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The role of external service providers in HR processes: comparative analysis Hungary – Slovakia

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Abstract

In today's rapidly changing economic environment the fluctuation in workforce demand poses challenges for the human resource management of companies. The role of HR management is becoming ever more important in the efficient operation of organisations to maintain their competitiveness. The main responsibilities of HRM are recruiting, selecting and retaining an adequate number of well-trained workforce, for which organisations rely on assistance from external service providers. The present study is based on the 2015-2016 International Cranet HRM Research, which provides the backgrounds for our empirical study. The study presents the role and tasks of external providers in the lives of organisations, and also examines in which areas Hungarian and Slovakian organisations use the services of external providers for performing HRM tasks. In addition, it analyses to what extent company size influences the service areas and types provided by external professionals. The two-country analysis investigated the common and distinctive features of HR advice. Companies mostly regard external service providers as means of cost reduction. It has been found that regardless of the company size external service providers are widely used in both countries in HRM practice, and the services extend to selection processes and workforce development alike. However also suggest that, this trend is most popular at large organizations and foreign-owned companies and in certain respects there also has disparity of external service providers for the purposes in two countries.

Keywords: HR management, external service providers, training, labour shortage, outsourcing

JEL codes:

INTRODUCTION

Human resource management is a multi- and interdisciplinary science, which has undergone a constant change over the last century with major changes in its role and function. Today's changes are strongly influenced by the development and changes of the global business environment, which poses challenges to organisations (Kubr, 1996, Niedereichholz and Niedereichholz, 2012). These factors have impact on the industry consulting, advisory processes and advisors alike, which is not an exception from the HR consulting either (Ennfelner et al., 2014).

In the beginning HR dealt with improving the working and living conditions of workers (Ivancevich, 1995); nowadays besides administrative tasks (Drucker, 1973; Fombrun et al. and Beer et al., 1984) human resources has a strategic function in the operation of organisations. The strategic role of HR is increasing efficiency, profit and employee satisfaction, and it is manifested in the production process (Storey, 1995; Ulrich & Dulebohn, 2015), the worker became a critical resource for organisational competitiveness (Cleveland et al., 2015). In the Eastern Central European region in the socialist era HR functions were administrative tasks using the methods of Taylor's scientific management (Kazlakauiste et al., 2013), personnel management was under strict state control (Pundziene – Bučiūnienė, 2009; Morley et al., 2016). After the political system change, in Hungary and Slovakia, due to the economic changes, internationalisation and globalisation, the practice of HR changed and evolved considerably; for an increasing number of companies human resource as strategic resource gained strategic importance (Karoliny, 2017), and so did the organisational units employing HR professionals. Following the regime change, the appearance and increasing role of foreign-owned and international companies transformed human resource management's principles, functions, systems and relationships, which resulted in the evolution of basic organisational processes and management functions related to the existence and development of the companies. These changes prompted the development of organisations' human resource management and human capital with a view to representing the requirements of the stakeholders – owners, consumers, line managers and employees (Karoliny, 2017). With the transformation of the political, legislative, social and economic system in the region, not only the appearance of new business opportunities but also of subsidiaries of multinationals posed challenges to organisations, significantly influencing their operation. Consequently, new demands arose in the practice of human resource management (Lewis, 2005), and the demand for external HR service providers' activities also increased.

EXTERNAL SERVICE PROVIDERS

Besides providing traditional HR advice, the external service providers of human resource management market more and more services that are related to specialised knowledge and activities. HR advice belongs to knowledge-based services (Miles et al., 1993), which are constantly changing and developing.

Sveiby (1992) describes a knowledge-intensive organisation as one in which the majority of employees are highly educated, where the product is not standardized but involves a high degree of problem-solving skills and information manipulation. In respect of such services, we need to highlight four important aspects in the following areas:

- human capital and knowledge intensive,
- a high degree of intangible activities and services,
- difficulties in standardization,
- intensive interaction between consultants and clients.

