

The Impact of Human Resource Management Strategy on Human Resource Outsourcing

Impak Strategi Pengurusan Sumber Manusia Terhadap Khidmat Sumber-Luar Sumber Manusia

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ABSTRACT

This study examines the extent to which different types of HRM strategy influence HR outsourcing. Six types of HRM strategy, namely: expansion, cost efficiency, quality conscious, commitment, conventional and employee development were employed to test their influence on HR outsourcing. The data was gathered from a survey questionnaire of 232 manufacturing organisations of which 113 organisations engaged with HR outsourcing. The findings suggest that organisations rely on outsourcing of training, recruitment, payroll and HRIS functions when they espouse expansion HRM strategy. Quality conscious HRM strategies are significantly related to the outsourcing of payroll and HRIS functions. In addition, cost efficiency is significantly related to outsourcing recruitment but in opposite direction. Commitment HRM strategy is significantly related to the outsourcing of training and payroll functions while conventional HRM strategy is associated only to outsourcing training functions. However, employee development HRM strategy is not related to any outsourcing activities.

ABSTRAK

Kajian ini bertujuan menilai sejauh mana jenis-jenis strategi pengurusan sumber manusia mempengaruhi penggunaan khidmat sumber luar bagi fungsi sumber manusia. Enam jenis strategi pengurusan sumber manusia dikenalpasti: perkembangan, kos efisien, kesedaran kualiti, komitmen, konvensional dan perkembangan pekerja. Sampel asal terdiri daripada 232 organisasi tetapi hanya 113 organisasi yang terlibat dalam penggunaan khidmat sumber luar bagi fungsi-fungsi sumber manusia. Hasil kajian menunjukkan organisasi menggunakan khidmat sumber luar bagi fungsi latihan, pengambilan pekerja, payroll dan sistem informasi sumber manusia apabila organisasi menggunakan strategi perkembangan. Strategi kesedaran kualiti mempunyai pengaruh penting dalam menggunakan khidmat sumber luar bagi fungsi payroll dan sistem informasi sumber manusia. Selain itu kos efisien mempunyai pengaruh penting dalam menggunakan khidmat sumber luar untuk fungsi pengambilan pekerja tetapi dalam berlainan arah. Strategi komitmen pula mempengaruhi khidmat sumber luar bagi fungsi latihan dan payroll manakala strategi komitmen berhubungkait dengan menggunakan khidmat sumber luar untuk fungsi latihan. Walau bagaimanapun, strategi perkembangan pekerja tidak mempunyai hubungkait dengan mana-mana fungsi sumber manusia untuk khidmat sumber luar.

INTRODUCTION

In order to stand up to the challenges posed by a robust and increasingly highly competitive environment, business organisations have, in the past decade or so, resorted to various strategic actions. These include, among others, the adoption of the total quality management (TQM) philosophy to drive quality standards; business process reengineering (BPE), to streamline and optimise processes; and pertinent restructuring exercises to reduce costs and align resources. Despite these actions however, there continues to exist significant pockets of resources devoted to routine and administrative activities. In view of this, and in an effort to

address scarce resources and meeting customers' unrelenting need for quality, many entities have now ventured into various kinds of outsourcing exercises (Marinaccio 1994).

Outsourcing is becoming a norm among private and public organisations. The rationale for its adoption is simple and compelling. If outsourcing parts of the business activities or operations yields greater benefits to the organisations than performing them internally, it is a clear cut case for outsourcing. In addition to the immediate efficiency gains, organisations could also direct their efforts to other activities that they are more adept at in house (Fill & Visser 2000). In short, outsourcing, as a strategy,

results in better deployment of business activities (Elmuti 2003).

In spite of the dramatic rise in the outsourcing practices, limited empirical investigations have been reported on HR outsourcing (Lilly, Gray & Virick 2005; Bolat & Yilmaz 2009). HR departments are being called upon to portray a much more strategic approach in the organisations (Ulrich 1996; Woodall, Scott-Jackson, Newham & Gurney 2009). HR managers will no longer focus on monitoring and updating policies or perform recruitment, training, performance appraisal and compensation in isolation. Relatively, HR managers are expected to be more flexible, efficient, and contribute strategically to the organisations. Therefore, many HR managers start to engage with outsourcing to meet these objectives (Lepak, Bartol & Erhardt 2005). While remarkable discussion on outsourcing HR functions has been published recently (e.g. Woodwall *et al.* 2009; Fisher, Wasserman, Wolf & Wears 2008), little is known regarding which facets of HR departments should be retained internally or outsourced. Notwithstanding this emerging trend, first and foremost, it raises a pertinent question of how HR outsourcing decisions are made. Most likely the decision is made based on the relative importance of certain HR functions to the organisations. In this case, organisations should outsource peripheral functions and internally perform those functions that central to their competitiveness (Lepak *et al.* 2005). By outsourcing peripheral functions, organisations are able to concentrate on core functions that help differentiate them from the competition (Delmotte & Sels 2008).

Nevertheless, the definition of which HR functions are core and peripheral to an organisation is very vague and indistinct (Lepak *et al.* 2005). Perhaps, what constitute core varies organisations. This issue, therefore, is influenced by the HRM strategic orientation of the organisations. This is because organisations pursuing traditional HR functions will perform most of their HR functions in house. In contrast, HR orientations that geared toward enhancing employee champion, commitment and competence would likely to place greater value on core HR functions than peripheral functions. While this is only one example, it highlights the notion that different HRM strategic orientation may have different influences on their internal systems that affect the decision to outsource (Lepak *et al.* 2005). Therefore, this study specifically examines whether different types of HRM strategies

predict the decision to outsource HR functions. In response, this study will focus on six distinct HRM strategies namely expansion, quality conscious, cost efficiency, commitment, conventional and employee development. This paper will commence with a discussion on the concept of HRM strategy and HR outsourcing, followed by the relationships between HRM strategy and HR outsourcing. Subsequently, the methodology will be presented and finally, the results and discussion of the study will be forwarded.

LITERATURE REVIEW

Much of the government's emphasis on HRM is targeted at the manufacturing sector. This is because manufacturing accounts for one third of the GDP and more than 70% of the country's exports (Ministry of Finance 2006). Malaysia is also among the world's top 20 trading nations. The country offers the international community with a variety of world class products such as electrical and electronic products, high quality textiles and apparel, furniture, and palm oil-based, rubber-based and wood-based products. Recognising that information and communication technologies are fast changing the face of international trade, resource flows and competition, Malaysian manufacturing organisations are taking initiatives to improve their operations in the face of these challenges. Developing HR in this sector is one of the crucial tasks required to prepare capable and skilled employees to meet current and future challenges (Zidan 2001).

In line with this, there is a necessity to deploy skilled and competent employees to core and strategic activities. Activities which are deemed peripheral or non-core to the organisations are relegated to outsourcing (Lilly, Gray & Virick 2005). It is no secret that in manufacturing, organisations that consistently hone their productivity output and efficiency levels can greatly enhance their chances for success (Swarts 2003). Therefore, while it might be reasonably easy to discover time or cost saving opportunities in such areas as production, packing, shipping or receiving, a growing number of manufacturers nationwide are learning that outsourcing their HR functions can also yield significant rewards (Gilley, Greer & Rasheed 2004). This is because examining the organisation's HR and administrative activities might not be an obvious avenue to explore when looking to boost manufacturing productivity.

Recently, many manufacturing organisations are using professional employer organisations (PEO) to perform their HR functions such as payroll and benefit activities with the aim to remedy their HR inefficiencies (Klaas 2003). In fact, this practice has become popular among many manufacturing organisations in Malaysia (Zenith Services 2005). To remain competitive in the global marketplace, more and more manufacturing organisations are examining outsourcing as a way to make operations more efficient in Malaysia (Khong 2005). Therefore, it is pertinent to examine the scenario of HR outsourcing among the manufacturing organisations in the country. manufacturing organisations in the country.

