

# IMPACT OF HUMAN RESOURCE FUNCTION OUTSOURCING ON ORGANIZATIONAL PERFORMANCE

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**Abstract** — This research is to investigate the impact of human resource function outsourcing on the organizational performance. The aim of research is to broaden the picture of my research in the area of human resource function outsourcing, and investigate the benefit of outsourcing to the Small and Medium Enterprise in Malaysia. The purpose of research is to identify the factors of influencing human resource outsourcing and the impact on the organizational's performance due to the small companies that might not get noticed much in big studies of outsourcing trends, turn to the outside services to help with such chores. The research framework is divided 3groups, which are HR function outsourcing decision, environmental factors and Human resource performance. The HR function decision area is involved before adopting the outsourcing, which is transaction cost, HR strategy, internal resource availability, improve company focus, knowledge and legal regulation. The environmental factor is the to moderating factors which is organizational culture, organizational commitment, organizational size, organizational change, and technology change. This research focus on the human resource department in the company which have adopted this strategy, so the manager is the respondent to fill up the survey form. Data collected by using interview method and coded it in NVIVO software.

**Keywords**— human resources function, outsourcing decision, environmental factors, organizational performance

## I. Introduction

Malaysia has the great potential to be outsourcing industry country (Outsourcing Malaysia report, 2012). The appearance of human resource outsourcing in Malaysia is a trend of phenomena especially in the manufacturing sector and government start to emphasis on human resource management to the manufacturing sector. IT and communication is rapid changes in Malaysia, so developing human resource in this

sector is a fundamental task because it needs to prepare the capable and skilled employees to handle the current challenges. Such a rapid changes in Malaysia represent that Malaysia is in the competitive condition. The outsourcing strategy is a strategic tool that used by company in a competitive environmental [1]. Outsourcing is a widespread activity and it is become common and accepted by business practice [2]. Based on the [3], outsource the human resource activities is one of many ways to improve organization's efficiency, reduce the wastage of human resource and also maximize the human resource in strategic way to achieve organization's goal.

Based on the [1], many organization realised that the importance of outsourcing that can expand the organization operation and the organization have more time to focus on the strategic planning in the core competencies. The company also can reduce to hire specialized staff and labor cost, thereby can cut the processing time. Organization are downsizing the human resource and reducing the employee's number so that it is not too heavy. Outsourcing is the way to delayer bureaucracies problem and many human resource functions are outsourced. It bring effectiveness and focus on the core activities [4]. Based on the investigation of CIPD Company (the Chartered Institute of Personnel and Development), the outcome of the outsourcing will impact on the role and position of human resource functions.

In this research show that outsourcing include cost reduction and strategic shift, both of them are outsourcing drivers and consideration decision area. Decision making is important step [5] because it will bring financial impact to the implementation of human resource outsourcing [6] and the human resource management. Nowadays organization not only depend on cost reduction as a factor to influences the decision making of adopting outsourcing, strategic consideration also is one of the important factor to influences the decision making.

Core	Non-core
Skills specifics to the company	Generic skill requirements
Limited labour supply	Minimal supply restriction
Hard to define task	Well define but limited task
Activity which are well integrated	Job easily separated from other work
Easy to fund work	Resource intensive (in financial term)
Stable work demand	Fluctuating work demand
Mature technology	Subject to rapid technology change

Table: Difference between core and non core activities [10]

The effect of human resource function outsourcing is to play a significant organization efficiency to attract theoretician and practitioner interest. The small companies that might not get noticed much in big studies of outsourcing trends, turn to outside services to help with such chores [7]. [8] mentioned that the researcher can guess that many small organization is refuse to implement outsourcing as a strategy that they fear of losing control [1].

The objectives of this research are investigate the factors that affect the organization's decision to adopt human resource outsourcing and to investigate the influences of adopting human resource outsourcing on organization performance.

