Outsourcing vs insourcing in the human resource supply chain: a comparison of five generic models

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Abstract

Purpose – The purpose of this paper is to develop a typology of human resource supply chain (HRSC) models that enable comparison of different models for making more informed strategic HR outsourcing decisions.

Design/methodology/approach – In the paper interviews and company documents were used to construct multiple comparative case studies.

Findings – The paper finds that five generic HRSC models were identified in two broad categories – two in-sourcing models (local contracting and HR centralizing) and three outsourcing models (purchasing HR, non-staffing HR, and staffing HR). Additional findings relate to the redistribution of power and competencies for managing HR within and between organizations.

Research limitations/implications – The paper shows that future research should account for different HRSC models to address various dependent variables, especially distribution of power and HR competencies in managing HR supply chains and contribution to firm performance. Future studies on strategic alliances can benefit from building on the HRSC models in building different types of partnerships.

Practical implications – In this paper it is found that managers have a means for comparison of different HRSC models to make more fully informed strategic outsourcing decisions and to develop related HR competencies related to each one of the generic models.

Originality/value – This paper clarifies critical differences in five different generic HRSC models that must be accounted for in research on strategic HR and outsourcing. Without understanding the differences in HRSCs, managers often unwittingly relinquish power and control over critical HR functions to other organizational units or vendor organizations.

Keywords Supply chain management, Outsourcing, Flexible labour

Paper type Research paper

Organizations and researchers are struggling with the question: "Should HR activities be provided in-house or should all or part of these activities be outsourced?". The relationship between organizational structure and the HR function is an important variable that has not been thoroughly addressed in past research. HR is the "philosophy, policies, procedures, and practices related to the management of people within an organization" (French, 2003). The individual activities that comprise HR systems include not only the employee life cycle (from recruiting to termination), but also planning for organizational staffing needs and improving organizational

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effectiveness. While research continues, many organizations are experimenting with outsourcing various combinations of human resource activities, including outsourcing the entire function (Grundy, 1998; Klaas *et al.*, 1998; Lever, 1997).

This paper outlines five generic models of HR outsourcing related to staffing of non-core employees. Non-core employees are temporary or contract workers that work at a client firm's location. Focusing on outsourcing these HR activities is consistent with data collected by Khatri and Budhwar (2002) indicating that recruitment of contract workers is an area for future outsourcing. The purpose of this paper is to develop an understanding into the complexities of outsourcing staffing of non-core employees and provide managers with a means to compare different models for making informed strategic decisions. All five models presented are derived from field research addressing different facets of the human resource supply chain (HRSC), from client firms, to staffing vendors, to contract employees. Interviews were conducted with managers from client firms that make outsourcing decisions and with staffing vendors that supply non-core employees. Case studies provide illustrations for each of the HR outsourcing models.

These five generic HR outsourcing models enable researchers to advance HR research related to strategic decisions concerning the development of organizational knowledge and skills to sustain a competitive advantage. For managers, a firm may shift from using one HR outsourcing model to another with little means for comparison or evaluation. As a result, the expected benefits of HR outsourcing may be lost or worse, be a value detractor from the firm's overall performance. The paper is organized into four major sections. First, a broad overview of outsourcing human resources provides a discussion of relevant research. Second, the research methodology section outlines the research design and data collection for conducting this exploratory study. Third, a discussion of the results presents a comparison of five generic models of HR outsourcing with an illustrative case example of how firms manage non-core employees. Last, the concluding discussion presents implications for managerial practice in the human resources function as well as in other functions of organizations.

Outsourcing human resources

To support managers' decisions about whether or not to outsource HR activities, Adler (2003) has identified six factors that can help organizations determine which HR processes to outsource and which to retain. Deciding whether or not to outsource HR activities in part revolves around the ability for HR to add competitive advantage. There has been research to explore how human resource systems can provide competitive advantage to organizations (Becker and Huselid, 1998). Much of this research has focused on HR as a collective system of activities and HR's relationship with firm performance (Ferris *et al.*, 1998). Recognizing that some HR activities may be more transactional than strategic, there is also research into outsourcing only these transactional activities (Huselid, 1995; Switser, 1997).

