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A contingency framework for the delivery of HR practices

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Abstract

Existing arguments suggest that Human Resource (HR) departments should deliver in-house the HR practices that are core to their competitiveness and outsource those HR practices that are peripheral to their primary objectives. While intuitively appealing, researchers and practitioners have been slow to define exactly which HR practices are core and/or peripheral. In this paper we explore factors that influence this distinction. Specifically, we discuss how a firm's strategic orientation and the HR function's primary orientation influence the relative importance of HR practices to a firm's competitiveness. We then discuss operational factors that influence the feasibility as well as likelihood that different delivery options (e.g, in-house versus external) will be utilized by HR departments. We focus on factors pertaining to the availability of different options, HR activity related factors, the role of integrated access to information technology, and the external environment in this analysis. We then discuss theoretical and practical implications of using different delivery options within HR.

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While organizations as a whole are increasingly experimenting with organizational structures that place a greater reliance on external arrangements (Ashkenas, Ulrich, Jick, & Kerr, 1995; Dess, Rasheed,

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McLaughlin, & Priem, 1995; Gilley & Rasheed, 2000), a similar transformation is occurring within human resource (HR) departments (Greer, Youngblood, & Gray, 1999; Wright, McMahan, Gerhart, & Snell, 1997). Even though HR departments have historically been bureaucratic functions within organizations, HR managers are pursuing more flexible and creative means to deliver their services in constantly changing internal and external environments. One of the primary means to allow for flexibility and efficiency is to outsource various HR practices (Brenner, 1996; Cook, 1999; HR Focus, 2000; Maurer & Mobley, 1998; Stewart, 1996).

A primary reason for this transformation is that HR departments are being called upon to play a much more strategic role in organizations (Ulrich, 1996; Beatty & Schneirer, 1997). No longer can HR professionals simply focus on monitoring and updating policies and procedures or perform hiring, selecting, training, compensation in isolation. Rather, they are increasingly expected to simultaneously become much more flexible, responsive, efficient, and, ultimately, make a strategic contribution to their company. In response, many HR managers are turning toward outsourcing as an aid in meeting these objectives (Lepak & Snell, 1998).

Although there have been recent discussions on the potential effects of outsourcing various HR practices (Klaas, 2003), little is known regarding which facets of HR departments should be retained internally or outsourced. The typical argument is that firms should outsource peripheral practices and internally perform those practices that are central to their competitiveness (cf. McMorrow, 1999; Quinn, 1992). By outsourcing the delivery of peripheral practices, firms may be able to focus on core practices that help differentiate them from the competition (Gilley & Rasheed, 2000). Outsourcing may also be a cost-effective option that allows firms to gain access to knowledge, skills, and abilities needed for low value-added practices or practices needed infrequently (Lepak & Snell, 1998). Based on this logic, outsourcing and other forms of external arrangements are often seen as a valuable option in delivering HR practices.

Researchers and practitioners, however, have been slow to define exactly which HR practices are core and/or peripheral to a firm. Perhaps part of the reason for this is that what constitutes core varies across firms. As firms differ in how they operate and compete, there are likely to be substantial firm-specific contingencies that influence the criticality of certain HR practices. For example, firms in stable industries (e.g., manufacturing or trucking) or those pursuing a low cost orientation might garner less value from extensive investments in HR practices focusing on organizational change initiatives than firms pursuing a strategy emphasizing innovation or creativity (e.g. Pharmaceutical or Software companies). While this is only one example, it highlights the notion that a firm's decision to internalize or externalize HR practices is likely to be at least partially driven by factors such as a firm's strategic orientation (Miles & Snow, 1984).

A related problem is that that there is little consensus regarding any dominant delivery approach for HR practices, that is, how an HR practice or system is actually implemented and used. In some circumstances an HR practice might be best deployed by the HR function, while in another scenario the same HR practice might be best offered via an external vendor. Which approach is most likely to be used and what determines a firm's choice of one delivery option or another? While researchers and practitioners are fairly clear on the delivery options available to perform HR practices, little is really known regarding the underlying logic as to why firms rely on a particular form of delivery.

The purpose of this paper is to address these issues by developing a contingency framework of how HR departments are likely to structure the delivery of their HR practices. Building on current theory and research, we provide a comprehensive review of different types of delivery options as well as

categorizations of HR practices. We then draw from transaction cost economics (Williamson, 1975), the resource-based view of the firm (Barney, 1991; Wernerfelt, 1984), the organizational design literature (Lawrence & Lorsch, 1967), the strategic human resource management literature (Schuler, 1992; Wright & McMahan, 1992), and the strategic management literature (Miles & Snow, 1978) to explore two sets of moderating variables. First, we examine factors that are likely to influence the potential strategic contribution of HR practices, which, in turn, influence the likelihood that HR departments will pursue external or internal delivery options. Second, we examine contextual factors – factors related to the availability of delivery options, HR practice related factors, information technology (IT) related factors, and the nature of the competitive environment – that are all likely to influence the operational feasibility of using different delivery options. Finally, we discuss theoretical and practical implications and offer directions for future research.

1. Theoretical background

1.1. Delivery options

While much of the research on this topic focuses on the general notion of outsourcing, it is important to recognize that outsourcing is one of several dominant options that falls under the broader domain of delivery options. Lepak and Snell (1998) suggested that firms essentially have three modes of delivery for their HR practices. First, HR departments may retain and perform these services internally. This represents the most traditional delivery of HR practices with the HR department maintaining responsibility for the design and delivery of HR practices and policies to relevant constituencies within the firm.

Second, HR departments may rely on two different types of external vendors to deliver HR practices. Outsourcing relationships span on a continuum ranging from strict contractual arrangements to ongoing partnerships. On one hand, a *contractual arrangement* refers to relying on an external party to perform some task or activity. The specifications involved in these arrangements often involve well-defined standardized applications of the contractor's specialty over a limited time period. On the other hand, a *partnership* refers to arrangements in which an external provider often assumes responsibility for a particular domain of operating for a long period of time. This type of arrangement often involves some customization of services by the external party, which means that the vendor and the internal HR function typically work in a partnership to meet the demands of a focal firm. Thus, while partnerships are related to contractual arrangements in that both are external, partnerships typically involve a longer time frame and a greater degree of customization in the application of the partner's skills/abilities. For example, a firm may contract with a consulting firm to deliver a specific training program for a limited period, but establish a long-term partnership with an external provider, such as ADP, to handle ongoing payroll practices.