HRM STRATEGY

HRM is one of the concepts that has gained considerable acceptance in management. The decade of the 1980s saw the emergence of HRM strategy as one of the newest sub fields of HRM (Lundy 1994). HRM strategy is conceptualised as an outcome that is the pattern of decisions regarding the policies and practices associated with HR system. That is the focus of HRM strategy needs to be on the HR system, and not the HR function. The HR system is one of many numerous organisational systems (e.g. finance system, marketing system, production system), each of which play a role in the formulation of organisation wide strategies (Bamberger & Fiegenbaum 1996). In this respect, HR systems are focused on staffing and development, appraisal, rewards, compensations and work system. Each of HR system that possesses similar characteristics is confined to a similar HRM strategy. HR system which comprises of different types of HR function has the primary responsibility for the implementation of HRM strategy. As such HRM strategy can be defined as the process that are typically concerned with devising ways of managing people which will assist in the achievement of the organizational objectives (Fombrun, Tichy & Devanna 1984). HRM strategy models grounded in the resource perspective rest on the implicit assumption that the set of employee behaviour, attitudes, and relationships underlying an organisation's HR systems can be critical to the implementation of business strategy (Bamberger & Meshoulam 2000).

A number of frameworks have emerged to differentiate the core or ideal types of HRM strategies. Some of these models have been

generated intuitively on the basis of theory, whereas others have been derived empirically. Though it may not be possible to reconcile all model differences, a number of common underlying elements across these models have been identified. For this study, HRM strategies espoused by manufacturing organisations are determined based on the proposed integrated HRM strategic dimensions. The proposed strategic dimension was a result of the integration of Miles and Snow's (1984) typology, Dowling and Schuler's (1990) typology, Arthur's (1992) typology and Delery and Doty's (1996) typology. The purpose of integrating the HRM strategies from various sources is to reconcile the differences of the various views on HRM typology. Bamberger and Meshoulam (2000) posit that one way to resolve these differences is by This approach is able to include the key variants of HRM strategies in a comprehensive yet parsimonious manner. In other words, integrated HRM strategies in this context provide comprehensive views of the most discussed HRM typologies.

Six distinct HRM strategies emerged from the integration; namely: 1) Expansion; 2) Quality conscious; 3) Cost efficiency; 4) Commitment; 5) Conventional; and 6) Employee Development. Organisations with expansion HRM strategy stress on Miles and Snow's (1984) facilitator HRM strategy and Dowling and Schuler's (1990) facilitator HRM strategy. Expansion HRM strategy focuses on exploration into products and markets in which they traditionally have had little or no experience. Therefore, they are less aware of the specific behaviour that is necessary to perform well in these areas. These organisations are continuously trying out new products and markets, and will likely move on quickly if it appears that there is little opportunity for profit in an area (Dowling & Schuler 1990; Miles & Snow 1984). Therefore, the organisation needs employees that possess creative behaviour, high level of cooperative, interdependent behaviour, moderate concern for quality and quantity, greater degree of risk taking, high tolerance on ambiguity and unpredictability and have a longer focus.

Quality conscious HRM strategy on the other hand, is integrated based on Miles and Snow's (1984) accumulator HRM strategy and Dowling and Schuler's (1990) accumulation HRM strategy. This strategy represents policies and practices of attracting many good candidates very carefully and very consistently, often more on the basis of personal fit than technical fit (Dowling & Schuler 1990). This type of HRM strategy should acquire

repetitive and predictable behaviour, long-term or intermediate focus, a modest amount of cooperative, interdependent behaviour, a high concern for quality and modest concern for quantity of output. Continuous training and development are the key factors for a strategy that looks towards achieving a high quality. Employees need to be smarter, flexible and adaptable to new job assignments and technological changes (Drucker 1987; Pascale 1984).

Cost efficiency HRM strategy is combined based on Miles and Snow's (1984) utiliser, Dowling and Schuler's (1990) utilisations and Arthur's (1992) control oriented strategy. Cost efficiency strategy has narrow and stable product-market domain and seldom makes major adjustments in its technology or structure. A cost efficiency HRM strategy is predicated on minimal commitment, high skill utilisation and seeks to deploy the HR of an organisation as efficiently as possible (Arthur 1992; Dowling & Schuler 1990). The employees are expected to have a relatively repetitive and predictable behaviour, and a modest concern for quality and quantity. Their work comprises primarily of autonomous or individual activities that are low risk taking and the focus is on the short-term. Hence, the concern of this strategy is primarily on a high degree of comfort with stability (Milkovich, Dyer & Mahoney 1983; Lorange & Murphy 1983). As a result, cost efficiency HRM strategy requires 1) relatively stable and explicit job description, 2) narrowly designed jobs and career paths that encourage specialisation, expertise and efficiency, 3) short-term and result-oriented performance appraisal, 4) close monitoring of market pay levels and 5) minimal levels of training and employees.

Organisations with commitment HRM strategy which is adopted from Arthur's (1992) commitment HRM strategy focus on being the employee champion and place a primary emphasis on enhancing on employee commitment and competent. It encourages employees to freely exercise their discretion in dispensing their duties when confronted with situations of uncertainties that impinge on the goals of the organisation (Schuler, Galante & Jackson 1987). It offers skilled employees with high level of involvement, autonomy, broadly defined job functions, general skills training are provided for the employees as well as attractive compensation package such as extensive benefits, high wages and stock ownership. This HRM strategy attempts to promote employees performance and commitment

to the organisation by showing the employees that the management concerns about them personally (Arthur 1992). This is to attract, motivate and retain qualified employees who will internalize the goals of the organisation.

Conversely, conventional HRM strategy is based on Delery and Doty's (1996) market strategy. This strategy is known as the traditional way of managing the employees. This organisation is characterised by hiring from outside an organisation, providing little training, evaluating performance through results measures and unclear job definitions. This strategy emphasizes very little use of career ladders and very few career paths planning for the employees as well as very little employment security is given to the employees (Delery & Doty 1996).

Finally, employee development HRM characterised by the existence of an internal labour market. According to Delery and Doty (1996) the performance of the employees is assessed through their behaviour, and the appraisal feedback is given for developmental purposes rather than evaluative purposes. Hiring mainly from within the organisation where the internal employees are developed extensively. Therefore, a tremendous amount of training and development are provided for them and in fact they have a well-defined career ladders and have access to grievances systems as well as to participate in decision making. Although few incentives systems are used and very little use of profit sharing, the career movement for the employees is broad (Schuler 1989).

HR OUTSOURCING

Outsourcing can be broadly defined as the transfer to an outside provider of a function previously performed internally (Finlay & King 1999; Lepak *et al.* 2005). Many organisations realise the importance of outsourcing and begin to expand this practice to many of their business operations. In fact, many researchers posit that outsourcing encompasses a wide spectrum of activities, from manufacturing operations to research and development, logistics and marketing, information technology, HRM and accounting (e.g. Gilley, McGee & Rasheed 2004; Morgan 2003; Wahrenburg, Hackethal, Friedrich & Gellrich 2006). Consequently, outsourcing HR functions is the practice of turning overall or part of an organisation HR functions to an external providers (Adler 2003; Pelham 2002). Outsourcing activities initially encompassed only small segments

of HR functions particular non core functions such as payroll and benefits administration (Adler 2003; Fisher *et al.* 2008), but has gradually grown to encompass many HR functions including core functions such as HR planning and development (Lepak *et al.* 2005; Delmotte & Sels 2008). Other potential functions consist of training, recruitment, compensation, relocation and HR information systems (Lever 1997; Gilley, Greer & Rasheed 2004; Smith, Vozikis & Varaksina 2006)).

