

FLEXIBILITY AND COMPETITIVENESS: INTEGRATION FUNCTIONS AND MANAGING HUMAN RESOURCES ON OUTSOURCING

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Abstract

The involvement of human resources for the business enacts a prominent role and determine the success of process of changes in the organization because it is an important subject will implement a process of change and results of it. In supporting the outcome of the company, the indispensable integration of the HR function required, i.e. through the practice of HR practices in business strategy. The objectives of the study are providing a clear understanding of managing the human resource in the supply chain and approach the labour management of the framework of David Guest Model from Multinational Companies from Multinational Companies (MNCs) perspective on outsourced employees. The methods exerted is descriptive qualitative and quantitative by using multiple regression. This study analyzed the influence of two independent variables, i.e. the integration function and managing human capital towards dependent variable, successful supply chain management decision. We involve MNCs decision to outsourcing their supply chain management (SCM) functions and how to minimize the future risk. For this inquiry, we conceive of MNCs with foreign HRM practices with their supply chain in the one of emerging markets, i.e., Indonesia. The competitive challenges of the company are not only existed at the excellence of the product technology, processes, market and capital regulation, but also on the quality of human capital. The result indicated the ability in capturing and responding immediately to business dynamic alteration. The findings of this study are to determine better perspectives and strategies on successful supply chain management decisions.

Key words: human resources, supply chain, outsourcing, flexibility, competitiveness

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Introduction

Changes in the business environment will quickly accompany uncertainty divers the major issues relating to human resources, among others the management of human resources to create competence, management of workforce diversity to achieve competitive advantage. The competitive challenges of the company not only exist at the excellence of the product

technology and processes, or it has the market be regulated and capital, but on the quality of human resources. The involvements of human resources for the business is actually important and determine the success of the process of changes in the organization as a result of an important subject will implement the process of innovation and the results of it (Moran and Brightman, 2000)¹³. Outsourcing has become a useful tactic to acquire a competitive advantage and lower costs which are based on realizing gains in business profitability and efficiency. Therefore, the purpose of this study was twofold. First, we analyse managing of the human resource in the supply chain and approach the labours management of the framework of David Guest Model. Second, we determine the effect of labour market flexibility in Indonesia, in a study of a concept of flexibility the company read environmental changes socioeconomic through an on labour markets. The issues discussed in the studies are described by a set of variables and the statistical procedures are applied and review the outsourcing literature with the aim of identifying those references that may provide guidance for managers and researchers.

1 Supply Chain Management Functions on Resources-Based View

The potential applications of HRM in a supply chain, Fisher et al., (2010)⁵ believe there are HRM-SCM links can take two forms. First, intra-organizational perspective, it suggests there is particular attention to the human capital resources within organizations in the supply chain to function effectively and achieve competitive advantage (Fisher et al., 2010)⁵. Second, inter-organizational perspective, there should be link flows from activities between organizations that are embedded in supply chain partner relationships. It suggests that adopting HRM practices and strategies should give some consideration to inter-firm supply chain relationships.

Resource-based view (RBV) suggests an organization can gain a competitive advantage by accumulating and deploying valuable and rare tangible and intangible resources that are difficult to imitate (Coyle-Shapiro et. al., 2004:139²). Intangible resources, e.g., HR occupy a central role in the RBV because they are often difficult for competitors imitating since they are not visible to outsiders (Coyle-Shapiro et. al., 2004:139)². Intangible resources take time to develop, are hard for outsiders to fully understand, and or/ are difficult to imitate and HR allows the firm to leverage its other key assets in ways that create and sustain a competitive advantage (Coyle-Shapiro et. al., 2004:140)². Intangible resources, e.g. employee motivation and commitment to the company can create a competitive advantage on their own and a highly skilled labour

