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Trust predictors in outsourcing relationships in human resource management

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Abstract

The purpose of this paper is to specify and test factors that predict trust in suppliers on human resource outsourcing relationships. The study identify six main issues that contribute to inter-organizational trust in this context: (1) accuracy in negotiations and shared information, forms of treatment and price fairness (2) fulfilment of the contract, deadlines, tasks and promises (3) alignment with objectives, business and customer's culture (4) detection and resolution of problems (5) monitoring, flexibility and adaptation to unforeseen circumstances and (6) partner's reputation. The study also analyses a contingency variable – the type of service – which affect the relevance of trust. The main findings of this study indicate that providers of HR services should pay attention to both levels of contractual performance and adjustment issues. And, moreover, that the type of human resource service is likely to play a contingency role in inter-firm relationship, with higher levels of trust existing in high performance HR practices.

Keywords

Inter-organizational relationships, inter-organizational trust, human resource management, human resource outsourcing, human resource services.

Introduction

A major concern for human resource management (HRM) is what should be outsourced and what the success factors of outsourcing are. A key element that has been suggested for the success of inter-firm relationships is trust (Handfield & Bechtel, 2002; Johnston, McCutcheon, Stuart, & Kerwood, 2004; Gulati & Nickerson, 2008; Jong & Woolthuis, 2008; Adler, 2003).

Inter-organization trust has been difficult to define and measure. There are, in fact, very different empirical attempts to reach a definition depending on theoretical approaches, context specificity and culture issues. According to Zaheer, McEvily and Perrone (1998, p. 143), a conceptual distinction should be made between interpersonal and inter-organizational trust, the latter defined as "the extent to which organizational members have a collectively-held trust orientation toward the partner firm" and is a central dimension of inter-firm performance development (Zaheer, McEvily, & Perrone, 1998).

Despite of being considered critical in the success of outsourced development projects (cf. Sabherwal, 1999), the factors of trust specifically in human resource outsourcing (HRO) need to be pointed out and refined.

Human Resource Outsourcing

It is important, in first hand, to clarify the concepts of HRM and human resource (HR) practices. For Keating (2003, p. 1), HRM comprises "all activities that occur in organizations, private or public, for profit or not for profit, small or large, with or without a differentiated function of human resource management, that have some effect on the characteristics of the people that make up these organizations: the most objective, as, first, its presence in the organization, their qualifications, experience and their cost; to more subtle or difficult to predict, as their initiative or creativity, expectations toward work and its value to the organization in general"; as a result, to attract, retain, adapt and evaluate human resources.

In particular, difficulties arise on what are "best-practices" that can guarantee superior organizational performance. Huselid (1995) adopted the designation of "high performance work practices" (HPWP) because these practices' goal is to obtain higher level of performance through workers involvement and commitment. The HPWP are recruitment, selection and training procedures, formal information sharing, attitude assessment, job design, performance appraisal and incentive compensation systems. A set of HPWP is designed to recognize and reinforce desired employee behaviors specifically performance appraisals, employee compensation and promotion decisions; and core competencies among employees are developed through selection, training and the design of work. Results indicate that these practices "have an economically and statistically significant impact on

both intermediate employee outcomes (turnover and productivity) and short- and long-term measures of corporate financial performance" (Huselid, 1995, p. 635).

Sharing with Lilly, Gray and Virick (2005, p. 57) the definition of HRO as "[…] the action of allowing external vendors to perform an entire HR activity […] for an organization", the challenges in creation or development of outsourcing partnerships in HRM are numerous. Lawler and Mohrman (2003) noted the most common problems associated with this option, which are: poor quality of services, higher costs than expected, vendors´ insufficient knowledge about the customer, the difficulty of changing the partner service and lack of skills to manage the relationship. Roberts (2001) also mentions the customer´s fear of losing control of the tasks, the dependency of the buyer toward the seller and the issues related with the sharing of sensitive and confidential information. Also some HR practices have unique features that require specific investments (e.g., financial and technological resources) being not so interesting to outsource.

