



# The influence of business strategy on the decision to outsource human resource activities

## A study of Malaysian manufacturing organisations

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### Abstract

**Purpose** – This paper seeks to examine whether the decision to outsource human resource (HR) activities and the performance of the HR department are influenced by the particular business strategy espoused by the organisation. Four distinct strategies are considered: quality-based, proactive, breadth, and reactive.

**Design/methodology/approach** – The data for the study were obtained from survey responses from 232 organisations, of which 113 were engaged in HR outsourcing.

**Findings** – The findings suggest that there is a significant relationship between organisations with proactive strategies and the decision to outsource both traditional and transactional HR functions. Breadth strategies demonstrate a negative significant relationship with outsourcing of traditional functions. Outsourcing of both functions has a significant relationship with HR performance – traditional with a positive impact and transactional with a negative impact.

**Research limitations/implications** – The paper focuses on the perceptions, knowledge and experience of senior HR managers. Therefore there are understandable limitations in respect of generalisation. In addition, the impact of HR outsourcing on the performance of the HR department focuses only on the reduction of the number of HR employees from the department.

**Practical implications** – The results indicate that HR outsourcing has the potential to empower HR managers, allowing them to focus on strategic activities that add more value to their organisation. Also, the results show that HR reduces actual HR labour costs.

**Originality/value** – The study applies to a very under-researched area.

**Keywords** Human resource management, Outsourcing, Management strategy, Performance management

**Paper type** Research paper



### 1. Introduction

Contemporary emphasis on cost, quality, service, and speed has forced many organisations to scrutinise and restructure fundamental business processes. In this search for more efficient organizational designs, organisations resort to an array of approaches that include quality management, business process reengineering, rightsizing and downsizing. Almost invariably, however, there remains the potential for increased efficiency. In recent years, more organizations have attempted to achieve

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efficiency by transferring processes, together with the associated operational activities and responsibilities, to an outside service provider. This process of outsourcing allows management to refocus scarce resources on core business activities while improving customers' perceptions of quality and reducing the cost of outsourced functions (Marinaccio, 1994). By outsourcing, organizations strive to deploy their limited resources and significantly improve operations to function more effectively in a highly competitive, consumer-oriented market place (Lever, 1997; Insinga and Werle, 2000; Arbaugh, 2003).

The trend towards outsourcing is widely practised in manufacturing operations (Wahrenburg *et al.*, 2006), and indeed in some areas of business, outsourcing has been going on for some time. In fact, before the information technology revolution, many organisations in the US had already outsourced their manufacturing operations to countries such as Canada, Mexico and South America in order to reduce costs (Gilley *et al.*, 2004). In contrast, the outsourcing of HR functions is a more recent development, but the practice is growing (Stewart, 1996; Jamrog *et al.*, 1997). Despite the increase in HR outsourcing practices by organisations, research on the subject is not extensive (Leiblein *et al.*, 2002) and research on the effect of HR outsourcing on performance is still at the seminal stage. Intuitively, an organisation will decide to outsource its HR function if the opportunity with an outside provider is there, and the perceived benefits of outsourcing exceed the perceived costs. In reality the situation is not so straightforward. Many organisations have no idea how much their HR services cost to deliver (Woodall *et al.*, 2009), so clearly a cost-benefit analysis is beyond them. This paper is concerned with whether the particular business strategy adopted by the organisation is significantly related to the decision to outsource (Lepak *et al.*, 2005).

The issues on HR outsourcing are related to many of the broader "make" and "buy" issues addressed in transaction cost economics (TCE) (Williamson, 1996; Dickmann and Tyson, 2005). According to TCE, HR outsourcing may be viewed as relying on market contracting as a form of organisation structure as opposed to depending on organisational hierarchy. In such a way, TCE encourages the organisation to evaluate whether it is more efficient to provide a service in-house or to buy it from the market. Outsourcing is appropriate when the organisation achieves lower cost by transacting with external vendors rather than building the internal capacity for a service (Williamson, 1996).

Another theory of significance to HR outsourcing is the resource-based view. This suggests that an organisation should focus on those activities that constitute the core competencies and outsource the more peripheral activities (Prahalad and Hamel, 1990; Quinn and Hilmer, 1994). This perspective helps to predict the relationship between strategic types and the decision to outsource HR functions. The reasoning here is that organisations with differentiation or quality based strategies, for instance, should sharpen their focus on activities generating competitive advantage by outsourcing non-core and peripheral activities with low added value (Cooke *et al.*, 2005). By outsourcing these activities, an organisation can direct a greater level of resources to more proactive and strategic roles (Adler, 2003; Delmotte and Sels, 2008).

