managers, thus leading to greater productivity. Whitener (2007) aptly points out that the Path-Goal theory style of leadership is best exemplified when the leader comes along side of his or her team members, helps them set various goals, and develop a path to accomplish the goal(s). In application to the hiring of vendors, by the HR program manager, Path-Goal theory is accomplished when the program manager understands the strengths of his or her team members and outsources those functions which tend to be exemplified as weaker areas of team competencies. Thus, this leadership style is exercised when team members are working in areas of their strengths, due to the fact that each team member is working in line with their competencies.

The relationship between organizational culture and productivity has vastly been discussed. Furthermore, the application of outsourcing HR functions will either complicate or catapult the productivity of a project team. It has been shown that the top two reasons why a business team fails, is largely in part due to unclear goals and the unwillingness to change objectives (Most, 2006). That being said, organizations do have a responsibility to empower their teams in order to boost productivity. Most (2006) continues by claiming that five prerequisites to success are girded in organizational cultures. Those being, "...the right composition of team members; a clear definition of the scope of the work required; clear attainable goals; the time needed to achieve the goals; and the support of the management" (p. 29). In application to outsourcing, the path-goal leader must ensure each team member is working in line with their areas of competencies and receiving the necessary supports, from leadership, to further enable them to work productively. Second, Most's (2006) reference to 'attainable goals' and 'support of the management' reinforces the path-goal style, due to the fact that both leader and team members set goals and work toward the accomplishment of these goals, in a manner that is both supportive and participative. Keep in mind that the intended goals are utilized to not only boost the productivity of the project team, but also support the organizational goals as well (Project Management Institute, 2008)

IV. CONCLUSION

Outsourcing is becoming more popular in today's industries. The challenge lies at the heart of equipping human resource departments in the management of such projects. As human resource functions are selected for outsourcing, it is essential that the project requirements be managed by the right leadership styles, as purported by Robert House's Path-Goal Theory. This report demonstrated the need to outsource HR functions to vendors as a means to catapult an organization's program management if the outcomes can support the organizational vision, create stronger competitive

advantage, and increase customer support. It was found that outsourcing relational components of an organization are not recommended as this practice can potentially affect the organizational culture in a negative manner. Next, in a closer analysis to the Path-Goal theory the leadership styles of both supportive and participative were found to align with decision-making practices related to outsourcing. A pinnacle consideration for HR program managers is whether or not the organization has internal competencies to accomplish the required functions. It is critical that team members work within their areas of expertise and competencies. Project managers, responsible for HR projects should be quick to identify team members' competencies and ensure staff is working within their strengths. When a competency-gap analysis has been completed, outsourcing such functions become a viable option.

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