AN EXPLORATORY STUDY OF HUMAN RESOURCES OUTSOURCING PRACTICES WITHIN ORGANIZATIONS IN PUERTO RICO

by

Laura Angélica Sepúlveda Ramírez

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Approved by:

_____   _____
Marta Colón, MBA, SPHR   Date
Member, Graduate Committee

_____   _____
Rosario A. Ortiz, Ph.D   Date
Member, Graduate Committee

_____   _____
Dafne Javier, DBA   Date
President, Graduate Committee

_____   _____
Olben Delgado, Ph.D   Date
Graduate Studies Representative

_____   _____
Yolanda Ruiz, Ph.D   Date
Associate Dean of Research and Graduate Affairs

ABSTRACT

This study explores and describes the current state of the HRO practice in Puerto Rico from the HRO service buyer point of view. Then results are compared to a similar study conducted in 2006.

Ninety eight, out of 478 different organizations, active members of the Society for Human Resource Management, participated in the study. Almost two thirds (65%) of the organizations are either outsourcing HR functions or consider outsourcing HR functions in the future which might indicate a future growth on HRO in Puerto Rico. At present, the main drivers to outsource HR functions are cost savings and the need to focus on core business functions. Most organizations ensure HRO success by evaluating their HRO service providers (HROSP) and monitoring service contracts. Despite these efforts, some of the organizations indicated that at some point, they had to either change HROSP or cancel HRO contracts bringing HR functions back in-house, as a result of poor service levels and/or unpredictable costs.

RESUMEN

Este estudio explora y describe el estado actual de la práctica de subcontratación de funciones de RH en Puerto Rico desde el punto de vista del comprador. Los resultados son luego comparados con un estudio similar realizado en la isla en el 2006.

Noventa y ocho de 478 organizaciones representadas en la Sociedad para la Gerencia de Recursos Humanos en Puerto Rico, participaron en el estudio. El 65% de las organizaciones subcontratan funciones de RH o piensan subcontratar funciones de RH en un futuro, lo que podría indicar un crecimiento del mercado en Puerto Rico. Actualmente, las razones principales para la subcontratación de funciones de RH son: la reducción de costos y la necesidad de enfocar funciones en actividades estratégicas. La mayor parte de las organizaciones aseguran el éxito de la subcontratación evaluando sus proveedores de servicio y supervisando el cumplimiento de contrato. A pesar de estos esfuerzos algunas de las organizaciones han cambiado de proveedor, cancelado contratos reincorporando las funciones de RH nuevamente al manejo interno, o ambos. Esto como consecuencia de niveles de servicio pobres y/o gastos imprevisibles.

To my parents and brother who have always been an inspiration in my life and to whom I owe most of my accomplishments, and most importantly to God for giving me the strength to achieve my goals in life.

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Table of Contents

Table List

Tables **Page**

Figure List

List of Abbreviations

HR   Human Resources

HRM   Human Resource Management

HRO   Human Resources Outsourcing

HROSP   Human Resources Outsourcing Service Provider

SHRM   Society for Human Resource Management

1 INTRODUCTION

Human Resources Management (HRM) is defined by the Society for Human Resource Management (SHRM) (2009) as the formal structure within an organization responsible for all the decisions, strategies, factors, principles, operations, practices, functions, activities and methods related to the management of people. All decisions affecting the workforce of an organization concern human resource management (HRM), regardless of its size or existence (Bernardin, 2003). The HRM system has five functional areas: staffing (which involves the following activities: job analysis, HR planning, recruitment, and selection), HR development (which include: training and development, career planning and development, organizational development, and performance appraisal), benefits and compensation (which includes: pay, benefits and nonfinancial rewards), safety and health, and employee and labor relations (Mondy & Noe, 2005). These HR functions and activities are highly interrelated and they are practiced through the organization at all levels (Mondy & Noe, 2005)

For years, the HR departments have been under the pressure of being a strategic partner in an organization, rather than part of a support system (Valdéz, 2007). This transformation being experimented by the HR profession has triggered important forces like: the use of technology in HR processes and outsourcing (Valdéz, 2007). Human Resource Outsourcing (HRO) is part of the business process outsourcing (i.e. process of hiring another company to handle business

activities), one of the three broader areas in Outsourcing with $3.2 billion in market revenue worldwide for 2007 (Plunkett Research, 2008).

Organizations around the world have been considering Human Resources Outsourcing as part of their strategy to cut corporate costs and enable internal employees to focus on the organizational goals (Stroh, 2003). (On the other hand,) research have found there have been changes in the way Human Resources Service Buyers select their Human Resource Outsourcing Service Providers (HROSP), what services they buy and how they manage the deal after it is signed.

1.1   Justification

This exploratory study arises from the necessity of more research focusing exclusively on the practice of outsourcing human resource functions within companies in Puerto Rico. This study also follows the recommendations made by Rodríguez (2006) in her thesis: *Exploratory Analysis of Outsourcing in Puerto Rico*, where she states the need of further studies of the HRO trends in Puerto Rico and the ones made by Shen (2005), where more academic and independent investigations into the HRO topic is suggested, specifically on what organizational characteristics are associated with the decision to outsource.

This study was conducted from the HRO service buyer's point of view, providing a more detailed insight of the Human Resources Outsourcing practices and trends within companies currently operating in Puerto Rico. The organizations selected for this study vary in size, type of industry and products or services offered.

Findings of this exploratory descriptive study serve as a guide for Outsourcing Service Providers to meet their client's needs and expectations and for the Outsourcing Service Buyers to identify their needs and make the best decision when selecting a HROSP.

1.2   Objectives

The main objective of this research is to identify and describe the Human Resources Outsourcing practices and trends within companies operating in Puerto Rico.

Specific objectives include:

- Identify the Human Resource Management function or functions that are being outsourced by organizations in Puerto Rico.

- Identify the reasons why organizations in Puerto Rico decide to outsource HR functions.

- Describe the risk scenarios affecting the decision to outsource HR functions within organizations in Puerto Rico.

- Identify the criteria used by organizations in Puerto Rico when selecting an HROSP.

- Describe the performance metrics used by organizations in Puerto Rico to evaluate HROSP.

- Identify the reasons why HRO service buyers terminate their contract with the HROSP and switch to a different provider, or bring the HR functions back in house.

- Identify the HRO service buyer's overall level of satisfaction with the HRO service provided.

- Compare findings with results reported in Rodríguez' (2006) study.

- Determine if there is relation between the number of employees in an organization, number of employees in the HR department, type of industry and organizational origin with the decision to outsource.

- Determine if there is a relation between the number of employees in an organization, number of employees in the HR department and type of industry with the decision to outsource in the future.

1.3   Summary of Following Chapters

This study consists of five chapters. Chapter 1 includes an introduction to the research topic, the justification for selecting the specific area of research and the objectives to be accomplished.

Chapter 2 presents the relevant literature about the research topic being studied. The literature focuses mainly of key findings from topic-related surveys, academic research studies and journals from different disciplines.

Chapter 3 explains the methodology of the study including: the research design, the instrument used and the types of questions, how the sample was calculated and selected, and finally, the methods used for data analysis.

Chapter 4 presents the results of the study by sections. The first section presents the online survey results by focus area, following the format used in the questionnaire. The second section compares and contrast the results obtained in this study with the ones presented in Rodríguez' (2006) outsourcing study. The third section examines the relation between identified variables. The results are illustrated in tables and figures properly captioned. A discussion of results based on the objectives is presented at the end.

Chapter 5 is the last chapter, where concluding remarks based on the objectives are presented, recommendations are made and future work suggestions are presented to the reader.

2   LITERATURE REVIEW

This study focuses on the outsourcing of Human Resources functions, as defined by the Society for Human Resource Management (2009):

"A contractual agreement between an employer and an external third-party provider whereby the employer transfers responsibility and management for certain HR, benefit or training-related functions or services to the external provider."

Human Resources activities can be categorized in an organization as core and peripheral activities (Gilley, Greer, & Rasheed, 2004 and Mc Vaugh, 2008). Core activities or, what Ulrich suggested are transformational HR activities (Shen, 2005), add value to the organization and its stakeholders and should be delivered in-house (Mc Vaugh, 2008 and Shen, 2005). Top-level strategy, HR policies, employee relations and line management responsibilities are considered part of the core HR activities (Shen, 2005). Non-core, peripheral or transactional HR activities (Shen, 2005) are of low uniqueness and low value and the outsourcing of these activities enables the firm to focus on the higher value activities (Guilley et al., 2004). Peripheral activities include activities performed by HR specialists, routine personnel administration, relocation and professional HR advice (Shen, 2005).

Due to the new focus in outsourcing of making partnerships with the human resources outsourcing service providers (HROSPs), rather than just considering them a one-time vendor (Shen, 2005), three types of outsourcing were recently

identified: discrete services (one element of a business process is outsourced to a third-party), multi-process services (complete outsourcing of two or more functional HR processes), and total human resources outsourcing (transfer of the majority of the HR Services to a third-party) (Weatherly, 2005).

2.1   Human Resources Outsourcing Trends

2.1.1 Outsourcing Drivers

Since the late 1990's, when companies were facing the reality of the "New Economy" (heavy investment on information technology) (Human Resources Outsourcing Association [HROA], 2007) international competition and western economic recession (Mc Vaugh, 2008), the Human Resources department had to deal with the challenges of: (1) helping their organizations stay competitive by becoming more agile and innovative, and (2) improving the firm's overall performance (Gilley et al., 2004 and HROA, 2007). Although there are a small amount of empirical studies examining the performance effects of HRO and the overall impact on a firm (Gilley et al., 2004 and Shen, 2005), studies often show that operating and labor costs saving is a benefit and a key driver for implementing outsourcing in an organization (Lepeak, 2008). Other key factors like gaining access to technology and expertise, releasing the HR department of transactional and administrative tasks, increasing customer value and gaining competitive advantage are being taken into consideration by multinationals (Ranjan, 2008 and Deloitte, 2008). Factors on rising labor costs, new types of employee benefits, increased

focus on employee talent management and engagement, the existence of complex regulations and compliance issues, as well as technology, influence the decision of multinational organizations to outsource HR functions (Mc Vaugh, 2008; Ranjan, 2008; Shen, 2005).

According to the 2005 Study of HRO Effectiveness conducted by Towers Perrin, the top HR outsourcing drivers are: overall HR service delivery costs reduction (37%), followed by free time for strategic HR (23%), improve service quality (14%), free HR time to develop better technical solutions (7%), standardize processes (7%), broaden overall outsourcing strategy (5%), improve HRIS/Self-service (4%), mergers & acquisitions (1%), improve IT (1%), among others (1%). Organizations in Puerto Rico use HRO to achieve cost reduction (86%), greater competence/efficiency (57%), better quality of service (43%) and due to the lack of time or personnel to do the job (14%) (Rodríguez, 2006). Very small enterprises (VSEs) outsource HR functions due to lack of in-house ability to perform HR activities, whereas large companies outsource to cut operational costs and to achieve competitive advantage (Barczyk, Husain & Green, 2007; and Guilley, et al., 2004)

On the other hand, "cost may drive the decision to outsource, but quality of service drives satisfaction with the outcome" (HR Outsourcing: New Realities, New Expectations, 2005). At the same time, the search for that service quality is the most common reason why companies bring HR services back in-house, due to the poor service quality offered by the HROSP's (Geisel, 2006). Deloitte Consulting (2008)

conducted a survey among executives who were involved in outsourcing services worldwide. Thirty nine percent (39%) reported that during the extent of their career at least one contract was terminated and transferred to a different vendor. Fifty percent of the executives who indicated they were "dissatisfied" or "very dissatisfied" with outsourcing contracts had brought the outsourced function back in-house (Deloitte, 2008).

2.1.2   Human Resources functions being outsourced

The Everest Research Institute in its 2007 Human Resources Outsourcing (HRO) Market Update found that the majority of human resources outsourcing (HRO) service buyers have outsourced ten or more HR processes. Gurchiek (2005), in his article: *Record Growth in Outsourcing of HR Functions,* mentions that the most commonly outsourced HR functions in the U.S. are: outplacement services (91%), employee assistance programs (89%), defined contribution or 401K plans (83%), COBRA administration (77%) and defined benefit pension plans (68%). The 2008 HR Magazine Special Report on Outsourcing states that sixty percent of organizations had their employee assistance and counseling services completely outsourced followed by flexible spending account administration (60%), background and criminal background checks (52%), COBRA (46%), pension benefits administration (33%) and retirement benefits administration (31%).   Rodríguez (2006), in her outsourcing exploratory study found that only seven, out of the sixteen companies interviewed, outsourced HR functions or tasks. Of the seven companies,

six outsourced training, four outsourced payroll and compensation, four also outsourced salary surveys, three outsourced recruiting, and only two outsourced health insurance management. Also, human resources information technology, outplacement services, credentials revision and preparation of employee manuals were outsourced by two other companies.

When it comes to the number of human resource outsourcing service providers contracted for outsourced functions in an organization, literature present different views. In an interview of seven companies in Puerto Rico who at the time outsourced HR functions, only one had one HROSP at the time, two companies had from two to five, three had more than five and one had from six to ten HROSPs (Rodríguez, 2006). The conference Board's 2004 study about HRO found that organizations believe that to have a single provider is the best choice when contracting HRO services to minimize management struggles (Rosenthal, 2004). On the other hand, Siegel (2000) recommends the contracting of multiple vendors to encourage an environment of competition. He suggests organizations to avoid sole source suppliers.

2.1.3 HRO service buyer's criteria to select HRO vendors.

To effectively outsource the HR functions mentioned above, the 2005 SHRM Research Quarterly found that the top factors companies take into consideration when selecting an HR outsourcing vendor are: a proven track record (89%), cost of vendor services (82%), guaranteed service levels (64%), flexible contract options

(53%), recommendations from other companies (41%), a compatible corporate culture (40%) and niche in a specific area (38%). On the other hand, a 2006 research conducted among organizations in Puerto Rico reflects that the criteria used by most of the HRO clients when selecting a vendor were expertise (86%), price (43%), reputation (43%) and responsibility (29%) (Rodríguez, 2006). Only one of seven organizations considered previous business relations, flexibility/accessibility, good quality of service, recommendation/referral, customized service, and location as the criteria to select an HROSP (Rodríguez, 2006).

2.1.4 Levels of satisfaction among HRO service buyers

HR Magazine (November 2008), on its Outsourcing Special Report, states that eighty five percent of the surveyed organizations have never brought an outsourced activity back in-house and that only ten percent had. The overall level of satisfaction with the outsourcing services was reported to be somewhat satisfied (53%), four percent less than four years before when the same study was made (HR Magazine, 2008). Rodríguez (2006), in her HRO service buyer' case studies, found that the average level of satisfaction with the outsourcing services among companies in Puerto Rico averaged 4.14 out of a 5.0 scale, where 5.0 described being very satisfied. Findings also showed that among companies in Puerto Rico, the human resources department was the least satisfied with the outsourcing services obtaining an average of 3.71 out of a 5.0 scale (Rodríguez, 2006).

2.1.5 HRO in Puerto Rico

Findings from a Human Resources study made in Puerto Rico in 2005 by a group of professionals in the area, state that companies in Puerto Rico use both in-house and external training sources to capacitate their new employees and to keep up with constantly evolving technology and best business practices (Thurston, 2006). On the other hand, Puerto Rico is rapidly becoming a host for multinational HRO service and consulting firms like Hewitt Associates (since 1990), a precursor of HRO on the island, and Mercer Human, established in PR in 2004 (Santiago, 2004 and Diaz, 2005). Likewise, Puerto Rico has been the center stage for important mergers between world renowned HROSP, HR consulting firms and other outsourcing service provider like First Insurance Group (FIG) and Intelli Outsourcing Business Management (IntelliOBM), Hewitt Associates and Exult Inc. and the local firm Human Capital Consulting Group with Thomson DBM (Gonzalez, 2005; Diaz 2005 and Santiago, 2004).