Given that an organisation's strategic types will likely affect the costs and benefits associated with market contracting, this study employs both the TCE perspective and the resource-based view to develop hypotheses concerned with the relationship between business strategy and the outsourcing of HR functions.

The paper continues with a discussion on the concept of HR outsourcing, business strategy, and HR performance, in the course of which a number of research hypotheses are formulated. Section three includes brief details of the method, sample and measures used in the study. The results are presented as section 4. The paper concludes with a

## 2. Literature review

While the growth in HR outsourcing over the last decades has been remarkable, its effects are still vague and inexplicable (Jiang and Qureshi, 2006). Even though practitioner publications demonstrate that HR outsourcing receives significant attention (Cooke *et al.*, 2005), there are very few academic researchers to have examined how decisions on HR outsourcing are made and the impact of outsourcing on performance (Wahrenburg *et al.*, 2006).

### 2.1 Outsourcing of HR functions

HR outsourcing is the contracting out of parts or the whole of the functions of HR to external providers, rather than performing all the HR functions in-house (Adler, 2003; Patry *et al.*, 1999). HR outsourcing ranges from simply transferring non-core activities such as payroll and benefits administration to external providers, to the outsourcing of recruitment, training and even HR strategic planning (Patry *et al.*, 1999; Klaas *et al.*, 1999).

Ulrich (1996) suggests the impetus for this change is driven by the need for HR departments to play a much more strategic role. HR managers are expected to be more flexible, responsive, and efficient than personnel managers of old, and to contribute to the strategic decisions of their organisations. In response to this paradigm shift, many HR managers are turning to outsourcing as a way of meeting these demands (Cook, 1999; Lepak and Snell, 1998).

However, there is considerable variation in organisational practice. Some organisations make little use whereas others make considerable use of HR outsourcing. Which HR functions are suitable for outsourcing and the degree to which organisations should embark on HR outsourcing remain contentious questions. A popular view is that organisations should keep their core activities in house, together with activities that are critical to organisations' competencies, and should outsource non-core activities to external providers (Barney, 1991; Hamel and Prahalad, 1994; Stroh and Treehuboff, 2003). Non-core activities are considered to have a lower impact on the overall performance of the organisation (Cooke *et al.*, 2005). Clearly, the view as to which functions are core or non-core is subjective, and there is a lack of consistency as to which activities are core or non-core across organisations.

Ulrich (1998) suggests that core functions are those that are transformational, creating unique value for employees, customers and investors. Non-core functions are transactional activities that are administrative and routine that can easily be replicated and duplicated. Carrig (1997) is more specific; he defines activities as transactional (benefits administration, record keeping), traditional (performance management, training and recruitment), and transformational (strategic planning, organisation development).

While there may be consensus that organisations should perform core functions in-house and outsource those functions that are non-core to their organisations, what is considered core and non-core varies between organisations. Hence, the decision as to which HR functions should be outsourced is often driven by the organisation's business strategy (Miles and Snow, 1978; Lepak *et al.*, 2005).

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## 2.2 Business strategy

Business strategy has been defined in many ways. Chandler (1962) considers it to refer to the determination of the basic long-term goals of the organisation, and the adoption of courses of action and the allocation of the resources necessary for executing these goals. Miles and Snow (1978) define strategy as the consistent pattern in the decisions that guide an organisation in competing in a given business. Similarly, Mintzberg (1990) defines business strategy as a set of decisions about the direction of an organisation. From these definitions, business strategy can be regarded as a continuous process of evaluation of the organisation's distinctive competencies and adaptation to the environment in which it operates. In trying to capture the dynamic definition of the term, business strategy in this study integrates the views of Miles and Snow (1978), Porter (1980), Schuler and Jackson (1987) and Miller (1987), and results in four distinct strategies. These are:

- (1) quality-based;
- (2) proactive;
- (3) breadth; and
- (4) reactive.

An organisation that espouses a quality-based strategy attempts to produce and deliver products and services with the highest quality possible (Schuler and Jackson, 1987). If the organisation has a proactive strategy, it concentrates on innovation and the differentiation of its products through unique designs and features (Miles and Snow, 1978; Porter, 1980). This is in contrast to an organisation with a breadth strategy that focuses on many product lines with different bases of customers (Miller, 1987; Miles and Snow, 1978; Porter, 1980). Finally, an organisation with a reactive strategy strives to produce products and services more cheaply than competitors. It stresses efficient scale facilities, cost reduction, and minimisation of expenses of production, R&D, services, selling and advertising (Porter, 1980; Miles and Snow, 1978; Miller, 1987). It carries out little product innovation and differentiation.