At bottom, the debate of what should stay in-house and what should be outsourced will always be based on a company's decision, given specific circumstances. As an example, a study involving 276 companies and focus on recruitment and selection practices (Ordanini & Silvestri, 2008), suggest that decisions of outsourcing administrative activities are more guided by criteria of efficiency, while the competitiveness factors in these practices matters more when the organizations are dealing with more strategic activities. If we look at the wide range of HR practices, the choice of outsourcing could be determined by efficiency factors and/or the decision to focus on core HR activities of competitive advantage (e.g., payroll and management of benefits), but also by access to knowledge and technicality in transactional processes (e.g., the performance evaluation system). The complexity involved in some practices (e.g., recruitment, training or performance evaluation) introduces the strategic role of the outsourcer in HRM and also points out to the companies' risk exposure.

Trust, Risk and Control

The approaches of some authors (Luhmann, 1996; Giddens, 1991) are worth noting for the advance of the theory, defining the attributes of risk, uncertainty and interdependence as inseparable from the concept of trust.

Trust produces risk, an exposure to a certain degree of risk, and that risk perception is subject to internal and external factors. The control acts to reduce uncertainty so that the perception of risk in these relationships is reduced. No contexts seem to proper a total elimination of control in favor of the unique dynamics of trust, so the central idea is that control and trust are intrinsically linked to the risk in strategic alliances, which presuppose each other and interacting interdependently.

Mollering (2005), for example, argues that trust and control naturally assume the existence of each other, refer to each other and build up one another, through a dynamic

and mutual respect, and in order to manage risk. Das and Teng (2001) also support the idea that there is a relationship between reliability and control, and that these two sources are complementary in generating trust, since the control mechanisms impact the reliability level, and the latter, in turn, moderates the effect of the control mechanisms.

Zucker (1986) identifies the contract as the rational basis of inter-organizational trust. In a context of trust, negotiation of a contract can be seen as a process in which parties obtain knowledge about the skills and intentions (Woolthuis, Nootboom, & Hillebrand, 2002), so the development of trust and contracts' details are themes that go side by side, and can, in fact, generate value in relationships.

A new focus on the discussion of the relationship between trust and contracts was given by Mellewigt, Madhok and Weibel (2007) highlighting the dual role of contracts: control and coordination. Supporting the moderator role of trust, they advocate that high levels of trust weaken the positive relationship between concerns and control, but reinforce the positive relationship with coordination concerns, acting as a substitute (in relation to control concerns) as well as a complement (when it comes to coordination issues); "(...) an increase in extent of contracting may be viewed as controlling under low trust whereas under high trust it may be viewed as enabling coordination" (Mellewigt, Madhok & Weibel, p. 842).

From Bachmann´s (2011, p. 206) point of view "institutional-based trust, i.e., trust that constitutively builds on institutional arrangements, deserves a lot more attention that is currently granted by large parts of trust literature", as it is an important form of trust, intrinsically linked to the macro-level arrangements of the business processes in which it occurs.

Methods

Participants

The informants (*N* = 175, 104 females and 71 males) were representatives of customer´s organizations who have experience at least one outsourcing relationship. The data are derived from 175 organizations (Table 1 shows descriptive statistics of the sample) and to obtain independence of measures, we asked each informant to report data concerning a single type of service and a single provider.

Table 1. Descriptive statistics of the sample and type of service outsourced (*N*=175).