There are several dimensions of external HR advice, ranging from providing special functions to headhunting, from structure development to strategic advice. This activity includes a wide range of services provided by HR advisors, as well as organisations dealing with training, HR IT advice, HR outsourcing and HR benchmarking. According to Belcourt (2006), in outsourcing HR functions decreasing costs and HR staff workload, handling strategic issues, access to new technologies and improving HR functions play an important role. HR outsourcing includes a broad spectrum of internal HR functions and external sources of staff supply, such as temporary agent work, payroll services, outplacement and employment services (Alewell, Hauff, Thommes and Weiland, 2009).

The firms engage in outsourcing of HR functions to save money, to free up core HR staff to deal with strategic issues, to access new technology and capabilities or simply to improve overall functionality (Belcourt, 2006). The outsourcing falls outside of a strict definition of consultancy, but in practice, the usage of external providers to fulfil aspects of the HR function may, in some instances, constitute outsourcing (Poor-Groos, 2010). In contrast, outsourcing may be defined as “the practice of providing assistance towards organizational improvements” or the provision of services that add value beyond the basic maintenance activities of day to day personnel administration (Sturdy 2011). The outsourcing assumes a consulting dimension when it adds value to the HR function and/or new specialized expertise (Sheehan 2009), rather than simply replicating it outside of the walls of the organization. Moreover, other work would suggest that a major driver of HR outsourcing remains aggressive cost cutting, with possible effects for overall effectiveness (Beregszaszi and Polay, 2012). This might indicate that, given relatively marginal gains or high risks, it may be the kind of activity readily jettisoned in difficult times. Lievens and de Corte (2008) argue that outsourcing relationships are more likely to persist when they are multi-facetted, and when HR managers perceive the outside providers as sharing similar values. Although Cooke, Shen and McBride (2005) found widespread usage of external providers for at least one HR function, take up rates varied greatly between contexts.

SPECIFIC PROVIDERS

Management advice has undergone a long development process, and it was transformed starting from the mid-80s the latter was characterized by a focus on targets and measurement, coupled with aggressive rhetoric centring on short term value release (Grint and Case, 1990).

Such consultancy sought to enhance all the functional of management, but, as employees are the main non-owner stakeholders with sunk capital in the firm (Goergen et al. 2012), it could be argued that the increased role of consultants in managing a firm's people is vested with particular importance; indeed, Briscoe et al. (2009) note that consultants have become a ubiquitous feature of organizational life across the developed world. Sheehan (2009) found that larger firms were more likely to make usage of HR consultants in order to secure new specialized skills. Although this particular service field was rarely seen in the ex-socialist countries prior to 1990, the political transition in these countries opened the door to external HR consultants, who are now similarly active across the region (FEACO 2013).

The aim of HR advice is to improve leadership areas, therefore, advisors are present in all areas of the organisation providing specialised skills for companies. These skills safeguard the sustainable development and competitiveness for companies. However, the presence of external service providers does not mean that an organisation lacks political, ideological and moral standards (Kipping 2002; Grint and Case 1998). It means that the context of a special national institutional system better facilitates the development and spread of HR practices. Previous research shows that although Eastern Central European economies developed in different ways, the HR services external providers offer and their development paths show common features (Christensen et al., 2013).

The External HR consultancy encompasses many dimensions ranging from those providing special functions for example recruitment by head-hunters through logistic services to strategic inputs an is an activity embracing not only traditional HR consultancy firms, but also head-hunters, training companies, employment agencies, HR-IT service companies and - in recent years - an increasing number of outsourcing providers (Poót et al., 2016). The ubiquity of external providers for HRM services does not meant that it lacks political, ideological and value dimensions (Kipping 2002; Grint and Case 1998). As the literature on comparative capitalism alerts us, specific national institutional contexts are more conducive to particular types of practices than others (Hall and Soskice 2001; Whitley 1999), and it is likely that, common pressures notwithstanding, the uptake on such services is likely to remain even both within and between types of national economy (Wood and Lane 2012). However, as the range of external HR services offered growth, the development paths of some countries also show common features including time cycles and culture and institution related specifies of the regions in question (Christensen et al, 2013). If we take a longer-term perspective, it becomes clear that the evolutions of different fields of the consulting industry and of its pre-eminent firms are closely linked to the development of management practice and ideology (Kipping, 2002).