The scope of this research is in the human resource department of company. Human resource department's manager is the respondent that need to accept the interview researcher need to the questionnaire will distributed to companies which are using human resource outsourcing, then focus on the human resource's manager of companies which is located in Malaysia. This research is very important because it provide the information of the factor that will impact the Human Resource outsourcing decision in the companies. It would be worthwhile to devote more attention in the topic in the future of research. In this research, researcher also investigated the benefit and factor of decision to influence Human Resource outsourcing that apply in the independent company that want to outsource in Malaysia. Besides that, the researcher also can learn a lot of knowledge in this field through collecting data and the information from some reference books.

## II. Literature review

Human resource functions is the task or duties performed in the company are for the purpose of coordinating human resource. The human resource functions in the human resource department is human resource planning and selection, human resource development, compensation and benefit, safety and health, employee and labour relations and human resource research [9]. Human resource function is divided into 2 groups, which is strategic and functional. Strategic human resource is focus on long term goal. Functional human resource is related to day to day task and the process is needed to settle everyday in order to make the organization process become smooth.

Human resource department will based on some decision area to make decision before adopting outsourcing. The first is transaction cost Outsourcing is likely happen when transaction cost is low and the institutional forces pushing organization to adopt outsourcing [11]. Transaction cost theory is not only apply for the purpose of cost reduction, but also is measuring the presence and future cost of outsourcing.

Second is human resource strategy. Outsourcing is focus on long term planning, it is freeing up in house staff and focus on strategic staffing issues. HR department is able to focus on the core activities and value added task to achieve long-term planning by outsource the non-core task. The purpose is minimising the HR workload, reducing bureaucracy and focus on core competencies. It also provide organization have more time and resource to focus on competitive advantage. Besides that, consultants have a such finding as outsource human resource functions can broaden the business experience [11].

The third one is internal resource availability. Outsourcing is the strategic way to fill the gap in the firm resource and capability, organization decision when internal resource is lacking [5]. Resource based view (RBV) theory is support organization to focus on the resource from the non-core activities. The capacity of the resource is limited and cause resource constraint if too focus on the non-core task. Outsourcing able free up the resource to core activities to gain competitiveness advantage.

The fourth is improved company focus. Based on the [12], the most sustainable competitive advantage is strategic focus. Outsourcing is support the organization to focus on scarce resources on the core activities. Outsourcing is also allow organization to focus on new product development and in the exploring new segment in the market and reap the profit [13].

The fifth is knowledge. Outsourcing is able to help organization to access new knowledge due to the limited expertise human resource area. It is a established tool and support infrastructure.

The sixth is legal regulation and law. Based on [14], outsource has the outsourcing planning with the legal rules support because they are familiar with the rules and regulation, assist the organization reduce the risk. It protect organization to repeat unnecessary mistake. It reduce legal liability or risk of management.

Environmental factors such as organizational culture, commitment, size, change and technology change are the moderate factors to influences the decision making in the outsourcing. The first is Organization culture. Organization culture has the capability to assimilate the daily work of the employees to reach the goal of the company and assist the employees to face the external rapid change of the company in order to help them have a right response

The second is Organization commitment. If outsourcing gets success, the enterprise will make long term relationship with service provider based on the lower transaction cost [6].

The third is Organization size. According to transaction cost theory, the small company is not necessary to invest too heavy in handling the human resource task. Outsourcing is adopted because of reduce bureaucracy in the organization,

in order to channel the resource to the right and strategic area to achieve goal [11].

Then is the organizational change. Organization change is the period that transitioning process from current state to another desire state, it is replacing the undesired state [15]. Human resource is taking part in the organization change and also as a factor of success change, outsourcing can make the employee specialize their job scope, so that can be more focus on the main core [16].

The last one is technology change. Technology change can deliver real benefit in the sense of safety, cost efficiency, service of quality improvement, economic and political. Based on the [17] mentioned that technology system is a factor of motivate organization outsource the human resource function. It is greatest need to save cost and greater demand to develop the production's technology, nowadays their operation and production is technology drive.