2.2   The Decision to Outsource HR Functions or Tasks

While in some cases HRO has proven to be a success in improving performance and innovativeness when implemented in organizations (Gilley, 2004 and Shen, 2005) there are some risks involved when outsourcing any job, function or task (En-shun, 2007; Kumar and Eickhoff, 2006). En-shun (2007) study, *Management of risks posed by human resource outsourcing,* outline the following risks: strategic risks (the organization is not clear of which tasks are core and which

are administrative), contractual risks (contracts are not carefully evaluated or managed), operational risks (these may include operational and performance problems due to unclear desired service levels and poor performance monitoring), and cultural risks (problems may arise due to different time zones, currencies, languages, behaviors, work-related standards, etc.).

The Outsourcing Institute, in the article: *Effectively Managing the Outsourcing Relationship* recommends the use of a methodical approach when considering outsourcing. This approach includes 6 phases: planning, analysis, design, implementation, operations and termination. The article also mentions three types of vendor-buyer relationships: market relationship, intermediate relationship and partnership. The market relationship is simple and represents the lowest cost to setup and administer. The intermediate relationship is used for a more complex work and costs more than the market relationship. On the other hand, a partnership costs the most, but a business should use it only when the benefit of a close relationship between the vendor and the buyer is critical.

Other authors like Kumar and Eickhoff (2005/2006) in their study: *Outsourcing: When and how should it be done?*, developed the closed loop outsourcing decision model to aid organizations in the outsourcing decision process. The first step is to decide whether the function or task is going to be done in-house or hired out by determining the core and non-core functions. After identifying the non-core and core tasks suitable for outsourcing, the vendors should be evaluated in terms of their operational capabilities, service standards, and agreements on intellectual property

and other legal issues. Meanwhile, an in-house educational program for employees should be established to prevent or reduce employee resistance. Other economic, political and security risks are evaluated especially if one is considering using off-shoring services. A cost analysis should be made after all risks are considered and before finally deciding to outsource. Periodic evaluation of the outsourcing decision and the supplier's performance should be made, especially when renewing outsourcing contracts (Kumar & Eickhoff, 2005/2006).

2.3   Future of Human Resources Outsourcing

Regarding the HRO market, analysts predicted a $28 billion growth by 2008 (Vorster, 2007). Also, Vorster (2007) in his article *HR gains from supplier mergers* states that HR outsourcing is still a viable option for companies to consider. It was expected that by 2008 HRO would have expanded into the management of leave, learning and development, payroll, recruiting, health and welfare, and global mobility areas, in that order (Gurchiek, 2005). Babcock (2006) in her article *A Crowded Space* states that researchers predict an annual increase in the multiple-process HRO market of 15 to 20 percent in the next few years. The article also mentions that according to the TPI Index, a quarterly report on the state of Global Outsourcing, the HRO contracts estimated total value in 2005 was $6 billion, three times the total value for 2004.

The 2008 SHRM Survey Brief showed that thirty three percent of the surveyed professionals indicated HRO will increase within the next five years and

only seventeen percent indicated a decrease. According to the same survey, the HR areas where outsourcing is expected to increase within the next five years are: background/criminal background checks, employee assistance/counseling and flexible spending account administration (SHRM, 2008).

Although future growth in HRO is predicted by some studies, the majority of these studies are conducted by service providers and there are academic researchers who think HRO growth "must be treated with caution" (Shen, 2005).

3 METHODOLOGY

3.1   Design

For this study, an exploratory descriptive and comparative approach was used due to the lack of research studies about the HR outsourcing practices and trends within companies in Puerto Rico. This type of design allows the description of variables to answer future research questions.

3.2   The Instrument

A collection of primary data was collected using a questionnaire designed by the author consisting of questions extracted from previous studies on human resources outsourcing, that were aligned with the established goals for this study (see Appendix A). The authors of both studies, Duran (1998) and Rodríguez (2006), gave written consent to utilize their instrument as a guide for developing the one used for this thesis (see Appendix B2 and B3). For the validation process, the questionnaire was reviewed by three professors from the University of Puerto Rico, two of them from the College of Business Administration, at Mayaguez, and one from the English Department of the Arecibo Campus. In addition, it was given to a group of ten Business Administration students for their comments and observations.

The final instrument consisted of twenty five items, including fifteen multiple choice questions, three five-point Likert scale questions, and seven demographical data questions. The items were divided into four focus areas or sections:

Section I: Human Resources Outsourcing Experience

- Is your organization currently outsourcing any of its Human Resources functions or tasks?

- If not, is your organization considering Human Resources Outsourcing for any HR function or task in the future?

- If the organization is currently outsourcing HR functions, which of the following HR functions or tasks are currently being outsourced by your organization?

- In total, how many HROSPs do you have for the outsourced HR functions previously identified?

Section II: The Decision to Outsource HR Functions

- Who participates in determining the use of HRO in your organization?

- How does your organization select HROSPs?

- Select the top three criteria your organization considers when selecting a HROSP.

- Identify the top three reasons (outsourcing drivers) why your organization outsources HR functions or tasks.

- Which of the following scenarios does your organization consider to be the riskiest when contracting a HROSP?

17

Section III: Advantages and Disadvantages of Outsourcing HR Functions

 – Does your organization evaluate the HROSP?

 – Indicate the level of importance given to each factor when measuring the HROSP performance.

 – Which of the following activities has your organization undertaken to ensure success in implementing HRO arrangements?

 – Rate how strongly you agree or disagree with the occurrence of each of the following scenarios as a result of HRO.

 – Has the organization changed HROSP for any of the outsourced functions?

 – If so, for what reasons have your organization changed HROSP?

 – Has the organization terminated HRO contracts, bringing HR outsourced functions back in-house?

 – If so, for what reasons has your organization terminated HRO contracts, bringing HR outsourced functions back in-house?

 – In general, how satisfied is your organization with the HRO services provided?

Section IV: Background Information (Demographic data)

 – Job title

 – Number of employees

 – Number of employees in HR department

 – Industry Classification

- Years operating in Puerto Rico

- Origins of the organization

- Countries to which products and/or services are offered

After the validation process, the questionnaire together with the proposal were submitted and approved by the Committee for the Protection of Human Beings in Research of the University of Puerto Rico at Mayaguez (See Apendix C1).

An online survey was used to administer the questionnaire to the selected population.

3.3   The Sample

Organizations, active members of the Society for Human Resources Management (SHRM), Puerto Rico Professional Chapter 2008-2009, were surveyed for this study. The contact information (name, position, organization, e-mail, address, phone and fax numbers) of the HR professionals representing each organization were drawn from SHRM, Puerto Rico Professional Chapter 2008-2009 Membership Directory. Selected participants are employees at a SHRM member organization who work directly with the HR department and/or have influence and knowledge of the HRO decision making process in the organization.

After entering the list of SHRM member organizations with their contact information in an Excel spreadsheet, the list of potential participants was scrutinized and narrowed from 525 organizations to 478. Organizations appearing more than once, subsidiaries and independent members were eliminated to minimize bias. An

invitation to participate in the study was sent to the potential participants' e-mail addresses explaining the purpose of the study, the privacy policy and any prior knowledge the participant should have in order to successfully complete the survey. After the participants gave their consent, an e-mail was sent to them with a link to access the online survey. Participant's response rate was monitored daily and weekly e-mail reminders were sent to achieve the maximum level of participation.

For statistical purposes, the Cochran's sample size formula for categorical data was used (Bartlett, Kotrlik, and Higgins, 2001).

$$n_0 = \frac{(t)^2 * (p)(q)}{(d)^2}$$

Where:

(t) = value for selected alpha level of 0.025 in each tail = 1.96.

$(p)(q)$ = estimate of variance = 0.25.

(d) = acceptable margin of error for proportion being estimated = 0.05

The sample size was calculated assuming an alpha of .05 and a standard deviation of 0.5:

$$n_0 = \frac{(1.96)^2 * (.5)(.5)}{(.05)^2} = 384$$

Therefore, for a population of 478 organizations represented in SHRM-PR membership for 2008-2009, the required sample resulted to be 384. However, since

the sample exceeds the 5% of the population (478 * .05 = 24), Cochran's correction

formula was used to calculate the final sample size.

$$n_1 = \frac{n_0}{\left(1 + \frac{n_0}{population}\right)}$$

Population size = 478

n_0 = required return sample size according to Cochran's formula = 384

n_1 = required return sample size because sample > 5% of population

$$n_1 = \frac{(384)}{\left(1 + \frac{384}{478}\right)} = 213$$

After calculating the minimum returned sample size of 213, a 50% response

rate is assumed, leaving a minimum drawn sample of 426 organizations.

$$n_2 = \frac{213}{.5} = 426$$

Since the difference between the calculated sample (426) and the actual

population size (478) is so small (478 − 426 = **52**), the letter for consent was e-

mailed to the population of 478 representatives of qualified organizations members

of the Society for Human Resource Management, Puerto Rico Chapter for 2008-

2009. Only 102 organizations agreed consent to participate in the study. An e-mail

was then sent with an access link to the online survey.

Table 1
Population contacted

Responses	Number of participants
Not responded	312
Email error	57
Declined	7
Gave consent	102
Total	478

Ninety eight (98) out of 102 participants completed the online survey for a response rate of twenty one percent (21%).

$$\left(\frac{98}{478}\right) * 100 = 21\%$$

3.4   Data Analysis

The exploratory descriptive and comparative design used resulted in a detailed description of the practices and trends of HRO. After collecting qualitative data from the online survey, an analysis using charts and tables was utilized to illustrate findings. Basic statistical descriptive measures and percentages were calculated to describe the HRO buyer's practices and trends in Puerto Rico. All 98 survey responses (completed and partially completed) were considered when calculating percentage of response for each question.

Following Shen's (2005) recommendation to study the organizational characteristics associated with the decision to outsource, the Chi square test of

independence was used to determine if there is a relation between the number of employees in an organization, number of employees in the HR department, and type of industry with the current decision to outsource and with the decision to outsource in the future.

Out of the 98 who answered the online survey, 94 answered the demographic questions. The remaining four participants only responded the questions partially. Only completed survey responses were considered for this test.

1. Null (H_0) and alternate (H_a) hypotheses were defined.

2. Critical value was determined by calculating the degrees of freedom for an alpha of .05.

$$df = (r - 1)(c - 1)$$

r = number of rows
c = number of columns

3. The observed data was tabulated in a contingency table, the expected frequencies values of each cell were calculated and the following statistical test was applied.

$$x^2 = \sum \sum \frac{(f_0 - f_e)^2}{f_e}$$

f_0 = frequency of observed values
f_e = frequency of expected values

4. If the observed value of chi-square is greater than the critical value, the null
   hypothesis was rejected.

$$x^2 \geq x^2_{\alpha,df}$$

4 RESULTS

4.1 Online Survey Results

This section includes the data gathered through the online survey administered to the population from the months of January through February 2009. Representatives of 98 out of 478 organizations, active members of SHRM for 2008-2009, answered the online survey. Only 94 successfully completed the questionnaire. The remaining four only responded the questions partially.

Online survey results are presented in four sections focusing on specific areas: description of the population surveyed (demographic data), the Human Resources Outsourcing experience, the decision to outsource HR functions, and the advantages and disadvantages of outsourcing HR functions.

4.1.1 Description of the Population Surveyed

Of the 94 (94 out of 98 participants completed the background information section) participants who answered the demographic questions on the survey, 34 (36%) indicated their current job title to be HR Director/HR Department Head, 27 (29%) act as HR Managers, 14 (15%) have other job titles, 8 (9%) are President/Owner/CEO, 7 (7%) are HR Specialists/HR Officers, 3 (3%) are HR Supervisors, and (1%) one is an HR Assistant (See Figure 1). Other job titles mentioned by the participants were: District Manager, Account Manager, General

Manager, Managing Director, Marketing Manager, HR Coordinator, HR Analyst, Branch Manager, Operations Director, HR Administrator and HR Consultant.
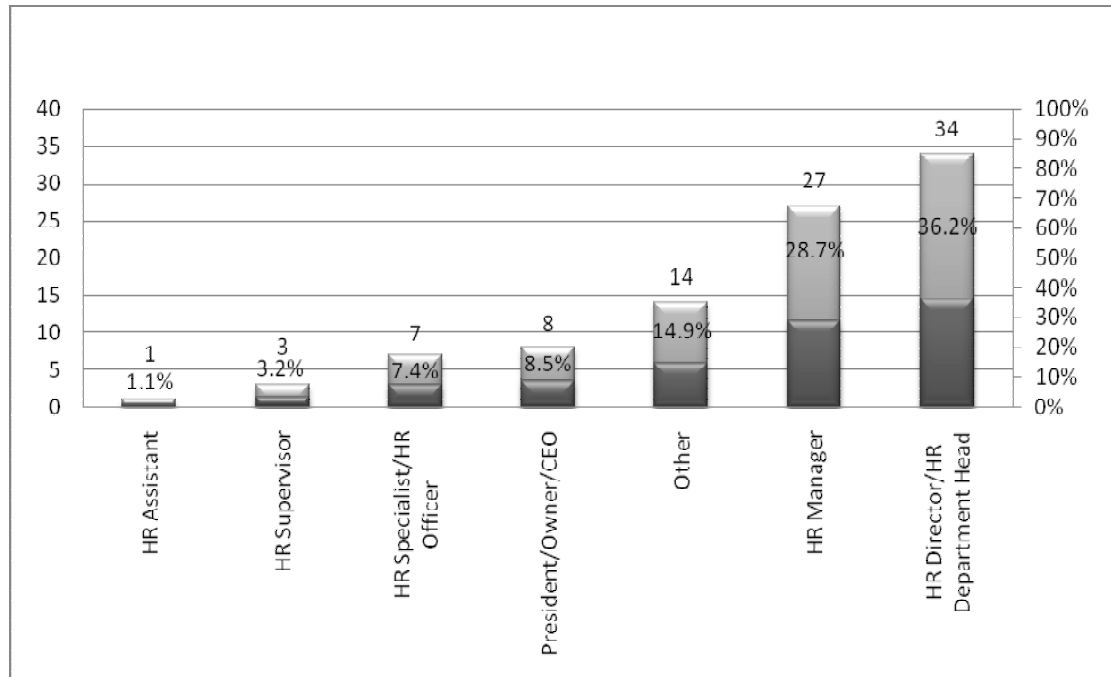
Figure 1. Participant's current job title

To identify organizational size, participants were asked to approximate the number of employees the organization has on its payroll. Out of the 94 respondents, 14 (15%) have 50 or less employees, 11 (12%) indicated their organization have 51 to 100 employees, 19 (20%) have 101 to 200 employees, 22 (23%) indicated their organization have 201 to 500 employees, 13 (14%) have 501 to 1000 employees, and 15 (16%) have more than 1000 employees on payroll (see Figure 2).
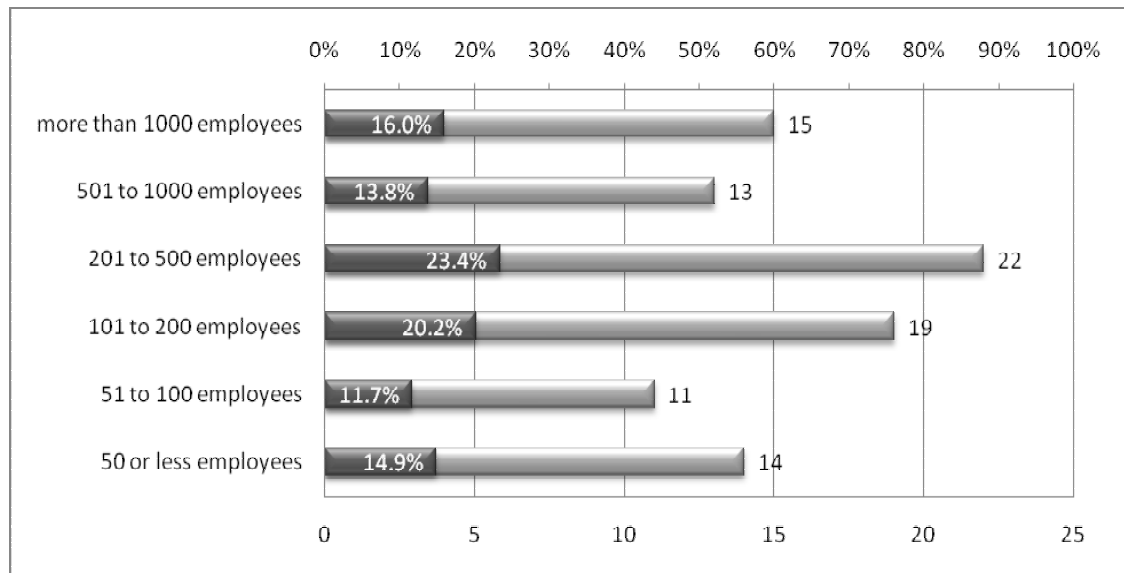
Figure 2. Number of employees on payroll

