Outsourcing and Excellence of Core HR Practices: Comparing institutional mechanisms among market economies

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Abstract

This study focuses on the boundary decision between outsourcing and excellence of two core HR practices among large organizations in liberal market economies (LMEs) and coordinated market economies (CMEs): recruitment & selection (R&S) and training & development (T&D). By adding institutional arguments and comparing two market economies in this context, we investigate when and why organizations outsource certain core HR practices to external vendors and professionalize and improve other core HR practices at the same time. We use a sample of 1,948 organizations in eight countries of a large-scale survey. The results show that organizations in LMEs tend to professionalize and improve their R&S excellence by simultaneously diminishing R&S outsourcing and T&D excellence. Conversely, organizations in CMEs professionalize and improve their T&D excellence by simultaneously increasing R&S outsourcing and decreasing R&S excellence. However, the results for T&D outsourcing are not significant. Implications for theory within the context of core HR practices are discussed.

Keywords: Outsourcing, HR excellence, recruitment and selection, training and development, institutional theory, market economies

Introduction

For two decades, researchers and practitioners have emphasized the increasing professionalization of the HR function due to cost pressures (e.g., Ulrich, Younger et al. 2008), the "war for talent" (e.g., Michaels, Handfield-Jones et al. 2001), and the recognition of the HR function as a source of competitive advantage (e.g., Boxall 1996, Brewster 2007, Brewster, Wood et al. 2008, Beechler and Woodward 2009). At the same time, organizations have increasingly outsourced human resource (HR) activities to external providers (e.g., Cooke, Shen et al. 2005). Like other organizational functions, HR departments have had to deal with the "make-or-buy" decision (Greer, Youngblood et al. 1999) for their core (e.g., training, recruitment) and non-core (e.g., payroll, pensions; Reichel and Lazarova 2013) activities.

Core HR activities generate a competitive advantage and, therefore, should be kept in-house, whereas non-core HR activities can be outsourced (Cooke, Shen et al. 2005, Belcourt 2006). The distinction between core and non-core activities is rooted in the rationale of the resource-based view (Barney 1991), which has been applied to the outsourcing decision (Cooke, Shen et al. 2005, Klaas 2008). Organizational activities related to acquiring and developing valuable, rare, and inimitable resources should remain within the organization to protect these resources and prevent opportunistic behaviour by a vendor (Conner and Prahalad 1996, Klaas 2008). The outsourcing of non-core HR activities allows for focusing on core business and strategic activities (Ulrich 1997, Cooke, Shen et al. 2005). Previous research relying on this core/non-core distinction has shown that outsourcing of non-core HR activities positively influences the strategic position of the HR function, while outsourcing of core HR activities has no influence (e.g., Reichel and Lazarova 2013).

However, outsourcing has increased in almost all areas of the HR function, for example, training and development (T&D), recruitment and selection (R&S), payroll, pensions and HR information systems (e.g., Klaas, McClendon et al. 1999, Cooke, Shen et al. 2005, Galanaki and Papalexandris 2007, Wehner, Giardini et al. 2012). Ordanini and Silvestri (2008) and Shen (2005) noted that there is a disagreement in the literature about whether certain HR activities, such as R&S, are core HR activities (e.g., Gainey and Klaas 2003, Reichel and Lazarova 2013) or non-core HR activities (e.g., Lepak and Snell 1998, Finn 1999). Another problem occurs if we consider country differences in the outsourcing of R&S as well as T&D. For example, Galanaki and Papalexandris (2005) reported a high amount of variation for the outsourcing of R&S or T&D among 26 countries at the turn of the century. In a more recent study, Reichel and Lazarova (2013) still reported high variation in the outsourcing of R&S and T&D among 17 countries in 2008/2009.

While the resource-based view is appropriate for explaining the boundary decision of outsourcing core and non-core HR activities (e.g., Klaas, McClendon et al. 2001, Cooke, Shen et al. 2005, Klaas 2008), the question arises whether institutional theory might be better able to explain differences in the use of outsourcing among institutional environments (Cooke, Shen et al. 2005). Moreover, if the focus is only on core HR activities, there is a need to examine both outsourcing and the excellence of HR activities (i.e., professionalization of HR) simultaneously. Knowledge about the influence of the institutional environment and national differences in the outsourcing of core HR activities is still limited (e.g., single country or single HR activity; Dasborough and Sue-Chan 2002, Klaas 2008).

The purpose of this study is to emphasize the institutional environment in examining the interdependence between HR outsourcing and HR excellence. In particular, we contrast R&S outsourcing and T&D outsourcing with the professionalization of the same HR activities,

namely, *R&S excellence* and *T&D excellence*. In this regard, we follow the more recent categorization and consider both R&S and T&D as core HR activities (Dasborough and Sue-Chan 2002, Cooke, Shen et al. 2005, Ordanini and Silvestri 2008, Reichel and Lazarova 2013). Drawing on the resource-based view (Wernerfelt 1984, Barney 1991) as a theoretical fundament, we enrich the discussion about HR outsourcing and HR excellence with the perspective of institutional theory (Meyer and Rowan 1977, DiMaggio and Powell 1991) and contribute to the literature in two ways. First, we incorporate the rationale of institutional theory within the context of HR outsourcing to explain when and why organizations make *and* buy core HR activities simultaneously. Second, we assess the influence of the institutional environment and, more specifically, the market economy on the HR outsourcing and HR excellence of core HR practices by contrasting liberal market economies (LMEs) and coordinated market economics (CMEs; Hall and Soskice 2001). Thereby, we are able to show that differences in the use of HR outsourcing and HR excellence are due to coercive and mimetic forces.

