

Antecedents and Consequences of Performance Management Outsourcing

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This research intended to examine the main factors that influence the decision-making of performance management outsourcing that is increasing globally, and to scrutinize the cost cutting effects that result from the performance management outsourcing. First we looked at the correlation between the company specificity of performance management, HR involvement, outsourcing of performance management of competing companies, the size of the company, and the implementation of performance management outsourcing. Then we performed regression analyses and it was found that company specificity and the behavior of competing companies statistically have a meaningful relationship with the decision-making of the performance management outsourcing. Moreover, the cost-cutting effects that result from the outsourcing of performance management were found to decrease gradually.

1. Introduction

In this paper, we examined the outsourcing of performance management in Korean companies. Specifically, we examined the antecedents and consequences of performance management outsourcing.

Outsourcing means performing certain functions and skills or activities of a company by consigning such part to an outside company, and is a concept that is being contrasted to the in-house financing of business activities, technology, and raw materials. Discussions concerning the definition of outsourcing are being unfolded in various ways, where in the beginning it was applied centrally to the information service but its concept was gradually extended to cover other areas. The broad sense of outsourcing means the external financing of business skills or resources, and the narrow sense of outsourcing means that the service provider is responsible for the performance of all stages of business from planning and designing to managing and operating.

2. Literature Review

2.1 Company specificity of performance management and the outsourcing of performance management

It can be said that the chief theoretical framework that explains human resources outsourcing is transaction costs theory and the resource-based view.

These theories are all based on the assumption that there is a need for specialized investment in human and material assets in order to achieve efficient production, and so they explain the process of decision-making in purchase-production.

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Accumulating the human and physical assets of company specificity reduces production costs of the company, enables innovation, and enables the production of products that meet the product design (Klein et al. 1978; Williamson 1985). However, when dealing with the unique assets of company, the supplier may threaten the purchaser by abusing the shortcomings of not being able to terminate the business relationship or may show opportunistic behavior such as trying to have exclusive possession of the unique assets (Klein et al. 1978). Therefore, in such a case, there is a need for a contractual safety device relating to the transaction, and this creates costs that result from negotiation, supervision, and implementation. Hence, when outsourcing a unique asset of a company, transaction costs rise (Williamson 1985). When the specificity of company activities increases, the market performance of such activities decline and ultimately result in a vertical integration (Poppo & Zenger 1998).

When you divide the management of human resources into the main functions of human resources management and routine management, performance management can be seen as one of the routine managements. Therefore, the more performance management, the company specificity falls in contrast to the main functions of human resources management, and a higher degree of outsourcing in contrast to the other activities of human resources management such as recruitment, selection and training. Accordingly, the following hypotheses were established.

Hypothesis 1a: The specificity of performance management will be low in contrast to the specificity of human resource management activities such as recruitment, selection, and training.

Hypothesis 1b: The degree of performance management outsourcing will be high in contrast to the degree of outsourcing of human resources management activities such as recruitment, selection and training.

2.2 The Strategic engagement in human resources management and the outsourcing of performance management

Prahalad (1990) asserted that a company needs a strategic management in its core competence in order to gain the competitive edge and to maintain this for a long-term. As aforementioned, according to the viewpoint of the capital base, in the modern company environment of intensified competition and the rapid change, focusing strategically on the core skills and outsourcing the other areas to an external expert firm can maximize the efficiency of investment and can be a measure to improve the performance of companies.

Recently, the interest for strategic human resource management activities became universal, and the more degree of understanding an HR manager has, the more he/she will consider the process and strategic direction, which is the backbone of company activities and will be more strategic and business-oriented. The more the manager devotes himself/herself to strategic management, the more he/she will focus on the outcome of the organization, there's a need for a deep understanding of the company's systems and culture, and is highly likely to be attentive to the activities of HR management that has strong ties with strategy. Inversely, such

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managers will lack the degree of focus on the performance of routine activities. Becker and Gerhart (1996) classified performance management into routine management, and asserted that there's a likelihood that managers who are highly engaged in strategic HR will not focus much on performance management. Therefore, the higher the strategic engagement of HR managers, the cause to outsource performance management will increase.