Figure 3 shows the amount of employees working in the Human Resources Department, where 63 (67%) out of 94 organizations indicated their respective HR Department has 5 or less employees, 16 (17%) have 6 to 10 employees, 7 (7%) have 11 to 20 employees, and 8 (9%) have 21 or more employees on the HR Department.
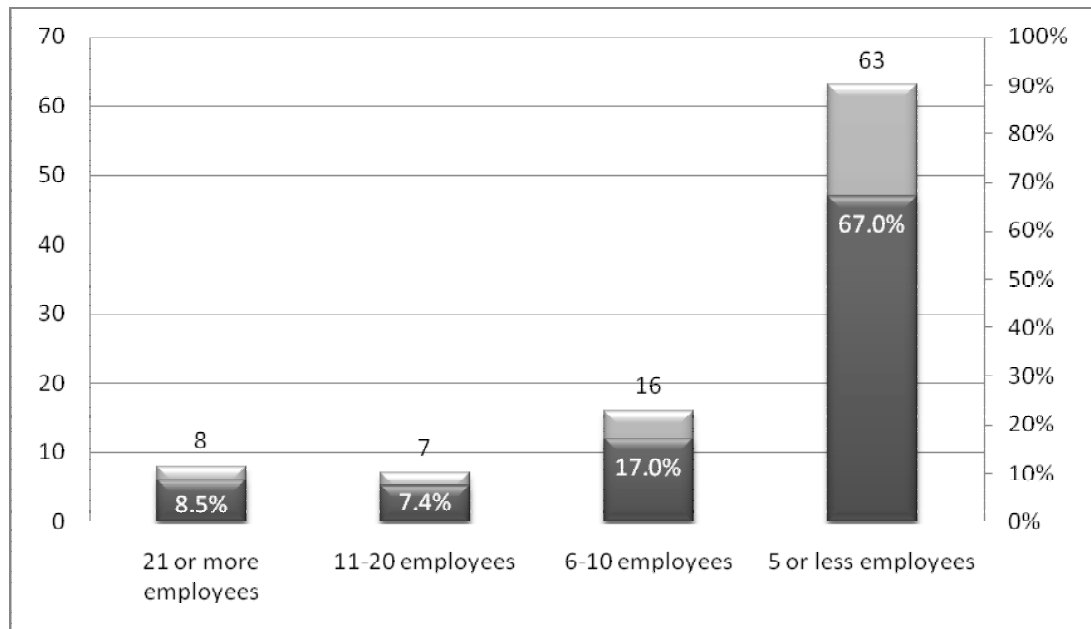
Figure 3. Number of employees in the human resources department

Figure 4 shows the full list of 12 industry classifications represented in this study. Twenty eight (30%) organizations are classified as other services, 25 (27%) are classified as manufacturing, and 8 (9%) are classified as being in the finance and Insurance industry. These three the industries represent the majority of the participants.
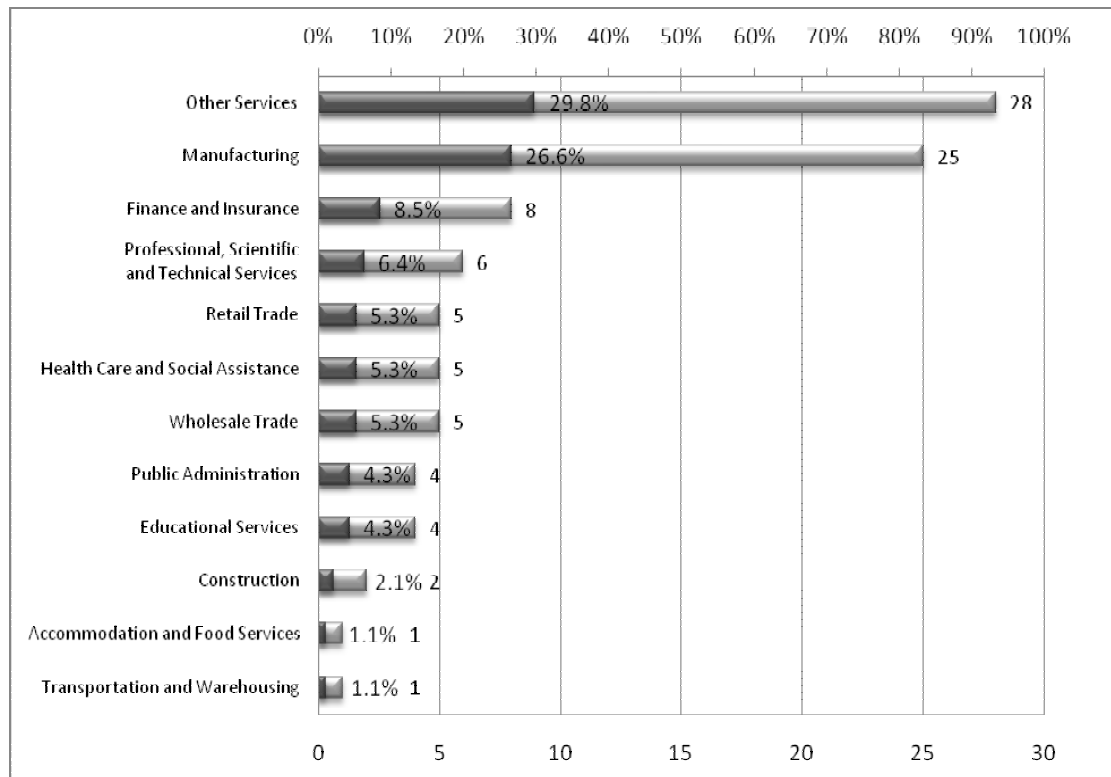
Figure 4. Industry Classification

Of the 94 organizations who completed the survey, 49 (52%) are local organizations, 35 (37%) have their headquarters located in continental U.S. and only 10 (11%) are foreign (See Figure 5). Ten (11%) organizations have been operating from 1 to 5 years in Puerto Rico, 6 (6%) have been operating from 6 to 10 years, 78 (83%) organizations have been operating for more than 10 years in Puerto Rico. (see Figure 6).

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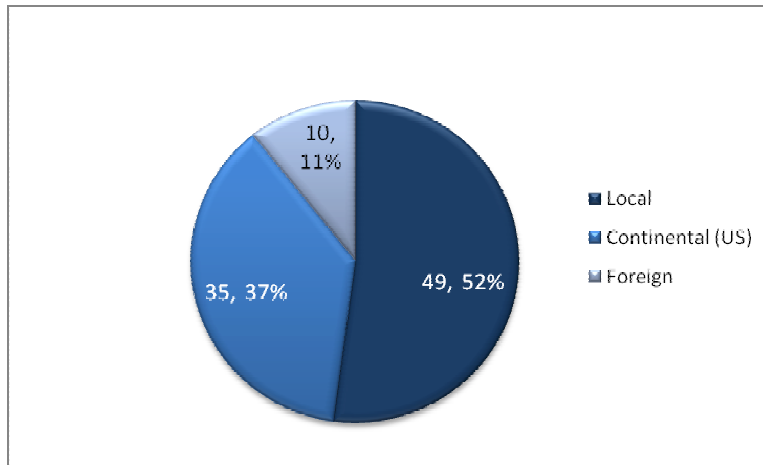
Figure 5. Origin of the organization
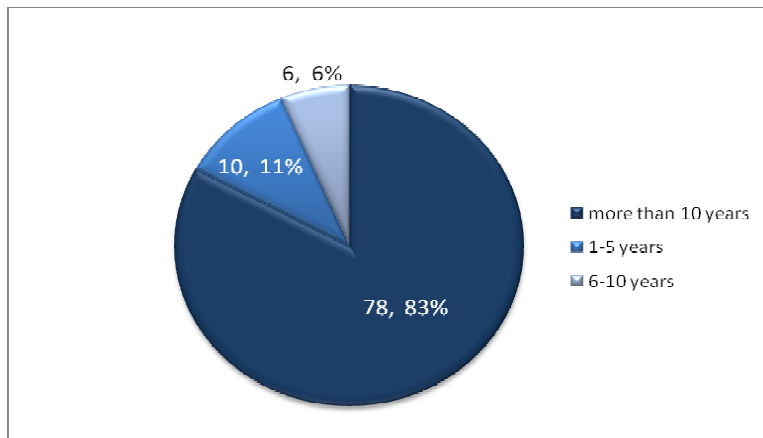
Figure 6. Years operating in Puerto Rico

Some of the countries to which the organizations represented in this study offer products or services are: Puerto Rico (90 organizations or 96%), continental United States (53 organizations or 56%), Caribbean (39 organizations or 42%), Europe (33 organizations or 35%), and other countries (9 organizations or 10%) (see Figure 7). Other countries include: Mexico, China, Australia, Pacific, India, Dominican Republic and all around the world.
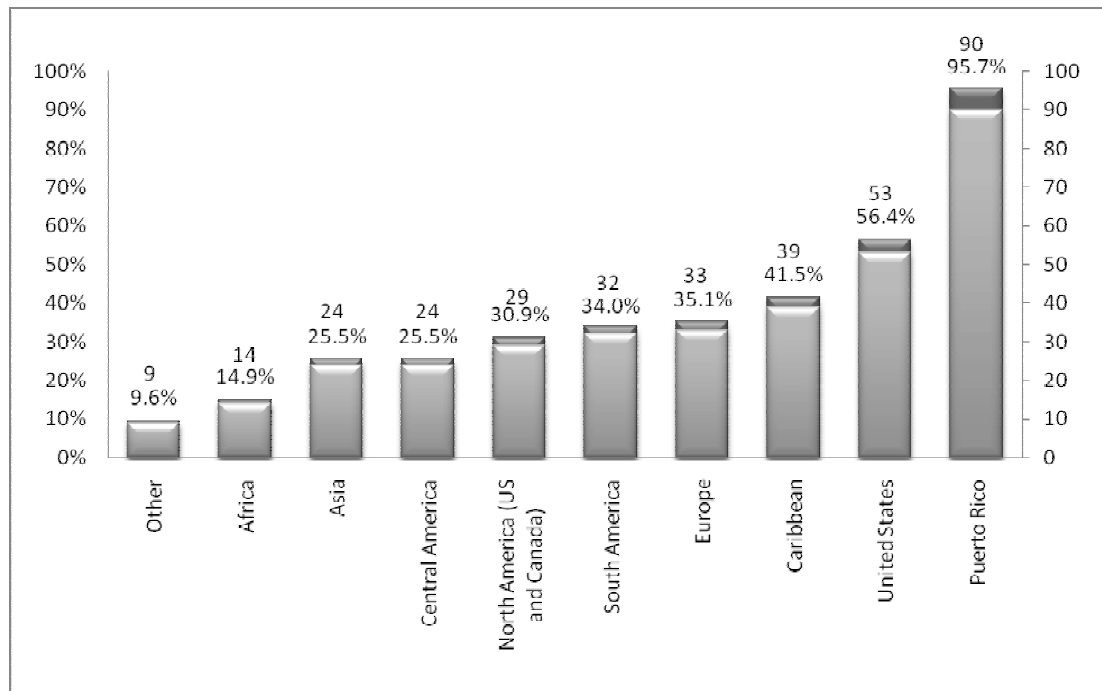
Figure 7. Countries to which products or services are offered

4.1.2 Human Resources Outsourcing Experience

When asked if the organization is currently outsourcing any of their human resources functions or tasks, 57 (58%) organizations out of 98 organizations indicated their organization is not currently outsourcing. The other 41 organizations (42%) indicated their organization is currently outsourcing at least one human resource function or tasks. Out of the 57 organizations that are not currently outsourcing any of their human resources functions or tasks, 23 (40%) indicated their organization is considering outsourcing human resources functions or tasks in the future. The other 34 (60%) organizations reported they are not (see Figure 8).

31
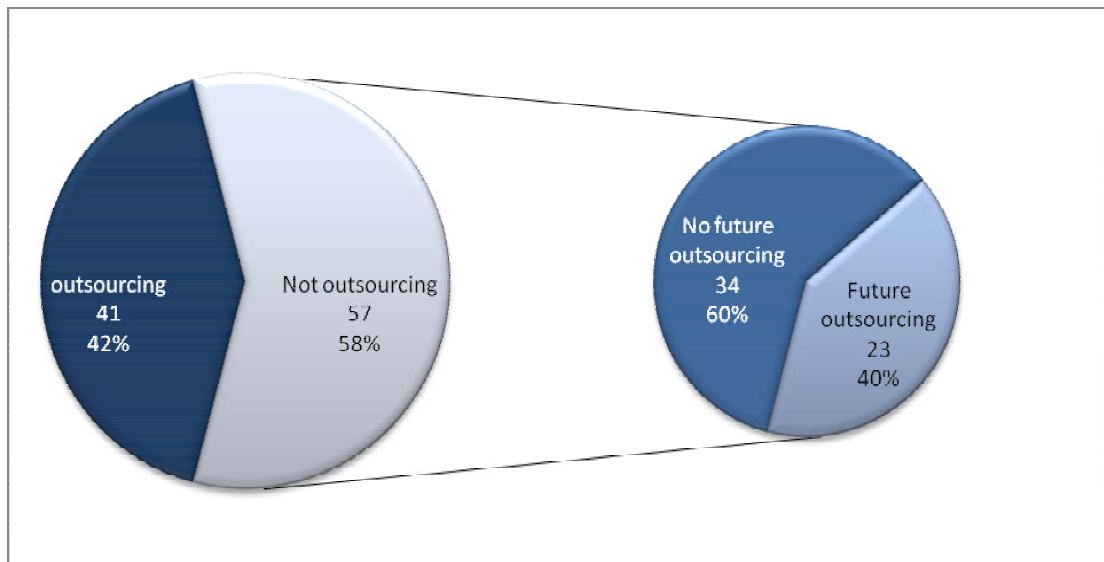
Figure 8. Percentage of organizations currently outsourcing HR functions or tasks

The participants were asked to identify which functions or tasks are being outsourced, if any. Among the most common human resource functions and tasks being outsourced by the organizations represented in the study are: background check/credentials revision (61%), benefits administration (56%), salary surveys (44%), outplacement (39%), recruiting (27%), and payroll and compensation (27%). Figure 9 display all of the functions currently being outsourced by organizations who participated in the survey. Other functions not mentioned in the list, and are currently being outsourced by organizations represented in the study are: employee satisfaction surveys, compliance (labor law) expertise, occupational health issues and affirmative action plans.
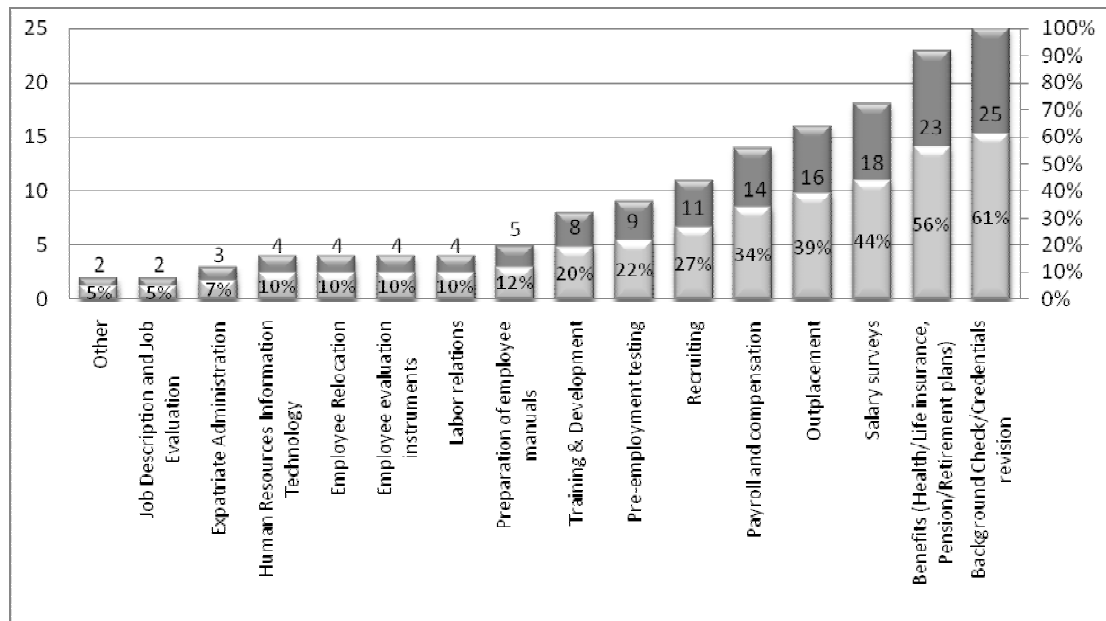
Figure 9. Outsourced functions and tasks