1.2. Categorization of HR practices

While researchers offer fairly similar delineations of the delivery options available to perform HR practices, there is less agreement regarding the most appropriate aggregation or categorization of HR practices. One of the reasons is the extremely large number of HR practices that firms must consider,

each of which is associated with many, albeit subtle, variations. This problem is compounded when we recognize that the same HR practice can be used for vastly different purposes. For instance, in a review of the field of strategic human resource management, Becker and Gerhart (1996) noted that researchers vary significantly in the HR practices used to depict different HR systems. They pointed out:

> "For example, Arthur's (1994) high performance employment system, which he termed a "commitment" system, specifies a low emphasis on variable pay, whereas the high performance employment systems defined by Huselid (1995) and MacDuffie (1995) have strong emphases on variable pay." (p. 784)

Becker and Gerhart (1996) also observed that internal promotions and access to employee grievance procedures are deemed high-performance work practices by Huselid (1995) and Pfeffer (1994), while the same HR practices are considered elements of more rigid control-oriented HR systems by Arthur (1994) and Ichniowski, Shaw, and Prennushi, (1997).

As these problems indicate, attempting to develop a comprehensive model that accounts for all possible variations in HR practices is a daunting task. However, these problems may be alleviated if we move up to a higher-level of aggregation and focus on categories of HR practices, rather than specific HR practices. This approach makes logical sense when we recognize that HR practices are rarely, if ever, used in isolation. Rather, HR practices are typically used in combination with other HR practices as a system to achieve some objective (Delery & Doty, 1996; Huselid, 1995; Lepak & Snell, 1999; Youndt, Snell, Dean, & Lepak, 1996). In this light, it may be more appropriate to look at the overall nature of groups or bundles of HR practices that are used in concert to accomplish some activity (cf. Becker & Gerhart, 1996). In other words, focusing on the purpose of an HR practice, rather than the practice per se, may provide a useful perspective for understanding the delivery of HR practices.

Several researchers have attempted to create such categories. For instance, Snell, Pedigo, and Krawiec (1995) outlined three domains of HR that may be affected by the integration of information technologies into firms – operational, relational, and transformational. According to their logic, operational HR practices tend to be administrative in nature and comprise most of the day-to-day practices of HR. Relational HR practices help connect remote workers to one another and improve the delivery of HR services to workers throughout the firm. Finally, HR practices are transformational when they help organizations change the way they do business.

Huselid, Jackson, and Schuler (1997) suggested that HR practices are either strategic or technical in nature. Strategic HR practices are used to develop employees to support the firm's business needs while technical HR practices are more focused on traditional personnel management practices (e.g., recruitment, selection, training). The difference between technical and strategic practices essentially rests with how it is used. That is, if technical HR practices are used to accomplish organizational objectives such as enhancing quality or developing leadership skills, they may be deemed strategic.

Lepak and Snell (1998) suggested that HR practices could be categorized as core, traditional, peripheral, or idiosyncratic. Core practices are those that are not widely available in industry and whose use is instrumental for achieving strategic benefits for a company. Similar to core practices, traditional HR practices are important for a firm's success. However, these traditional practices do not help differentiate the firm from the competition. Peripheral HR practices are those that are fairly generic and contribute little, if anything, to firm competitiveness. Finally, idiosyncratic HR practices are those that are unique to the firm but do not directly add value. As noted by Lepak and Snell (1998: 225), "most firms have established ongoing relationships with consulting firms (e.g., Andersen Consulting, Deloitte

and Touche) and university-based research centers (e.g., Cornell's Center for Advanced Human Resource Studies, USC's Center for Effective Organizations). Partnerships may provide a structural alternative that meets the firm's unique requirements without drawing resources away from other, more directly valuable functions."

Carrig (1997) and Wright et al. (1997) suggest that HR practices may be viewed as transactional, traditional, or transformational. As noted by Wright and colleagues (1997) transactional practices are those most directly related to the administrative component of HR. Along similar lines, in a discussion of the HR system at Continental Airlines, Carrig (1997) suggested that practices such as benefits administration, record keeping, and employee services would fall into this category.

Compared to transactional practices, traditional HR practices are used to manage workers and the work context and tend to be more administrative and serve a supportive role in the operating infrastructure. Mainstream HR practices such as recruitment, selection, training, performance appraisals, compensation, and the like are all practices that tend to explicitly focus on acquiring, supporting, guiding, and rewarding the actions of workers. A study conducted by Wright et al. (1997) found that one of the major components of HR practices represents the "traditional HR service organization such as the compensation function, staffing, training, development, communications, and labor relations" (p. 44). Similarly, Carrig (1997) conceptualized traditional HR practices as policy-related practices, such as performance appraisal, training, and compensation.

Finally, transformational HR practices are oriented toward contributing toward more macro or strategic organizational objectives. As noted by Wright et al. (1997), HR practices, such as serving as change consultants for line managers, acting as strategic partners, and insuring that HR practices meet the firm's strategic needs, tend to be more transformational in nature. Carrig (1997) also noted that transformational HR practices at Continental Airlines are those practices that focus on helping achieve firm-wide objectives, such as participating in strategic planning, organizational development, and knowledge management. Fig. 1 presents a visual depiction of the continuum of HR practices discussed by Carrig (1997). While this categorization is applied to the HR practices at Continental Airlines, it offers a useful example of how one company differentiates among broad categories of HR practices.

Viewed in combination, we posit that the arguments of these authors converge on a continuum of HR practices that ranges from being transactional to transformational in nature. On the one hand, HR practices may be transactional and focus on administrative purposes such as record keeping and sustaining the human capital infrastructure. On the other hand, HR practices may be used to support strategic or organizational wide initiatives. Although we mentioned this briefly above, it is worth stressing once more that a key point of this categorization is the manner by which HR practices are used determines whether they are transformational or transactional, rather than the practice itself. For instance,

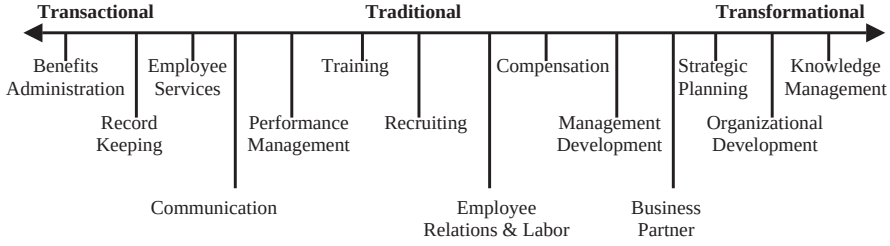

Fig. 1. Categorization of HR Activities (adapted from Carrig (1997)).

while many organizations would likely view benefits administration as a transactional activity, it is possible that this may be used as part of a transformational activity such as a strategic initiative for organizational change. Though certain HR practices may tend to be transactional or transformational in nature, there is likely to be some fluidity to the specific HR practices that fall within each of these categorizations for each firm.

