



Personnel Review

HR outsourcing in small and medium-sized enterprises: Exploring the role of human resource intermediaries

Andreas Wallo, Henrik Kock,

Article information:

To cite this document:

Andreas Wallo, Henrik Kock, (2018) "HR outsourcing in small and medium-sized enterprises: Exploring the role of human resource intermediaries", Personnel Review, <https://doi.org/10.1108/PR-03-2017-0066>

Permanent link to this document:

<https://doi.org/10.1108/PR-03-2017-0066>

Downloaded on: 28 June 2018, At: 08:29 (PT)

References: this document contains references to 44 other documents.

To copy this document: permissions@emeraldinsight.com

The fulltext of this document has been downloaded 13 times since 2018*

Access to this document was granted through an Emerald subscription provided by emerald-srm:178665 []

For Authors

If you would like to write for this, or any other Emerald publication, then please use our Emerald for Authors service information about how to choose which publication to write for and submission guidelines are available for all. Please visit www.emeraldinsight.com/authors for more information.

About Emerald www.emeraldinsight.com

Emerald is a global publisher linking research and practice to the benefit of society. The company manages a portfolio of more than 290 journals and over 2,350 books and book series volumes, as well as providing an extensive range of online products and additional customer resources and services.

Emerald is both COUNTER 4 and TRANSFER compliant. The organization is a partner of the Committee on Publication Ethics (COPE) and also works with Portico and the LOCKSS initiative for digital archive preservation.

*Related content and download information correct at time of download.

HR outsourcing in small and medium-sized enterprises

Exploring the role of human resource intermediaries

Role of human resource intermediaries

Andreas Wallo and Henrik Kock

Department of Behavioural Sciences and Learning, HELIX Competence Centre, Linköping University, Linköping, Sweden

Received 8 March 2017
Revised 15 September 2017
7 November 2017
9 February 2018
Accepted 3 March 2018

Abstract

Purpose – Small and medium-sized enterprises (SMEs) are increasingly outsourcing human resource (HR) activities to outside labour market intermediaries. In this paper, the focus is on a specific type of labour market intermediary, the HR intermediary (HRI). The purpose of this paper is to describe and discuss SME outsourcing of HR services to membership-based HRIs, and potential problems and benefits that may arise in this process.

Design/methodology/approach – The empirical foundation comprises case studies of three Swedish HRIs and 12 of their SME clients. The data were collected through semi-structured interviews and a document study.

Findings – The findings show that social aspects such as trust, shared values, communication and commitment are crucial characteristics of the cooperation between HRIs and SMEs. These social aspects are a result of the owner/membership structure, and a distinguishing feature of the studied HRIs in comparison to other types of labour market intermediaries.

Research limitations/implications – The results of the study underline the need for increased research related to the intermediary concept and its meanings in different contexts. There is also a need for more empirical research on HRIs, e.g. comparisons between different types of HRIs, and studies of the emergence of virtual intermediaries. Future studies should focus on the role of LMIs and HRIs in regional development processes.

Practical implications – Companies that interact with HRIs should reflect on the different pros and cons that this cooperation may result in, both in the short term and in the longer term.

Originality/value – The study provides an enhanced understanding regarding the relations between SMEs and HRIs, based on the two broad types of SMEs (with low/high internal HR skills) and two types of HRIs (with short/long-term orientation).

Keywords Qualitative, Small to medium size enterprises (SME), HR outsourcing, HR activities, Human resource intermediaries, Labour market intermediaries

Paper type Research paper

Introduction

Due to the pressure for increased change, today's external labour markets are described as moving towards greater flexibility and limited predictability, while internal labour markets in organisations are changing in the direction of increased insecurity, instability and non-standard employment agreements (Bonet *et al.*, 2013; Kazis, 1998; Osterman, 2010). For organisations to cope with the growing needs of flexibility, human resource (HR) activities have become increasingly important, both at the operative and strategic levels (Boxall and Purcell, 2011). However, many organisations lack the resources and skills to handle these HR activities. This applies particularly to small and medium-sized enterprises (SMEs) (Cardon and Stevens, 2004; Klaas, 2003).

An increasingly popular answer to how organisations with scarce resources can handle their HR activities is outsourcing (Reichel and Lazarova, 2013; Sheehan and Cooper, 2011), i.e. to employ an external party to carry out all, or parts of, the work instead of utilising



internal resources (Sparrow *et al.*, 2010). Consequently, a growing number of organisations are turning to a new actor in this emerging market for outsourcing of support services, the so-called labour market intermediary (Bonet *et al.*, 2013; Nesheim and Rørvik, 2013). These intermediaries include organisations (private, public, ownership-based, member-based) that operate in the gap between employers and employees (Autor, 2009; Benner *et al.*, 2007). Labour market intermediaries have also been described as important from a regional development perspective since they have the capacity to increase the flexibility of labour markets (Benner, 2003) as well as to support knowledge transfer between organisations within a region (Smedlund, 2006).

In this paper, a specific kind of labour market intermediary, the HR intermediary (HRI), is discussed. An HRI acts as a third party between employers and employees, or between organisations, with the purpose of delivering HR services, e.g. recruitment, training, competence development, career assistance, and outplacement (Kock *et al.*, 2012). HRIs are typically profit-driven private companies that specialise in a selection of HR services. For example, they can be traditional recruitment and staffing agencies or so-called professional employer organisations (PEOs) that enter into co-employment relationships and become the employer of record for those working at the client's company (Klaas, 2003). However, in the paper, the focus is on HRIs that are owned by their clients, and that not only aim to target single clients, but also have ambitions to contribute to a regional development of the labour market, not least due to the fact that both owners and customers are dispersed across a certain region in Sweden. These HRIs can also be classified as advanced because they have moved up the HR value chain, from exclusively working with staffing towards targeting the entire HR flow (see Sparrow *et al.*, 2010; Wallo *et al.*, 2016). The membership approach and the focus on the entire HR flow differentiates the studied HRIs from other types of intermediaries, such as PEOs. A central group of clients for the HRIs in this study is SMEs, which are considered important in terms of employment and economic development, at the local, regional and national levels (Muller *et al.*, 2016; OECD, 2005), but often have limited resources for working with HR activities (Delmotte and Sels, 2008).

