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SUCCESSFUL OUTSOURCING PROCESS

A Study of Outsourcing Salary Administration

Case Study

School of Business Rauma

Degree Programme in International Business and Marketing Logistics

2007

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Degree programme in International Business and Marketing Logistics
March 2007
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UDK 331.1
Pages 93

Keywords: human resources, trend, advantage, risk, core competency

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The aim of this study was to compare present outsourcing operations in the case company with the best practices in theory. The focus was on outsourcing the human resources' salary administration. The factors affecting successful outsourcing process, possible advantages to achieve and risks to confront were also examined.

The data was collected by interviewing four representatives from the case company, human resources' manager and three assistant level employees, and the manager from the service provider. This data was collected between October and December 2006. The qualitative research approach and semistructured interview were chosen as research methods in order understand the overall situation of the outsourcing process in the case company.

The results in empirical part indicate that the case company followed generally the phases of outsourcing process considered in theories. Especially the transition and assessment phases were clearly planned. The employees needed to be relocated smoothly to the service provider's premises. In assessment phase is the quality report with certain criteria used as an important tool to evaluate the operations of both parties.

Outsourcing salary administration has enabled the case company to focus on its core business. The access to expertise and personnel resources has improved. Cost savings were not seen as a reason to outsource and they could not be stated as an advantage. However costs savings were the most mentioned reason to outsource according to research made by ARINSO (2005).

The outsourcing process revealed some problems in the case company's activities. The outgoing material to the service provider was realized to be of imperfect quality and is presently being progressed.

Assistant level employees stated the need of improvements in communication with the service provider. This requires better email practices, postal services, customer service and two-way flow communication. Clear instructions, training and common meetings concerning cooperation with the service provider were also required. The service provider pointed out the need for commitment for outsourcing within the whole organization not only among the top management.

ONNISTUNUT ULKOISTAMISPROSESSI

Eerola, Leena
Satakunnan ammattikorkeakoulu
International Business and Marketing Logistics
Maaliskuu 2007
Teppola, Petteri
UDK 331.1
Sivumäärä 93

Asiasanat: henkilöstöhallinto, trendi, hyöty, riski, ydin osaaminen

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Tutkimuksen tavoitteena oli verrata tutkittavan yrityksen nykyisiä ulkoistamiskäytäntöjä eri teorioihin. Se keskittyi henkilöstöhallinnon, erityisesti palkkatoiminnon, ulkoistamiseen. Tutkimuksessa analysoitiin myös onnistuneeseen ulkoistamisprosessiin vaikuttavia tekijöitä, mahdollisia saavutettavia hyötyjä sekä kohdattavia riskejä.

Aineisto kerättiin haastattelemalla tutkittavan yrityksen henkilöstöhallinnon johtajaa, kolmea assistenttitason työntekijää sekä palvelun tuottajayrityksen johtajaa. Tiedot kerättiin loka- ja joulukuun 2006 aikana. Kvalitatiivinen lähestymistapa sekä teemahaastattelu valittiin tutkimusmenetelmiksi, jotta saavutettaisiin kokonaisvaltainen käsitys yrityksen ulkoistamisprosessista.

Empiirisen osan tulokset osoittivat tutkittavan yrityksen seuraavan teorioissa esitetyn ulkoistamisprosessin eri vaiheita. Erityisesti siirtymis- ja arviointivaihe oli tarkasti suunniteltu, esimerkkinä työntekijöiden suunniteltu pehmeä siirto palveluntarjoajan tiloihin. Laaturaportti kriteereineen oli tärkeä työväline molempien osapuolten toimintojen arvioinnissa.

Palkkahallinnon ulkoistaminen oli mahdollistanut tutkittavan yrityksen keskittymisen ydinliiketoimintaansa sekä erityisosaamisen että henkilöstöresurssien saatavuuden turvaamisen. Kustannussäästöt eivät olleet ulkoistamisen syynä, eikä niitä mainittu saavutettuina hyötyinäkään. Kuitenkin ARINSO:n (2005) tekemän tutkimuksen mukaan kustannussäästöt olivat yritysten suurin tekijä ulkoistamispäätöksessä.

Assistenttitason työntekijöiden mukaan olisi välttämätöntä kehittää kommunikointia palveluntarjoajan sekä tutkittavan yrityksen välillä. Tämä vaatisi parannusta sähköposti käytäntöjen, postituspalvelujen, asiakaspalvelun sekä kaksisuuntaisen kommunikoinnin suhteen. Tarvetta oli myös selvän ohjeistuksen, koulutuksen sekä yleisten kokousten järjestämiselle. Palveluntarjoaja piti tärkeänä koko organisaation, eikä vain ylimmän johdon, sitoutumisen ulkoistamisprosessiin.

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1 INTRODUCTION

In order to answer today's changing and competitive environment many companies are considering to outsource some of their activities to an outside provider. Historically companies have outsourced the manufacturing of parts and auxiliary services, such as travel services, to the vendor. Nowadays information systems in addition to other support functions are popular to be outsourced. More and more companies are interested to outsource also the human resource activities including payroll administration (Lankford & Parsa 1999, 311).

All activities do not have to be provided in house and managed internally. Outsourcing support activities may become a competitive tool and lead to a competitive advantage for the company. Company's costs may reduce and access to expertise and technology become possible. The vendor is often able to provide the support functions more effectively and efficiently. This enables the company to focus on core activities (Lankford et al. 1999, 310).

In addition to the possible advantages, the company should carefully consider the risks and limitations, which the outsourcing process may include. There is often a risk of transferring expertise and knowledge to the vendor. The outsourcing decision may also have a serious impact on employee morale (Belcourt 2006, 269). In order to avoid the risks and limitation the company-vendor relationship should be properly managed, the outsourcing need to be identified and the outsourcing properly planned (Lever 1997, 37; Lankford et al. 1999, 310).

This thesis concentrates on the issue of outsourcing human resources (HR) activities; a special focus is on outsourcing salary administration. The aim is to enlarge the viewpoint of outsourcing HR functions in general to closer salary administration. Outsourcing some or all HR activities is a current challenge in many companies. There have been researches already concerning outsourcing in general, fewer about outsourcing HR activities and even fewer researches can be found concerning outsourcing salary administration, even though it is often outsourced to an outside provider. Some previous researches can be found concerning outsourcing HR activities, for example a thesis of service outsourcing models (Palvelujen ulkoistamismallit) made by Hartikainen in 1998, thesis of outsourcing HR activities (Henkilöstötoiminnot ulkoistamisen kohteena) made by Rahunen in 2005 and a research of managerial motivations behind outsourcing practices in human resources made by Lever in 1997.

The core aim of this thesis is to study the case company and its outsourcing process concerning salary administration. The objective is to find out which advantages, limitations and risks include in the process and which factors affect the process to become successful. Firstly the theory related to outsourcing is discussed followed by the definition of the outsourcing concept taken into consideration also other related concepts. Outsourcing is explained in general, inside human resources' activities and more in detail concerning salary administration. After these issues, is the outsourcing trend taken into consideration from the Finnish point of view followed by the explanations of the actual outsourcing process. The structure of the outsourcing process is created from two different theory models. The empirical part is handled in relation to the theoretical part. Finally conclusions and recommendations are presented based on the theories and other gathered information.

2 THE CONCEPT AND THEORY OF OUTSOURCING

Outsourcing is the delegation of one or more business processes to an external provider, who then owns, manages and administers the selected processes based on defined and measurable performance criteria (CIPD (Chartered Institute of Personnel and Development) Fact sheet, HR Outsourcing, 2005). Outsourcing differs from alliances, partnerships and joint ventures, because the resources flow only one-way, from the vendor to the company (Belcourt, 2006, 270).

According to Lankford et al. (1999, 310) “a company should consider outsourcing, if certain support function could be completed faster, cheaper, or better by an outside organisation”.

Walton (1999, 286-287) defines outsourcing as part of a continuum, including out-tasking, insourcing, intasking and strategic partnering contracts. He points out the following issues: who has provided the activity before, who employs the staff, and how wide is the responsibility of the external providers (Walton 1999, 285).

According to Walton (1999, 285) *outsourcing* means that the whole responsibility of the activity is transferred to the external party. The activity has been done before inside the organisation, but now the work is been done by other employees from outside the company. When the external provider supplies only certain expertise activities in the company, it is called *out-tasking.*

Insourcing is the opposite of the outsourcing. The activity has before done by external party, but is now transferred in the company and employed by own employees. When certain activities were carried out externally and were brought in house, this is called *intasking* the opposite of out-tasking. Walton (1999) takes also into consideration the difference between the terms of strategic partnering contracts and outsourcing. *Strategic partnering contracts* are often longer, lasting approximately 5-10 years, than outsourcing contracts, which last generally 1-2 years. This is why strategic contracts encourage to more customized services and larger inputs decision making. As an example of the continuum, a company may have first external consultants helping with certain activity (out-tasking), during this period the company may develop own skills to carry out the task and later expertise themselves (Walton 1999, 286-287). (Figure 1.)

Strategic partnering Outsourcing Out-tasking Intasking Insourcing

Figure 1. Continuum of Outsourcing (Walton 1999, 288)

Sanders & Locke (2005, 40-41) divides outsourcing activities in four dimensions: out-tasking, co-managed services, managed services and full outsourcing (Figure 2). He describes these dimensions with four categories: scope of outsourced functions, strategic importance of the outsourced functions, degree of customisation and nature of the relationship.

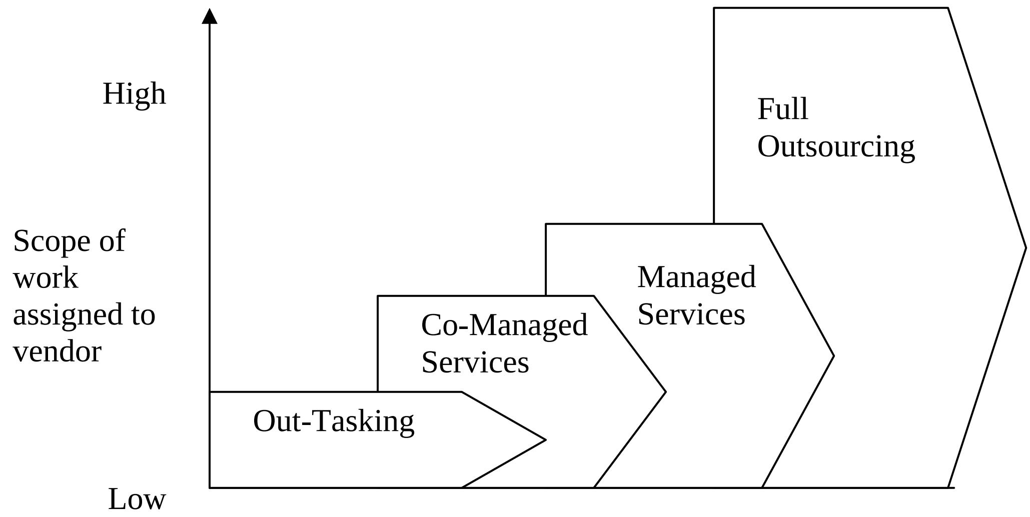


Figure 2. Four types of outsourcing engagements (Sanders et al. 2005, 40)

Out-tasking is defined to be the situation, when the vendor takes care of one or few specific tasks. His responsibility is limited, the strategic importance is tactical, degree of customisation is standardized and the relationship is contractual or transactional. There is only a minor business risk. The scope is greater in *co-managed services* including multiple tasks. The overall project still remains controlled by the customer and they share the responsibility while their relationship is contractual. This dimension has less strategic importance. *Managed services* include an entire function being outsourced. The vendor is responsible for design, implementation and managing a process from beginning to the end. Dependency can be seen as a risk for the company. The dimension is rarely strategic and the relationship relational. An entire function, process or operation is outsourced in the dimension called *full outsourcing.* The vendor has total responsibility of the design, implementation and management. This outsourcing option is highly customized, has strategic importance and may increase the company's competitive advantage, however it bring great risks to the company (Sanders et al. 2005, 40-41). (Table 1.)

	Out-Tasking	Co-Managed Services	Managed Services	Full Outsourcing
Scope of Function(s) Outsourced	One or Few Tasks	Multiple Tasks	An Entire Function	An Entire Function, Process or Operation
Strategic Importance of Function Outsourced	Primarily Tactical	Mostly Tactical	Critical but Rarely Strategic	Primarily Strategic
Degree of Customisation	Primarily Standardized	Standardized with Some Customized	Mass-Customisation Through Standard Options	Primarily Customized
Nature of Vendor-Client Relationship	Contractual or Transactional	Primarily Contractual	Relational	Primarily Collaborative

Table 1. Characteristics of the Four Outsourcing Options (Sanders et al. 2005, 41)

2.1 Theoretical Background of Outsourcing

It is important to be aware of, which of the activities in the organisation are core and which peripheral. Torrington (2005, 116) considers the core competences of an organisation to be kept in house, because they are source of competitive advantage and may determine the success of the organisation. Already Porter (1985) discussed about the core and peripheral activities in the value chain (Figure 3).

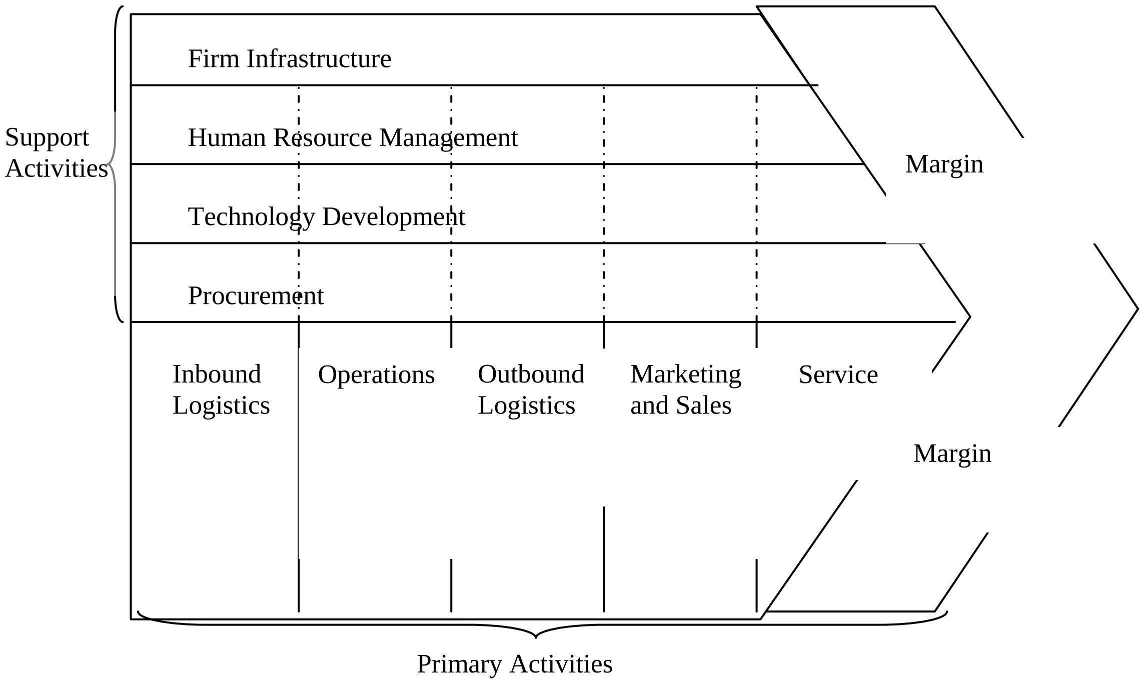


Figure 3. Porter's value chain (1985) (Torrington 2005, 116)

Each stage of the value chain adds value to the product or service. The end value of the product is measured focusing on the customer and how much he is willing to pay for it. Porter divides the activities to primary and support activities. Primary activities lead directly to the provision of the product to customer. Support activities only assist the primary activities. HR, IT, finance and payroll can be included in the support activities. Porter explains that all these activities add value to the chain (Walton 1999, 281).

Atkinson's (1984) idea of a flexible firm gives an overview also of the core and peripheral activities. According to his opinion, the firm's structure should base on core group, first peripheral group and second peripheral group. The core group consists of fulltime, permanent workers, who are critical to the organisation's success. The first peripheral group includes workers, whose skills and knowledge are general and important, but their input is not critical to success. Their work input, for example administrative work, is available externally. The second peripheral group includes labour from contracts for services, subcontracting of work to other organisations, self-employed individuals and workers supplied through agencies (Pilbeam 2002, 72). (Figure 4.)