Participants, who identified the human resources functions and tasks currently being outsourced by their organizations, were asked to indicate how many Human Resources Outsourcing Service Providers their organizations have for the previously identified outsourced functions. Nine (22%) responded their organizations have one HROSP, 28 (68%) responded their organizations have from 2 to 5 HROSPs, 3 (7%) have from 6 to 10 HROSP's and only one (3%) organization have 11 or more HROSPs (See Figure 10).
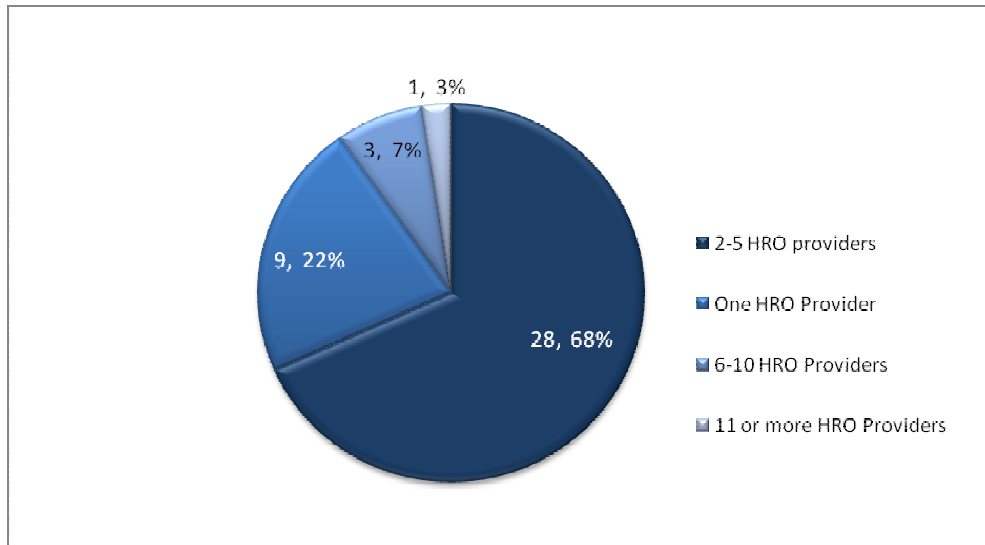
Figure 10. Number of HROSPs contracted for outsourced HR functions

4.1.3 The Decision to Outsource HR Functions

This section of the questionnaire identifies the factors that play a determinant role in the final decision to outsource some or all of the human resources functions or tasks. Respondents to this section were the 41 participants who indicated their organizations are currently outsourcing human resources functions or tasks in the previous section.

When asked who or whom determine the use of Human Resource Outsourcing in the organization, 26 (63%) organizations indicated top management, 25 (61%) indicated the HR department head, 5 (12%) the board of directors, and 4(10%) indicated others (see Figure 11). Other decision making groups include: President, HR department, finance department and headquarters.

34
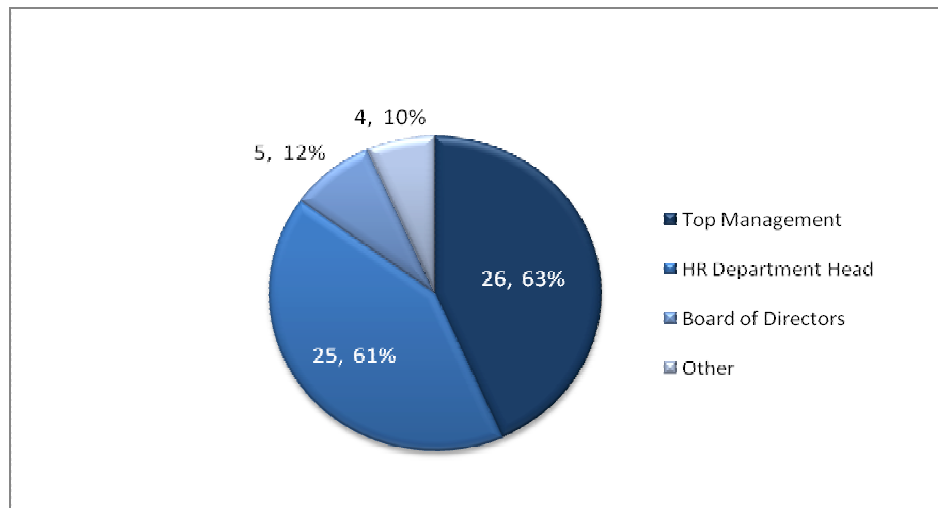
Figure 11. HRO decision making

Figure 12 shows the ways the organizations select their HROSP. Out of 40 organizations (40 out of 41 participants who currently outsource HR functions or tasks answered this question), 34 (85%) organizations indicated they select their HROSP requesting proposals, 12 (30%) organizations indicated by purchase of service agreements. Three organizations (8%) had other methods such as previous recommendation and one participant indicated the decision was administered at the corporate level.
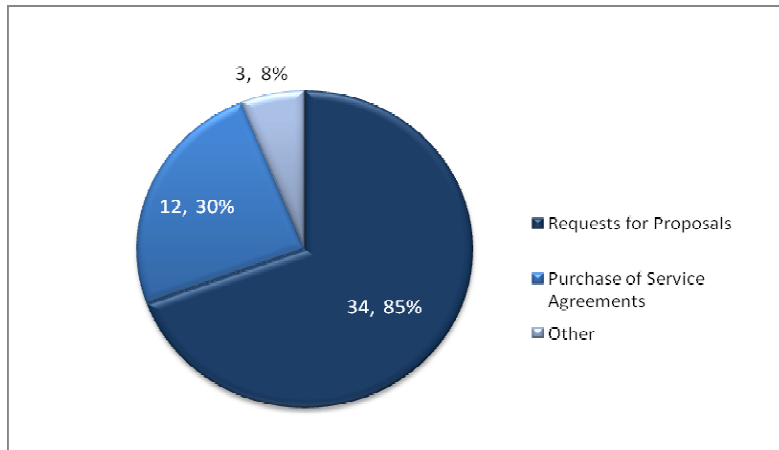
Figure 12. Ways by which organizations select HROSPs

The criteria that 40 organizations (40 out of 41 participants who currently outsource HR functions or tasks answered this question) take into consideration when selecting their HROSP are shown on Figure 13. The top 3 criteria identified by the participants are: cost of vendor services (55%), a proven track record/expertise (53%) and guaranteed service levels (53%).
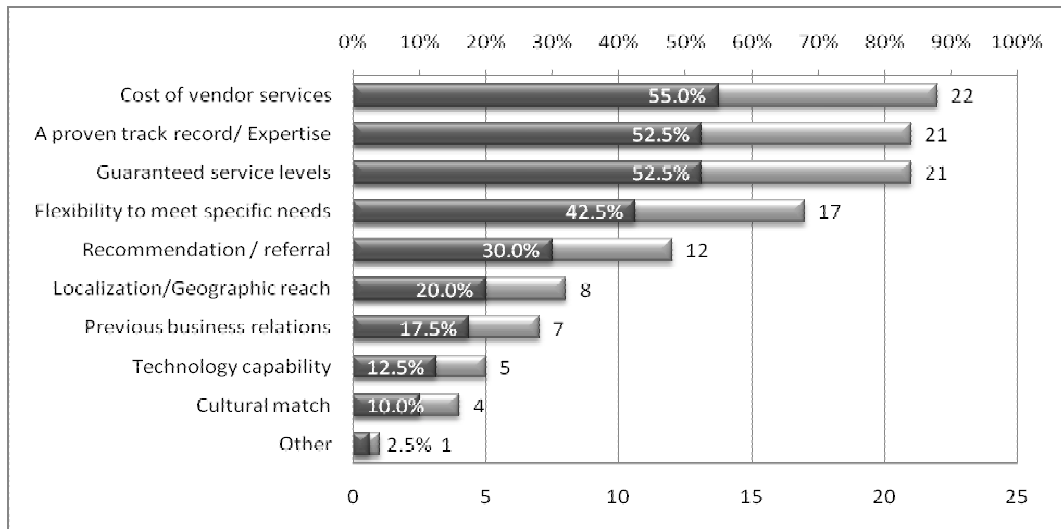
Figure 13. Selecting criteria of HRO service buyer

36

Participants were asked to identify the top 3 reasons or outsourcing drivers for implementing HRO in their organization. The top 3 reasons or outsourcing drivers identified by the 40 organizations (40 out of 41 participants who currently outsource HR functions or tasks answered this question) were: cost saving (70%), ability to focus on core business functions (65%), and greater competence/efficiency (43%). Figure 14 shows the full range of reasons (outsourcing drivers) identified by the participants on the study.
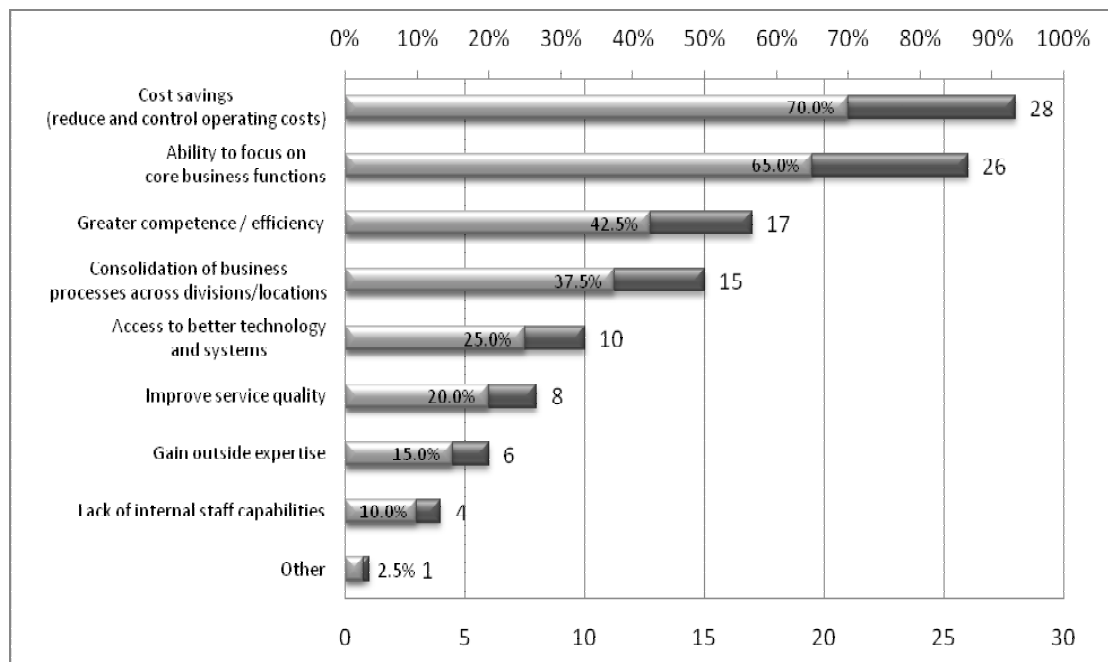
Figure 14. HR outsourcing drivers

There are some risks involved when contracting an HROSP. Figure 15 shows some risk scenarios identified by the 40 HRO service buyers organizations (40 out of 41 participants who currently outsource HR functions or tasks answered this

question) represented in the study. Ten (25%) organizations consider loss of institutional knowledge and/or control to be the riskiest scenario, followed by organizational resistance (20%) and internal information security threats (15%). One organization (3%) mentioned "vendor does not deliver" as another risk.
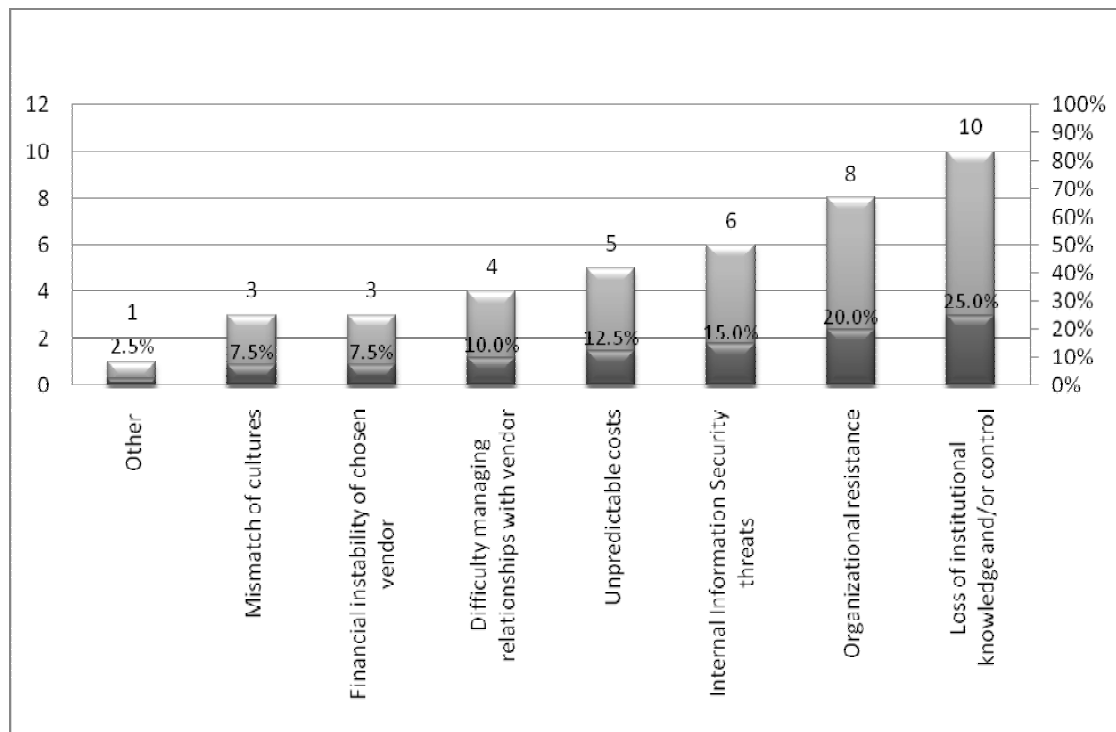
Figure 15. Risk scenarios considered when contracting HROSPs

4.1.4 Advantages and Disadvantages of Outsourcing HR Functions

This section reports response received regarding the advantages and disadvantages of outsourcing HR functions or tasks. It also measures the impact that human resources outsourcing has on HRO service buyer organizations. There

were 40 respondents (40 out of 41 participant's currently outsourcing HR functions answered this question) to the questions on this section.