Outsourcing of HR activities has previously been observed in several studies (e.g. Delmotte and Sels, 2008; Sheehan and Cooper, 2011; Sim *et al.*, 2016). However, research on the effects of outsourcing of HR services has so far been focused on strategic and financial issues, while other impacts have been given less attention (Fisher *et al.*, 2008). Previous studies have focused mostly on why companies outsource, and the potential advantages and disadvantages of outsourcing (see Cooke *et al.*, 2005; Nesheim *et al.*, 2007), but less is known about the actual outsourcing process, the character of the relationship between the client and the intermediary, and other outcomes of this cooperation (Nesheim and Rørvik, 2013).

In response to the limitations in the knowledge of HR outsourcing, we contribute to the literature by exploring the roles of membership-based HRI and their relation to clients, especially SMEs. We also contribute to a better understanding of the outsourcing of HR services to a third-party vendor, acting in the gap between employers and employees.

More specifically, the purpose of the paper is to describe and discuss SME outsourcing of HR services to membership-based HRIs, as well as potential problems and benefits of this process. The following research questions will be addressed in the paper:

RQ1. What characterises the relationship between SMEs and HRIs in regard to the outsourcing of HR services?

RQ2. What factors enable or restrict SME's outsourcing of HR services to HRIs?

To accomplish the aim of describing and discussing SME outsourcing of HR services to HRIs, the rest of this paper is organised as follows. The next section describes previous

research on intermediaries, outsourcing of HR, and HR in SMEs. Thereafter, follows an account of the methodology and the research setting. We then go on to present the results of the empirical study and discuss them in light of the previous research. Finally, we conclude the article with a synthesis of the key ideas in the paper and outline implications for research and practice.

Labour market intermediaries and HRI

Labour market intermediaries are often depicted as third-party providers of functions including organising, convening, brokering, and as providers of services for employers, e.g. employment agencies, recruiters, labour contractors, community-based organisations, unions and multi-sector collaborations (Benner *et al.*, 2007; Kazis, 1998). However, LMIs may have many different functions and roles simultaneously. Examples of their functions and roles include facilitating, or regulating the matching process between workers and firms (Autor, 2009; Bonet *et al.*, 2013) and playing roles as part of learning and innovation systems at local, regional and national levels (Asheim, 2011; Smedlund, 2006).

In regard to the context of this study, the emergence of different types of intermediary organisations can be understood from different characteristics of Scandinavian labour markets. The Swedish labour market is characterised by long-term and consensus-based relationships and inter-corporate networks between its different actors, the presence of relatively powerful labour unions, a high union density, and the resolution of conflicts in the form of collective agreements between unions and employers (Asheim, 2011; Bengtsson and Berglund, 2010). Nevertheless, taking this background into account, labour market intermediaries have today reached a high level of acceptance and are regarded as important actors in several areas of the Swedish labour market (Håkansson and Isidorsson, 2012).

As stated previously, the focus of this paper is on an emerging type of LMI, namely, the HRI, i.e. an organisation, or function, that acts as a third party between employers and workers, or between organisations, in order to support these parties by providing different HR services (cf. Autor, 2009; Benner *et al.*, 2007; Klaas, 2003; Kock *et al.*, 2012). From a similar view of intermediary organisations provided by Smedlund (2006, p. 206), important features to consider in order to understand intermediaries include how the intermediary is organised (structure), what kind of services are offered (substance), and how structure and substance are put into value (dynamism).

When it comes to the HR services and activities provided by the HRIs, a distinction can be made between core and peripheral activities. Core activities contribute to competitive advantage and are valuable (unique) for the organisation, while peripheral activities include administrative, low value tasks. The most widely accepted practice is to keep the former within the organisation and outsource the latter (Reichel and Lazarova, 2013). To further differentiate between different types of HR services, we have modified a categorisation by Sparrow *et al.* (2010) comprising three broad categories based on two dimensions: the potential value of the HR service to the organisation, and the degree of complexity of the service. The first category, transaction services (e.g. employee record-keeping, payroll, job posting), represents low complexity and low potential added value and can be based on standardised solutions and the use of ICT. The second category, employment services (e.g. recruitment, outplacement, training, career support), represents a medium level of complexity and a medium degree of interaction with the client to identify demands and deliver the relevant services. The third category, corporate governance services (e.g. production and organisation change, development of corporate HR strategies and policies), represents high complexity and a high degree of interaction with clients. Many HRIs specialise in a selection of HR services, for instance in

staffing and recruitment. However, in the present paper we focus on more advanced HRIs that target the entire HR flow and also have an ambition to work with regional development issues.

Outsourcing of HR services

When it comes to the occurrence of HR outsourcing, the number of organisations that utilise outsourcing has grown rapidly (Davis-Blake and Broschak, 2009), including not only large private and public organisations, but also SMEs (Delmotte and Sels, 2008; Klaas, 2003). Furthermore, at least in US firms, Klaas (2008) observes a transition from outsourcing HR services based on short-term contracts and involving distinct HR activities, to outsourcing based on long-term and end-to-end contracts.

The decision to “make or buy” HR services appears to be complex. This is also an area that has received limited attention in empirical research (Alewell *et al.*, 2009; Klaas, 2008), which is interesting considering the extensive body of prescriptive literature explaining why HR services should be outsourced (Delmotte and Sels, 2008). In this prescriptive literature, the motives to outsource are described as dependent on a number of factors: the size and history of the firm, the status and legitimacy of the HR department, the business context, the type of services being outsourced, the quality of existing services, cost reduction needs, and ambitions for the HR department to be a strategic partner (Delmotte and Sels, 2008; Sheehan and Cooper, 2011). Among these motives, two seem to be more frequent in the prescriptive literature: the need for cost reduction, and the wish to turn HR into a strategic partner (Alewell *et al.*, 2009; Reichel and Lazarova, 2013).

Concerning the outcomes of outsourcing HR, previous research paints a varying picture that includes both positive and negative effects. Examples of positive effects that have been mentioned in previous studies include freeing up time to focus on core business activities, reducing costs by downsizing internal HR staff, gaining innovative HR expertise and a critical view, being part of a network with timely access to knowledge and resources that are otherwise inaccessible, and facilitating learning between consultants and clients (Cooke *et al.*, 2005; Nesheim *et al.*, 2007; Reichel and Lazarova, 2013; Sheehan and Cooper, 2011). Conversely, negative effects include loss of in-house knowledge and capacity and risks of losing long-term competitiveness, quality reductions in HR work, difficulties in fulfilling promises and customer expectations (e.g. if the contract between the consultant and the customer benefits one party more than the other), potential mismatches between the use of standardised methods and tools and the customer’s unique organisational characteristics, and a risk of HR role conflict between consultant and internal HR personnel (Cooke *et al.*, 2005; Nesheim *et al.*, 2007; Reichel and Lazarova, 2013; Sheehan and Cooper, 2011).