2. Choice of delivery mode

Having identified the primary delivery options for HR practices and delineated the continuum of HR practices, we now turn to the choices that firms make regarding the actual delivery mode (i.e., outsource or internal delivery) for these practices. Much of this discussion rests on the notion of core and peripheral practices. Researchers such as Quinn (1992) and Hamel and Prahalad (1994) have suggested that firms outsource organizational practices that are only peripheral to supporting the firm's competitive efforts. The underlying rationale is that the bulk of organizational efforts should emphasize the development and maintenance of those assets (resources, processes, practices, etc.) that are core to the firm and directly contribute to achieving a competitive advantage (Quinn & Hilmer, 1994).

At a general level, a parallel exists between the transactional–transformational HR activity continuum and core-peripheral continuum. On one end of the spectrum, transactional practices are often fairly standardized and often represent the most routine areas of HR practices. According to the resource-based view of the firm (Barney, 1991) and transaction cost economics (Williamson, 1975), the standard nature of these practices (i.e., low uniqueness, low rareness, high imitability) limits their ability to serve as a core differentiating activity for a firm. As these practices tend to focus on the more mundane supporting aspects of HR, they are often of limited strategic value. In addition, as the supply of qualified external service vendors that are able to provide these services increases, there are multiple sources that can perform these practices efficiently at a lower cost with little, if any, customization to a particular firm. Considering the limited value, low uniqueness, and widespread availability of external sources to perform transactional practices, there is little incentive for firms to retain the deployment of these practices in-house. Consequently, we anticipate a greater reliance on outsourcing for transactional practices.

By contributing to a firm's competitive strategy or facilitating major organizational change initiatives, transformational HR practices are those that have the most potential to prove valuable to the firm. As these initiatives often involve addressing idiosyncratic firm needs such as cultural transformation and strategic alignment for which there is often no standardized procedure, it is not as likely that there exists a large supply of external providers that can step in and provide these services. Considering the high value potential and greater uniqueness of transformational practices, as HR practices become more transformational in nature, firms are generally more likely to retain the delivery of these practices internally. This is not to say that no external options exist for these transformational practices. Rather, the nature of these HR practices may make complete transfer of control to external parties prohibitively expensive and/or involve considerable risk or loss in quality. In addition, outsourcing these practices may prevent firms from capitalizing on their potential value-creating capabilities.

These arguments are consistent with the findings of Mohrman, Lawler, and McMahan (1995). In an empirical study, they found a significant decrease in the time allocated by HR professionals to transactional practices such as maintaining records and auditing/controlling. At the same time,

respondents in their study indicated a significant increase in the time allocated to more transformational practices such as the development of HR systems and practices as well as serving as a strategic business partner. These results support the notion that HR practices that are more transformational in nature are commanding more time from HR professionals, while those that are more transactional are commanding less time. Building on these points, we anticipate that as HR practices move along the continuum and become more transactional, firms are more likely to turn to external sources to perform these tasks. In contrast, we anticipate that as HR practices become more transformational in nature firms are more likely to retain their delivery internally.

Proposition 1. As HR practices become more transactional, HR functions will rely on outsourcing arrangements for their delivery. As HR practices become more transformational, HR functions will retain their delivery internally.

While we expect that there will be a direct relationship between the type of HR practice performed and the choice for its delivery, it is important to recognize that there likely exists contingency factors that influence the choice that firms make regarding the delivery of these practices. For example, Klaas et al. (1999) found that organizational-level factors influenced the relationship between reliance on HR outsourcing and the perceived benefits of outsourcing HR practices. Specifically, they found that reliance on idiosyncratic HR practices, uncertainty, firm size, and cost pressures influenced the perceived benefits of outsourcing by HR managers. In a follow up investigation, Klaas, McClendon, and Gainey (2001) found that HR outsourcing was associated with idiosyncratic HR practices, high involvement by HR in strategic planning, positive HR outcomes, promotional opportunities, pay level, and environmental uncertainty.

Extending this work, we draw from transaction cost economics (Williamson, 1975), the resource-based view of the firm (Barney, 1991), the organizational design literature (Lawrence & Lorsch, 1967), strategic management (Miles & Snow, 1978) and strategic human resource management (Schuler, 1992; Wright & McMahan, 1992) to develop a conceptual model of the contextual factors that are likely to influence how firms structure their delivery of HR practices. Specifically, the relationship between HR practices and delivery decisions is likely to be influenced by two different types of moderating factors – strategic moderators and operational moderators. These two sets of moderating variables exert unique pressures on the HR-delivery relationship. Fig. 2 represents the contingency model that is discussed below.

2.1. Strategic moderators

As noted above, the degree to which HR practices are core or peripheral to a firm will likely influence whether HR practices are outsourced or performed internally. The question, then, is what determines which practices are core or important to a firm's success? Several factors are likely to influence the relative importance or value of HR practices and thus, the incentive to search for outsourcing options or to retain delivery of HR practices internally. Specifically, we focus on a firm's strategic orientation and the HR function's dominant orientation.

A firm's decision to internalize or externalize specific HR practices (i.e., transactional or transformational) is likely to be influenced by the firm's strategic orientation (cf. Delery & Doty, 1996; Lepak & Snell, 1998). As noted by Miles, Snow, Meyer, and Coleman (1978), each strategic type of firm "has a particular configuration of technology, structure, and process that is consistent with its

