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Practitioner's Dialogue

Human Resource Outsourcing in Health Care: Strategic, Cost, and Technical Considerations

Mark P. Brown and Ross L. Fink

In an era of declining reimbursement and heightened competitive challenges, effective health care organizations recognize the need to avail themselves of all possible opportunities to succeed (Fottler & Malvey, 2010; Lefton, 2008). One potential opportunity health care managers should carefully consider is the outsourcing of their human resource management activities. Human resource outsourcing, while a common practice in industries outside of health care (e.g., Greer, Youngblood, & Gray, 1999), has been overlooked in the

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Ross L. Fink, Ph.D., is professor of operations management, Department of Business Management and Administration, Bradley University, Peoria, IL 61625. health care field. Although hospitals have commonly outsourced certain practices, such as benefits management, few hospitals have outsourced their human resource management (HRM) practices as extensively as other industries. This article will specifically examine HRM practices that are appropriate for the health care industry, and discuss the trade-offs of outsourcing these practices from a strategic, cost, and technical expertise perspective.

Strategic Reasons for Hospitals HRM Outsourcing

To begin the examination, this article will concentrate on strategic reasons for outsourcing. From a managerial perspective, health care organizations are among the most complex of modern organizations (Duncan, Ginter, & Swayne, 1995; MacEachern, 1962). Their complexity is a function of

both the technical sophistication of the interrelated activities performed in health care organizations, and the degree of autonomy accorded the professionals who perform these activities (Buchan, 1999). The challenge that confronts health care managers is providing effective leadership in an environment of such complexity.

One method to confront this complexity is to minimize its impact so managers can focus their efforts on areas of greater importance to organizational success. Consistent with this, some health care managers may chose to outsource HRM to focus on other areas that are of greater importance to organizational success. Presumably, if health care managers can find a competent organization to outsource HRM activities to, they can devote the time previously spent on HRM to areas of greater importance in the context of their hospital's overall mission.

Strategic explanations for HRM outsourcing particularly make sense given the largely transactional nature of many HRM practices (Noe, Hollenbeck, Gerhart, & Wright. 2009). The vast majority of HRM activities involve non-strategic administrative activities such as monitoring employee compliance with occupational training requirements, preparing employee payroll, and enrolling employees in benefits programs. These administrative HRM activities, while important, offer managers little opportunity to make meaningful performance improvements beyond assuring that HRM activities are being performed correctly. For example, in terms of payroll administration issues, a hospital's performance is not affected so long as its payroll is distributed in a correct, legal, and timely manner. Thus, because health care managers have little opportunity to meaningfully contribute to their hospitals performance by detailed management of HRM activities, such as payroll administration, their time is better spent focusing on activities in which their efforts can make a meaningful contribution to organizational performance (Brown, Sturman, & Simmering, 2003). Accordingly, one reason hospitals may elect to outsource their HRM

practices is that outsourcing increases health care mangers opportunities to focus on core organizational activities that are critical to their organizations success.

Cost Benefits of Human Resource Outsourcing

Beyond the strategic benefits of human resource management outsourcing, health care organizations may also chose to outsource for the purpose of cost savings. Hospitals' HRM departments are not profit centers, and therefore, represent prime targets for cost savings. This is particularly the case in hospitals where HR departments employ specialized personnel to deal with the various trained/licensed professionals employed by the hospital (e.g., nurse recruiter, nurse trainer, etc.) Although it might seem HR activities related to these licensed professionals would reside in the specific areas in which they are employed (e.g., intensive care unit, surgical unit, pediatric unit, etc.), hospitals employ so many professionals for so many different areas that it is often more effective and efficient to centralize HR activities related to these professional in the HR department rather than specific clinical departments.

Among those non-health care organizations that have outsourced their HRM

practices, cost savings is a frequently cited reason for initially considering HRM outsourcing (Greer et al., 1999). Examples seem to support this cost saving logic as some organizations have observed double digit percentage decreases in HRM costs as a result of HRM outsourcing.