HR in SMEs

The current understanding of HR outsourcing is mainly based on studies of larger private companies, and public organisations, while SMEs in comparison have been paid limited attention. This is remarkable because SMEs constitute the vast majority of all businesses in Europe (Muller *et al.*, 2016).

Current research on HR in SMEs gives a complex, diverse and partly contradictory picture of the conditions for HR in SMEs. Several weaknesses are frequently described, e.g. lack of resources, undeveloped HR strategies, strong environmental dependency, little use of HR practices, limited HR skills, and low levels of formal training, etc. (Allen *et al.*, 2013; Cardon and Stevens, 2004; Sheehan, 2014). But there are also opportunities in terms of highly engaged personnel, experience of finding informal solutions, short decision-making processes, strong corporate culture, networking capabilities, etc. (Bacon and Hoque, 2005;

Mayson and Barrett, 2006). This partly inconsistent image indicates that HR in SMEs should not be seen as a scaled-down version of HR in larger organisations, but rather as an entity in its own right (Josefy *et al.*, 2015).

Role of human resource intermediaries

Methodology

In line with the explorative aim of the study, a reflexive methodology (Alvesson and Sköldböck, 2009), where interpretations and reflexivity are crucial in the interface between theoretical perspectives and empirical data, was employed. Furthermore, the study of the relationship between HRI and SMEs necessitated a methodology that was able to capture the interplay between individual agency and the structural conditioning of the context. For that reason, we have chosen to use case study methodology, which is suitable for studying complex, dynamic, processes that are contextually dependent (Yukl, 2009). Drawing on Yin (2014), the empirical foundation of this paper consists of case studies of three HRIs and 12 of their SME clients. The HRIs were part of a long-term research collaboration among a university, public sector organisations, and private companies in a Swedish region. The HRI's SME clients were asked to participate in the study, and 12 accepted. The primary data were collected through semi-structured interviews (Brinkmann and Kyvale, 2015). In total, 40 interviews were conducted with representatives of the HRIs and the SMEs. In the HRIs, 19 interviews were conducted (Table I). The criteria for selection were: experience of working with the SMEs, at least one year of employment in the HRI, and a mix of positions in the HRI.

In the 12 SMEs, 21 managers and HR professionals were interviewed (Table II). The respondents were those that the SMEs decided had knowledge of the company's HR processes and the relationship to their HRI.

The interviews were conducted face-to-face in meeting rooms at the premises of the companies. They lasted between 45 and 90 minutes and were recorded and transcribed verbatim. In addition to the interviews, company documents, such as organisational charts, annual reports, marketing brochures, and website information were also collected and analysed. The purpose of the document study was to increase our understanding of the companies and to triangulate (Yin, 2014) issues that were addressed in the interviews.

HRI	Resp.	Gender	Educational level	Primary areas of expertise
HRI 1	1	Male	University	Business development
HRI 1	2	Male	University	Recruitment, staffing
HRI 1	3	Female	University	Business development, staffing
HRI 1	4	Female	University	HR manager, staffing, recruitment
HRI 1	5	Male	University	Market manager, business development
HRI 1	6	Male	Upper secondary school	Regional manager, marketing, sales, recruitment
HRI 1	7	Female	Upper secondary school	Regional manager, marketing, sales
HRI 2	8	Male	University	CEO, business development
HRI 2	9	Male	University	Competence development, training
HRI 2	10	Male	University	Competence development, training
HRI 2	11	Female	University	Administration, quality management
HRI 2	12	Male	Upper secondary school	Competence development, training
HRI 2	13	Male	Upper secondary school	Business development
HRI 3	14	Male	University	Staffing
HRI 3	15	Male	Upper secondary school	Production development, outplacement
HRI 3	16	Female	University	Outplacement, recruitment, staffing, coaching
HRI 3	17	Male	University	CEO
HRI 3	18	Male	Upper secondary	Outplacement
HRI 3	19	Female	University	Recruitment, staffing

Table I.
The respondents in the HRIs

Company	Resp.	Gender	Educational level	Position	Client to HRI
SME A	1	Male	University	CEO	HRI 1
SME A	2	Female	Upper secondary school	Line manager	HRI 1
SME B	3	Male	University	CEO	HRI 1
SME B	4	Male	University	Vice CEO	HRI 1
SME C	5	Male	University	HR manager	HRI 1
SME D	6	Female	University	Payroll assistant	HRI 1
SME E	7	Male	Upper secondary school	HR manager	HRI 1
SME E	8	Female	Upper secondary school	HR expert	HRI 1
SME F	9	Male	University	HR manager	HRI 1
SME G	10	Male	University	Operations manager	HRI 1
SME H	11	Female	University	HR expert	HRI 2
SME H	12	Male	Upper secondary school	Production manager	HRI 2
SME H	13	Male	Upper secondary school	Line manager	HRI 2
SME H	14	Female	Upper secondary school	Line manager	HRI 2
SME I	15	Male	University	Owner/CEO	HRI 2
SME I	16	Male	Upper secondary school	Line manager	HRI 2
SME J	17	Male	Upper secondary school	CEO	HRI 3
SME J	18	Male	Upper secondary school	Union president	HRI 3
SME K	19	Female	University	HR manager	HRI 3
SME K	20	Male	Upper secondary school	CEO	HRI 3
SME L	21	Male	Upper secondary school	Operations manager	HRI 3

Table II.
The respondents in
the SMEs

The data from the HRIs and the SME were first analysed separately in order to understand the similarities and differences between them. The analysis of the interviews was conducted following a stepwise procedure inspired by Miles *et al.* (2014) and Brinkmann and Kvale (2015). The first step began during the interviews to ensure that the process was sensitive to arising needs to collect new data (Miles *et al.*, 2014). In the second step, the transcripts were read several times to reach a general understanding of the material. In the third step, the interview material was divided into themes based on these readings, and the themes were then used to create categories (Brinkmann and Kvale, 2015). The process of analysis, thus, alternated between the categorisation of data and the interpretation of emerging patterns. In the fourth step, we discussed the results obtained in the first steps and attempted to develop a mutual understanding of the data in relation to the research questions and previous research. In the final step, a cross-case analysis was conducted to find themes common to both the HRIs and the SMEs (Miles *et al.*, 2014).