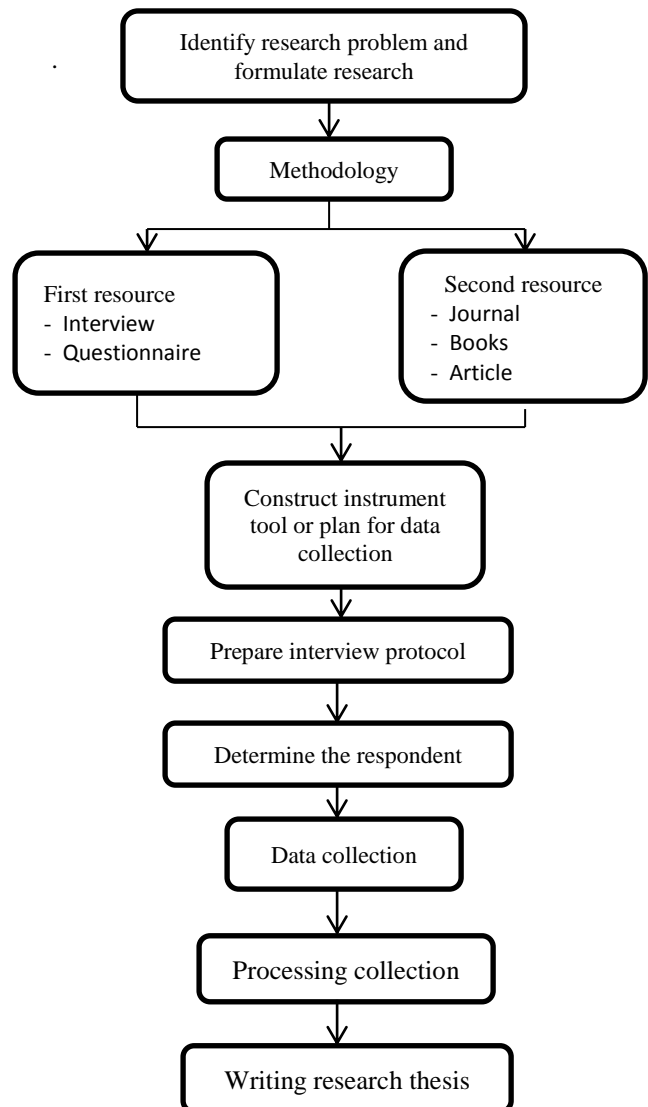
There have some advantages of the human resource outsourcing. Cost saving and reduction the operation cost of organization. Human resource outsourcing able to outsource their human resource activities to outsiders who are more expert in this area, then it can directly save operation cost, because the organization may use many manpower but not very expert in this area to handle it, if it just directly pass to professional to handle and it will reduce the certainty cost [19]. Release the organization to focus on core activities is the another advantage. Based on the research of [19] human resource outsourcing is can assist organization to achieve their goal because they no need spend much time to do the trifle work work and can focus on market competency, making profit in their main goal. The organization is able to focus their core activities which are related to upgrade the performance of organization such as planning, development and others. Improved quality of human resource activity. Human resource outsourcing is able to improve high quality of their human resource activities. It also can provide specialize service for human resource department, because the professional service and consultation advice of human resource activity is provided [19]

There have a few of the measurements to evaluation of organization's performance. Cost optimization (reduction cost) will happen with the delivery of human resource service, for example outsourcing [20], it is aim to reduce the business cost while sustaining the service level. It is a way to drive grow. The second measurement is effective of human resource management. After outsource non-core task, the human resource department can more focus on core value and strategic activities. The employee no need to handle the repeated job, it will beneficial and smooth for the human resource management. The key to have effective human resource management is have a long term's plan in nature [21]. Productivity of human resource employee is one of the measurement. Based on the [21] new human resource management practise is slowly to replace traditional practise to improve the employee productivity. Attitude of employee is the indication of an organization develops a positive and conduction environment to let employees to work happily and satisfied, because it will affect atmosphere in the office and employee productivity [22].

The relationship between human resource outsourcing and organization performance [18] have analysed relationship between HR outsourcing and organizational performance in manufacturing companies. The conclusion is outsource of certain HR activities has a positive impact on overall innovation within the company. Decision making is outsourcing decision is weighting up the benefit and risk. [23] said that strategic and operational should be considered in the making decision.