The impetus for this change is driven by the need for HR departments to play a much more strategic role in organisations (Ulrich 1996; Ordanini & Silvestri 2008). HR managers are expected to be more flexible, responsive, efficient, and to contribute to the strategic decisions of their organisations. In response to this shift in paradigm, many HR managers are turning to outsourcing as a way of meeting these demands (Lepak & Snell 1998; Shih, Chiang & Hsu 2005; Jiang & Qureshi 2006). Nevertheless, organisations differ in the implementation of this increasingly important practice. For instance, some organisations may make little use of HR outsourcing whereas others rely heavily on the use of external vendors to perform the HR functions. The questions of which HR functions are viable for outsourcing and to what degree should the organisations embark on HR outsourcing remain very much debatable if not inexplicable. A popular approach stresses on organisations keeping core activities or activities that are critical to organisations' competencies in house and outsource non-core activities to external vendors (Hamel & Prahalad 1994; Stroh & Treehuboff 2003; Ordanini & Silvestri 2008). Core functions are those functions that are crucial to the organisations' competitiveness and thus must be kept internally whereas non-core functions are considered to have a lower impact on the overall performance of the organization (Cooke, Shen & McBride 2005).

Between the core and non-core functions, it is apparent that organisations are better off to perform core functions in house and outsource only functions that are non-core to their organisations. However, what is considered as core and non-core vary among organisations, the decision of which HR functions to outsource is most of the time driven by organisations' HRM strategy (Miles & Snow 1984; Lepak *et al.* 2005). Although evidence from past literature and practitioner publications indicates that HR outsourcing has increased significantly over the last decade (Cooke *et al.* 2005; Lievens & De Corte 2008), few academic researchers have

investigated empirically on the factors that influence HR outsourcing (Wahrenburg *et al.* 2006). To date, the issue on HR outsourcing has attracted substantial academic attention regarding the reasons for, the consequences of HR outsourcing (Cooke *et al.* 2005; Greer, Youngblood & Gray 1999; Delmotte & Sels 2008), the current practice of outsourcing aspects of HR functions (Shaw & Fairhurst 1997; Ulrich, Younger & Brockbank 2008; Woodwall *et al.* 2009).

Apart from that, studies on HR outsourcing also focus on the role of organizational characteristics (Klaas, McClendon & Gainey 2001; Shih *et al.* 2005). These authors emphasize on the relationship between HR outsourcing and perceived benefits generated is moderated by the degree on idiosyncratic HR practices, uncertainty, firm size and cost pressure. Moreover, the role of transaction cost (Delmotte & Sels 2008; Shih *et al.* 2005) and resource based view (Wahrenburg *et al.* 2006; Delmotte & Sels 2008) on HR outsourcing is also examined. Nevertheless, the factors that trigger HR outsourcing remain very much contentious if not inexplicable. Therefore, in order to better understand the impetus that has led many organisations to outsource their HR functions, it is pertinent to look at HRM strategy since different HRM strategy have different effects on which HR functions are more or less likely to be deemed core or non-core and as a result, more or less likely to be outsourced (Lepak *et al.* 2005; Lievens & De Corte 2008). Thus, the role of HRM strategy needs to be discussed in this relationship.

MODEL DEVELOPMENT AND HYPOTHESES

The decision to outsource HR functions to external vendors or performed internally is addressed by Transaction Cost Economics (Williamson 1985). Transaction Cost Economics (TCE) offers useful framework for understanding the conditions under which HR outsourcing is likely to benefit organisations. That is, organisations may seek lower costs by transacting with external vendors rather than building internal resources in executing the HR functions. HR outsourcing, however, ranges from core (HR planning) to non-core activities such as routine payroll administration. Given these dissimilarity among HR functions, different types of HRM strategy may influence the possibility of outsourcing some forms of HR functions more than others, resulting in different determinants for various

forms of HR outsourcing. Consistent with TCE, HR outsourcing may be viewed as relying on market contracting as a form of organisation structure as opposed to relying on organisational hierarchy. Given that the HRM strategic dimensions will likely affect the costs associated with market contracting (Williamson 1985, 1991), this study uses TCE to develop hypotheses that predict relationships between HRM strategies and the outsourcing of HR functions.

In congruence with TCE, organisations outsource HR functions is to build core competencies (Quinn & Hilmer 1994; Ordanini & Silvestri 2008). In this respect, organisation may seek greater focus on a limited set of core competencies which are high value-added skills (Prahalad & Hamel 1990; Quinn & Hilmer 1994). This concept of the resource-based view of the organisation (e.g. Barney 1991; Delmotte & Sels 2008) presents arguments that outsourcing can be productive to the development of the core competence of the organisation specifically in relation to HR functions. In this instance, HR outsourcing supports strategies of selectively building valuable skills through outsourcing non-core functions, which provides existing HR employees more time to focus on core and high skill functions. As such, this study draws upon this perspective in relation to HRM strategic type to identify outsourcing as the mechanism for shifting low skill and non-core activities out of the organisation, thereby freeing human capacity to concentrate on strategic and core HR functions inside the organisations.

The issues on HR outsourcing are related to many of the broader 'make' and 'buy' issues addressed in TCE (Williamson 1996). 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 make 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 (Adler 2003; Cooke *et al.* 2005).

Another theory which is closely related to HR outsourcing is the resource-based view. The resource based view suggests that an organization must focus on those activities that constitute the core competencies and outsource the more peripheral activities (Klaas *et al.* 2001; Lawler & Mohram 2003). 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 strategy 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 more resources to more proactive and strategic roles (Adler 2003; Delmotte & Sels 2008). Given that an organization's strategic types will likely affect the costs and benefits associated with market contracting, this study use TCE perspective and resource based view to develop hypotheses between HRM strategy and outsourcing different categories of HR functions.

EXPANSION HRM STRATEGY AND HR OUTSOURCING

Expansion HRM strategy focuses on the core competency of the employees. Organisations with this HRM strategy face turbulent markets, competitive pressures, the pace of change, technological innovation, and the fast flow of information mean that many specialised skills and knowledge are evolving very fast (Quinn & Hilmer 1994). In this scenario workload becomes very unpredictable and dynamic, hence the organisation is forced to make frequent changes to the functions and the procedures that guide the work (Quinn & Hilmer 1994; Gainey & Klaas 2002; Stroh & Treehuboff 2003). However, existing employees in these organisations may not quickly possess the adequate skills and abilities to handle the demanded tasks by new market demands. Moreover, internal employees may be insufficient to satisfy the changing demands of an organisation's strategic objectives (Shih *et al.* 2005). Besides, some researchers argue that keeping HR functions such as recruitment and training in-house will incur a significant investment such as software, systems, equipment and other facilities (Stroh & Treehuboff 2003; Wahrenburg *et al.* 2006). Therefore, the organisations have to acquire their workforce from outside and outsource part of their HR functions to external vendors. In fact by outsourcing, organisations hope to take advantage of lowering their cost and grab the up-to-date technology possessed by external vendors (Adler 2003).

Nevertheless, the danger of losing internal experts by outsourcing is an important criterion to consider. When organisations lose the in-house

expertise, particularly training specialist, the organisations may be left with intelligent void and it is therefore, crucial for an organisation to maintain at least a minimal level of in-house expertise as protection (Lepak & Snell 1998; Jiang & Qureshi 2006). While organisations foresee that outsourcing HR functions may pose danger to them, it is argued that an outsourcing contract will shift the organisation's burden of monitoring and then implementing the changes of these functions to the service provider who is willing and better able to bear risks for a premium (Lever 1997; Klaas *et al.* 2001). In fact, HR outsourcing can quickly provide various experts, increase organisations' flexibility and may perform well when it assigns some of HR functions to external vendors (Shih *et al.* 2005).