Age	*M* = 15.51; *SD* = 9.89
Gender	59.4% *Females* (*N* = 104) 40.6% *Males* (*N* = 71)
Education	66.9% – Graduate (*N* = 117) 22.3% – Master or Doctorate (*N* = 39) 10.8% – Bachelor, Post-Graduate/MBA or Secondary (*N* = 19)
Length of time working	*M* = 15.51; *SD* = 9.89
Working industry	30.9% – Commerce sector (*N* = 54) 18.9% – Industry (*N* = 33) 15.4% – Services (*N* = 27) 8.6% – New technologies (*N* = 15) 5.7% – Transport business (*N* = 10) 2.9% – Tourism (*N* = 5) 4.0% – Construction (*N* = 7) 2.3% – Financial activities (*N* = 4) 11.4% – Other sectors (*N* = 20)
Industry's dimension	45.7% – 11 to 250 workers (*N* = 80) 42.3% – more than 250 workers (*N* = 74) 12.0% – less than 11 workers (*N* = 21)
Type of service outsourced	36.0% – Recruitment and selection (*N* = 63) 19.4% – Medical services, hygiene and safety (*N* = 34) 19.4% – Training activities (*N* = 34) 7.4% – Administrative management (*N* = 13) 6.3% – IT implementation or development (*N* = 11) 4.6% – Legal advisement (*N* = 8) 2.3% – Job description (*N* = 4) 1.7% – Performance assessment and career management (*N* = 3) 2.9% – Other type of services (*N* = 5)

Instrument

The survey that supports our data analysis was developed based on literature review and a prior exploratory study, in which we interviewed providers and customers of HR services to gain a better understanding of the issues arising in outsourcing relations. Regarding this exploratory study, Table 2 shows data and description of the main conclusions of the outsourcing relations survey (Henriques, Keating, Veloso, & Costa, submitted).

Table 2. Data from internal consistency, description of the factors and items of the outsourcing relations survey.

	Description	Items
Contractual Performance (α = .97)	Formal or informal aspects of the relationship, specifically related to the righteousness in the negotiations and shared information, form of treatment and fairness price, performance of the contract, deadlines, tasks and promises, align with the objectives, business and client's culture.	This supplier has always been correct in its negotiations with us; This supplier meet the agreed deadlines; This supplier is committed with our goals; Our company feel that the information that this supplier shares is reliable; This supplier is very capable of caring out the specific tasks contracted; Based on past experience, we can rely on this supplier to keep promises made to us; My perception is that the price is fair; My contact person has always been fair in negotiations with me; This supplier does what the contract (formal or informal) says it will do; I am happy with how the supplier's salesperson dealt with us; This supplier understand our business; Our company believe that the information they received from the supplier is correct; This supplier understand our culture. (Total of 13 items)
Communication (α = .91)	Frequency and timing of contacts; reaction pattern of the contact person.	Our company and this supplier communicate frequently; I know how my contact person is going to act; Our company and this supplier talk to each other often; Our firm and this supplier exchange information in a timely manner. (Total of 4 items)
Adjustment (α = .92)	Detection, alert, problem resolution and feedback; the ability to modify agreements and adapt to unforeseen circumstances and market reputation.	This supplier customized the actions to suit the requirements; This supplier detects and try to resolve possible problems that may occur; This supplier has developed feedback procedures and on-going routines; This supplier has alerted your firm as soon as they detected possible problems; It is expected that this supplier will be open to modifying their agreements of unexpected events occur; This supplier has a good reputation in the market. (Total of 6 items)

Procedures

Several statistical analyses were performed to study the outsourcing relations through the survey: principal components analysis, internal consistency, multiple linear regression, ANOVA and MANOVA. The statistical software used for analyzes was the Statistical Package for the Social Sciences (SPSS).

Results

Principal components analysis and internal consistency analysis

Principal components analysis with an oblimin rotation method was conducted to reduce the 35 survey initial items and study the construct validity. The final solution, with 23 items, explains 76.32% of the total variance. Factorial solutions that explain 60% of the variance of the data is considered very satisfactory (cf. Hair, Anderson, Tatham, & Black, 2006). The percentage of variance explained by factor one – "contractual performance" (13 items) – is 67.39%, 5.08% for the second factor – "communication" (4 items) – and 3.85% for the third factor – "adjustment" (6 items).