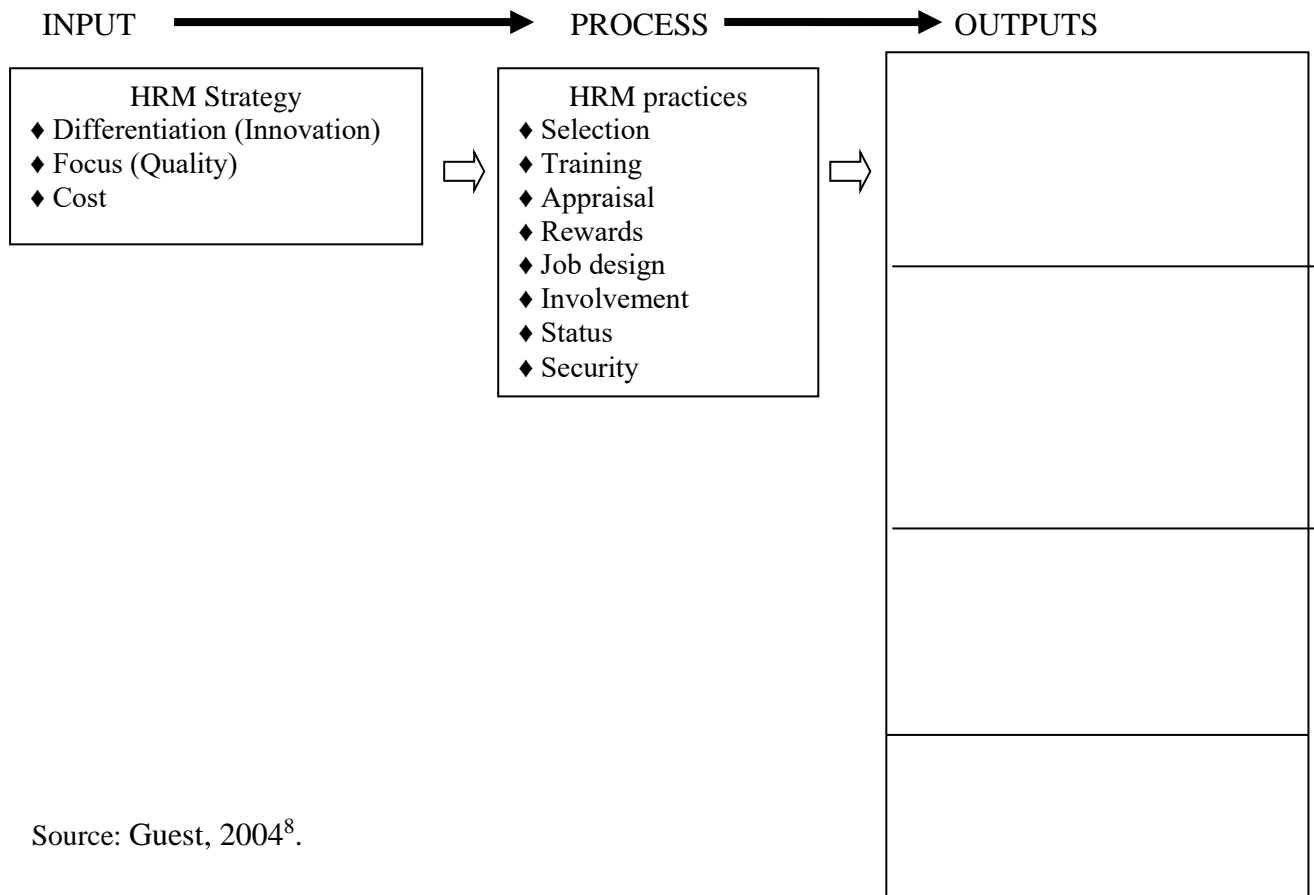
force can harden and exploit innovative technologies in ways that increase the firm's competitive superiority relative to its rivals (Coyle-Shapiro et. al., 2004:140)². A key implication of the RBV is the importance of investing in building the firm's HR assets, resources, and capabilities (Coyle-Shapiro et. al., 2004:140)². The EOR should matter a great deal within the RBV; determines the motivation and dedication of employees, their attachment to the firm, and their organizational commitment. According to this theory, companies have the responsibility to cultivate and harvest the expertise and knowledge of their employees and use that knowledge as a foundation for making strategic changes that enhance the firm's competitive position and financial performance.