Human resource outsourcing continues to unfold at a frantic and chaotic pace. In the US, HR outsourcing was approximately a $60 billion business in 2001 and is expected to rise to $100 billion per year (Bates, 2002). Professional Employer Organizations (PEOs) offer several HR services including benefit administration, 401K administration, and insurance administration. PEOs are growing at about 30 percent per year (Hirschman, 2000) and are expected to continue to grow at this pace until sometime between 2005 and 2010 (Rodriguez, 2000). In a recent survey, 90 percent of companies with 50,000 or more employees outsourced some HR activities (Shelgren, 2001).

Numerous operational and strategic rationales drive the HR outsourcing trend onward with little abatement in sight. For example, firms engage in HR outsourcing to reduce cost, access HR expertise, achieve workforce flexibility, focus managerial resources, and keep up with changing workplace regulations (Klaas *et al.*, 1998; Laabs, 1993; Lever, 1997). Also supporting the trend is the availability of common technology platforms, such as PeopleSoft, which can reduce costs for organizations (Musich, 2002). Roberts (2001) advocates that "outsourcing can substantially lower costs and risks, while greatly expanding organizational flexibility, innovative capabilities, and opportunities for creating value-added stakeholder returns." However, the potential benefits from outsourcing also entail some challenges.

Many unexpected problems may include one or more challenges such as significant resistance from within a firm's HR department, lack of employee preparation, quality of HR services from vendors, and lack of competencies to manage HR outsourcing. Lawler and Mohrman (2003) found in a study of 150 companies that the most common problems of HR outsourcing were poor service, costs higher than promised, contractors with insufficient knowledge about the client and unanticipated resources required to manage the relationship. Other important risks include the contractor not performing as expected; compliance violations; loss of internal technical skills and expertise . . . and loss of positive reputation." Roberts (2001) describes some risks of outsourcing as follows:

> Organizations are afraid of losing some control over the delivery of outsourced services and finding themselves overly dependent on the vendor or liable for the vendor's actions. Outsourcing sensitive information, particularly confidential information, has inherent liability if information security is breached by the vendor.

Management inability to navigate the complexities of outsourcing may increase costs that may outweigh the benefits. Given the growing momentum of HR outsourcing, the body of related research is slowly growing to grapple with the dynamic complexities. While there are both benefits and challenges when HR activities are outsourced, in part these benefits and challenges may be informed by the structure of the relationship between client firms and those organizations offering the outsourced activities.

Methodology

A qualitative research design with multiple case studies, was used for this study as outlined by Yin (1989) and Eisenhardt (1989). Our inductive approach is based on developing case studies from sources in and around the information technology functional areas of Fortune 1000 companies. The information technology functional area of Fortune 1000 companies is often the first functional area to use supply chain management techniques and tools to outsource the procurement of human resources. It was out of these multiple case studies and our exploratory research that our five models emerged.

A total of 32 case studies were developed from semi-structured interviews and related documents. Data for this research were collected from two sources – first, Chief

Information Officers (CIOs) who used computer consulting/contracting firms to procure staffing of non-core employees and second, managers at computer consulting/contracting firms that supply information technology workers on a contract basis to client firms. The employers of these CIOs represent the client firms and the consulting/contracting firms represent the staffing vendors of this study. The case studies were based on 12 CIO's and 20 managers at computer consulting/contracting firms who were not necessarily connected in a working relationship. The demographic characteristics of the 32 interviewees were 92 percent Caucasian males between the ages of 30 to 50. Collecting information from CIOs and consulting/contracting firms is consistent with the observations of Lundy (1994), which call for data collection from different employees beyond HR managers.

All of the participating firms were based in the upper Mid-west and Northeast regions of the US. The computer consulting/contracting firms were all privately held with employee sizes ranging from 50 to 300 consultants.

The interviews were 45 to 60 minutes in length with a few lasting much longer. The questions and follow-up questions focused on the changing dynamics between client firms and consulting/contracting firms as well as the driving forces of change in the working relationship between the two parties. The process for selecting interviewees was in response to a direct mail request. An introductory letter describing the research study was sent to CIOs of Fortune 1000 firms and members of the National Association of Computer Consulting Business of the vendors. The membership base of NACCB provides information technology contracting services to their client organizations and had experienced a significant amount of change in their client relationships. People who responded positively became part of the data source (see following list).

