The role of transaction costs and institutional forces in the outsourcing of recruitment.

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This study investigated reasons for the outsourcing of a core HRM function, recruitment. Drawing from transaction costs and institutional theories, it was hypothesised that the pressure to minimise transaction costs and the presence of industry trends towards outsourcing would be positively associated with the outsourcing of recruitment.

Survey data were gathered from 117 HR professionals in Australia. Both hypotheses were partially supported. Specifically, the outsourcing of recruitment activities was positively associated with trust in the agency supplying the recruitment service and with the need to reduce internal labour but not fixed costs. With regard to institutional theory, the outsourcing of recruitment was positively associated with mimetic but not coercive forces. The study concludes that although most assumptions about recruitment agency use are expressed in economic terms, in reality, HRM practices are also influenced by forces exerted by the institutional environment in which organisations are located.

Keywords: recruitment, outsourcing, transaction cost theory, institutional theory

There is a global trend toward the outsourcing of human resource management (HRM) functions (Davidson 1998). Outsourcing, which grew by 35 percent in the United States in 1997, refers to the 'performance, by outside parties on a recurring basis, of HRM tasks that would otherwise be performed in-house' (Greer, Youngblood and Gray 1999, 85). Recruitment is the focus of the current study because it is a fundamental activity, in which HR managers

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seek to match the skills and abilities of individuals with the requirements of the organisation (Gatewood and Feild 1998), that is performed by virtually all organisations and is performed by 90 percent of Australian organisations (Morehead et al. 1996).

It is widely assumed that outsourcing HRM functions provides cost savings to the organisation. Human resource managers have challenged this view by reporting that outsourcing can, in fact, lead to increasing costs and that it may be less expensive to administer the function in-house (Laabs 1998). If outsourcing is not delivering the promised cost savings to all organisations, why then are firms outsourcing their HRM functions? One possible explanation, which has yet to be empirically investigated, is that outsourcing is a response to macroeconomic and environmental forces (Greer et al. 1999). Thus the purpose of this research was to explore theoretical explanations underpinning outsourcing, and, in particular, the outsourcing of recruitment.

Jennings (1994) and Wright and McMahan (1992) have suggested that organisational theories may provide a useful framework for examining HRM practices. Organisational theories that focus on economic and environmental forces are transaction cost economics (TCE) and institutional theories, respectively. Williamson (1985) has argued that transaction costs can be used to explain the adoption and design of specific HR practices while Eisenhardt (1988) empirically demonstrated the influence of institutional processes on HRM functions, namely, the choice of sales-compensation policies.

### Transaction costs

Transaction costs are incurred in order to execute exchanges efficiently. They typically arise from negotiating, monitoring, evaluating and enforcing exchanges between contracting parties (Jones and Wright 1992). The goal of firms is to ensure maximum efficiency by minimising the costs of their transactions or exchanges (Williamson 1975).

According to Williamson, governance mechanisms are the instruments for completing transactions. There are two basic types of governance mechanisms. The first governance mechanism is based in the market, where firms rely on outside suppliers and market contracting. This form of governance is based on price, competition and the formation of contracts (Williamson 1975). In market contracting, the transaction costs are likely to be associated with opportunistic behaviour by suppliers. The second type of governance mechanism is within the organisation, and is referred to as bureaucratic or hierarchical governance (Williamson 1975). This form of governance relies on employees instead of outside parties, with transactions being monitored internally by a manager. In the organisational hierarchy, the transaction costs produced are more likely to be associated with bureaucratic inefficiency (Williamson 1993).
In essence then, markets and hierarchies are alternative instruments for completing transactions. From this viewpoint, transaction cost economics (TCE) can be seen as attempting to explain "make" (within the organisational hierarchy) or "buy" (in the outside market) transactions. Whether transactions occur inside the organisation or outside in the market is based on the comparative efficiency of the transactions involved (Williamson 1975). The rationale for any organisational practice is its efficiency compared with the set of available alternatives (Roberts and Greenwood 1997).

This study's use of TCE concepts is consistent with the managerial choice approach outlined by Chiles and McMackin (1996). This is the approach adopted by Williamson (1975) and Walker and Weber (1984). This view assumes that managers utilise a transaction cost-economising calculus when they have to select a governance structure (Williamson 1975). The implicit assumption of the managerial choice approach is that transaction costs are subjective (Chiles and McMackin 1996). This is because managers choose between alternative governance structures based on their subjective interpretation of transaction costs.