Theoretical Approaches explaining HR Outsourcing

Different theoretical approaches have become prominent in explaining the use of HR outsourcing, such as transaction cost economics, the resource-based view, and institutional theory (for a detailed comparison, see e.g., Galanaki, Bourantas et al. 2008, Klaas 2008). First, transaction cost economics (Williamson 1985, Williamson 1996) characterizes the boundary decision between hierarchy and market contracting. In addition to production costs, three factors influence the transaction costs and, hence, the efficiency rationale for the outsourcing decision: asset specificity, uncertainty, and frequency (Williamson 1985, 1996). If the asset specificity of the human capital is high, organizations will perform their HR activities in-house and vice versa. Furthermore, if the environmental and behavioural uncertainties (e.g., opportunistic behaviour) are high and/or the frequency is low, again, organizations will tend to keep the HR activity within the organization and vice versa.

Second, the resource-based view builds on the assumption that organizations need to acquire, develop, and exploit those resources, which are valuable, rare, inimitable, and non-substitutional, to gain sustainable competitive advantages (Wernerfelt 1984, Barney 1991). Although the resource-based view is not directly linked to the explanation of the boundary decision of HR outsourcing (Klaas 2008), it has been argued that these valuable resources need a governance mode within the hierarchic structure of an organization to prevent opportunism (Conner and Prahalad 1996, Glaister 2014). Hence, if these valuable resources are related to HR activities or human capital with tacit knowledge of a firm, it is unlikely that the firm will outsource these HR activities (Galanaki, Bourantas et al. 2008, Klaas 2008).

Third, institutional theory explains the distribution and adoption of new management concepts (Tolbert and Zucker 1999, Walgenbach and Meyer 2007, Brewster, Wood et al. 2008, Klaas 2008). Following Meyer and Rowan (1977), organizations need to gain legitimacy to survive

within a given institutional environment. Suchman (1995) defines legitimacy as organizational behaviour that fulfils the relevant social conventions and expectations of the environment. Over time, this mechanism homogenizes organizations and their management practices when organizations are exposed to a common institutional environment. Organizations tend to imitate management practices that are adopted by a large number of other firms within the same industry, by large market leaders or by successful firms (Klaas 2008).

Studies have reported a relationship between institutional factors and the distribution of outsourcing. For example, Dasborough and Sue-Chan (2002) found a positive influence of mimetic forces on the outsourcing of recruitment in Western Australia. Thus, organizations imitate R&S outsourcing from other firms within the same institutional environment that are perceived to be successful. Furthermore, Galanaki and Papalexandris (2007) compared the outsourcing of the HR activities of foreign MNCs and Greek organizations (including the core activities T&D and R&S). In support of institutional factors, the results showed that MNCs tend to outsource more HR functions than do Greek organizations. Finally, besides transaction costs economics, the resource-based view, and the HR architecture literature, Klaas (2008) considered institutional mimicry as a potential driver for the increasing HR outsourcing development within specific industry and geographic segments in North American firms.

In summary, in the field of HRO, there is robust research based on transaction cost- and resource-based theories, but studies based on institutional theory are underrepresented. Country or country-cluster comparison studies of HRO are rare (Peretz 2012, Reichel and Lazarova 2013, Mol, Brewster et al. 2014) and usually focus on single-country comparisons (Galanaki and Papalexandris 2005, Smith, Vozikis et al. 2006, Delmotte and Sels 2008). Therefore, our

manuscript, which is derived from RBV theory, compares country clusters to integrate an institutional framework in order to contribute to the discussion in the HRO field.

Theory and Hypotheses

Following the more recent categorization of core/non-core HR activities, we choose two core HR activities where the boundaries between market contracting and organizational governance might diffuse depending on the theoretical perspective. First, we analyse HR outsourcing and the HR excellence of T&D. T&D comprises all organizational and personal activities and frameworks to develop and extend the skills, responsibilities, and capabilities of an organization's staff (Armstrong 2012). T&D has traditionally been considered a core HR competency of the organization (e.g., Klaas, McClendon et al. 2001, Reichel and Lazarova 2013). Second, we analyse the HR outsourcing and HR excellence of R&S. R&S comprises all HR activities of attracting, selecting, and hiring the most suitable person for a specific job vacancy (Armstrong 2012). Due to the "war for talent" (Michaels, Handfield-Jones et al. 2001), demographic changes, and labour shortages, the R&S function has become of increasing importance within many firms, and hence, it belongs to the core HR competencies of organizations today (e.g., Reichel and Lazarova 2013).

Although both R&S and T&D are core competencies of organizations (Shen 2005, Reichel and Lazarova 2013, Susomrith and Brown 2013), these functions are among the most frequently outsourced HR responsibilities (Cooke, Shen et al. 2005). One reason for this development is, for instance, that the processes linked with R&S are highly standardized and can be divided into single steps, and the service provider's performance is easy to control (Wehner, Giardini et al. 2012). Similarly, the services of an external T&D provider are often highly standardized, and the outcomes of T&D activities performed by an external provider are easy to control. This allows for transferring either a single process or multiple processes of R&S or T&D to an external service provider. However, depending on the theoretical perspective, the explanation of whether a firm should or should not outsource their core HR activities varies. While the resource-based view emphasizes the development of valuable and unique

resources within the governmental structure of the firm, institutional theory emphasizes the rationale of legitimacy due to mimetic behaviour and isomorphic pressure within a certain institutional environment. Thus, if successful firms within the own industry or within the own segment outsource specific HR activities, other firms will imitate this successful behaviour and best practice. In the following, we transfer both theoretical perspectives to the context of HR outsourcing, and we develop partially competing hypotheses based on both theories.

Outsourcing and Excellence of R&S and T&D: The Resource-based View

Following the resource-based view, firms will develop organizational resources that are valuable, rare, and difficult to imitate in order to gain sustainable competitive advantages (Wernerfelt 1984, Barney 1991). Given that human resources are linked to the achievement of competitive advantages, investments in the attraction and selection of new and well-fitting employees (i.e., R&S excellence) as well as the development of employees' skills, capabilities, and motivation (i.e., T&D excellence) are an indicator of the high value and uniqueness of these human resources (Klaas, McClendon et al. 2001, Klaas 2008). Similarly, if the firm-specific requirements of certain HR services are high, there is a need for a specific customization by the external service provider to fulfil these requirements (Klaas, McClendon et al. 2001, Klaas 2008).

