

Embarking on HR Outsourcing – Do Organizational Size and Maturity Level Matter?

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ABSTRACT

This paper examines whether, in the context of a fast emerging economy like Malaysia, firm size and maturity influence the decision to outsource Human Resource (HR) functions. Towards this end, a survey was conducted among the heads of HR Departments of manufacturing organizations in Malaysia. Based on the statistical tests conducted on their inputs, it appears that HR outsourcing preference is influenced by the firm's size, whereas the impact of its years of operation is inconclusive. Of the functions outsourced, recruitment and training appear to be most prevalent as compared to other functions like HR information systems and payroll.

Keywords: Human resource management, outsourcing

INTRODUCTION

Outsourcing can be defined as the transfer of a function previously performed internally to an external provider (Domberger, 1998; Finlay and King, 1999). Many organizations realise the importance of outsourcing and are beginning to expand this practice to many of their business operations. In fact, outsourcing has encompassed a wide spectrum of activities, from manufacturing operations (Dekkers, 2000) to research and development (Quinn, 2000), logistics (Boyson, Corsi, Dresner, and Rabinovich, 1999), information technology (Lacity and Willcocks, 1998), human resource management (Lever, 1997) and accounting (Switzer, 1997). This preponderance indicates that outsourcing is becoming a common practice among organizations and that it is used widely in a variety of business activities (Lever, 1997).

The outsourcing of HR activities has been lauded as one of the strategic tools available to firms in a competitive environment (Stewart, 1996; Jamrog, Groe, and Pyle, 1997). Its popularity is fast gaining ground due, in great measure, to the need

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for the HR department to play a much more strategic role in the firm (Ulrich, 1996). Today's HR managers are expected to shed their traditional roles associated with policies and procedures; and the hiring, selecting, training and compensating of workforce, for more strategic roles that include improving customer's perception of quality, reducing overall costs of HR administration and the managing of scarce resources (Marinaccio, 1994). It is in response to this shift in paradigm that many HR managers are now outsourcing their more conventional functions (Cook, 1999; Davidson, 1998).

As opposed to internal procurement where the HR functions are performed by the employees of the organizations, outsourcing contracts out parts or the whole of the HR functions to external vendors or service providers (Adler, 2003; Patry, Tremblay, Lanoie and Lacombe, 1999). It encompasses many different commercial relations stretching from outsourcing only routine and repetitive HR functions, such as payroll and benefits, to the more elaborate arrangement where recruitment, training and even HR strategic planning are given to outside providers (Patry *et al.*, 1999; Klaas, McClendon and Gainey, 1999).

The subject of HR outsourcing is well taken up in many academic literatures. 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 organizations. That is, organizations may seek lower costs by transacting with external vendors rather than building internal resources in executing the HR functions. Nonetheless, specific empirical research on the relationship of firm size and years of establishment and outsourcing decision is scarce (Arbaugh, 2003; Delmotte and Sels, 2009). In fact, much of extant research investigate the different aspects of managerial motivation, service providers, advantages, risks and how outsourcing affects organizations (e.g. Greer, Youngblood and Gray, 1999; Lever, 1997; Laabs, 1993; Klaas, McClendon and Gainey, 2001). Furthermore, such an inquiry coming out from an emerging economy, such as Malaysia, is even more limited (Khong, 2005). In fact, In Malaysia, study conducted by Abdul-Halim and Che-Ha (2008) only focused on trends in HR outsourcing and the impact of size on outsourcing.

The emergence of HR outsourcing in Malaysia is becoming a phenomenon particularly in the manufacturing sector. 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. Malaysia has a strong, open economy and the government is committed to

international competitiveness in terms of trade and investment. This is being achieved through skills upgrading, management and organizational excellence and more intensive R&D efforts.

Recognizing that information and communication technologies are fast changing the face of international trade, resource flows and competition, Malaysian manufacturing organizations 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 organizations are relegated to outsourcing.

It is no secret that in manufacturing, organizations 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 and Rasheed, 2004). This is because examining the organization's HR and administrative activities might not be an obvious avenue to explore when looking to boost manufacturing productivity.