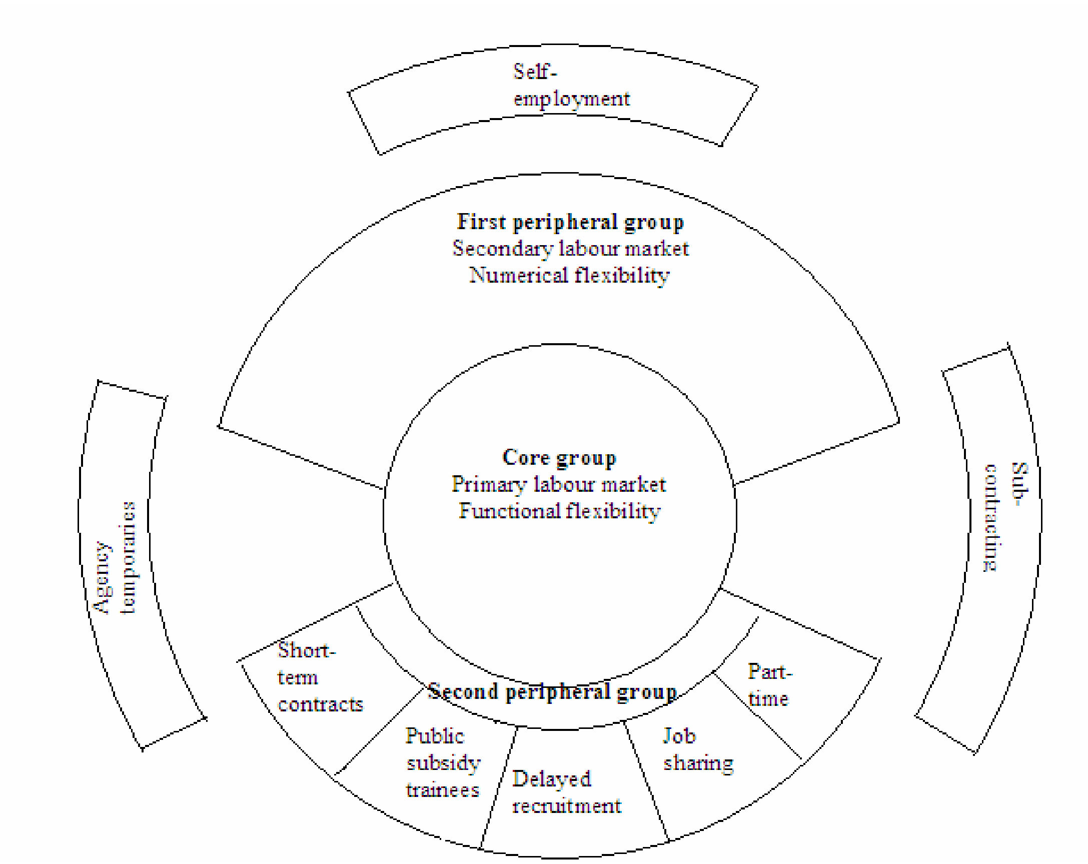


Figure 4. Atkinson (1984) The flexible firm (Pilbeam 2002, 73)

Handy (1989) created the concept of ‘shamrock’ organisation. He divides the organisation’s workers in three levels, professional core, the contractual fringe and the flexible labour force. The professional core includes the qualified professionals, essential to the success of the company (as Atkinson’s core group). The contractual fringe consists of people or organisations outside, who offer specialist services and take care of the routine, non-essential work. The flexible labour force represents the same as Atkinson’s second peripheral group (Mullins 2004, 581-582,).(Figure 5.)

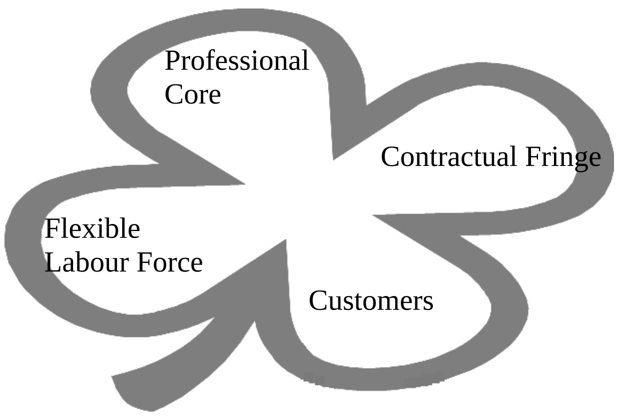


Figure 5. Handy (1989) ‘Shamrock’ Organisation (Mullins 2004, 582)

Dividing the activities or workforces in different groups, depending on how they add value to the product, service; or how they affect on the success of the company, can help the manager to decide whether to outsource some peripheral activities and on which core activities should the company focus on.

2.2 Outsourcing HR activities

In the area of human resource, the outsourced processes vary from specific areas to outsourcing the whole HR (CIPD Fact sheet, HR Outsourcing, 2005)

Torrington (2005, 761-762) considers the strategic partnering in addition to the consultants, coaches and facilitators, who has before taken responsibility of many HR activities. He mentions new approaches to be outsourcing, HR service centres and e-HR. Outsourcing overseas, **offshoring**, is predicted to increase as wholly owned subsidiaries or as internal service centres for example in India.

HR service centres, called sometimes shared service centres, partnership service centres, call centres, client centres or insourcing, can be HR centres or shared with other functions for example IT. They have staff operating with administration and transactions, and other personnel working with the line managers’ enquiries. The personnel are allowed accessing the personal employee details (Torrington 2005, 764-765).

Another emerging approach to HR is **HRIS** (human resource information systems). This system enables a real time human resource management with the help of a special data system. The system includes information from strategic planning to every day leading situations. From this centralized data system it is possible to produce different real time reports with moderate costs in order to help the management and decision making processes (Kauhanen 2006, 44).

Torrington (2005) considers also the information systems and focuses especially on **e-HR** and intranet. This system is often related to HR service centre being the first place to call. The static information of intranet includes HR policies, rules and regulations, details of training courses, standard forms, staff handbooks, induction information and information on benefits. The sophisticated systems, which are not common, include instead for example the ability to update personal details, submitting expense claim forms, asking questions, salary viewing tools. This system can be used by HR service centres, line managers or employees as self-service or self-management systems (Torrington 2005, 766-767).

The following HR activities could be outsourced:

Compensation

- Payroll
- Benefits
- Compensation administration
- Pension

Training

- Program delivery
- Program design and development
- Training consulting to line departments
- Training needs analysis
- Program evaluation
- Administration
- Developing training policy

Recruitment and selection

- Advertisements
- Screening of applications
- Testing
- Reference checking
- Preliminary interviews
- Salary negotiations
- Exit interviews

Health and safety

- Employee assistant programs
- Wellness programs (Belcourt, 2006, 271)

Human resource activities can be divided in four dimensions. The high-value unique activities are seen as core functions in the company and should be kept in house. The three following activities are possible to outsource: the peripheral activities with low uniqueness and low value, idiosyncratic activities with high uniqueness and low value and traditional activities with low uniqueness and high value (Gilley et al. 2004, 233). (Table 2.)

Value	Low uniqueness	High uniqueness
High	**Traditional activities**	**Core functions**
Low	**Peripheral activities**	**Idiosyncratic activities**

Uniqueness

Table 2. Divided human resources (modified from Gilley et al. 2004, 233)

Another way to classify HR activities is to divide them into two following categories: relationship orientated and high strategic value activities as well as transactional and low strategic value activities. The first dimension includes performance enhancement, consulting, employee relations and labour negotiations, executive compensation. The second group includes payroll, benefits administration, employee records, retirement administration and relocation administration. If the activities of the second dimension are outsourced, the company could be able to focus on high value activities (Greer (2001) in Gilley et al. 2004, 233). (Table 3.)

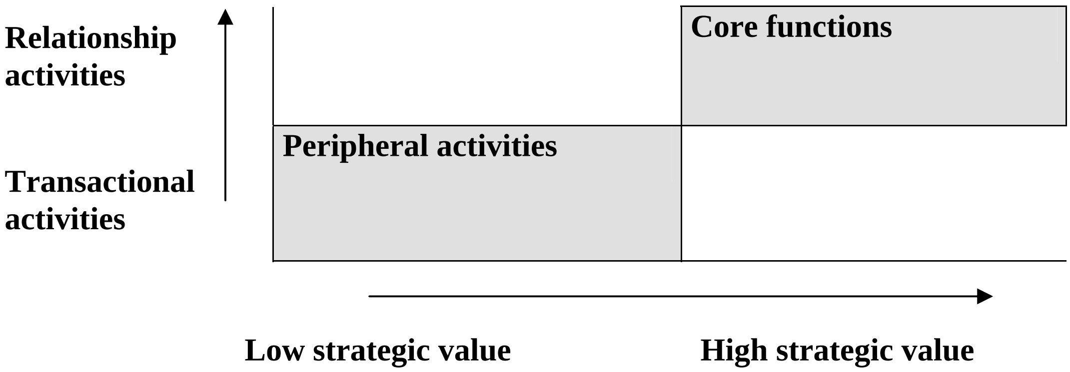


Table 3. Classification of HR activities (modified from Gilley et al. 2004, 233)

2.3 Outsourcing salary administration

Payroll administration includes transactional activities as opposite to relational activities. It does not need high level of interaction and is described as nonunique activity, including possibility to be provided in isolation from the company in another location. It is not seen as high strategic importance and affecting competitive advantage for the company. Due to these reasons, it can be and is often outsourced. Vendors can perform payroll administration at lower cost and at better service, because of their ability to reach economies of scale, expertise, up to date technology and knowledge. The vendor providing payroll administration does not need lots of information and coordination from the client company. It should however avoid failures according to calculation of wages, because it may affect the employee morale (Gilley et al. 2004, 234).

The salary administration must sometimes consider exceptions and changes in employees' monthly salaries, which makes the administrative activities more complicated and critical. The calculation of wages includes e.g. bonuses, overtime compensations, benefits, holiday compensations, sick-leave payments, employee pension payments, travel cost compensation, daily allowances and other payments (Kauhanen 2006, 189). If salary administration is outsourced, these issues require functional communication with the service provider and the customer company.

Adler (2003, 56-57) considers payroll administration to be often outsourced because of its low dependency and spillover risks. When these activities are outsourced, neither the client nor the vendor becomes depended on each other, if the operations are not tailored for the certain company. Payroll administration is interdependent from company's other activities. Failure in payroll administration does not affect strongly on the company's other processes. Because of low spillover risk, there is not a high chance of confidential information to leak. Other reasons, why companies are willing to outsource payroll administration are: the good availability of trustworthy and expertise vendors, its minor affect on competitive advantage and the easiness to switch between different vendors.

Calculating wages and payroll administration are the most popular HR activities being outsourced in Finland as seen in Figure 7. According to the research made by Lever (1997) there are three factors related to the payroll outsourcing levels. Firstly, companies, which invest less in payroll system, software and equipment are more likely to outsource their payroll activities. Secondly, if the workload in payroll activities is unpredictable, the company often outsource its payroll activities. The unpredictability can be a consequence of for example seasonal hiring and requires the company to hire extra payroll personnel, shift staff or take a risk of late payrolls. Thirdly, if the company has routine payroll administration, it is often outsourced. If it is complex, it may be too expensive to outsource. Payrolls are also often outsourced, if there is support from top management and the company has experience in outsourcing in other areas. When payroll is outsourced, the company is able to improve other areas of HR and gain satisfaction from customers (Lever 1997, 41-42).

Gilley et al. (2004, 233) and Adler (2003, 57) take into consideration the issue of the company size and its likelihood to outsource the payroll administration. Small and medium sized companies do not often have additional personnel and enough attention from the management to these activities. This is why, it is often outsourced among these enterprises.

According to the research done by Gilley et al. (2004, 234, 238) outsourcing payroll administration has a strong affect in the company's innovation. It allows the company to focus on strategic important core activities.

2.4 Networking and other contractual relationships vs. outsourcing

Networking is defined in the following, in order to distinguish it from the concept outsourcing. Network can be divided into concrete and abstract network. Concrete networks include physical infrastructure, for example road and rail network and cable network. Abstract networks consist of relationships between people, organisations, parties, groups of people, partners and nations. These describe the social structure. Andersson et al. (1994, 1997) define business network as a set of two connected business relationship, in which each relation is between business firms that are conceptualised as collective actors (Nikkanen, 1999, 20-21).

Tuimala (1999, 6) defines networking as cooperation and relationship among separate businesses. Nowadays it is seen as informal process instead of formal business form. According to Wills (1994) it can occur in two different ways: as extension of matrix organisation in large companies or as voluntarily formed alliance of small companies aiming at a shared goal. In small companies the relationship is often loser and informal and the companies are separate from each other (Tuimala 1999, 3). Hovi (1994) states that there are many ways to classify cooperation and networking forms: buyer-seller relations, cluster, voluntary business organisation, consulting, *outsourcing*, licensing, sales agent, franchising, management board cooperation, joint venture, company acquisition and merger. Outsourcing can consequently be seen as a form of networking (Tuimala 1999, 3).

Lever (1997, 38) has a different view than Tuimala (1999, 6) of outsourcing and its relation to networking. Outsourcing differs in many ways from networking and other contracted relationships. Outsourcing is more strategic than other forms of contracting and it is not only a situation, where companies enter lightly and require renegotiating frequently. It can be seen as a tool for organisational design, not only a contract to acquire goods or services. Anon., (1995) considers outsourcing to differ from contracting out, because contracting is often done only on job-by-job basis and includes a high degree of risk sharing (Embleton & Wright 1998, 94).

2.5 Outsourcing – growing trend

“Outsourcing is being promoted as one of the most powerful trends reshaping management.” (Belcourt 2006, 269)

The popularity of outsourcing HR can be seen as an effect of the complex and fast moving market. There is need to reduce costs and to gain access to specialist services. The information technology may offer a solution to cut costs by building stations world wide, employ cheaper labour and outsource some routine activities. Quinn (1992) takes also into consideration the peripheral and the need to outsource them out, and focus on the core ones. In this way it is possible to follow the changing market (Mabey 1998, 263).

Typically the routine administrative tasks are given to the external provider, for example payroll administration, the maintenance of personnel databases, the provision of intranet services, recruitment administration and routine training activities. The policy issues, sensitive matters and union negotiation are left for the small teams of senior people (Torrington 2005, 761-762).

ARINSO Finland and Henry ry made a research in 2005 of HR trends concerning Shared Service Centres, Employee Self Service and Outsourcing. This research was part of international research, which was made in 2004-2005 in Holland and Sweden. 160 HR specialists in Finland answered the questionnaire. According to the research approximately 23% of Finnish organisations have outsourced some HR process, but still over 70% of Finnish organisations have not outsourced any HR process. (Figure 6.)

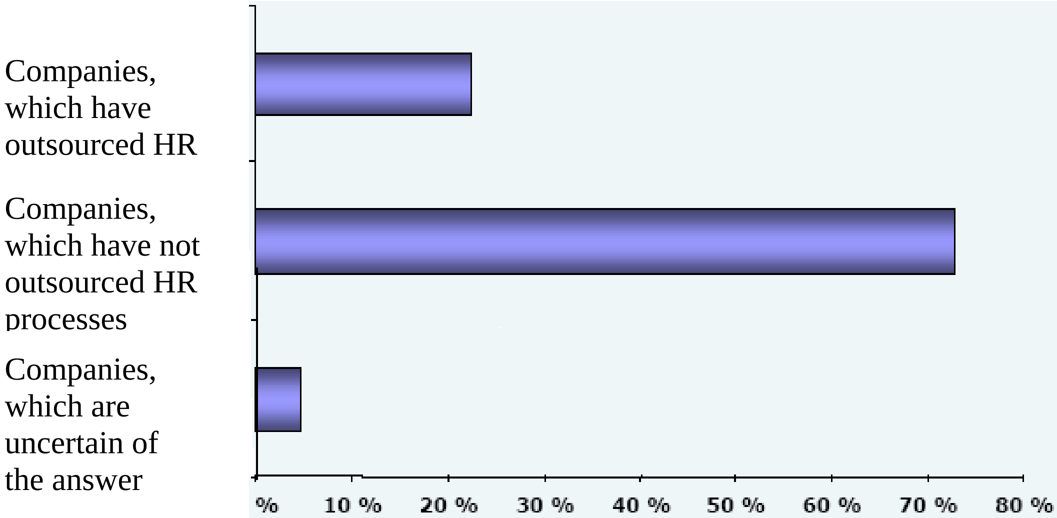


Figure 6. Popularity of outsourcing (ARINSO 2005, 10)

Approximately 27% of organisations, which have outsourced HR processes, have outsourced calculation of wages. It is the most popular outsourced HR process. Payroll administration and Recruitment are also often outsourced. Other HR processes, which have been outsourced, are: pension arrangements, absence administration, time administration, training and other HR processes. (Figure 7.)