The internal consistency analysis (Table 2) shows that all factors have Cronbach alpha values considered very good ("contractual performance", α = .97; "communication", α = .91; "adjustment", α = .92), all items show good correlation with the total (r > .30) and a multiple correlation exceeding .15 (cf. Hair et al., 2006). It also appears that the Cronbach's alpha of factors not significantly raise if items are deleted. Table 2 also shows the description of each factor and items.

Multiple linear regression analysis

In order to identify which combination of variables best explains inter-organizational trust, we performed a multiple linear regression analysis, with simultaneous insertion of factors to arrive a predictive model of the dependent variable "inter-organizational trust" from sub-scales "contractual performance", "communication" and "adjustment". The dependent variable is an overall assessment of the provider´s trust over the supplier – "This supplier is trustworthy".

The enter method was used to predict "inter-organizational trust" as a function of the independent variables of "contractual performance", "communication" and "adjustment". The diagnosis of multicollinearity was performed using the VIF values (variance inflaction factor) and it was found that no variable was colinear with the other (VIF < 5). Based on Durbin-Watson to assess homogeneity of the waste (DW = 2.040), it was verified that are homogeneous. Multiple linear regression identified factors of "contractual performance" (β = 0.632, t = 7.605, p = .000) and "adjustment" (β = 0.229, t = 2.909, p = .004) as significant

predictors of trust. The "communication" factor is not significant (β = 0.040, *t* = 0.658, *p* = .512). This model is highly significant and explains a large proportion of the variability of trust (*F* = 180.849, *p* <.001, R^2 = .760) (Table 3).

Table 3. Data from multiple linear regression (enter method).

	R^2	R^2 Change	*F*	β	*t*	*p*
Model	.760	.760	180.847			< .001
Contractual performance				.632	7.605	< .001
Communication				.040	.658	.512
Adjustment				.229	2.909	< .01

Differences between groups

Aiding on Huselid´s work (1995), two major different types of HR service were adopted: Group 1 (*n* = 104) was selected and measured by data of participants who outsourced HR high performance work practices (HPWP), which include recruitment; selection; functions´ descriptive and qualification (design of work); training and performance evaluation practices; and Group 2 (*n* = 65) was selected and measured by data of participants who outsourced HR practices supporting human resource management, from now on called "maintenance practices", which included administrative management; medicine, health and safety at work; computer systems' implementation and legal advice.

The ANOVA performed to identify potential differences in trust in companies that offer different types of services proved marginally significant *F* (1,169) = 3.385, *p* = .068).

The MANOVA performed to identify potential differences in trust in companies that offer different types of services was significant with medium-sized effect (Pillai Trace = .949, *F* (1,170) = 2.958, *p* = .034, η_p^2 = 0.051). M-Box Test (*M* = 15.385; *F*(2,175) = 2.511; *p* = .020). The univariate tests show significant differences at a small effect on "contractual performance" (*F* = 5.887, *p* = .016, η_p^2 = 0.034), marginally significant with medium effect on "adjustment" (*F* = 3.830, *p* = .052, η_p^2 = 0.022) and not significant in terms of "communication" (*F* = 0.404, *p* = .526, η_p^2 = 0.002).