Recently, many manufacturing organizations are using professional employer organizations (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 organizations in Malaysia (Zenith Services, 2006). These organizations are turning to outside providers to do their payroll, benefits and administrative activities in order to improve their effectiveness.

To remain competitive in the global marketplace, more and more manufacturing organizations 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 organizations in the country.

It was with these considerations in mind, that this study was undertaken. The crux of this study is couched in the following questions:

- What is the impact of firm size and maturity on the decision to outsource HR functions?
- What HR functions are outsourced and which are outsourced most frequently?
- Why do manufacturing organizations outsource?
- What experiences do manufacturing organizations encounter when outsourcing?
- Why do organizations refuse to outsource their HR functions?

To deliberate on the above points, we will first discuss the concepts relating to HR outsourcing, then the methodology and results of statistical tests, and finally, the lessons and conclusion.

TRENDS IN HR OUTSOURCING

There is overwhelming evidence to show that HR outsourcing is on the increase over the last decade despite various difficulties (Andersen, 1996; Harkins, Brown and Sullivan, 1995). A survey conducted by the Bureau of National Affairs in 2004 (in Lilly, Gray and Virick, 2005), for instance, found 67% of the respondents outsourced one or more HR functions. Another survey, called “The Cranet Survey,” (in Cooke *et al.*, 2005) found a 97% use of external providers for at least one HR function.

A study by Lever (1997) indicated that 75% and 65% of the organizations surveyed outsourced benefits administration and training respectively. Payroll at 62% was the next popular function to be outsourced, followed by recruitment at 50%. Other outsourced functions comprised of HR information systems (30%) and compensation (17%). None of the respondents outsourced strategic HR functions. A survey by Smith *et al.* (2006) showed that 68% of the organizations outsourced recruitment, 61% human resource information, 56% training and 49% benefits administration.

HR OUTSOURCING AND ORGANIZATIONAL SIZE

Size of an organization is a factor that can influence the decision to embark on HR outsourcing (Arbaugh, 2003). Several researchers have argued that smaller organizations in particular have a greater need of external expertise due to their limited scale (e.g. Gilley *et al.*, 2004; Klaas, 2003). Indeed, small organizations often lack the required economies of scale to build an effective HR system using internal resources (Heneman, Tansky and Camp, 2000). Unlike larger organizations which can afford to design and implement sophisticated HR functions in house, smaller organizations with meager resources will incur prohibitive costs if they do so (Robinson, 1982). Hence, it is argued that small organizations will outsource their HR functions in order to procure the required expertise.

Even so, outsourcing is also common in larger organizations that want to reduce organizational costs within functional activities (Bettis *et al.*, 1992). In fact, some researchers showed that larger organizations outsource more than smaller ones (Klaas *et al.*, 2001; Delmotte and Sels, 2008). Small businesses are inherently flexible and nimble; they are specialists in what they do and they do it with great passion. When they outsource their activities, they are more driven by lack of access to the types of know-how, technologies, capital, economies of scale and other resources that the bigger organizations enjoy. The power of outsourcing for them is not so much in redefining and reorganising operations for speed and efficiency as

it is in enabling them to gain increased leverage for what they are already good at (Corbett, 2001). The reverse, however, is true of big businesses. As a result, large organizations increasingly outsource their HR functions to external organizations. Based on the above arguments, it is proposed that:

P1: Large organizations outsource HR functions more than smaller organizations.

HR OUTSOURCING AND ORGANIZATIONAL MATURITY

Opinions differ on whether the maturity level of organizations impinge on decisions relating to outsourcing of HR functions (Delmotte and Sels, 2008; Arbaugh, 2003). Delmotte and Sels (2008), for example, felt that the question of outsourcing has no significant relation to the maturity level of the organizations. Arbaugh (2003), on the other hand, argued the reverse. According to a study by Gilley *et al.*, (2004), mature organizations were shown to be more inclined towards HR outsourcing. It was also argued that newly established organizations are still in the process of establishing routines (Nelson and Winter, 1982) and hence lack competitive advantage (Eisenhardt and Martin, 2000). It is therefore difficult for them to determine which functions are necessary to support the organization. As a result, outsourcing decisions for these organizations would likely be premature and could result in the destruction of capabilities (Arbaugh, 2003). Based on these arguments, it is proposed that:

P2: Mature organizations outsource HR functions more than young organizations.