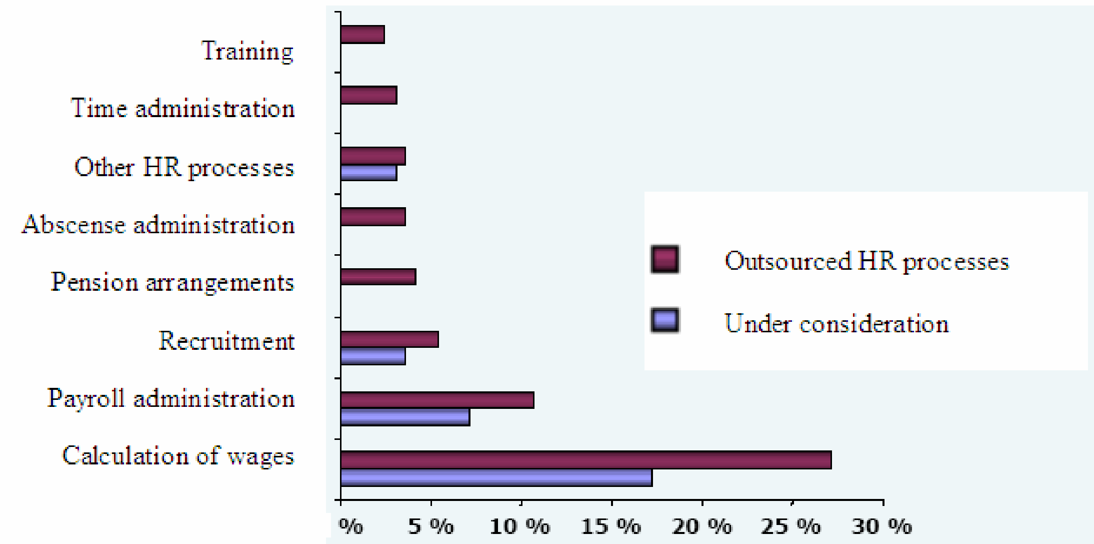


Figure 7. Outsourced HR Processes (ARINSO 2005, 11)

According to the research the most important reasons to outsource HR processes are cost reduction and possibility to concentrate on core competences. Access to expertise and increased flexibility concerning personnel resources were also seen as important arguments to outsourcing. Other reasons were: implementation of new technology and improved measurement as well as transparency of HR activities. (Figure 8.)

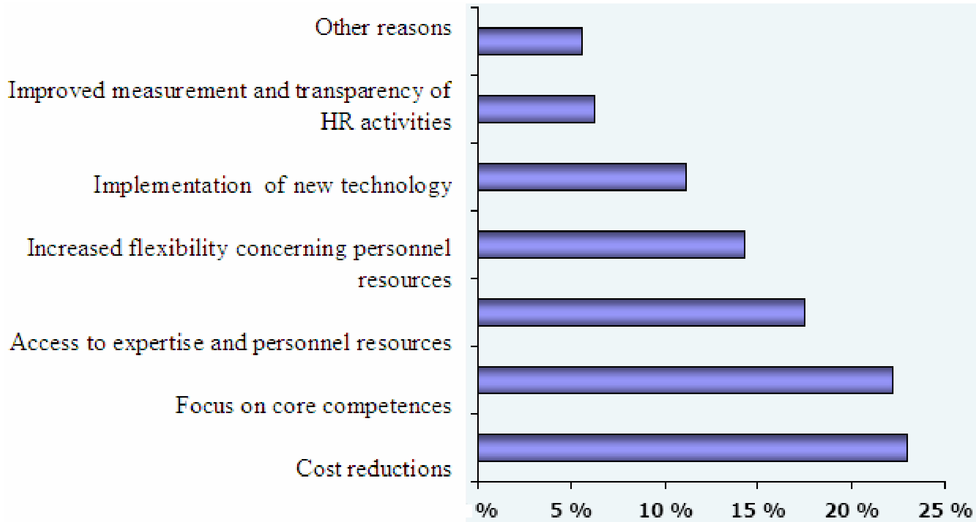


Figure 8. Reasons to Outsource (ARINSO 2005, 11)

The research reveals that organisations have achieved advantages with outsourcing their HR processes. The reasons to outsource (figure 7) have become true in real life. The most considerable advantage has been the possibility of the organisation to effectively focus in own business. Costs have also decreased, access to expertise ensured, flexibility and cost-effectiveness concerning personnel resources increased as well as measurements and transparency of HR activities have slightly improved. (Figure 9.)

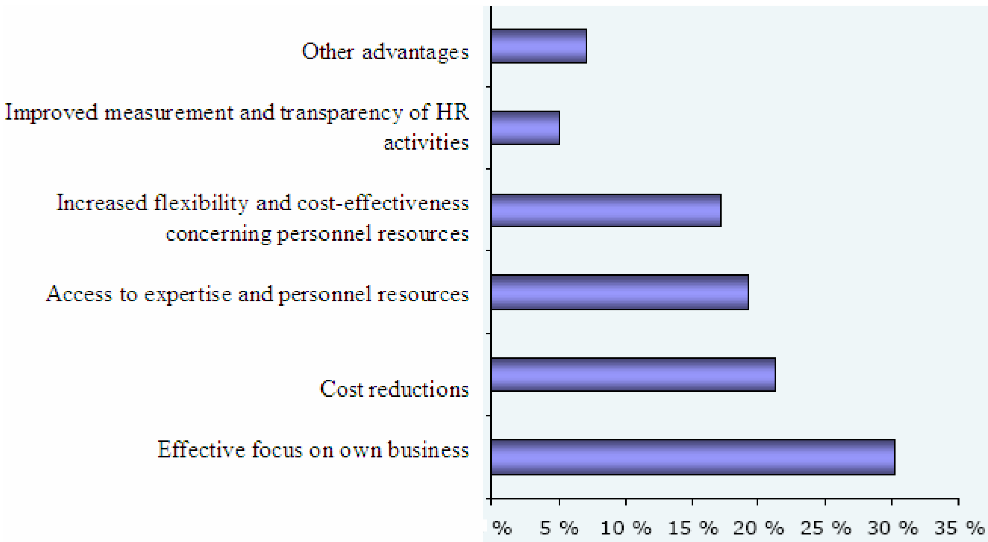


Figure 9. Advantages of outsourcing (ARINSO 2005, 12)

The reasons, why approximately over 70% of Finnish organisations have not outsourced their HR processes are: price compared with achieved advantages, strategic reasons, quality, no outsourcing experience, no suitable partners, fear of losing control, difficulty to purchase outsourcing services and concern of personnel's future. The most considerable barriers were that the price does not match with the achieved advantages. (Figure 10.)

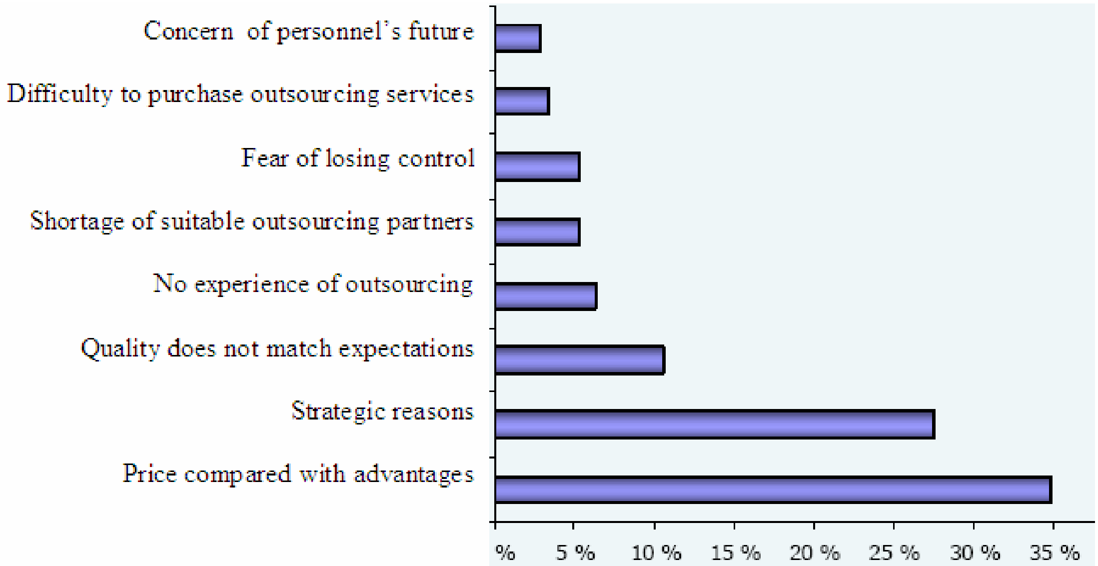


Figure 10. Reasons, why HR processes have not been outsourced (ARINSO 2005, 13)

There is a turning point in HR activities. The research reveals the traditional view of outsourcing: administrative processes are still most popular to be outsourced. Organisations are however aware of the importance to develop HR activities further in order to take a more strategic point of view and consider outsourcing as part of organisation's overall strategy. The service provider could be seen as a part of strategic work of the customer organisation. The focus should be moved from administrative function towards more strategic and consultative activities. The focus should be on customer-orientated and valuable processes. This process is called HR Transformation. (Figure 11.)

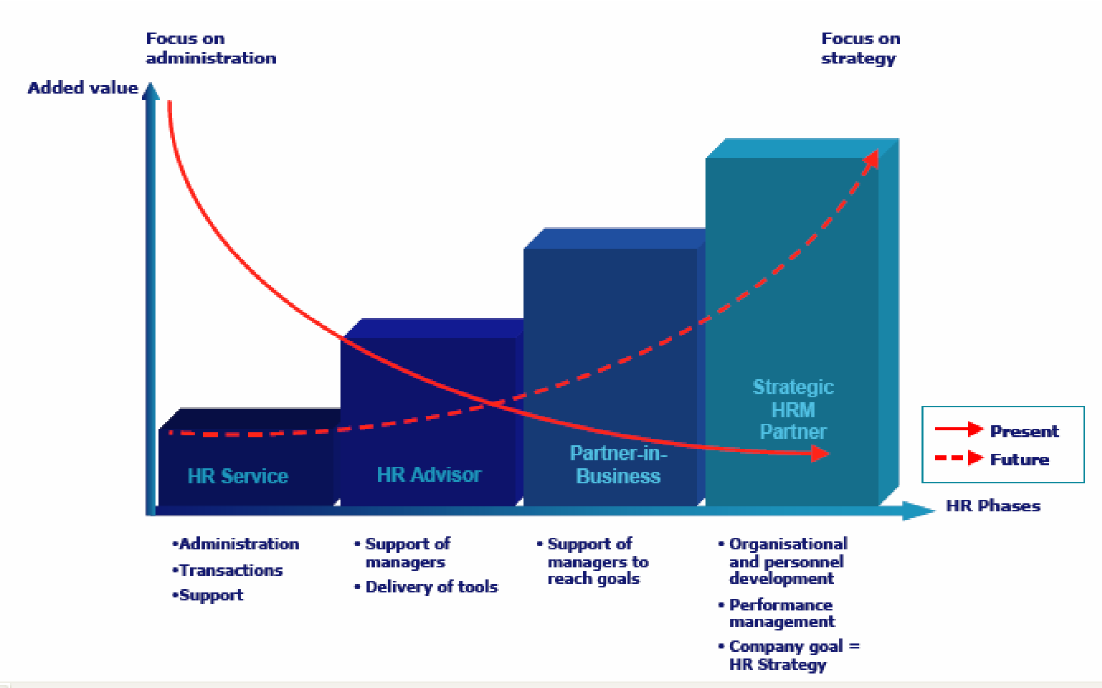


Figure 11. HR Development (ARINSO 2005, 18)

According to Adler (2003, 55) there is a trend of mass customized solutions from the provider to the client as opposite to the expensive tailored solutions for certain companies. In this way the provider may achieve economies of scale. There is however a possibility to the service to become too standardized and inflexible according to different business needs. Another trend is the integration and consolidation among the vendors. Integration allows them to offer companies a complete service or a broad range of different services and to use more sales channels than operating alone. Lack of needed capabilities may affect the third party vendors to create partnerships as alliances and joint ventures.

Sahiluoma (2005, 11) considers the complete breakthrough of outsourcing to happen in 2008. However already 70% of companies in the USA and 40% in Germany have outsourced their HR activities. There is a demand in Finland for companies, which take care of other organisations' HR activities. This is why, for example HR4 Solution OY, has been created. HR4 Solution's aim is to handle HR activities, which are formerly handled by HR managers and take finally the responsibility of human resource administration and development. According to HR4 Solutions, it is important of the vendor to take part as a consult already in the planning process of outsourcing. They are also capable and willing to take the company's HR employees into their organisation as employees.

3. ADVANTAGES AND RISKS OF OUTSOURCING

3.1 Advantages of Outsourcing

CIPD Fact sheet of HR Outsourcing (2005) mentions many advantages that outsourcing may benefit the company; however it is worth to notice that these benefits may be achieved also with some other alternative than outsourcing. These advantages are as follows: reduced cost, reduced risk, increased efficiency, access to improved HR IT systems, improving management information, access to HR expertise, increased flexibility and speed of response.

Financial savings

The vendor may have many other customers, who are outsourcing the same activities. This allows the vendor to concentrate on one area, gain economies of scale and have lower prices in addition to higher quality. The vendor may standardise their work processes. The company may also achieve financial savings because of the possible redundancies of personnel (Lever, 1997, 39).

The company's operating costs can also be decreased and additional expenditures minimized, when outsourcing. For example technology purchases are not needed anymore as additional expenditure (Oshima, Kao & Tower 2005, 7). Gilley et al. (2004, 232) mentions in addition to costs reduction, the possibility of investments in facilities, equipment and manpower to reduce. Belcourt (2006, 271-272) considers the cost control to feel cautious by managers, because each service is charged by the vendor, which was previously provided "free" in the company (Belcourt, 2006, 271-272).

Reduced business risks

Outsourcing is a long-term business relationship. In long-term contract the company and the vendor divide the risk in two different ways. Firstly, the vendor’s profits depend partly on the customer’s business. In this way the vendor accepts the customer’s business cycle and competitive market. The risk will be reduced according to the way the contract is signed. The contract states for example the degree of the employer’s responsibilities during the down times and peak periods. Secondly, some monitoring and burden of environmental changes will be shifted to the vendor. For example risk of technology changes, skill changes and updating needs may shift to the vendor, because it is better capable and motivated to handle these issues. All these vendor’s responsibilities should be clearly stated in the contract and mutually agreed on (Lever 1997, 39-40).

Improved service levels

Outsourcing may lead to improved service levels, while the quality of the service is improved. The following improvements are possible: the flexibility of the service, the overall service performance, the control of the service quality and the response to the service need. The confidentiality may also become an important issue, for example it may be easier for employees to speak confidential issues to an outsider than to a colleague. The improvements depend on a properly considered process of choosing the best vendors and the writing down the required standards in the contract (Belcourt 2006, 273). Oshima et al. (2005, 7.) considers that service levels are possible to be improved through outsourcing, because new service and capabilities are gained from the vendor. He points also out that all the new processes should be integrated with each other.

Torrington (2005, 762) points out the improved service delivery and greater focus on customer satisfaction. These can be related to the other advantages mentioned, because for example increased flexibility, fast response and improved HR information technology (IT) systems may affect the better customer satisfaction and improved service delivery.

Strategic focus (Focus on the core competences)

The company should focus on the core competences and keep them in house, because it can not provide excellence in all areas. They are critical processes to the company’s success, affecting the competitive advantage and future growth of the company. The company does these core competences best and shows excellence in these activities. In these strategic activities the company should be focused on, because they add value to the company’s processes (Belcourt, 2006, 272-273).

According to Oshima et al. (2005, 7) it is also important to focus on essential and strategic work, because it differentiates the business from other businesses. It also allows the personnel to do other work than basic administrative work. He takes into consideration the importance to build flexibility and responsiveness to business needs. The company could be more flexible and responsive to the changing business needs, if it is outsourcing certain activities. It may provide additional capability, capacity and unit cost predictability.

Access to advanced technology and specialized expertise

Outsourcing may allow the company to improve their technical service and technical talent. The vendor may make it possible to access new technology and reduce the time to handle different requests. In this way the company’s transaction costs are decreased. Outsourcing may ease the access to specialized expertise. An expert could do some activities better than in house, for example handling complex laws and regulations (Belcourt, 2006, 273).

Lever (1997, 40) considers also the access to specialised skills. He points out two different ways to realize it as an advantage of outsourcing. Firstly it makes possible to access highly skilled specialists. Secondly outsourcing enables the company to build valuable internal skills and concentrate on core skills, because the repetitive and basic work is outsourced away.

Often employees transfer to the vendor's organisation. This procedure has two advantages. Firstly it becomes the responsibility of the vendor to adjust the capacity, take care of the employees, who perform poorly and raise the best capabilities of the employees. Secondly, the transferred employees are familiar with the company's functions and existing service (Feeny, Lacity & Willcocks 2005, 43).

3.2 Risks and limitations of Outsourcing

Actual Outcomes

The actual benefits can be completely or partly different than what was expected. The outsourcing process and outcome may not have been as cost-effective and problem free than expected and the service levels may not have become as good as expected (Belcourt, 2006, 274).

Sullivan (2004) takes into consideration the criticality in outsourcing HR. He points out some main reasons, why companies should not outsource their HR activities. These can be seen as disadvantages of outsourcing. Firstly he states that outsourcing does not help the company to achieve competitive advantage. The ways to reach it is being unique, having successful practises and encouraging to innovation and differentiation. The vendors may see the companies being the same and use the same techniques for many companies. Secondly he sees that there is only a little proof of the effectiveness and cost savings. The saved money can only be seen as shifted to the additional payments, for example legal fees and cost of managing contracts.