The analysis of documents can be categorised as a simplified form of content analysis (Patton, 2002). The stages in the analysis included determining the nature of each document in terms of why it was produced, who produced it, when it was produced, and how it was used in the organisations (Merriam, 1998).

Quotes from the interviews were used to illustrate the lines of reasoning and to provide a rich image of the aspects being discussed. The quotes were translated from Swedish to English, with a few minor corrections to the spoken language.

Research setting

The three HRIs were created in the late 1990s and early 2000s to facilitate the coordination of HR-related issues for companies and organisations in a Swedish region. Initially, their task was to work with staffing and education, but over the years the HRIs expanded their services. Between 2008 and 2010, their focus on outplacement activities increased, due to effects of the global financial crises.

Overall, the HRIs shared some important features. First, they were owned by their clients (both private companies and public sector organisations). The owners were represented on the boards of the HRIs and profits were invested in the development of the HRIs, or used to benefit the owners. Second, they also had clients who were not owners; most of them received membership status. Third, they aimed to contribute not only to the development of single companies but also to local and regional development. Fourth, they sought long-term relationships that were based on dialogue with the clients. Fifth, they attempted to adapt their methods and tools to the type of client and assignment. Sixth, they tried to use their position as external providers to contribute new ideas, as well as to facilitate a more strategic perspective of HR on behalf of their clients.

HRI 1 was owned by a network of 17 companies and two municipalities. In addition, HRI 1 had approximately 70 member companies and 30 external clients. HRI 1 had 26 employees and approximately 220 affiliated external consultants. HRI 2 was owned by private companies, municipalities, unions, and a university. HRI 2 had 16 employees and approximately 100 subcontracted consultants who conducted most of the actual assignments. HRI 3 was owned by approximately 40 companies, with another 60 companies connected on a membership basis. HRI 3 had eight employees.

The 12 SMEs were Swedish manufacturing firms. Most of them were contract manufacturers and subcontractors to larger companies. The largest company had 170 employees and the smallest had 11 employees. On average, the companies had 94 employees. About a quarter of the workforce were white-collar workers and the remainder were blue-collar workers. Common to these companies was that they were owners or members of one of the three HRIs and that they had bought different types of HR services from the studied intermediates.

Results

In this section, the results of the empirical study are presented.

HR activities in the SMEs

According to all of the respondents in the SMEs, issues related to HR were seen as important in the companies and their importance was believed to have increased in recent years. However, only five of the SMEs had employees who worked exclusively with HR activities. The most common arrangement in the SMEs was that the responsibility for HR issues lay with line-managers, or upper-management:

[...] here it's not unusual that you do not have any HR at all, rather the finance manager handles it a little bit on the side. (SME K:19)

Few respondents in the SMEs reported that their companies had a strategy for HR activities, and that this strategy was linked to the company's overall strategic objectives. In the other companies, strategic planning occurred occasionally and usually concerning recruitment. The respondents in these companies said that it was difficult to plan ahead due to their role as a contract manufacturer with short-term contracts and rapidly changing customer demands.

HR activities outsourced to HRIs

The respondents from both the SMEs and HRIs described three main areas of HR activities that were outsourced to the greatest degree: staffing and recruitment, training and competence development, and outplacement. In addition, the respondents from the HRIs mentioned networking activities and strategic development as important issues for them to focus on in relation to the SMEs.

The extent of outsourcing to the HRIs, or to other external actors, varied greatly depending on the business situation of the SMEs, i.e. how they were affected by the financial status, number of customer orders, pressure from competition, etc. In turbulent times the outplacement work increased due to lay-offs, and in better times, focus was more on staffing and recruitment. The majority of SME respondents indicated that the HRIs were used less frequently during calmer periods.

The respondents in the SMEs agreed that the operational day-to-day HR activities should be mainly managed internally and that the role of the HRIs was to provide single services, but not to take control of the entire HR chain. One respondent explained that they might otherwise lose proximity to the employees, and stressed that much HR is about relationships and that it is therefore important to keep the daily, operational HR work internal. With regard to strategic HR issues, the respondents' views differed. Some respondents argued that a strategic HR competence must be available internally, since HR should be closely connected to the business strategy. Other respondents instead said that it would be possible to bring in external actors for more strategic HR work, such as formulating guidelines and policies:

So you could say, to develop a strategy and guidelines and also the goals, objectives and milestones, I think can be done by a consultant. But it may never be driven by a consultant. It's impossible. For a lot of it concerns leadership, local talent, ability, local awareness and lots of other things that you should know about and keep an eye on. (SME J:17)

Overall, the respondents from the HRIs believed that most HR activities could be outsourced. However, they did mention some activities that may best be handled internally since they required considerable knowledge of the personnel and the organisation, e.g. activities that involve the manager-employee relationship, work rehabilitation of employees, or some types of activities relating to organisational change.

Pros and cons of outsourcing to HRIs

The respondents from the SMEs and HRIs agreed that involving an external actor could be a delicate matter, and that the decision to outsource should not be taken lightly. The main positive reasons for outsourcing HR activities were related to cutting costs, but other reasons were also highlighted, such as the potential it offered for a more flexible staffing situation, and getting professional help to relieve the workload, thereby freeing up time to focus on the core business:

The advantage of buying is that you get more flexibility so to speak. You do not sit with your own staff. You always have updated knowledge. You get a standardised way of doing work. So, one is forced into structure, order and clarity. (SME C:5)

The respondents from the HRIs also mentioned that they could bring new perspectives to the SMEs, help them challenge existing truths and see the larger picture. It could be easier for them to raise uncomfortable questions. Furthermore, the respondents in the SMEs and HRIs, mentioned the competence of the HRIs as an important reason for outsourcing activities related to training, outplacement, and qualified recruitments (e.g. of white-collar workers and managers):

Some types of roles are very time-consuming to recruit, and therefore you don't recruit them. I, at least, have chosen not to recruit them myself, and to purchase the service instead. There may be positions for management team members, senior managers, and heavy specialist services that require a lot of work to find candidates. You cannot just post an ad and hope that someone sees it. It doesn't work that way. (SME F:9)

The respondents in the SMEs and HRIs also raised negative aspects of outsourcing in terms of a risk that frequent, long-term use of HRIs may weaken the SMEs' internal HR competence.