METHODOLOGY

Data Collection

Data gathered for this study were mainly from survey questionnaires. This study focused on manufacturing organizations operating in Malaysia. As mentioned in the introduction section, manufacturing organizations in Malaysia is seen as the primary propeller of growth. Manufacturing, which accounted for 31.6% of GDP in 2005, remains the largest export earner for the country (Ministry of Finance, 2006). This study is motivated by the fact that Malaysia's heavy dependence on agricultural has been shifted to manufacturing sector (Al Shalabi, Omar, and Rundquist, 2007) and this sector has not been a stranger to outsourcing HR for many years now (Sparrow, 2009). This is because manufacturing sector clearly demonstrates their dedication to managing efficient organization by building a strong HR foundation which leads to increased product quality and customer satisfaction (Zidan, 2001; Sparrow, 2009). Thus, it is very interesting to explore the scenario on HR outsourcing in Malaysian manufacturing organizations.

The mailing list was obtained from the Federation of Malaysian Manufacturers (FMM) Directory. Heads of HR departments were selected as key informants because they were deemed to be knowledgeable of the practice of HR management, organizational structure, human resource management strategy and overall performance. A total of 990 questionnaires were sent to them along with a personal letter providing a brief introduction and a general explanation of the study's intent and a postage-paid return envelop. The survey yielded a 23% response rate resulting in 232 useable responses from an eligible sample of 990 organizations. This response rate is considered satisfactory as this scenario is not different from other surveys in Malaysia, which tend to obtain a standard response of between 15-25% (Saracheck and Aziz, 1983; Othman, Abdul-Ghani and Arshad, 2001). Out of the 232 respondents, only 113 organizations outsourced at least one of their HR functions.

Although non-response bias is always a concern in survey research, the response rate is within the typical range for this type of study (e.g. Lever, 1997; Gilley, Greer and Rasheed, 2004). According to Armstrong and Overton (1977), late responders more closely resemble non-responders than do early responders. Significant differences in feedback between late responders and early responders indicate the presence of non-response bias. This study, however, found no significant differences between early and late responders on key measures.

Measurement Instruments

Respondent organizations were required to provide the outsourcing percentages of various HR functions: recruitment, training, payroll, HRIS, benefits, employee relations and HR strategic planning. The responses on these percentages were then summed up to give the overall measure of the organizations' reliance on HR outsourcing.

To understand the reasons behind the decision to outsource and the experiences that organizations encounter while on the practice, a number of questions adapted from established studies such as Elmuti's (2003) were used. An even-numbered six-point scale was used in order to avoid the clustering of responses at the neutral point. Twelve (12) questions on reasons and eight questions on experiences were used to measure organizations' adoption of HR outsourcing.

Size and maturity level of the organizations were measured based on the number of employees employed and the years of operation respectively.

Data Analysis

Statistical Package for the Social Sciences (SPSS) was used to analyze the practice of HR outsourcing. Descriptive statistics such as distribution frequency means and standard deviations were performed for each variables measured. The analysis of

variance (ANOVA) was used to test the hypotheses and to determine if perception means vary among the three levels of organizational size and maturity level.

RESULTS

Profile of the Respondents

Of the 232 respondents, 48.7% (113 respondents) claimed that they engage in some form of HR outsourcing. Table 1 shows the profile of these 113 organizations. It can be seen that most of the respondents that outsource HR functions were from the machinery and equipment industry (15%); 41% employed between 301 to 1000 employees; and 46% employed between 5 to 20 HR employees. Almost 37% of the