Service Risks

The contract should be properly written in details. It is possible that the written contract is not flexible enough. It should be considered already in advance, what kind of procedure is needed to change the contract. Is it possible to add new issues to the contract or enhance it or reduce some issues from the contract? If the contract is not flexible enough, it may become a risk, when the environment and needs change. One major service risk is the possibility of the vendor becoming the company's competitor. This is why the most important strategic, core competences, should not be shifted to the vendor. The contract should be written in a way that it does not allow the vendor to use the company's information in order to compete against them (Belcourt, 2006, 274).

Employee morale

Employee morals should be carefully considered, when outsourcing activities. The production may be lost, quality of performance decreased and talented employees may start immediately seek new jobs, when rumours of outsourcing starts. Outsourcing processes often include personnel redundancies, lay offs and changes in organisation's culture. The employees may feel resistance to the outsourcing, because there is a risk of losing job. They may also feel to be forced to work for the vendor or that the outsiders are more competent to the work. The company should keep the employees informed of the situation and avoid incorrect rumours to rise (Belcourt, 2006, 275).

Reduced value

The company should consider the outsourcing process carefully in order to add value and avoid reduced value in outsourcing. The company should not outsource the knowledge and skills of their employees. There is a risk of the vendor also to sell the know-how and secrets to the competitor. In addition to these risks, the vendor is unable to distinguish the high-profile customers from the ordinary customers and unable to realize the company's special needs. The vendor may not for example notice how even noncore activities may be linked together, which reduced the company's ability to provide cross-functional activities (Belcourt, 275). Lever (1997, 38) considers also the importance to keep in house the employee's knowledge and skills. When the employee's knowledge leaves the company, it is time consuming and difficult to rebuild the gap.

According to Sullivan (2004) outsourcing limits the growth, image and capabilities of HR; because it takes learning opportunities away from the employees and makes the company be seen as it could not handle its own jobs. Especially in large, global companies it can prevent from expanding their operations, because many vendors' knowledge is based only in their own country.

Management of outsourcing

It can be seen as risk and limitation of outsourcing, if the management of the outsourcing process is not planned properly. It should be carefully considered the way of selecting vendors, negotiating the contract and monitoring the arrangement (Belcourt, 275.) The outsourcing process is discussed in more details in chapter four.

4. OUTSOURCING PROCESS

Outsourcing functions in an organisation should be seen as a process including various steps. An organisation could follow the these steps: planning initiatives, exploring strategic implications, analysing costs and performance, selecting vendors, negotiating terms and managing relationships. These steps should be modified to fit in the certain organisation and outsourcing situation. They should not be followed in order, because they are interrelated. It is also worth to point out that the outsourcing process takes a lot of time. In order to have a successful outsourcing process it may also be valuable to consider having a team leader to each phase (Greaver 1999, 17, 24).

Lever (1997, 38) characterizes and divides the outsourcing process in the following steps: discovery phase, negotiation phase, transition phase and assessment phase. In the following chapters Lever's and Greaver's steps are combined. The outsourcing process, related to the advantages, risk, organisation's vision and strategy in addition to competitive environment, is illustrated in the conceptual framework, p 44. (Figure 12)

4.1 Discovery phase

Discovery phase includes benchmarking of current situation against competitor's situation and identifying company's future needs. During this phase is the request for proposals created in addition to a list of suitable vendors. In discovery phase the company should understand its current capabilities (Lever, 1997, 38).

Planning Initiatives

During this step the company should:

- Assess risk
- Announce initiative
- Form project team
- Engage advisers
- Train the team
- Acquire other resources
- Set objectives (Greaver, 1999, 18.)

The first step is to plan the outsourcing process and specially the initiatives. Organisation could consider creating cross-functional teams to study the outsourcing initiatives. The teams should be objective and contain individuals of legal and human resource functions. A collective commitment should be reached in the team. Inside these teams a team leader should be selected, set team objectives and timetables. The team leader's assignment is to manage the team, individual team members, gather technical support, ease and arrange discussions, sum up decisions, create reports, make presentations and convince the resistant employees (Greaver 1999, 24-25). Oshima et al. (2005, 9) considers the importance of appointing a "champion" for the outsourcing initiative. The champion would engage the business leaders in the process, support visibly and manage the ongoing change program.

The set objectives should be clear and well understood among the affected employees, because they influence the direction and results of outsourcing process, guide the design of the contract and control the assessment of process proceeding and possible options. Proper objectives create also the basis for measurement, because against them can different actions, solutions and appropriateness be tested. Organisation’s high level objectives should be taken into account in the objective setting process. The objectives should not be in conflict with the organisations overall objectives. The organisation should also investigate the current state of operation regarding function to be outsourced in addition to future needs, the gap between the current situation and needs as well as the speed and future rate of occurring changes. Future changes may have an affect on the costs. An organisation may have for example the following generic objectives: gain and maintain skills, tools and new technologies, cost-effectiveness, improve responsiveness, flexibility and maximise personnel’s career opportunities (White 1996, 4-10).

The criteria for evaluating the success of outsourcing should also be decided. Possible criteria could be finishing on time, finishing within the budget, meeting objectives, meeting team members’ commitment, improvements in performance and cost savings. These criteria should be periodically evaluated and results shared also with senior management. The plan should be accepted by the management. They give approvals of making possible adjustments and moving forward with the process without conflicts with companies strategies (Greaver 1999, 68-69).

A senior manager could be assigned to be a project champion by the senior management. He assures that senior management’s support could be attained. The senior management should formally support the outsourcing process, provide schedule and investigate how outsourcing fits with organisations strategies and vision. The project champion should guide the team, ensure resources available, keep the team on right track, inform senior management and eliminate barriers (Greaver 1999, 39-40).

Outsourcing organisations functions, processes or individuals causes often powerful opposing forces, negative emotions. Employees can be resistant for change, because they are afraid of loss of comfort or loss of power. They or their colleagues may lose jobs or their duties may change. They may also be relocated in some other place. The employees may be under a lot of stress. This is why employees should be announced about the situation and outsourcing process in order to avoid surprises and unofficial communications (Greaver 1999, 40-42).

The resources, information, management skills and risks should also be assessed, when planning initiatives, because all new projects have risks (Greaver, 1999, 37). It is not enough only to identify the risks and threats; they should be decreased and managed. Risk register can be used to identify, classify and manage risks. The structure of risk register contains detailed risk description, classification of risks and finally summary of risks. Risks can be classified according to for example complexity, effectiveness, technology, resources, experience and finance. The outsourcing process may be too complex and difficult to manage, outsourcing process may not effectively follow to the planned aim, technology may be unreliable and unsuitable, lack of resources may increase certain risks, experience of projects will decrease the risks of effectiveness and outcome as well as pressure of financial issues may decrease the quality of project. The risk register should be frequently updated and reviewed as well as the risk reduction plans monitored (White 1996, 28-30, 38).

The need of outside adviser, consultant, lawyer and other specialist should be investigated. The other specialist may be for example certified public accountants, benchmarking specialists, change management specialists, human resource specialists or technical specialists. These specialists coming outside the organisation may help to manage risks, provide expertise in various issues, assist the project manager, challenge proper thinking and offer objective observations. The adviser can be used as general assistant, senior management’s guide, outsourcing trainer, analyser of costs, analyser of cost and performance benchmarks, identifier of potential providers and contract negotiator. Often the advisor has experience of what should be taken into consideration during the outsourcing process and what issues should not. In this way they may ease the decision making. The advisor may be used during the whole outsourcing process or only during a specific phase. If the advisor is used during the whole process, he should be included also in the planning phase. The required skills of the outside advisor should be investigated. What kinds of skills are needed and do they match with the potential advisor? The outside advisor may also help with training issues. Each member should be trained to understand the concepts and the overall outsourcing process. In this way the outside advisor may also ease the employees to overcome resistance (Greaver 1999, 48-55).

Exploring Strategic Implications

During this step the company should:

- Understand company's
    - Vision
    - Core Competences
    - Structure
    - Transformation tools
    - Value chain
    - Strategies
- Determine:
    - Decision rights
    - Contract length
    - Termination date (Greaver, 1999, 18.)

It is important to investigate how the outsourcing fits and affects the whole organisation and its strategies. Outsourcing should not be in conflict with organisation's vision, current and future structures, core competencies, costs, future performance, competitive advantages (Greaver 1999, 25-26; Oshima et al. 2005, 9).

Organisation's vision should be known in the whole organisation. It explains realistically and in details where the organisation is aiming at. Different strategies are used to achieve this vision. All employees should be aware of and understand the strategies and how their activities relate to the strategies as well as the big picture of the organisation. In this way the employees know where the organisation is going, why it is outsourcing certain functions and why resources are used only to core competences. The size of the organisation does not anymore guarantee success; instead it is market power, integration, big network of outsiders and insiders, which counts. The organisation should focus on core competencies and get rid of the rest and in this way stay in the competition (Greaver 1999, 75, 79).

Core competencies should be identified in order to keep them in house and outsource noncore competences. Core competences are not easily imitated by other organisations and they create products and services, which customers see different. In order to identify organisation’s competences, the organisation should be aware of customers’ perceptions. Outsourcing noncore competences, enables the organisation to concentrate on, invest more resources in and focus expertise in improving core competences (Greaver 1999, 87, 90-92).

Noncore activities such as human resources, payroll and benefits, information systems, food serving are being often outsourced. They do not usually deal directly with the product or service and are seen as support services (Lankford et al. 1999, 311).

It depends on the nature of the outsourcing provider, what kind of strategic impact it has to the organisation. The provider may be a strategic partner, supplier provider or a strategic alliance/joint venture. A strategic partner is like a part owner of the business, it for example participates in all strategic planning meetings. This form of outsourcing provider is usually used, when the organisation is outsourcing functional or process activities. A supplier provider’s roles are defined in details. If an organisation is outsourcing less important functional activities (noncore activities) or individual activities, they usually use supplier provider. If the relationship is more strategic with the provider, the contract is usually long, because it for example takes time to the provider to learn the organisation’s business and there may be large investments for the provider (Greaver 1999, 116-117).

Outsourcing affects also the decision making processes. Some of the decision making will be transferred to the provider. Decisions concerning factors of production, operating processes, other management decisions and strategic issues should be defined in details. For example the following issues should be taken into consideration: who manages the resources, who decides of the equipment, who evaluates performance, who will create strategy to the outsourced function and fit it to the organisations strategy (Greaver 1999, 117-118).

Anon., 1995e; Anon., 1996g; Laabs, c. 1996 consider also the strategic analysis in addition to selecting the providers and managing the relationship to be the key to successful outsourcing. The strategic analysis should include determining the core areas, cost of providing the service, quality level of current service, outsourcing impact on corporate culture, quantify outsourcing goals and look outsourcing at long and short term. It is possible to create measurable goals by quantifying outsourcing goals (Embleton et al.1998, 100-101) .

Analyzing Costs and Performance

During this step the company should:

- Measure activity costs
- Project future costs
- Measure performance
    - Existing and future
    - Cost of poor performance
- Benchmark cost/performance
- Determine:
    - Specific risks
    - Asset values
    - “Make” total costs
    - Pricing models
    - Final targets (Greaver, 1999, 18.)

Outsourcing brings always additional costs to the organisation. The organisation should carefully investigate existing and future costs of activities, which are planned to outsource and compare these costs with providers’ proposals. Some costs may disappear, when outsourcing and some new costs will occur. In addition to costs also current and future performance should be evaluated. In this way it would be easier to set standards and monitor the occurring cost and performance as well as the future trend (Greaver 1999, 26).

It is not enough to investigate financial statements, when studying existing and projected costs. Financial statements do not describe in details the nature and costs of the activities that are planned to be outsourced. The function, which might be outsourced, should be divided into activities and identify all costs related to each activity. Then different scenarios should be made concerning these activities. During different scenarios should future operating costs and asset investments be estimated. The results of these scenarios should be compared with organisation’s desired amount of costs and investments as well as with provider’s proposal. In addition to these, benchmarking could be used and compare the results with other organisations’ similar activities, costs and investments (Greaver 1999, 130, 132, 136, 139).

In order to be aware of the difference between the current and desired performance, other organisation’s performance and provider’s performance, the organisation should evaluate its existing and projected performance. The results should be in relevance with the reasons to outsource. The organisation may set following performance standards: productivity, quality, time, utilization, outputs and financial issues. According to these standards the company should evaluate the cost of poor performance and project the future performance (Greaver 1999, 146-149, 154).

4.2 Negotiation Phase

Negotiation phase follows the discovery phase. During this phase the suitable vendor is selected. The company should negotiate and find an agreement with the vendor concerning their operating philosophies and different approaches. This is important, because they will operate and co-ordinate activities closely together for a long time. They should also plan the transition and service delivery during this phase (Lever, 1997, 38).

Selecting Vendors

During this step the company should:

- Set qualifications
- Set evaluation criteria
- Identify providers
- Screen providers
- Draft request for proposal (RFP)
- Evaluate proposals
- Determine short-list providers
- Determine finalist provider
- Review with senior management (Greaver 1999, 19.)

The reasons to outsource should be kept in mind, when creating a list of criteria, which a “qualified” provider should have. Possible qualifications can be:

- ability to delivery today, experience to deliver
- provider strengths
- superior performance
- deserved good reputation
- proven customer satisfaction
- financial stability
- management capabilities
- shared approach to problem solving
- commitment to continuous improvement
- transition experience
- trust, security, confidentiality, flexibility
- positive attitude
- cost-consciousness
- willing to share knowledge
- clear vision of their market

Potential providers can be identified through preliminary investigations and comparing their qualifications with requested criteria. Some criteria should have different importance and in this way different weighting. The organisation can also network with its contacts to identify the suitable and interested potential provider (Greaver 1999, 173-179).

Feeny et al. (2005, 43) describes the importance to consider the company’s own requirements. Should the vendor’s service level be high or is moderate service enough? If moderate service is enough, work can be more focused on core activities. Should the company’s present level be changed? Should the possible relationship be possible to replace easily? Is the company requiring a long-term relationship?

Feeny et al. (2005, 42) presents three categories, which should be investigated, when finding the right vendors. These categories are: delivery competency, transformation competency and relationship competency. Delivery competency includes the day to day operations and how the vendor is able to respond to these in order to meet the cost, quality and flexibility factors required by the company. Transformation competency describes how the vendor delivers the service and how it is expected to improve the cost, quality and functional issues over time. Relationship competency represents how well the vendor is able to create a win-win relationship according to the set goals and neither party's position weakens.

Sanders et al. (2005, 42) considers the importance of evaluating capabilities of the vendor. The vendor's core competency should be identified: the maturity of its service offering, reputation, background, experience, qualifications of key personnel, the size of the company, the possible additional services, organisational culture, decision making process and operating style.

Decisions should be made, whether the provider should be invited to propose. A request will be made and delivered. The request should be clearly written, and include sufficient information. The provider should also have a reasonable time to respond and access to organisation's decision makers. After proposals are received, they will be evaluated and compared with the requested qualifications and cost. The amount of potential providers will be decreased to two or three providers and they will be investigated more in details. A competition between these providers is useful to be maintained (Greaver 1999, 27, 184).

The providers' references will be checked, output tested, site visited, before further discussions and formal presentation given by the provider are arranged. The presentation will usually be followed by a time period for possible questions with other party's answers. Each provider should also at this stage confirm their final proposal. Finally the prime provider candidate will be chosen, after the team has met and possibly voted and held a final debate. At this stage can negotiation process be prepared, with list of issues and questions concerning the contract and relationship (Greaver, 27, 194-195, 215, 218-219).

Lankford et al. (1999, 314) considers the supplier evaluation to be processes through two dimensions: technical and quality. According to him technical quality includes maintaining the required response time, minimizing system down time, providing error-free service and utilizing leading edge technology. Functional quality includes the function of customer service.

Lankford et al. (1999, 314) states the importance of company's needs to match the vendor's capabilities. A special cross functional team should be established including decision making levels from different departments in order to asses the company's needs. The company and the vendor should have a shared vision.

According to Foster (1996) the following issues should be considered, before choosing the right vendor: determining the supplier profile, which meets company's needs; conduct request for information, conduct request for proposal in detail, conduct site visits and finally negotiate a mutually beneficial contract. Following these steps carefully and properly it is possible to find a vendor, who suits to the company's strategy and needs. Later it will be costly to change the vendor to another one (Embleton et al. 1998, 101-102).

Negotiating Terms

During this step the company should:

- Plan negotiations
- Prepare term sheets
- Negotiate contract
- Announce relationship (Greaver, 1999, 19.)

The request for proposal and actual proposal will be converted to term sheet, which is the basis for the detailed negotiations. The aim of the negotiation is to reach an agreement, satisfying both parties. The term sheet includes the following issues: scope of services, factors of production, performance standards, transition provisions, management and control, pricing and termination provisions (Greaver 1999, 28)

The scope of services describes the services, which the provider will perform. The factors of production define the instances, which will switch to the provider. The instances can be people, facilities, equipment, software and third-party contracts. The performance level explains the minimum service level, which the provider has to perform and the consequences, if it fails to do so. The transition provisions include the issue of how the transition will be executed, the roles of each party during the transition. The management and contract term considers the issue of making decisions, who makes the decisions in different situations. The pricing schedules state the payment, which the provider will receive. The termination provision considers different reasons for termination and how to proceed after it.