Hypothesis 2: The more the strategic importance of HR management, the degree of performance management outsourcing will be higher.

2.3 The implementation of outsourcing by competitors

Asch (1951) explained the phenomenon of conformity through experiments. Conformity means one's voluntary compliance with the actions, attitudes, principles of a group. Decision-making like choosing to outsource human resource management can be deviated according to the behavioral patterns of its competitor (Mansfield 1977). The behavior of competitors in the market for human resources management outsourcing is affected by a sort of a signal that estimate the result of the outsourcing decision, and so they can bring the effect of providing information that facilitate the transaction during the process of outsourcing decision-making. Therefore, whether your main competitors are outsourcing the performance management will influence the decision-making of performance management outsourcing of a company.

Hypothesis 3: If competitors are outsourcing their performance management, the relevant company is likely to also outsource their performance management.

2.4 The size of a company and the outsourcing of performance management

A company usually wants to strategically internalize their necessary assets to the extent possible (Hunt & Morgan 1995). This entails a consideration of whether the relevant company has the ability to internalize its assets or skills. Based on the determination of such capabilities, the decision-making in the purchase-production can change. In the case of a large company, they can internalize by directly developing the required assets and skills with their accumulated assets and skills or can achieve this by mergers and acquisition. Moreover, it can be said that additional investment for the balance and mediation of the relevant assets or skill, organizational culture and other assets or skills is comparatively simple.

Furthermore, it is highly likely that the size of a company will influence the costs relating to outsourcing due to the economic effects of its size (Abraham & Taylor 1996). According to the IOMA's 2003 survey on the satisfaction of performance management outsourcing, the size of an organization is said to be the principal factor in the decision-making of outsourcing. When the size of an organization grows, the likelihood of having the performance management skill within the organization increases and thus outsourcing becomes uncommon. SMEs will realize that the cost for in-house management of performance management is high in contrast to the large companies, and so the likelihood of outsourcing is high. Therefore, when viewed from the aspect of the competency and the management costs of internalization, the size of a company has a bearing on whether to engage in

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performance management outsourcing. Accordingly,

Hypothesis 4: When the size of a company increases, the degree of performance management outsourcing will decrease.

2.5 The cost cutting effects of performance management outsourcing

The general factors that are considered by companies when deciding whether to outsource are in three broad terms the wage and saving costs relating to welfare benefits, fixing the work load of their regular workforce, and the use of specialized services (Abraham & Taylor 1996).

The focus on cost cutting and core competency can become the main reason for the activity of company outsourcing, and in the case of outsourcing performance management which is a one of the routine managements, such purpose will become much clearer. However, although the effects of performance management outsourcing will not be dealt with in depth in this discussion, the oppositions of performance management outsourcing claim that such cost cutting effects are fictional. In the first year, in-house performance management can be more costly compared to outsourcing it, but as time progresses in-house management costs will reduce and in the long run, outsourcing performance management cannot bring cost cutting effects.

Therefore, the cost cutting effects as a result of performance management outsourcing will also show a log fan shaped form according to the experience effects, and thus although the cost cutting effects of performance management outsourcing will continue for a long-term, yet it can be interpreted to mean that its limitation effects will decline. Accordingly,

Hypothesis 5: The cost reducing effects of performance management outsourcing will continue in the long-term but will diminish over time.

3. The Methodology and Model

For the hypotheses test of this study, this survey was carried out with companies taken from the random sampling from public client list of six HR specialized consulting companies and also companies registered to DART. Questionnaires were sent to the of HR managers of 169 companies in which 86 were collected, and among those, 82 were valid after excluding overlapping data or missing values.

These companies comprised of twenty nine manufacturing businesses, six construction businesses, three network businesses, fifteen financial and insurance businesses, six business service companies, two educational service companies, one service business relating to entertainment, culture, sports, eleven ICT industries, and other types of businesses such as distributors of foreign brand automobiles.