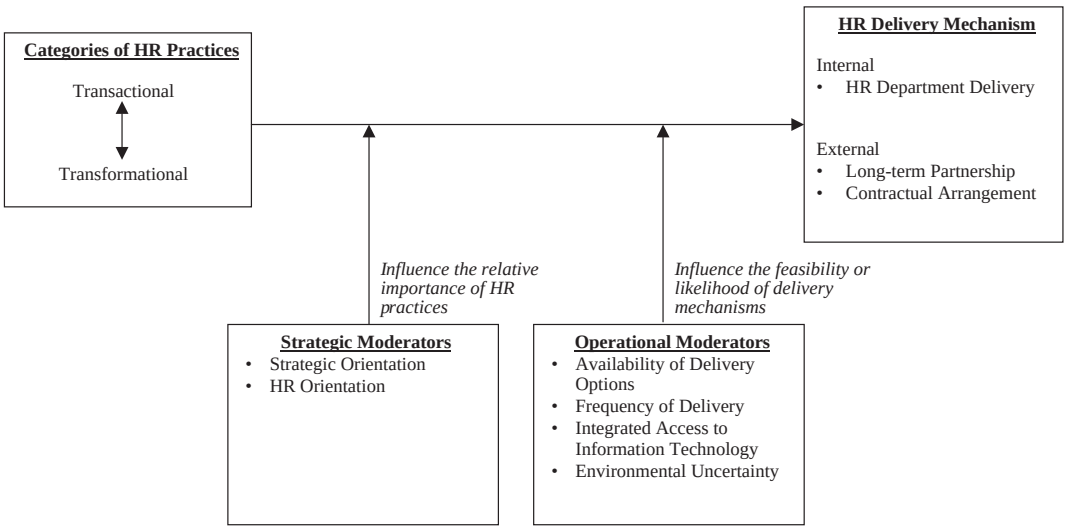

Fig. 2. A Contingency Framework for the Delivery of HR Practices.

market strategy" (p. 11). In other words, firms pursuing different strategic orientations can be viewed as different organizational types, configuring their internal systems to best meet their fundamental objectives.

While there are a number of ways to describe a firm's strategic orientation, many SHRM researchers have drawn upon Miles and Snow's (1978) classification of analyzers, defenders, and prospectors or Porter's (1980) distinction between cost strategies and differentiation strategies. The dominant focus within the strategic HRM literature has been on the influential role of business strategy on the use of HR with an emphasis on cost and innovation. Researchers have paid particular attention to differences between cost and an innovative business strategy as pursuit of these different strategies have implications for how employees add value (Arthur, 1992; Delery & Doty, 1996; Jackson, Schuler, & Rivero, 1989) and as a result, how HR departments may add value through facilitating the strategic contributions of employees. Building on this literature, we focus on cost and innovation strategies as these are clearly different and have different implications for the management of HR and the structural pattern related to the delivery of HR practices.

2.2. Cost-oriented strategy

Firms pursuing a cost-oriented strategy tend to focus their HR function on those practices that help foster increased productivity and efficiency (Miles & Snow, 1978; Schuler, 1992). "By placing great importance on standardizing and coordinating behavior, these organizations essentially create an almost closed human resource system and maximize the efficiency of operations" (Wright & Snell, 1991: 219). As the nature of their competitive objectives influences how these firms approach the HR systems, the method by which these services are rendered are likely to be affected as well.

Given how they compete, HR functions within firms pursuing a cost orientation are likely to focus their efforts on transactional practices. On the one hand, firms adopting an efficiency or low-cost orientation may gain less value from extensive ongoing efforts toward delivering transformational HR

practices, such as continuous organization-wide change initiatives. Since these firms are often fairly stable and rigid in their structure, the primary benefits of transformational practices are likely to be tapped infrequently. As a result, the value generated by having the competencies in-house to perform these practices are likely to be outweighed by the costs required to develop and sustain these competencies. Considering the limited value and low frequency of these transformational practices as well as a firm's limited expertise in these areas, cost-oriented firms may be more likely to utilize contractual arrangements to deliver these services rather than rely on partnerships or internal sources.

On the other hand, as these firms tend to strive for strict control of the organization to ensure efficiency (Miles et al., 1978), it seems logical that the HR function would tend to be heavily involved in performing transactional HR practices. Successful delivery of transactional practices may enable an HR function to directly contribute to a firm's competitiveness by building and maintaining a firm's human capital and the overall efficiency of an organization. To the extent that these firms can perform these practices efficiently, one way the HR function can add value to the firm is to attend to the work context and ensure that their employees are able to contribute efficiently to the firm. In this scenario, internal delivery would be a logical choice.

At the same time, a partnership with external vendors may pose minimum risk while achieving the same result with regard to transactional practices. Considering that cost-oriented firms tend to operate in stable environments (Miles & Snow, 1978), vendors may be more willing to commit to a long-term partnership without facing significant risk that their investment in the relationship with a particular firm would be lost due to a sudden change. In addition, because these providers often focus on a limited set of HR programs and practices, they frequently realize a significant degree of economies of scale. The benefit for firms is that they have access to relevant expertise that may be quite affordable. As a result, external partners may be able to deliver transactional services as efficiently as through internal means.

Proposition 2. HR functions in firms pursuing a cost-oriented strategy will use contractual arrangements as HR practices become more transformational. These HR functions will rely on internal delivery or partnerships as HR practices become more transactional.

Because the strategic orientation of these firms emphasizes maximizing efficiency and reducing fixed costs, the choice between internal delivery and partnership for the delivery of transactional practices may ultimately be driven by which source is able to provide the service most efficiently. For instance, Klaas and colleagues (1999) found that using contractors to perform transactional HR practices as well as development and maintenance oriented HR practices were viewed by HR managers as generating more benefits in firms facing greater cost pressures. They note,

> . . .because outsourcing arrangements often generate immediate savings (albeit with some long-term risk of opportunistic behavior by contractors), cost pressures are likely to increase the degree to which firms will see HR outsourcing as generating benefits. (1999, p. 131).

At the same time, some organizations may realize greater savings performing these practices internally. This may be particularly true in firms that are able to attain economies of scale. For example, particularly large organizations may be able to manage payroll more efficiently than an external provider, such as ADP. Based on these points, we anticipate that within cost-oriented firms the decision to utilize partnerships or internally deliver transactional practices will be based on which source is able to deliver the practices more efficiently.

2.3. Innovative strategy

Compared to cost-oriented firms, firms pursuing an innovative strategy operate in a much different manner (Delery & Doty, 1996; Miles & Snow, 1978; Porter, 1980). Rather than strive for efficiency as their first priority, these firms may be characterized as striving to create change. In the extreme, this may require firms to constantly recreate short run competitive advantages that become obsolete by the introduction of newer products or services (D'Aveni, 1994). Much like Miles and Snow (1978) prospector firms, innovative firms are ". . .frequently the creators of change in their respective industries" (Miles et al., 1978; p. 13) and must possess the internal capability to be flexible and respond to changes. As a result, we would anticipate that the HR function would be configured to facilitate immediate exchange of information and responsiveness throughout the organization.