Table 1 Profile of the organizations that outsourced HR functions

HR outsourced organizations	Percentage
Type of industry	
Food and beverages	7.1
Textiles	8.9
Wood products	5.4
Chemical products	10.7
Rubber and plastic products	8.9
Metal products	8.0
Machinery and equipment	15.2
Electronics	14.3
Radio, TV and communication	14.3
Motor vehicles, trailers and semi-trailers	7.1
Total employees	
150 to 300 employees	26.8
301 to 1000 employees	41.1
Above 1000 employees	32.1
Total HR employees	
Below 5 employees	29.5
5 to 20 employees	46.4
Above 20 employees	24.1
Years of establishment	
Below 1980	36.6
1981 to 1990	34.8
1991 and above	28.6
The cost of HR employees	
Below RM20000	5.4
RM20000 – RM50000	7.5
RM50001 – RM100000	16.1
Above RM100000	3.6

organizations were established before 1980 and 16% incurred between RM50001 to RM100000 of yearly HR labor cost.

Descriptive analysis was performed to obtain detail information on the practices of HR outsourcing. The practices investigated include the types of HR functions outsourced, most frequently outsourced HR functions, reasons for and experiences with HR outsourcing and reasons for not engaging in HR outsourcing.

Types of human resource functions outsourced

Organizations outsource various HR functions depending on their relative importance to the overall business strategies (Stroh and Treehuboff, 2003). Table 2 summarises the various HR functions outsourced by respondents.

Table 2 Type of HR functions outsourced

HR functions outsourced	Number	Percentage
Payroll	30	26.5
Benefits	15	13.3
Training	73	64.6
Recruitment	94	83.2
HR information system	10	8.8
Public/ employee relations	12	10.6

The recruitment function records the highest percentage at 83%, followed by training at 65% and payroll at 27%. HR benefits, employee relations and HRIS lagged behind at 13%, 11% and 9% respectively. Unsurprisingly, none of the organizations outsourced strategic HR functions. The finding of this study pertaining to the recruitment function is consistent with that of Smith *et al.* (2006) where it was similarly found that a majority (68%) of the organizations outsourced that function. On training, likewise, the study by Gainey and Klaas (2002) reported a high percentage of outsourcing particularly those training functions that are closely connected to core capabilities. In most cases outsourcing led to improved training design and performance. In a 1997 study by Lever, 65% of the respondents outsourced their training functions.

Contrary to the assertion made by Greer *et al.* (1999), payroll is among the functions that are least outsourced (at 27%). In their study, Greer *et al.* had said that non core functions, such as payroll administration and benefits, are the popular candidates for outsourcing. This assertion was contested by Smith *et al.* (2006), who, in their study, suggested otherwise. Consistent with Lever (1997), HRIS is the least outsourced (at 9%).

On the outsourcing of strategic HR functions, the finding of this study is consistent with past research (e.g. Smith *et al.*, 2006; Lever, 1997) where no

respondent is recorded to have outsourced strategic HR functions such as HR planning and research on HRM.

Reasons for HR outsourcing

Organizations outsource HR functions for various reasons. Table 3 presents the means against the reasons for HR outsourcing on a six-point scale (on a scale of 1 – strongly agree to 6 – strongly disagree). Mean is used to gauge the most and the least reason for engaging in HR outsourcing (Elmuti, 2003). A lower mean signifies a higher reason for engaging in HR outsourcing. Most of the organizations outsource HR functions because they want to get access to expert services (mean = 2.71) and excellent quality (mean = 2.82). Conversely, only a few of the organizations agree that they outsource because of huge cost reduction (mean = 3.41) and because they are not being able to cope with peak periods (mean = 3.67).

Table 3 Reasons for HR outsourcing

Reasons for outsourcing	Mean	SD
Huge cost reduction	3.41	1.023
Huge quality improvement	3.38	0.985
Standard technology	3.35	0.755
Excellent reliability of services	3.10	0.982
Materials available abroad	3.34	0.951
Expert services	2.71	0.863
Capital funds available for advance operation	2.89	0.724
Basic skills	3.04	0.920
Ability to cope with peak period	3.67	1.724
Common competitive advantage	2.95	0.875
Novel ideas	2.96	0.823
Excellent quality	2.82	0.889

The finding on expert services concurs with the study done by KPMG business solution (Switzer, 1997) where 76% of the respondents were shown to outsource HR functions for the same reason. However, some other past studies indicated that cost considerations, such as the need for cost reduction, are among the top reasons why organizations outsource their HR functions (e.g. Smith *et al.*, 2006; Elmuti, 2003). This fact was not borne out by this study.