The ownership and membership structure was something that the respondents in the SMEs valued, albeit not in connection with economic values. The long-term relationship was stated to be a benefit of owning, or being a member of, an HRI. Both parties had come to know and trust each other, which had promoted communication. Because they were already familiar with the business and organisation of the SMEs, the HRIs could be given assignments at short notice. One respondent said that the close relationship also meant that they felt that their HRI cared about them and was more willing to help in emergency situations than other intermediaries. Furthermore, the SME respondents stated that as partners or members they had the opportunity to influence the business of the HRIs to better match their needs.

According to the SME respondents, another advantage of using the services of the HRIs was that they had worked with many different companies, which meant that they had a broad experience of solutions and ideas that may benefit the SMEs. In this regard, the HRI respondents stressed the importance of each mission being formulated in dialogue with the client, and after an analysis of the problems, so that methods and tools would be adapted to the client's demands and needs. The respondents from the HRIs mentioned both advantages and disadvantages of their individually adapted work. The advantages of non-standardised solutions included the ability to be sensitive to the client's needs and to avoid time-consuming and inflexible methods. On the other hand, offering standardised solutions could make it easier to ensure good quality.

Both the SME respondents and the HRI respondents mentioned that it was sometimes problematic for the SMEs to share certain types of sensitive information with the HRIs, since some of their competitors were also clients to the HRIs:

And then it's also very important that we don't leak information. For instance, if I know that a client's company is not doing very well and I'm meeting with a subcontractor to that company, then I can't shoot my mouth off. So you have to be a bit vigilant and guard your tongue in that kind of situation. (HRI 1:2)

However, some of the respondents from the SMEs argued that the benefits of being able to exchange useful information and knowledge outweighed the downsides, and that the close relationship allowed the HRI to know what could and could not be transferred to other companies. In addition, one respondent said that many clients of the HRIs were suppliers to each other and the exchange of knowledge between companies, via the HRI, could benefit the region as a whole.

Another issue that the HRI respondents mentioned as problematic was the difficulty for them to move past the operative assignments and "firefighting" towards working with more advanced assignments, such as strategic HR planning. The HRIs wanted to be strategic partners, but the SMEs mostly used them to deal with already identified, short-term, HR problems. Similarly, a respondent in an HRI mentioned that they were trying to shift from being experts to helping the clients to help themselves. This respondent argued that the more qualified the client gets, the easier it becomes for the HRIs, since the clients will have the competence to purchase the right services. However, another HRI respondent argued that it may in fact be bad for business if the clients become more advanced since the HRI is dependent on the clients' lack of competence and their inability to handle the ups and downs of their HR processes.

Prerequisites for cooperation between HRI and SME

Regarding prerequisites for cooperation between HRIs and SMEs, several factors were highlighted. Many of the respondents claimed that the social relationships between the company and the HRI were crucial. According to the SME respondents, trust, shared values and a common understanding of the nature of the assignment were among the most

important aspects of the social relationships. The respondents from the HRIs also underlined trust and pinpointed this as a major reason for the SMEs to buy their services:

[...] so I know that we have more credibility, they listen a lot to what we say, in that they have a very clear picture that we understand each other. We understand SMEs. (HRI 2:6)

Additional aspects of social relationships mentioned by the respondents were communication and feedback. Some of the SME respondents said that it was easier to give feedback to the HRIs and to discuss problems with the services. When they used other intermediaries, they found themselves more prone to shop elsewhere if things were not working out.

Another aspect concerned the quality and range of the services that the HRI delivered. The SME respondents said that it was very convenient to buy many different types of HR services from the same vendor. The HRI's high quality and range of services was considered as an advantage compared to competitors. However, the respondents from the SMEs also stressed that being an owner, or a member, did not mean that they automatically used the HRIs' services. The respondents said that competition was an important driving force for development of the HRIs, and that the quality of the services was always a decisive factor when outsourcing HR services. As an example, some of the SMEs usually engaged actors other than their own HRI for short-term staffing, as they perceived that specialised staffing companies were more efficient:

What one still strives for as a customer is to buy from a competent purchaser. And if it's not possible, you are not that patriotic that you say: we are putting in money anyway, because it's our money in the first place. [...] You purchase from somebody else. (SME J:17)

A third aspect that was brought up by the SME respondents was that cooperation required commitment from both parties, and that the HRIs needed to have a deep knowledge of the SMEs' business. They wanted the HRIs to be located in close geographical proximity so that they could visit the companies and quickly pick up on emerging needs for HR services. The respondents from both the SMEs and HRIs stressed that the SMEs must be able to articulate their needs for HR services, but also their expectations of the HRIs. Commitment was also mentioned in relation to the owner-/membership structure. Several of the SMEs had representatives on the HRIs' company boards. According to the SME respondents, this made them more active and responsible for the relationship with the HRIs, in comparison to other intermediaries.

In addition to knowledge about the individual clients' needs, the respondents from the SMEs and HRIs mentioned that it was important that the HRIs had knowledge about the industry, and the local market. The access to local networks was mentioned as an important benefit of working with the HRI. The networks were seen as providing a good way to exchange experiences and information with other companies:

One can say that HRI 1 is more anchored at all levels. They have an incredible intelligence, including an eye on all major industrial companies and executives and middle managers and so on. Adecco, Manpower and Poolia lack this. (SME B:4)

In connection with the local perspective, the respondents from the SMEs addressed the importance of the HRIs having a regional development perspective. This was especially mentioned in relation to staffing and recruitment issues. The SMEs' respondents claimed that the attractiveness of working in industrial companies had declined, making it much harder for the companies to find staff with the right competence. Thus, some of the SMEs had become more involved in regional development issues, such as municipal politics, sponsoring of non-profit organisations, and company networks, in order to be seen as attractive employers. However, this involvement was not only linked to the employer

brand of the company. The respondents said they saw it as a way of taking a greater responsibility for the surrounding community.

The respondents from the SMEs stressed that they expected the HRIs to become more involved at the regional level. Some of the respondents mentioned that the original idea when starting the HRIs was that they should play a role in ensuring regional stability and development by facilitating temporary loans of staff between companies to balance upturns and downturns in the industry. These respondents said that the HRIs could play a much more accentuated role as coordinators between the companies in the region.