Of these, 35 (88%) reported having some form of evaluation process for their HROSPs, 5 (13%) do not. Respondents were given a five-point Likert scale question (one being not at all important, and five being extremely important) to rate the level of importance they give to each of the following criteria: accountability, customer satisfaction, effectiveness and innovation (see Figure 16). Of those organizations that evaluate their HROSPs (34 out of 35 participants who evaluate HROSP answered this question), 100 % of them consider accountability, customer satisfaction and effectiveness to be either somewhat important or extremely important when evaluating an HROSP's performance. On the other hand, innovation was rated as an important factor when evaluating HROSPs by 30 (88%) organizations and unimportant or neutral by 4 (12%) organizations. The average level of importance given to each factor was: 4.91 (out of a maximum of 5) for accountability of provider to organization, customer satisfaction and effectiveness, and 4.32 for innovation.
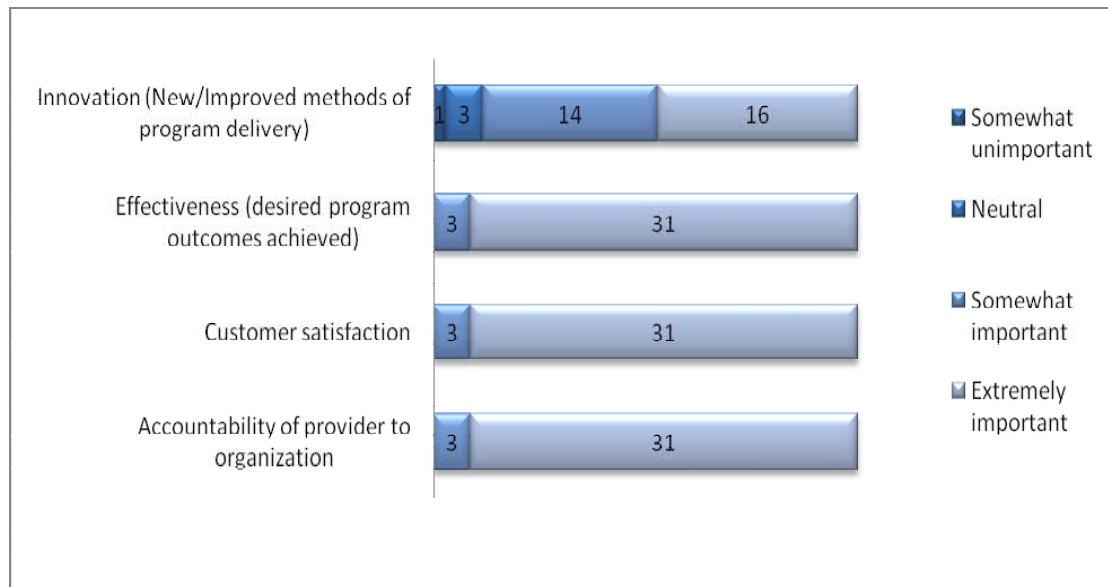
Figure 16. Level of importance given to HROSP performance factors

Figure 17 illustrates the activities HRO service buyer organizations undertake to ensure success in the implementation of HRO service arrangements. Thirty nine out of the total of 41 HRO service buyers identified in section two answered this question.   Twenty six (67%) respondents indicated their organization monitor contracts, 23 (59%) indicated their organizations conduct program audits, 15 (39%) make site visits and 7 (18%) mentioned other activities. Other activities include: task and job supervising, periodic procurement in the market, surveying manager's satisfaction, and conference calls. One participant indicated these activities are performed by corporate offices and other responded "N/A", which might indicate the organization does not undertake any activity to ensure the success of the HRO agreement.

Figure 17. Activities to ensure success of HRO service arrangements

Respondents were given a second five-point Likert scale question (one being "strongly disagree" and five being "strongly agree") to indicate level of agreeableness with each outcome (cost saving, access to better technology and systems, improvement on data delivery, improved productivity and efficiency for HR and ability to focus on core business functions) occurring as a result of implementing HRO. Figure 18 shows the level of agreeableness reported by the HRO service buyers to each of these possible results. Thirty nine representatives of HRO service buyer organizations completed this question, 2 participants did not respond. In average, responses show that respondents agree or tend to agree that organizations are able to focus on core business functions (4.46), improve productivity and efficiency for HR (4.18), improve timeliness, accuracy and meaningfulness of data available to drive business decisions (4.10), access to better technology and systems (3.95), and saving costs (3.77) as a result of HRO.
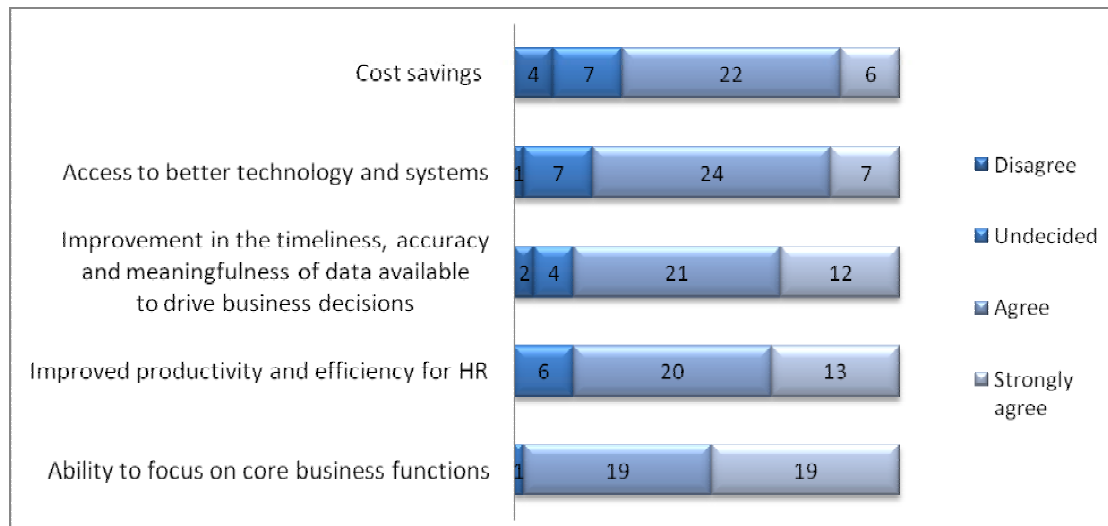
Figure 18. Level of agreeableness with scenarios resulting from HRO

Of the 39 HRO service buyer organizations (39 out of 41 participants who currently outsource HR functions or tasks answered this question) previously identified in section as outsourcing HR functions, 20 (51%) have never changed HROSPs for any of the outsourced HR functions. On the other hand, 19 (49%) organizations have. When the 19 organizations that have change HROSP where asked to identify reasons to make this decision, 12 (63%) indicated it was due to poor service. Five (26%) indicated there where unpredictable costs or cost/benefit calculations that were not justified, same as limited or no flexibility/accessibility. Three (16%) switch HROSP due to mismatch of cultures, same as decrease of competitiveness levels, and other cited reasons (geographical outreach, leveraged national contracts agreements and change in parent company). Two (11%) organizations identified confusion over roles and responsibilities, same as privacy, security and confidentiality issues as being the decision drivers.
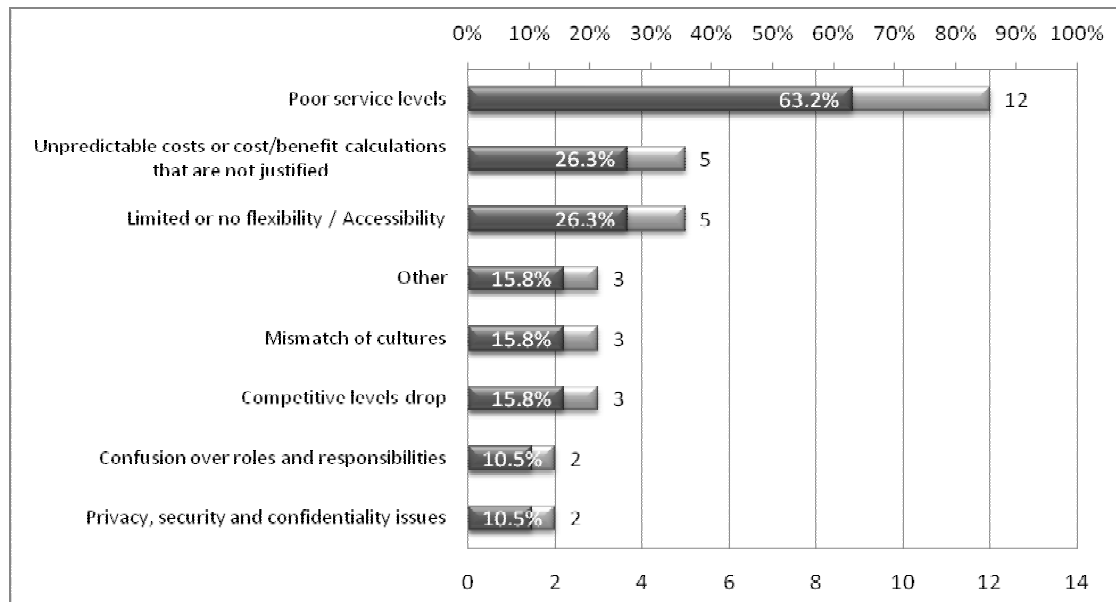
Figure 19. Reasons to change HROSPs

Of the 39 HRO service buyer organizations (39 out of 41 participants who currently outsource HR functions or tasks answered this question), 29 (74%) have never terminated HRO contracts. On the contrary, 10 (26%) organizations have terminated HRO contracts and have brought the HR outsourced functions back to the organization. Of these, 6% indicated HRO contracts were terminated due to unjustified unpredicted costs or cost/benefit calculations. Forty percent (40%) of these organizations reported that the reason to terminate the contract was due to having difficulty managing relationships with vendor, 30% due to their organization's financial conditions and lack of vendor knowledge regarding industry systems, and 20% identified privacy, security and confidentiality issues, standardized or inflexible services, financial instability of chosen vendor and mismatch of cultures as the decision drivers. Only one out of ten organizations identified organizational

43

resistance as a reason to terminate HRO contract (s) and bringing HR function (s) back in-house.
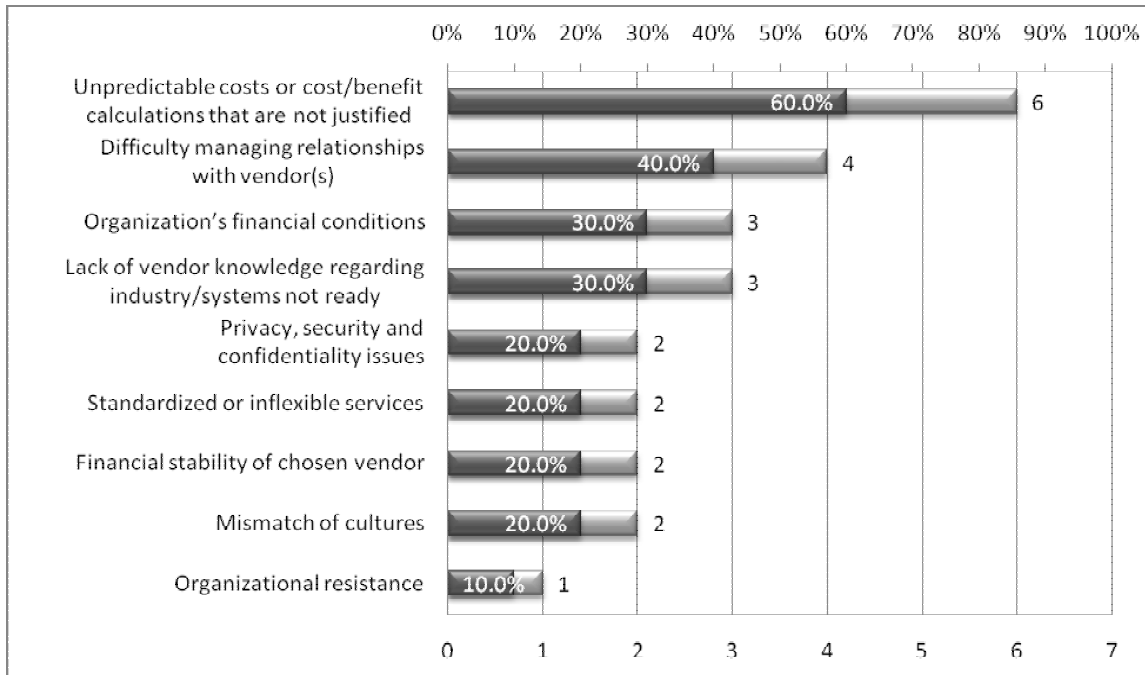
Figure 20. Reasons to terminate HRO contracts

A third five-point Likert scale question was given to participants (one being very dissatisfied and five being very satisfied) to indicate the level of satisfaction with the HRO service offered by HROSPs. Figure 21 shows the HRO service buyer organizations level of satisfaction with their HROSP. Thirty eight representatives of HRO service buyer organizations completed this question, 3 participants did not respond. Responses show that, in average (4.08), respondents are satisfied with the Human Resources Outsourcing services (see Table 2).

44

Table 2
Average level of satisfaction calculation

Level of satisfaction	Response count	Value of responses	(response count) x (value of responses)
Very Dissatisfied	0	1	0
Somewhat Dissatisfied	3	2	6
Neither Satisfied or Dissatisfied	1	3	3
Somewhat Satisfied	24	4	96
Very Satisfied	10	5	50
Total sum	38		155
Average = 4.08*			

* Average = 155÷38
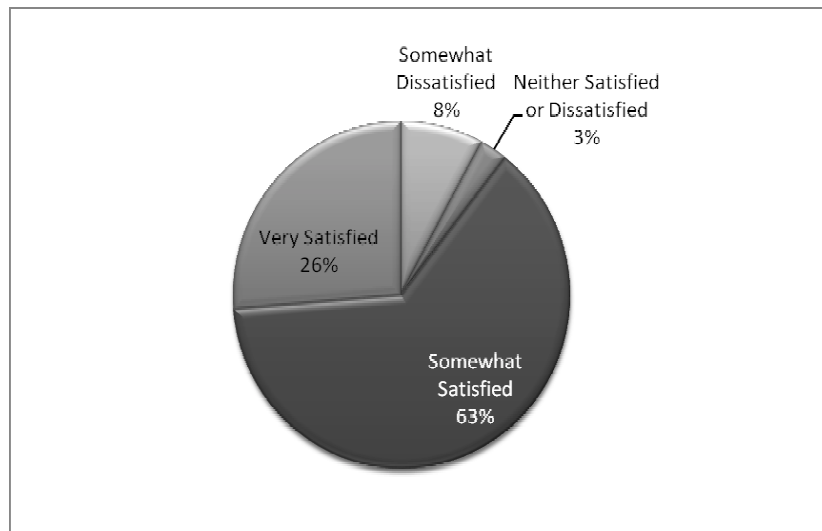
Figure 21. HRO service buyers' level of satisfaction

4.2 HRO Trends within Organizations in Puerto Rico: 2006 v.s. 2009 results

Results obtained in this study were compared to the ones reported by Rodríguez (2006) in a similar study in 2006. In her exploratory study she presents

data of outsourcing trends in the area of information technology, accounting and human resources among companies in Puerto Rico for 2006.   Only results concerning Human Resources Outsourcing were used for this part of our study. Both results (in percents) were compared using bar charts and tables.