## 2.3 Relationship between business strategy and HR outsourcing

*2.3.1 Quality-based strategy and HR outsourcing.* Organisations with a quality-based strategy should find it beneficial to outsource transactional HR functions such as payroll and benefits (Gilley and Rasheed, 2000), while keeping traditional HR functions such as recruitment and training (Schuler, 1989) in-house. In this way, they can enact policies and inculcate functions necessary to attract, train, and retain good candidates. Extensive in-house training including on the job training, job enlargement and job rotation, could be offered in order to obtain the highest quality outputs (Schuler, 1989). Giving priority to the quality of output, suggests the organisations wish to rely on internal employees who are knowledgeable of the specific conditions of their organisation. Outsourcing these traditional HR functions could indeed result in higher costs since these processes are based on tacit knowledge (Barney, 1991; Conner and Prahalad, 1996). Therefore, it is hypothesised that:

- H1a.* An organisation with a quality-based strategy will have a higher reliance on outsourcing transactional functions.
- H1b.* An organisation with a quality-based strategy will have a lower reliance on outsourcing traditional functions.

*2.3.2 Proactive strategy and HR outsourcing.* Organisations with proactive strategies are frequently innovators and the creators of change in their industries. They need flexibility and the ability to react rapidly to change. For these organisations, maximising flexibility and focusing on strategic practices are much more significant than monitoring day-to-day operations. In view of this, transactional HR functions that are of a routine, standardised, repetitive, and non-strategic nature are often outsourced. These functions include payroll, human resource information systems (HRIS) and benefits (Lever, 1997; Klaas *et al.*, 2001; Stroh and Treehuboff, 2003).

Barney (1991) emphasises that organisations with a distinctive and unique approach to managing their workforce would not want to outsource functions such as recruitment and training for fear that this would add costs in the form of upfront investments to enable outside suppliers to understand the particular requirements of the organisation. However, Miller (1987), points out that these organisations may be forced to outsource these functions in times of rapid changes in the market place – that is, when workloads become very unpredictable, dynamic and need frequent changes. Therefore, it is hypothesised that:

*H2a.* An organisation with a proactive strategy will have a higher reliance on outsourcing transactional functions.

*H2b.* An organisation with a proactive strategy will have a higher reliance on outsourcing traditional functions.

*2.3.3 Breadth strategy and HR outsourcing.* In organizations with a breadth strategy, the HR function is primarily that of handling administrative matters relating to recruitment and training. Although many researchers (e.g. Laabs, 1993; Gainey and Klaas, 2002; Adler, 2003; Gilley *et al.*, 2004) are of the opinion that it is beneficial to outsource all training functions, organisations can capitalise on the advance of technology and expertise of external vendors, employees in a breadth strategy do not possess specialised skills since whatever skills they have are utilised to produce a wide variety of products. Almost by definition, on-the-job training is done in-house. As noted by Klaas *et al.* (1999), frequent modifications of contract provisions that arise from market-based governance mechanisms expose each party to higher costs and risk. Thus, to avoid unnecessary costs, it is better to perform these HR functions internally.

Hence, it is hypothesised that:

*H3a.* An organisation with a breadth strategy will have a lower reliance on outsourcing transactional functions.

*H3b.* An organisation with a breadth strategy will have a lower reliance on outsourcing traditional functions.

*2.3.4 Reactive strategy and HR outsourcing.* Organisations with a reactive strategy will be more inclined to outsource all functions, both transactional and traditional. This is so because they aim at overall cost reduction, and in particular on repetitive, non-core, and non-strategic functions (Gupta and Gupta, 1992; Laabs, 1993; Kremic *et al.*, 2006). They may use part-time employees, subcontractors, work simplification and measurement procedures, automation, work rule changes, and job assignment flexibility to increase productivity and efficiency (Cook, 1999). Also, since external providers will often focus on a limited set of HR functions, they frequently realise a significant degree of economies of scale. Hence, they may be able to deliver

transactional functions as well as the organisation could do so internally (Marinaccio, 1994; Klaas *et al.*, 2001, Stroh and Treehuboff, 2003; Gilley *et al.*, 2004).

The tendency to engage outside vendors on traditional functions such as training and recruitment increases with the perception that these functions have become more administrative, and organisations are able to shift the risk of technological obsolescence, skill obsolescence and updating onto the suppliers (Laabs, 1993; Cook, 1999). Moreover, cost savings that accrue from reductions in personnel and higher quality services from the service providers translate into higher value for the customers (Lever, 1997). Organisations with a reactive strategy stand to gain from production effectiveness and efficiency that result from the outsourcing of traditional HR functions (Lever, 1997; Stroh and Treehuboff, 2003). Therefore, it is hypothesised that:

- H4a.* An organisation with a reactive strategy will have a higher reliance on outsourcing transactional functions.
- H4b.* An organisation with a reactive strategy will have a higher reliance on outsourcing traditional functions.