After an agreement has been reached, the employees affected, other employees, lost bidders and public should be announced of the new relationship (Greaver 1999, 238-246).

4.3 Transition Phase

The better the transition is prepared and planned the easier this phase will be. During the transition phase the employees are transferred to the vendor or to other positions. It is possible also that the vendor takes over certain processes or functions in the company or takes over a computer system (Lever 1997, 38).

Transitioning Resources

During this step the company should:

- Adjust team roles
- Compare/merge transition plans
- Address transition issues
    - Communication
    - Human resources

  - Other factors
- Meet with employees
- Make offers/termination
- Provide counselling
- Physically move (Greaver 1999, 19.)

Transition of resources includes transferring equipment, facilities, software and/or third-party agreements to the provider. The provider may locate to the organisations facilities or the outsourced function may be relocated some other place, which makes the outsourcing process more difficult. Remaining and outsourced employees' reactions including insecurity, discomfort and all their human resource issues should be considered with sensitivity (Greaver 1999, 28).

At this stage the project team draws back from the outsourcing process, except the project leader, and the relationship team will take over. The role of relationship manager should be created, whose duties will include: receiving reports from the provider, plan a smooth transition process, co-operate with the provider, human resource function and possible outside adviser as well as to advice employees. Open communication in arranged meetings is important to be established with the provider and organisation (Greaver 1999, 253-254, 258).

4.4 Assessment Phase

The transition phase is followed by an assessment phase. At this phase the vendor provides the needed service. The company should have created some predefined metrics in order to monitor the outsourced service process. The assessment includes also the decision of the future, when the contract ends. The contract may be renegotiated or ended (Lever 1997, 38).

Managing Relationships

During this step the company should:

- Adjust management styles
- Set up oversight council
- Communicate

- Design meeting agendas, schedules, performance reports
- Confront poor performance
- Solve problems
- Build the relationship (Greaver 1999, 19.)

Feeny et al.(2005, 48) states that the outsourcing process does not finish, when the vendor starts with the outsourced activity. The company should stay involved in the business process according to a certain context.

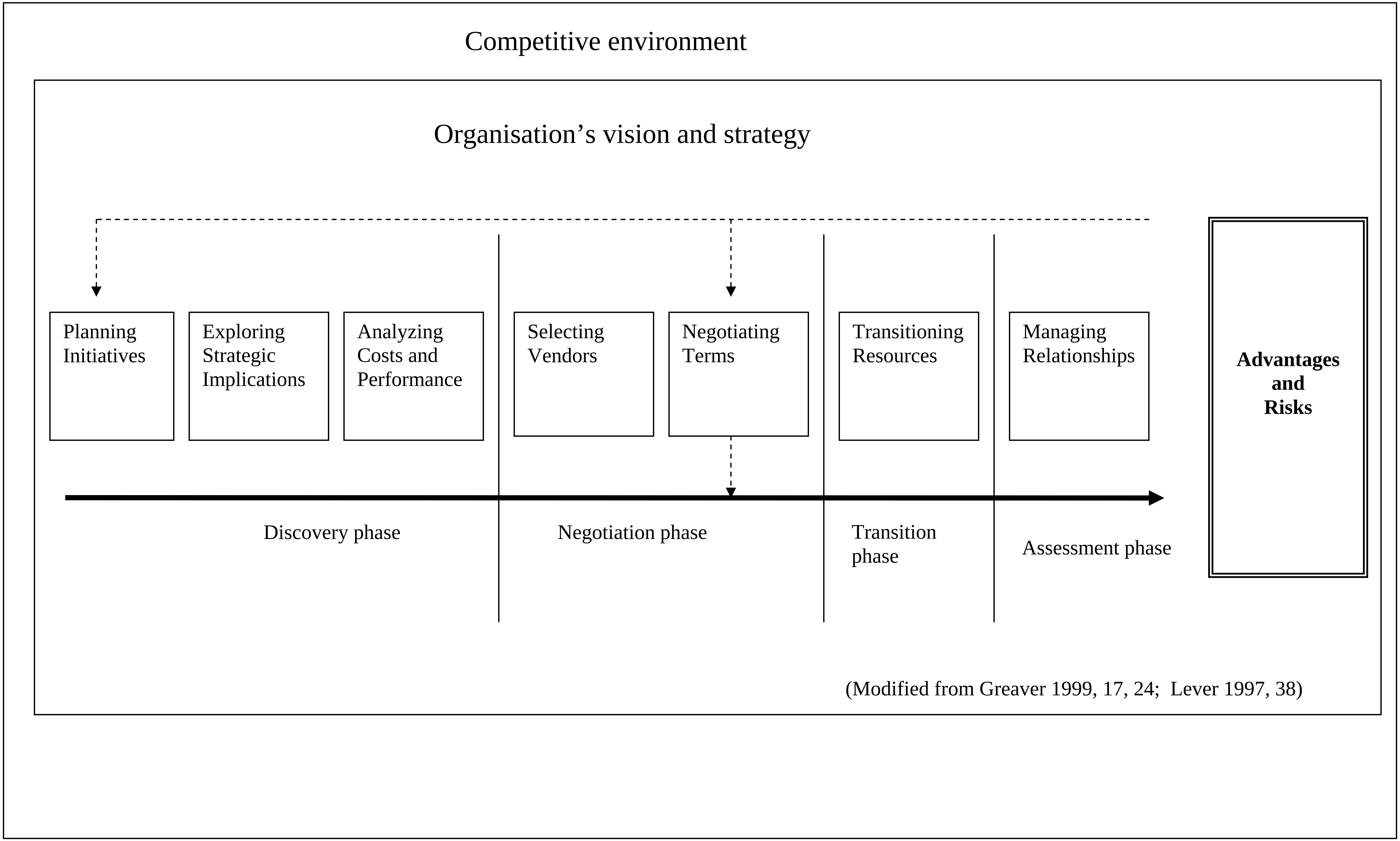
Managing relationships includes evaluating performance, results and to resolve possible problems. The created relationship should be built on trust as well as on mutual commitment to success. It should be managed constantly and carried out through periodic reporting, meetings and audits. These methods should be clearly stated in the contract. Reports should include information of current period, year-to-date cumulative information and projections of future performance and results. The agenda for arranged meetings should include discussion of performance results and other operational issues. Both parties have also possibility to audit the other party’s records (Greaver 1999, 29, 275, 278).

The possible risen problems concerning either party should be shared and negotiated in order to find suitable solutions. The problems usually concern people, process, technology or other issues. There may be for example loss of key people, poor performance, problems how operations are set up and problems with acquisition, implementation and maintenance of equipment. Both parties should also be aware of the proceeding and possibilities after the termination of contract. The contract could be for example extended, renegotiated or a new competition could be arranged (Greaver 1999, 29, 282, 285).

Embleton et al. (1998, 102–104) considers the employee morale, when managing the relationship with the vendor. The importance of morale to the outsourcing success should be realized. The company should consider how to communicate during and after the outsourcing process the situation to the employees. The employees should believe that the management is fair. If employees are feeling revenge and self defence, their actions may be damaging to the company. The employees should be treated as an asset and minimize the human cost of outsourcing.

Lanning, Roiha & Salminen (1999, 308, 321) states that essential meaning of assessment is to learn from own actions, not to search guilty persons or discover achieved results. Every assessment should lead to cause-effect analysis and in this way to find new improvement and development targets. The experience gained from one project should be utilised as efficiently as possible in the future projects. This experience and new developed skills should be considered, when starting a new project. In this way the organisation can develop and competitive advantage achieved.

5. CONCEPTUAL FRAMEWORK, Outsourcing Process (Figure 12)



(Modified from Greaver 1999, 17, 24; Lever 1997, 38)

6. RESEARCH METHODOLOGY

6.1 Research Problems

The main focus of this thesis is to compare present outsourcing operations in the case company with the best practices in theory in order to enable the case company to develop its future outsourcing processes. The objective is also to find answers to the following questions:

- How Human Resource activities, including salary administration, have been outsourced in the case company?
- Which factors affect a successful outsourcing process?
- What advantages can be achieved by outsourcing HR activities?
- Which risks and limitations should be considered, when deciding to outsource?

6.2 Research Methods

Empirical research can base on quantitative or qualitative data. Quantitative research consists of quantified and statistical information as opposite to the qualitative research. Quantitative research is often used in studies, which need a phenomenon to be described. In qualitative research the aim is not to measure statistically but to understand and interpret the reasons and meanings of the phenomenon. The approach of the research and data gathering selections depends on what the research objectives are. Neither quantitative nor qualitative methods are better than the other. In an extensive research both of the methods can be used side by side (Koivula, Suihko & Tyrväinen 1996, 17).

Quantitative research aims to measure a phenomenon and factors affecting it as reliably as possible. A variable is the instrument of the phenomenon. The values of the variables should be coded in a numerical form. For example different answers in a questionnaire have different coded answer alternatives. The results of the research can be summed up in a data matrix, where the values of the variables are in a numerical form and ready for statistical handling. Different statistical programs handle the calculations based on the data matrix (Koivula et al. 1996, 18).

Quantitative research is still popular among social and natural sciences. It focuses on former theories, describing hypothesis and defining concepts. The gathered data should suit to quantitative and numerical measuring, which affects the planning face of the arrangements. In qualitative research the variables are also put into table and statistical form. For example percentage tables and statistical testing eases making conclusions and describing the results (Hirsijärvi, Remes & Sajavaara 2000, 129).

Qualitative research bases on comprehensive data gathering in natural, real situation and environment. People are used as instruments, when gathering the data. The researcher trusts on his own perceptions and discussions with his testees more than on different tests. The staring point is not testing hypothesis or theories, but to consider the data as diversified and in details as possible. It is also important to let the testees' "voice" and perspective be heard. Different qualitative methods could be e.g. group interviews, structured interview, and participatory observation (Hirsjärvi, Remes & Sajavaara 2000, 155).

There are three different types of interviews: structured, semi-structured and unstructured interviews. In structured interview the questions are formed strictly and the number of testees is big. The received information is superficial and the workload during the analyse phase is small. In the unstructured interview the questions are presented freely and the number of testees is small. With this method the received information can be in-depth, but the workload of the analysis can become big. The semi-structured interview is positioned between the methods discussed above. The researcher uses questions, which are in general outlined. With this method he can gain a in-depth understanding also of the situation, while the amount of testees and workload is quite big (Hirsjärvi & Hurme 1995, 35, 38).

This research was carried out by using qualitative research approach and semi-structured interview as a research method. These were chosen, because the number of the interviewees was small and in-depth was needed about the research problems. The need was to understand and interpret the overall situation of the outsourcing process in the case company. The semi-structured interview was chosen, because it eases the work of the interviewer in the actual interview situation. The themes are decided in advance and this smoothes the interview and keep the discussion in track. The interview is also easier to control in a semi-structured interview. Based on the themes, additional questions can be made. The structured interview was too restricted for this research purpose, because more free discussion was needed in order to allow the possible new perspectives and the variety of the problem to appear.

This research considered only one case company and its outsourcing process. Five interviews were done in this real life cased company context. In this way the research strategy is considered to case study. According to Robson (2002, 178) case study is 'a strategy for doing research which involves an empirical investigation of a contemporary phenomenon within its real life context using multiple sources of evidence' (Saunders, Lewis Thornhill 2003, 93).

6.3 Carrying Out the Research

The case company was chosen as a case company, because they had outsourced their salary administration some time ago.

The research proceeded in different stages. Firstly was the human resource's manager interviewed. He was closely related to the outsourcing process of the salary administration as team leader of the project group. According to his advices the other interviewees were chosen. Secondly was the Manager of the service provider, The service provider, interviewed. She included in the outsourcing process from the beginning and was a member in the project team. After these two interviews, there was a real need for information from the actual working place. Assistants operate as a link between the service provider and the customer, which lead to the issue of interviewing also three assistant level employees. These were chosen to be interviewed according to the suggestion of the HR Manager. Two of them had worked in the case company before the outsourcing process, and had in this way information about the situation before the outsourcing. They could consider how the salary administrative activities had changed after its outsourcing. The assistants take care of the travelling work forces' timesheets to the salary administration and cooperate with them. These interviewees also face many changes in the employees' monthly salaries' handling (travel days, over time etc).

It was agreed with the HR Manager that the issues, which could be connected to the case company, would stay only for their own use. The study with detail information of the case company will not be public. The personal information of the assistant level employees stays also secret. Otherwise their answers may not have been reliable and they might have had fear of telling the truth.

The interviews occurred in the employees own work places. They lasted approximately one hour. The interview was shorter with the assistant level employees. All the interviewees showed interest to the research and no-one cancelled the interview. The face to face interview made possibility to notice that the interviewees took this research seriously and especially the assistant level employees wanted to "make their voices heard".

The research's approach was decided to be qualitative and research method semi structured interview. The semi structured interview form included also some details (bullet points) in order to keep the discussion in track and allow the interviewer to make some additional questions to clarify the answer. These issues under bullet points were not asked directly to the interviewee, because their answers were wanted to be open and without a clear leading to a certain answer. It was explained to the interviewees that during the interview they had the possibility to ask, if something left unclear. The researcher made also additional questions, if some issues needed more clarification. The open discussion and possibility to make additional questions as well as make sure nothing leaves unclear were the reasons, why questionnaires were not chosen to be as a research method. The outcome could have left incomplete and too short.

6.4 Reliability and Validity of the Research

According to Eskola & Suoranta (2000) the basis of qualitative study is the subjectivity of the research. The researcher is seen as one of the main instruments of his research. The whole research process should be evaluated, when considering the reliability of the study. The researcher must constantly deliberate the made solutions and discuss at the same time the scope and reliability of the research. The uniqueness and dynamics in addition to the process character of the qualitative research does not support the traditional view of reliability (Eskola & Suoranta 2001, 209-213). Tuomi & Sarajärvi (2003, 133) points out also the criticism of validity and reliability in qualitative research, because the concepts relate to quantitative methods and needs. A proper validity can be achieved, if it has been researched exactly what was aimed to. The reliability describes the repeatability of the research results.

Soininen (1995) divides the concept of reliability concerning quantitative and qualitative research: the background assumptions and objectives are different. According also to her, the reliability and validity can not be considered traditionally in qualitative research. Some researcher state however that reliability and validity can be considered traditionally in qualitative research, if the content of the concept are changed to match the approach. In qualitative research it is more appropriate to discuss about credibility (Soininen 1995, 123).

The credibility is evaluated in this thesis according to Soininen’s (1995) and Eskola et al. (2001) views of *comparability*, *transferability* and *consolidation* (vastaavuus, siirrettävyys, vahvistettavuus) (own translations). The comparability means how well the research and its results match the reality of the research subject. The reliability of the research can be improved, if the whole research process is evaluated and the preconceptions have been taken into consideration. The transferability means how well the results of the research can be transferred into another context. The consolidation for made analysis can be improved, if other similar researches of similar phenomenon are taken into consideration in addition to other complementary research methods (Soininen 1995, 122-127; Eskola et al. 2001, 211-212).

The *comparability* has been considered in this thesis by describing the research methods and research subject as exactly as possible. The phases of carrying out the research and gathering information have been tried also to describe in details. This makes possible to the reader to understand the whole research process. The *transferability* of the thesis have been tried to improve by describing the progress of the research in details. However, considering the transferability, special focus should be put on the uniqueness of the situation and the difference of the researchers. This complicates the research to be repeated in an exact same way. The semi structured interview form is however possible to use in another company as well, but the analysis of the interviews is rather subjective. The *consolidation* of the research has been taken into consideration, when creating more accurate questions to other interviewees after previous interview had been taken place. The research problem became clearer during the thesis process. During the empirical phase a need for more interviews appeared. Information from assistants was needed in order to receive more practical data; after all it is them who have to cooperate with the salary administration almost daily.

7. RESEARCH RESULTS

7.1 Perspective of the service provider's Manager (Appendix 1, 4)

Outsourcing Process

Discovery Phase

According to the service provider, it varies among different companies, how well they have discovered their problems and future needs, when they contact the service provider. The service provider makes a certain clarification of the customer’s salary administration and its processes. For example the incoming material varies within its quality, quantity and complexity. Sometimes it is the customers, who contact the service provider, but occasionally it has been the service provider, who has offered their services to potential customers.

Negotiation Phase

The service provider made the initiative and contacted the case company. The strengths of the service provider were the close location and the possibility to transfer the old personnel of the case company’s salary administration into its premises. The service provider had also a possibility to offer the case company a tailored model of salary administration, because of its large operations. It was possible to continue the activities how they had been done before in general and a certain transitional phase was made possible.

Transition phase

Between the service provider and the case company there was no need to change the system. This is why the transition phase was possible t process fast. The technical transition was quite routine. The personnel in the case company received for example new contact information for the salary administration. The transition of personnel contained more challenges, because they had to be transferred and treated smoothly, because of the new changes. They were informed of the new situation, met and interviewed. The practices of cooperation were discussed in addition to more close meetings and possibilities to get to know each other. After these steps, personal contracts were made. The professional skills have been continuously maintained and “our way of working” developed. The service provider has also possibility to offer a certain degree for salary administration.