METHODOLOGY

Sample

The present research is basically an international level descriptive study, which was conducted in Hungary and Slovakia in 2015-2016. It was based on a 70-question Cranet HRM survey, which provides an appropriate background for the research results. This study presents the results relevant to external service providers. The research investigates typical human resource variates (Dowling et al., 2013). In terms of the variates HR characteristics, the number and workload of the human resource unit and the changes of human resource management were analysed. The questionnaire was completed by 535 organisations, 51% in Hungary, 49% in Slovakia. The investigation is descriptive in nature, based on objective data.

Hypothesis

H1: It was postulated that larger organisations operating an HR department show greater demand for external providers than smaller organisations or organisations lacking an HR department.

H2: In Hungary the average annual number of training days is higher in the private sector than in the public sector regardless of the company owner-structure.

H3: In Slovakia the average annual number of training days is higher in the private sector than in the public sector regardless of the company owner-structure.

These hypotheses were supported by using general statistical methods; data evaluation was carried out using the SPSS software. Univariate and multivariate statistical data analyses were used.

RESULTS

Sample Overview

The vast majority of organisations taking part in the research operate in the private sector, 90.1% and 63.8% in Hungary and Slovakia, respectively. In the Hungarian sample the public sector is significantly highly represented (32.8%) compared to the Slovakian sample.

In terms of sectoral distribution, in both countries the majority of respondents deal with ‘telecommunications, IT and other information service activities’ (13%) and ‘financial and insurance activities’ (13%). In the Hungarian sample respondents mainly operate in the private sector, in wholesale and retail (9.1%) and in the accounting, management, and architectural services sector (7.7%). In the Slovakian sample machine and equipment manufacturing companies are highly represented (10%), followed by enterprises engaged in wholesale and retail activities (5.0%), food, beverages, wood, textile and paper manufacturing.

Characteristically, more than half of the Hungarian organisations (62.9%) serve local, reginal and national markets, whereas Slovakian organisations are slightly higher represented in domestic markets with 65%. Similar representation can be observed for the two countries in terms of European markets (13.7% and 13.8%, respectively). 23.4% of Hungarian respondents are part of the global market, while Slovakian companies compete in the global market at a slightly lower rate (21.1%).

With respect to organisational size, 63.4% of Hungarian companies belong to the SME category, larger enterprises’ share is low (23.3%) and companies having more than 1000 employees are present with 13%. In Slovakia, half of the companies are mid-sized with 50-249 employees, small companies account for one third of the respondents. Only one fifth of the sample represents companies having more than 250 employees, which shows lower distribution than in the Hungarian sample.

Table 1. Distribution of respondents by headcount

	Country	
	Hungary	Slovakia
1-9 employees	10,1%	3,1%
10-49 employees	21,8%	25,6%
50-249 employees	31,5%	50,0%
250-999 employees	23,3%	14,9%
1000-4999 employees	11,3%	6,1%
over 5000 employees	1,9%	0,4%

Source: own compilation based on Poór et al. (2016).

The study examined the employment structure of organisations, based on which it can be said that in both Hungarian and Slovakian companies the percentage of managerial staff is almost 13% in the samples. Slovakian companies employ professionals at a higher rate (66%), whereas administrative workforce accounts for 21%. In contrast, in Hungary only 47% of the companies employ professionals, whereas office and physical workers make up 42% of the workforce.