The reason for the skew towards expert services could be caused by a lack of in-house experts on the part of Malaysian firms to perform the HR functions internally. Hence, they require the assistance of external vendors to design, develop and perform the functions more effectively.

Experiences with HR outsourcing

Table 4 presents the results of the organizations' experiences with HR outsourcing.

Table 4 Experiences with HR outsourcing

Experiences with HR outsourcing	Mean	SD
High quality of work	2.73	0.707
Complete understanding of company's culture	3.48	0.803
Meet the expected delivery date	2.31	0.903
Cost efficiency	3.20	0.962
Availability of competent service providers	2.63	0.849
Consistent with plans	2.13	0.855
Follow through with the plans	1.02	0.968
Transparent expectation	2.28	0.869

It is evident that a majority of the organizations experienced a smoother execution of their plans as a result of their HR outsourcing venture (mean = 1.02). They also realised that external vendors often do not have a complete understanding of the organizations' cultures when performing the HR functions (mean = 3.48)

Reasons for not engaging in outsourcing of HR functions

Table 5 exhibits the reasons given by the organizations for not outsourcing their HR functions.

Table 5 Reasons for not outsourcing HR functions

Reasons	Number	Percentage
Unaware of HR outsourcing	15	6.5
Not relevant to companies' culture and values	39	17
Costly	82	35.3
Not appropriate for the business	171	74
Confidential	51	22

The primary reason given by respondents for not outsourcing their HR functions is its incompatibility with their business operations. This could be due to the complex nature of outsourcing engagements which could put off most managers from seriously contemplating making decisions on the matter, or it could be that the culture, values and norms of the business are too convoluted for external vendors to handle. 17% of the respondents said that HR outsourcing is not relevant to their organizations' cultures and values, and 7% were totally unaware of the practice.

The relationship between HR outsourcing and organization size

Table 6 shows the results of the one-way ANOVA test for size of the organizations and the decision to outsource.

Table 6 Results of one-way ANOVA test on size

Variable	No. of employees (Size)	N	Mean	F	Sig.	Diff
HR Outsourcing	150 to 300 (a)	30	30.28	9.032	0.000*	c > a,b b > a
	301 to 1000 (b)	46	40.76			
	Above 1000 (c)	37	51.93			

*significant at 0.01 level

Diff – the differences were based on Tukey post hoc test: a-150 to 300 employees; b- 301 to 1000 employees; and c- above 1000 employees

The readings above indicate that firm size as defined by the number of employees is a significant determinant of whether a firm does HR outsourcing or not (F=9.032, p=0.000). Organizations with more than 1000 employees have higher mean scores. Based on the Tukey post hoc test, means are significantly different between organizations with above 1000 employees and those organizations with 301 to 1000 and 150 to 300 employees. There is no significant difference between organizations with employees between 150 to 300 and 301 to 1000. These readings indicate that larger organizations tend to engage in HR outsourcing, thus justifying the postulation that organization size is a significant influencing factor on the decision to outsource HR functions. This finding is consistent with Delmotte and Sels (2008) and Klaas *et al.* (2001) where it was found that the larger the organization, the higher is the level of HR outsourcing.

The relationship between HR outsourcing and organizational maturity

The results of the one-way ANOVA test for organizational maturity and the decision to outsource HR functions are exhibited in Table 7.

Table 7 Results of one-way ANOVA test on maturity

Variable	Years	N	Mean	F	Sig.	Diff
HR Outsourcing	Below 1980 (a)	41	42.51	0.687	0.505	c > a,b a > b
	1981 to 1990 (b)	40	38.48			
	Above 1990 (c)	32	44.45			

Diff – the differences were based on Tukey post hoc test: a-below 1980; b- 1981 to 1990; and c- above 1990

The results of the one-way ANOVA test on maturity show that there is no significant difference among the three groups of respondents, thus implying that organizational maturity does not exert much influence on the decision to outsource HR functions. This finding is consistent with Delmotte and Sels (2008).