Given these objectives, it seems logical that firms would tend to outsource their transactional practices. Monitoring day-to-day operations is likely to be of less importance than maximizing flexibility and creativity in innovative firms. The need to ensure the efficient delivery of these practices is less paramount than in cost-oriented firms. This is not to say that costs are not important, but that these organizations may place a greater premium on flexibility than efficiency. Due to the possibility of a significant change in the needs of the firm, there is an inherent risk involved with investing significant resources in the ability to efficiently perform these tasks. And given limited resources, innovative firms may realize greater benefits allocating their HR efforts elsewhere. As a result, rather than assume the brunt of this risk, these firms have an incentive to work with external vendors to provide transactional services.

One of the primary benefits of outsourcing is the flexibility that it affords organizations (Quinn & Hilmer, 1994), an attribute that is of particular importance to innovative firms facing change (Mohrman & Lawler, 1997). As noted above, contractual arrangements may be particularly effective for HR practices that are not needed for a considerable length of time or for a one-time occurrence. For example, a firm may contract with a consulting firm to document and track the benefits provided to outplaced employees or to provide safety training to employees working with new machinery.

As the frequency of HR practices used increases, firms may establish partnerships with long-term providers of transactional services. Indeed, many firms have turned to external providers to assume responsibility for managing benefits, providing employee assistance and wellness programs, and meeting payroll demands (Bartol, Lepak & Gardner, 2000; McMorrow, 1999). For instance, firms may establish ongoing relationships with staffing firms such as Manpower, Kelly Services, or Olsten to have constant access to temporary employees and concentrate their own internal recruiting efforts on those workers more critical to their success. During times of change, firms may call on these external HR specialists to provide their expertise to meet the firm's needs. Doing so allows HR functions to focus on other, more core, HR practices.

Regarding transformational practices, as innovation and change become the norm rather than the exception, the ability to adapt becomes increasingly important. Given innovative firms' strategic needs, the transformational HR practices focusing on wide-scale organizational change and development efforts, rather than transactional HR practices, are those most likely to be valuable to HR departments. As transformational practices are those that are most likely to be of importance for innovative firms, there is an incentive for the HR function to perform these practices in-house. An internal staff is likely to be in a better position to understand the nature of the firm and the requirements that these types of HR practices place on their firm. More to the point, as HR professionals often have the extensive knowledge

of the firm's needs that is critical in assessing how to respond to changes in the workplace, these professionals are likely to prove to be a useful source for performing these practices.

In contrast, external parties may not have the intimate knowledge of the firm to rapidly address facets of the firm's culture or operating environment in the design and/or delivery of HR programs, policies, and practices. Similarly, external providers may not be able to account for any firm specific idiosyncrasies that exist that may be significant to the success (or failure) of transformational efforts. As a result, there is an inherent risk involved with using partnerships and contractors to perform core transformational practices. Based on these arguments, we anticipate that as HR practices become more transformational, innovative firms will rely on internal delivery.

Proposition 3. HR functions in firms pursuing an innovative strategy will use contractual arrangements or partnerships as HR practices become more transactional. These HR functions will rely on internal delivery as HR practices become more transformational.

2.4. HR orientation

In addition to a firm's strategic orientation exerting an influence on the relative important of HR practices, the dominant orientation of the HR function is likely to play an influential role as well. Ulrich (1996) suggested that HR functions might be involved in four possible role orientations within organizations. First, HR functions may focus on a firm's infrastructure. As noted by Ulrich (1996), this is the traditional role of most HR departments and places primary emphasis on the efficient performance of traditional HR practices such as staffing, appraisal, and the like. Second, HR functions may focus on being an employee champion and place a primary emphasis on enhancing employee commitment and competence. Third, HR functions may focus on being a strategic partner. This role requires that HR functions help translate strategic decisions into HR priorities and organizational reality. Finally, HR may assume the role of organizational change agent and serve as a catalyst for ensuring the readiness of the organization for change.

While it is possible that HR functions are engaged in all four roles in their organizations (Ulrich, 1996), we anticipate that there tends to be a dominant role orientation for each HR function. Moreover, we anticipate that the dominant HR orientation will influence the delivery options for HR practices. For example, with an orientation emphasizing contribution to long-term, strategic objectives of a firm, the roles of change agents and strategic partner would likely place greater value on transformational HR practices than transactional practices. In contrast, an orientation geared toward supporting a firm's infrastructure or serving as an employee champion would likely gain greater value from ensuring the efficient delivery of transactional practices. As the orientation of these HR functions tends to be more short-term oriented and focus more on operational rather than strategic efforts, we anticipate that transactional HR practices will be viewed as core to these function's contribution to their firm's success.

Proposition 4. HR functions with role orientations that emphasize serving as a change agent or strategic partner will perform transformational HR practices internally. These firms will outsource transactional HR practices.

Proposition 5. HR functions with role orientations that emphasize managing the firm's infrastructure or serving as an employee champion will perform transactional HR practices internally. These firms will outsource transformational HR practices.

2.5. Operational moderating factors

As noted above, it is important to recognize that there likely exists a host of operational factors that influence the feasibility of alternative delivery options for HR practices. The primary difference between these factors and strategic factors pertains to their impact. Strategic moderators influence the extent to which HR functions have an incentive to pursue internal versus external delivery options due to the potential contribution toward achieving their objectives. Operational moderators influence the extent to which internal or external delivery is a feasible option for HR functions. There are several operational considerations that are likely to influence the viability of a reliance on outsourcing and/or internal delivery. These factors are related to the delivery options availability to HR functions, the frequency that HR practices are expected to be delivered, the degree of integrated information technology access to employees, and the degree of environmental uncertainty facing firms.

2.6. Availability of delivery options

Perhaps the most logical contingency factor to consider in the HR delivery equation is the availability of delivery options to HR functions. If there are no providers or only a few external providers of a needed service, internal delivery is likely to be the only real choice for HR delivery. When no providers exist, there is no option to outsource. In these scenarios, the availability of a variety of vendors would logically influence the feasibility of outsourcing as an option for HR delivery. While admittedly simplistic, firms are more likely to perform HR practices internally as the availability of vendors decreases.

As the supply of external providers increases, firms are increasingly able to consider outsourcing to deliver their HR practices. However, firms are likely to favor contracting over long-term partnerships when only a few external providers exist. As noted by transaction cost economics, when there are only a few external providers available to perform a service there are risks related to small numbers bargaining situations (Williamson, 1975) and the potential opportunistic behavior of an external partner. When there are many suppliers of a service to choose from, organizations are not completely dependent on a particular provider to deliver their HR practices. Should a vendor prove inefficient or ineffective in their role the organization may solicit the same services from another external source. However, this ability to use competition as leverage diminishes when only a limited number of external providers are available. These risks may be particularly acute under long-term partnerships. Williamson (1975) suggests that the potential risk of opportunistic behavior increases under conditions of small numbers bargaining situations or when there are few alternative sources available. Locking into a long-term partnership would likely exacerbate the potential risks of opportunistic behavior under small numbers bargaining conditions. In contrast, a contractual arrangement, with its relatively standardized application and shorter time frame is not susceptible to the same risks. As a result, contractual arrangements may prove more viable under small number situations while long-term partnerships may involve considerably more risk.