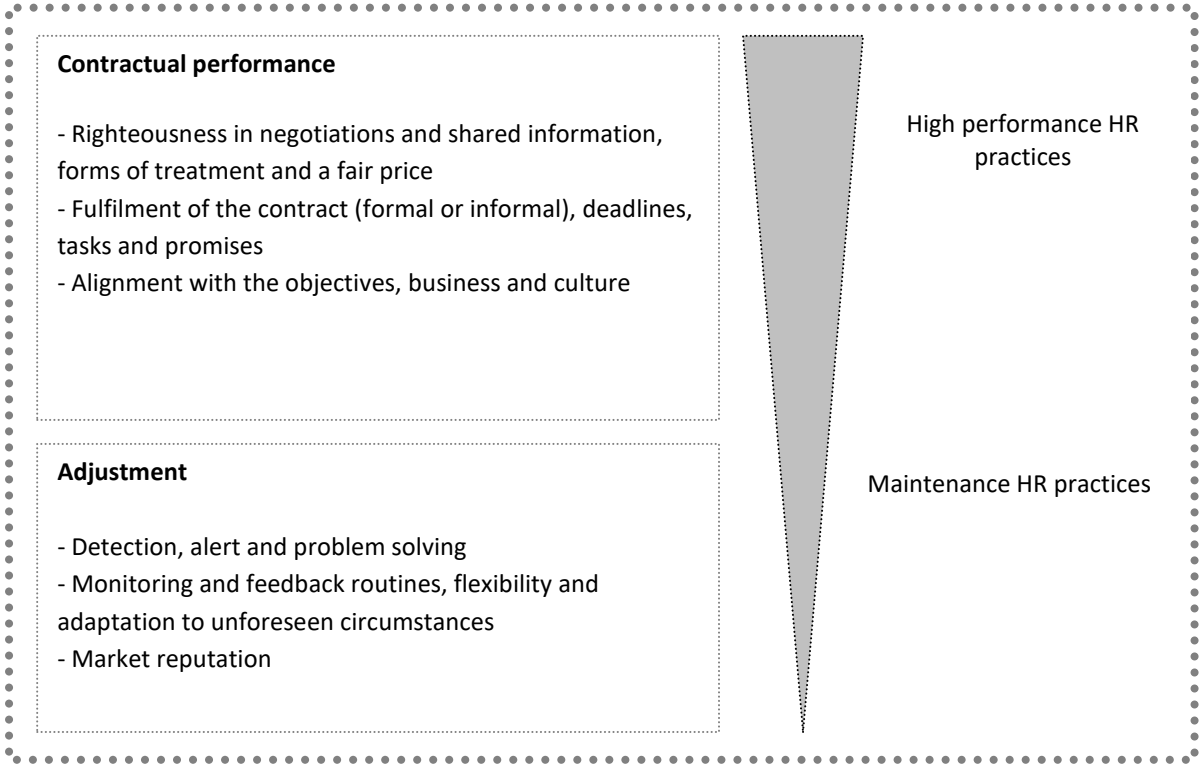
It appears that companies that hire a Group 2 service type – "maintenance practices" have lower ratings on the dimensions of the "contractual performance" (*M* = 5.17, *SD* = 1.17) and "adjustment" (*M* = 4.96, *SD* = 1.25), compared with companies who hire a Group 1 service type – "high performance work practices" (*M* = 5.57, *SD* = 0.96 on "contractual performance" and *M* = 5.31, *SD* = 1.06 on "adjustment").

In summary, the data from the regression analysis allows prediction of the measure "inter-organizational trust" based on the dimensions "contractual performance" and "adjustment" is proper. The differences between groups also add that "type of service" is a significant variable for our analysis, with "high performance work practices" expressed in higher-levels of trust.

Discussion

Our findings indicate that supplier´s trust in outsourcing relationships is determinant by both "contractual performance" and "adjustment" processes. Thus, our findings offer support to the contingence perspective, with differences in trust levels depending on the type of service. Figure 1 is a graphical representation of our findings.

Figure 1. Schematic drawing of the predictors of trust in outsourcing relationships in HRM.



Our results revealed interesting because trust seems to be an alternative to formal contracts. What our research suggests is that the existing of formal and contractual issues, and the possibility of their enforcement, is a fundamental factor in HRO trust relationship, as control being a form of generating trust. Companies absolutely should have a high level of trust that their outsourcing partner can deliver the services promised, performing what is defined in the contract (formal or informal, writing or verbal) in terms of deadlines, tasks and promises. We are referring to provider´s capability of understanding and fulfilling the

client´s needs. Therefore, service level agreements and performance metrics are good suggestions in place to manage and evaluate the relationship.