Thus, specific investments in assets such as human resources and firm-specific customization of HR services are also known as human capital investments, which can be drawn from transaction cost economics (cf. Klaas, McClendon et al. 2001). In this regard, the resource-based view and transaction cost economics complement each other in explaining the decision to outsource an activity (Espino-Rodríguez and Padrón-Robaina 2006). Firms will refrain from HR outsourcing if specific customization of HR services is necessary or if the human capital is high in terms of valuableness and uniqueness.

In this paper, we use the organization's annual spending on training and development as an indicator for human capital investment because these firm-specific investments in human capital reflect the value of the firm's human resources, and the accumulated knowledge through high investments in training is rare, inimitable, and unique. The higher these firm-specific investments, the less likely a firm will be able to rely on market contracting and standardized HR activities provided by an external vendor. In addition, higher specificity and

stronger customization increase the risk of opportunistic behaviour by the service provider (Williamson 1996, Klaas 2008). In summary, high human capital investments should be positively associated with the excellence of R&S and T&D and, simultaneously, should diminish the likelihood of outsourcing these two HR activities.

Hypothesis 1: Human capital investment is positively related to (a) T&D excellence and (b) R&S excellence.

Hypothesis 2: Human capital investment is negatively related to (a) T&D outsourcing and (b) R&S outsourcing.

Outsourcing and Excellence of R&S and T&D: An Institutional Perspective

Institutional theory considers coercive, mimetic, and normative isomorphisms as influential factors for institutional change and the behaviour of organizations in their aim to gain legitimacy and, in turn, ensure the survival of the organization (Meyer and Rowan 1977, DiMaggio and Powell 1991). Coercive isomorphism is characterized by formal or informal pressure exerted on organizations that operate in the same institutional environment to adopt socially accepted regulations and to operate in accordance with environmental regulations (DiMaggio and Powell 1991). Mimetic isomorphism is the result of an attempt to reduce uncertainty by imitating the best practices of other organizations or those practices of a large number of organizations in the same environment (DiMaggio and Powell 1991). Finally, normative isomorphism results from constant professionalization within the area of an occupation and its methods of work (DiMaggio and Powell 1991). Due to these three interrelated isomorphisms, organizations within an institutional environment, culture or structure will become more similar to other organizations in the same environment to ensure legitimation, protect resource supply, and reduce uncertainty (Meyer and Rowan 1977, DiMaggio and Powell 1991).

Since we examine two different market economies (i.e., LMEs and CMEs), it is likely that the HR practices of organizations operating in these institutional environments will be more similar within the same environment than across different environments due to isomorphisms. The patterns of adoption and diffusion of HR practices are the result of different market economies (Jackson and Deeg 2008). Typically, Anglo-Saxon countries (e.g., USA, Australia) are considered LMEs (Hall and Soskice 2001), having deregulated labour markets, strong shareholder value orientation, and strong market competition (Dore 2000, Vitols 2001). For example, organizations in LMEs have more freedom in terms of minimum wages, individual termination of employment contracts, and collective bargaining. In general, LMEs are

characterized by a near absence of labour unions, employment protection laws, and collective labour agreements (Brewster, Brookes et al. 2015). In contrast, CMEs (e.g., Germany, Italy) have higher labour market regulations, less firm autonomy, and a stronger influence of government, laws, regulations, and labour unions on the structure and behaviour of firms (Hall and Soskice 2001). In CMEs, organizations have less influence on salary, working time, and the termination of employment contracts, due to labour legislation and collective bargaining (Brewster 2007). Hence, organizations operating in either LMEs or CMEs require a different set of HR practices because they are influenced by different institutions, laws, and social expectations (Brewster, Wood et al. 2008).

In CMEs, organizations face stronger labour protection laws, stronger union influence, and stronger influence of the government on the scope of organizational action. At first sight, these strong influences seem to be restrictions of or barriers to organizational behaviour. However, these influences have also positive impacts for organizations and, in turn, shape HR practices and policies. First, organizations have less employee turnover (for example, approximately 4 percent in Germany versus approximately 15 percent in the USA (Kabst, Giardini et al. 2009)), which decreases the frequency of recruitment processes, but there is a need for almost life-long training and development of employees. Second, in CMEs (e.g., Germany), job classifications are rather broad, functional specialization is low, and high-quality vocational training with nationally standardized courses exist (Mol, Brewster et al. 2014). This reduces the uncertainty for organizations with regard to the educational background, skills, and abilities of potential and actual employees. Such reduced uncertainty diminishes the necessity for highly sophisticated and professionalized recruitment and selection methods, but it increases the need for a professionalized HR training and development function because organizations are obliged to train and specialize their employees for specific tasks and jobs. Under these conditions, the R&S function should be a

non-core HR activity, whereas the T&D function should be a core HR activity and, hence, should be developed and professionalized in organizations in CMEs.

Conversely, in LMEs, organizations face lower labour protection laws, weaker union influence, and weaker influence of the government, which impacts the shape of HR practices and policies differently. First, the frequency of recruitment and selection processes should be higher due to higher turnover rates (e.g., USA). If an employee in a certain position does not perform well, it is easier for organizations to hire a new employee with the skills and abilities needed for this position. This is also known as a "hire-and-fire" labour market (Velasquez and Velazquez 2002). Thus, there is need for organizations in LMEs to obtain high-potential and qualified employees from the external labour market on a regular basis, which increases the need for professionalized recruitment methods and a professionalized R&S function. Second, in LMEs (e.g., USA, Australia), highly specialized jobs, a high functional specialization, and narrow vocational training increase the uncertainty for organizations to choose the best candidate for a specific job or task. This, again, increases the need for higher professionalization of the recruitment methods, and it increases R&S excellence. Conversely, the training and development of human capital is of less importance, because the organization will try to obtain the necessary education, skills, and abilities from the external labour market. Under these conditions, the R&S function should be a core competency for organizations in LMEs and, hence, should be developed and professionalized, whereas the T&D function should be a non-core HR activity.