#### *2.4 HR performance*

Organisations outsource HR functions to increase HR performance. However, there is no general agreement to what is meant by “HR performance”. Although Jamrog and Overholt (2004) posit that the measurement of HR performance would not be a problem to an organisation since there are many indicators – including employee morale, satisfaction and lower turnover – that could be used to measure HR performance, the fact that there numerous possible measures of HR means agreement among researchers will be unlikely. One simple measure of HR performance is a reduction in staff and general costs within the HR department. Some researchers of HR outsourcing indeed contend that cost reduction within the HR department is the most important measure of HR performance (e.g. Laabs, 1993; Marinaccio, 1994; Mishra *et al.*, 1998). According to Shelgren (2004) and Herbertson (2000), the benefits of HR outsourcing include a greater focus on core business, improvement in service and improved HR performance measured by cost reduction within the HR department. This is consistent with Switser’s (1997) opinion that among the potential benefits of HR outsourcing is a lower headcount within the HR department. Therefore, it is anticipated that outsourcing of HR functions will lead to improved HR performance, measured by a reduction in HR employees. It is hypothesised that:

- H5a.* Higher reliance on outsourcing the transactional HR functions will have a positive impact on HR performance.
- H5b.* Higher reliance on outsourcing the traditional HR functions will have a positive impact on HR performance.

### **3. Methodology**

#### *3.1 Data collection*

This study used a mail survey questionnaire to obtain data. The questionnaires were sent to the head of the HR department of Malaysian manufacturing organisations. The mailing list was obtained from the Federation of Malaysian Manufacturers (2005) *Directory*. The data for this paper were obtained from the senior HR manager in each operation on the grounds that, in the view of the researchers, they are the best placed to



provide comprehensive and informed views on the business and HR functions (Abdullah *et al.*, 2007). Some researchers favour the targeting of senior managers as a matter of principle. Bolat and Yilmaz (2009) do so on the grounds that “middle level managers [...] may only evaluate their own fields or departments”. Many other researchers do so for reasons primarily of cost, and Becker and Huselid (2006, p. 913) claim that “the wisest use of scarce resources should be devoted to increasing overall response rates among well-crafted single-respondent surveys”. However, the authors acknowledge it would be a valuable improvement if future research collected data from multiple respondents. Edgar *et al.* (2008) have shown that the views of line managers differ from those of HR managers and research by Geare *et al.* (2009) shows that workforce views on HRM differ to those of managers.

The survey yielded 232 useable responses from an eligible sample of 990 organisations, a response rate of 23.4 per cent. Othman *et al.* (2001) suggest that research surveys in Malaysia tend to get a response rate between 15 and 25 per cent, so this response is at the upper end. The questionnaire was 12 pages long and part of a much larger research project. It is included as an Appendix to this paper.

### 3.2 Measurement instruments

The constructs of the study, which were adapted from established scales, were measured on a six-point semantic differential Likert-type scale. Thirty-two (32) questions were asked on the business strategy construct.

Factor analysis (exploratory and confirmatory) was conducted to check on the validity and the reliability of the measurement scales. SPSS version 12 and AMOS 6 were used to analyse and test the hypotheses. The model fit was assessed using  $\chi^2/df$ , goodness-of-fit index (GFI) and the comparative fit index (CFI), Tucker-Lewis fit index (TLI) and root mean square of approximation (RMSEA). The threshold for  $\chi^2/df$  should be less than 3.0 and values of GFI, CFI and TLI should be over 0.90 and value for RMSEA should be less than 0.08 (Hair *et al.*, 2006). From exploratory factor analysis, four factors of business strategy were produced with factor loadings from 0.445 to 0.828, and with KMO and Bartlett’s test of 0.910 and 0.000, respectively. The four factors contributed 53.48 per cent to item variance. The Cronbach’s  $\alpha$  of each factor is as follows:

- (1) quality-based strategy,  $\alpha = 0.943$ ;
- (2) proactive strategy,  $\alpha = 0.925$ ;
- (3) breadth strategy,  $\alpha = 0.806$ ; and
- (4) reactive strategy,  $\alpha = 0.600$  (Nunnally, 1967).

Table I shows the confirmatory factor analysis for business strategy of the study.