From a transaction cost perspective, outsourcing recruitment offers cost savings through the reduction of internal transactions and increased benefits from economies of scale and agency competition associated with using recruitment agencies. The scant empirical examinations of the outsourcing of HRM functions using the transaction cost approach have found that the desire for efficiency is a significant motivator for outsourcing (Klaas, McClendon and Gainey 1999). In particular, the internal pressure to reduce costs due to bureaucratic inefficiency was significantly related to the outsourcing of HRM functions in US firms.

A criticism of TCE is that although it is acknowledged that transactions occur in social networks, transaction costs arising due to the social context in which transactions are embedded (Williamson 1985) have been relatively ignored by TCE researchers (Chiles and McMackin 1996). Social forces, such as trust, do influence the cost of economic exchanges (Barney and Hesterly 1996). Generally, trust refers to a party's vulnerability to the risk of opportunistic behaviour by an exchange partner, whose behaviour is not under the party's control, in a situation in which the cost of violating the trust are greater than the benefits of upholding the trust (Zand 1972; Korczynski 2000). Trust is concerned with the honouring of moral obligations resulting in shared expectations, and if present, reduces the risk of opportunism. A transaction partner's trustworthiness decreases the costs of finding an exchange partner. Trust also decreases monitoring costs as a result of each partner's confidence in the other's performance. As a result, trust in an exchange partner has value because it reduces uncertainty through information sharing and reduces subsequent transaction costs (Chiles and McMackin 1996; Kramer 1999; Carney 1998; Korczynski 2000). Transaction costs will rise, however, if an outside firm behaves opportunistically because those
dealing with the firm will have to monitor transactions more closely (Korczynski 2000).

Chiles and McMackin (1996) propose that trust adds an appropriate subjective measure to the assessment of transaction costs. Trust is a significant determinant of perceived costs and risks, which influences risk preferences and, therefore, transaction costs associated with managerial choice (Chiles and McMackin 1996). If HR managers trust recruitment agencies, the perceived threat of opportunistic behaviour is lower. This reduces transaction costs because there is less need to monitor those activities in which the recruitment agency is involved. Thus the first hypothesis examined in the current study is as follows:

H1: Organisations will outsource recruitment when associated transaction costs are low; that is, when either (a) internal cost pressures costs due to bureaucratic inefficiency are high or (b) trust in the recruitment agency is high.

A limitation of examining outsourcing only from a transaction cost perspective, however, is its assumption that the goal of organisations is to maximise efficiency by minimising transaction costs. Efficiency is not always the overriding imperative guiding organisational and individual decisions (Granovetter 1985; Martinez and Dacin 1999).

Institutional forces

According to institutional theory, one important goal of organisations is to gain legitimacy. In this way, the environment in which organisations are located shape organisational practices, including HRM practices (Jennings 1994) by placing pressures on organisations to conform. Since legitimacy refers to status conferred by social actors (Deephouse 1996), legitimate organisational practices, in effect, are the product of the social construction of reality (DiMaggio and Powell 1991; Meyer and Rowan 1977; Scott 1995).

Two mechanisms through which legitimacy is achieved are coercive and mimetic isomorphism (DiMaggio and Powell 1983). Isomorphism is a process that forces a unit of a population to resemble other units facing the same conditions posed by the environment (DiMaggio and Powell 1983). Coercive pressures are exerted in the form of legal sanctions, such as rules, laws and regulations. An example is pressure on HR personnel to abide by equal employment opportunity legislation. Mimetic pressures are the mechanisms for change based on the visibility of innovation diffusion. The mimetic pressures for change are a result of uncertainty in the environment, which encourages imitation. An example of this is the rapid spread of quality circles in the US modelled on Japanese and European organisations, which were
perceived to be legitimate and successful. As organisations strive for legitimacy they tend to become more similar to one another over time (Meyer and Rowan 1977).

Meyer and Rowan (1977) asserted that ‘innovations are adopted, even if inefficient, in order to gain legitimacy’ (p. 348). Similarly, Zucker (1977) illustrated that organisational structures reflect institutional understandings, rather than rational calculations for efficiency. From an institutional perspective, efficiency is not the main goal of organisations, because the most legitimate organisational choice may not always be the most efficient. Despite the appearance of rationally derived structures and practices, these may be in place only to gain legitimacy – regardless of the impact on efficiency.