Proposition 6. HR functions will deliver HR practices internally as the availability of external providers decreases.

Proposition 7. HR functions will rely on contractual arrangements for the delivery of HR practices with only a few available external suppliers.

2.7. Frequency of HR activity delivery

The importance of frequency as a factor influencing the choice of delivery options for HR practices is grounded in the logic of transaction cost economics. Essentially, when transactions such as rendering a service or performing an activity are only an occasional or one-time occurrence, engaging in contracts with external providers is a viable option for most firms (Williamson, 1993). In fact, this may prove to be the most logical choice for infrequent services. Because performing an activity may require a significant, or at least moderate, degree of initial investment, it may be more cost effective to rely on some external party to absorb this cost when services are infrequent. External providers perform these services on a regular basis across a wide variety of firms and are often able to achieve greater economies of scale, thereby realizing a cost advantage in performing these practices. In addition to costs, these external providers are also likely to have more expertise because they focus more exclusively on the delivery of these particular services.

At the same time, transaction cost economics (Williamson, 1975) would suggest that it makes sense for firms to establish more consistent and long-term mechanisms to oversee the delivery of HR practices as the frequency of delivering HR practices increases. As noted by Klaas et al. (1999), "the need for frequent modification of contract provisions means that market-based governance mechanisms expose each party to the risk of opportunistic behavior by the other (Riordan & Williamson, 1985)" (p. 116). Firms are often better able to monitor and control the actual performance of tasks when they are performed internally. In addition, the costs to develop capabilities, while often quite prohibitive for infrequent transactions, are spread out as frequency increases. This increased frequency enables firms to recover any costs associated with initial investment in developing the capability to perform a particular service. Building on these points, internalization of the delivery of providing HR services makes logical sense for frequently performed practices.

In addition to internalization, however, a long-term partnership may also prove a viable mechanism to overcome the obstacles associated with contracting. While contracting may incur excessive costs and/or risks in frequently occurring transactions, an ongoing partnership may be able to circumvent these issues. Compared with a contractual relationships, partnerships may foster the trust and co-operation necessary to be successful (cf. Granovetter, 1985; Ring & Van de Ven, 1992). When each party wins or loses together should the partnership falter, a certain degree of commitment may evolve that functions as effectively, if not more effectively, than any contractual provision. And with a long-term arrangement, firms may be able to ensure that necessary services can be performed as consistently as if the practices were retained in-house. Thus, we anticipate that firms are more likely to deliver HR practices internally or through partnerships than rely on contractual arrangements as the frequency of delivery increases.

The specific choice of internalization versus partnership for frequently performed HR practices is likely to depend on the nature of the HR practices. We anticipate that firms will rely on internal delivery for frequently performed transformational practices and turn to partnerships for frequently performed transactional practices. As noted above, transactional practices refer to relatively standardized HR practices that support the administrative needs of organizations. Given the nature of these tasks, multiple organizations may require similar, or identical, practices to be performed. Compared to any particular organization, external providers may be able to realize economies of scale in the delivery of specialized services as they perform these services for a wide assortment of organizations (cf. Abraham & Taylor, 1996; Klaas et al., 1999). Given the frequent demand for these practices, partnerships may be established to ensure that these practices will be delivered as long as needed. And given the relative standardization

of these practices, organizations may realize diminished risk due to poor service or a partner's inability to deliver the service.

At the same time, relying on an external partner to perform transformational practices that demand frequent delivery may not be as feasible or effective. As noted above, transformational practices relate to HR practices that support organization-wide efforts and are linked to higher-level organizational demands (Wright et al., 1997). These efforts may require significant up-front investment to develop the skills and capabilities to carry out these practices. If the skills needed to deliver these HR practices are deployed on a relatively frequent basis, organizations are more likely to realize a return on any internal investment made to develop these capabilities in their internal workforce.

In addition, firms may face increased potential for opportunistic behavior by external parties should they turn to external parties for the primary delivery of transformational practices (cf. Klaas et al., 1999). As implied in transaction cost economics, the threat of opportunism increases as the specificity of the activity increases (Williamson, 1975). In essence, if the application of a firm-specific task or activity is outsourced, the dependency of a firm on the party delivering the services becomes potentially threatening as the transactions progress and result in a small number of individuals (i.e., the partner) capable of providing the specialized services (Scott, 1992; Williamson, 1975). This risk may be exacerbated if the HR practices are of significant importance to the organizational or HR function's success. When coupled with the increased pressure to contribute to strategic, firm-level initiatives, HR functions are likely to have an incentive to internally retain the delivery of frequently occurring transformational practices even if they rely on outside partners or contractors for advice and support work.

Proposition 8. HR functions will internally deliver frequently performed transformational practices.

Proposition 9. HR functions will rely on partnerships to deliver frequently performed transactional practices.

2.8. Integrated information technology access

Because outsourcing typically requires involvement with one or more outside providers, it can be conceptualized as creating additional differentiation for an organization (Lepak & Snell, 1998). As viewed by Lawrence and Lorsch (1967), differentiation refers to the extent to which organizational functions differ from one another in terms of behaviors, structures, and the orientations of their members. When external providers become outsourcing partners, they are essentially functioning as an added form of differentiation with respect to the provision of HR services to the organization with which they are partners. The distinctiveness of this form of differentiation rests in the fact that the provider is external, rather than internal, to the firm.

Given the potential advantages in selecting the best possible outside providers for given areas (e.g., employee assistance, 401K plans, etc.), the potential for increased external differentiation is likely to grow as organizations take on additional outside provider partners. It is important to note, however, that increased differentiation requires a complementary increase in coordination or integration (Lawrence & Lorsch, 1967). Too much differentiation, without countervailing integration, can create fragmented, dysfunctional HR services delivery that may be judged by organizational members to be ineffective.

Integration refers to the extent to which there is coordination among entities that require collaborative efforts. While integrative efforts have traditionally referred to structural arrangements such as the establishment of committees, liaisons, and the like, Galbraith (1977) has long noted the possibilities for information systems to serve as means of integration. However, this prospect is taking on much greater significance with the proliferation of computers within organizations and the emergence of intranets and Internet interfaces that allow the sharing of information within organizations as well as across organizational boundaries. In short, information technologies increase the ability of organizational members to communicate with external parties (Galbraith, 1977).