DISCUSSION

This study explores the practice of HR outsourcing with Malaysian companies used as a case example. It indicates that half of the 232 respondents (113 organizations) are currently on this practice. Despite the low number, it is still acceptable since the concept of HR outsourcing is still relatively new in Asia, including Malaysia (Hewitt Association, 2003).

The statistical results show that recruitment is by far the most popular activity to be outsourced (83%), followed by training (65%). Other activities outsourced are payroll (27%), benefits administration (13%), employee relations (11%) and HRIS (9%). No strategic HR functions are outsourced. This finding is consistent with the argument that core functions are generally performed internally, whereas non core functions are offloaded to external vendors (e.g. Lever, 1997; Smith, *et al.*, 2006).

We postulate that the trend seen in recruitment and training is driven by the existence of external training specialists that can deliver well designed training programs as well as external experts in head hunting. Another reason could be due to the inherent nature of these two functions that tends to change too quickly for internal departments to keep pace with. A viable outlet for such a scenario would then be to approach specialized vendors for help.

As for payroll and HRIS, the ultimate reason for performing most of these functions in-house is the need to maintain confidentiality and the wariness over privacy issues (Stroh and Treehuboff, 2003; Hewitt Association, 2006). Moreover, the growing complexity of compliance requirements in areas of benefits, HRIS and compensations makes these activities less attractive for external vendors. This situation may also imply that it will take a much longer time for organizations in Asia to build trust and confidence in external vendors, thereby extending the period from the initial contract to an ongoing relationship (Hewitt Association, 2006). Another reason that could account for the lack of interest to outsource these functions is their positive correlation with risk issues such as unpredictable staffing needs, changing practices and procedures (Lever, 1997; Conklin, 2005). If these functions are heavily outsourced, organizations may face difficulties in other areas of HR due to communication and coordination problems.

The primary reason for engaging in HR outsourcing is the desire to get access to expert services as well as to capitalize on the excellent quality that external vendors provide in performing the HR functions. Contrary to expectation, cost efficiency is not a primary reason why companies engage in outsourcing. This finding implies that lower cost alone is insufficient to differentiate one vendor from another in a

competitive HR market. On the contrary, as HR departments are pushed to add more value to meet the overall business goals, they require vendors who are more adaptive to their needs and who can be relied upon to deliver excellent services.

This study reveals that the primary reason for non-acceptance of HR outsourcing is its incompatibility with the business operations. The nature of the culture, values and norms as practiced by the organizations may make it difficult or well nigh impossible for external vendors to grasp. Cost consideration is yet another reason why some companies choose not to engage external vendors to do their HR functions. Apart from these two reasons, organizations are also concerned with the confidentiality of their data. They are concerned that their data might be manipulated or misused by the external vendors. Of the different types of organizations, those from the engineering and information technology sectors are the most advanced in HR outsourcing practice (Arnold, 2000; Wahrenburg *et al.*, 2006). This is not surprising given that these sectors were among the earliest to embark on outsourcing. Lack of in-house expertise and the need for high investments in software and advanced technology make these organizations turn to external vendors.

Contrary to the findings of Gilley *et al.* (2004) and Klaas (2003), outsourcing is commonly practiced among large Malaysian manufacturing organizations. This finding is consistent with Delmotte and Sels (2008) and Klaas *et al.* (2001). We can postulate that the refusal by many small organizations to embrace outsourcing as a strategy could be due to their fear of losing control. Accustomed to directly managing the people, processes and technologies that make up their operations, the notion of moving some of their HR functions to external vendors may very well be a hash concept for most of them to embrace. The rewards of overcoming this fear, however, can be well worth the effort.

Another important finding of this study is with regards to organizational maturity. It is found that the level of maturity as reflected in the number of years of operations has little impact on the decision to outsource HR functions.