Health care organizations that elect to outsource HRM practices have numerous consulting and HRM management firms from which to select. The challenge for hospitals is finding outsourcing companies prepared to deal with the unique challenges of managing HRM activities in hospitals. Hospitals' HRM needs are unique because for their size hospitals are typically more labor intensive than similarlysized organizations in other industries (American Hospital Association, 1993). Moreover, hospitals are also distinctive because of their unique missions (i.e., saving human lives) and the highly skilled staffs they employ (Brown et al., 2003). Indeed, each of these factors contributes to hospitals having unique HRM needs. Unfortunately, HRM outsourcing firms can only offer cost effective outsourcing solutions when they can provide their services in large quantities (Greer et al., 1999). Thus, the degree to which health care organizations can enjoy these scale-based benefits of HRM outsourcing is largely related to the degree the

HRM needs of health care organization are similar to those of other industries. For example, in areas such as pension or compensation administration, hospitals should readily be able to avail themselves of cost related outsourcing benefits since hospitals' needs in these areas are largely similar to those of other organizations; however, in areas such as the design of compensation systems, hospitals are less likely to enjoy such HRM outsourcing benefits because they have unique characteristics that differ significantly from those of organizations in other industries. This makes off the shelf solutions that are practical in other industries impractical in the health care industry.

Technical Expertise Reasons for Outsourcing

A third reason hospitals may outsource their HRM practices is that outsourcing allows hospitals to avail themselves of HRM expertise they do not possess in house (Greer et al., 1999). Aptly described as a booming field, HRM has experienced significant increases in technical sophistication and strategic importance since the 1980's.

Technically, HRM has become more sophisticated for a host of reasons including advances in the understanding of effective means of compensation, staffing, and training employees. Moreover, HRM has also become challenging due to the increasingly litigious nature of the issues that surround HRM. Technical expertise has also become more important as organizations recognize that effectively managing their HRM resources is as, or even more, important than effectively managing their other competitive resources. The name used to describe these actives has changed since the 1980's to reflect this increasing sophistication. Traditionally, HR departments were known simply as personnel departments reflecting their primary purpose to staff positions and fill vacancies when necessary. A shift in title from personnel department to HR is tantamount recognition not only of the greater importance of the HR function, but also that it involves more than just the staffing issues that were traditionally inferred under the personnel title.

Due to the increasing technical complexity and strategic importance associated with HRM, many hospitals view these alone as compelling reasons to outsource some HRM practices. These hospitals believe it is more effective to hire outside HR expertise than to maintain such expertise internally. This makes sense as consulting

firm can develop a level of HRM expertise beyond that justifiable by individual firms since they can spread the costs of such expertise across a whole host of clients (Greer et al., 1999). Moreover, a single organization may have only limited need for such HRM expertise, and maintaining such expertise likely represents a poor utilization of resources (Greer et al., 1999). Thus, issues of capacity utilization may lead some firms to outsource their HRM practices to external firms who by virtue of their focus may be able to maintain a level of sophistication and expertise far above that of single firm. A good example of this is legal representation in terms of labor and employment issues. Although many firms have in-house general counsel, most firms chose to outsource their specialized labor and employment law work to attorneys that specialize in these areas. Typically, most hospitals do not have labor and employment law needs necessary to justify staffing a full-time position with a technically competent labor and employment lawyer. Thus, to avail themselves of these services, they hire outside counsel that specialize in this area.

HRM Outsourcing Opportunities

As this article has explored the potential

reasons for outsourcing, it is appropriate to explore various HRM practices and the degree to which they are outsourcable based upon the above three characteristics. Hopefully, this will help determine what practices are appropriately or not appropriately outsourced. To do this, the authors will initially present a model of HRM practices. After this, they will discuss these HR practices in the context of

the above reasons for HRM outsourcing and present a framework as to what practices are most appropriately outsourced.

HRM can be broken down into three fundamental activities of staffing, training, and compensation (Noe et al., 2009). Staffing most simplistically focuses on those HRM activities designed to evaluate the quality of job candidates. Training focuses on those HRM activities designed to

assure that employees have the skills necessary to perform organizational tasks. Lastly, compensation focuses on those HRM activities designed to motivate organizational membership and high performance.

Table 1 summarizes the various HRM fundamental activities and the reasons why they might or might not

be considered for

outsourcing.

Table 1
HRM Activities and Their Potential for Outsourcing

HRM Fundamental Activities	Specific HRM Sub-Activity	Reason for Outsourcing		
		Strategic	Cost	Technical
				Expertise
Staffing				
	Recruitment	Depends	Depends	Yes
	Selection	No	No	Depends
	Skill and Ability Testing	Yes	Yes	Yes
	Drug Testing	Yes	Yes	Yes
Training				
	Orientation	No	No	No
	Training Needs Assess- ment and Evaluation	Yes	Yes	Yes
	On-The-Job Training Performance Appraisal	Depends	Depends	Depends
	Design	No	No	Yes
	Administration	No	No	Yes
	Leadership Succession Planning	No	Yes	Yes
Compensation				
	Pay			
	Design	No	No	Yes
	Administration	Yes	Yes	Yes
	Benefits			
	Design	No	No	Yes
	Administration	Yes	Yes	Yes