Empirical research provides persuasive evidence for institutional explanations of organisational practices. Tolbert and Zucker (1983) found that civil service reform was adopted over time because it was symbolic of good government, rather than because it was efficient. They found that when innovations became widespread and institutionalised, firms seemed to adopt the innovation with the goal of attaining legitimacy by conforming to societal and governmental expectations. Reforms were adopted to ‘appear modern, efficient, and rational’ (Tolbert and Zucker 1983, 39).

Rowan (1982) found similar results in his examination of diffusion of innovative policies such as curriculum changes in public schools. The spread of these policies was due to their appearance of legitimacy.

Galaskiewicz and Wasserman (1989) examined how innovation and ideas are spread across organisations in the same industry. Their findings suggest that firms do mimic the behaviour of other actors in their institutional environment by first watching known and trusted peers and then by following suit.

Lastly, Eisenhardt (1988) examined the adoption of compensation policies by retail stores. She found that policies were adopted because they were legitimate and their continued use was rarely examined for efficiency.

These studies illustrate how organisations maintain legitimacy by conforming to agreed-upon sets of institutional rules and continuous interpretation of the environment (Meyer, Scott, and Deal 1981). They illustrate how coercive and mimetic institutional pressures act on organisations to influence them to adopt similar policies and practices. Organisations operating in environments with strong institutional forces tend to conform to changes made by other organisations so they can appear legitimate and up to date. As firms conform, they become increasingly similar or isomorphic over time.

With regard to outsourcing recruitment activities, coercive pressure in the form of government legislation may ensure firms adopt similar recruitment and selection practices as a result of legal obligations, such as equal employment opportunity and worker health and safety legislation. While there is little variation in the legislative requirements, as suggested by Fields, Chan and Akhtar (2000), organisations differ in their desire to conform to specifications in order to appear legitimate. As the coercive pressures increase, organisations
are more likely to keep recruitment in-house so they can ensure compliance with the associated legislative requirements because recruitment agencies may be unwilling to guarantee such compliance.

As practices become more diffused, organisations increasingly view them as standard or best practice (Meyer and Rowan 1977). As the proportion of firms using recruitment agencies increases, the strength of the pressures to adopt the use of agencies also increases. If few firms within and outside the organisation's industry use recruitment agencies, then an organisation would be less likely to outsource recruitment activities. This is because, if the use of recruitment agencies had not spread, it would not yet be considered a legitimate practice. Thus, the second hypothesis of this study is as follows:

H2: The outsourcing of recruitment will be related to institutional forces such that (a) the outsourcing of recruitment is negatively related to legislative pressures (coercive forces); and (b) the outsourcing of recruitment is positively related to the outsourcing of this function by other organisations (mimetic forces).

Method

Sample

Interviewees. The first phase of data collection involved semi-structured interviews with fourteen HR managers and six recruitment consultants. These individuals were assumed to be the most knowledgeable in their organisations about their firms' recruitment function and the provision of recruitment services. The interviews were conducted to explore reasons why managers were outsourcing recruitment activities and to identify the specific recruitment activities that they were outsourcing. Examples of responses are as follows: 'We use recruitment agencies for their market knowledge and expertise', and 'We only use agencies to provide us a shortlist of candidates to save us time, then we interview the candidates ourselves'. The interview data was analysed using the NUD*IST software program, to determine the pattern of responses. Each interview was recorded as a single document, and single lines were the units of analysis for coding purposes. The themes identified were classified into affirmative reasons for outsourcing and reasons against outsourcing. The major contribution of the interview data was the creation of the variables used in the questionnaire.

Sample for survey. Three hundred HR professionals with job titles indicating that they were involved with the recruitment function for their organisation were randomly selected from the Australian Human Resource Institute (AHRI) membership database. One hundred and seventeen responses were received, representing a response rate of 39 percent. The sample consisted
mostly of HR managers, representing 60 percent of total respondents. Six percent of the sample consisted of HR directors while the remainder were HR officers. None of the respondents were recruitment consultants.

Since the economic and legislative environments of Australian states differ, the sample was drawn from a single state, Western Australia, in order to have a control for these sources of variance, which were beyond the scope of this study. Respondents worked in a variety of industries; however, the largest number worked in mining and government, representing 28 percent and 23 percent of the sample respectively.

