Resolution: Close down the Human Resources Department

A great deal of research indicates that it is line management that will determine whether or not human resources can create and sustain a competitive advantage for organizations. While HR staff develop, purchase, and administer HR activities, the proper use of these activities by line management has the most to do with their effectiveness. Fortune magazine's Thomas Stewart argues that outsourcing those HR functions that can be outsourced will ultimately save the company money and thus facilitate a competitive advantage through reducing costs. This cost reduction could then increase profits and/or help the company compete on price.

Some HR departments are already responding by outsourcing many functions traditionally done by full-time employees. Compensation and executive recruiting are two of a growing number of areas that are extensively being outsourced, and other functional areas may follow.

Stewart argues that an in-house HR department will probably cost the company much more money and since it's line management (not the HR staff) that really determines HR effectiveness, the use of outsourced personnel to perform HR activities should have little impact on effectiveness. For example, instead of using full-time HR staff to develop and implement a new performance management system, the company could contract with a company to do this work.

Stewart refers the reader to the Washington, D.C.-based Corporate Leadership Council, which concluded that indirect compensation (benefits), personnel recordkeeping, and employee services such as outplacement and retirement counseling, and health and safety issues (drug testing, wellness programs, workers' compensation) could all be outsourced to save money.

Stewart goes beyond the Council's recommendation. He argues that many HR functions can now be purchased from vendors with considerable savings and no loss in quality. For example, recruiting can be done through "head-hunters" now for even low-level jobs.

Assignment

Generate a list of reasons why there may be another side to this story. What key questions would you want to ask Mr. Stewart and others who are making these recommendations? Compile a list of advantages and disadvantages to outsourcing that could help a company make a decision about the best decision to make.