With regard to HR outsourcing, information technology may be able to serve as an integrating mechanism with outsourcing partners to the extent that employees have integrated access to the provider through information technology (cf., Broderick & Boudreau, 1991). If organizations are to externalize the delivery, and responsibility, of a particular HR activity, the external party must be able to interact with those individuals requiring the services. For example, organizations that invest significant resources in the development of an information technology system without enabling employees the ability to interact with external vendors significantly limits the potential effectiveness of outsourcing some highly interactive systems, such as benefits enrollment. Recent moves by major companies, such as Ford Motor Company and Delta Airlines, to provide home computers to all employees for a nominal fee constitute moves toward integrated access (Smith, 2000).

If employees cannot easily communicate and interact with outsourcing partners, the benefits of outsourcing arrangements are likely to be mitigated through the need for increased internal coordination efforts by organizations. In contrast, as employees have increased access to outsourcing parties via information technology, organizations are able to capitalize on the ability of the outsourcing partner to directly serve employees. Based on these arguments, we anticipate that the degree of integrated access via information technology will be positively related to the use of outsourcing to deliver HR practices.

Specifically, integrated access is likely to be associated with an increased use of outsourcing for transactional practices. One of the primary benefits of integrated employee access relates to an increased ability of employees to store, modify, retrieve, and update information regarding HR practices (LeTart, 1998). These benefits are applicable primarily to transactional HR practices such as benefits enrollment, payroll deductions, 401k transactions, and the like. To the extent that employees can assume responsibility for these transactional practices, HR functions are able to shift their focus to more critical practices (Ulrich, 1996). In contrast, options for outsourcing transformational HR practices, with their emphasis on strategic and firm wide implications (e.g., organizational change initiatives, knowledge management, etc.), are less likely to be directly affected by employee access to information technologies.

While integrated information technology access is likely to increase the feasibility of utilizing external partnerships to deliver transactional practices, the investment required by firms to establish such an information technology system may be prohibitively high for many HR functions. Often, however, organizations have multiple reasons for establishing integrated access that can be justified by factors in addition to HR practices, such as firm-wide operating efficiencies and cross-functional data sharing. If the access is in place, relying on external partners to provide transactional HR practices may enable diminished expenses allocated to handling these transactional practices internally without having to fully offset the costs of IT implementation. In addition, because partnerships provide a longer term commitment to meeting a firm's unique needs, firms are likely to face less risk establishing IT access to interact with external partners than would be the case with contractual arrangements. A part of the potential organizational benefits from partnering, transaction cost economics (Williamson, 1975) would

suggest that the partners are more likely than contractors to be willing to customize the nature of their services to the partner firm to comply with the existing IT system.

Building on these arguments, we anticipate that firms will rely on partnerships to deliver transactional HR practices when employees have integrated information technology access to the services provided by the partner.

Proposition 10. HR functions are more likely to deliver transactional HR practices through partnerships as employee access to information technology increases.

2.9. Environmental uncertainty

The environmental uncertainty that a firm faces may stem from a variety of factors, such as the degree of stability and the extent of environmental threats. Moreover, environmental uncertainty likely affects the viability of different structural options for performing services. However, it is important to recognize that different types of uncertainties are likely to have different impacts on organizations. Porter (1985) suggested that uncertainties can be categorized into one of three categories – constant, predetermined, and uncertain. He noted,

> "Constant elements of industry structure are those aspects of structure that are very unlikely to change. Predetermined elements of structure are areas where structure will change, but the change is largely predictable. Uncertain elements of structure are those aspects of future structure which depends on unresolvable uncertainties." (p. 451).

With regard to influencing HR delivery, the latter two forms of uncertainty are more germane to understanding the influence of the environment on delivery decisions because they influence the ability of firms to anticipate and plan for different environmental contingencies. In general, as uncertainty increases it may be "more costly to establish the longer term commitments typically associated with organizational forms of governance" (Klaas et al., 1999; p. 117) due to the inherent fixed costs and limited flexibility in adapting to changes in environmental demands. Indeed, transaction cost economics (Williamson, 1975) would suggest that firms internalize transactions as the degree of uncertainty increases. However, it is important to recognize that these two forms of uncertainty with which firms must contend (cf. Tsui, Pearce, Porter, & Hite, 1995) may have distinct effects on delivery choices.

On the one hand, uncertainty may refer to fluctuations in product or service demand that are fairly certain or consistent, allowing the manner in which this uncertainty is handled to be fairly routine. For example, fluctuations in staffing levels that occur as a response to product demand shifts are often routine in nature, though uncertainty may exist as the extent of the variations or even when they will occur. In these cases, relying on sources in the external environment to carry out these HR practices may increase the flexibility and adaptability of the HR function and the firm.

These arguments highlight the notion that external arrangements may be a viable alternative for delivering HR practices in uncertain, yet predictable, environments. When the services are needed, external agents may be contacted to design and/or deliver the content of these practices. At the same time, eliminating the need to retain a permanent staff to attend to practices whose needs are uncertain may reduce fixed costs. In this light, it may actually be more efficient and effective to rely on partnerships or short-term contractual arrangements to deliver HR practices when the environment is characterized by routine uncertainty than to deliver them internally.

Proposition 11. HR functions are more likely to use contractual arrangements or partnerships for the delivery of HR practices than rely on internal delivery when the operating environment is characterized by uncertainty that is routine and predictable.

On the other hand, uncertainty may also refer to situations in which fluctuations in product demand, market conditions, technological advancements and the like are rapidly changing, unforeseeable, and non-routine. In these scenarios, firms cannot anticipate or know with any real certainty how to cope with this more complex and unpredictable environment. In essence, the presence of bounded rationality (March & Simon, 1958) in the cognitive abilities of individuals precludes their ability to foresee and account for all possible contingencies that may occur in these contexts. In uncertain environments the bounded rationality of individuals makes developing complete contractual agreements particularly problematic (Williamson, 1993). As a result, the risks associated with relying on external agents increases, and organizations have an incentive to retain the transaction (HR activity delivery) in-house.

Moreover, as the environment becomes more unpredictable and volatile, it may not be feasible to establish partnerships that can account for the possible contingencies. As noted by Rousseau and Parks (1993), "the specific terms of these long-term contracts are difficult to create a priori because technological complexity and other uncertainty makes all necessary terms unknowable ex ante." (p. 17). At the same time, firms may bear substantial risk committing to a long-term arrangement in a turbulent environment (Klaas et al., 1999). Should the environment change in some capacity, firms may become locked into the terms of the partnership and be required to pay for the partner's services.