2 David Guest Model on Employment Relationship

The nature of social relationship between the employer and their employees, which is considered as central analytical importance to HRM, it describes as asymmetry of reciprocal relations (i.e., the employment contract, inequalities of power structure the economic exchange (wage or salary) and the nature and quality of work performed (routine or creative) between employees (non-managers and managers) and their work organization. The employment relationship involves an economic relationship: the "exchange of pay for work" (Bratton and Gold, 2012:10)¹, when people enter to workplace, they enter into a pay-effort bargain, which places an obligation on both employer and the employee: in exchange for a wage or salary, paid by the employer, the employee is obligated to perform an amount of physical or intellectual labor. The other important component is a legal relationship: a network of contractual and statutory rights and obligations affecting both parties to contract e.g. contract of employment. HRM scholarship also focused on other components of the employment relationship: the psychological contract. Guest and Conway (2004:22)⁹ and Bratton and Gold (2012:12)¹ describe it as "the perceptions of both parties to the employment relationship – organizational and individual – of the reciprocal promises and obligations implied in that relationship. According to Bratton and Gold (2012:12)¹, some important features need to be appreciated by the employers, i.e., ineffective practices may communicate different beliefs about reciprocal promises and obligations that are present, therefore, individuals will have different perceptions of the psychological contract, although the legal contract is identical.

The framework of David Guest (1987, 1997, 2004)⁸, it describes about the different approach of labour management that examined in the context of goals, employee behaviour, performance and long-term financial outcomes. According to Guest model of HRM, managers are advised to consider the effects of a core set of integrated HR practices on individual and organizational performance. The Guest's model acknowledges the close links between HR strategy and the general business strategies of differentiation focus and cost (Bratton and Gold, 2012:21)¹ (please see Figure 1).

Fig.1: Guest model of HRM



Source: Guest, 2004⁸.

Guest measured HR strategies with HR outcomes, e.g., differentiation (innovation) with commitment outcome, focus (quality) with quality outcome and cost (cost reduction) with flexibility outcome. In this model, the HR practices should be designed to lead to a set of HR outcomes of high employee commitment, high quality staff, and highly flexible staff. It is also described about high employee commitment as a critical HR outcome about employer's goals of binding employees to the organization and obtaining the behavioral outcomes of increased effort, cooperation and organizational citizenship (Bratton and Gold, 2012:21)¹. While high quality staff refers to the capabilities and to the knowledge and skills of staff and flexibility refers to functional rather than numerical flexibility.

There are human resource goals provide a framework for identifying areas of human resource policies with organizational outcomes, e.g. organizational and job design policy with high job performance outcome; policy formulation and implementation/management of change with high-problem solving outcome; recruitment, selection, and socialization with successful change outcome; appraisal, training and development with low turnover outcome; manpower flows through, up and out of the organization with low absence outcome; reward systems and communication systems with low grievance level High cost-effectiveness i.e. full utilization of human resources outcome.

3 Competitive advantage through outsourcing

Indonesia has to face the existing labour market problems e.g. limited employment opportunity, low quality of labour force, relatively high unemployment rate, globalization effect on employment, and lack of awareness regarding the application of industrial relations. As accelerate of globalization and competition intensifies, outsourcing has become a strategic solution for many corporations and governments around the world. Outsourcing has become a useful tactic gain a competitive advantage and lower costs which are based on realizing gains in business profitability and efficiency. Additionally, outsourcing is a form to obtain flexibility labour. Flexibility is presented as a critical characteristic of organisations that have to deal with turbulent environments. Organisations responding to highly turbulent environments often seek flexibility through the implementation of “new, fluid” work systems in place of “old, rigid” structures (Dunford et al., 2007⁴; Pettigrew et al., 2003¹⁴). Flexibility is also presented as central to achieving the innovative capacity that is a key feature associated with new organisational forms (Davila, 2000)³. The increasing tendency to characterise the business environment as dynamic has led to flexibility being labelled a “core capability” (Galunic and Eisenhardt, 2001)⁶, something which “has become so important to organisations that it may have a critical role as a success factor in its own right” (Golden and Powell, 2000:375)⁷.