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Staffing

Recruitment. Recruitment involves HRM activities designed to attract a pool of applicants upon which selection procedures will later be applied. Research suggests staffing effectiveness is both a function of the quality and quantity of the applicant pool (Fisher, 1989). Strategic and cost benefits of outsourcing recruitment activities largely depend upon a hospital's specific objectives. For instance, hospitals pursing growth or expansion strategies will likely accrue strategic, cost, and technical benefits from outsourcing recruitment. Outsourcing firms can more effectively and efficiently develop a desirable pool of external job applicants. External applicants are useful with a growth strategy since they likely have the skills and abilities necessary to support the changing needs of the organization as it grows.

Conversely, an organization pursuing a stability strategy does not need as much skill differentiation, and thus relies upon internal recruitment. Developing an internal applicant pool does not present the same strategic distractions, cost challenges, or technical issues associated with developing an external applicant pool. Thus, hospitals pursuing a growth strategy can experience benefits from recruitment

outsourcing, whereas firms pursuing a stability strategy likely will not experience these benefits.

Selection. Selection involves those HRM activities designed to select the appropriate employee from the applicant pool. Few strategic or cost benefits accrue from outsourcing selection activities. Strategically, selection is an important organizational activity worthy of management's time and attention. Moreover, negative consequences result from poorly made selection decisions. Thus from a strategic perspective, selection should not be outsourced. Similarly, few cost benefits result from outsourcing selection decisions, as selection is not a labor intensive activity.

Selection activities may benefit from external expertise relevant to distinguish good applicants from poor applicants. Technical expertise may be particularly useful for testing applicants. Outsourcing firms have technical expertise beyond that of the normal hospital in evaluating employees' skills and abilities. Moreover, from a strategic and cost perspective, benefits may accrue from outsourcing skill and ability testing since outside firms may be able to provide applicant testing at a lower cost than an individual hospital. Outsourcing skill and ability testing may have strategic benefits as the design and administration of these tests may distract managers from other activates more important to organizational success. Thus, from a strategic and cost perspective, selection is not an HRM process appropriate for outsourcing. However, while selection is not appropriate for outsourcing, the skill and ability testing component of selection can be considerably improved due to the strategic, cost, and technical benefits of its outsourcing.

Drug testing. Drug testing is an important staffing activity for hospitals as it is an important imperative for hospitals to have a drug-free workplace. The success of drug testing programs depends upon confidentiality and accuracy. Moreover, effective drug screening programs have mechanisms to deal with those circumstances in which an existing employee fails a drug screen. Although many hospitals have the technical expertise to administer a drug screening program, cost and strategic considerations suggest that drug screening activates are best outsourced. Strategically, the administration and maintenance of a drug screening program is time consuming. Confidentiality is best maintained when processing of tests, and counseling of employees,

who fail tests, is done at an external location where employees have little potential to know the individuals in question. Additionally, organizations that do nothing but drug screens can likely do these tests at a much lower cost than hospital labs which are setup to do a multitude of tests beyond drug screens. Thus, in terms of the selection activity of drug testing, this seems to be an activity that is beneficial to outsource.

Training

Orientation. New employee orientation is a time honored and a Joint Commission (The Joint Commission is the accreditation organization which accredits hospital organizations) mandated tradition in hospitals (MacEachern, 1962). Orientation serves to provide employees with basic knowledge of the hospital and their new roles in the institution. From either a strategic, cost, or technical perspective little benefit exists to outsourcing new employee orientation. Strategically, orientation represents an opportunity to instill important organizational values. Moreover, these values are best conveyed by hospital employees, rather than outside consultants. Additionally, other than their cost effectiveness in preparation of materials or audiovisual aids, outsourcing firms offer little

benefit in the orientation process. Finally, employee orientation is a simple repetitive task that demands little technical expertise once initially prepared. Thus, beyond helping in the initial preparation of the orientation presentation, there is little to be gained by outsourcing the orientation process.