To measure the level of outsourcing of HR functions, an open-ended question was employed that asked for the percentage of each HR function outsourced. The cost

Variable	$(\chi^2)/df$	<i>p</i> -value	GFI	TLI	CFI	RMSEA
Quality-based	1.614	0.048	0.941	0.978	0.986	0.074
Proactive	1.507	0.040	0.929	0.965	0.978	0.067
Breadth	1.304	0.253	0.992	0.989	0.996	0.052
Reactive	1.099	0.348	0.985	0.987	0.993	0.030

**Table I.**  
Confirmatory factor  
analysis for business  
strategy

saving element of HR performance was measured by the resulting reduction in the number of HR employees multiplied by the average salary.

#### 4. Results

##### 4.1 Profile of the respondents

Of the 232 respondents, 48.7 per cent (113) claim that they engaged with outsourcing of HR functions and the rest indicate that they do not outsource any HR functions at all. Table II shows the profile of the 113 organisations that outsource HR functions.

##### 4.2 Path analysis

Figure 1 shows the model of the study, while Table III summarises the findings. Overall, the data of the study fit the model well. The results of the fit are as the following:  $\chi^2 = 7.020$ ,  $p > 0.01$ , GFI = 0.981, TLI = 0.978, CFI = 0.994 and RMSEA = 0.039.

The results from Table III show support only for *H2a* and *H2b*. These hypotheses indicate that a proactive strategy is positively associated with outsourcing transactional functions ( $p \leq 0.1$ ) and traditional functions ( $p \leq 0.1$ ). This indicates

HR outsourced organisations	Percentage
<i>Type of industry</i>	
Food and beverages	7.1
Textiles	8.9
Wood products	5.4
Chemical products	10.7
Rubber and plastic products	8.9
Metal products	8.0
Machinery and equipment	15.2
Electronics	14.3
Radio, TV and communication	14.3
Motor vehicles, trailers and semi-trailers	7.1
<i>Total employees</i>	
150-300 employees	26.8
301-1,000 employees	41.1
More than 1,000 employees	32.1
<i>Total number of HR employees</i>	
Less than five employees	29.5
5-20 employees	46.4
More than 20 employees	24.1
<i>Year established</i>	
1980 or earlier	36.6
1981-1990	34.8
1991 and later	28.6
<i>Cost of HR employees</i>	
Less than RM20,000	5.4
RM20,000-RM50,000	7.5
RM50,001-RM100,000	16.1
More than RM100,000	3.6

**Table II.**  
Profile of the  
organisations that  
outsourced HR functions



that organisations with a proactive strategy tend to outsource payroll, HRIS and benefits functions. Proactive organisations outsource transactional HR functions to enable them to be more focused on strategic issues and concentrate on creating innovative and differentiated products that will positively impact organisational performance (Laabs, 1993). Moreover, proactive organisations tend to outsource traditional functions as well. These functions are outsourced because certain traditional functions such as training programs must be tailored to meet the unique requirements of the organisations. These programs require substantial investment to implement and the need for the service providers to understand the particular needs of the organisations. In addition, for organisations operating in dynamic and vigorous environments, performing traditional functions requires frequent change, since the needs of the organisations are unpredictable. By outsourcing traditional functions, the service providers are able to monitor the frequent modifications of the functions as well as to avoid significant amounts of investment costs (Stroh and Treehuboff, 2003).

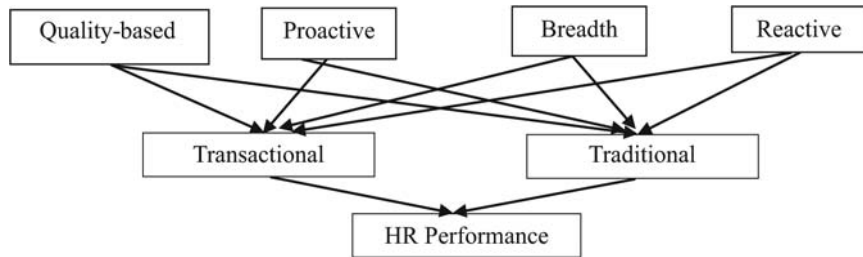


Figure 1.  
Model of the study

Hypotheses		SE	$\beta$	Support
H1a	Quality-based → lower reliance on transactional HR functions	0.090	-0.114	No
H1b	Quality-based → higher reliance on traditional HR functions	0.109	-0.083	No
H2a	Proactive → higher reliance on transactional HR functions	0.077	0.278****	Yes
H2b	Proactive → higher reliance on traditional HR functions	0.093	0.165****	Yes
H3a	Breadth → lower reliance on transactional HR functions	0.022	0.031	No
H3b	Breadth → lower reliance on traditional HR functions	0.102	-0.165****	Yes
H4a	Reactive → higher reliance on transactional HR functions	0.106	0.031	No
H4b	Reactive → lower reliance on traditional HR functions	0.127	-0.037	No
H5a	Transactional → HR performance	0.108	-0.179***	Yes
H5b	Traditional → HR performance	0.090	0.233**	Yes