The customer of outsourcing does not hire a worker but the services of a firm for a limited period of time, along with it will be that firm’s responsibility to deal with labour relations and the costs linked to them (Young, 2007)¹⁵. Cost, strategy, and politics are three major categories of motivations for outsourcing. The first two commonly drive outsourcing by private industry. Political agendas often drive outsourcing by public

organizations (Kakabadse and Kakabadse, 2000a)¹⁰. As the Table 1 and 2 shows summarized studies of the expected benefits of outsourcing and all the potential risks of outsourcing are not currently known in an attempt made to identify some of the known risks.

Tab. 1: Expected benefits of outsourcing

Expected Benefit	References
Access to latest technology/ infrastructure	Kakabadse and Kakabadse (2000a), Roberts, V. (2001), Wright (2001)
Access to skills and talent	Wright (2001)
Augment staff	Kakabadse and Kakabadse (2000a, b), Wright (2001)
Better accountability/management	Mehling (1998), Domberger and Fernandez (1999)
Capital infusion	Gordon and Walsh (1997), Blumberg (1998)
Cost savings	Adler (2000), Fan (2000), Kakabadse and Kakabadse (2000a), Krizner (2000), Laarhoven et al. (2000), Roberts, V. (2001), Jennings (2002)
Copy competitors	Willcocks et al. (1995), Willcocks and Currie (1997)
Get rid of problem functions	Willcocks and Currie (1997), McIvor (2000a)
Greater flexibility	Kakabadse and Kakabadse (2000a, b), Jennings (2002)
Increased speed	Krizner (2000), Kakabadse and Kakabadse (2000a)
Increase focus on core functions	Adler (2000), Kakabadse and Kakabadse (2000a, b), McIvor and McHugh (2000), Roberts, V. (2001), Wright (2001)
Legal compliance	Gordon and Walsh (1997), Kakabadse and Kakabadse (2000a)
Quality improvement	Kakabadse and Kakabadse (2000a), Roberts, V. (2001), Jennings (2002)
Reduced capital expenditures	Muscato (1998), Razzaque and Chen (1998), Kakabadse and Kakabadse (2000a)
Reduce politic pressures or scrutiny	Gordon and Walsh (1997), Willcocks and Currie (1997), Kakabadse and Kakabadse (2000a)
Transfer fixed costs to variable	Razzaque and Chen (1998), Blumberg (1998), Kakabadse and Kakabadse (2000a)

Source: Kremic,2006¹¹

Tab. 2: Potential risks of outsourcing

Potential risk	References
Less flexibility	McCray and Clark (1999), Roberts, V. (2001)
Loss of control/core competence	Kakabadse and Kakabadse (2000a, b), (Klopach (2000), Roberts, V. (2001)
Loss of knowledge/skills and/or corporate memory and the difficulty in reacquiring a function	Kakabadse and Kakabadse (2000a, b), McIvor (2000a), Roberts, V. (2001)
Losing customers, opportunities, or reputation	Kakabadse and Kakabadse (2000a), Roberts, V. (2001)
Poor contract or poor selection of	Lee and Kim (1999), Klopach (2000), Krizner (2000)

partner	
Poor morale/employee issues	Kakabadse and Kakabadse (2000a), Story (2000)
Power shift to supplier	Kakabadse and Kakabadse (2000a), Roberts, V. (2001)
Uncertainty/changing environment	Willcocks and Currie (1997), Lonsdale (1999)
Unrealized savings or hidden costs	Lonsdale (1999), (Works Management, 1999), Kakabadse and Kakabadse (2000a, b)
Supplier problems (poor performance or bad relations, opportunistic behaviour, not giving access to best talent or technology)	Avery (2000), Baden-Fuller et al. (2000), Kakabadse and Kakabadse (2000a), Roberts, V. (2001).
Other: Loss of synergy Create competitor Conflict of interest Security issues False sense of irresponsibility Legal obstacles Skill erosion	Campbell (1995), Willcocks and Currie (1997) Klopach (2000) Klopach (2000) Graham (1996), Peltier (1996) Roberts, P. (2001), Sherter (1997), Widger (1996) Gordon and Walsh (1997), Graham (1996) Lafferty and Roan (2000)