Needs assessment and training evaluation. The assessment of training needs and the evaluation of training effectiveness are among the most neglected of all HRM activities. Indeed, few hospitals understand either their training needs or the effectiveness of their training programs. From the perspective of either the strategic, cost, or technical reasons for outsourcing HRM activities, training needs assessment and evaluation are prime areas for HRM outsourcing. Strategically, an understanding of an organization's training needs and the effectiveness of training activities are vital to effective performance; however, few hospital executives have the time to effectively perform these activities. Thus, strategically, these are useful HRM activities to outsource. Moreover, from a cost and technical perspective, training needs assessments and evaluations are complex activities that require substantial technical expertise. Consequently, cost and technical

explanations for HRM outsourcing also support hospitals outsourcing of their training needs assessment and effectiveness evaluation activities.

activities. On the job training. On the job training involves those training activities designed to help employees improve their current job skills or acquire new skills. While it might seem hospitals would not require on the job training for many of their employees as many are licensed professionals (e.g., registered nurses, respiratory therapists, etc.), hospitals still do require these training activities to assure these employees stay current and up to date on each hospital's specific operating practices. Hospitals will likely have specific operational practices based upon factors such as unique equipment, state variations in regulatory requirements, and unique architectural designs of the specific institution, etc. Ultimately, the strategic, cost, and technical reasons for outsourcing these HRM activities depend upon a hospital's on the job training needs. Strategically, everyday training activities require limited organization oversight and are easily managed. From a cost perspective these programs are simplistic in nature and standardization makes them easily delivered and maintained internally in a cost effective manner.

Technically, while these programs can usually be developed in-house, some outside technical expertise may contribute to their effectiveness.

While simplistic or everyday training activities are easily handled in house, more complex training is often more appropriately outsourced as strategic, cost, and technical reasons support the outsourcing of these more complex training activities. Strategically, complex training activities present substantial operational design and oversight issues best handled by individuals other than the organization's leadership. From a cost and technical perspective, these sophisticated training programs require resource commitments and the maintenance of technical expertise individual organizations wisely avoid. Effective training programs of this type likely reflect a product whose design and implementation costs are spread across numerous customers. These programs are frequently technically sophisticated in design and delivery and lend themselves to packaged training programs provided by outside vendors designed to satisfy the needs of multiple organizations. Thus, while hospitals should handle their simplistic on the job training needs in house, more complex on the job

training needs are best outsourced.

Performance appraisal.

Performance appraisal focuses on those HRM activities designed to measure employee's performance and provide effective feedback. Performance appraisal as an HRM activity has both a design and administration element. From a strategic and cost perspective, performance appraisal design decisions are best made in-house. Performance appraisal design decisions are of considerable organizational importance as they influence the manner in which the correctness of employees' organizational behaviors are determined, and in cases of performance deficiencies, corrective direction is given. Thus, these decisions strategically merit management attention. Moreover, because of the organizationally specific nature of these decisions, few cost benefits exist to outsourcing these design decisions. However, from a technical perspective, performance appraisal design decisions may benefit from outside expertise. Thus, performance appraisal design should not be outsourced for strategic or cost reasons: nevertheless, performance appraisal processes may benefit from the use of outside expertise in designing these programs.

In terms of performance appraisal administration, one important aspect is employee performance evaluation and feedback. From this perspective. performance appraisal is an activity that is worthy of management's attention as performance evaluation and feedback is best provided by internal managers who are most knowledgeable about employees and the requirements of their positions. Moreover, few cost benefits exist to outsourcing administrative aspects of performance appraisal as the administration of performance appraisal offers little opportunity for outsourcing firms to create efficiencies. Although, strategic and cost reasons provide little reason for performance appraisal administration outsourcing, the firm may benefit from the use of outside expertise. Specifically, outside experts have expertise in terms of administering performance appraisals and providing performance feedback and counseling. Thus, while strategic and cost reasons do not support the outsourcing of performance appraisal administration, technical reasons exist for considering the use of outside expertise in this

Leadership succession issues. Leadership succession issues are an often neglected facet of HRM training activities. Effective

hospitals must maintain a pool of future leaders if they wish to maintain their effectiveness. Leadership succession issues involve not only determining future leaders, but assuring that they are acquiring the skills necessary to perform effectively in their future leadership positions. While top level leadership succession issues are likely the responsibility of an organization's senior management, much of the information for these decisions, as well as succession issues for other than top management positions, are likely the domain of hospitals HR departments. Thus, strategically, because leadership succession issues are of pivotal organizational importance, these activities are not candidates for outsourcing. Decisions related to leadership succession and future leadership needs should be made in house. While these decisions should be made in-house, cost and technical reasons support the use of outside assistance in managing these programs. For instance, outsourcing firms may have technical expertise to help organizations identify future leaders and their training needs. Moreover, because this type of expertise is likely a core activity for the outsourcing firm, these outside firms may also be able to provide these services at a substantial

cost savings to individual firms who will find the internal maintenance of these technical competences ineffective. While firms may find it valuable from a technical expertise and cost perspective to use outside assistance in managing their leadership succession programs, strategic considerations dictate these programs still be handled in house and not outsourced.

