Outsourcing Human Resources

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Abstract

We try to explain why entities opting for short-term contracts. These are less common/usual forms of employment and to explain that there are two approaches:

What are the intentions behind the use of these methods and arguments?
The circumstances must solve using such methods?
What factors influence a company’s decision to adopt these unusual methods for the employment contracts rather than open indefinitely-term contracts.

Key words: outsourcing human resources, human capital, employment contract indefinitely

JEL Classification: J24

Conceptual approach

The most important models of outsourcing labor force are represented by short-term employment contracts and employee leasing. These alternatives represent different methods for reaching an optimum of human resources, from the point of view of flexibility and stability.

We are trying to explain why entities opt for short-term contract or for employee leasing. These are less usual employment forms and, in order to be able to explain them, two approaches are imposed:

- which are the intentions behind using these methods and reasoning?
- what situations must be resolved for appealing to such methods?

The most important papers tend to consider short-term contracts and employee leasing as indicators of numerical flexibility. But we appreciate that the quantitative stability of staff, due to the necessity of compensating absenteeism and the lack of qualified human resources, becomes just as important as any other strategic objective of the company1.

The majority of researches and studies dedicated to atypical methods of employing labor force was realized in the United States of America and in the United Kingdom of Great Britain and have tended towards ignoring judicial and legal constraints regarding the commitments of companies towards staff, which is not completely surprising because the market of labor force in these countries is relatively non-regulated.

Legal restrictions and fiscal systems regarding the outsourcing of human resources. Non-standardized employment contracts generically include "those contracts which derive from the standard form and from which it is expected that the average of collaboration hours would be full-time, the period to be undetermined and they will be

performed at the workplace designated by the employer, under its supervision”. We must highlight a prime element which determines their special nature. They will not be performed on an undetermined period, this aspect corresponding to the concept of contingent labor.

Even if the general theoretical notions regarding the forms of these atypical employment contract models coincide and find common ground, the legal and judicial national divergences will not reach consensus any time soon. It is necessary to recognize the conceptual expansion of employment contract categories, expansion supported by very different approaches, definitions and national institutionalizations, sometimes even divergent. As Gonos also observed, "each discrete form of what has been labeled as contingent labor force represents a distinct social commitment, of which viable continuity depends on the presence of a favorable regulation environment and of the presence of a legal doctrine which supports it; either this, or the complete absence of institutional barriers, absence which will be used to the advantage of its own legitimacy”.

A comparison between the Norwegian system and the British-American one will reveal certain dimensions which will vary depending on the national, fiscal and legal system. These dimensions are important for revealing the nature of atypical employment contracts, their differentiation between countries and to what extent the mechanisms identified inside them explains their functioning.

Fluctuation of demand for human capital and market risk

Numerical flexibility regards the intention and ability of optimizing the number of employees focused on one field or project, for fulfilling tasks or of fluctuations of demand for labor force. The idea of "necessity" for this type of flexibility varies from one company to another. If numerical flexibility is regarded as a vital element, then the introduction of atypical employment contracts will probably be considered.

First of all, we suppose that numerical flexibility - by this meaning the introduction of the employee leasing concept in the company's approaches regarding employment contracts - is associated to the fluctuations of demand on the market. In case a company experiences demand fluctuations or other seasonal changes, the introduction of atypical contracts will act as a buffer solution. And the more employees/hour are needed, the more labor force will be recruited by means of employee leasing, rather than by means of long-term contracts. This way, the company will be able to interrupt contracts when fluctuations on the market hit a standstill, as associated costs are minimal, because temporary employees have no assertions for a stable, long-term job.

The volume of employments by employee leasing or by fixed-term contracts is modified inversely proportional with demand fluctuations on the labor market.

When there is a high degree of uncertainty regarding clients' preferences, the level of request or actions of competitors, the entities will tend to anticipate the need to adjust the human capital, both quantitatively and qualitatively. If a company wishes to reduce the sphere of a certain activity, the first thing will be dismissing employees, which attracts additional costs. If the personnel submitted to dismissals is employed on continuous

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contracts, the dismissal will cause prejudices, both on the financial side and on the side of intellectual capital, affecting its reputation of being a trusted employer and diminishing the morale of those remaining to work within the company.

However, this cost will be substantially reduced if the atypical methods of contracting human capital will be applied to those activities which are subject to a high risk to the market's conditions. On a market characterized by a high level of risks, companies will want to outsource human resources by contracting employees through employee leasing or short-term contracts.

The higher the level of risk of a specific market, the more human resources will be used through alternative means, such as employee leasing.

**Power of trade unions**

An element which affects the use of short-term labor contracts is the power manifested by trade unions. On one hand, trade unions are generally refractory to outsourcing human resources because these are more difficult to be organized and have, most of times, different objectives than the permanent personnel. As the percentage of employees which are trade union members increases, it tends to oppose even more resistance to the tendencies of companies of turning to external sources for human capital. And this resistance tends to have even more success, diminishing the temptation of the enterprises to employ capital by means of leasing or fixed-term contracts. On the other hand, outsourcing human resources is a strong instrument for antagonizing the power of trade unions.

When the power of trade unions is fragile, the company will prefer to rely on standard employment contracts. The critical factor which the company considers is the cost involved by terminating an employment contract. And in an environment where there is no trade union power, dismissing and employee, even if he is employed on an undetermined period, no longer seems so problematic.

The professional protection of employees is dependent on governmental regulations and the power of trade unions. As this power increases, the company will acknowledge the difficulty of concluding a standard contract and will turn to human resource leasing and short-term contracts.

**The relation between short-term contracts and employee leasing**

The relation between the two variables: employee leasing and short-term contracts is interesting. On one hand, options can be perceived as direct alternatives, when a company finds itself in situations without a high level of risk, as is, e.g. the situation of compensating the absence of employees on maternity leave or medical leave. That is why, when an alternative is chosen, no interest is manifested, normally, towards the other. In no case we expect that there will be inclines of expectations from the alternative which was not chosen. On the other hand, there are two mechanisms.

**References**