**Procedure**

Questionnaires were mailed to the sample drawn for the study. A follow-up phone call was made, on average, after two weeks. Questionnaires were also delivered in-person by the first author of the study.

**Measures**

**Predictors**

Measures relevant for testing the proposed hypotheses included two transaction cost variables (trust and cost pressures) and two isomorphic pressure variables (coercive and mimetic). One measure was developed to assess the criterion variable, the outsourcing of recruitment.

*Transaction cost variables.* Transaction costs were operationally defined in this study as cost pressures and trust. Cost pressures were measured using eight items adapted from Klaas, McClendon and Gainey (1999) (e.g. ‘Managers here are under pressure to reduce headcount’). These authors reported a Cronbach’s alpha coefficient of 0.93. Trust was measured using a three-item measure adapted from Mayer and Davis (1999) (e.g. ‘I would be comfortable giving recruitment consultants a recruitment task critical to me, even if I could not monitor their actions’). Mayer and Davis reported a Cronbach’s alpha coefficient of 0.59. Both transaction cost variables were measured using five-point Likert scales (1 = strongly disagree, 5 = strongly agree).

*Institutional variables.* Measures to assess institutional forces were developed based on those suggested by Scott (1987), DiMaggio and Powell (1983), Poudre (1996) and Eisenhardt (1988). The measures were adapted to suit the present study by incorporating data from the interviews, because institutional forces need to be measured using context-specific variables (DiMaggio and Powell 1983). Coercive forces were operationalised as government legislation concerning work, and mimetic forces as the extent of recruitment outsourcing within and outside the organisations’ industry. The four-item scale for coercive forces (e.g. ‘Our decision to outsource recruitment is influenced by legislation on dismissal requirements’) and the four-item scale for mimetic
forces (e.g. ‘Assuming many organisations in your industry use recruitment agencies, to what extent would your organisation also be likely to use recruitment agencies?’) were also measured using five-point Likert scales.

Criterion variable

The criterion variable is the number of recruitment activities performed by an outside agency. The criterion variable was based on simple yes/no responses concerning the use of listed services provided by agencies (c.f. Eisenhardt 1988). These dichotomous questions were added together to give a total of activities used by organisations as a measure of recruitment activities outsourced. The range of activities was from zero to ten (e.g. position advertising, candidate reports). The listed services were identified from the interview data and published material provided by recruitment agencies.

Control variables

Deephouse (1996) suggested that organisation age as well as size influence concerns for legitimacy, while Barber et al. (1999) found that smaller firms were more likely to use external employment agencies than larger firms. For these reasons, age and size were measured in order to control for their possible influence on the relationships between the transaction cost and institutional variables and the outsourcing of recruitment.

Consistent with Klaas, McClendon and Gainey (1999) and Barber et al. (1999), organisation age was assessed by first asking respondents to self-report the year in which their employing organisation was established. Age was then computed by subtracting the reported year from the year in which the data were collected (Eisenhardt 1988). This data was then coded into categories ranging from one (over 100 years old) to six (less than two years old).

Organisational size was operationalised in the present study as the number of individuals that the respondents indicated were employed by their firms. Consistent with Barber et al. (1999), size was coded as zero for small organisations (< 300 staff), one for mid-sized organisations (300 ≤ staff ≤ 1000) and two for large organisations (> 1000 staff).

Results

Preliminary analysis

Factor analysis. A principal axis factor analysis was conducted to identify the constructs underlying the items in the survey (Hair et al. 1998). Oblimin rotation was used to aid interpretation of the extracted factors. The factors
extracted explained 69.9 percent of the variance in the data. The items generally loaded onto the five factors as expected with the exception of the cost pressure items. These eight items split onto two factors, divided equally into pressure to reduce fixed costs and pressure to reduce labour costs. The results regarding the cost pressure items deviates from Klaas, McClendon and Gainey (1999), who found the eight items representative of one factor. For this reason, in this study, pressure to reduce costs was assessed using two separate scales, namely, pressure to reduce fixed costs and pressure to reduce labour costs.

*Cronbach’s alpha coefficients.* The Cronbach’s alpha reliability coefficients ranged from 0.53 (trust) to 0.96 (mimetic forces). The coefficients appear in table 1.