4.2.1 Overview of HRO Trends

In 2006, Rodríguez found that 44% of organizations outsourced one or more HR functions.   In this study, 42% of the surveyed organizations indicated to be currently outsourcing one or more HR functions.   This might indicate that the tendency to outsource HR functions among organizations in Puerto Rico has been relatively constant for the last three years (see Figure 22).   On the other hand, the percent of organizations that have changed HROSP and/or terminated HRO contracts, bringing HR functions back in-house have dropped 32% and 31% respectively when compared to 2006 results (see Figure 22).   This might indicate that HRO buyers are more satisfied with their HROSPs since the average satisfaction levels with the HRO service provided have increased from 3.71 in 2006 to 4.08 in 2009.
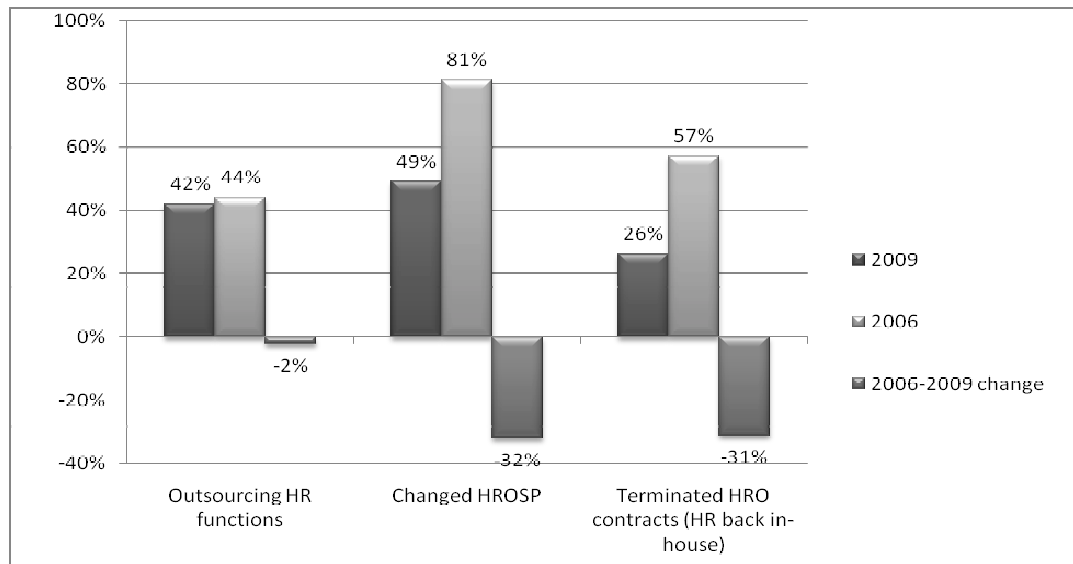
Figure 22. HRO tendencies 2009 and 2006

4.2.2 Human Resources functions and tasks outsourced

When comparing the HR functions being outsourced by organizations in 2006 with the ones being outsourced by organizations surveyed for this study, significant differences were identified (see Table 3). A significant growth in the outsourcing of background check/credentials revision (32% growth) and pre-employment testing (22% growth) is observed when compared to 2006 data obtained from Rodríguez'(2006) study. On the other hand, the training and development, and payroll and compensation suffered from a significant reduction of 67% and 30% respectively when compared to Rodríguez' 2006 data. Newly outsourced HR functions (pre-employment testing, labor relations, employee relocation, and job description and job evaluation) were identified when comparing the functions

47

currently being outsourced by organizations in Puerto Rico to the ones being outsourced three years ago by organizations interviewed by Rodríguez (2006).

Table 3
Outsourced HR functions and tasks 2009 and 2006

HR Functions and Tasks	2009	2006	2006-2009 change
Job Description and Job Evaluation	5%	0%	5%
Expatriate Administration	7%	14%	-7%
Human Resources Information Technology	10%	29%	-19%
Employee Relocation	10%	0%	10%
Employee evaluation instruments	10%	24%	-14%
Labor relations	10%	0%	10%
Preparation of employee manuals	12%	29%	-17%
Training & Development	20%	86%	-67%
Pre-employment testing	22%	0%	22%
Recruiting	27%	43%	-16%
Payroll and compensation	27%	57%	-30%
Outplacement	39%	29%	10%
Salary surveys	44%	57%	-13%
Benefits (Health/Life insurance, Pension/Retirement plans)	56%	43%	13%
Background Check/Credentials revision	61%	29%	32%

The number of HROSP contracted by organizations has diminished dramatically since 2006. The majority of organizations surveyed in this study (68%) have 2 to 5 HROSPs for the outsourced HR functions. Only 2% have 11 or more HROSPs for the outsourced functions (41% less than 2006). Compared to Rodríguez' 2006 study, organizations in this study prefer to have less HRO service providers for the HR functions being outsourced.
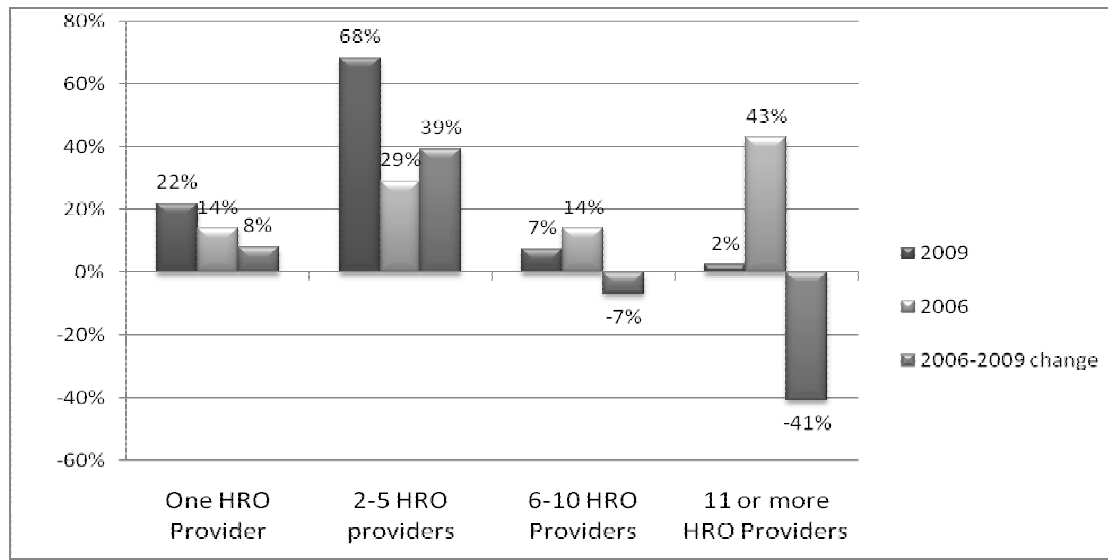
Figure 23. Number of HROSP

4.2.3 Outsourcing Drivers

In 2006, Rodríguez identified cost savings as the number one outsourcing driver (86%), similar to U.S. national and international outsourcing trends surveys (Deloitte, 2008, Human Resources Outsourcing Association, 2007, Outsourcing Institute, 2000 and Towers Perrin, 2005). Even though findings in this study still show cost savings to be the number one outsourcing driver (70%), the surveyed organizations cited other significant reasons to outsource HR functions. Some of the reasons are: the ability to focus on core business functions (65%), obtain grater competence or efficiency (43%) and to consolidate business functions across divisions or locations (38%). Refer to Table 3 and Figure 23 to see the full list of outsourcing drivers.

49

Table 4
HRO buyer's outsourcing drivers 2009 and 2006

Outsourcing Drivers	2009	2006	2006-2009 change
Lack of internal staff capabilities	10%	14%	-4%
Gain outside expertise	15%	0%	15%
Improve service quality	20%	43%	-23%
Access to better technology and systems	25%	0%	25%
Consolidation of business processes across divisions/locations	38%	0%	38%
Greater competence / efficiency	43%	57%	-15%
Ability to focus on core business functions	65%	0%	65%
Cost savings (reduce and control operating costs)	70%	86%	-16%
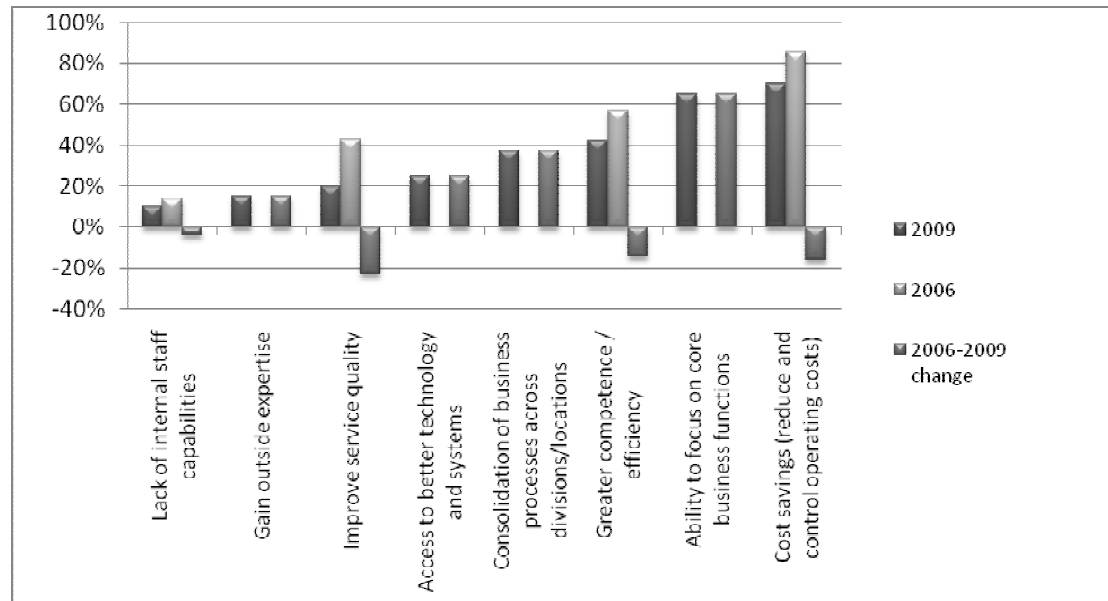
Figure 24. HRO buyer's outsourcing drivers 2009 and 2006

4.2.4 HROSP Selecting Criteria

In 2006, the organizations interviewed by Rodríguez, selected their HROSP relying mostly on the HROSP's expertise (86%). Organizations surveyed in 2009, give relatively the same amount of importance to the cost of services (55%),

expertise (53%), and guaranteed service levels when evaluating a potential HROSP. A full list of HROSP selecting criteria are shown on Table 4 and Figure 24.

Compared to 2006, organizations in 2009 seem to be more cautious when selecting a HRO vendor, evaluating all aspects mentioned in Table 4 and not relying solely on expertise.

Table 5
HRO buyer's HROSP selection criteria 2009 and 2009

HROSP selecting criteria	2009	2006	2006-2009 change
Cultural match	10%	0%	10%
Technology capability	13%	0%	13%
Previous business relations	18%	14%	4%
Localization/Geographic reach	20%	14%	6%
Recommendation / referral	30%	43%	-13%
Flexibility to meet specific needs	43%	14%	29%
Guaranteed service levels	53%	14%	39%
A proven track record/ Expertise	53%	86%	-34%
Cost of vendor services	55%	43%	12%
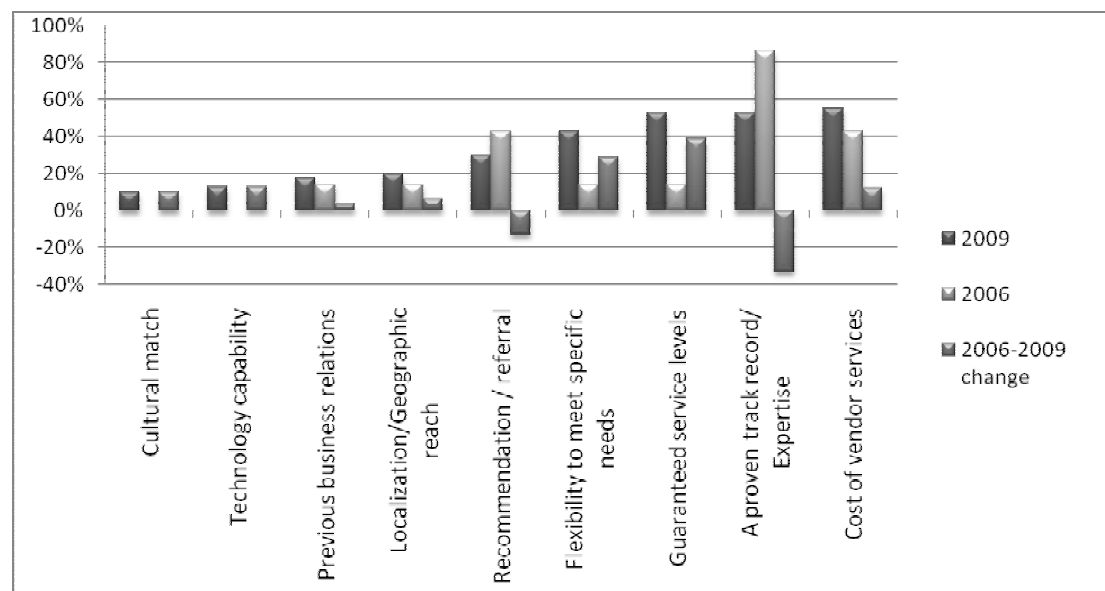
Figure 25. HRO buyer's HROSP selection criteria 2009 and 2009

4.2.5 Risk Scenarios Considered when Contracting a HROSP

Organizations surveyed for this study tend to consider more possible risks when contracting an HROSP in comparison with the ones interviewed by Rodríguez in 2006. In 2006, organizations interviewed considered internal information security threats and loss of institutional knowledge and/or control, the only possible risk scenarios when contracting an HROSP. In 2009, organizations surveyed considered additional risks scenarios to the ones cited in 2006. Loss of institutional knowledge and/or control (25%), and organizational resistance (20%), are considered by the organizations surveyed in 2009 to be the riskiest scenarios when contracting a HROSP.

Table 6
Risk scenarios considered by HRO buyers when selecting a HROSP

Risk scenarios	2009	2006	2006-2009 change
Mismatch of cultures	8%	0%	8%
Financial instability of chosen vendor	8%	0%	8%
Difficulty managing relationships with vendor	10%	0%	10%
Unpredictable costs	13%	0%	13%
Internal Information Security threats	15%	14%	1%
Organizational resistance	20%	0%	20%
Loss of institutional knowledge and/or control	25%	14%	11%
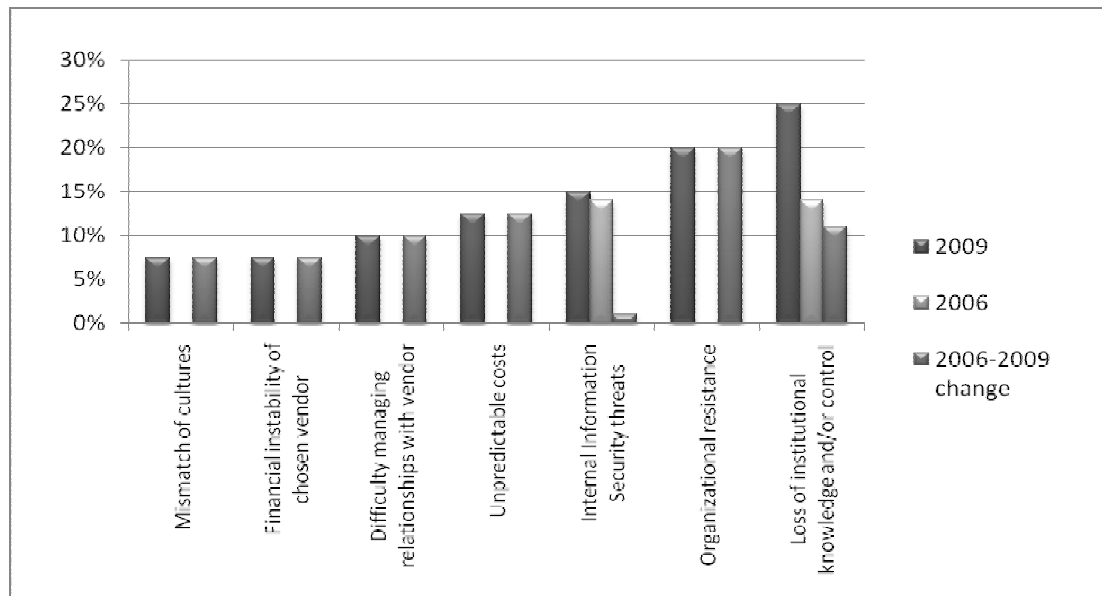
Figure 26. Risk scenarios considered by HRO buyers when selecting an HROSP

4.1 Association Analysis

4.1.1 Current Decision to Outsource and Organizational Size

The chi-square Independence test or test of association was used to determine if the decision to outsource HR functions is related to the number of employees in an organization, number of employees in an organization's HR department, industry classification or the organization's origin. In the case of organizational size, number of employees in the HR department and industry classification the rows containing the frequencies had to be combined to create larger frequencies and avoid small expected values that could invalidate the test.