In summary, organizations operating in CMEs are more likely to develop their T&D excellence as a source of competitive advantage, while they might diminish their investments in R&S excellence. Conversely, organizations operating in LMEs are more likely to develop

and invest in their R&S excellence, while their investments in T&D excellence will be rather low. Thus, we hypothesize the following:

Hypothesis 3: The development of (a) T&D excellence is lower and (b) R&S excellence is higher for organizations operating in LMEs in comparison to organizations operating in CMEs.

Considering our argumentation for the core and non-core distinction between R&S and T&D that results from the different institutional environments, coercive and mimetic isomorphisms should have similar implications for the diffusion of R&S and T&D outsourcing in LMEs and CMEs. With regard to R&S outsourcing in Australia (as an example for LMEs), mimetic forces positively influence the decision to outsource the recruitment besides cost savings (Dasborough and Sue-Chan 2002). Similarly, Klaas (2008) described that institutional mimicry additionally affects the adoption and diffusion of HR outsourcing within specific industry segments among small North American firms. Hence, if the R&S function is a core competency for the majority of organizations in LMEs, while the T&D function is rather a non-core competency, organizations will tend to outsource the T&D function and keep the R&S function in-house due to coercive and mimetic forces of the environment. Conversely, in CMEs, the majority of organizations will tend to outsource the R&S function due to coercive and mimetic forces because recruitment is rather a non-core activity in this environment, while the same organizations will keep the T&D function in-house.

Hypothesis 4: The likelihood of (a) T&D outsourcing is higher and of (b) R&S outsourcing is lower for organizations operating in LMEs in comparison to organizations operating in CMEs.

Finally, the degree of internationalization of firms will lead to higher diffusion outsourcing HR practices because internationally operating firms inevitably need to adapt to different

institutional environments at the same time. Previous studies have found that HR practices diffuse among organizations due to normative isomorphism, especially in organizations that operate internationally (Björkman and Gooderham 2006, Rosenzweig 2006, Björkman, Fey et al. 2007). The process of normative isomorphism follows the increased professionalization of occupational groups. This professionalization encourages individuals to adopt ways of thinking, behaviours, and methods based on the predominant management practice in the institutional environment (DiMaggio and Powell 1991). Internationally operating firms, however, are influenced by several institutional environments. Hence, the higher the degree of internationalization, the higher the adoption of several and different legitimated behaviours due to the imitation of best practices from different institutional environments. Organizations with a high degree of internationalization will more likely operate in both LMEs and CMEs. Thus, an organization's degree of internationalization should be positively associated with R&S excellence and T&D excellence and, simultaneously, with R&S outsourcing and T&D outsourcing.

Hypothesis 5: The degree of internationalization is positively associated with (a) T&D excellence, (b) R&S excellence, (c) T&D outsourcing, and (d) R&S outsourcing.

METHODS

Sample

We used the international dataset from the Cranfield Network on International Strategic Human Resource Management (Cranet) from the survey round 2014-2016. Cranet collects data approximately every five years by sending a questionnaire to the most senior HR manager of organizations in each participating country, in accordance with the experience of this person. The Cranet network has implemented several procedures (i.e., standardized questionnaire, translation/back-translation by local language experts, random sampling) in

order to fulfil the highest level of research in every country (for further details regarding Cranet and its methodology, please see (Brewster, Mayrhofer et al. 2004, Steinmetz, Schwens et al. 2011)). To compare the two institutional environments, we followed the recommended procedure for comparing countries and excluded all organizations with fewer than 100 employees from our dataset (Steinmetz, Schwens et al. 2011).

The final sample consists of 1,948 organizations from eight countries (which can be found in Table 1). Approximately 25% of the organizations in the sample are in manufacturing, less than 30% are in the public sector and every third organization is family owned or influenced (the detailed correlations and descriptive statistics of our sample can be found in Table 2). To divide these countries into LMEs and CMEs, we used the labor freedom index (LFI) published by the Heritage Foundation in 2015 (Heritage-Foundation 2015). The LFI includes aspects of the legal and regulatory framework of a country's labour market and represents the degree of institutional pressure on entrepreneurial behaviour (Heritage-Foundation 2015). The LFI consist of six quantitative factors: the ratio of the minimum wage to the average value added per worker, hindrance to hiring additional workers, rigidity of hours, difficulty of laying off redundant employees, legally mandated notice periods, and mandatory severance pay. Each of the factors is equally weighted. The LFI ranges from 0 to 100. A low rating on this scale represents rigorous employment conditions and high labour regulations, while a high rating on the LFI represents rather liberal employment conditions. We chose the four highest- and four lowest-ranked countries on the LFI that also participated in Cranet (the LFI for the chosen countries is depicted in Table 1). Following this procedure, Norway would have been in the CME cluster, but it was excluded due to its too-small sample size. Thus, the countries belonging to the LME cluster are the USA, Australia, Switzerland, and Denmark; the countries belonging to the CME cluster are Croatia, Germany, Greece, and Italy.

Measurement

Human capital investment. Participants were asked: "Approximately, what proportion of the annual payroll costs are currently spent on training?" With regard to the RBV and human capital theory, the development of employees' skills and abilities and of their idiosyncratic knowledge is an indicator of the value and the uniqueness of the human capital (Lepak and Snell 1999). Hence, higher investments in training and development are associated with the human capital specificty of the firm. For example, Hannson (2007) used the average proportion of wage bills spent on training from a previous Cranet survey among 26 countries and showed that it is one of the most important predictors for firm performance, which underlines the relationship between training investment and human capital value and uniqueness.