Variables impacted by HR outsourcing of staffing

(1) Administrative costs for labor expense.

(2) Client firm HR employee relations.

(3) Client firm HR regulatory competency requirement.

(4) Client firm knowledge of cost factors (billing and pay rates, vendor markups and margins).

(5) Client firm vendor management competency requirement.

(6) Client-vendor relationship.

(7) Communication between client managers and staffing vendor.

(8) Employee data availability.

(9) Employee data quality control.

(10) Employee data security.

(11) Employee match with job requirements.

(12) Employee quality.

(13) Inter-vendor competition.

(14) Mining of client talent by vendor.

(15) Quality control for preferred staffing vendors.

(16) Standardization of business processes (intra-company).

(17) Strategic focus of client firm.

(18) Time demands on client managers.

(19) Vendor competency.

(20) Vendor economic viability.

Five generic models of human resource supply chains

Over time, we have observed a significant shift in the relationship between the client firms and staffing vendors. The dynamics involved shifts in power and control from the staffing vendor to the client. From the field research of many case studies, we discerned five generic models of the human resource supply chain. Each one has a different set of advantages and disadvantages for the client firm. An important starting point for all the models relates to the decision making process for embarking on outsourcing of human resources. Strategic versus tactic decisions have an important impact on selecting the particular HR outsourcing model that a client firm adopts. The balance of power and control over managing the contract workers differ within each model. An important caveat is that some client firms may also use a combination of the generic models at any one time or shift from one model to another over time. However, this discussion is beyond the scope of this paper. Each of the five models is outlined below with one case study to illustrate the specific processes and outcomes. The firm names are fictitious to maintain confidentiality for the parties involved.

Model 1: Local contracting

Local contracting is the predominant traditional model for outsourcing staffing with non-core employees. A client firm uses several staffing vendors to meet temporary staffing needs for seasonal fluctuations, employee absences, and special projects. Individual hiring managers in the client firm identify appropriate staffing vendors and make the hiring decisions. The advantages of local contracting are high touch and high quality of services by staffing vendors, minimal bureaucracy, empowerment of hiring managers to hire qualified employees to get the job done, and a relatively better fit between specific staffing vendors and functional needs. The disadvantages of local contracting are distractions for hiring managers to deal with staffing vendors; increased costs from non-standardization of hiring practices and procedures across the client firm; a significant amount of "word of mouth" and subjective "quality" issues; high labor costs, and the client firm is subjected to the capabilities of the staffing vendors and contract employees. In sum, local contracting is the most flexible, high quality, expensive, inefficient, and ineffective HR outsourcing model for the client firm.

Case Study 1: Sory Inc.

Sory Inc. is a first tier manufacturing company that supplies parts to the auto industry. Manufacturing, sales and marketing, and finance are functions within Sory that use temporary help services during various times throughout the year. Manufacturing uses staffing vendors for light industrial workers, sales and marketing use staffing vendors for clerical services, and financing uses staffing vendors for temporary accounting help.

Each functional area within Sory uses different staffing vendors that specialize in placing personnel that best meet their needs. In the past, Sory tried to use a "one stop staffing vendor", but the quality of services varied greatly from department to department. The management team decided to let each functional area make its own decision on what staffing vendor to engage.

In this situation, in the short-term and on a day-to-day basis, Sory's is unable to achieve an economy of scale with it staffing vendors. The total costs for temporary workers as well as internal costs for contracting with several different vendors are higher then if it used one staffing vendor to meet all its needs. Sory is unable to secure a set pricing range that it pays for its temporaries. Each staffing vendor secures a different rate range with each functional department head. Additionally, separate contracts are secured with each vendor as opposed to one contract. Sory also incurs additional accounting and tracking costs by using several specialized staffing vendors rather then one vendor.

In the long-term, Sory is benefiting from this arrangement. Each specialized staffing vendor is able to fully work with each function within Sory to best meet its staffing needs. Temporary utilization is better than the average. Mismatches are fewer. Functional departments are able to receive a high quality/high touch service. Sory's HR department has been able to down size its internal recruiting arm by using the specialized staffing vendors.