Furthermore, HR functions such as HRIS, payroll and benefit administration are, by nature, not unique and non strategic. For these reasons, it is beneficial for the organisation using the expansion HR strategy to offload these functions and concentrate on core functions to develop innovative and creative goods and services (Jarvis 1999; Lever 1997). Therefore, an organisation that operates in a highly unstable situation is likely to focus on strategic HR functions and outsource many, largely routine and repetitive HR functions. Therefore, it is hypothesised that:

H1: Expansion HRM strategy is associated with outsourcing a higher degree of training, recruitment, payroll and HRIS functions but a lower degree of HR strategic functions.

QUALITY CONSCIOUS HRM STRATEGY AND HR OUTSOURCING

Compared to expansion-oriented organisations, quality conscious organisations stress on the quality enhancement of the whole operation. Rather than strive for efficiency as their first priority, these organisations may be characterised as striving for quality control (Klaas *et al.* 2001). These organisations tend to internalise many aspects of the HR functions so that these functions are under control by the management of the organisations. In terms of recruitment, these organisations focus on the selection of excellent candidates and go the extra mile in promoting lifetime employment and the recognition of seniority. By doing this they aim to keep recruiting functions to a minimum (Schuler 1989; Klaas *et al.* 2001). Employees are expected to be flexible and adaptable to changing scenarios, and to utilise their skills, knowledge and abilities, and

consistently maintaining and improving the quality of its products (Huang 2001).

Training is another function that the organisation wants to control since this has a direct impact on the quality of products. Despite it being a great investment for the organisation, the quality conscious organisation is willing to foot the expenses by doing training internally rather than off loading or leaving it to chance (Stroh & Treehuboff 2003). This is to ensure that the expected quality of its products is not put at risk by improperly trained employees. In order for employees to be well prepared with the right proficiency to consistently churn out quality products over an extended period of time, the quality conscious organisation focuses on internal training such as job rotation, job enlargement and job sharing (Schuler 1989; MacDuffie 1995). This kind of intensive and to a large extent exclusive training that entails intimate knowledge of the organisation's products and processes, precludes it from being outsourced to an outside provider. Outsourcing this training means that the outside provider has to tailor make much of its training program and this would add cost to the organisation (Klaas *et al.* 2001; Klaas 2003). In addition, such an approach would not have a long term focus and would only be good for a few years. On the job training, by comparison, enables the organisation to improve on the quality of its products based on the current situation (Schuler 1989).

Although the quality conscious organisation stresses quality enhancement, functions such as payroll and HR information system are secondary functions which do not require extensive attention or control (Gilley & Rasheed 2000). It seems logical that organisations would tend to outsource these functions. Monitoring day-to-day operations is likely to be of less importance than maximising flexibility and creativity in quality conscious organisations (Heikkila & Cordon 2002). As such, these functions are generally outsourced. Nevertheless, core functions such as HR planning are those most likely to be valuable to HR department, there is an incentive for these HR department to perform most of these functions in-house (Stroh and Treehuboff 2003). Due to its focus on quality, an internal employee is likely to be in a better position to understand the nature of the organisations and the requirements that strategic HR functions place on their organisations (Ulrich *et al.* 2008).

In contrast, external vendors may not have the intimate knowledge of the organisations to address factors of the organisation's culture, HR policies and

procedures (Lepak *et al.* 2005). Likewise, external vendors may not be able to guarantee the quality of the service might not be up to the standard required by the organisations. Perhaps, the external vendors might not have the necessary skills, knowledge or experiences to perform traditional functions outstandingly and effectively. Based on these arguments, it is hypothesised that:

H2: Quality conscious HRM strategy is associated with outsourcing a higher degree of payroll and HRIS functions but a lower degree of training, recruitment and HR strategic functions.

COST EFFICIENCY HRM STRATEGY AND HR OUTSOURCING

Organisations that adopt cost efficiency HRM strategy seek to reduce the cost of HR functions. This strategy gives attention on enhancing efficiency and minimising expenditure. The use of part timers, subcontractors and outsourcing of HR functions are encouraged (Dowling & Schuler 1990; Lepak *et al.* 2005). Candidates with skills, abilities, experience and knowledge are given priority since the organisation saves on training and development cost. The management for these organisations will tend to reflect central bureaucracy and their operations tend to pursue efficiency. The HR departments within these organisations tend to nurture the employees from within and maintain long-term and stable employment relationship with their employees (Ghosal & Nohria 1989). Even if HR outsourcing's contributions still exist, some researchers posit that outsourcing might not fit well in the organisations that focus on cost efficiency (Lepak *et al.* 2005; Shih *et al.* 2005).

However, according to Schuler and Jackson (1987), for organisations with cost efficiency HRM strategy, HR functions such as recruitment and compensation are best handled by external vendors. This is because outsourcing reduces the number of employees and the organisation stands to benefit from increased productivity. Moreover, the time needed to recruit employees becomes shorter when using an outsourcing agency, thus saving on both time and money (Klaas *et al.* 2001). Training is often the first function to suffer when an organisation needs to downsize or shave some money off a budget. By outsourcing training, the HR function aims to benefit from up to date technology at competitive costs to the organisation (Stroh & Treehuboff 2003).

Similarly, HR functions such as payroll and benefits, the workload is usually high and uneven. Many organisations with cost efficiency HRM strategy are now outsourcing these functions (Klaas *et al.* 2001; Stroh & Treehuboff 2003; Lever 1997). Outsourcing can bring relief to the organization by avoiding the need to hire extra payroll personnel and shift staff around. Late payroll is avoided and the uneven workload is greatly smoothed (Thompson 1967). A lower number of HR employees mean less initial training and less subsequent training. All this translates to lower labor costs (Lever 1997). Furthermore, investments in new payroll software, systems and equipment become unnecessary. Organisations can rely on the service provider to create adaptable systems that meets unique and complex requirements (Jarvis 1999).

However, organisations adopting cost efficiency HRM strategy may gain less value by outsourcing core and strategic HR functions. Since these organisations are often fairly stable and rigid in their structure, the ultimate benefits of core HR functions are likely to be handled infrequently (Lepak *et al.* 2005). Thus, core HR functions such as HR planning and performance appraisal are functions that are mostly kept in house. HR planning is a core activity that systematically forecasts an organization's future demand for, and supply of, labor that is needed to carry out and accomplish organisational objectives (Thapisa 1994). Core HR functions play a significant role since it leads the employees to focus on the goals and strategies of both the organisations and the employees. It provides for an alignment of employees' objectives with those of the departments and the organisation as a whole. It is also a means of enabling managers and employees to freely communicate and express opinions, grievances and to share knowledge (Pamenter 2004). Since this function is considered strategic and competitive, it is best performed internally (Hamel & Prahalad 1994; Galanaki & Papalexandris 2005). In brief, from the above explanation, it is clear that cost efficiency organisations tend to outsource non-core HR functions while keeping core HR functions in house. Building on the points mentioned above, it is hypothesised that:

H3: Cost efficiency HRM strategy is associated with outsourcing a higher degree of training, recruitment, payroll and HRIS functions but a lower degree of HR strategic functions.

COMMITMENT HRM STRATEGY AND HR OUTSOURCING

The hallmark of a commitment HRM strategy is its employee centric. It views employees as a strategic asset whose effort and competence can be harnessed to a competitive advantage. Because of that these organisations keep most of their HR functions in house and seek to enhance the employees' commitment to the organisation concerned (Lepak *et al.* 2005). Moreover, this organisation comprehends the best practices of outside providers by emulating or replicating them in its own internal processes. At this point, the organisation relies heavily on the contribution of its employees. In its effort to enhance employee commitment and loyalty, the organisation offers extensive compensation and benefits packages as well as substantive training and development (Lievens & De Corte 2008).