The respondents from the HRIs did not discuss the regional level to a large degree. However, they stressed that an important reason for the SMEs to choose them were their unique networks and their ability to facilitate connections between their clients by arranging meetings where experiences and new knowledge could be exchanged. This networking was described as a way of strengthening the relationship with their clients and generating value from the ownership and membership structure:

The best scenario is probably when we've have some sort of gathering where two companies that did not know each other previously can create a relationship and an exchange that continues even after we leave. That is perhaps the best way for us to add value to the member companies. (HRI 3:1)

Discussion

The findings of the study reveal similar positive and negative aspects of HR outsourcing to those that have been found in other studies of SMEs (Nesheim *et al.*, 2007; Reichel and Lazarova, 2013; Sheehan and Cooper, 2011). In addition, the findings show that social aspects such as trust, shared values, communication, and commitment are crucial characteristics of the cooperation between HRIs and SMEs. These social aspects are an important result of the owner/membership structure, and a distinguishing feature of the studied HRIs in comparison to other types of labour market intermediaries (cf. Autor, 2009; Benner *et al.*, 2007; Klaas, 2003). There are also other important structural aspects that characterise the relationship between HRIs and SMEs, such as the quality and range of the services, geographical proximity, ability to quickly respond to the needs of the SMEs, and knowledge of the industry and market. Another characteristic is the regional development perspective of the HRIs and their work on facilitating connections between clients, both locally and regionally.

When it comes to what factors enable or restrict the outsourcing of HR services to HRIs, this is dependent on whether the focus is on transaction services, employment services, or corporate government services (Sparrow *et al.*, 2010), and on certain conditions connected to the SMEs, e.g. low access to internal HR skills, relatively low priority given to HR issues, and a preference for reactive and "safety-oriented" behaviours rather than proactive and long-term oriented behaviours (Cardon and Stevens, 2004; Sheehan, 2014).

In the case of the studied HRIs, two different strategies in relation to the customer are discernible. The first strategy is based on the establishment of long-term relationships, dialogue and discussion with the customer, and on the delivery of services adjusted to the customer (cf. Klaas, 2008). The second strategy is based on the opposite: short-term relationships, rapid (in some cases even insufficient) analyses of customer needs, and delivery of a standardised HR service (cf. Cardon and Stevens, 2004). Both strategies can be observed in the same HRI, for example, in relation to different clients.

The findings concerning how HRIs are organised and how they work in relation to their SME clients show that there is great potential in the HRIs' operations, but also barriers that limit their impact. Despite the high degree of competence of the employees in the HRIs and the wide range of HR services offered, the work of the HRIs is largely directed towards "firefighting", rather than towards strategic development. This situation

is problematic, and several of the respondents expressed a desire to find a balance between shorter and reactive assignments and more long-term and strategic assignments (cf. Sparrow *et al.*, 2010). The more qualified the client is, the easier the HRIs' work becomes, since the clients will have the competence to purchase relevant HR services. However, it may be bad for business if the customers become too advanced, since the HRIs benefit from the clients' inability to handle their HR processes. Furthermore, closeness to the customer arising from the membership structure is complex. For example, the ambition to get to know the client and offer customised solutions may conflict with the effectiveness that the HRIs can achieve by using standardised services. Additionally, the proximity to the customer may restrict the ability of the HRIs to contribute to a critical and external perspective.

An important problem is that several SMEs appear to be vulnerable concerning their ability to increase the HR competence of the firm. In the case of SMEs with low access to internal HR skills and a top management that does not prioritise HR issues (Cardon and Stevens, 2004; Sheehan, 2014), there are strong reasons to believe that these SMEs primarily experience a demand for transaction and employment HR services, and to a much lesser extent demand corporate government HR services (Sparrow *et al.*, 2010). Without precisely specifying how large this group is, we know from previous research that this type of SME is relatively common (Cardon and Stevens, 2004; Mayson and Barrett, 2006). This type of SME probably constitutes a large market for HRIs, but for a single company to increase its HR competence and its adaptability a relationship with the "right" intermediary is needed, i.e. an intermediary working more long-term and aiming to increase the HR capacity of the firm. However, the existence of long-term partnerships and an effort to increase the company's HR skills is probably not enough. In cases where an HRI introduces standardised methods and approaches based on how HR is conducted in larger organisations, there is an obvious risk of a mismatch between the use of standardised methods and specific organisational preconditions in the small company.

Another similar issue concerns the role of SMEs in relation to the methods and services afforded by the HRI. To what extent are SMEs demanding services that could help intermediaries to enter into more development-oriented relationships (also from a regional development perspective)? Or, by first asking for transaction and employment HR services (Sparrow *et al.*, 2010), do they contribute to retaining the HRIs in a role as suppliers of less advanced HR services? The relationship resembles a catch-22 situation as companies with low internal HR skills, and a management that does not give priority to HR issues, also lack the necessary procurement skills.

Concerning regional development, at least two of the HRIs studied have the potential to contribute to the creation of learning and innovation systems (Asheim, 2011) since they have a well-developed and diversified ownership structure, they are well connected to important networks, and the member companies have a certain geographic concentration. They also have qualified expertise in the HR field and are associated with a relatively large number of companies, primarily SMEs. However, this study indicates that the HRIs' work primarily focuses on supporting individual companies, rather than on increasing the level of cooperation and supporting learning between companies (Smedlund, 2006).

Finally, the importance of the national context should also be commented on in relation to this study. The work of HRIs takes place in a specific labour market regime (Elvander, 2002), characterised by discussions, conflict resolving, bargaining and collective agreements between unions and employers (Asheim, 2011; Bengtsson and Berglund, 2010). To the extent that these conditions (the Scandinavian Labour Market regime) will continue to be understood as valid and relevant, there are reasons to view this culture as an important foundation for the cooperation between HRIs and SMEs.

Future research

In general, the results presented here underline the need for increased research on the LMI, as well as the specific type of intermediary studied here, the HRI. More specifically, four key areas of research can be identified. First, there is a need for more research related to the intermediary concept and its meanings in different contexts. Second, there is a need for more empirical research on HRIs, including comparisons between different types (e.g. owner-based vs profit-driven, local vs regional) of HRIs, and comparisons between HRIs working in different labour market regimes. There is scope for larger quantitative (surveys) comparisons between HRIs in different national contexts, as well as for qualitative studies of interactions between the HRI and the single SME. The emergence of virtual intermediaries, such as networking sites and electronic employment services is especially important to study (Bonet *et al.*, 2013). Third, research is needed on how the management in SMEs understand the role of HRIs; on what grounds the decision to outsource HR services is taken; and what outcomes are expected. Lastly, research should focus on the role of LMIs and HRIs in regional development processes (Smedlund, 2006).