Compensation

Pay and benefit system **design**. The major concern in pay and benefit system design is to create reward systems that elicit desired and necessary behaviors from employees (Milkovich, Newman, & Gerhart, 2011). Pay and benefits, while often thought of separately, should appropriately be considered simultaneously as they in combination represent an organization's overall strategy to motivate employee behaviors. Because compensation issues are important contributors to organizational effectiveness; strategically, decisions regarding pay and benefit design should be made in house. These decisions are ones that are worthy of management attention and because of their importance demand both insight and knowledge outside participants do not possess. Additionally, from a cost perspective, there is little benefit to outsourcing pay and benefit system design decisions as they do not

represent opportunities for outside firms to create efficiencies based on the quantity of services rendered. Compensation design decisions are firm and situation specific and lack a degree of generalizability that would lend themselves to the development of packaged solutions. Finally, although strategic and efficiency reasons support not outsourcing compensation decision making, technical reasons do support the use of outside resources to help in making these decisions. Outside advice and knowledge may improve the quality of the pay and benefit system design. Although pay and benefit system design decisions should not be outsourced. firms should still, where necessary, avail themselves of outside sources of expertise in making these decisions.

Pay and benefit system administration. Pay and benefit system administration involves those activities related to administering the pay and benefit system. From a strategic, cost, and technical explanation for HRM outsourcing, pay and benefit system administration is one of the best potential areas for HRM outsourcing. The goal in pay and benefit system administration is to carry out pay and benefit system design decisions in a fair, timely, legal, and equitable manner. Strategically, organizations

gain little from compensation system administration so long as the system is administered appropriately. Thus, hospitals benefit when pay system administration issues are outsourced as, other than assuring the programs are administered effectively, management has little opportunity to create organizational value through actively administering these programs. From a cost and technical perspective, compensation system administration activities also benefit from

outsourcing because outside firms can generate substantial efficiencies in these areas because most hospitals needs are similar enough to justify standardized solutions. Finally, because unique technical expertise may lead to more effective pay system administration, and because outsourcing firms can efficiently develop technical expertise in compensation administration beyond that justified by individual firms, technical explanations also support the outsourcing of pay and benefit system administration issues.

Conclusions

This article presents several explanations of why health care organizations might choose to outsource some of their HRM activities. In the context of these explanations, it discussed various HRM activities and the degree to which specific HRM practices might be outsourced. A summary of outsourcing opportunities for HRM activities in healthcare is presented in Table 2. Specifically, this research suggests that, while HRM activities such as skill and ability testing,

Table 2 Opportunities for Healthcare Organizations to Outsource HRM Activities

Excellent Opportunity for HRM Outsourcing

- Staffing—Skill and Ability Testing
- Staffing—Drug Testing
- Training—Training Needs Assessment and Evaluation
- Compensation—Pay Administration
- Compensation—Benefits Administration

Potential Opportunity for Partial HRM Outsourcing **HRM Outsourcing Candidate**

• Staffing—Recruitment Depends upon strategy being followed. With growth

strategy strong candidate for outsourcing. With other strategies, outsourcing will be less beneficial.

• Training—On-The-Job Training Simplistic training can be handled in house; whereas more complex training should be outsourced to avail

the hospital of outside training expertise and

knowledge

• Training—Leadership Succession

Planning

Must be kept in-house for strategic reasons; however, outside technical assistance may be both useful and

cost-effective.

Poor Opportunity for HRM Outsourcing

- Staffing—Selection
- Training—Orientation
- Training—Performance Appraisal Design
- Training—Performance Appraisal Administration
- Compensation—Pay Design
- Compensation—Benefit Design

drug testing, training needs assessment and evaluation, pay administration, and benefits administration are wisely outsourced, the appropriateness of outsourcing other activities is less easily determined. Indeed, with the exception of employee orientation, the efficacy of outsourcing other HRM activities receives mixed support or depends upon a particular organization's situations. Thus, while certain HRM activities are obvious candidates for outsourcing (i.e., outsource skill and ability testing, drug testing, training needs assessment and evaluation, pay administration, and benefits administration), outsourcing other HRM activities should depend upon individual institutions and their specific situations.

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