In return, the employees strive to perform all the duties, both administrative and strategic, to the best of their abilities (Arthur 1994). For an organisation that puts employees at the forefront, it does not need for outside providers to do its HR functions. Organisation feels that the use of outsourcing, though it may give economic benefits, has more wide-ranging implication such as psychological and social implications which has a negative impact of the employees (De Vries & Balazs 1997). Therefore, organisation with commitment strategy performs all the HR functions in house. It is hypothesised that:

H4: Commitment HRM strategy is associated with outsourcing a lower degree of training, recruitment, payroll, HRIS functions and HR strategic functions.

CONVENTIONAL HRM STRATEGY AND HR OUTSOURCING

Conventional HRM strategy contains no innovative practices, very strict, pay based on quantity not quality, very limited formal training, limited teamwork and run the HR department on the traditional, old-fashioned and conservative ways. These types of organisations do not consider employees as the ultimate valuable resource and also perceive HR department is just the administrative and support department to the organisation as a whole (Delery & Doty 1996). HR outsourcing is considered a new phenomenon and engaging with these service providers is very uncommon and exceptional

decision. Majority of them are reluctant or skeptical to face new changes especially dealing with the new things like externalising of HR functions when they are uncertain of the consequences (Laabs 1993; Woodwall *et al.* 2009). Based on these points, conservative organisations are unlikely to engage in outsourcing of HR functions. Therefore, the study hypothesised that:

H5: Conventional HRM strategy is associated with outsourcing a lower degree of training, recruitment, payroll, HRIS functions and HR strategic functions.

EMPLOYEE DEVELOPMENT AND HR OUTSOURCING

In many respects, the employee development strategy shares commonalities with the foregoing commitment strategy. Being an employee centric strategy, it focuses on the development of the employees. In this case it gives priority to internal employees in its recruitment rather relying on an external recruitment agency to scout for talents. These employees are provided with extensive development opportunities so that they can support and contribute towards the objectives of the organisation (Arthur 1992). It is also part of this strategy's philosophy to equip the organisation with in-house expertise especially in the performance of strategic HR functions. This is as a protection in case something goes awry with the services provided by the outside providers. Therefore, the organisations identify and develop employees from within the organisation who have intimate knowledge of the organisation's culture, values and background (Stroh & Treehuboff 2003; Lepak *et al.* 2005).

Nevertheless, this strategy does not appreciate non-core HR functions. Payroll, benefits administration, HRIS and other trivial HR functions are not typically profit-producing. These organisations serve as an employee champion and the employees would not have to waste their time executing these administrative HR functions. These functions are, therefore, generally outsourced to external vendors. On the other hand, it is part of employee development HRM strategy's philosophy to equip the organisation with in-house expertise especially in the performance of strategic HR functions. This is as a protection in case something goes awry with the services provided by the outside providers. Therefore, the organisations identify and develop

employees from within the organization who have intimate knowledge of the organization’s culture, values and background (Stroh & Treehuboff 2003; Lilly *et al.* 2005). Based on the above arguments, it is hypothesised that:

H6: Employee development HRM strategy is associated with outsourcing a higher degree of payroll and HRIS functions but a lower degree of training, recruitment and HR strategic functions.

PROPOSED CONCEPTUAL FRAMEWORK

From the literature review, the framework is derived and it is postulated that the different types of HRM strategy would influence the degree of HR outsourcing. Figure 1 shows the relationships of the constructs.

METHODOLOGY

SAMPLE AND PROCEDURE

The sample consisted of the heads of HR department working in large and established manufacturing organisations in Malaysia. On the basis of data provided by Federation of Malaysian Manufacturers Directory (FMM) there were 990 large and established manufacturing organisations. The questionnaires were sent to all 990 organisations. The survey yielded 23% response rate resulting in 232 respondents useable responses. This response rate is considered satisfactorily as this scenario is not different from other surveys in Malaysia, which tend to obtain a response of between 15-25 percent (Othman, Abdul-Ghani & Arshad 2001).

The targeted respondents were the HR manager or person responsible for HR. They are the best persons to provide comprehensive and informed views on the business and HR issues (Abdullah, Che-Ros & Kumar

2007). While the respondents in this study were well positioned to provide HR data, it remains possible that a general response bias is affecting the results. Indeed asking HR managers about their own function involves measuring a partial perception of reality (Valverde, Ryan & Soler 2006). To reduce the effects of possible bias, future research might benefit from designs that collect data from multiple respondents within each participating organization. For instance, it would be valuable to incorporate data from managers other than HR managers. For example, it would be valuable to incorporate data from managers other than HR managers (e.g. line managers), as their views may well differ (Edgar, Geare & McAndrew 2008). Ideally, if time and research funds permit, research on HRM should also tap into the views of workers, and not rely on managerial views. Research has certainly revealed that workforce views on HRM differ to that of managerial views (Geare, Edgar & McAndrew 2009).

The data collected was restricted to large and established manufacturing organisations only. Large organisations with 150 employees (SMIDEC 2005) and above and organisations that have been in operation for at least five years were selected because these organisations are presumed to have well developed and established business strategies (Youndt & Snell 1996) as well as having the potential to adopt HR outsourcing (Delmotte & Sels 2008). Organization size and years of establishment are often good indicators of an organization’s likelihood to outsource all or parts of its HR functions. Research also shows large organisations (Klaas *et al.* 2001) and established organisation (Gilley *et al.* 2004) are more inclined to outsource more. In fact, small and medium organisations are quite different from large and established organisations since they are inherently flexible, nimble and make less use of HR practices (Sels, De Winne, Delmotte, Faems & Forrier 2006). Therefore, fewer activities are considered for outsourcing in this group.

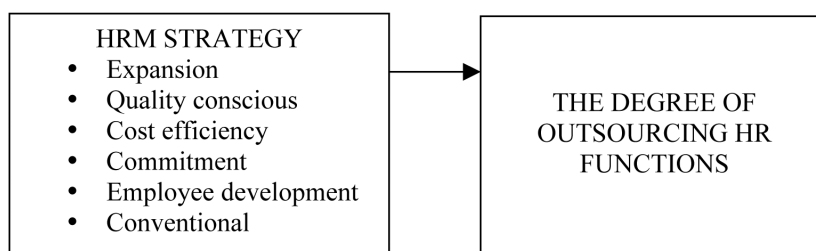


FIGURE 1. The conceptual framework

T-tests were performed to examine possible non-response bias. Respondents were divided into two groups based on whether they responded to the first mailing and the follow-up. The results revealed that there was no significant difference between the two groups on business strategies, HR outsourcing and HR performance, organisations establishment period and size and thus there was no evident of systematic non-response bias. In addition, all variables were tested for normality and linearity in order to be used for subsequent analysis.

MEASUREMENT INSTRUMENTS

The construct of the study, which were adapted from established scales, were measured on a six-point semantic differential-likert scale. Forty-four (44) questions were raised on the HRM strategy construct. Factor analysis (exploratory and confirmatory) was conducted to check on the validity and the reliability of the measurement scales.

To measure the outsourcing level of HR functions, open ended question of percentage of each HR functions outsourced was used. For a list of HR functions (payroll, HR information system, training, compensation, appraisal, recruitment and HR strategic functions), the respondents were asked to indicate the percentage on these activities being outsourced to external vendors. The responses for these variables were summed to obtain an overall measure of the organization's reliance on HR outsourcing.