In the life and development of companies company strategy plays a decisive role, and it relates to all areas of business operation. Consequently, the study examined whether the participant organisations have formal and informal organisational and HR strategy communicated within the organisation. The results reveal that 65% of the Hungarian companies have a business strategy and half of them have an HR strategy, and recruitment, and training and development strategies (Table 2).

Table 2. Business and HR strategy

	Hungary		Slovakia	
	Yes	No	Yes	No
Business strategy	65,7%	34,3%	78,3%	20,9%
HR strategy	55,1%	44,9%	65,8%	34,2%
HR recruitment strategy	42,9%	57,1%	64,3%	35,7%
HR training and development strategy	52,0%	48,0%	69,3%	30,7%

Source: own compilation based on Poór et al. (2016).

A higher number, 79% of Slovakian organisations have a business strategy, whereas almost two thirds of the participants have HR, recruitment, and training and development strategies.

It was also investigated in the research that in issues related to HR operations who is the decision-maker.

In Hungary 80% of examined organisations have an independent HR department or section, where almost two thirds (72.9%) of the employees are female. In contrast, the rate of companies having a personnel and human resource unit is higher, 90%, in Slovakia, but the rate of female employees is lower, only 64.8%.

Table 3. Distribution of HR units and HR employees

Description	Country	
	Hungary	Slovakia
HR unit EXISTS	19.9 %	12.6 %
HR unit LACKING	80.1 %	87.4 %
HR employee numbers- FE-MALE	72.9 %	64.8 %
HR employee numbers- MALE	27.1 %	35.2 %

Source: own compilation based on Poór et al. (2016).

In the Hungarian companies asked an HR staff member deals with 67 employees on average, whereas in Slovakia 57 employees' issues are dealt with by an HR worker.

It was also investigated in the research that in issues related to HR operations who is the decision-maker. The responses from larger organisations, in Hungary the principle of centralisation at national level is most characteristic. 35% of the decisions in the HR areas surveyed are made at national level. However, decisions on workforce expansion and management training are typically (26.2-31.3%) made at international level

Responses received from Slovakia show the opposite trend, as decentralised decision-making is more typical. At least half of the respondents (50.8 to 59%) who are part of larger companies / institutions indicated that major HR decisions were typically determined at local institutional / subsidiary / divisional level (14.1-21.4%). It is typical of only 1/5 of the respondents that HR policy decisions are made in national centres. In the international centres also, issues of management training, as well as of pay and benefits are dealt with.

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About external providers

The examined questions of the research are the composition and type of external services used by organisations. 38% of Hungarian companies outsource payroll and pension-related functions (Table 4). Two thirds of the organisations decide themselves about employee benefits. It is the least common for Hungarian respondents to outsource workforce reduction, HR information systems, recruitment and selection, and only a small percentage trust an outside company with provision of information to management and employees.

Table 4. Role of external HR service providers in Hungary

Hungary	0 No out-sourcing	1	2	3	4 Full out-sourcing	Total
Payroll	51.5%	1.1%	4.1%	5.3%	38%	100%
Pensions	61.8%	1.5%	3.5%	2.3%	30.9%	100%
Benefits	73.8%	4.9%	7.5%	2.6%	11.2%	100%
Training and development	50.9%	14.1%	22.7%	8.2%	4.1%	100%
Workforce reduction/redundancies out-placement	88.6%	3.0%	3.7%	1.8%	3.0%	100%
HR information systems	72.1%	8.7%	9.1%	3.8%	6.4%	100%
Recruitment	61.9%	15.2%	16.7%	4.1%	2.2%	100%
Selection	76.6%	12.6%	7.8%	1.5%	1.5%	100%
Handling management/employee regular enquiries (HR call-centre)	90.3%	2.6%	3.0%	1.9%	2.2%	100%

Source: own compilation based on Poór et al. (2016).