R&S outsourcing. To measure the extent of the R&S outsourcing of an organization, we followed Ordanini and Silvestri (2008), who used an ordinal variable. Previous research has used this variable to explain the impact of HR outsourcing on the organization's strategic position (Reichel and Lazarova 2013) and absenteeism (Peretz 2012). Respondents were asked: "To what extent do you outsource the following areas to external providers?" The response format was: 0 = "not outsourced" to 4 = "completely outsourced" for the two items "Recruitment" and "Selection". We used an index of both items.

T&D outsourcing. Similar to the variable R&S outsourcing, previous research has used T&D outsourcing to explain the impact on the organization's strategic position (Reichel and Lazarova 2013) and absenteeism (Peretz 2012). Respondents were asked: "To what extent do you outsource the following areas to external providers?" To measure this variable, we used the item "Training and Development", and the response format was again 0 = "not outsourced" to 4 = "completely outsourced".

HR excellence of R&S. To measure this variable, we adapted an index of several dichotomous items for the R&S methods that was introduced by research based on Cranet data (Nikandrou and Papalexandris 2007). Participants were asked what R&S methods are used in their organization: interview panels, one-to-one interviews, application forms, psychometric tests, assessment centres, social media profiles, references, ability tests/work samples, technical tests, numeracy tests, and online selection tests. For each R&S practice and three staff categories (i.e., managers, professionals (without managerial responsibility), and clericals and/or manuals), the participants had the opportunity to respond yes or no (coding: 0 = "generally not used"; 1 = "Yes"). We summarized the items and formed an index; therefore, the minimum value for this variable is 0 and the maximum is 33. Although the quantity of R&S practices does not inevitably reflect the quality of these practices, higher values on this variable indicate an organization's attempt to professionalize the R&S processes to identify and select the best candidates.

HR excellence of T&D. We partially adapted a previous index to measure the professionalization of T&D (e.g., Stavrou and Brewster 2005). Participants were asked: "To what extent do you use the following methods for career management?" The response items were: "special tasks/projects, cross organizational/disciplinary tasks, project team work, networking, formal career plans, succession plans, planned job rotation, and experience schemes" (coding: 0= "Not at all"; 4 = "To a very great extent"). We calculated the mean of the items and formed an index. Again, higher values in this variable are an indication of the organization's attitude toward the internal training and development of its employees and how the HR function is involved in the processes of career planning and career management

Internationalization. Participants were asked about the international and/or national market to which the organization is serving its products or services. Prior research has defined and

operationalized this variable to identify those organizations that are operating internationally (e.g., Brewster, Wood et al. 2008, Stavrou and Kilaniotis 2010). We rated "world-wide" and "continental" as an international organization (1) and "national", "regional", and "local" as a national organization (0) (coding: 1 = "international", 0 = "national").

LME (Ref. CME). This dummy variable represents four LME countries in our dataset, namely, the USA, Australia, Switzerland, and Denmark (coded as 1), and four CME countries, namely, Croatia, Germany, Greece, and Italy (coded as 0). We used the LFI for this country categorization (see also Table 1). We used the four highest-ranked countries as LME countries and the four lowest-ranked countries as representatives for CME countries.

Control variables. First, *size* is the natural logarithm of the number of employees. Second, *industry* is a dichotomous variable controlling for the influence of (1) manufacturing industries (for example: machinery, chemicals, electronic products) in comparison to (0) all other industries (for example: telecommunications, financial and insurance services, other services). Third, *sector* is a dichotomous variable that controls for possible differences in (1) private and (0) public organizations. Fourth, we controlled whether the organization is *family owned* or controlled. Participants were asked: "Is the business owned and/or controlled by primarily one family?" (coding: 1 = "yes"; 0 = "no"). Similar control variables have been used in previous research based on Cranet to rule out the influence of third variables on the regression results (e.g., Brewster, Wood et al. 2006, Stavrou and Kilaniotis 2010, Wehner, Kabst et al. 2012, Reichel and Lazarova 2013). In addition to these control variables, we also control for *merger & acquisition (M&A)* because major organizational changes will influence the HR outsourcing decision as well as the development of the HR function within the organization. Participants were asked about the following organizational changes with dichotomous items: "Acquisition in the last three years", "Taken over in the last three years",

and “Merger in the last three years”. If any of these three items was answered positively, we coded our variable as 1= “M&A”, 0 = “no M&A”.

To test for common method bias, we applied Harman’s one-factor test with our eleven variables. The analysis yielded four factors with an eigenvalue above 1. The total sum of the variance of these four factors was 51% (first factor: 17%, second factor: 14%, third factor 11%, fourth factor: 8%). Given that neither a single factor emerged nor a single factor explained most of the variance, there is only a limited threat of common method bias (Podsakoff and Organ 1986). The highest variance inflation factor (VIF) in the model was 1.27, which is small enough, according to Hair et al. (2012), to avoid multicollinearity.

RESULTS

Descriptive Results

Table 2 reports the sample size, means, minimum, maximum, standard deviations, and correlations of our variables. The correlations between our variables are small or moderate. Overall, we found the highest correlations among the dependent variables. The correlation between *HR excellence of T&D* and *HR excellence of R&S* (r = .36) is similar to the correlation between *R&S outsourcing* and *T&D outsourcing* (r = .31). The control variable *sector* is positively correlated with the control variable *industry* (r = .28). There are also moderate correlations between *internationalization* and *industry* (r = .38) as well as *sector* (r = .24). We also found a moderate correlation between *LME* and *HR excellence of R&S* (r = .24), which already indicates the differences in the extent of applied R&S practices between the two institutional environments.

Hypothesis Testing

To test our hypotheses, we used OLS regression and SPSS software. For the sake of readability, we summarize the results for the control variables and the four dependent variables in Table 3 and the additional hypothesized variables in Table 4.

There were a large number of missing items for the variable *human capital investment*. Not surprisingly, not every company evalutes the percentage of the annual payroll costs spent on training. Therefore, we followed the recommended procedure of Preacher and Hayes (2004) and imputed random data with SPSS to check the robustness of our results depicted in Table 4 based on the reduced sample size. The analysis with the imputed data confirms the results of our regression analysis.