ANALYSIS

This section describes in detail the specific procedures used to analyse the data collected from the respondents. Two computer softwares, namely, Statistical Package for the Social Sciences (SPSS) Version 12 and Analysis of Moment Structure (AMOS) Version 6 were employed to analyze the data derived from the questionnaire survey.

The first step is to assess validity and reliability by using exploratory and confirmatory factor analysis. Exploratory factor analysis is used for data exploration in order to generate hypotheses. It is a technique that assists researchers to determine the structure of factors to be examined (Hair, Black, Babin, Anderson & Tatham 2006). In contrast, confirmatory factor analysis (CFA) involves analysing the relationship between latent (unmeasured or theoretical construct) and observed (measured or indicators) variables (Tabachnick and Fidel 2001;

Hair *et al.* 2006). In this study, each indicator variable was specified to load only on the latent variable it was purported to measure (Hair *et al.* 2006). In addition, CFA is used to examine the convergent and discriminant validity, by assessing the measurement model developed for testing each of the main variables in this study (Garver and Mentzer 1999).

Different fit indices were employed to assess how the CFA model represented the data. First, absolute indices were used: χ^2 and the ratio of the χ^2 to its degrees of freedom (χ^2/df) as well as the goodness-of-fit index (GFI) Second, this study also used Tucker-Lewis fit index (TLI) and finally, two fit indices that are based on the noncentrality fit index (CFI) and the root mean square of approximation (RMSEA). The criteria for evaluating these indices were for the χ^2 to be non-significant and the χ^2/df to be small approaching unity (Bentler 1995). For GFI, TLI and CFI, values greater than 0.95 constitute good fit and values greater than 0.90 are good fit. For RMSEA, values less than 0.05 constitute good fit, values in the 0.05 to 0.08 range acceptable fit, values in the 0.08 to 0.10 range marginal fit and values greater than 0.10 are poor fit (Hair *et al.* 2006).

Path modeling via AMOS is employed to test the hypotheses of this study. In this model, the structural relationships between latent variables were specified (see Figure 2). This technique permits researchers to analyze groups of independent variables and dependent variables simultaneously, as opposed to regression equations (Hair *et al.* 2006). In other words, the model examines direct or indirect relationships between latent variables and how much the relationship influences the score of particular latent variables (Bagozzi & Dholakia 2006). In fact, it was used to test the overall fit of the study's model and to decide whether this model fitted well with the sample data (Lievens & De Corte 2008).

RESULTS

Table 1 displays the result of exploratory factor analysis. From exploratory factor analysis, six factors of HRM strategy were produced with factor loading from 0.419 to 0.817 with KMO and Bartlett's test of 0.908 and 0.000. These six factors contributed 52.33% to item variance. The Cronbach (a's) of each of the factor are as follow. Expansion HRM strategy $\alpha = 0.904$; quality conscious HRM strategy $\alpha = 0.589$; cost efficiency HRM strategy $\alpha = 0.592$; commitment HRM strategy $\alpha = 0.536$; employee development HRM strategy $\alpha = 0.743$ and conventional HRM strategy $\alpha = 0.677$.

TABLE 1. Results of factor analysis

Factors/Items	Factor loading
HRM Strategy - KMO = 0.908 Barlett's: Sig. = 0.000	
Factor 1: Expansion	
• All HR activities are fully integrated with one another.	0.817
• Human resource activities are in line with overall corporate strategy.	0.693
• The human resource department has as much say in corporate matters.	0.721
• The human resource department has explicit statement of its goal.	0.552
• Promotion is closely tied to performance appraisal.	0.575
• Training is viewed as an investment.	0.549
• Supervisors keep open communication with employees.	0.545
• Training is a valued function.	0.481
• Employees may suggest improvement in the way things are done.	0.471
Factor 2: Quality Conscious	
• Employees are actively involved in formal participation process.	0.676
• The job descriptions are explicit.	0.685
• Employees' performance appraisal is according to standard set of procedures.	0.645
• Employees' complaint through proper channel is encouraged.	0.609
• My company conducts standardised/structured interviews.	0.589
• The job has an updated job description.	0.496
• There are multiple promotion ladders.	0.439
Factor 3: Cost efficiency	
• The human resource department function is accorded a trivial role.	0.700
• Qualified employees have narrow opportunities to be promoted.	0.696
• Job duties are ambiguously defined.	0.632
• Employees have little participation in goal setting.	0.602
• The head of human resource is excluded from the executive meeting.	0.552
• Promotion is based on seniority.	0.544
• The career path is broad.	0.512
• The basic salary offered is low compared to others.	0.419
Factor 4: Commitment	
• Employees' performance is emphasised on their personal development.	0.650
• Performance is based on objective results.	0.608
• Employee will go through the training programs frequently.	0.482
• The discussion between supervisor and subordinate focuses on future performance.	0.481
• My company constantly updates the range of benefits for the employees.	0.472
• Performance appraisal is discussed frequently with the employees.	0.451
Factor 5: Employee Development	
• There are formal training programs to teach new skills.	0.714
• Extensive training programs are provided for a group of employees.	0.545
• Salary raise for employees is based on job performance.	0.509
• My company has comprehensive flexible benefits scheme.	0.443
Factor 6 : Conventional	
• The job security is almost guaranteed.	0.760
• It is difficult to dismiss an employee.	0.728
• My company emphasises on individual criteria is assessing performance.	0.537

The results of CFA combined with construct validity tests, will yield a better understanding of the quality of the measurements. There are two methods commonly used by researchers in evaluating the validity of the measurement model: testing each construct separately where each latent variable is conducted independently (Garver and Mentzer 1999) or testing all constructs together at one time (Cheng 2001). Since this study involves with many variables, CFA process for refining and testing the unidimensional constructs should be tested and refined independently with each latent variable. The results of the confirmatory factor analysis in Table 2 shows that different types of HRM strategy meet the criteria of goodness-of fit index (GFI), Tucker Lewis index (TLI) and comparative fit index (CFI) of above 0.9 (Hair *et al.* 2006). These authors add that root mean square error of approximation (RMSEA) values of less than 0.1 represent a good fit, while values below 0.05 represent a very good fit to the data.

Moreover, convergent validity was examined by assessing the average variance extracted (Hair *et al.* 2006). The average variance extracted for the study constructs were above the reasonable benchmark of 0.40 (Hatcher 1994). The discriminant validity was assessed by comparing average variance extracted of each of the first-order factor with the shared variances of this first-order factor with any other first-order factors of the study constructs. Most of the average variance extracted was higher than all shared variances, indicating discriminant validity of the constructs.

DESCRIPTIVE ANALYSES

The study begins with a summary of some descriptive analysis. Table 3 depicts that from 232 respondents, 48.7% (113) of them claim that they engaged with

outsourcing of HR functions and the rest indicate that they do not involve with HR outsourcing at all. Most of the respondents (15%) are from the machinery and equipment industry. Almost 41% of the organisations employ 301 to 1000 employees, and about 47% employ five to 20 HR employees. Next, 36.3% of these organisations have been in business for at least 20 years. In terms of the position of the respondents, almost 56% of them are the HR managers and about 61% of respondents have less than five years of experience in HR areas.

Based on 113 respondents, the organisations outsource various HR functions depending on the importance of the functions (Stroh & Treehuboff 2003). Table 4 shows that a majority (83.2%) of the organisations outsource recruitment functions. Secondly, they outsource training functions by 64.6% and followed by payroll with 39.8 percent. However, only 8.8% of these organisations outsource HRIS function. Unsurprisingly, none of the organisations outsource strategic HR functions. This result is consistent with the study conducted by Smith *et al.* (2006) in which a majority (68%) of the organisations, in the context of Russian organisations, outsource recruitment functions. Moreover, training is also considered among one of the popular HR functions to be outsourced. In Gainey and Klaas's (2002) study, organisations report that they outsource approximately 30% of their training functions which are closely connected to core capabilities, and in most cases this outsourcing led to improved performance and training design. Moreover, Lever (1997) posits that 65% of the organisations in his study outsourced training functions.