In Slovakia, almost 25% of asked companies and organisations turn to external providers for selection and benefits services, and more than 20% for HR information systems and recruitment. The highest rate of full outsourcing hardly exceeds 10% of respondents (10.7%), which relates to training and development, whereas there is no outsourcing for workforce reduction, payroll, pension services and HR call centres for at least 80% of the respondent companies (Table 5).

Table 5. Role of external HR service providers in Slovakia

Slovakia	0 No out-sourcing	1	2	3	4 Full out-sourcing	Total
Payroll	84.7%	6.9%	4.6%	1.5%	2.3%	100%
Pensions	82.1%	8.4%	5.3%	1.5%	2.7%	100%
Benefits	72.1%	12.6%	9.9%	2.3%	3.1%	100%
Training and development	41.6%	13.7%	22.9%	11.1%	10.7%	100%
Workforce reduction/redundancies out-placement	89.7%	4.2%	2.3%	1.9%	1.9%	100%
HR information systems	62.5%	11.9%	12.3%	6.5%	6.9%	100%
Recruitment	60.3%	17.2%	16.8%	3.4%	2.3%	100%
Selection	72.1%	15.6%	9.5%	0.8%	1.9%	100%
Handling management/employee regular enquiries (HR call-centre)	81.9%	9.6%	4.6%	3.5%	0.4%	100%

Source: own compilation based on Poór et al. (2016).

The study also examined the relationship between company size and the use of external service providers in the areas of payroll services, benefits services, training and development services, recruitment and selection.

Based on the results of correlation tests it can be said that in Hungary there is a strong relationship between organisational size and training and development (r=0.75), recruitment (r=0.70) and selection (r=0.76). These results support our initial hypothesis that larger organisations tend to employ external service providers, professionals with specialised knowledge, to carry out these functions. The companies have the necessary knowledge to perform other HR functions. The research revealed that 38% of Hungarian organisations outsource payroll services, which is characteristic of small and medium enterprises. Our analysis of the relationship of company size and the use of external service providers in terms of training and development shows that for large local companies the decision is made in the national centres as a result of the cooperation of company leaders and HR unit leaders.

For Slovakian companies, based on the results of the correlation tests it can be stated that there is a strong positive relationship between company size and payroll services (r=0.82) and pension services (r=0.79), which means that these HR activities are not outsourced in larger companies, only in small- and medium-sized enterprises. For large companies there is a strong positive relationship with respect to workforce reduction (r=0.82). In making decisions about wages and workforce reduction a joint decision is the norm, in which the HR unit leader plays an active role.

It was also examined based on the respondent companies' size, in which areas they used services offered by external service providers. The results support the operation of organisations working in the area of HR advice, the demand for their services. The gained results assist organisations performing advisory service in compiling special portfolios with respect to company size.

In the area of training and development 49% of Hungarian organisations turn to external service providers, typically companies having more than 250 employees. Companies operating with a lower number of staff employ external providers for training and development at a very low rate (3%). At 52.4% of the examined companies the training costs take up 2% of annual wage costs. 20% of the companies spend less than 1% on training and only 15% of organisations spend 3-6% of wage costs on training and development.

In Slovakia 60.0% of organisations use external training and development services, characteristically companies employing a lower number of employees do not use external services. In contrast, one fifth of Slovakian companies with more than 50 employees spend significantly more (5%) on training and development with respect to wage costs.

In Hungarian companies, leaders and inte3llectual staff took part in training and development services at a higher rate, 7.5-7.6 days. Looking at the rate of training and development in Slovakian companies, employees participate in training programmes at a 50% higher rate than I Hungary, expressed in days (Table 7). For administrative and physical staff the rate of training programme attendance is double, 9.21 days, the Hungarian rates.

In terms of training and development efficiency tests it can be said that the majority (68.4%) of Hungarian respondent companies do not evaluate the efficiency of the programmes. In comparison, in Slovakian companies where the training and development cost efficiency indicators are higher and participants take part in longer trainings, 55.3% of respondents measure and evaluate the return on investments.