*Correlations.* The correlation matrix of all the study variables is also shown in table 1. The correlations between the transaction cost measures, pressure to reduce labour costs and trust, and the criterion variable, the outsourcing of recruitment, were significant ($r = 0.21, p < 0.05$ and $r = 0.36, p < 0.01$, respectively). Of the two institutional variables, only mimetic forces correlated significantly with the criterion ($r = 0.36, p < 0.01$). The correlations suggest that pressure to reduce labour costs, trust, and mimetic forces are related to the outsourcing of recruitment.

\[
\begin{array}{cccccccc}
\text{Table 1} & \text{Correlations among variables} \\
& M & SD & 1 & 2 & 3 & 4 & 5 & 6 & 7 \\
1. Organisational age & 4.44 & 1.63 & - & \\
2. Organisational size & 0.99 & 0.82 & -0.32** & - \\
3. Mimetic & 10.21 & 3.88 & 0 & -0.01 & 0.96 \\
4. Coercive & 8.56 & 3.67 & -0.21* & -0.07 & 0.14 & 0.91 \\
5. Trust & 8.66 & 2.23 & 0.08 & -0.05 & 0.24** & -0.06 & 0.54 \\
6. Pressure to reduce fixed costs & 14.86 & 2.70 & -0.09 & 0.16* & -0.02 & -0.11 & -0.15* & 0.72 \\
7. Pressure to reduce labour costs & 13.01 & 3.98 & -0.24** & 0.29** & 0.19* & 0 & 0.06 & 0.29** & 0.76 \\
8. Outsourcing of recruitment & 5.42 & 3.07 & 0.13 & -0.01 & 0.36** & -0.14 & 0.36** & -0.02 & 0.21* \\
\end{array}
\]

*Cronbach's alpha coefficients are on diagonal; \(100 \leq n \leq 117; \) \(\ast p < 0.05; \) \(\ast\ast p < 0.01\)
Regression analyses

A series of regression analyses were conducted to test the study hypotheses. The results of these analyses appear in table 2. Consistent with the correlation results, neither of the control variables, organisation age and size, accounts for significant variance in the outsourcing of recruitment. With regard to the transaction cost variables, the regression analyses revealed partial support for the first hypothesis of the study. The beta coefficients indicate that pressure to reduce labour costs ($\beta = 0.25, t = 2.44, p < 0.05$) contributes significant variance in accounting for the outsourcing of recruitment; however, the pressure to reduce fixed costs did not ($\beta = 0, t = 0.30, p = ns$). In addition, trust was also found to be a significant predictor ($\beta = 0.29, t = 3.05, p < 0.01$). Taken together, after controlling for organisation age and size, the three transaction cost variables explained a significant amount of incremental variance beyond the control variables in the outsourcing of recruitment ($\Delta R^2 = 0.16, \Delta F (3,95) = 6.11, p < 0.01$).

With regard to the second hypothesis, the regression analysis revealed that coercive forces accounted for a significant amount of variance in the

<table>
<thead>
<tr>
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<th>Control variables $\beta$ (se)</th>
<th>Institutional model $\beta$ (se)</th>
<th>Transaction cost model $\beta$ (se)</th>
<th>Combined model $\beta$ (se)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisation age</td>
<td>0.26 (0.19)</td>
<td>0.12 (0.19)</td>
<td>0.23 (0.18)</td>
<td>0.16 (0.19)</td>
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<td>Organisation size</td>
<td>0.14 (0.38)</td>
<td>0 (0.36)</td>
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<tr>
<td>Pressure to reduce fixed costs</td>
<td>0 (0.13)</td>
<td>0 (0.10)</td>
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<tr>
<td>Pressure to reduce labour costs</td>
<td>0.19* (0.08)</td>
<td>0.14* (0.07)</td>
<td></td>
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<tr>
<td>Trust</td>
<td>0.42** (0.139)</td>
<td>0.36* (0.13)</td>
<td></td>
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<tr>
<td>Mimetic</td>
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<td>0.21** (0.07)</td>
<td></td>
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<tr>
<td>Coercive</td>
<td>-0.18* (0.08)</td>
<td>-0.15* (0.08)</td>
<td></td>
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</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>-0.001</td>
<td>0.14</td>
<td>0.12</td>
<td>0.21</td>
</tr>
<tr>
<td>$F$</td>
<td>0.93</td>
<td>5.01***</td>
<td>3.93**</td>
<td>4.80****</td>
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<tr>
<td>$\Delta F$</td>
<td>9.15****</td>
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<td>df</td>
<td>(2,101)</td>
<td>(4,99)</td>
<td>(5,95)</td>
<td>(7,91)</td>
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</tbody>
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$p < 0.05$; $** p < 0.01$; $*** p < 0.001$; $**** p < 0.0001$
outsourcing of recruitment, and the relationship between the two variables is negative ($\beta = -0.21, t = -2.19, p < 0.05$). In addition, the regression analysis revealed complete support for the role of mimetic forces. The beta coefficients indicate that mimetic forces contributed significant variance in accounting for the outsourcing of recruitment ($\beta = 0.36, t = 3.88, p < 0.0001$). Taken together, after controlling for organisation age and size, the institutional variables explained a significant amount of variance in the outsourcing of recruitment ($\Delta R^2 = 0.16, (\Delta F(2,95) = 9.14, p < 0.0001$). Moreover, the institutional variables contributed incremental variance beyond both the control and transaction cost variables in accounting for the outsourcing of recruitment ($\Delta R^2 = 0.09, (\Delta F(2,91) = 5.68, p < 0.01$).