Model 2: HR centralizing

HR centralizing is when the HR department standardizes the staffing process to drive costs down of temporary workers. This tends to occur when a percentage of non-core employees reach a certain ratio of core employees. The critical percentage is contingent on a combination of firm and industry conditions. Often HR is directed to take on the responsibilities for managing the logistics of non-core employees.

The advantages include more uniform standards in hiring practices, billing rates, and pay rates; departmental hiring managers can refocus their effort; criteria maybe established for a preferred supplier list; and greater security for the few staffing vendors that offer higher quality service. The disadvantages include new departmental responsibilities in HR which decreases outsourcing efficiencies for the organization; the HR "gatekeeper" mentality is tactical and administrative rather than strategic; HR sees staffing vendors as a threat and treats them as direct competitors; gatekeepers in HR usually lack qualifications to fulfill the responsibilities; the relationship between staffing vendor and hiring manager is severed; hiring managers experience greater frustration; and staffing vendors skirt around lower margins by "loading" the requests for proposals (RFPs) with cost plus factors or "category jumping" in the hiring process. Overall, common outcomes of centralizing of HR outsourcing are that firms achieve some standardization with additional bureaucratic costs and the necessary non-core jobs do not get done as a needed.

Case Study 2: Chase Plastics

Chase Plastics is an injection molding company. Because of customer demands and scheduling habits, the company is often in a position where it needs to staff up rather quickly on projects. To fulfill this need, Chase Plastics uses a couple of staffing vendors to supply them with 25 to 200 temporary workers. The HR department manages the staffing vendors, secures the contract, communicates all requirements, receives any metrics on temporary workers, and feeds information back to the staffing vendors.

This arrangement is wrought with several problems. The real users of the staffing services were "Supervisors" on the manufacturing floor. Supervisors had to go through the HR department to communicate any needs to the suppliers and staffing suppliers had to go through the HR department to make any improvement changes with the Supervisors. Quality control meetings were generally rejected by the client; no time to meet. Staffing vendors had to submit certain metrics to the client, but nothing was ever done with these metrics. The relationship between the HR department and the staffing vendors was highly adversarial. Staffing vendors were not allowed to speak with the plant manager, CFO or President. When asked, "What are you looking for from staffing vendors?", the senior HR Executive said she wanted "to be pampered by the staffing vendors." Because the communication link was cumbersome, the staffing vendors needed to assign Service Coordinators with weekend pagers. In the end, Chase Plastics was paying 84 percent above the market average for its temporary workers.

This method of having the HR department manage the staffing vendors was extremely ineffective for this company. Staffing needs were being met, but haphazardly and at the last minute. Chase Plastics, through the HR department, retained all of the control in the relationship with the staffing suppliers. This control made for an ineffective process and was costing the company thousands of dollars over and above the average cost of a temporary in its market place.

Model 3: Purchasing HR

Purchasing HR is the shifting of managing staffing vendors from HR to the purchasing unit of an organization, which essentially results in HR being treated as a commodity for procurement. The goal is to continue cost reductions by increasing efficiencies.

The advantages of this model include maintaining organizational control over the hiring process; application of purchasing capabilities for greater standardization in hiring practices, pay rates, and bill rates; client firms often gain a better understanding of supplier's mark-ups and margins to avoid the loadings on the RFPs; higher quality and flexibility from staffing vendors; the staffing vendor list includes both special skills and volume staffing; and greater competition among staffing vendors. The disadvantages of the purchasing HR model involve the rigid application of supply chain management (SCM) techniques to the hiring process; treatment of staffing suppliers and contract employees as commodity products; SCM contradicts the realities of human idiosyncrasies; lack of HR expertise in purchasing employees; client firm needs vendor management system software to manage the information flow; hiring manager and staffing vendor relationship is severed; staffing vendors treat client firms as a "source" account for low margins and send contract employees to other firms that provide higher margins; and staffing vendors recruit out the higher end talent away from the client firm.

Even though numerous firms use this approach, the purchasing of HR model does not effectively work for HR outsourcing. An alternative version involves having the management information systems function be responsible for the staffing vendor relationship, which also entails similar advantages and disadvantages as the purchasing HR model.