Table 6. Relationship companies size and external training and development services

	Hungary		Slovakia	
	Yes	No	Yes	No
1-9 employees	5	11	0	0
10-49 employees	17	17	0	3
50-249 employees	39	48	82	76
250-999 employes	39	38	42	20
1000-4999 employees	28	16	28	6
Over 5000 employees	6	6	1	4
Total	134	136	153	109

Source: own research.

Table 7. Average annual training days

	Countries – Average days	
	Hungary	Slovakia
Manager	7,65	11,16
Professional staff	7,59	13,05
Clerical/manual employees	4,67	9,21

Source: own research.

Table 8 shows how company size influences the use of external service providers in the highlighted HR areas, which provides a more subtle insight on the role of external providers in terms of company size. Regarding Hungarian businesses it can be stated that salaries and payroll related services are outsourced in more than 60% of small and medium enterprises. More than half of medium and large companies use external services in the highlighted HR areas, while businesses having more than 5000 employees use external services at a very low rate (24%), which can be explained by the importance and size of their HR department. In Slovakia only 15% of companies use external salaries and payroll services and 18% use pension-related services. In both countries organisations tend to turn to external service providers in the areas of selection and benefits services. As regards the Slovakian sample, it can be said that the rate of using external providers is higher in companies having 50-250 employees than among large companies.

The hypothesis saying “larger organisations operating an HR department show greater demand for external providers than smaller organisations or organisations lacking an HR department” is partly confirmed, since in both countries certain HR areas are outsourced, whereas other areas are organised and operated within the organisation.

In Hungarian organisations the relationship of the number of training days to the area of operation was examined. The data show that in Hungarian companies operating in the private sector less days are devoted to employee training than in the public sector, despite the fact that the majority of respondents operate in the private sector (Table 9).

Table 8. Relationship between in company size and HR services

	Hungary								Slovakia							
	Payroll		Pensions		Benefits		Selection		Payroll		Pensions		Benefits		Selection	
	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	No
1-9 employees	10	5	8	7	7	8	1	14	0	0	0	0	0	0	0	0
10-49 employees	21	13	14	18	8	26	9	25	0	3	1	2	1	2	0	3
50-249 employees	44	40	34	49	21	64	18	67	27	131	23	135	34	124	32	126
250-999 employees	30	47	20	52	16	60	21	56	4	58	9	53	15	47	15	38
1000-4999 employees	20	22	16	26	16	28	13	31	7	27	14	20	22	12	24	19
Over 5000 employees	2	9	5	7	1	10	1	11	2	3	0	5	1	4	2	3

Source: own research.

Table 9. Distribution of respondents according to ownership and the annual of average training days

	Hungary		Slovakia	
	Private sector	**Public sector**	**Private sector**	**Public sector**
Domestic owned	78	87	142	21
Foreign owned	90	2	94	2
Average days	17,7	24,3	33,8	32,1

Source: own research.

The hypothesis postulating that “in Hungary the average annual number of training days is higher in the private sector than in the public sector regardless of the company owner-structure” was not confirmed.

Table 9 shows that there is a minimal difference between the two sectors in Slovakia. After carrying out a t-test it can be stated that there is no significant difference in terms of average training days. On this basis the hypothesis saying “in Slovakia the average annual number of training days is higher in the private sector than in the public sector regardless of the company owner-structure” was not confirmed.

CONCLUSIONS

Based on the results it can be concluded that in both countries company size determines the type of external services used. In terms of company size, small and medium enterprises trust external providers with such HR functions, whose performance is influenced by external environmental factors. In contrast, larger companies outsource specialised services, which can be explained by specialised knowledge or the infrequent demand for certain HR services. Specialised knowledge may include organisation of trainings, coaching activities or computer-based learning.

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