Source: Kremic,2006¹¹

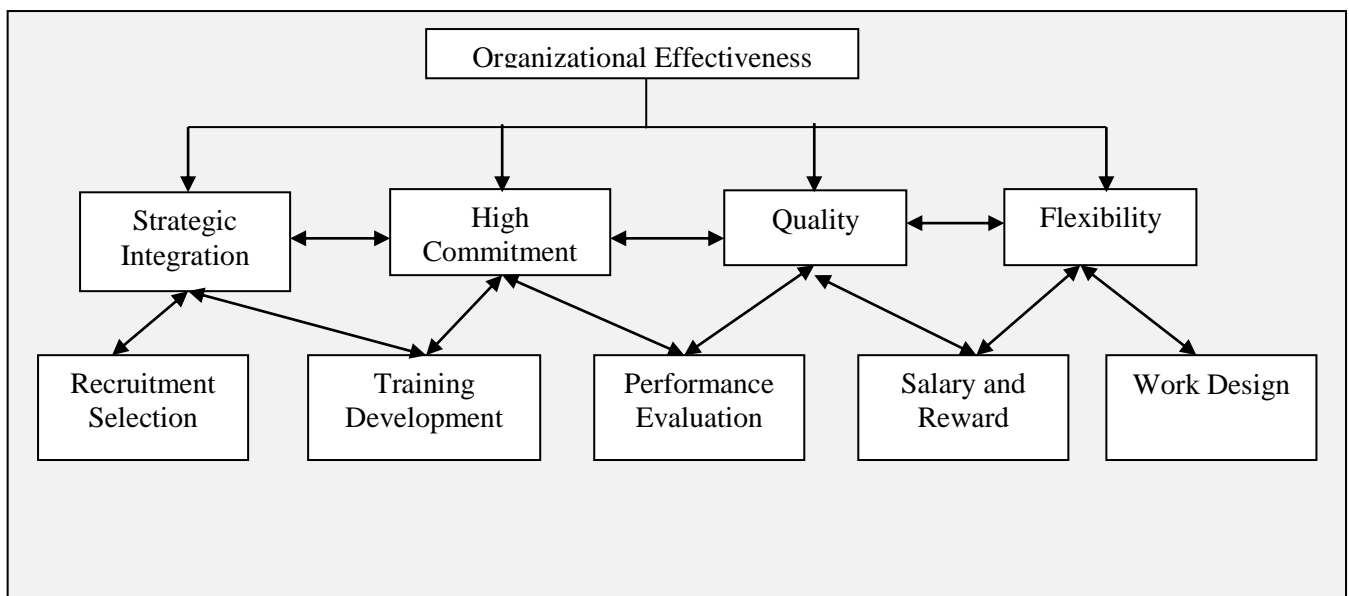
4 Conceptual Framework and Research Approach

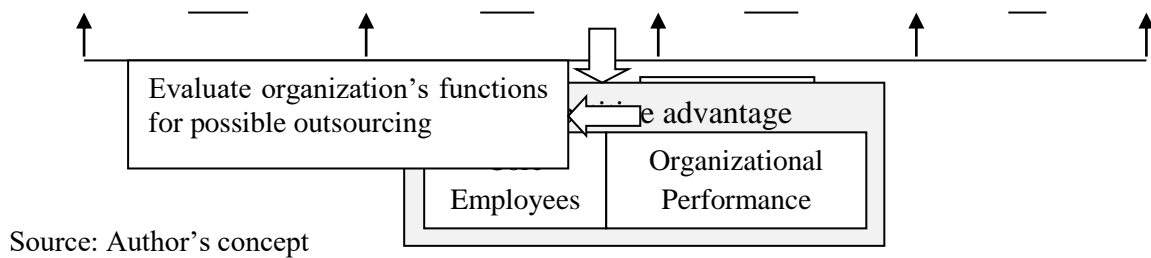
The main objective of the study is to analysed the influence of two variables, i.e. the integration function and managing human resources.