Table III.  
Results of the hypotheses

Notes:  $\beta$  values are the standardised regression weights; SE is standard error. Significance levels: \* $p < 0.001$ ; \*\* $p < 0.01$ ; \*\*\* $p < 0.05$ ; \*\*\*\* $p < 0.1$

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The study also found that breadth strategy was significantly related to outsourcing traditional HR functions ( $p \leq 0.1$ ), but in the opposite direction. This study speculates that organisations with a breadth strategy outsource a lower amount of HR functions because organisations with variety of products tend to have a large number of HR employees to cater for mass production.

Outsourcing of traditional functions is positively associated with HR performance ( $p < 0.01$ ), leading to support for *H5b*. This indicates that organisations can reduce the number of HR employees by outsourcing traditional functions. The results also show that outsourcing transactional functions had a significant relationship with HR performance ( $p \leq 0.05$ ). However, the relationship was in the opposite direction to that predicted. This suggests that an organisation that outsources transactional HR functions does not have as its objective a reduction in the number of HR employees, but rather something else. Probably, its aim is to focus on core activities and outsource non-core activities and become more strategic (Belcourt, 2006) and also to concentrate on activities that contribute value and competitiveness to the organisations as a whole (Lever, 1997; Stroh and Treehuboff, 2003).

## 5. Discussion and implications

This study has provided a useful step towards a better understanding of the rationale for HR outsourcing among manufacturing organisations in Malaysia. To date research that has studied the factors that predict the reliance on HR outsourcing has been very limited. Gilley and Rasheed (2000) have demonstrated different types of business strategy as the moderator between outsourcing and performance. They found several significant interactions with strategy to predict performance. Subsequently, this study has developed business strategy as an antecedent of HR outsourcing.

A proactive strategy has a positive significant association with outsourcing both transactional and traditional HR functions. This shows that with a proactive strategy organisations outsource a higher level of transactional HR functions to enable them to be more focused on creating innovative and differentiated products that will positively impact on performance (Laabs, 1993). Additionally, by outsourcing traditional HR tasks, more time and resources can be released for more strategic HR contribution (Delmotte and Sels, 2008). Indeed by outsourcing traditional HR functions, external vendors are able to monitor the frequent modifications of the functions and at the same time the external vendors are able to offer traditional functions that better matches the organisation's business strategy (Stroh and Treehuboff, 2003).

A breadth strategy has a negative and significant association with outsourcing traditional HR functions. This indicates that organisations that focus on mass production are likely to maintain large number of HR employees who oriented primarily toward performing training, recruitment and staffing functions as well as the implementation of predetermined systems of control (Heikkila and Cordon, 2002). The majority of employees will probably have narrowly defined, highly specialised jobs.

However, the results show that neither a quality-based nor a reactive business strategy has a significant association with HR outsourcing. It is possible that organisations with a quality-based strategy are concerned that HR outsourcing might lead to a deterioration of their quality concept. This is because external vendors would not understand the culture of the organisation or may not possess skills and knowledge to perform the HR functions to the required quality level.

Empirical studies on the impact of HR outsourcing on the HR performance are only just starting to emerge (Bolat and Yilmaz, 2009). Although this study focuses on the impact of HR outsourcing on the cost saving resulting from the reduction of HR department employees, it makes a contribution towards understanding the effect of outsourcing on HR performance.

### *5.1 Implications*

A number of implications can be derived from this study. One is that HR outsourcing is a potential opportunity for organisations to empower their HR function. Outsourcing of transactional and traditional HR functions allows HR managers to focus on strategic activities that add more value, with the potential to make a proactive contribution to business success.

A second is that HR managers should rethink the delivery of HR functions. There are alternative delivery mechanisms that remove the delivery of HR practices from the HR department (Lepak *et al.*, 2005). HR outsourcing is not the only option, as there is also some evidence that a large number of HR functions can be shifted to line management (Larsen and Brewster, 2003). For HR managers it is important to scrutinise these alternative delivery mechanisms, to weigh their pros and cons and to select the mechanism that best matches the business strategy of their organisations.

A further implication of the study relates to the impact of HR outsourcing on HR performance. While HR outsourcing is broadly considered to have benefits, its specific impact on performance and value has not yet been confirmed by research. This study attempts to provide an input on the impact of HR outsourcing on HR performance.