Assessment phase

The service provider follows up the quality, with a certain system. This system gives a signal, if more training or development is needed. If incoming material, for example working hours, are late or in bad quality it causes extra load in the salary handling.

A project group has been established by The service provider and the case company. The participants in the group consider in the group the quality and level of the service in addition to possible development needs. Decisions are also made in this group and the implementations followed up. The service provider has also “a way of work –group” (“tapa toimia –ryhmä”). In this group are current issues handled and way of working changed. It gathers more often than the project group and it includes participants from the both parties, who cooperate daily. This group puts forward change proposals to the project group for possible acceptance.

The service provider wishes the incoming material from the case company to be correct and in time. For its own development objective it considers it should serve and focus on the customers more and better, despite their busy situation and turnover of workers. The service provider has also comments to its existing and new potential customers. According to The service provider all companies should also commit more in the outsourcing process and not only the top management, but all managers. If individual managers are against the outsourcing, it may cause negative effects on the process. The changes in the management may also cause more challenges to the process. It would be preferable that the company would brief new management and the whole organisation about the outsourcing process situation. For example, why was the decision of outsourcing made and what is the common way of working. The customer should also be truly interested in cooperation with the service provider.

7.2 Perspective of the case company's HR Manager (Appendix 2, 5)

The case company has outsourced many of their secondary activities, for example occupational health service, training with external providers, real estate services, IT services, postal distribution etc. All these previous outsourcing processes have succeeded moderately well. The service providers have been companies, who are specialised for the activities and ready invest in them. The case company has not used any certain model for their outsourcing processes, but in general the process it proceeds a s a basic business model as follows:

Need to outsource→Investigate options →Examine the profitableness → Decision making

Firstly the company has a need to outsource certain activities. The options are investigated and profitableness examined. Based on these, the decision is made.

Outsourcing Process

Discovery Phase

The case company decided to outsource their salary administration in order to co-operate with a provider, who has a big volume of resources. In this way all the disturbing factors could be diminished. For example increased flexibility and cost-effectiveness concerning personnel resources could be achieved, if surprisingly there would be a shortage of work force. The provider could also have better possibilities to implement new technologies and softwares. This decision allowed also the case company to concentrate on core processes. The competitive environment had no effect on the decision to outsource. They had no black spots, problems, either, which should have been improved.

The case company's objectives were the starting point for the project and they were kept in line with the outsourcing objectives. The objectives of the outsourcing salary administration were:

- Transfer salary administration and its personnel to the service provider in controlled way
- Transfer responsibility of usage (käyttöpalvelu) to the service provider
- Transfer salary calculation systems to The service provider's responsibility
- Specify calculation of salaries according to other processes
- Specify the outsourcing process

A project group was established, which included representatives from the case company and the service provider, the HR Manager from the case company and the Manager from The service provider. The participants had different responsibility areas, for example transfer of employees, transfer of systems, establish working environment, Postal services and other communication. The interviewed was the group leader and had to ensure that everything was on track and the project succeeded. The group did not include any external consultants.

The risks were considered already, when the project was started. Following possible risks were realized:

- Calculation of salaries in two locations
- The implementation of SAP HR at almost the same time than the outsourcing process
- Access control (kulunvalvonnan hallinta)
- Control of Rondo and other systems
- Management and control of connections
- Attitude of outsourced personnel

Negotiation Phase

The optional service provider and the service provider were considered more closely as possible service providers. The optional service provider was located in other locations and was not able to establish premises in the town. If had chosen The optional service provider as its service provider, it would have been forced to change location and personnel of salary administration in addition to fast replacements of salary calculation systems.

The final service provider was chosen,, because it was seen as a credible option. It had already stable position among big companies. The case company had neither any other suitable option at that time. It seemed the only possibility. Small accounting companies existed, but their resources could not have been enough to handle the case company's salary administration. The technical transfer was also easier with The service provider, because they used the same systems as the case company. The location of the service provider had also an affect for this decision. The case company's personnel working with salary administration could be transferred inside the same city to the service provider's premises.

The case company investigated the brochures of the service provider in order to examine the competency of The service provider. The case company also listened to other customers of the service provider and this way the reputation had an impact as well to the final decision. A tailored solution especially for the case company was considered to be the best option.

The minimum level of The service provider's performance was simply to calculate and transfer the salaries correctly in the correct day. If this would not happen, a certain alternative arrangement would be fixed.

The responsibility areas were discussed during the negotiation phase. For example The service provider's responsibility was to arrange the IT systems, both parties would be responsible for the activities' evaluation and the strategy would be created in addition to follow up together in the project groups.

Transition Phase

Personnel, furniture, equipment and IT programs were transferred to the service provider. However the computer hardware was not transferred. The transition phase was not seen as problematic even though the service provider's premises were in another location.

The service was moved fast to the service provider and the operations started in the case company's premises with current personnel and working methods. The physical transition, for example connections from the server to the service provider's premises, the flow of information from the departments to the service provider with new quality requests. Eight month's period was reserved for these changes and extra work.

The calculation of salaries transferred to the service provider on 1st May 2004 and the personnel was transferred to the service provider's premises on 31st August 2004.

The implementation and process of the project was handled in common project meetings and in both The case company's and the service provider's internal meetings. The case company's and the service provider's personnel was informed of the outsourcing after the contract with the service provider was signed. Continuous informing of transition and other practical issues was communicated regularly for example in personnel magazine "Palkanlaskenta tiedottaa".

During the transition phase the project task were specified in more details and responsibilities divided. Activities and responsibilities were divided between The case company and the service provider as follows:

- Access control (kulunvalvonta) — The case company
- Control of connections (Liittymähallinta) — The case company/The service provider
- Rondo — The service provider
- SAP HR — The case company
- Development of salary systems — The service provider/The case company
- Maintenance of salary systems — The service provider
- AGS — The service provider/The case

	company
• Counselling and training	The service provider/The case company
• New takeover (haltuunotto)	The service provider/The case company
• Transfer and selling units	The case company/The service provider
• Calculation of salaries	The service provider
• Reporting	The service provider
• Development of processes	The service provider/The case company
• Other tasks	The case company

The responsibilities were divided between the case company and the service provider in addition to above in more details as follows:

The service provider's responsibilities:

- Saving working hours in the system
- Payment of salaries
- Payments related to listing of salaries (palkka-ajo)
- Transfer of payment materials to the bank system
- Printing of wage slips
- Produce accountancy material
- Printing statutory materials
- Answering questions concerning salary calculation
- Maintenance of salary calculation systems

The case company's responsibilities:

- Deliver working hour reports to the service provider
- Organise contact persons
- Resolve unclear issues
- Apply TES-regulations and the case company's applications

- Maintenance and filing of working contracts and other conditions of employment
- Create persons in HR systems
- Answering questions of working conditions/working contracts/TES
- The license contract, costs and changing costs of salary calculation program
- Maintenance and filing of salary material
- Maintenance and usage of TIMECON access control system

Assessment phase

The case company had a contract with the service provider till the end of 2006. After this the contract has been changed to be valid until further notice. The assessment occurs quarterly in control groups. The objectives (costs and quality) create the basis for the assessment.

The case company and the service provider use a certain system for monitoring the errors. A quality report is created based on this every month. It includes the following criteria:

- enquiries made by the service provider,
- corrections made by the service provider,
- customers’ report of needed corrections,
- late/erroneous reports/wage slips,
- imperfect/erroneous announcement of changes in salary,
- late arrived material,
- missing/erroneous personnel number/form of personal data,
- no approval on Timecon report
- absence/hourly report imperfect/erroneous.

If there are exceptions in the monthly salaries, they (timesheets/Timecon reports) will be sent separately to the service provider, after the foreman has accepted it. In problematic situations, the party who it concerns tries to find a solution.

Advantages and risks

The case company is now able to focus on core business and there is a decreasing need for counselling concerning salary administration, because the service provider takes care of it. No cost savings have been achieved, because these kinds of costs are interdependent on volumes. The access to expertise and personnel resources can be seen as advantage, which is gained. The absenteeism of personnel in salary administration does not cause too much problems nowadays. Substitutes are more easily found by the service provider. The service provider organises also the training of the personnel. The service provider has competence to take care of the salary administration properly.

Some problems and limitations have been faced during the outsourcing process. The quality has not matched completely the expectations. Errors in salary administration have become visible, which have caused more work. However, now they can be corrected, when they have been noticed. The most important problems and weaknesses have been realized to be in the case company's activities. For example the material, which is been sent to the service provider, is not in proper quality and includes errors. Work concerning this issue has already started. The following problems, risks and limitations have not been faced: bigger price than gained advantages, strategic problems, lack of outsourcing experience, shortage of suitable partners and fear of losing control. The concern of the outsourced personnel was eliminated with this outsourcing system.

7.3 Perspective pf the case company's Assistant Level Employee (Appendix 3, 6)

These issues are from three assistant level employees. The following opinions and statements are from three employees, whose position is more or less assistant level. All of them have worked in the case company more than seven months but less than six years. Two of them had cooperated with salary administration before it was outsourced to the service provider. In this way they knew, what the salary administration was before it was outsourced. According to two interviewees the basic work has not changed after the outsourcing. According to one opinion the flexibility related to delivering the incoming documents to the service provider has decreased. The delivering schedule is nowadays defined in details. Some of the assistants had experience blue and/or white collars. The issues, which the interviews had cooperated with salary administration, were:

- Foreign contracts (summaries, changes etc)
- Bonuses
- Sick leaves, annual leaves
- Field work salaries
- Timesheets
- Travel, overwork and other extra payments
- Unpaid vacations etc.

The exceptions and changes in employees' monthly salaries (e.g. bonuses, overtime compensations, benefits, holiday compensations, sick-leave payments, travel cost compensation) are approved by the foreman, Service Co-ordinator or Assistant Service Co-ordinator if the foreman is not available. The approval for the Field Work Salary is received from the Manager. These are also the persons in addition to assistant, who send the documents to the salary administration. Some of the departments are using a pilot electrical form to communicate the exception to the salary administration. Even though the foreman approves the form, it is often the assistant, who checks it. One interviewee states that it is her in cooperation with the employee/foreman, who makes the changes in the form. After this it is the foreman, who accepts the changes.

According to two interviews the forms include often errors and according to one intervieew the forms include sporadically errors. One states that new employees have difficulties to fill the forms correctly. One is not able to confirm whether there is errors or not, because she does not receive any feedback of this issue from the salary administration. The errors in the forms have included the following issues:

- Overtime compensations incorrectly calculated
- Confusion of marking the lunch hour

- Bank holidays incorrectly calculated
- Incorrectly marked stand by

One problematic issue is that many employees do not calculate themselves the timesheets. In this way it will be the assistant, who calculates it for them. The employees have returned the timesheets in time and in this way are often also at the salary administration in time. However, there have been cases, when the foreman has forgotten to send the forms forward. Then the payments will be left to the next salary or a special delivery is being ordered.

All the interviews stated that there have sometimes been errors in the salary administration’s duties. It varies, if the errors are corrected immediately or to the next salary. The salary administration communicates with the employee, which means that the assistant/foreman does not get any information. Two of the interviewees stated the importance to contact also the case company’s side, when having problems with employee’s salary calculations. Sometimes the employee is working abroad and can not do anything for the situation. If the error has been done from the case company’s side, the salary administration does not correct it. According to one interviewee they pay exactly how the form has been filled. One opinion was that the person handling blue collars’ salaries, informs sometimes of the errors, but the errors in white collars’ salaries are only sporadically informed.

One interviewee stated strongly the problem of the one way communication with the salary administration. She wished more information and feedback from them. According to her, she only has to trust in the salary administration, for example if the employee gets too much paid, it will probably never become visible and corrected. Many employees can not either interpret the wage slip and perhaps many errors will not be corrected. Two interviewees wondered the issue, how the salary administration was not aware of the organisation chart and model of different departments. The salary administration had often contacted the wrong assistant in different department. One stated that the possible reason for this was that the old employees were transferred to the service provider and they thought that the organisation model was still the same.

According to two of the interviewees it was not easy to communicate with the salary office. One of them contacted more often the HR department, when she had some unclear issues. Both of them were more comfortable to call than use email, when contacting them. Two stated that using the collective mail to the service provider, did not guarantee that she would receive an answer to the mail. The personal mail addresses she found out unintentionally. They were not anywhere written down. According to one interviewee, the summer workers were not either properly trained to the work. He did not get answer from her. One opinion was also that the instructions given by the salary administration were hard to understand, even though everyone said that they were quite fast received.

Two of the interviewees said that clear instructions of activities in cooperation with salary administration are missing or have not been found. According to them these would be needed. One states that at least the foremen should need training in this issue. The changes in salary administration should also be informed more, because one interviewee states that she has to find the information by herself. She gets it, if she understands to ask, but often she does not know that something has changed and should be questioned. The HR guide book in Intranet does not give answers, but the technology industry’s collective agreement is often used to find answers to different problems, according to one interviewee. One opinion was that at first it was not clear how to cooperate with the service provider, but now it has become quite clear and workable.

Two interviewees from Assistant level in the case company stated the need of common meetings with the service provider in order to clear the cooperative activities, basic rules, different collective agreements and exceptions in monthly salaries. One person wishes to meet the salary administration in order to know, who she is cooperating with and talking on the phone. She could discuss with them, receive and give feedback, find out the new development projects and as an important issue: give the aspect of the employees. In this way they could affect the development.

Two interviewee’s opinion was that the post is delivered too seldom to the service provider (once/day) and picked in the morning even before eight am. The post should be delivered twice per day. Now they have to use sometimes the chargeable delivery. She also stated that she is not confirmed that her mails to the service provider are always read. They do not give any receipt even though she has required it. The friendliness of the service was also brought up by two persons. The service is not always good and helpful.

One interviewee's wish was that the service provider and the case company would have same operational principles. A common contract of these practical operational principles should be created and presented to the employees, who are working with these issues every day. She also required more flexibility from the service provider's side. According to her, it was required already from the case company's side.

8. CONCLUSION

The reliability and validity may also have been affected by the issue that the HR Manager in the case company and the Manager in the service provider did not want to reveal any negative information of the outsourced process. The issues covered are rather sensitive and failures were probably not wanted to admit. The most reliable material may be received from the assistant level employees, who wanted to make a change and affect the situation. Because their personal information left secure, they had the courage to tell the situation as it is.

The consolidation of the study could have even though been improved by creating questionnaires also to the employees and received their opinions of the outsourced salary administration's activities. In this way different opinions from human resource department, service provider, assistants and employees could have been compared. Notes from the interviews were aimed to be taken in an exact way, how they were said during the time. Some irrelevant and useless information according to the research needs were sometimes received, but incorrect analysis has been tried to diminish to minimum by making additional questions to the interviewee, if some issues left unclear.

The main reasons to outsource were in general the same in all sources. The literature did not approach the reduction of responsibility as a reason to outsource. However, it may be common to outsource some peripheral, administrative and routine activities to an external provider, just get rid of these activities. The resources needed to make possible these peripheral activities could be utilised for core activities. For example the space in the facilities could be used more efficiently, if the routine activities would be outsourced to an other location.

The literature and theories did not cover either enough the connection with the outsourced salary administration and compensation system. There could be for example a risk that the compensation practices would be outsourced with the salary administration. Who would in this situation for example be responsible and aware to allow the employee correct amount of bonuses etc for successful work?

How Human Resource activities, including salary administration, have been outsourced in the case company?

The outsourcing engagement between the service provider and the case company is situated mostly in the section of Managed Services (Sanders 2005, 40) (Figure 12). The case company has outsourced an entire function (salary administration) and the strategic importance of the function is critical but not strategic. The nature of the vendor-client relationship is also relational. These factors are related to Managed Services. However, their situation has also elements from sections Co-Managed Services and Full Outsourcing. The case company shares the responsibility of successful activities with the service provider. For example the case company is focusing presently on the quality of their outgoing material to the service provider. The case company has also still some control of the project. These issues are typical for Co-Managed Services. The Full Outsourcing includes rather high degree of customisation in the project, which suites in the case companies' situation. The case company's salary administration has been customised to fit their activities. Nevertheless, The case company did not outsource their primarily strategic activities and the aim was not to increase its competitive advantage, which are typical to the engagement of Full Outsourcing. Out-Tasking does not fit to the outsourcing situation between the case companies, because the degree of customisation was not primarily standardised, the relationship is more than contractual and the scope of outsourced functions is larger than only one or few tasks.