Greer *et al.* (1999) asserts that non core functions such as payroll administration and benefits as being frequently outsourced. However, in this study, payroll is among the least function to be outsourced.

TABLE 2. Confirmatory factor analysis for HRM strategy

Variable	χ^2	(χ^2)/df	GFI	TLI	CFI	RMSEA
Expansion	26.69	1.484	0.934	0.967	0.976	0.066
Quality-conscious	10.95	1.217	0.968	0.984	0.990	0.044
Cost efficiency	16.86	1.204	0.960	0.973	0.982	0.043
Commitment	4.83	1.610	0.978	0.973	0.987	0.074
Conventional	1.49	1.490	0.991	0.975	0.992	0.066
Employee Development	3.22	1.073	0.985	0.955	0.998	0.026

Note: (1) χ^2 = Chi-Square; df = degree of freedom

TABLE 3. Profile of the organisations that outsourced HR functions

HR Outsourced Organisations	Number	Percentage
1. HR outsourcing decision		
• Yes	113	48.7
• No	119	51.3
2. Type of industry		
• Food and beverages	8	7.1
• Textiles	10	8.8
• Wood products	6	5.3
• Chemical products	12	10.6
• Rubber and plastic products	11	9.7
• Metal products	9	8.0
• Machinery and equipment	17	15
• Electronics	16	14.2
• Radio, TV and communication	16	14.2
• Motor vehicles, trailers and semi-trailers	8	7.1
3. Years in operation		
• 20 years above	41	36.3
• 11-20 years	40	35.4
• 10 years and below	32	28.3
4. Total employees		
• 150 to 300 employees	30	26.5
• 301 to 1000 employees	46	40.7
• Above 1000 employees	37	32.7
5. Total HR employees		
• Below 5 employees	33	29.2
• 5 to 20 employees	53	46.9
• Above 20 employees	27	23.9
6. Positions		
• Top Management	9	8
• Senior Management	23	20.4
• Management Level	63	55.8
• Senior Executive	18	15.9
7. Years of working experience		
• Below 5 years	69	61.1
• 5 to 10 years	34	30.1
• Above 10 years	10	8.8

TABLE 4. Type of HR functions outsourced

HR Functions Outsourced	Number	Percentage
Payroll	45	39.8
Training	73	64.6
Recruitment	94	83.2
HR information system	10	8.8

In fact, Smith *et al.* (2006) also suggest that payroll function is among the least popular candidate to be outsourced (27%). With regard to HRIS function, and consistent with the finding by Lever (1997), very few (30%) organisations outsourced this function. In terms of outsourcing strategic HR functions, the result of this study is consistent with past research (e.g. Smith *et al.* 2006; Lever 1997) in which there was no respondent who outsourced strategic HR functions such as HR planning and research on HRM.

TEST OF MODEL AND HYPOTHESES

Figure 2 shows the conceptual model derived from the literature. Table 5 summarises the findings. The hypotheses testing were conducted on the outsourced HR functions only namely training, recruitment, payroll and HR information system. Overall, the data of the study fit the model well. The results of the fit are as the following: $c^2 = 4.219$, $p > 0.01$, $GFI = 0.993$, $TLI = 0.912$, $CFI = 0.994$ and $RMSEA = 0.060$.

From Table 5, expansion HRM strategy was significantly associated with outsourcing of training ($p \leq 0.001$), recruitment ($p \leq 0.1$), payroll ($p \leq 0.01$) and HRIS ($p \leq 0.001$). For H2, quality conscious HRM strategy was found to have a negative significant relationship with outsourcing payroll ($p \leq 0.1$) and HRIS ($p \leq 0.05$) functions. As for H3, cost efficiency HRM strategy was only significantly related to outsourcing of recruitment functions ($p \leq 0.001$) but in different direction. The results interpret that organisations outsource only small portions of these functions when they pursue cost efficiency HRM strategy. In this case these organisations anticipate that the external vendors could not provide suitable candidates for the organisations since they do not understand well the culture of the organisations. Besides, organisations should foresee the danger of losing internal experts by engaging with outsourcing and thus, it is crucial for them to maintain at least a minimal level of in-house recruitment expertise as protection.

For H5, conventional HRM strategy was found to be negatively related to outsourcing training

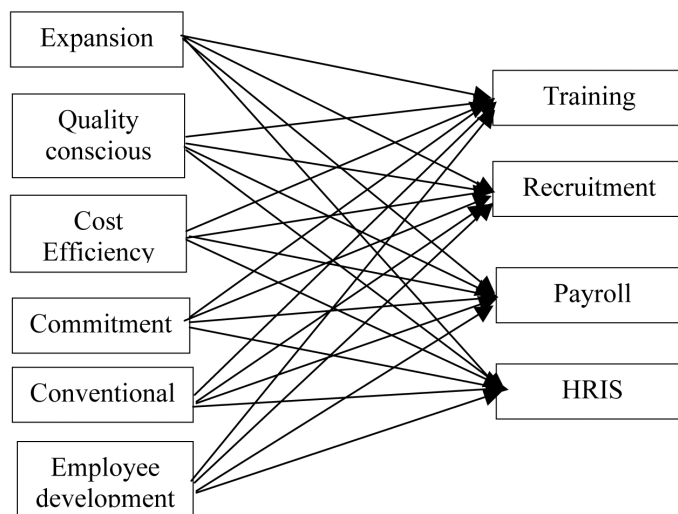


FIGURE 2. Model of the study

TABLE 5. Results of hypotheses

Hypothesis	Direction	S.E.	b	Support
H1	Expansion ® training	0.136	0.352	Yes***
	Expansion ® recruitment	0.132	0.185	Yes†
	Expansion ® payroll	0.147	0.299	Yes**
	Expansion ® HRIS	0.107	0.370	Yes***
H2	Quality conscious ® training	0.166	-0.127	No
	Quality conscious ® recruitment	0.160	0.067	No
	Quality conscious ® payroll	0.178	-0.198	Yes†
	Quality conscious ® HRIS	0.130	-0.295	Yes*
H3	Cost efficiency ® training	0.149	-0.059	No
	Cost efficiency ® recruitment	0.144	-0.438	Yes***
	Cost efficiency ® payroll	0.160	-0.143	No
	Cost efficiency ® HRIS	0.116	-0.039	No
H4	Commitment ® training	0.147	-0.246	Yes*
	Commitment ® recruitment	0.142	-0.077	No
	Commitment ® payroll	0.159	-0.287	Yes**
	Commitment ® HRIS	0.115	-0.087	No
H5	Conventional® training	0.134	-0.207	Yes*
	Conventional ® recruitment	0.139	-0.047	No
	Conventional® payroll	0.144	0.074	No
	Conventional ® HRIS	0.105	0.069	No
H6	Employee development ® training	0.105	0.050	No
	Employee development ® recruitment	0.101	-0.095	No
	Employee development® payroll	0.113	0.038	No
	Employee development ® HRIS	0.082	0.139	No

Note: (1)β is standardised regression weights and SE is standard error (2) Significance levels: *** = $p < 0.001$, ** = $p < 0.01$, * $p < 0.05$, † $p < 0.1$

HR functions ($p \leq 0.05$). This is consistent with the prediction in which traditional organisations do not value and appreciate the contribution of the employees and consider outsourcing strategy is inappropriate for their organisations. Thus, the results showed that these types of organisations were unlikely to rely heavily on outsourcing strategy. Conversely, H6 was not supported in which employee development HRM strategy was found not to have significant relationship with any outsourcing HR functions.