This study also assists HR managers to understand the concept of HR outsourcing and under what conditions the HR outsourcing is most desired. Although a proactive business strategy is the only strategy that is a significant predictor of HR outsourcing, all organisations tend to experience better HR performance by outsourcing HR functions. In short, this study has made important contributions both to managers and to researchers by filling gaps in the area of HR outsourcing research. It specifically contributes in terms of the inter-relationship between business strategy, HR outsourcing strategy and HR performance.

### *5.2 Limitations*

The first limitation of this paper is over-reliance on one data source, in which the respondents are the senior HR managers. Although a full consideration of the perceptions of multiple respondents within these organisations has not been possible through this research, the views of senior HR managers have given a valuable insight into the strategic decision to outsource HR functions. Nevertheless, future studies should include the data from other respondents such as line managers and other HR workers.

In addition, the respondents of this study are from manufacturing organisations, thus generalising the findings to other industries may be difficult. Therefore, it would be interesting to extend the research to the service industry for example, in order to get more generalised findings. Moreover, although this study has measured the performance of HR department from the reduction of HR employees as the indicator, it may be appropriate to include other relevant measures such as turnover rate, absenteeism, employee morale and other HR effectiveness measures.

Finally, it may also be useful in future research to examine other variables such as organisational characteristics and environmental factors that could relate to the decision to undertake HR outsourcing.

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### Further reading

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**PART A. BUSINESS STRATEGY**

Each pair of statements below represents a continuum that describes the business strategy of your company. For each pair of statements, please circle the number along the six-point scale that best indicates how accurate one or the other statements describes your business strategy. Please be sure to mark every scale.

	Average							
1.	My company favors a strong emphasis on the marketing of established products	1	2	3	4	5	6	My company favors a strong emphasis on the innovation of new products
2.	My company has a strong tendency to follow competitors in introducing new things	1	2	3	4	5	6	My company always tries to be ahead of competitors in introducing new things
3.	My company typically responds to actions, which competitors initiate	1	2	3	4	5	6	My company typically initiates actions, which competitors then respond
4.	My company is seldom the first company to introduce new products	1	2	3	4	5	6	My company is very often the first company to introduce new products
5.	My company typically adopts a very competitive stance	1	2	3	4	5	6	<i>My company typically seeks to avoid competitive clashes</i>
6.	My company typically adopts an aggressive posture during uncertainty situation	1	2	3	4	5	6	My company adopts a cautious, 'wait-and-see' posture during uncertainty situation
7.	My company favours the marketing of products	1	2	3	4	5	6	My company favours the development of products
8.	My company tries to cooperate and co-exist with competitors	1	2	3	4	5	6	My company pursues a tough "undo the competitors" philosophy
9.	My company is willing to let the competitors test the waters first before we follow	1	2	3	4	5	6	<i>My company is willing to take risks in order to be the first with a new venture</i>
10.	In the past 5 years, my company has not marketed new lines of products	1	2	3	4	5	6	In the past 5 years, my company has marketed many new lines of products
11.	In the past 5 years, my company made only minor changes in products lines	1	2	3	4	5	6	<i>In the past 5 years, my company made drastic changes in products lines</i>
12.	In general my company offers wide assortment of products	1	2	3	4	5	6	In general my company offers wide assortment of products
13.	My company satisfies the customers' needs through lower cost of products	1	2	3	4	5	6	<i>My company satisfies the customers' needs through wide variety of products</i>
14.	My company produces standardized products	1	2	3	4	5	6	My company produces diverse products

(Continued)

Figure A1.  
Questionnaire

15.	My company conducts mass production	1	2	3	4	5	6	My company conducts small batch production
16.	<i>My company uses broad marketing strategies</i>	1	2	3	4	5	6	<i>My company uses market segmentation strategies</i>
17.	<i>My company's products are broad in nature</i>	1	2	3	4	5	6	<i>My company's products are well focused</i>
18.	My company's products are relatively stable	1	2	3	4	5	6	<i>My company's products are continually changing.</i>
19.	My company emphasizes on lower cost of the products	1	2	3	4	5	6	<i>My company emphasizes on superiority of the products</i>
20.	My company offers mass products at the lowest cost	1	2	3	4	5	6	My company offers selective products with high in quality
21.	My company offers customized products	1	2	3	4	5	6	<i>My company offers standardized product</i>
22.	My company emphasizes continuous improvement of products	1	2	3	4	5	6	<i>My company emphasizes on maintaining the production of standardised products</i>
23.	My company places a great emphasis on producing products at lower costs	1	2	3	4	5	6	My company places a great emphasis on producing products with highest quality
24.	My company employs cost control system	1	2	3	4	5	6	My company emphasizes on controlling the quality of products
25.	My company offers lower prices or discounts of products	1	2	3	4	5	6	<i>My company offers premium prices for quality of products</i>
26.	One way to attain success is to follow what competitors do	1	2	3	4	5	6	One way to attain success is by taking the first mover advantage
27.	My company uses strict cost control systems for monitoring performance	1	2	3	4	5	6	My company uses flexible cost control systems for monitoring performance
28.	My company sets prices of products based on the superiority of the products	1	2	3	4	5	6	<i>My company sets prices of products below those of competitors</i>
29.	My company focuses on cost minimization of products	1	2	3	4	5	6	My company focuses on the highest quality of products
30.	My company cuts overhead costs to maintain competitive power	1	2	3	4	5	6	My company focuses on product differentiation to keep competitive power
31.	My company considers price competition as important	1	2	3	4	5	6	My company considers product quality as important
32.	My company considers reduction in labour cost as trivial	1	2	3	4	5	6	<i>My company considers reduction in labour cost as important</i>