Starting with the dependent variable *HR excellence of T&D,* we found support for a positive relationship between *human capital investment* and *HR excellence of T&D* (B = 0.05; $p \leq$ .01), which supports hypothesis 1a. Regarding Hypothesis 3a, we found support for a negative influence of the LME environment on *HR excellence of T&D* (B = -0.23; $p \leq .01$). Conversely, the prediction of hypothesis 5a that *internationalization* is positively related to *HR excellence of T&D* is supported by the results (B = 0.21; $p \leq .01$).

Following the results of *HR excellence of R&S* shown in the next column of Table 4, we have to reject hypothesis 1b, since we found no relationship between *human capital investment* and *HR excellence of R&S*. However, we found support for hypothesis 3b, since the LME environment is positively associated with *HR excellence of R&S* (B = 2.61; $p \leq .01$). We found no support for hypothesis 5b, which predicted a positive relationship between *internationalization* and *HR excellence of R&S.*

The dependent variable *T&D outsourcing* is depicted in column 3. Again, we found no association with *human capital investment;* thus, we have to reject hypothesis 2a. Similarly,

hypothesis 4a needs to be rejected, since we found no relationship between the LME environment and *T&D outsourcing.* Furthermore, our results show no relationship with *internationalization;* thus, hypothesis 5c has to be rejected.

The results for the dependent variable *R&S outsourcing* are shown in Column 4. We found a negative relationship with *human capital investment* (B = -0.02; p≤ .01), which supports our hypothesis 2b. Also, the results support hypothesis 4b because the LME environment is negatively associated with *R&S outsourcing* (B = -0.11; p≤ .01). Finally, we found no relationship between *internationalization* and *R&S outsourcing*; hence, we have to reject hypothesis 5d.

Discussion

The main objective of this study was to analyse HR excellence and HR outsourcing among core HR activities due to differences in the institutional environment. In particular, the study contributes to a more in-depth understanding of the influence of two market economies, namely, LMEs vs. CMEs, on the development professionalization, and outsourcing of R&S and T&D.

First, our hypotheses regarding *human capital investment* and HR excellence and HR outsourcing based on the resource-based view (Wernerfelt 1984, Barney 1991) were partially supported. We found a positive association between human capital *investments* and HR excellence of T&D, which confirms that organizations with a large proportion of investment in well-trained employees consider T&D to be important in their market environment (Goldstein and Ford 2002, Arthur Jr, Bennett Jr et al. 2003), regardless of the institutional environment. The results support the assumption of the resource-based view that firm-specific investments into human capital indicate the value and uniqueness of the human resources to achieve competitive advantages. Furthermore, the higher human capital *investment* was negatively associated with R&S outsourcing, regardless of the institutional environment, which also supports our notion that firms refrain from HR outsourcing if firm-specific customization of HR services is necessary to meet the requirements of human capital development by recruiting and selecting the best and best-fitting candidates for the organization. In this regard, these results also support the resource based view and the prediction that a higher asset investments (i.e., human capital investments) leads to lower outsourcing of specific activities.

Conversely, we found no relationship between human capital investment and HR excellence of R&S or T&D outsourcing. Furthermore, we found no relationship between T&D

outsourcing and HR excellence of T&D, although T&D is among the most common HR practices that are outsourced to external vendors (e.g., Cooke, Shen et al. 2005). In addition, our results indicate a positive relationship between R&S outsourcing and the HR excellence of R&S, which is counterintuitive and cannot be explained by the resource-based view or transaction cost economics. We conclude that the simultaneous increase might be an expression of the importance of R&S activities for organizations, which would confirm the idea that organizations make *and* buy HR activities, which is line with previous considerations (e.g., Matiaske and Kabst 2002, Parmigiani 2007). Hence, HR outsourcing and the HR excellence of the same HR practices might be complements rather than substitutes, which questions the simple make-or-buy-decision proposed by the resource-based view or transaction cost economics. Thus, it is conceivable that organizations use R&S outsourcing and develop their R&S excellence simultaneously due to the mechanism of mimicry and legitimacy (Meyer and Rowan 1977, DiMaggio and Powell 1991) and the rationale of concurrent sourcing (e.g., Parmigiani 2007).

Second, we found support for three of four hypotheses regarding the influence of the institutional environment on both excellences of R&S and T&D as well as R&S outsourcing; however, the institutional environment showed no association with T&D outsourcing. Based on the rationale of the institutional theory (Meyer and Rowan 1977, DiMaggio and Powell 1991), we assumed that the institutional environment leads to isomorphism among organizations within a specific market economy. LMEs are characterized by rather liberal labour markets (Velasquez and Velazquez 2002, Farndale, Brewster et al. 2017), high turnover rates (Kabst, Giardini et al. 2009), less influence of labour unions, employment protection laws, and collective labour agreements (Brewster, Brookes et al. 2015). Due to these circumstances, organizations in LMEs have to make replacement and recruitment decisions frequently, which requires higher excellence in R&S, a stronger firm-specific