DISCUSSION AND IMPLICATIONS

The rapid growth of HR outsourcing exemplifies that for many organisations the decision to either 'make' or 'buy' HR functions swings toward the latter. Hence, it is pivotal for the researchers to give

attention on the factors that trigger the decision to outsource HR functions. This study has provided a significant step in this direction by examining the predictors to HR outsourcing. In addition, this study takes a first step towards a better understanding on the antecedents of HR outsourcing among manufacturing organisations in Malaysia.

Past research concentrates mostly on the reasons and risks towards HR outsourcing. Consistent with the idea in which outsourcing different HR functions may have different determinants, prior research indicates that no universal factors influencing outsourcing different types of HR functions can be found (Wahrenburg *et al.* 2006). Therefore this research attempts to investigate the factors that influence HR outsourcing namely HRM strategy. This is not shocking as HRM strategy is designed for the whole HR departments' functions. The findings indicate

that expansion HRM strategies were significantly related to outsourcing training, recruitment, payroll and HRIS functions. However, quality conscious HRM strategy was significantly associated to outsourcing payroll and HRIS functions. Cost efficiency HRM strategy was significantly related to outsourcing recruitment functions only. Moreover, commitment HRM strategy was significantly related to outsourcing training and payroll functions. While conventional HRM strategy was only related to outsourcing training functions. Finally, employee development showed no significant relationship with outsourcing of any HR functions.

Although most of the different types of HRM strategy predict the decision on the degree of outsourcing the HR functions, not all types of HRM strategies signify the relationship with HR outsourcing. There are some possible explanations for these findings. Firstly, the preferences of the HR manager of some organisations may have formal influence on the outsourcing decision. For example, some HR managers may favour a certain function and want it to stay in-house. That function is less likely to be outsourced than one that does not have the manager's preference. Secondly, the degree on HR outsourcing would probably be based on the organisational politics. Some organisations make the decision to outsource to get rid of a troublesome HR function such as one when employees are underperforming as well as for functions which are difficult to manage or are out of control. As a result, the disturbance and difficulties in performing these functions are transferred to the external vendors.

Moreover, the making of the outsourcing decisions require proper estimating of the cost of performing the HR functions, and any associated opportunity costs (Kee & Robbins 2003). Cost pertains to not only contract price but also monitoring financial and technical expenses (Prager 1994). Organisations tend to outsource if the service providers are able to beat the overall process costs incurred by the organisations. Thus, the total outsourcing contract is very important for the organisations to make the outsourcing decision. Finally, there is a wide range of outsourcing arrangements: from short-term contracts to full ownership of and, or, a merger between service purchasers and service providers (Bensaou 1999). The relationship between two parties in a market transaction must have overlapping motives in order to enter into, develop and maintain a relationship

(Dyer 1997). This shows that organisations must focus on this situation and not solely conclude that HRM strategy as the only predictor for HR outsourcing.

CONTRIBUTION OF THE STUDY

THEORETICAL CONTRIBUTIONS

This study contributes by proposing HRM strategy as the determinants to HR outsourcing. The rationale is that when organisations differ in how they operate and compete, there are likely to be dependent on their strategies that place greater influence on the importance of certain HR functions. Therefore, it highlights the notion that organisational decision on HR outsourcing is likely to be influenced by the HRM strategies. As a result, the application of HRM strategies into the theoretical relationship is expected to provide significant contributions to the HR outsourcing literature particularly TCE and resourced based view. This study adds to TCE in which HRM strategy were found to influence the organisations' decision on whether a transaction should be governed inside the organisation or outsourced to external vendors. Likewise, this study provides support to resource based view where core HR functions such as HR planning is placed internally, whereas some other functions such as payroll and recruitment are outsourced to external vendors.

MANAGERIAL CONTRIBUTIONS

Four important implications for HR managers can be derived from this study. Firstly, this study offers to assist the HR managers to understand the concept of HR outsourcing and to guide them on what conditions the HR outsourcing is most desired. HR outsourcing is a potentially strong instrument for organisations attempting to empower their HR function. Outsourcing of non-core HR functions such as payroll an HR information system allows HR managers to focus on strategic activities that add more value. As the result, the arguments derived from transaction cost economics and resource-based theory, would have led this study to expect that HR outsourcing would have enhanced the core competence of the HR employees.

Secondly, the exercise of HR outsourcing may have actually increased costs for the HR functions in terms of the need for further development or

replacement of retained HR employees. Organisations with expansion HRM strategy outsource higher degree of most of their HR functions such as training, recruitment and payroll, hence this study showed that it would be difficult to reassign the HR employees that remained within the organisation to higher value-added work. In fact de-skilling, job enlargement, new skill shortages and disappearance of expertise might occur.

In addition, HR managers are re-evaluating the delivery of HR functions. There are many alternative delivery mechanisms that remove the delivery of HR practices from HR department (Lepak *et al.* 2005). HR outsourcing is not the only option available. There is also some evidence that a large number of HR functions are shifted to line management (Larsen & Brewster 2003). For HR managers it is important to scrutinise these alternatives delivery mechanism, to weigh their pros and cons and to select the mechanism that match the HRM strategy of the organisations. Furthermore, the findings indicated that organisations with expansion, quality conscious and commitment strategy tend to outsource higher degree of non-core HR functions. Thus, the drastic cuts in HR employees engaged in basic administration roles, had also added to problems of morale and motivation. The difficulty of handling the higher management expectations of line managers also showed that the role of 'employee champion' was perceived to be a complicated and uncomfortable one for many HR employees.

Finally, the findings of this study are also important in order to decide on which HR functions are frequently outsourced among manufacturing organisations in Malaysia. Based on the results, majority of the organisations actually find outsourcing recruitment and training are among the best option compared to other functions such as HRIS and payroll. The study also found that none of the organisations outsourced strategic HR functions. Therefore, with this information, HR managers should be attentive of potential HR functions to be outsourced.

LIMITATION AND FUTURE RESEARCH

This study is not without limitations. Firstly, the generalizability of this study's findings may be limited to size and years of experiences of the organisations. Thus, future research should attempt to gather information from the organisations regardless of the size of employees and the years of establishment. It would be interesting if future study could generate the scenario of HR outsourcing among small organisations.

Secondly, the respondents of this study are from the manufacturers, thus generalising the findings to service organisations may be difficult. It is possible that the pattern of outsourcing may be different for service organisations than it is for manufacturers, because service industries are characterised by less tangible outputs and simultaneous consumption and production (Boddewyn, Halbrich & Perry 1986). Future studies should therefore allow for generalisations regarding this subject and must cover service organisations in different sizes and sectors. Third, the findings are based on cross-sectional self reports to a survey. Both independent and outcome variables were gathered with the same survey. As level of HR outsourcing can evolve over time, it is essential to use longitudinal data in future.

Fourthly, the dependent measures were single-item measure. Although these measures asked about factual information and rely on direct measures for quantifiable dimensions, this study acknowledges the provisional nature of these measures. The measurement error present might have contributed to the lack of significant relationships found for some dependent measures (the degree of HR outsourcing).

Finally, this study did not focus on the consequences of HR outsourcing on organisational performance and HR performance. For example, very few empirical studies have examined the impact of HR outsourcing on the organisations of the HR functions. Perhaps, future research should focus on financial metrics to provide objective evaluation of performance. Indicators such as productivity, cost savings or reduction in overhead costs might be very interesting. In addition, future studies should also examine the consequences of HR outsourcing on HR performance such as turnover rate, absenteeism, employee morale and other HR effectiveness measures.

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