Firms may not suffer from these problems when they internally deliver or employ contractors to deliver HR practices. Indeed, a fundamental tenet of transaction cost economics is that as the environment becomes increasingly uncertain firms are more likely to internalize transactions (Williamson, 1975). Internal delivery is not associated with the same degree of risk that would be realized by relying on external partners to provide HR services. By internalizing the delivery of HR practices, organizations essentially remove themselves from risks of opportunistic behavior on the behalf of external partners should the conditions of the exchange change (Scott, 1992).

In addition, contractual arrangements do not typically involve the longevity associated with partnerships. Because the terms of these arrangements tend to span a shorter time horizon, firms may be able to specify contractual provisions without the degree of concern associated with environment uncertainty. This is not to say that there is no risk in utilizing contractors in these types of environment; rather, the degree of risk is likely to decrease as the time frame becomes shorter. Firms facing unpredictable uncertainty may employ contractors to deliver HR practices without realizing the risks associated with anticipating future contingencies. Doing so may enable firms to capitalize on the expertise of external vendors while minimizing the risks associated with entering a long-term relationship associated with a partnership.

While relinquishing internal control and delivery of HR practices to external partners may be appropriate when uncertainty follows a somewhat predictable schedule, we anticipate that firms will internally deliver or use contractors to deliver HR practices as environmental uncertainty becomes more non-routine and less predictable.

Proposition 12. HR functions are more likely to perform HR practices internally or use contractual arrangements than rely on partnerships as the operating environment becomes characterized by unpredictable uncertainty.

3. Discussion

In this paper we have outlined a contingency model regarding the delivery of HR practices that explicitly incorporates strategic and operational factors as important determinants of HR practice outsourcing decisions. Building on existing theory and empirical evidence we have demarcated among three distinct delivery options – internal delivery, contract, or partnership – for the delivery of HR practices. We have argued that the strategic orientation of the business and the HR functions dominant role orientation influences which HR practices are more or less likely to be deemed core or peripheral and, as a result, more or less likely to be outsourced or performed internally. In addition, the availability of different delivery options, the frequency of delivery, the degree of integrated IT access by employees, and the nature of the competitive environment are expected to influence the feasibility and likelihood that different delivery options will be used by firms. Building on these arguments, several implications are likely to exist for researchers and practitioners.

First, while outsourcing typically refers to the delivery of practices by parties outside a firm, it is not the only option available. There are alternative delivery mechanisms within firms that, much like outsourcing, remove the design and/or delivery of HR practices from the HR function. For example, there is some evidence that line managers are assuming some of the responsibilities that have been allocated to the HR function in the past (Mohrman et al., 1995; Wright et al., 1997). Information technology in particular is rapidly enabling new possibilities for "insourcing," which is the transfer of responsibilities and tasks previously or typically performed by HR to organizational members outside of HR (Kerr & Von Glinow, 1997). In fact, LeTart (1998) argues that, in view of the increasing availability of information technology, the "Holy Grail" for HR executives is finding ways for employees to update and operate their own HR processes without paperwork or administrative support from HR. Clearly, the movement toward sophisticated information systems in organizations through such vehicles as enterprise resource planning systems and applications service providers will make such "insourcing" more feasible. While there may be an understandable logic to this trend, it is possible that line managers do not have the time or skills to effectively deliver these HR practices. Research is needed to better understand the extent to which allocating HR responsibilities to the line influences the quality of the delivery of these practices.

In addition, research that addresses the skills and competencies required by HR professionals to manage these various arrangements would prove particularly useful. The traditional jargon and training of HR professionals is not necessarily well suited for the emerging issues in HR (i.e., business focus, contractual obligations, strategic partnerships) as HR professionals are often trained to operate at the sub-function level (e.g., compensation, training). This might prove problematic as these professionals are called upon to adopt a more strategic focus. Focusing on types of HR practices, rather than the practice itself, it seems logical that HR professionals will be required to expand their focus to see the delivery of HR practices from an organization-wide perspective. Research that examines the long-term implications of these trends for HR professionals would provide insight into the evolution of the HR function and its required competencies.

While the arguments for the emerging trend toward a greater reliance on outsourcing are compelling, we do not have any real evidence to suggest that such an approach results in economic benefits. It may be the case that outsourcing is a short-term solution but a long-term problem (Bettis, Bradley, & Hamel, 1992; Klaas et al., 1999). There are some recent trends that firms are moving their outsourced practices back in-house. A case in point is Dell, which moved its customer service call centers back in-house after

experiencing customer complaints about poor customer care quality. Although Dell's example did not deal specifically with HR it is still a relevant example that may be applied to potential negative issues regarding HR outsourcing. To address this issue it is important that we better understand the implications of an increased reliance on outsourcing within HR. Klaas et al. (1999) found that managers' perceptions of the benefits stemming from outsourcing were dependent on the nature of the HR activity outsourced, uncertainty in the environment, firm size, and cost pressures. That research might be extended to investigate whether perceptions of performance are sensitive to variations in the methods of delivering HR for the different types of HR practices. Similarly, researchers might examine how the use of various delivery options, including the use of different delivery options for particular types of HR practices, influences the performance of the HR function, satisfaction with HR services by line managers and employees, as well as the firm's overall performance.

Another area of research that is needed to better understand how HR is delivered within firms is an examination of the interactions among strategic and operational contingency factors as these factors are likely to interact in unique ways. Given the multitude of contingencies presented in the framework, it is possible that organizations may face conflicting pressures regarding internal delivery versus external delivery. For example, cost-oriented firms in a volatile environment might encounter different demands of their HR function than innovative firms in a stable environment. Adding information technology and frequency of delivery to this equation complicates matters further. While these higher order contingency inter-relationships are not the focus of this paper, research that examines these interactive effects would prove particularly valuable to enhancing our understanding of how firms deliver their HR practices.

In conclusion, organizations are moving from more traditional means of competing toward more innovative structural arrangements in order to meet their mounting pressures. In many cases, the HR function has taken steps to contribute to this initiative by creatively delivering their HR practices through contractual arrangements, partnerships, and internal deployment. Yet, as the trend toward outsourcing grows in prevalence, we need to be sure that we truly understand the factors that influence organizational choices regarding the delivery of HR as well as the advantages and disadvantages of the delivery options. We hope that the framework discussed above provides a useful step in this direction.

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