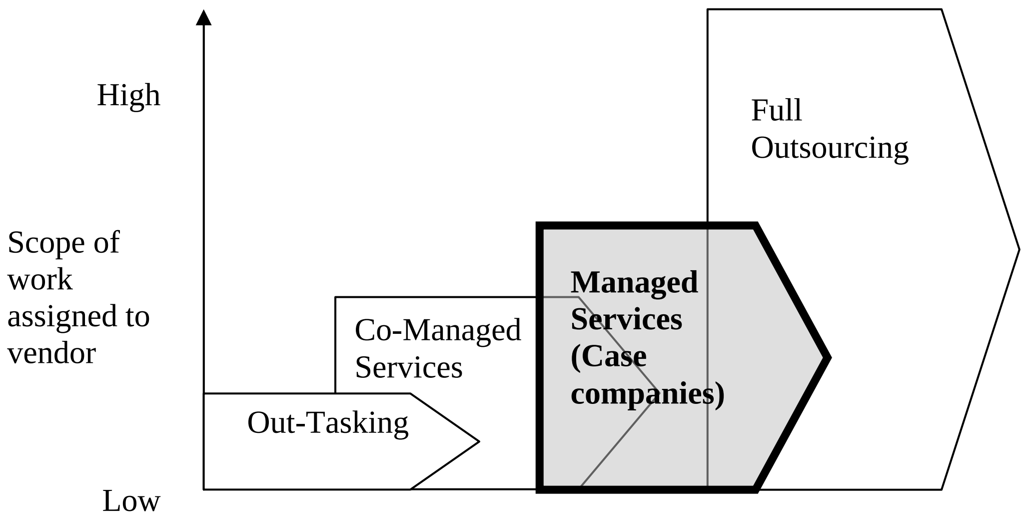


Figure 12. Case companies' outsourcing engagements (modified from Sanders 2005, 40).

The salary administration in the case company was seen as a peripheral activity before it was contracted to the service provider (Figure 13). It is not a core function with high strategic value and uniqueness and could be provided in isolation from the case company. In addition to this it is more a transactional than relationship activity. In this way it did not have to be kept in house and could be outsourced to an external provider. According to Greer (2001) in Gilley (2004, 233) payroll administration is also included in the peripheral activities. Outsourcing these activities allowed the case company to focus on its core business.

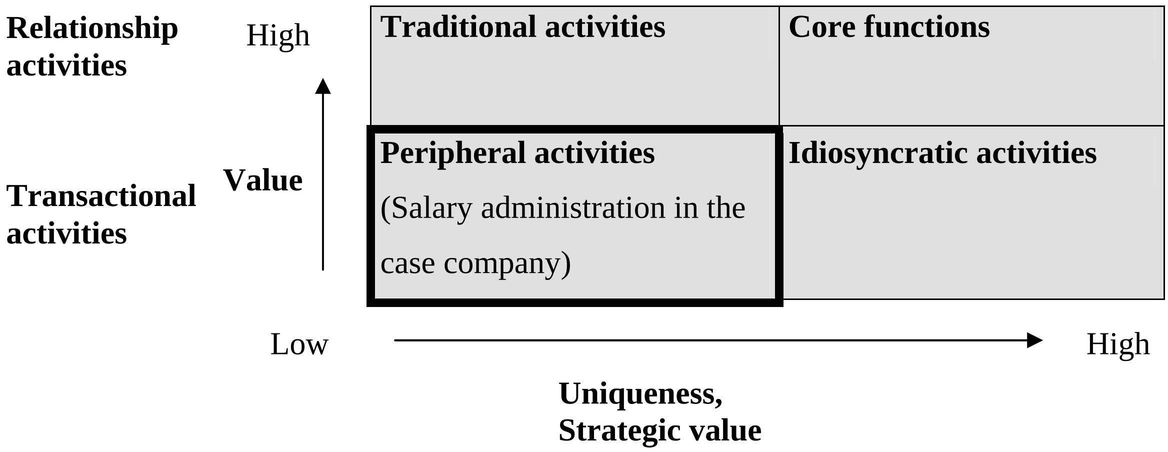


Figure 13. Case company situated in the classification of HR activities (modified from Gilley 2004, 233)

Which factors affect a successful outsourcing process?

The case companies followed generally Lever's (1997, 38) and Greaver's (1999, 17,24) outsourcing process, which is described in chapter 4. Most steps could be found from the case company's outsourcing process. However these were not followed in order. In the following text are the steps considered from the case companies' point of view. Following these steps and modifying them to fit in organisation's needs a successful outsourcing process may be achieved.

In discovery phase the case company did not consider its current situation against competitors, when deciding to outsource their salary administration. The competitive environment had no affect on the decision. The risks were assessed, project team formed, objectives set, team leader chosen and timetables created. The case company's overall vision, strategy and objectives were the basis to the outsourcing objectives. The risks were assessed already in the beginning and kept in mind during the whole process. The case companies decided not to use any outside adviser, but the manager from the service provider was as a adviser with her experience from the the service provider's point of view. The costs were calculated during this step, but the cost reduction was not seen as a reason to outsource the activity.

During the negotiating phase the case company investigated the possible providers and found two optional service providers. The important criteria, which made the service provider and not the optional service provider to be selected, were the close location of the service provider, the possibility to transfer own personnel to the provider's premises and the same computer systems. These issues made the transition phase smoother and easier. The service provider did not have either in the area any competitors, who would have been able to handle large companies' salary administration. The service provider had also good reputation and experience of taking care other companies' payroll calculations. In this way the needs of the case company matched the capabilities of the service provider. The contract and responsibilities were negotiated and an agreement reached.

The transition phase was planned in detail and the employees were well informed about the situation. The service provider met its new employees, interviewed them and made a contract with them. The employees were firstly working in the case company's old premises even though they were already employed by the service provider. A while after this the whole function was relocated to the service provider's premises. All employees, also remaining personnel, were continuously informed of the transition and other issues for example in personnel magazine.

Both parties have decided a certain assessment tool with certain metrics in order to evaluate the quality of the salary administrative processes. These criteria include for example: erroneous/imperfect/late incoming data, enquires and corrections made by the service provider in addition to errors in calculation of salaries. A control group meets quarterly to consider the development needs and quality in addition to the level of the service. In this group are the decisions made and implementations followed up. In this way the parties manage and build their relationship, confront poor performance and communicate with each other.

Which advantages can be achieved by outsourcing HR activities?

The case company includes in the 23% of organisations, who have outsourced some HR processes. It has also chosen to outsource the calculation of wages as most of the mentioned 23% of organisations (ARINSO 2005, 10-11).The case company has also the same reasons to outsource as has the majority of other companies. However, the most popular reason of other companies were the cost reductions and the case company did not see this as a reason for their decision. The other reasons focus on core competences, access to expertise and personnel resources, increased flexibility concerning personnel resources and implementation of new technology, were seen as important reasons to start planning the outsourcing process. These issues were also mentioned to be the main achieved advantages.

The outsourcing decision has reduced the case company's business risks, because the service provider has become responsible for updating the new technology and training the personnel, if environmental changes has occurred or personnel need more skills. The service provider has also better access to advanced technology, specialized expertise and skills. The access to personnel resources has improved and become more flexible, which means that volumes and absenteeism do not cause problems anymore. The transfer of the case company's employees handling salary administration to the service provider's premises created also an advantage. Their knowledge of the case company's functions and service was seen valuable. In this way should the service levels and quality also be improved.

The improved measurement and transparency of HR activities rose as one important advantage. Many problems have become visible and could now be corrected. For example the quality of incoming material to salary administration was noticed after the outsourcing to be of poor quality and is presently being corrected.

Which risks and limitations should be considered, when deciding to outsource?

According to ARINSO (2005, 13) there can be some reasons, why some HR processes have not been outsourced. These can be seen as limitations, problems and risks in outsourcing processes. They are the following: price compared with advantages, strategic reasons, no experience of outsourcing, shortage of suitable outsourcing partners, fear of losing control and difficulty to purchase outsourcing services. These were not limitations, problems or risks for the case company. It had not to concern either the future of the personnel, because they were transferred to the service provider. One problem has been the issue that the quality has not matched the expectations. There have been some problems with the quality of the incoming material to the service provider, but it is presently being processed.

A major risk, which has to be clearly considered when outsourcing, is the possibility to the vendor to become a competitor. However, this is not a risk with the case companies, because they focus on completely different businesses. The employee morale was also considered carefully. The employees were kept informed of the situation and rumours were not raised.

The management of the outsourcing process was also considered properly, when the project group was created in order to monitor and follow up the process. However, this is not common in every case. According to the service provider’s experience there are companies, who should consider preparing and committing all managers to the outsourcing process, not only the top management. If management would change, the new ones should also be briefed to the outsourcing situation.

9. RECOMMENDATIONS

Based on this research some recommendations can be given to the case company, regarding their possible outsourcing processes in the future. The company received also lots of feedback from the assistant level employees, which could be used to develop the present cooperation with the outsourced salary administration, the service provider. In the following text these issues are discussed followed by the suggestions for further researches.

The need for proper communication and cooperation with the service provider rose as an important factor among the assistant level employees. The communication was stated to be too much one-way flow from the customer to service provider. More feedback was needed in order to develop their activities. The salary administration could for example inform in addition to the employee also the assistant or foreman of the errors in the calculation of wages. In this way the persons, who check the outgoing material, would also be aware of the problems and improve there part in the process. There was also a need to improve the quality of customer service in the service provider. According the service providers view this was already noticed and sees it as their own development objective. They are presently working to serve and focus on the customer more and better.

From the case company’s point of view the communication could be improved, if the post would be delivered more often to the service provider. The interviewees suggested the post to be delivered twice a day and not as early as eight am, which was currently the situation with one interviewee. The current post system caused extra payments given to the courier service, which delivered the post to the service provider, if additional delivery was required. The usage of emails as a communication system should also be improved. The interviewees would like to be sure that their emails were read, which means that the service provider should give a receipt, if it was required in the email. The practices of the service provider’s emails were also confusing. Some of the personnel in the service provider required the usage of the common mail to the service provider and some of them appreciated a mail to their personal email account. This is why, the personnel in the service provider was more often called than mailed. The received instructions from the service provider should also be easier to understand. In some cases it was easier to contact HR department in order to get an understandable answer quickly.

The customer and service provider should create common operational practices, which would be known among all employees. This research showed a need of these clear rules and regulation of how to cooperate in practice with each other. They should be clearly written down in order to be understood within both parties. The employees, who are in cooperation with the salary administration everyday need these practical operational principles. Some flexibility of the service provider’s side was also required, according to the interview this was already demanded from the case company’s side. From the service provider’s point of view an important operational practise is to receive the incoming material from the case company with correct information and in time.

Common meetings between the service provider and the customer could be arranged according to some assistant level employees. In these meetings the responsibility areas and operational practices could be explained and clearly divided. There was a need to explain for example the different issues: different collective agreements and calculation exceptions in monthly salaries (travel payments, stand by etc.). In these meetings the employees from the case company’s side could see face to face, who they are cooperating with. Feedback could also be received and given in addition to find out new possible development projects. The assistant level employees would like to give the aspect of the employees to the new development projects. After all it is they, who cooperate daily with the salary administration, not the top management.

Training concerning the practical issues could be given to the employees cooperating with the outsourced function. In the case companies the training could be given to the assistants and foremen, who check and approve the outgoing material to the service provider. There have been errors and late sent reports from the case company’s side. The employees and especially the recently appointed employees would need training on for example the following issues:

- Calculation of overtime compensations
- Calculation of bank holidays
- Marking correctly the lunch hour, stand by etc.

There are still also many employees, who are not able to interpret their wage slip properly. In this way some errors may leave uncorrected.

Commitment to the outsourcing decision and process should be achieved throughout the organisation, not only among the top management. Otherwise the other employees may have negative effects on the outsourcing process. Everyone should be briefed and explained why the outsourcing decision was made and what the new way of working is. This issue was based on the service provider’s experience with different companies deciding to outsource their functions.

If some employees will be relocated to the service provider’s premises, the situation should be considered properly. Not only the sensitivity of the transfer is important, but the knowledge which they take with them to the service provider. It is positive that they have some knowledge how the organisation functions, but this knowledge should be updated often. In the case company’s case this was a problem according to some of the interviewees. The service provider is contacting often the wrong persons, who are not handling the issues they assume. The case company’s organisational structure is continuously changing and the service provider should be kept informed, who to contact and who is responsible for certain departments and issues.

There exist many possible and interesting further research themes. One approach could be to study the employees as a target group and their view of the salary administration’s activities, for example has the workload become bigger or has the communication changed after the payroll administration was outsourced. Anyhow, this target group is the largest customer group, which is affected by the service provider. Their feedback could develop the outsourced activities further and increase satisfaction levels.

Other further research themes could be to study other HR functions, not only the salary administration, which has been outsourced. Another possibility is to research the outsourcing processes between different companies in order to find similarities and dissimilarities.

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APPENDIX 1

HAASTATTELURUNKO **Manager, Palveluntarjoaja**

Yleiset kysymykset:

1. Mikä positio/työtehtävä?
2. Miten olit mukana asiakkaan palkkatoiminnan ulkoistamisprosessissa?
3. Kuinka kauan yrityksenne on ollut toiminnassa?
4. Mitä palveluja tarjoatte yrityksille?
5. Onko vain teollisuuden alan yrityksiä asiakkaina?
6. Oliko teillä muita asiakkaita ennen tutkittavaa asiakasyritystä?
7. Missä pääkonttori ja toimipisteet sijaitsevat?
8. Kuinka paljon on henkilökuntaa?
9. Miten palkanlaskijoiden vastuualueet on jaettu? (esim. työntekijät/toimihenkilöt, yrityskohtaisesti)
10. Onko vastaavia palveluntarjoajia tällä alueella?
11. Miten palvelunne eroavat tilitoimiston palveluista?
12. Miksi yrityksen kannattaisi käyttää teitä palveluntarjoana, eikä tuottaa palvelua itse? (Hyödyt) Asiakkaan mahdollisuus:
    - kustannussäästöihin,
    - keskittyä ydinliiketoimintaan,
    - turvata erityisosaaminen ja henkilöstöresurssien saatavuus,
    - lisätä henkilöstöresurssien joustavuutta,
    - turvata uuden teknologian käyttöönotto,
    - saavuttaa henkilöstöpalveluiden parempi mitattavuus/läpinäkyvyys
13. Kuinka mahdolliset muutokset palkanlaskussa (esim. ylityö, matkustus) kommunikoidaan teille? (esimies/assistentti/työntekijä)

Ulkoistamisprosessi
Havainnointivaihe

14. Ovatko yritykset tarpeeksi tunnistaneet heidän silloisen tilanteensa, ongelmakohdat sekä tulevaisuuden tarpeet, kun ottavat yhteyttä teihin?

Neuvotteluvaihe

15. Kuinka tutkittava yritys otti yhteyttä teihin?
16. Mitkä olivat teidän vahvoja puolianne erottuakseen kilpailijoista?
    - Kyky tarjota laadukkaita palveluita
    - HR erityisosaaminen
    - Toimialatuntemus
    - Mahdollisuus nopeaan toteutukseen
    - Maantieteellinen läheisyys
    - Globaalit resurssit
17. Tarjottiinko tutkittavalle yritykselle standardisoitu vai räätälöity palvelumalli? (Samat tekniikat ja toimintatavat muillekin yrityksille)

Muutosvaihe

18. Miten valmistauduttiin tasaiseen ja ongelmattomaan siirtymävaiheeseen?
19. Miten siirtymävaihe sujui? Millaisia ongelmia kohdattiin?
20. Oliko siirtovaiheessa haasteita tai ongelmia? Millaisia? (esim. yhteensopivat tietokoneohjelmat, aikataulussa pysyminen)
21. Miten vanhojen työntekijöiden siirto onnistui? Oliko vastusta? Saivatko he lisäkoulutusta?

Arviointivaihe

22. Miten arvioidaan omaa toimintaa? Entä asiakkaan toimintaa? Mitkä kriteerit (laatumittarit) toimivat onnistumisen arvioinnissa?
23. Arvioidaanko toimintaa jaksoittain? Milloin? Miten? Miten toimitaan, jos tulokset eivät ole tyydyttäviä? Miten saadaan palautetta?
24. Miten raportoinnin kanssa on toimittu? Kuinka usein? Mitä ne sisältävät?
25. Kuinka toimitaan mahdollisissa ongelmatilanteissa? Mitä ongelmakohtia on nykyään?
26. Mitä haasteita kohdattiin ulkoistamisprosessin aikana?
27. Neuvotaanko, konsultoidaanko, esitetäänkö ehdotuksia yrityksille, miten toimintaa voisi kehittää?
28. Mitä toimintatapoja tutkittava yritys voisi kehittää, jotta toiminta olisi tehokkaampaa ja virheettömämpää?
29. Entä miten te voisitte kehittää omaa toimintaanne?
30. Olisiko mahdollista integraatio toisen palveluntarjoajan kanssa, jotta saavutettaisiin esim. monipuolisempi palvelu?
31. Mitä neuvoja voisi esittää yrityksille, jotta ulkoistamisprosessi sujuisi mahdollisimman hyvin ja ongelmitta?