Implications for practice and limitations of the study

Concerning the practical implications of this research, one important result is that the outcome of collaboration with an HRI is not necessarily provided in advance and that the decision to “make or buy” HR services may result in different outcomes. The results indicate that companies that interact with HRIs should reflect on the different pros and cons that this cooperation may result in, both in the short term and in the longer term. Another practical implication concerns the ability of HRIs to contribute to the development of HR services in SMEs. This task is probably easier to accomplish among the owner/membership-based HRIs studied here, while more profit-driven HRIs may have difficulties in this respect.

The growing numbers of LMIs in the Swedish labour market have, from certain perspectives (e.g. from employers’ organisations), been viewed as an important supplement of more flexible organisations, and as more responsive in relation to clients’ needs. On the other hand, critics have pointed to the steady growth of LMIs as a potential threat to the prevailing bargaining model for conflict resolution, and from a longer term perspective, as a threat to the overall Scandinavian labour market regime (e.g. from labour market organisations). The increasing proportion of LMIs in the Swedish labour market may result in a gradual change in labour market policies and in how these policies are applied at the level of the workplace. Since this development is still at an early stage, distinct conclusions are difficult to draw. From a labour market perspective, there is a strong interest in following this development, not least concerning how the introduction of HRIs may change the balance between employers’ and trade unions’ interests, and in turn how the work with HR activities is affected.

The results presented in this paper should be considered in relation to the limitations of the study. On an overall level, the research objects are situated within a certain labour market, characterised by a reliance on collaborative relationships between different actors in the labour market (Hall and Soskice, 2001). Intermediaries operating under other institutional conditions may well be influenced by other factors.

Conclusions

In conclusion, the present study has illustrated how different internal and external conditions among the SMEs and HRIs, the process of engaging with an HRI, and the types of HR services delivered, are important for understanding the relationship between SMEs and HRIs and the factors that enable or restrict the outsourcing process of HR services.

Concerning the theoretical contributions of this study, we would like to emphasise that it provides an enhanced understanding regarding the relations between SMEs and HRIs,

based on the two broad types of SMEs (with low/high internal HR skills) and two types of HRIs (with short/long-term orientation). This type of simple categorisation makes it possible to identify a large and potentially vulnerable group of SMEs, namely SMEs characterised by low internal HR skills that buy HR services from short-term oriented HRIs.

On a broader level, it also seems evident from the findings presented here that we need to question and rethink some of our theoretical understandings of what constitutes an organisation and its employees, and how different types of organisations relate to each other. In yesterday's labour market, it was reasonable to assume bilateral and more predictable relations between labour market players, but with the introduction of HRIs, this has changed in many respects. Organisational limits are displaced or dissolved, not all employees necessarily have the same employer, and the work of HR is not necessarily performed in-house. Bilateral relationships become trilateral, resulting in a more complicated setting. In line with Bonet *et al.* (2013), it can be argued that we may be facing a paradigm shift, where the reality can no longer be understood from the existing models.

References

- Alewel, D., Hauff, S., Thommes, K. and Weiland, K. (2009), "Triggers of HR outsourcing decisions – an empirical analysis of German firms", *The International Journal of Human Resource Management*, Vol. 20 No. 7, pp. 1599-1617.
- Allen, M.R., Ericksen, J. and Collins, C.J. (2013), "Human resource management, employee exchange relationships, and performance in small businesses", *Human Resource Management*, Vol. 52 No. 2, pp. 153-173.
- Alvesson, M. and Sköldberg, K. (2009), *Reflexive Methodology: New Vistas for Qualitative Research*, SAGE, Los Angeles, CA.
- Asheim, B.T. (2011), "Learning, innovation and participation: nordic experiences in a global context with a focus on innovation systems and work organization", in Ekman, M., Gustavsen, B., Asheim, B. and Pålshaugen, Ö. (Eds), *Learning Regional Innovation. Scandinavian Models*, Palgrave Macmillan, London, pp. 15-49.
- Autor, D.H. (2009), "Introduction to 'studies of labor market intermediation'", in Autor, D.H. (Ed.), *Studies of Labor Market Intermediation*, University of Chicago Press, London, pp. 1-23.
- Bacon, N. and Hoque, K. (2005), "HRM in the SME sector: valuable employees and coercive networks", *The International Journal of Human Resource Management*, Vol. 16 No. 11, pp. 1976-1999.
- Bengtsson, M. and Berglund, T. (2010), "Negotiating alone or through the union? Swedish employees' attitudes in 1997 and 2006", *Economic and Industrial Democracy*, Vol. 32 No. 2, pp. 223-242.
- Benner, C. (2003), "Labour flexibility and regional development: the role of labour market intermediaries", *Regional Studies*, Vol. 37 Nos 6/7, pp. 621-633.
- Benner, C., Leete, L. and Pastor, M. (2007), *Staircases or Treadmills? Labour Market Intermediaries and Economic Opportunity in a Changing Economy*, Russel Sage Foundation, New York, NY.
- Bonet, R., Cappelli, P. and Hamori, M. (2013), "Labor market intermediaries and the new paradigm for human resources", *The Academy of Management Annals*, Vol. 7 No. 1, pp. 339-390.
- Boxall, P. and Purcell, J. (2011), *Strategy and Human Resource Management*, Palgrave MacMillan, New York, NY.
- Brinkmann, S. and Kvale, S. (2015), *InterViews: Learning the Craft of Qualitative Research Interviewing*, 3rd ed., Sage, Los Angeles, CA.
- Cardon, M.C. and Stevens, C.E. (2004), "Managing human resources in small organizations: what do we know?", *Human Resource Management Journal*, Vol. 14 No. 3, pp. 295-323.
- Cooke, F.L., Shen, J. and McBride, A. (2005), "Outsourcing HR as a competitive strategy? A literature review and assessment of implications", *Human Resource Management*, Vol. 44 No. 4, pp. 413-432.