customization of R&S services, and less excellence in T&D. Conversely, organizations in CMEs have to develop and invest in their excellence of T&D, while they are able to outsource these R&S services to external vendors. Our results support this argumentation by showing a positive influence of the LME environment on the excellence of R&S and a negative influence on the excellence of T&D and R&S outsourcing. Dasborough and Sue-Chan (2002) already showed that the R&S processes in Australia (an LME country) are influenced by mimetic forces. Regarding excellence in T&D, organizations in LME countries might expect less return on investment of their T&D activities because they try to obtain the most appropriate candidate from the external labour market without having to develop individual skills and capacities first. In contrast, organizations in CMEs might consider T&D as more important for organizational success because they cannot replace their employees as easily as their counterparts in LMEs. Moreover, in CME countries, organizations might associate their investments in their workforce with higher returns (Aguinis and Kraiger 2009). In addition, CME-based organizations are described as rather 'soft' in people management (Goergen, Brewster et al. 2013), which is reflected in the usage of T&D to compensate for low individual performance instead of changing the position holder. Third, firms that operate internationally are more likely to increase their excellence in T&D (Mol, Brewster et al. 2014). This positive association might occur because international organizations provide more career opportunities than national organizations, and therefore, they require more career development practices (Björkman, Fey et al. 2007), regardless of the institutional environment. However, contrary to our expectations, we found no association with the excellence in R&S, T&D outsourcing, or R&S outsourcing. One explanation for these findings could be that the degree of internationalization does not capture the particular international markets the firms serve (e.g., how many international markets and how many LME or CME markets). Thus, the non-significant associations could be the result of

confounding LME and CME markets, which limits the possibilities to find significant relationships for the influence of internationalization.

Theoretical implications

The combination of the resource-based view and institutional theory in this study enriches the ongoing discussion in the field of HR outsourcing by suggesting that HR outsourcing and HR excellence are not mutually exclusive and are therefore complements rather than substitutes. The combination of both theories among different institutional environments serves as an overarching theoretical framework that is better able to explain why companies simultaneously engage in outsourcing and increase their excellence of core HR activities at the same time. In the spirit of combining two prominent theories to explain boundary decisions in the field of HR outsourcing, this study expands existing literature by linking the resource-based perspective with institutional theory among different market economies. For example, Ordanini and Silvestri (2008) linked transaction cost economics and the resource-based view. FurtherBrookes and colleagues (2011) and Peretz and Rosenblatt (2011) combined institutional and cultural frameworks to explain certain characteristics of HR outsourcing. For the analysis of core HR activities such as T&D and R&S, where transaction cost economics has limited explanatory power, institutional theory seems to complement the resource-based view and might be beneficial in further understanding the behaviour of firms in different institutional environments.

Moreover, this study sheds led on the limitations of the well-known theoretical distinction between core and non-core HR activities, which seems to be narrow in this particular context. While the resource-based view in combination with institutional theory is able to explain organizational decisions for T&D excellence, R&S excellence, and R&S outsourcing, we were unable to explain the decisions for T&D outsourcing in particular. Given the continuing

research interest and increasing empirical evidence for HR outsourcing of core HR activities (e.g., Dasborough and Sue-Chan 2002, Ordanini and Silvestri 2008, Reichel and Lazarova 2013, Susomrith and Brown 2013, Glaister 2014), there is a need to question the traditional mechanisms of HR outsourcing decisions and to develop a deeper understanding of the upcoming driving factors for organizations to outsource and/or internally develop core HR practices while operating in an increasingly global environment.

Managerial Implications

Our study suggests that the HR outsourcing decision is also influenced by institutional factors; therefore, there is a need for organizations and the HR function to identify individual core HR tasks that support the organization's business goals. The organization needs to reflect upon and adapt to the institutional environment to gain legitimacy and reduce uncertainty. Nijssen and Paauwe (2012) stated that organizations operating in dynamic institutional environments tend to outsource the wrong (i.e., core) tasks due to normative pressures. Their results imply that US-based organizations with a lower degree of HR outsourcing were more resourceful during the financial crisis. Ideally, organizations should satisfy the minimum requirement of the local institutional environment to gain legitimacy while simultaneously emphasizing the alignment of HR resources with business needs.

Limitations

This study has several limitations. First, one might be concerned that our measures of T&D and R&S excellence do not differentiate between internally conducted HR services and HR services that are already outsourced to an external vendor. We tried to consider this in our OLS regression analyses by adding the variables T&D outsourcing and R&S outsourcing as independent variables when analysing T&D excellence and R&S excellence and vice versa. However, we do not know exactly which R&S practices or T&D practices of our indices are completely conducted internally or conducted by an external vendor for HR services, which limits the interpretation to the amount or degree of HR excellence in R&S and T&D. Nevertheless, given the significant effects of human capital investment and the LME environment while controlling for the degree of HR outsourcing, we are confident that the results reflect our theoretical argumentation of our hypothesized relationships. Similarly, and as discussed above, the variable internationalization does not capture the specific markets the organizations serve. Thus, an organization might well be international, but only and exclusively in CMEs, which limits the interpretation of this variable.

Second, our sample is limited, especially with respect to the number of countries. We are aware that our results only reflect HR functions and organizations in the countries included in our sample. Hence, we are able to make statements regarding the HR functions in LMEs and CMEs represented by the LFI, but we are not able to make predictions or conclusions concerning Latin America, Asia, Africa or Indonesia. Furthermore, we relied on the LFI to build the groups of LMEs and CMEs, and we paid particular attention to having an equal number of countries and an equal number of organizations to ensure comparable effects. We used the LFI as the basis for building the categorization because it makes the distinction less arbitrary, the LFI values are up-to-date with our Cranet data collection, and it increases the transparency of the categorization of countries. Of course, another classification of countries

into LMEs and CMEs could lead to different results. To avoid this, we decided to choose countries with the highest and lowest LFI values and comparable sample sizes within the countries in our dataset.

Third, the measurement of the influence of institutional factors is limited by the use of a regional dummy for the countries (i.e., LME vs. CME). We are aware that national business systems are not inevitably limited to national boundaries. In addition, we do not consider cultural indicators, such as Globe values or Hofstede, as previous research has done in the context of HR outsourcing (e.g., Brookes, Croucher et al. 2011, Peretz 2012). This is because we focus on the institutional environment and the market economy to explain the differences and similarities between HR excellence and HR outsourcing among certain countries. However, the simultaneous consideration of cultural and institutional influences for the outsourcing decision of core HR practices could be a fruitful research avenue to disentangle the effects of culture and institutions on organizational behaviour in this context.