Contribution of the Study

Theoretical contribution

This study contributes to the literature by examining the impact of size and maturity level of the manufacturing organizations on the decision to outsource HR functions in the context of Malaysia. One of the most noteworthy contributions of the study is for the researchers to suggest that growth of HR outsourcing among smaller, larger or even mature organizations may be conceptually different constructs and should be studied accordingly. There is already extensive evidence that larger and smaller manufacturing organizations are different in a number of ways (Arbaugh, 2003). For instance, organizations with different size and maturity level tend to

view environmental conditions, strategies, structure and processes differently (Dean, Brown and Bamford, 1998). Therefore, this study highlights the notion that the size and maturity level of the manufacturing organization influences HR outsourcing.

Implication for HR Managers

Four important implications for HR managers can be derived from this study.

Firstly, this study highlights the impact of organizational size on HR outsourcing. Clearly, size plays an important role. This indicates that HR outsourcing is a relatively recent trend and experimentation with outsourcing may have surfaced first among larger organizations where the employees are likely to be more familiar with HR trends. The findings of the study could be used as reference and as a basis for HR managers for a further in-depth understanding of the size of the organization that was highly contingent on various types of HR functions outsourced.

Secondly, it was found maturity level of manufacturing organization does not give an impact to the decision to outsource HR functions. While maturity level is broadly understood to be a significant factor that gives impact of HR outsourcing, the results have not yet been well confirmed by research. The results shows no differences relating to the maturity level of the organization, thus, provide information to HR managers in which maturity level is not a predictor to HR outsourcing.

Furthermore, the findings of this study are also important in deciding which HR functions are frequently outsourced among manufacturing organizations in Malaysia. Based on the results, a majority of the organizations actually find outsourcing recruitment and training are among the best options compared to other functions such as HRIS and payroll. The study also found that no organization outsourced strategic HR functions. Therefore, with this information, HR managers should be attentive about potential HR functions to be outsourced so that a positive impact on HR performance is achieved.

Finally, this study also describes the reasons for outsourcing and experience with HR outsourcing. HR managers are aware that the top three reasons why the organizations outsourced HR functions were to get access to experts, to improve the quality in performing the functions and to get access to capital fund for advanced operation. Therefore, this information may provide additional knowledge for HR managers in making decisions on HR outsourcing. As for experiences with HR outsourcing, most organizations found that external vendors followed through their plans as negotiated with the organizations. The external vendors also promised clear and transparent expectation and consistently performing the HR functions. However, not many organizations experience high levels of cost minimisation and at the same time the organizations claimed that the vendors did not understand

the organizational culture completely. Thus, HR managers can learn from these experiences and should outline the outsourcing contract with external vendors in detail and ensure that they understand the organizations' need, culture and interest well before venturing into a relationship.

Limitations and Future Research

Due mainly to the fact that a small sample of respondents were used and that they were wholly from the manufacturing sector, any attempt to generalize the findings to service organizations would pose a significant challenge. Hence, it would be good if future research is conducted for service organizations as well. In addition, future studies can also look into other organizational characteristics, such as organizational structure, design, level of uncertainty and strategy to determine their roles and impact on an organization's decision to outsource. Environmental factors such as boundary spanning capabilities, level of resource dependency, and overall relationship with service providers can also be similarly examined.

CONCLUSIONS

This study is of value to HR managers not only in facilitating their acquaintance with the concept of HR outsourcing but also in enhancing their appreciation of HR outsourcing as actually put to practice. Outsourcing is a potentially powerful instrument that can be harnessed to empower the HR departments. By outsourcing operational and traditional HR functions, HR managers can be freed to focus on more strategic roles and activities that can add value to the business. Before this can be done, however, HR managers must be willing to fully comprehend the advantages and disadvantages associated with the practice and to take proactive actions. Outsourcing is not without risks and these risks should not be taken lightly.

Although HR outsourcing is still a relatively new phenomenon in the Asia Pacific (Sparrow, 2009; Abdul-Halim and Che-Ha, 2009), this study shows that in a country such as Malaysia, it is becoming more common and the availability of service providers has probably grown significantly in recent years (Zenith Services, 2006). This study is therefore, timely and it provides the HR managers a rare glimpse into how organizations can use HR outsourcing to deploy their internal capabilities. It can assist them in making more efficient decisions with regards to the option available in outsourcing.

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