Case Study 3: Dexter Inc.

Dexter Inc. is a company that has 4,000 core employees and 250 IT contract employees. The company's total expenditure on IT contract employees is about $30 million a year. Dexter manages its own staffing vendors. There are eight in all. The company uses no specific software to manage its vendors, time cards, rates, invoices, or temporaries. Rather, it uses a manual system of matching time cards with invoices and temporary employees with hiring managers.

Dexter put its $30 million dollars of contract work up for re-bid. It found twenty-two potential vendors that it allowed to bid on the work. In the RFP, the company was asking for a rate that was a substantial decrease from what it had been paying. The company was also asking for a rebate on revenues once a staffing vendor hit a certain amount of business with the company. Of the 22 potential bidders, 12 made the first cut. These 12 vendors proceeded through an interview process that consisted of a panel of Dexter employees. The potential list vendors were reduced down to five final staffing vendors. None of these vendors were the original eight in which the company was using.

When the five new staffing vendors were ready start, Dexter had a meeting with the original eight vendors. These original vendors were offered a new contract with reduced rates and rebate back to Dexter included in the contract. The deal was: agree to the contract or be immediately replaced with another staffing vendor waiting in the wings. The eight original staffing vendors agreed in to the new contract.

In the short term, Dexter has retained complete power and control in its relationship with its staffing vendors. In doing so, it will gain a significant cost advantage over the next couple of years. In the long term, Dexter will lose out because the best staffing vendors are already quickly moving to replace their business with Dexter with other clients. Eventually, the staffing vendors that can best help Dexter will all walk away leaving only substandard vendors for Dexter to work with. The five staffing vendors who were "waiting in the wings", believe they were used to drive down prices. They are not interested in working with Dexter. Lastly, Dexter will become a source account for many of these staffing vendors. As a result, it will experience an above average turnover rate.

Model 4: Non-staffing vendors

Non-staffing vendors manage the staffing vendors for a client organization. When the percentage of non-core employees continues to grow and/or earlier outsourcing models fail to achieve the expected results, firms may hire outside non-staffing vendor management firms to standardize the hiring process and manage their staffing vendors. A non-staffing vendor does not supply workers on a temporary basis, but rather operates between the client and staffing vendors. In the 1980s, these firms were referred to as "managed services" firms and later, evolved to vendor management system (VMS) firms with the integration of web-based tools to deal with information flows and vendors.

The advantages of non-staffing vendors include standardization of hiring practices and bill rates; just in time information for vendors and client firms; single source invoicing and paying; hiring managers have single contact point; staffing vendors can increase market share when others leave because of low rates; decrease errors and omissions; and reduction in contract pay rates. The disadvantages of non-staffing vendors include severing the relationship between hiring manager and staffing vendor; best vendors will not work with the low pay rate and remaining vendors do not necessarily provide quality service; client firms receive commodity type service with low touch; decrease in vendor competition; and non-staffing vendors capabilities tend to be software firms without staffing service expertise.

The general results of the non-staffing vendors model included lack of high quality for lower costs, increase mistrust and animosity between contract employees, staffing vendors, client firms, and VMS firms. The relationships between firms have the potential to become quite adversarial and dysfunctional.

Case Study 4: BCI Financial

BCI Financial is a large sprawling company that has location in the Northeast, Southeast, and Midwest. In 2002, BCI Financial shifted from having each of its locations managing their own staffing vendors to a third party "vendor management firm" managing the staffing vendors. Senior level people throughout the US were informed from corporate headquarters that this decision had been made in order to improve tracking, control and cost reductions of its temporary help. Senior level people were brought up to speed on the vendor management firm and how the transition was going to proceed. They were also given the task to inform their hiring managers of the change.

As this shift began to proceed, staffing vendors were told that they were no longer allowed to communicate with hiring managers or senior level contacts at BCI Financial. The staffing vendors had to communicate through the vendor management firm. Slowly, each BCI Financial location as well as each staffing vendor received training and education on the new process of submitting and procuring contract help or temporary workers.