Items of the survey were made with reference to those used in the research of Poppo and Zenger (1998), and were gauged at seven point scale of Likert. Each survey items consists of at least two detailed items and the variables were converted by factorial analysis.

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In order to find out whether company specificity of performance management, HR involvement, competitors' outsourcing of performance management and the size of companies influence the decision-making of performance management outsourcing, the correlation coefficient of each variable must be examined. In addition, in order to predict how the decision-making in the performance management outsourcing will be in various circumstances, the dependent variable a logistic regression model was set up so as to place dependent variable in the outsourcing of performance management, and the explanatory variable in the company specificity of performance management, HR involvement, status of competitors' performance management outsourcing, and the size of the company. In terms of whether to outsource performance management, companies that was planning and expecting to carry out the outsourcing of performance management was analyzed as 1, companies that did not outsource nor have plans to outsource hereafter were analyzed as 0, and the five companies that did not outsource nor have the plan to yet were not certain about their future plans to carry out outsourcing were excluded from the analysis.

In order to find out the company specificity of performance management in contrast to the company specificity of HR management activities such as recruitment, selection, training & development and promotion management, variables x_{11} and x_{12} that measure each one of them were t-examined. Moreover, in order to examine the influence such differences have on the decision-making of how much outsourcing is to be carried in relation to the management activities, regression analysis was carried out.

Survey item 5 measures how much of the performance management is outsourced in relation to the degree of outsourcing of HR management activities such as recruitment, selection, education · training and promotion management, or measures the inclinations of companies that are not carrying out the outsourcing of such activities. This was set as a dependent variable, and whether the influence of variable x_{11} and x_{12} was meaningful was examined by regression analysis.

4. The Findings

With regards to the logistic regression model that examines factors that influence the decision-making of performance management outsourcing, basic stats and the correlation of variables show the following.

Examining the correlation coefficient, we can notice that the variables that show statistically meaningful correlation with $\text{logit}(y)$ are the company specificity (x_{11}) and competitor's outsourcing of performance management (x_3). $\text{Logit}(y)$ and the correlation coefficients among the two variables show this. Moreover, the P-value for each of them is below 0.0001. Therefore, $\text{logit}(y)$ and company specificity of performance management has a yin correlation, and the $\text{logit}(y)$ and competitor's

Table 1. Descriptive Statistics

Variables	Mean	St Dev	1	2	3	4	5
1. Firm specificity in performance mgmt	9.15	1.41	1.00				
2. HR involvement	10.23	1.26	0.34*	1.00			
3. Competitor's outsourcing of performance mgmt	3.08	1.74	-0.13	-0.16	1.00		
4. firm size	2602	5413	0.14	0.11	0.09	1.00	
5. Outsourcing of performance management	0.54	0.45	-0.24*	-0.11	0.47**	0.05	1.00

*p < 0.05; **p < 0.01

outsourcing of performance management has a yang correlation. In other words, we can adopt the hypothesis 3 that asserts that when a competitor engages in outsourcing performance management, the relevant company is highly likely to also outsource performance management. However, HR involvement and company size does not statistically show a meaningful correlation.

The results of the logistic regression analysis are the following.

Table 2. Outsourcing of performance management

Variables	Coefficient	St Err	P-value
Firm specificity in performance mgmt	0.1902	0.0526	0.0006
Competitor's outsourcing of performance mgmt	-0.5940	0.1599	0.0002
χ^2	19.0529		< .0001

The variable x_2 , x_4 that show HR involvement and company size was excluded from the variable selection as they were found not to statistically show significance from the above model. In other words, hypotheses 2 and 4 did not stand.

5. The company specificity of management activities and the decision-making of outsourcing

In order to examine hypothesis 1a, variables x_{11} that show company specificity of performance management and variable x_{12} that measure the company specificity of HR management activities such as recruitment, selection, training & development and promotion management were t-examined and the results are as follows.