The study proposed and formulate three key issues in the study as follows: a) Does analyze integration functions of human resources have a significant effect on competitiveness advantage through outsourcing?; b) Does have human resources management through outsourcing significant effect on competitiveness advantage?; c) Do the level of integration functions of human resources and human resources management through outsourcing have significant effect on competitiveness advantage?

The background of the study identifies some highlights i.e. the determination of HRM strategy and HRM practises through approach the labours management of the framework of David Guest Model Authors (see Figure 2).

Fig.2: Conceptual Model



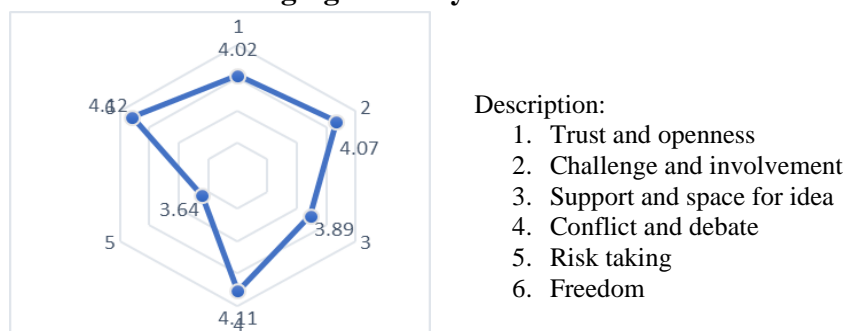


5 Data Analysis and Finding

The evidence presented in this study is based on both quantitative and qualitative research methods. The study addresses the study involved 100 employees from various industry in Indonesia. Multiple regression analysis was utilized to determine the relationship between the independent variables and the dependent variable.

Quantitative data analysis depicted that the numbers R obtained 0.527 and it explained the correlation between variables of the integration HR affect on outsourcing denoted a strong relationship. The coefficient of determination amounted to 61%, whilst the remaining 39 % is influenced by other variables not included in this research model. The significant value of F is 0.000 so compared with $\alpha = 5\%$, then the significance of $F < 0.05$ ($0.000 < 0.05$), it can be concluded that integration of HR and HRM through outsourcing simultaneously have a significant effect on competitiveness advantage. The previous research authors of managing of employee in diversity (Krismadewi, 2017)¹² that finding of the study of the influence of diversity on organizational trust and openness support employees that proven in the results that managing diversity has a significant effect on the organizational effectiveness (see Figure 3).

Fig. 3 : Diamond model of managing diversity in Indonesia



The figure above showed that company in level top management do not extensively educate their employees about diversity but become professional coaches for workers in completing tasks. They only tackle diversity issues when the need arises. There is a lack of open communication between managers and employees. As a means, managers use it to

communicate with their workers. In addition, some managers are not able to effectively manage diversity and manpower due to the nature of the company and its activities that will reduce organizational performance.

The finding of qualitative data mentions that factors which may impact outsourcing decisions are cost and function characteristics. The strategy factor that core competence has attracted much attention by a reason of the organization uses to sustain a competitive advantage not obtained in this research results. The strategy factor is the next strategy factor to consider related to quality of an organization's services established a reputation and can create demand.

Conclusion

The studies addressing human resources management tend not to cover integration function of HR that weighed positive and significant effect on managing of flexibility labour through outsourcing. Based on hypothesis testing using a technical regression and significance, it depicted that function of HR either jointly or partially impacted positively towards managing of flexibility labour through outsourcing that contributed a greater influence on competitive advantage in private industry.

The appearance of flexibility to be an important driver in a scale perspective also regarding the scope of product or service. The assumption of outsourcing as a way to reduce the organization's risk by sharing it with suppliers called the partnerships also indirect cost savings drive the organization in a more nimble and efficient. The handling of strategic human resources management (SHRM) needs to be involved to define the business strategy that follows organizational aims and objectives also analyse the context, e.g. existing and desired competences, identify business needs to be addressed by HRM, identify key HRM issues, develop HRM framework, diagnose HRM priorities, implement change programme, evaluate the effectiveness of HRM. The application of SHRM turn into control to the outsourcing in a company so can reach potential benefit expected and minimize levels of risk.

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