### III. Methodology

This research is focusing on the identification the factors to influence the decision making of adopting outsourcing in the company. So the semi-structured interview will be used in this research in order to collect more and depth details from the respondents. The research problem is that the researcher many small organizations is refuse to implement outsourcing as a strategy that they fear of losing control [8] and the small companies that might not get noticed much in big studies of outsourcing trends, turn to outside services to help with such chores. This research is help SME to see the importance of the human resource outsourcing and it is worthy to apply in the human resource department.

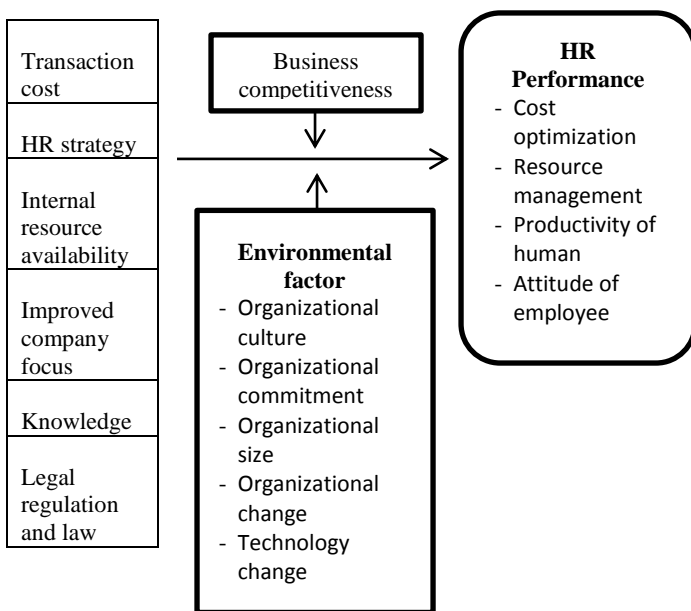


Developing interview protocol is necessary before conduct interview. Structure interview protocol can provide the effectiveness of interviewing [25]. Interview is a powerful and excellent tool to gather data and the information is rich because researchers can ask for more details.

The respondents is focus on the company in Malaysia which is adopting the human resource function outsourcing, the sectors involved is chemical, general industrial, pharmaceuticals, manufacturing, snacks, fast moving consuming goods and etc. researcher needs to go the respective because those respondents are the most experience and decision maker in human resource department.

After collect the data from interview, NVIVO been suggested to use in the analyzing data. The data need to code and transcript. When coding in NVIVO, it places pointers to the extracts selected to be coded, according to source, whose content is being coded, and the node at which reference is placed to the relevant material (Richard, 2006). The second is content analyzing, NVIVO is mainly used to facilitate indexing and studying the pattern of relationship between the set of categories.

#### HR function outsourcing decision



## IV. Discussion

Decision making is the first step on any implementation of Human resource start, so it is playing an important role because it will bring great impact to the company. The study found that cost reduction is not the main motivation to drive the decision of adopting outsourcing, but resource factors, service quality, employee skills, and attitude of employee is also the consideration in the decision making. The decision of outsourcing is made based on the few areas, which is transaction cost, Human resource strategy, internal resource availability, improved company focus, knowledge and legal regulation and law. Transaction cost is not only reducing the cost and expenditure, but it also includes gain benefit from the human resource department, if the decision is feasible then it will bring the benefit and revenue, gaining commercial

revenue from human resource [6] [11]. Outsourcing can reduce legal risk due to their company do not have enough specialist to handle the legal work for the human resource.

When making Human resource outsourcing decision, internal and external environmental factors should be considered [6]. For establish a good culture in the working place can boost up the employees' enthusiasm and motivation for work. Organizational size is big scale is not a good sign at all, even thou it bring scale effect. According management margin, it should be appropriate in the size. If not the business risk will be increased in the daily operation due to the complicated of management. Organizational change is one of the factors to motivate company to adopt outsourcing since that human resource department need to adjust the human capacity to focus in the core activities [11]. From the literature review found that some decisions are interrelated, or some decisions are influenced by environmental factors, such as internal resource availability and improved company focus.

Some discussion of this research need to discuss, which is whether the internal and external business environment suitable for Human resource outsourcing?

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