Table 3. Difference in firm specific managerial activities

Variables	Mean	St Dev	St Err	P-value
x ₁₁	9.1582	1.4209	0.1794	<.0001
x ₁₂	10.96	1.847	0.2315	<.0001

x₁₁: Firm specificity in performance mgmt

x₁₂: Firm specific managerial activities

The average of company specificity of performance management and the average of company specificity of HR management activities such as recruitment, selection, training & development and promotion management were shown above, and the difference between the two were statistically found to be highly significant. In other words, hypothesis 1a is adopted to be statistically significant.

When outsourcing more of performance management than HR management activities such as recruitment, selection, training & development and promotion management or have the intention to, these are the results after a t-examination.

Table 4. Use of outsourcing

Variables	Mean	St Dev	St Err	P-value
y _r	4.0245	1.1561	0.1406	0.0001

y_r: Relative use of performance management use

In other words, hypothesis 1b can be adopted as statistically significant. In the logistic regression model that was mentioned earlier, the company specificity of performance management was already found to be an explanatory variable in the decision-making of performance management outsourcing. In order to examine whether the difference in the company specificity of HR management activities has influence in the decision-making of outsourcing, the results from the regression analysis are as follows.

Although the influence of company specificity of performance management is statistically showing to be highly significant regarding the high degree of performance management outsourcing or its intentions in contrast to the other main HR management activities and given the high suitability of the model, the main company specificity of HR management activities seems to be lacking in its explanation.

Table 5. Outsourcing of HR and firm specificity

Variables	Coefficient	St Err	P-value
Firm specificity in performance mgmt	0.32517	0.10112	0.0049**
Firm specificity in HRM	0.12520	0.08815	0.1796
R^2	0.9056		
F	439.25		< .0001

*p < 0.05; **p < 0.01

The results of analysis through log linear model of the cost cutting effects of performance management outsourcing and its progress are the following.

Table 6. Cost savings after implementation

Variables	Coefficient	St Err	P-value
Years after PA outsourcing	0.18005	0.02652	<.0001**
R^2	0.6866		
F	46.58		< .0001

*p < 0.05; **p < 0.01

Table 7. Trends in cost savings after implementation

Variables	Coefficient	St Err	P-value
Years after PA outsourcing	0.17855	0.02550	<.0001**
R^2	0.6854		
F	45.47		< .0001

*p < 0.05; **p < 0.01

According to the above results, cost cutting effects and its trend all have outsourcing implementation and the log linear relationship. In other words, cost cutting effects and its trend will rapidly increase in the beginning but the rate of increase thereafter will be slacking, thus the successive diminution of the limitation effects will be manifested.

6. Summary and Conclusions

The hypothesis that company specificity of performance management and the behavior of competitors influence the decision-making of performance management outsourcing was statistically shown to be significant. However, HR involvement and the size of company that was assumed to influence whether to outsource performance management was not selected as a variable in the regression model because of the low explanatory factor. Such results may be manifested due to the

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following problems.

First, as HR involvement was shown to be a insignificant explanatory variable, hypothesis 2 that asserts that the more recognition of the engagement role of the HR department regarding the strategy of HR managers, the higher the applicability of outsourcing will be, was not supported. This research does not examine the problems of companies that enforce piece rate. Piece rate is an area that must be managed prudently taking into account the motivation of employees, and must form a good connection with the performance and evaluation. Therefore, for companies that carries out the piece rate system and intends to stress the significance, circumstances where the company will not outsource their performance management when HR involvement is rather high, may occur. And the data that were collected without segmenting such circumstances may have limitations in showing the actual relationship among variables. Nonetheless, even in companies that enforce the piece rate, it cannot be said that the recognition of the connection between the performance management and the performance evaluation is high, and thus the problems of performance can be seen as strategic and the performance management can be seen as a simple management operation.

When examining the influence of company size, in the case of a company that is too small to have a proper system of HR management activities, outsourcing of management activities may not be considered at all. Therefore, until the size of a company reaches a certain level, hypothesis 4 may not be applicable, and the performance management outsourcing according to the size of the company may not show a linear relationship (or log-linear). In other words, a middle sized company may show the bell-shape curve that signifies the highest outsourcing applicability.

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