This shift to a vendor management firm introduced in the supply chain a number of problematic issues. First, the change occurred in a unilateral manner from the top down. Therefore, the vendor management firm had to overcome resistance from some of the senior level personnel and hiring managers. Second, the relationship between staffing vendors and hiring managers was terminated. Requirements for temporary help were all electronically communicated. Therefore, a level of quality from the staffing vendors decreased and the number of mismatches at the client site increased due to a decrease in communication. Third, the staffing vendors pay the vendor management firm part of their gross margin for access or the right of doing business through them. As a result, the staffing vendor sends their best employees to client companies who will pay them a higher gross margin and BCI Financial looses out on top prospects.

The overall result is that this model increases the complexity of the supply chain by adding a vendor management firm between the staffing vendors and the client. Short-term gains included decreased pay rates and bill rates, standardizing the hiring process, and increasing the hiring managers focus time. But long-term gains are overshadowed by an increase of miscommunication, number of mismatches, higher turnover, higher training costs, and greater frustration with hiring managers.

Model 5: Staffing firm

The staffing firm model involves the selection of one staffing vendor to manage all the other staffing vendors to achieve cost reductions and manage the logistics of non-core employees. The advantages of the staffing firm model for HR outsourcing are the addition of staffing expertise to the VMS level; improved economic profitability for staffing vendor; and more cooperative partnerships between the different stakeholders. The disadvantages of staffing firms include a serious lack of vendor neutrality where job orders are given to their own recruiters before sending them to other vendors; no staffing vendor competition; one staffing vendor usually cannot fulfill all of a client's needs, which requires secondary vendors to fill the gaps; secondary vendors tend to send hard to place workers which result in higher turnover and training costs for the client firm; and lower quality of services. Hence, the quality of value added contributions from contracting employees are lower and animosity grows amongst the stakeholders.

Case Study 5: Beard Electric

Beard Electric is a utility company that provides electricity to several thousands household in a major metropolitan area. Beard Electric had a long history of using over twenty staffing vendors to meet its needs throughout several of its organizational functions. In the late 1990s, Beard Electric began a process of decrease the number of staffing vendors. The goal was to reduce the overall staffing costs by creating certain efficiencies and outsourcing its staffing work. Beard Electric also believed it could secure an overall lower bill rate by using fewer vendors.

As the process began, Beard Electric decided to approach one local mid-size staffing vendor with the idea of total outsourcing to this one vendor. It was the responsibility of this one staffing vendor to manage all second tier vendors, establish a rate card, implement a web based electronic information system for sending requirements, fulfilling requirements, tracking hours, pay rates, bill rates, and departmental staffing spend.

Over an 18-month period, the single source staffing vendor was able to implement the electronic tracking system, train the internal hiring managers, find and train second tier staffing vendors, establish rate cards and standardize the hiring process. Beard Electric was able to secure an overall reduced rate that it was paying for its temporary workers. In addition, it achieved savings by using a system that standardized the procurement of temporary help.

In the short-term and long-term, Beard Electric benefited from this arrangement. The key long-term risk lies in the potential cost of switching master vendor if the existing master vendor begins to consistently fail in delivering services. Other risks such as the reduction of quality and an increase in turnover could occur if the master vendor abuses its single source position. If managed carefully, the hard and soft cost benefits can offer great rewards.

Implications for managers and researchers

All five generic models for HRSC focus on managing non-core employees. A critical issue between client firms, vendor management firms, staffing firms, and contract employees is the balance of power and control along the supply chain. When a member of the supply chain exerts a high level of power, it also has the capability to shift cost pressures onto other members in the supply chain. However, the ability to do so resulted in increasing adversarial relationships with implications for retributions, declining staffing quality, degenerating cooperation, and hidden costs. For example, in Model No. 4 with BCI Financial, the non-staffing vendor firm has the capability to extrapolate monopoly-like power over the staffing firms to extract high profits and potentially putting the staffing firms out of business. Once the staffing firms exit the industry, the client firms are left with little choice except the non-staffing vendor management firm as a single source which creates a high level risk for the future.