To run this test, the following hypotheses were tested:

First hypothesis:

H_0:   There is no relation between the number of employees in an

organization and the decision of whether or not to outsource HR

functions.

H_a: There is relation between the number of employees in an organization

and the decision of whether or not to outsource HR functions.

Because the observed value of chi-square, 4.46 (see Table 7), is less than

the critical value of 9.49 ($x^2_{.05,4} = 9.49$), the null hypothesis is not rejected.   The

number of employees in an organization is not a determining factor when making the

decision of whether or not to outsource HR functions.

4.1.2 Current Decision to Outsource and HR Department Size

The second hypothesis tested was:

H_0:   There is no relation between the number of employees in an

organization's HR department and the decision of whether or not to

outsource HR functions.

H_a: There is relation between the number of employees in an

organization's HR department and the decision of whether or not to

outsource HR functions.

Because the observed value of chi-square, 3.25 (see table 8), is less than the

critical value of 5.99 ($x^2_{.05,2} = 5.99$), the null hypothesis is not rejected.   Thus, no

relation between the number of employees in an organization's HR department and the decision of whether or not to outsource HR functions was found.

4.1.3 Current Decision to Outsource and Industry Classification

The third hypothesis tested was:

H_0: There is no relation between the industry classification of an

organization and the decision of whether or not to outsource HR functions.

H_a: There is relation between the industry classification of an organization

and the decision of whether or not to outsource HR functions.

Because the observed value of chi-square, .181 (see table 9), is less than the critical value of 3.84 ($x^2_{.05,1} = 3.84$), the null hypothesis is not rejected. Industry classification of an organization is not a determining factor when making the decision of whether or not to outsource.

4.1.4 Current Decision to Outsource and Organizational Origin

The fourth hypothesis tested was:

H_0: There is no relation between the origin of an organization and the

decision of whether or not to outsource HR functions.

H_a: There is relation between the origin of an organization and the decision

of whether or not to outsource HR functions.

Because the observed value of chi-square, 7.74 (see table 10), is greater than the critical value of 5.99 ($x^2_{.05,2} = 5.99$), the null hypothesis is rejected. The origin of an organization is a determining factor when making the decision of whether or not to outsource human resources functions.

4.1.5 Decision to Outsource in the Future and Organizational Size

The fifth hypothesis tested was:

H_0:   There is no relation between the number of employees in an

organization and the decision of whether or not to outsource HR functions in the future.

H_a: There is relation between the number of employees in an organization and the decision of whether or not to outsource HR functions in the future.

Because the observed value of chi-square, .440 (see table 11), is less than the critical value of 5.99 ($x^2_{.05,2} = 5.99$), the null hypothesis is not rejected. Thus, no relation between the number of employees in an organization and the decision to outsource HR functions in the future was found.

4.1.6 Decision to Outsource in the future and HR Department Size

The sixth hypothesis tested was:

H_0:   There is no relation between the number of employees in an

         organization's HR department and the decision of whether or not to

         outsource HR functions in the future.

H_a: There is relation between the number of employees in an

         organization's HR department and the decision of whether or not to

         outsource HR functions in the future.

Because the observed value of chi-square, 1.37 (see table 12), is less than the critical value of 3.84 ($x^2_{.05,1} = 3.84$), the null hypothesis is not rejected. The number of employees in an organization's HR department is not a determining factor when making the decision to outsource HR functions in the future.

4.1.7 Decision to Outsource in the future and industry Classification

The seventh hypothesis tested was:

H_0:   There is no relation between the industry classification and the

         decision of whether or not to outsource HR functions in the future.

H_a: There is relation between the industry classification and the decision of

         whether or not to outsource HR functions in the future.

Because the observed value of chi-square, 2.50 (see table 13), is less than the critical value of 3.84 ($x^2_{.05,1} = 3.84$), the null hypothesis is not rejected. Industry classification of an organization is not a determining factor when making the decision of whether or not to outsource HR functions in the future.

4.2 Discussion

The majority of the participants surveyed were HR directors/ HR department heads or HR managers. Although organizations represented in the study vary in size, the ones having from 101 to 500 employees and those with more than 1000 employees were the ones with a higher representation in the study. The majority of respondents indicated the HR department had 5 or less employees. Most organizations are local, have been operating in Puerto Rico for more than 10 years, and belong to the service or manufacturing industry.

While many organizations consider Human Resources Outsourcing as a strategy to make an organization more efficient and competitive, a large number of organizations are still skeptical about HR outsourcing. Less than half of the surveyed organizations outsource HR functions, similar to the findings reported by Rodríguez in 2006. Most organizations that are not currently outsourcing any of their HR functions indicated they are not considering Human Resources Outsourcing in the future. Still HRO is expected to grow since 40% of non current HRO buyer's organizations expect to outsource one or more HR functions in the future.

No relation was found between the decision to outsource and the number of employees in the HR department, their industry classification or organizational size. These findings are similar to the ones reported by Duran (1998), which indicated there is no significant association between the firm's Industry sector and the size of a firm. Findings did show the organization's origin (continental, foreign or local) to be a determining factor when making the decision of whether or not to outsource HR. Survey results for this study showed that 8 out of 10 (80%) Foreign organizations outsource one or more HR functions. Only 14 out of 35 (40%) U.S. based organizations and 16 out of 49 (33%) local organizations are currently outsourcing one or more HR functions. This coincides with literature suggesting that multinationals companies are more likely to outsource HR functions because their HRM may not be as effective or as knowledgeable as local or regional HROSPs (Mc Vaugh, 2008; Ranjan, 2008; and Shen, 2005).

The most common HR functions or tasks being outsourced by organizations surveyed for this study are: background check/credentials revision and benefits administration. These findings prove results of the 2008 SHRM survey brief, Human Resource Outsourcing-Is it here to stay?, where it was stated that background/criminal background checks were expected to increase within the next five years. For these functions most HRO service buyer organizations have from 2 to 5 different HROSPs.

Based on findings of this study, top management and/or HR department head are the ones who determine the use of HRO in an organization, most of them

selecting an HROSP by formally requesting proposals. These findings indicate that the majority of the organizations surveyed have a centralized decision making system, similar to Rodríguez (2006) research findings, where owners, presidents and people in headquarters were the ones making the final decision of outsourcing certain functions.

As Shen's (2005) study of HRO concludes, organizations surveyed for this study implement HRO to save costs and to be able to focus on core business functions. On the other hand, these findings differ from the ones on Duran's (1998) study in stating that although cost related issues are considered by organizations in the decision making process, it was not identified as an outsourcing driver.

The risk of losing institutional knowledge and/or control, organizational resistance, and internal information security threats were the most commonly cited risks when considering outsourcing of HR functions or tasks. To minimize these risks and fulfill organization's HRO objectives and expectations, surveyed organizations consider the cost of vendor services, their proven track record and expertise, and guaranteed service levels by the HRO vendors.

When selecting an HROSP, organizations evaluate them based on accountability, customer satisfaction and effectiveness, and innovation. The most common way participant organizations make sure an HROSP is in compliance with the established service agreements is by monitoring service contracts. These findings might explain the small percentage of organizations that reported having to change vendors due to poor service levels and/or terminate HRO contracts due to

60

unjustified unpredictable costs or cost/benefit calculations, opting to bring HR functions back in-house.

Like recent surveys conducted by SHRM (2008) and Rodríguez (2007), HRO service buyers surveyed in this study indicated they are satisfied with the HRO service being provided. This can be seen reflected on the decrease in the number of organizations that have change HROSPs, terminated HRO contracts to bring HR functions back in-house, or both.

5 CONCLUSIONS

After a rigorous analysis of the findings of this study and based on the specific objectives for this study, the following conclusions are presented:

- The most common outsourced HR functions or tasks within companies in Puerto Rico are: background check and/or credentials revision, benefits administration, and salary surveys.

- Cost savings, the ability to focus on core business functions, and greater competence and/or efficiency are the top three reasons why organizations in Puerto Rico decide to outsource HR functions.

- The most common concerns among organizations when making HRO decisions are the loss of institutional knowledge and or control, organizational resistance and internal informational security threats.

- When selecting an HROSP, organizations in Puerto Rico take into consideration primarily, the cost of vendor services, their level of expertise and guaranteed service levels to be the most important.

- The most important elements considered by an organization when evaluating a HROSP performance are: accountability of provider to the organization, customer satisfaction and their effectiveness in delivering their services.

- A poor service level is the most common reason why organizations in Puerto Rico change HROSP. On the other hand, organizations in Puerto Rico have terminated HRO contracts bringing HR functions back in-house due to

unpredictable costs or cost/benefit calculations that are not justified. Overall, HRO service buyer organizations in Puerto Rico are satisfied with the HRO service provided.

− There is no relation between the number of employees in an organization, number of employees in the HR department and type of industry variables with the decision to outsource HR functions. On the other hand, there is a relation between the origin of the organization and the decision to outsource among organizations in Puerto Rico.

− There is no relation between the number of employees in an organization, number of employees in the HR department and type of industry variables and the decision to outsource HR functions in the future.

− Findings regarding amount of organizations outsourcing HR functions in Puerto Rico at present are similar to the results reported by Rodríguez in 2006. However, results related to the organization's change of HROSPs, and HRO contract cancelations to bring HR functions back in-house are significantly different from the ones reported on Rodríguez (2006) research.

5.1 Recommendations

First the organization considering HRO as part of their strategy should evaluate HR functions and tasks and classify them as core or administrative. Literature suggests outsourcing administrative functions or tasks since they do not add value to the organization. Also, a cost-benefit analysis should be done in order to evaluate if the organization should outsource the HR functions identified in the first step.

Choosing the right vendor is the next step by either developing request for proposals or by buying service agreements. One thing is for certain, the organization considering HRO should be clear on: the objectives for outsourcing and that they meet the corporate strategy, what they expect from their vendor and the performance measurements by which they will evaluate their HROSP.

Once a contract is established, a good relationship between HRO service buyer and HRO service provider must be built to strengthen a proper communication between the parts ensuring a high quality service delivery. This can be done by considering the HROSP more of a strategic partner, inviting them to board or staff meetings. Some experts recommend having an in-house team or person in charge of helping the HROSP familiarize with the everyday operations of the organization and to ensure fulfillment of contract agreements. The key to a successful HRO implementation and successful HRO experience lies in the careful evaluation of the HR functions and cost and benefits of implementing HRO.

5.2 Limitations

The first limitation identified in this study is the lack of research available addressing Human Resources Outsourcing in Puerto Rico. The majority of the studies found where made in other countries like the United States, Canada, China and European countries.

The second limitation was the low level of responses received, in spite the follow-up e-mails that were sent. In several cases the contact information provided was incorrect, outdated or the organization had ceased operations. This made the collection of data a long and arduous process.

The third limitation was related to the organizations on the population. Since the sample was drawn from a list of organizations which are members of the Society of Human Resource Management-Puerto Rico Chapter, some of the organizations are actual Human Resources Outsourcing Service Providers and did not believe their participation was appropriate.

A fourth limitation was the instrument itself. In order to make the questionnaire an attractive, easy and a less time consuming research tool for participants to answer, the questions on the survey did not provide for participants to identify what percentage of a specific function is being outsourced, for how long have the organization been outsourcing a specific function, and the level of satisfaction with the HRO service provided for each function outsourced or in the case of not being outsourcing, to indicate the reasons to not outsource.

5.3 Future Work

Further studies should focus on the way companies assess their organizations before finally deciding to outsource any HR functions, the contracting process, HROP evaluation or contract monitoring and the legal implications. The satisfaction level with the outsourcing service provided for a specific function or tasks and how much of that specific function or task is being outsourced should be measured. Also, a deeper cost-benefit analysis of HRO activities in an organization is suggested.

Since organizational resistance has been identified as the second riskiest scenario when contracting a HROSP, additional research on how do HRO activities impact human resources issues such as layoffs and the current level of satisfaction of current employees, quality of work and the role unions play, if any, in a HRO initiative is also suggested.

From the HROSP point of view, research on new HRO services trends can be conducted.   This way more reference on the HRO market could be provided, information that can serve as a guide for organizations on the best human resources outsourcing practices.

Finally, research in the areas mention above should be geared towards local organizations in Puerto Rico. Local organizations are organizations that at least are 51% owned and managed by Puerto Rico residents (Caribbean Business, 2009).

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APPENDIX A.   LETTER OF CONSENT

University of Puerto Rico
Mayagüez Campus
College of Business Administration
Graduate Studies

Letter of Consent

The following questionnaire is part of a research study for a Master's Thesis called "Exploratory Study of Human Resources Outsourcing Practices within Organizations in Puerto Rico" been conducted by Laura A. Sepúlveda Ramírez. The study is conducted from the Human Resources Outsourcing (HRO) service buyer's point of view, providing a more detailed insight of the HRO practices within organizations currently operating in Puerto Rico. The findings of this exploratory study will serve as a guide for Outsourcing Service Providers (HROSP) to meet their client's needs and expectations, for the Outsourcing Service Buyers identify their needs and make the best decision when selecting a HROSP, and for researchers as a foundation for future studies in this area.

Participation in this survey is voluntary. The names and contact information of the professionals selected for this survey where drawn from the Society for Human Resources Management, Puerto Rico Professional Chapter 2008-2009 membership directory. The participants of this survey are required to be current Human Resources professionals and/or any other professionals in charge of making Outsourcing decisions in the Human Resources area for the selected company.

The information in this survey is confidential, and will be used for educational purposes only. A secure online survey tool is used and the researcher guarantees that your responses will be held in confidence. Once reviewed and used, these will be discarded. The researcher will be the only person authorized to have access to the responses. Only aggregate responses will be reported. Company names and/or contact information will not me linked to the questionnaire responses or disclosed in any way. The study will be conducted in a period of four months from January through April 2009. After the study is finished and properly approved by the University, the results will be shared with the participants and public in general.

By answering and submitting the following questions you agree with the terms and conditions of this survey and give consent to the researcher to use the information to be provided as part of the research methodology to ensure the success of the study.

If you have any questions please contact Laura A. Sepúlveda Ramírez at (787)672-2489 or at sepulveda.laura@gmail.com. You can also contact Dr. Dafne Javier at (787)832-4040 x.3688 or Dr. Yolanda Ruiz, director of graduate studies at (787)832-4040 x. 3887.

APPENDIX B.   QUESTIONNAIRE

<u>EXPLORATORY STUDY OF HUMAN RESOURCES OUTSOURCING PRACTICES
WITHIN ORGANIZATIONS IN PUERTO RICO</u>

SECTION I: HUMAN RESOURCES OUTSOURCING EXPERIENCE
*This section asks about your organization's experience with the outsourcing of HR functions.
Please select the appropriate answer for each question.*

1. Is your Organization currently outsourcing any of its Human Resources functions or tasks?

☐ No

☐ Yes

2. Is your organization considering Human Resources Outsourcing for any HR function or task
in the future?

☐ No

☐ Yes

3. Which of the following human resources functions or tasks are currently being outsourced by
your organization? Please select all that apply.

☐ Payroll and compensation

☐ Benefits (Health/Life insurance, Pension/Retirement plans)

☐ Recruiting

☐ Training & Development

☐ Human Resources Information Technology/HR Management Systems

☐ Expatriate Administration

☐ Employee Relocation

☐ Outplacement

☐ Employee evaluation instruments

☐ Salary surveys

☐ Preparation of employee manuals

☐ Pre-employment testing

☐ Job Description and Job Evaluation

☐ Labor relations

☐ Background Check/Credentials revision

☐ Other (please specify)

[   ]

4. In total, how many Human Resources Outsourcing Providers do you have for the outsourced Human Resources functions previously identified?

◌ One HRO Provider

◌ 2-5 HRO providers

◌ 6-10 HRO Providers

◌ 11 or more HRO Providers

SECTION II: THE DECISION TO OUTSOURCE HR FUNCTIONS
This section seeks to determine the factors that play a determinant role in the final decision to outsource some or all of the HR function(s) considering the decision making process in your organization. Please select the most appropriate answer for each question.