- Davis-Blake, A. and Broschak, J.P. (2009), "Outsourcing and the changing nature of work", *Annual Review of Sociology*, Vol. 35, pp. 321-340, available at: <https://doi.org/10.1146/annurev.soc.34.040507.134641>
- Delmotte, J. and Sels, L. (2008), "HR outsourcing: threat or opportunity?", *Personnel Review*, Vol. 37 No. 5, pp. 543-563.
- Elvander, N. (2002), "The labour market regimes in the nordic countries: a comparative analysis", *Scandinavian Political Studies*, Vol. 25 No. 2, pp. 117-137.
- Fisher, S.L., Wasserman, E.M., Wolf, P.P. and Wears, K.H. (2008), "Human resource issues in outsourcing: integrating research and practice", *Human Resource Management*, Vol. 47 No. 3, pp. 501-523.
- Håkansson, K. and Isidorsson, T. (2012), "Work organizational outcomes of the use of temporary work agencies", *Organization Studies*, Vol. 33 No. 4, pp. 487-505.
- Hall, P.A. and Soskice, D. (2001), *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage*, Oxford University Press, Oxford.
- Josefy, M., Kuban, S., Duane Ireland, R. and Hitt, M.A. (2015), "All things great and small: organizational size, boundaries of the firm, and a changing environment", *The Academy of Management Annals*, Vol. 9 No. 1, pp. 715-802.
- Kazis, R. (1998), *New Labour Market Intermediaries: What's Driving Them? Where are They Headed? A Background Paper*, MIT Sloan School of Management, Cambridge, MA.
- Klaas, B.S. (2003), "Professional employer organizations and their role in small and medium enterprises: the impact of HR outsourcing", *Entrepreneurship Theory and Practice*, Vol. 28 No. 1, pp. 43-61.
- Klaas, B.S. (2008), "Outsourcing and the HR function: an examination of trends and developments within North American firms", *The International Journal of Human Resource Management*, Vol. 19 No. 8, pp. 1500-1514.
- Kock, H., Wallo, A., Nilsson, B. and Höglund, C. (2012), "Outsourcing HR services: the role of human resource intermediaries", *European Journal of Training and Development*, Vol. 36 No. 8, pp. 772-790.
- Mayson, S. and Barrett, R. (2006), "The 'science' and 'practice' of HRM in small firms", *Human Resource Management Review*, Vol. 16 No. 4, pp. 447-455.
- Merriam, S.B. (1998), *Qualitative Research and Case Study Applications in Education*, Jossey-Bass, San Francisco, CA.
- Miles, M.B., Huberman, A.M. and Saldaña, J. (2014), *Qualitative Data Analysis: A Methods Sourcebook*, 3rd ed., Sage, Los Angeles, CA.
- Muller, P., Devnani, S., Julius, J., Gagliardi, D. and Marzocchi, C. (2016), "Annual report on European SMEs 2015/2016", European Commission, Brussels.
- Nesheim, T. and Rørvik, R. (2013), "Exploring dilemmas in the relation between temporary help agencies and customer firms", *Personnel Review*, Vol. 42 No. 1, pp. 67-82.
- Nesheim, T., Olsen, K. and Kalleberg, A.L. (2007), "Externalizing the core: firms' use of employment intermediaries in the information and communication technology industries", *Human Resource Management*, Vol. 46 No. 2, pp. 247-264.
- OECD (2005), *SME and Entrepreneurship Outlook*, OECD Publishing, Paris.
- Osterman, P. (2010), "Job design in the context of the job market", *Journal of Organizational Behavior*, Vol. 31 Nos 2/3, pp. 401-411.
- Patton, M.Q. (2002), *Qualitative Research and Evaluation Methods*, 3rd ed., Sage Publications, Thousand Oaks, CA.
- Reichel, A. and Lazarova, M. (2013), "The effects of outsourcing and devolvement on the strategic position of HR departments", *Human Resource Management*, Vol. 52 No. 6, pp. 923-946.

-
- Sheehan, C. and Cooper, B.K. (2011), "HRM outsourcing: the impact of organisational size and HRM strategic involvement", *Personnel Review*, Vol. 40 No. 6, pp. 742-760.
- Sheehan, M. (2014), "Human resource management and performance: evidence from small and medium-sized firms", *International Small Business Journal*, Vol. 32 No. 5, pp. 545-570.
- Sim, S.C., Avvari, M. and Maniam Kaliannan, V. (2016), "HR outsourcing trends in Malaysia: the undetected tiger", *Strategic Outsourcing: An International Journal*, Vol. 9 No. 2, pp. 189-217.
- Smedlund, A. (2006), "The roles of intermediaries in a regional knowledge system", *Journal of Intellectual Capital*, Vol. 7 No. 2, pp. 204-220.
- Sparrow, P., Hird, M., Hesketh, A. and Cooper, C. (2010), *Leading HR*, Palgrave Macmillan, London.
- Wallo, A., Kock, H. and Nilsson, P. (2016), "Setting the stage for innovation: towards a conceptual model of the HR-innovation link", *International Journal of Human Resources Development and Management*, Vol. 16 Nos 1/2, pp. 100-120.
- Yin, R. (2014), *Case Study Research*, SAGE, London.
- Yukl, G. (2009), "Leading organizational learning", *The Leadership Quarterly*, Vol. 20 No. 1, pp. 49-53.

Further reading

- Woodall, J., Scott-Jackson, W., Newham, T. and Gurney, M. (2009), "Making the decision to outsource human resources", *Personnel Review*, Vol. 38 No. 3, pp. 236-252.

About the authors

Andreas Wallo is Associate Professor in the Department of Behavioural Sciences and Learning at the Linköping University, Sweden. He is also Coordinator for the HELIX Competence Centre at Linköping University. His research interests include labour market intermediaries, leadership and managerial work in organisations, workplace learning, human resource development, human resource management, and interactive research. The results of Wallo's research have been published internationally in management and HRD academic journals, and also in national practitioner publications. Andreas Wallo is the corresponding author and can be contacted at: andreas.wallo@liu.se

Henrik Kock is Professor in the Department of Behavioural Sciences and Learning at Linköping University, Sweden. He is also Co-Director of the HELIX Competence Centre at the Linköping University. His research interests include regional development, labour market intermediaries, learning and competence development, workplace learning, leadership and organisational renewal. He has published his research in international academic journals and national practitioner publications.