(Continued)

**PART B. HR OUTSOURCING AND PERFORMANCE**

**In this part, please provide information on your company's strategy on outsourcing of HR activities and HR performance for the year 2005.**

**1. Payroll activity**

- a. Is this activity being outsourced?  
( ) Yes ( ) No if No, please proceed to question 2
- b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
- c. Please indicate the number of employees involved in this activity before outsourcing.  
\_\_\_\_\_ number of employees.
- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?  
\_\_\_\_\_ number of employees.

**2. Benefits activity**

- a. Is this activity being outsourced?  
( ) Yes ( ) No if No, please proceed to question 3
- b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
- c. Please indicate the number of employees involved in this activity before outsourcing.  
\_\_\_\_\_ number of employees.
- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?  
\_\_\_\_\_ number of employees.

**3. Training activity**

- a. Is this activity being outsourced?  
( ) Yes ( ) No if No, please proceed to question 4

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- b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
- c. Please indicate the number of employees involved in this activity before outsourcing.  
\_\_\_\_\_ number of employees.
- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?  
\_\_\_\_\_ number of employees.

4. **Recruitment activity**

- a. Is this activity being outsourced?  
( ) Yes ( ) No if No, please proceed to question 5
- b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
- c. Please indicate the number of employees involved in this activity before outsourcing.  
\_\_\_\_\_ number of employees.
- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?  
\_\_\_\_\_ number of employees.

5. **Compensation activity**

- a. Is this activity being outsourced?  
( ) Yes ( ) No if No, please proceed to question 6
- b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
- c. Please indicate the number of employees involved in this activity before outsourcing.  
\_\_\_\_\_ number of employees.

(Continued)

- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?

\_\_\_\_\_ number of employees.

6. **HR planning activity**

- a. Is this activity being outsourced?

( ) Yes ( ) No if No, please proceed to question 7

- b. Please indicate the percentage of this activity being outsourced.

\_\_\_\_\_ %

- c. Please indicate the number of employees involved in this activity before outsourcing.

\_\_\_\_\_ number of employees.

- d. What is the reduction in the number of employees (related to this activity) after outsourcing? (if any)?

\_\_\_\_\_ number of employees.

7. **HR information system activity**

- a. Is this activity being outsourced?

( ) Yes ( ) No if No, please proceed to question 8

- b. Please indicate the percentage of this activity being outsourced.

\_\_\_\_\_ %

- c. Please indicate the number of employees involved in this activity before outsourcing.

\_\_\_\_\_ number of employees.

- d. What is the reduction in the number of employees (related to this activity) after outsourcing (if any)?

\_\_\_\_\_ number of employees.

**Other, if any**

\_\_\_\_\_

(Continued)

- 
- a. Is this activity being outsourced?  
( ) Yes ( ) No
  - b. Please indicate the percentage of this activity being outsourced.  
\_\_\_\_\_ %
  - c. Please indicate the number of employees involved in this activity before outsourcing  
\_\_\_\_\_ number of employees.
  - d. What is the reduction in the number of employees (related to this activity)  
after outsourcing (if any)?  
\_\_\_\_\_ number of employees.

### **PART C. COMPANY BACKGROUND**

**This part requests for general information about your company and yourself.  
Please fill in the required information in the spaces provided.**

1. In what year did your company start its operation? \_\_\_\_\_
2. In which industry does your company operate? \_\_\_\_\_
3. How many total full/part-time equivalent HR employees are there in your company?  
\_\_\_\_\_ number of employees.
4. What is the average labour cost?  
RM \_\_\_\_\_ per employee
5. What is the total HR salary expenditure (payroll for HR employees)?  
RM \_\_\_\_\_
7. What is the title of your position? \_\_\_\_\_

**Figure A1.**

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