5. Who participates in determining the use of Human Resources Outsourcing in your organization? Please select all that apply.

☐ Board of Directors

☐ Top Management

☐ HR Department Head

☐ Other (please specify)

[   ]

6. How does your organization select Human Resources Outsourcing service providers? Please select all that apply.

☐ Requests for Proposals

☐ Purchase of Service Agreements

☐ Other (please specify)

[   ]

7. Please select the top 3 criteria your organization considers when selecting a Human Resources Outsourcing service provider. Please select 3 choices from the list.

☐ Previous business relations

☐ Recommendation / referral

☐ Guaranteed service levels

☐ A proven track record/ Expertise

☐ Localization/Geographic reach

☐ Flexibility to meet specific needs

☐ Cost of vendor services

☐ Cultural match

☐ Technology capability

☐ Other (please specify)

[   ]

8. Please identify the top 3 reasons (outsourcing drivers) why your organization outsources Human Resources functions/tasks. Please select 3 choices from the list.

☐ Greater competence / efficiency

☐ Cost savings (reduce and control operating costs)

☐ Ability to focus on core business functions

☐ Access to better technology and systems

☐ Consolidation of business processes across divisions/locations

☐ Lack of internal staff capabilities

☐ gain outside expertise

☐ improve service quality

☐ Other (please specify)

[   ]

9. Which of the following scenarios does your organization consider to be the riskiest when contracting a Human Resources Outsourcing service provider? Please select one from the list.

⊙ Loss of institutional knowledge and/or control

⊙ Difficulty managing relationships with vendor

⊙ Mismatch of cultures

☐ Internal Information Security threats

☐ Financial instability of chosen vendor

☐ Unpredictable costs

☐ Organizational resistance

☐ Other (please specify)

[   ]

SECTION III: ADVANTAGES AND DISADVANTAGES OF OUTSOURCING HR FUNCTIONS

This section seeks to identify the advantages and disadvantages of outsourcing the HR function(s) mention in section I and measure the impact of the HR outsourcing in a given list of aspects. Please select the appropriate option for each statement.

10. Does your organization evaluate the HRO service providers?

☐ No

☐ Yes

11. Please indicate the level of importance given to each factor when measuring the HRO service provider's performance.

	Not at all important	Somewhat unimportant	Neutral	Somewhat important	Extremely important
Accountability of provider to organization	☐ Not at all important	☐ Somewhat unimportant	☐ Neutral	☐ Somewhat important	☐ Extremely important
Customer satisfaction	☐ Not at all important	☐ Somewhat unimportant	☐ Neutral	☐ Somewhat important	☐ Extremely important
Effectiveness (desired program outcomes achieved)	☐ Not at all important	☐ Somewhat unimportant	☐ Neutral	☐ Somewhat important	☐ Extremely important
Innovation (New/Improved methods of program delivery)	☐ Not at all important	☐ Somewhat unimportant	☐ Neutral	☐ Somewhat important	☐ Extremely important

12. Which of the following activities has your organization undertaken to ensure success in implementing HRO arrangements? Please select all that apply.

☐ Contract monitoring

☐ Site visits

☐ Program audit

☐ Other (please specify)

[   ]

13. Please rate how strongly you agree or disagree with the occurrence each of the following scenarios as a result of Human Resources Outsourcing.

	Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Improved productivity and efficiency for HR	☐ Strongly disagree	☐ Disagree	☐ Undecided	☐ Agree	☐ Strongly agree
Cost savings (lowered the total cost of providing all HR services to the organization)	☐ Strongly disagree	☐ Disagree	☐ Undecided	☐ Agree	☐ Strongly agree
Ability to focus on core business functions	☐ Strongly disagree	☐ Disagree	☐ Undecided	☐ Agree	☐ Strongly agree
Access to better technology and systems	☐ Strongly disagree	☐ Disagree	☐ Undecided	☐ Agree	☐ Strongly agree
Improvement in the timeliness, accuracy and meaningfulness of data available to drive business decisions	☐ Strongly disagree	☐ Disagree	☐ Undecided	☐ Agree	☐ Strongly agree

14. Has the organization changed HRO service providers for any HR outsourced functions?

☐ Yes

☐ No

15. For what reasons have your organization changed HRO service providers? Please select the reasons that apply.

☐ Privacy, security and confidentiality issues

☐ Competitive levels drop

☐ Poor service levels

☐ Limited or no flexibility / Accessibility

☐ Unpredictable costs or cost/benefit calculations that are not justified

☐ Mismatch of cultures

☐ Confusion over roles and responsibilities

☐ Other (please specify)

[   ]

16. Has the organization terminated HRO contracts, bringing HR outsourced functions back in-house?

○ Yes

○ No

17. For what reasons have your organization has terminated Human Resources Outsourcing contracts, bringing HR outsourced functions back in-house? Please select the reasons that apply.

☐ Difficulty managing relationships with vendor (s)

☐ Mismatch of cultures

☐ Lack of vendor knowledge regarding industry/systems not ready

☐ Financial stability of chosen vendor

☐ Unpredictable costs or cost/benefit calculations that are not justified

☐ Standardized or inflexible services

☐ Privacy, security and confidentiality issues

☐ Organizational resistance

☐ Organization's financial conditions

18. In general, from one to five, how satisfied is your organization with the Human Resources Outsourcing services?

◉ Very Dissatisfied   ○ Somewhat Dissatisfied   ○ Neither Satisfied or Dissatisfied   ○ Somewhat Satisfied   ○ Very Satisfied

SECTION IV: BACKGROUND INFORMATION

This section asks for demographic information about the organization you represent to help with the data analysis phase. Please select the most appropriate answer for each question.

19. Please select from the list below your current job title.

○ President/Owner/CEO

○ HR Director/HR Department Head

○ HR Manager

○ HR Supervisor

○ HR Specialist/HR Officer

☐ HR Assistant

☐ Other (please specify)

[ ]

20. Approximately, how many employees does your organization have on payroll?

☐ 50 or less employees

☐ 51 to 100 employees

☐ 101 to 200 employees

☐ 201 to 500 employees

☐ 501 to 1000 employees

☐ more than 1000 employees

21. How many employees does the Human Resources department have?

☐ 5 or less employees

☐ 6-10 employees

☐ 11-20 employees

☐ 21 or more employees

22. Select the Industry Classification of your organization from the list below. Please select one from the list.

☐ Agriculture, Forestry, Fishing and Hunting

☐ Real Estate and Rental and Leasing

☐ Mining, Quarrying, and Oil and Gas Extraction

☐ Professional, Scientific and Technical Services

☐ Utilities

☐ Management of Companies and Enterprises

☐ Construction

☐ Administrative and Support, Waste Management and Remediation Services

☐ Manufacturing

☐ Educational Services

☐ Wholesale Trade

☐ Health Care and Social Assistance

- ☐ Retail Trade
- ☐ Arts, Entertainment and Recreation
- ☐ Transportation and Warehousing
- ☐ Accommodation and Food Services
- ☐ Information and Cultural Industries
- ☐ Finance and Insurance
- ☐ Public Administration
- ☐ Other Services (except Public Administration)

23. How many years has your organization been operating in Puerto Rico?
- ☐ Less than a year
- ☐ 1-5 years
- ☐ 6-10 years
- ☐ more than 10 years

24. Which of the following best describes the origins of your organization? Please select one from the list.
- ☐ Local
- ☐ Continental (US)
- ☐ Foreign

25. Select all the countries in which your organization offers products and/or services. Please select all that apply.
- ☐ United States
- ☐ Puerto Rico
- ☐ Caribbean
- ☐ Europe
- ☐ Asia
- ☐ North America (US and Canada)
- ☐ Central America
- ☐ South America
- ☐ Africa

☐ Other (please specify)

APPENDIX C   LETTERS OF AUTHORIZATION

APPENDIX C1   COMMITTEE FOR THE PROTECTION OF HUMAN BEINGS IN RESEARCH (CPSHI/IRB)

Universidad de Puerto Rico en Mayagüez
Decanato de Asuntos Académicos

Comité para la Protección de los
Seres Humanos en la Investigación
(CPSHI/IRB)

07-08 LS 02

22 de febrero de 2008

Sra. Laura Sepúlveda Ramírez
457 Calle Almirante
Mayagüez, P. R., 00682
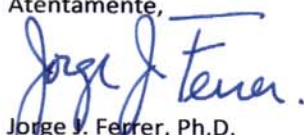
Estimada Sra. Sepúlveda:

Agradezco su carta del 18 de los corrientes, en la que atiende satisfactoriamente a las reservas planteadas por este Comité. Me complace comunicarle que el CPSHI concede gustosamente la aprobación de su estudio *An Explanatory Study of Human Resources. Outsourcing Practices within Organizations in Puerto Rico.*

La aprobación se extiende desde el 25 de febrero de 2008 hasta el 25 de febrero de 2009. Le recuerdo que cualquier modificación sustancial de su estudio requeriría una nueva solicitud de revisión.

Agradezco su cooperación con nuestros trabajos y le deseo éxito en su investigación.

Atentamente,

Jorge J. Ferrer, Ph.D.
Presidente CPSHI

Cc. Dra. Yolanda Ruiz
    Dra. Dafne Javier

Gmail by Google BETA

Laura Sepulveda <sepulveda.laura@gmail.com>

Cuestionario para Tesis

Rodríguez, Adelis M. <adelis.Rodríguez@gmail.com>
Tue, Sep 25, 2007 at 6:32 PM

To: Laura Sepulveda <sepulveda.laura@gmail.com>, dafne_javier@hotmail.com

Laura,

Yo estoy dispuesta a otorgarte la autorización siempre y cuando me des creditos por usar el cuestionario (preguntale a Dafne si se si se pone como referencia o en que parte de la tesis vendrian los creditos, ella sabe de eso mejor que yo).

Si necesitas ayuda en algo, dejame saber, todavia tengo el celular # de PR, 787-501-0711 me puedes conseguir de L-V de 6-9:00pm o en los fines de semana. Reviso el email todos los dias, y varias veces asi que tambien me puedes escribir aca.

Adelis

--
Adelis M. Rodríguez

APPENDIX C3   LINDA DUXBURY

Gmail by Google BETA

Laura Sepulveda <sepulveda.laura@gmail.com>

Request for authorization

Linda Duxbury <Linda_Duxbury@carleton.ca>   **Wed, Oct 31, 2007 at 10:12 PM**
To: Laura Sepulveda <sepulveda.laura@gmail.com>

Hi Laura… Ximena did her thesis with me ages ago … and I do not have her survey instrument electronically .. If you can find it in your library in any form .. you can use the survey if you reference it for sure… Good luck. Linda

APPENDIX D   **CHI-SQUARE INDEPENDENCE TEST**
APPENDIX D1   **MINITAB CHI-SQUARE INDEPENDENCE TEST**
OUTPUT TABLES

Table 7
Chi-Square Independence Test: Organizational size, Outsourcing HR functions

Number of employees	Outsourcing HR functions		
	No	Yes	All
100 or less employees	18*	7	25
	14.89**	10.11	25.00
101 to 200 employees	13	6	19
	11.32	7.68	19.00
201 to 500 employees	10	12	22
	13.11	8.89	22.00
501 to 1000 employees	7	6	13
	7.74	5.26	13.00
more than 1000 employees	8	7	15
	8.94	6.06	15.00
All	56	38	94
	56.00	38.00	94.00

Pearson Chi-Square = 4.461, DF = 4, P-Value = 0.347
Likelihood Ratio Chi-Square = 4.508, DF = 4, P-Value = 0.342

* Count ** Expected count
Only 56 out of the 57 organizations who indicated not being currently
outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR
functions or tasks were considered.

Table 8

Chi-Square Independence Test: Number of employees in HR Department, Outsourcing HR functions

```
Number of employees in HR dept.          Outsourcing HR functions
```

Number of employees in HR dept.	No	Yes	All
11 or more employees	6*	9	15
	8.94**	6.06	15.00
5 or less employees	41	22	63
	37.53	25.47	63.00
6-10 employees	9	7	16
	9.53	6.47	16.00
All	56	38	94
	56.00	38.00	94.00

```
Pearson Chi-Square = 3.253, DF = 2, P-Value = 0.197
Likelihood Ratio Chi-Square = 3.207, DF = 2, P-Value = 0.201
```

```
*  Count   ** Expected count
Only 56 out of the 57 organizations who indicated not being currently
outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR
functions or tasks were considered.
```

Table 9

Chi-Square Independence Test: Industry Classification, Outsourcing HR functions

```
Industry Classification   Outsourcing HR functions
```

Industry Classification	No	Yes	All
Manufacturing	14*	11	25
	14.89**	10.11	25.00
Services	42	27	69
	41.11	27.89	69.00
All	56	38	94
	56.00	38.00	94.00

```
Pearson Chi-Square = 0.181, DF = 1, P-Value = 0.671
Likelihood Ratio Chi-Square = 0.180, DF = 1, P-Value = 0.672
```

```
*  Count   ** Expected count
Only 56 out of the 57 organizations who indicated not being currently
outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR
functions or tasks were considered.
```

Table 10.

Chi-Square Independence Test: Origin of organization, Outsourcing HR functions

Origin of organization	Outsourcing HR functions		
	No	Yes	All
Continental (US)	21*	14	35
	20.85**	14.15	35.00
Foreign	2	8	10
	5.96	4.04	10.00
Local	33	16	49
	29.19	19.81	49.00
All	56	38	94
	56.00	38.00	94.00

Pearson Chi-Square = 7.735, DF = 2, P-Value = 0.021
Likelihood Ratio Chi-Square = 7.819, DF = 2, P-Value = 0.020

Note. 1 cell with expected counts less than 5
* Count ** Expected count
Only 56 out of the 57 organizations who indicated not being currently outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR functions or tasks were considered.

Table 11

Chi-Square Independence Test: Organizational size, Considering HRO in the future

Organizational size	Considering HRO in the future		
	No	Yes	All
100 or less employees	12*	6	18
	10.93**	7.07	18.00
101 to 500 employees	13	10	23
	13.96	9.04	23.00
more than 500 employees	9	6	15
	9.11	5.89	15.00
All	34	22	56
	34.00	22.00	56.00

Pearson Chi-Square = 0.440, DF = 2, P-Value = 0.802
Likelihood Ratio Chi-Square = 0.444, DF = 2, P-Value = 0.801

* Count ** Expected count
Only 56 out of the 57 organizations who indicated not being currently outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR functions or tasks were considered.

Table 12
Chi-Square Independence Test: Number of employees in HR department, Considering HRO in the future

```
Number of employees in HR dept.        Considering HRO in the future

                                        No       Yes      All

5 or less employees                     23*      18       41
                                        24.89**  16.11    41.00
6 or more employees                     11       4        15
                                        9.11     5.89     15.00
All                                     34       22       56
                                        34.00    22.00    56.00
Pearson Chi-Square = 1.368, DF = 1, P-Value = 0.242
Likelihood Ratio Chi-Square = 1.417, DF = 1, P-Value = 0.234
```

```
*  Count  ** Expected count
Only 56 out of the 57 organizations who indicated not being currently
outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR
functions or tasks were considered.
```

Table 13
Chi-Square Independence Test: Industry Classification, Considering HRO in the future

```
Industry Classification           Considering HRO in the future

                                  No       Yes      All

Manufacturing                     6*       8        14
                                  8.50**   5.50     14.00
Services                          28       14       42
                                  25.50    16.50    42.00
All                               34       22       56
                                  34.00    22.00    56.00
Pearson Chi-Square = 2.496, DF = 1, P-Value = 0.114
Likelihood Ratio Chi-Square = 2.452, DF = 1, P-Value = 0.117
```

```
*  Count  ** Expected count
Only 56 out of the 57 organizations who indicated not being currently
outsourcing any HR functions or tasks were considered.
Only 38 out of the 41 organizations who indicated to be outsourcing HR
functions or tasks were considered.
```

APPENDIX D2   CHI-SQUARE DISTRIBUTION PLOT

Distribution Plot
Chi-Square, df=1

Distribution Plot
Chi-Square, df=2

Distribution Plot
Chi-Square, df=4

89