**Discussion**

The aim of this research was to identify possible explanations for the outsourcing of recruitment activities to outside agencies. Hypothesis one predicted that organisations would be more likely to outsource recruitment when associated transaction costs are low. The first part of the hypothesis predicted that organisations would outsource recruitment when internal cost pressures were high. A preliminary factor analysis indicated that in contrast to Klaas, McClendon and Gainey's (1999) findings, cost pressures can be differentiated into the pressure to reduce fixed costs and the pressure to reduce labour costs. Only the latter was found to explain significant variance in the outsourcing of recruitment, thus only partial support was found for the role of cost pressures in the outsourcing of recruitment activities. This suggests that HR managers under pressure to reduce the number of employees in the organisation may use recruitment agencies to cope with the increased workload of remaining employees. This interpretation is consistent with Greer, Youngblood and Gray (1999), who argued that HR outsourcing is a by-product of restructuring, because HR departments have been downsized to increase efficiency.

Support was found for the second part of the first hypothesis, which predicted a positive relationship between trust and recruitment agency use. Data from the preliminary interviews provide insight into this result. Eighty-five percent of interviewees stated that lack of trust in recruitment agencies influenced their decision not to outsource recruitment. Often the decision not to outsource recruitment resulting from mistrust was due to a negative outcome from previous use, suggesting that it is easier for recruitment agencies to destroy trust than to create it (Korczynski 2000). In addition, trust grows with repeated use. After a certain period of cooperation, trust between parties is enhanced through knowledge of each others’ norms and interpersonal relations (Korczynski 2000). Thus, the result for this hypothesis must be interpreted with caution because trust between recruitment agencies and HR
managers may be more of a consequence rather than a precondition, as suggested by Korczynski (2000).

In support of the second hypothesis, the negative relationship between coercive forces and the outsourcing of recruitment was significant. The stronger the coercive forces, the less likely HR managers are to outsource recruiting activities. It may well be that HR managers, who are keenly aware of the need to conform with government legislation, yet who do not perceive recruitment agencies to be trustworthy, are unwilling to risk increased transaction costs associated with outsourcing recruitment to these agencies. Since organisations are ultimately responsible for compliance with government legislation, HR managers may not be willing to risk outsourcing recruitment activities to external parties who do not bear any responsibility for such compliance. Hence, the stronger the perceived legislative pressures governing workforces, the less likely HR managers are to outsource recruitment activities.

Support was also found for the role of mimetic forces in the outsourcing of recruitment, indicating that firms do imitate those around them which they perceive to perform recruitment successfully. HR managers may model their organisations’ recruitment practices on others’ because they are a convenient source of organisational practice (DiMaggio and Powell 1983). Alternatively, perhaps there is little variation in the recruitment methods available (DiMaggio and Powell 1983). HR managers may view the use of recruitment agencies as being the only viable solution to effectively deal with their immediate recruitment needs given time constraints.

In summary, the results suggest that the outsourcing of recruitment is influenced by economic and social factors. HR managers are more likely to outsource recruitment activities when they have been under pressure to reduce headcount and when they trust the agency with which they are dealing. Legislation and industry practices also influence the outsourcing of recruitment to external agencies.

This examination of the influence of mimetic forces and coercive forces on HR practices had not been previously conducted. Support for hypotheses assessing mimetic and coercive forces indicates that institutional variables can explain the adoption of HR practices. This study also contributes to theory development by adding to prior evidence (Barringer and Milkovich 1988) that institutional pressures can explain the behaviour of not only macro-organisational entities, but also of individuals in organisations.