APPENDIX 2

HAASTATTELURUNKO **HR Manager, Tutkittava yritys**

Yleiset kysymykset:

1. Mitä HR-toimintoja olette ulkoistanut palkkahallinnon lisäksi?
(esim. rekrytointi, koulutuksenhallinto,
eläkejärjestelyt, poissaolojen hallinta, ajan hallinta, muut HR-prosessit)

2. Mitä muita toimintoja olette ulkoistanut HR-toimintojen lisäksi?
(esim. IT toiminta, siivous)
   - Kuinka aikaisemmat ulkoistamisprossesit ovat onnistuneet?
   - Onko prosesseissa tapahtunut kehitystä? Millaista?
   - Onko teillä jokin yhteinen ulkoistamisen prosessimalli? Millainen?
3. Onko e-HR käytössä?
   - Löytyykö esim. Intranetistä: HR toimintaperiaatteet, säännöt ja ohjeet, koulutustietoa, lomakkeita, käsikirjoja, informaatiota perehdyttämisestä, informaatiota etuuksista? Mitä muuta?
4. Onko Turun ja Helsingin toimipisteissä myös sama palveluntarjoaja?
Hoidetaanko palkkahallinto täältä käsin?
5. Onko käytössä palveluntarjoajalta teille räätälöity vai
standardisoitu ratkaisumalli?

Ulkoistamisprosessi
Havainnoitivaihe

6. Miksi päätitte ulkoistaa palkkatoiminnan?
   - Oliko syinä:
     - kustannussäästöt,
     - keskittyminen ydinliiketoimintaan,
     - erityisosaamisen ja henkilöstöresurssien saatavuuden turvaaminen,
     - henkilöstöresurssien joustavuuden lisäys,

- uuden teknologian käyttöönotto,
- henkilöstöpalveluiden parempi mitattavuus/läpinäkyvyys,
- muut syyt?

• Mikä oli tärkeysjärjestys?

7. Vaikuttiko päätökseen kilpailijoiden mahdollisuudet ja toiminta? (competitive environment)
8. Keskusteltiinko ennen ulkoistamista silloisen henkilöstön kanssa esiintyneistä ongelmista toiminnossa? Oltiinko selvillä mahdollisista ongelmista ennen kuin alettiin suunnitella ulkoistamista?
   - Millaisista ongelmakohdista oli kyse?
   - Keiden kanssa ongelmista keskusteltiin?
9. Arvioitiinko ulkoistamiseen liittyvät riskit? Mitkä ne olivat? Miten ne käsiteltiin?
10. Muodostettiinko ohjaus- tai projektiryhmä? Ketä siihen kuului (cross-functional)? Mitä vastuualueita ryhmän jäsenillä oli? Oliko ryhmässä johtaja? Mitä olivat johtajan tehtävät? Käytettiinkö ulkopuolisia neuvonantajia? Missä tehtävissä? Käytettiinkö heitä koko prosessin ajan/hetken?
11. Mitkä tavoitteet asetettiin? Olivatko ne sopusuhdassa yrityksenne yleisiin tavoitteisiin?
12. Koska ulkoistamiseen liittyviä työntekijöitä informoitiin päätöksestä? Entä muita työntekijöitä? Miten heille tiedotettiin? Kuinka he suhtautuivat asiaan?
13. Kuinka kustannukset huomioitiin?

Neuvotteluvaihe

14. Mitkä tekijät vaikuttivat palveluntarjoajan valintaan?
   - Vaikuttivatko seuraavat asiat:
     - Ulkoistamiskumppanin kyky tarjota laadukkaita palveluita
     - Ulkoistamiskumppanin HR erityisosaaminen
     - Ulkoistamiskumppanin toimialatuntemus

    - Mahdollisuus nopeaan toteutukseen
    - Ulkoistamiskumppanin maantieteellinen läheisyys
    - Ulkoistamiskumppanin globaalit resurssit
  - Mikä oli tärkeysjärjestys?

15. Miten palveluntarjoajien kelpoisuutta tutkittiin?
16. Päätettiinkö palveluntarjoajan suoritustaso? (Palvelun minimitaso, sekä seuraukset jos palveluntarjoaja ei pysty saavuttamaan tätä tasoa)

17. Miten neuvoteltiin seuraavat vastuualueet:
    - varojen käsittely (managing resources)
    - päätöksen teko koskien laitteistoa, kalusteita, työvälineistöä
    - toiminnan arviointi
    - strategian luominen ulkoistetulle toiminnolle

Muutosvaihe

18. Miten valmistauduttiin tasaiseen ja ongelmattomaan siirtymävaiheeseen?
19. Millainen aikataulu siirtymisellä oli?
20. Miten siirtymävaihe sujui? Millaisia ongelmia kohdattiin? (Yhteensopivat tietokoneohjelmistot yms.)
21. Tuottiko ongelmia palveluntarjoajan sijainti?
22. Siirtyikö palveluntarjoajalle työntekijät, laitteisto, kalusteet, työvälineistö, tietokoneohjelmistot?

Arviointivaihe

23. Kuinka pitkä sopimus tutkittavalla yrityksellä on palveluntarjoajan kanssa?
24. Toimivatko tavoitteet arvioinnin perusteina?
25. Mitkä kriteerit (laatumittarit) toimivat onnistumisen arvioinnissa?
26. Arvioidaanko toimintaa jaksoittain? Milloin? Miten? Miten toimitaan, jos tulokset eivät ole tyydyttäviä?
27. Miten raportoinnin kanssa on toimittu? Kuinka usein? Mitä ne sisältävät?

28. Kuinka toimitaan mahdollisissa ongelmatilanteissa?

29. Kuinka mahdolliset muutokset palkanlaskussa (esim. ylityö, matkustus) kommunikoidaan palveluntarjoajalle? Kuuluiko se ennen ulkoistamista ja kuuluuko se mahdollisesti edelleen assistentin työnkuvaan?

Hyödyt ja riskit/rajoitukset

30. Mitä hyötyjä on jo nyt saavutettu?
Saavutettiinko seuraavia hyötyjä:
    - Tehokkaampi keskittyminen omaan liiketoimintaan
    - Kustannussäästöt
    - Erityisosaamisen ja henkilöstöresurssien saatavuuden turvaaminen
    - Henkilöstöresurssien joustavuuden lisäys/kustannustehokkuus
    - Henkilöstöpalveluiden parempi mitattavuus ja HR-prosessien läpinäkyvyys
    - Muut hyödyt

31. Mitä tavoitteita ei vielä ole saavutettu?

32. Onko seuraavia ongelmia/riskejä/rajoituksia kohdattu:
    - Hinta suurempi verrattuna saavutettuihin hyötyihin
    - Strategisia ongelmia
    - Laatu ei vastaa odotuksia
    - Ulkoistamiskokemusten puute
    - Sopivien ulkoistamiskumppanien vähäisyys
    - Pelko kontrollin menettämisestä
    - Ulkoistamispalveluiden ostamisen vaikeus
    - Huoli työntekijöiden tulevaisuudesta

APPENDIX 3

HAASTATTELURUNKO Assistant level employee, Tutkittava yritys

1. Mikä on positiosi/työtehtäväsi?
2. Kuinka kauan olet työskennellyt yrityksessä?
3. Oletko tehnyt yhteistyötä palkkahallinnon kanssa ennen sen siirtymistä palveluntarjoajalle?
   - Onko toiminnassa eroa nykyään palkkahallinnon ulkoistettua? Millaista?
4. Mitä työtehtäviäsi liittyy palkkahallintoon ja yhteistyöhön palveluntarjoajan kanssa?
   - Kuinka suuren työntekijäryhmän palkoista on yhteistyössä kyse?
   - Kostuuko ryhmä toimihenkilöistä/työntekijöistä?
   - Onko heillä paljon muutoksia kuukausipalkassa (esim. matkustusta, ylityötä)?
5. Kuinka mahdolliset poikkeamat ilmoitetaan palveluntarjoajalle?
6. Kuka tarkastaa ja hyväksyy poikkeamat kuukausipalkassa (tuntilaput)?
7. Kuka korjaa mahdolliset muutokset ja poikkeamat tuntilapuissa (työntekijä/assistentti/esimies)?
8. Kuka lähettää poikkeamat (tuntilaput) palveluntarjoajalle?
9. Onko teillä ilmennyt seuraavia ongelmia:
   - Onko työntekijöiden laatimissa tuntilapuissa paljon virheitä?
   - Onko työntekijä täyttänyt tuntilapun usein myöhässä palkanmaksupäivään nähden?
   - Lähettääkö tuntilapun hyväksyjä ne usein myöhässä palveluntarjoajalle?
   - Muita ongelmia?
   - Kuinka nämä mahdolliset ongelmat aiotaan ratkaista ja tilannetta parantaa?
10. Onko palkanlaskennassa (palveluntarjoajan puolesta) tapahtunut usein erehdyksiä (esim. maksettu työntekijälle väärin)?
    - Jos on, niin millaisia erehdyksiä?

- Korjataanko nämä mahdolliset virheet yleensä heti, hiukan myöhemmin vai seuraavaan palkkaan?
- Ilmoittaako palveluntarjoaja mahdollisista virheistä tuntilapuissa?

11. Onko yhteistyö ja kommunikointi palveluntarjoajan kanssa helppoa?
    - Saako esim. neuvoja mahdollisissa ongelmatilanteissa nopeasti ja suhteellisen helposti?
12. Onko tutkittavan yrityksen ja palveluntarjoajan puolesta annettu selvä ohjeistus toimintatapoihin palkkahallinnollisissa toimenpiteistä, jotka kuuluvat työtehtäviisi?
13. Olisiko tarvetta saada lisätietoa toimintatavoista esim. yrityksenne ja palveluntarjoajan yhteisissä kokoontumisissa?
    - Jos on, niin mihin asiaan tarvitsisit lisätietoa?
14. Onko sinulla kehitysehdotuksia, jotta yhteistyö palveluntarjoajan kanssa ja palkkahallinnollinen toiminta sujuisi paremmin? Millaisia?

APPENDIX 4

INTERVIEW STRUCTURE **Manager, Service Provider**

General Questions:

1. What is your position?
2. How did you participate in the case company’s outsourcing process?
3. For how long have you worked in the service provider’s company?
4. Which services do you offer to the customers?
5. Do you have only industrial companies as customers?
6. Did you have other customers before the case company?
7. Where are the head office and outlets located?
8. How much personnel do you have?
9. How are the responsibility areas divided? (for example blue/white collars, different companies)
10. Are any other similar type service providers in this Area?
11. How your services differ from small account agencies’ services?
12. Why should a company use this service provider and not produce the activity in house? (Advantages)
    - Cost reductions
    - Focus on core business
    - Ensure expertise and availability of personal resources
    - Increase the personnel flexibility
    - Ensure access to new technology
    - Improved measurement and transparency of HR activities
13. How possible changes in payroll calculation (for example overtime, travelling) is communicated to you? (foreman/assistant)

Outsourcing Process
Discovery Phase

14. Have companies discovered enough their current situation, problem areas and future needs, when they contact you?

Negotiation Phase

15. How the case company contacted you?
16. Which were your strengths in order to differentiate from the competitors?
    - Possibility to offer qualitative services
    - HR expertise
    - Knowledge of the branch
    - Possibility to fast implementation
    - Location
    - Global resources
17. Was the case company offered a standardised or tailored service model? (same techniques and practices as to other companies)

Transition Phase

18. How did you prepare for a smooth and trouble-free transition?
19. How was the transition phase? Which problems were faced?
20. Any challenges or problems in the transition phase? What kind of? (matching computer systems, stay in schedule etc.)
21. How did you succeed in transition of personnel? Any negative emotions? Did you offer them any training?

Assessment Phase

22. How are your and the case company’s activities evaluated? Which criteria (quality indicators) are being used?
23. Are the activities evaluated periodically? When? How? What if, the results are not satisfactory? How do you receive feedback?

24. How is reporting handled? How often? What does it include?
25. How do you handle possible problem situations? What kind of problems are faced presently?
26. Which challenges have been aced during the outsourcing process?
27. Do you advice, consult, make proposals to companies regarding their development possibilities?
28. Which practices could the case company develop, in order to have more efficient and error-free performance?
29. How could your company develop its activities?
30. Could it be possible to integrate with another service provider, in order to achieve for example diversified service?
31. What advices would you like to give for companies, in order to have a successful and problem-free outsourcing process?

APPENDIX 5

INTERVIEW STRUCTURE HR Manager, Case Company

General Questions:

1. Which HR-activities has been outsourced in addition to salary administration? (for example recruitment, training, retirement arrangements, abscense control, time control, other HR-processes)
2. Which other activities has been outsourced in addition to HR-activities? For example IT activities, cleaning)
   - How have the earlier outsourcing processes succeeded?
   - Have processes developed? How?
   - Do you have a certain model for outsourcing? What kind of?
3. Is e-HR being used?
   - Is it possible to find for example from the Intranet: HR principles, rules and instructions, training information, hand books, induction training material, information of bonuses? What else?
4. Have offices in Turku and Helsinki the same service provider? Is the salary administration handled from this town?
5. Do you use a tailored or standardised model from the service provider?

Outsourcing Process
Discovery Phase

6. Why did you decide to outsource the salary administration?
   - Possible reasons:
     - Cost reductions
     - Focusing on core business
     - Access to expertise and personnel resources
     - Increase in flexibility of personnel resources
     - Implementation of new technology
     - Improved measurement and transparency of HR activities

    - Other reasons?
  - What was the order of importance?

7. Did competitive environment affect the decision?
8. Did you discuss before the outsourcing with the personnel of the present problems in salary activities? Were you aware of the possible problems before you started to plane the outsourcing process?
   - Which were the problems?
   - With whom did you discuss with?
9. Were the risks involved evaluated? Which were they? How were they handled?
10. Was a steering or project group created? Who included in the group? What kind of responsibility areas has the participants? Did the group have a leader? What were the leader's tasks? Were outside advisers used? In which tasks? Were they used during the whole process/for a while?
11. Which objectives were set? Were they in line with the case company's?
12. When were the affected personnel informed of the made decision? And the other employees? How were they informed? How did they react?
13. How were the costs considered?

Negotiation Phase

14. Which factors affected the selection of the service provider?
    - Service provider's possibility to offer high quality service
    - Service provider's HR expertise
    - Service provider's branch knowledge
    - Possibility to fast implementation
    - Service provider's location
    - Service provider's global resources
    - What was the order of importance?
15. How was the competence of service provider investigated?
16. Was the minimum level of service decided? How about the consequences, if it is not reached?
17. How were the following responsibility areas negotiated:

- Managing resources
- Decision making concerning equipment, furniture, working tools
- Assessment of activities
- Creation of strategy for the outsourced function

Transition Phase

18. How was a smooth and problem-free transition prepared?
19. What kind of schedule was created for the transition?
20. How did the transition phase go? What kind of problems were faced?
21. Did service provider's location create limitations?
22. Did personnel, equipment, furniture, working tools, computer systems transfer to the service provider?

Assessment Phase

23. How long contract has the case company with the service provider?

24 Do the objectives operate as basis to the assessment?

25. Which criteria are used, when evaluating the success?
26. Is the activity evaluated periodically? When? How? What if, the results are not satisfactory?
27. How is reporting handled? How often? What does it include?
28. How possible changes in the salaries (for example overtime, travelling) are communicated to the service provider? Did it before outsourcing/ does it presently include in assistant's tasks?

Advantages and risks/limitations

29. What advantages have already been achieved?
    - More efficient focus on core business
    - Cost reductions
    - Access to expertise and personnel resources
    - Increase in flexibility of personnel resources
    - Improved measurement and transparency of HR activities

- Other advantages

30. Which advantages have not yet been achieved?

31. Have the following problems/risks/limitations been faced:
    - Price compared with the advantages
    - Strategic problems
    - Quality does not match with expectations
    - No experience of outsourcing
    - Shortage of suitable outsourcing partners
    - Fear of losing control
    - Difficulty to purchase outsourcing services
    - Concern of personnel’s future

APPENDIX 6

INTERVIEW STRUCTURE Assistant level employee, Case Company

1. What is your position/job task?
2. For how long have you worked in the case company?
3. Have you cooperated with the salary administration before its transfer to the service provider?
    - Is there any difference in salary adminstration's activities after it has been outsourced? What kind of?
4. Which of your assignments are in connection to the salary administration?
    - For how many employees' do you handle the salaries in cooperation with the salary administration?
    - Does the group consist of blue/white collars?
    - Do they have many changes in their monthly salaries (for example travelling, overtime)?
5. How possible changes are informed to the service provider?
6. Who checks and approves the changes in the monthly salaries (timesheets)?
7. Who corrects the possible changes in the timesheets? (employee/assitant/foreman)
8. Who send the timesheets to the service provider?
9. Has there been had following problems:
    - Are there many errors in employees' timesheets?
    - Have the employees filled the timesheet late?
    - Has the approver sent the timesheet often late to the service provider?
    - Other problems?
    - How these possible problems will be solved and the situation improved?
10. Has the service provider made often errors in calculation of salaries?
    - If it has, What kind of errors?

- Are these possible errors corrected immediately, a bit later or to the next salary?
- Does the service provider inform of the possible errors in the timesheets?

11. Is the cooperation and communication with the service provider easy?
    - Are for example advices in possible problem situations fast and easily received?
12. Are clear rules and regulations given from the case company and service provider concerning operational practices?
13. Would there be need to receive more information for example in the case company's and service provider's common meetings?
    - About which issues would you like to have more information
14. Do you have any suggestions in order to develop the cooperation with the service provider? What kind of?