The first three models allow client firms to retain greater control and minimize the level of risk. The costs are relatively higher compared to the remaining two models. Models No. 4 and No. 5 entail lower costs for the short term but client firms are highly vulnerable on different dimensions such as quality and consistency as well as escalating costs on the long term. To monitor and assess actual transaction costs require managers in client firms to develop the appropriate HR competencies for evaluation. Maintaining an appropriate level of control is necessary to create strategic value from HRSCs.

Substantial HR competencies need to be developed to effectively manage staffing vendors and non-core employees. Most organizations tend to continue implementing HR outsourcing to primarily cut cost and maintain the status quo of their economic business model rather than seeking to derive strategic value by using HR outsourcing as an opportunity to engage in revolutionary organizational change in their organization. Managers need to develop clear short-term and long-term objectives for outsourcing in relation to the firm's overall strategy. This provides a critical alignment between the HR functions and the other organizational functions. Also, without developing the necessary competencies to manage HRSC, the potential benefits are easily eroded by the costs that are often unknown or hidden.

In all the above cases, the client firm did not invest in developing the important competencies with a knowledge and skill base to support the HR outsourcing decision. This point is strongly exemplified in Model No. 3, the Purchasing HR model, where purchasing personnel often lack even the basic requisites for managing human resources. The shift from HR to Purchasing creates substantial friction between two important functions in an organization along with other inefficiencies.

In the five generic HRSC models, the relationships are adversarial. To create an approach where all stakeholders in the HR outsourcing supply chain can derive satisfactory benefits, healthy collaborative working relationships are necessary. However, the necessary trust for collaboration tends to be a critical missing element from all the HR outsourcing models. At this point in time, some staffing firms are facing serious difficulties as some HR managers are seeking to eliminate high costs by finding single source suppliers. While Model No. 4 and No. 5 involve lower bureaucratic costs for client organizations, they also provide HR managers with a means to cut out firms that have charged too much in the past. In addition, the quality of service can be a significant issue as well as the potential of extremely high costs in the long term from a single source supplier.

Most seriously, the HRSC of managing non-core employees in all five approaches do little to support strategic implementation of key firm initiatives. A serious problem is how each component of the supply chain operation is in isolation or has little connection between each other. Making outsourcing decisions in functional isolation is probably the most costly process for all the HRSC models outlined. Integration along the complete HR supply chain from client firm to vendors to contracting employees is a necessary step to extract the potential benefits of HR outsourcing. The capabilities and expertise from HR's functional experience, purchasing competencies, vendor expertise, and vendor management technology require a holistic perspective to manage the complete supply chain.

Conclusion

Outsourcing is an important strategic initiative for many organizations. As different models of HRSCs are implemented, managers are discovering the challenges of implementing different outsourcing strategies. This paper outlines and compares five models of HRSC outsourcing for future research and managerial strategic decision-making. Each model entails careful consideration of the risks involved in balancing power and control between the stakeholders of the HRSC. An important role exists for HR professionals to manage the supply chain processes and dynamics from client firm, staffing vendors, and contract employees with a holistic approach. One of the important capabilities in such a role involves the ability to generate trust between the different parties and sustain productive collaborative working relationships. In many organizational strategies that employ HR outsourcing, the role of the HR professional for the whole outsourcing supply chain remains unfilled or woefully below the required capabilities.

Future research needs investigate the rapid sporadic processes of growing pains in HR outsourcing of non-core employees and explore alternative models that build trust for the entire supply chain. Additional theoretical and empirical research needs to address the conditions under which each model is most appropriate for organizations to derive strategic value. What are the most important environmental factors that organizations need when selecting an HR outsourcing model? What are the necessary organizational changes to derive the maximum potential value from HR outsourcing? How does HR outsourcing affect the development of human and intellectual capital in an organization, especially as the demand for high skill knowledge and skills grow? Related to all of these research questions, future studies of outsourcing also need to contribute toward developing relevant metrics for assessing the benefits and costs.

HR professionals have an opportunity to assess and evaluate the most appropriate HR supply chain relationships between the client firm, staffing vendors, VMS firms, and contract employees. Managers need to grapple with contradictory demands of maximizing their own self-interests of obtaining high quality contract professionals and profits with the necessity for develop trust to sustain long-term collaborative partnerships. Organizational learning processes should include continuous development of the necessary capabilities, or possibly find a means to outsource the capability.

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