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Appendix

Table 1

Sample Description

Countries	Labor Freedom Index	Number of organizations	Mean Number of Employees	Minimum size	Maximum size	Mean of R&S outsourcing	Mean of T&D outsourcing	Mean of HR excellence of R&S	Mean of HR excellence of T&D
LME Cluster:									
USA	91.40	438	9309	100	480,000	0.20	0.95	12.87	1.50
Denmark	86.00	234	1274	100	25,000	0.31	0.63	11.38	1.35
Australia	77.20	291	3170	100	200,000	0.24	1.21	13.29	1.57
Switzerland	72.10	213	3138	200	42,656	0.38	1.26	14.28	1.64
CME Cluster:									
Italy	53.00	165	1967	195	33,000	0.83	1.54	10.78	1.35
Germany	50.60	260	4150	100	195,378	0.29	1.06	9.84	1.71
Greece	50.20	177	1083	100	17,157	0.45	1.48	9.79	1.50
Croatia	42.40	170	964	105	13,818	0.27	0.69	10.85	1.50

[a] The countries are divided into LMEs and CMEs, based on the labor freedom index (LFI) published by the Heritage Foundation in 2015; all organizations with less the 100 employees are excluded from the dataset

Table 2

Correlations and Descriptive Statistics[a]

Variables	N	Mean	Min	Max	SD	1	2	3	4	5	6	7	8	9	10	11
1. R&S outsourcing	1,874	0.55	0	4	0.71											
2. T&D outsourcing	1,861	1.08	0	4	1.09	.31										
3. HR excellence of R&S	1,834	11.83	0	31	5.51	.09	.03									
4. HR excellence of T&D	1,688	1.55	0	4	0.78	.14	.01	.36								
5. Size	1,948	6.65	4.62	13.08	1.42	.03	.00	.22	.23							
6. Industry	1,631	0.24	0	1	0.42	.19	.07	-.02	.14	-.03						
7. Sector	1,707	0.72	0	1	0.45	.20	.10	.07	.18	-.12	.28					
8. Family owned	1,358	0.32	0	1	0.46	.04	.05	-.08	-.09	-.12	.23	.28				
9. Human capital investment	1,279	3.33	0	11	2.81	-.06	-.10	.12	.22	.08	-.04	-.00	-.02			
10. M&A	1,948	0.41	0	1	0.49	.15	.08	.12	.20	.12	.12	.21	.00	.07		
11. Internationalization	1,689	0.42	0	1	0.49	.13	.06	.03	.23	.06	.38	.24	.13	.07	.15	
12. LME (Ref. CME)	1,948	0.60	0	1	0.48	-.10	-.08	.24	-.00	.09	-.19	-.18	-.19	.20	-.02	-.10

[a] N = Sample size; SD = Standard deviation. Correlations with absolute values above .04 are statistically significant at $p < .05$. Size is the natural logarithm of the number of employees.

Table 3

	Results of OLS Analyses[a] Step 1 Dependent Variables (B):							
Variables	**HR excellence of T&D**	**SE**	**HR excellence of R&S**	**SE**	**T&D outsourcing**	**SE**	**R&S outsourcing**	**SE**
Size	0.15***	0.02	0.92***	0.10	0.05***	0.02	0.05***	0.01
Industry	0.21***	0.05	-0.32	0.33	0.11	0.07	0.24***	0.05
Sector	0.30***	0.06	1.22***	0.40	0.34***	0.08	0.30***	0.05
Family owned	-0.19***	0.05	-0.72**	0.33	-0.03	0.07	-0,06	0.04
Human capital investment								
M&A								
T&D outsourcing								
R&S outsourcing								
HR excellence of T&D								
HR excellence of selection								
Internationalization								
LME (Ref. CME)								
R^2	.11		.07		.02		.06	
Adjusted R^2	.11		.06		.02		.06	
Delta F	39.26***		22.66***		6.70***		20.22***	

[a] N = 1239; B = Unstandardized estimators. An absolute term (constant) and the standard error were estimated for each regression but omitted for the sake of readability. The significance levels are: * = $p \leq .10$; ** = $p \leq .05$; *** = $p \leq .01$

Table 4

	Results of OLS Analyses[a] Step 2 Dependent Variables (B):							
Variables	**HR excellence of T&D**	**SE**	**HR excellence of R&S**	**SE**	**T&D outsourcing**	**SE**	**R&S outsourcing**	**SE**
Size	0.08***	0.02	0.57***	0.13	0.04	0.03	0.01	0.01
Industry	0.11**	0.06	-0.39	0.39	-0.05	0.09	0.21***	0.05
Sector	0.12**	0.07	0.84**	0.47	0.26***	0.10	0.15***	0.02
Family owned	-0.16***	0.05	-0.06	0.36	0.03	0.08	-0.06	0.05
Human capital investment	0.05***	0.01	-0.03	0.06	-0.02	0.01	-0.02**	0.00
M&A	0.16***	0.05	-0.12	0.33	0.01	0.07	0.16***	0.05
T&D outsourcing	-0.02	0.02	0.05	0.16			0.21***	0.02
R&S outsourcing	0.02	0.04	0.62***	0.24	0.52***	0.05		
HR excellence of T&D			2.24***	0.22	-0.04	0.05	0.02	0.03
HR excellence of selection	0.05***	0.00			0.01	0.01	0.01***	0.01
Internationalization	0.21***	0.05	-0.39	0.36	0.04	0.08	-0.00	0.00
LME (Ref. CME)	-0.23***	0.05	2.61***	0.34	0.05	0.08	-0.11***	0.02
R^2	.24		.22		.14		.19	
Adjusted R^2	.23		.22		.13		.18	
Delta F	22.37***		60.58***		0.36		5.72***	

[a] N = 904; B = Unstandardized estimators. An absolute term (constant) and the standard error were estimated for each regression but omitted for the sake of readability. The significance levels are: * = $p \leq .10$; ** = $p \leq .05$; *** = $p \leq .01$

Figure 1

Hypothesized Research Model for H1 – H5