The use of control mechanisms seems to be central and part of the complex and dynamic process of trust in outsourcing partnerships, but additional characteristics need to be managed in parallel. In HRO relationships that are most often long-term relationships than traditional deals and contextual-dependent, the buyers also need to ensure there is "adjustment". They need to "build" a strong "share solution" to ensure the relationship is properly managed, as HR clients look for differentiated behaviours from there providers. Our data support the idea they want to partner with a company that is committed with problem solving, feedback routines, flexibility and adaptation to unforeseen circumstances.

Moreover, they are looking for a committed provider with a history of success in their field. Expertise and technical knowledge in HR would be keys differentiators. Naturally, companies want to partner with service providers who have a significant track record of helping clients achieve their goals, with a fair price.

HRO has beyond the bounds of traditional contracts, to include continuous improvement and commitments. Rather than offer you a menu of fixed services, HRO processes includes assessing HR capabilities, determine how both partners can combine solutions, what strategies and flexibility actions are need to pursuit business goals at all time.

Further, the second more promising finding of our research is that trust levels are dependent of the type of HR practice outsourced, with "high performance work practices" (HPWP) demanding a more higher value for both "contractual performance" and "adjustment" factors.

High performance work practices demands a more strategic and holistic view, looking beyond multiple and complex processes, less predictable in terms of results and more uncontrollable in terms of coordination. They are expected to achieve higher impact, as such, risk increases, and could cost whether personal damages (to the person who hired the service and have to report that hierarchically) both company´s reputation with its employees. In order to manage that risk, the one that contract the service must clarify roles and deadlines, identify skills required, demand aligning and adjustment, in order to maximize value and "allowing the trustor to actually make a "leap of faith" (Mollering, 2005) and invest trust in a relationship" (Bachmann, 2011, p. 209).

Our research provides insight into factors that affect trust in HRO. However it leaves unanswered the question of how factors are processed during early and late stages of the relationship and whether the factors that develop trust are the same as those that maintain it in later stages. Future research using longitudinal design could address these interesting questions and give a more comprehensive theory about the phenomenon.

Furthermore, the perspective of outsourcing HR provider´s is an issue that would be interesting to explore. The nature of trust and how can be development on an enterprise could be dependent of "the side of the business", and that may give us information if providers and customers' views are similar.

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Determinantes da confiança nas relações em *outsourcing* na gestão de recursos humanos

Resumo

O objetivo deste estudo é o de especificar e testar fatores que predizem a confiança em relações de outsourcing na área da gestão de recursos humanos. O estudo identifica 6 questões principais que contribuem para a confiança inter-organizacional neste contexto de relação: (1) a precisão nas negociações e na informação partilhada, formas de tratamento e justiça de preço (2) o cumprimento do contrato, prazos, tarefas e promessas (3) o alinhamento com os objetivos, negócio e cultura do cliente (4) a identificação e resolução de problemas (5) o acompanhamento, flexibilidade e adaptação a circunstâncias imprevistas e (6) a reputação do parceiro. A pesquisa também analisa um variável contingencial – o tipo de serviço – com efeitos ao nível da análise da confiança. Os principais resultados deste estudo indicam que os fornecedores de serviços na área dos recursos humanos devem estar atentos quer ao nível de desempenho contratual, quer ao nível das questões de ajustamento. Além disso, que o tipo de serviço nesta área é suscetível de desempenhar um papel de contingência na relação inter-organizacional, com níveis mais altos de confiança a existirem em parcerias envolvendo práticas de recursos humanos mais impactantes ao desempenho organizacional.

Palavras-chave

Relações inter-organizacional, confiança inter-organizacional, gestão de recursos humanos, *outsourcing* de recursos humanos, serviços de recursos humanos.

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