While past studies have traditionally used objective measures for coercive and mimetic variables (e.g. Tolbert and Zucker 1983) the results of the current study indicate that they can be measured subjectively. Objective measures such as government legislation changes and the number of organisations adopting practices require longitudinal studies and past organisational records. The use of subjective measures in this study indicates that it is possible to assess the impact of institutional pressures at one point in time through individuals’ perceptions of these forces.
There are several practical implications of this study. First, HR managers who are motivated to increase efficiency need to be aware of how institutional pressures can impede their attainment of this goal. Although managers may strive for efficiency they can expect their decisions to be constrained by institutional forces that are beyond their cognition (Galaskiewicz and Wasserman 1989).

Second, the results indicated that recruitment agencies would be well advised to build relationships with HR managers to increase HR managers’ perceptions of their trustworthiness. Unless recruitment agencies can convince HR managers that they are trustworthy, HR managers are unlikely to outsource recruitment to them. Trust is more likely to develop when both parties have longer time horizons (Korczynski 2000). In other words, if the exchange relationship is viewed as being on-going rather than just temporary, trust will develop between the parties, and with regular use trust should be further enhanced over time.

Third, recruitment agencies should be made aware of the mimetic forces acting in the market. They can make use of mimetic forces by highlighting the number of organisations in the industry using recruitment agencies. Finally, recruitment agencies could promote themselves by advertising the fact that they will bear responsibility for compliance with legislation.

While this study has demonstrated the feasibility of using TCE and institutional theories to HRM practices and has generated some important implications for practices, it is not without some limitations. First, self-reported and context-specific measures were used to capture HR managers’ subjective assessment of transaction costs and institutional pressures. Although suggested by Chiles and McMackin (1996), such perceptual measures of organisational policies, practices and norms could result in biased results. To reduce the effects of possible bias, future research needs to complement these subjective measures with more traditional, objective measures of transaction cost and institutional variables.

Another concern related to the measures used in the study is the low alpha of the trust scale. While Hair et al. (1998) stated that measures used in exploratory research should have an alpha coefficient of at least 0.60, Mayer and Davis (1999) previously used the measure of trust utilised in this study, and reported an alpha coefficient of 0.59. This is similar to the one found in this study, 0.53. As suggested by Mayer and Davis (1999), the main concern with a low alpha coefficient is that random effects measurement error reduces the likelihood of detecting relationships that actually exist. As a result of the low reliability coefficient, the significance of the relationship between outsourcing recruitment and trust may be underestimated.

A final limitation of the study is that transaction costs and institutional pressures were assessed at one point in time. To learn about the roles of efficiency and institutional factors over time, longitudinal studies are required. Galaskiewicz (1985) and Eisenhardt (1988) note the importance of historical
context and industry traditions in examining organisational phenomena. In particular, results for mimetic forces must be interpreted with caution. Mimetic isomorphism is a continuous process occurring over an extended period of time. While the results suggest that mimetic pressures influence the outsourcing of recruitment activities, without longitudinal studies this conclusion may not be generalisable beyond the study participants. Longitudinal studies allow for variability in institutional pressures and contexts (Scott 1995). This would aid the explanation of the diffusion of organisational practices over time. Future research should, therefore, be directed towards assessment of practices over extended time periods. It would also be beneficial to assess the stages of institutionalisation. One could view institutionalisation as a process and distinguish between early and late adopters, as suggested by Tolbert and Zucker (1983). Once the distinction is made, analysis of adopters and non-adopters would indicate the nature of the mimetic pressures in the environment.

In summary, the present research on outsourcing recruitment provides insight as to why organisations are using recruitment agencies. The results of this study illustrate that, in the context of the current sample, organisations are more likely to outsource recruitment activities when associated transaction costs are low and when institutional pressures invite them to do so. This study provided evidence that although most assumptions about recruitment agency use is expressed in economic terms, the reality is that HR trends and government regulations also play roles in the decision to use recruitment agencies. This is because efficiency and legitimacy are two central concerns of management. However, literature in HRM has previously overemphasised the former and given scant attention to the latter (Lees 1997). The reason for this is that many HR managers may be unaware of the institutional forces influencing their decisions and may not be conscious of the influence of legitimacy on their actions.

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