Optimizing HR Outsourcing through Business Strategy

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ABSTRACT

The paper aims at investigating on how HR outsourcing could be optimized by leveraging on different types of business strategy and the impact on human resource performance. Four types of business strategy, namely: quality-based, proactive, breadth and reactive were employed to test their influence on HR outsourcing. The data was gathered from survey questionnaire (232) on manufacturing organizations. The findings suggest that HR outsourcing was effective by espousing reactive business strategy. In fact, by relying on human resource outsourcing, the organizations manage to experience higher human resource performance. This study adds to the literature by providing information on HR outsourcing and business strategy.

Keywords: Human resource management, business strategy, outsourcing, performance

1. INTRODUCTION

Human Resource (hereinafter HR) outsourcing has become a major part of HR operations for the last few years. Smith, Vozikis, and Varaksina (2006) indicate that 61% of the organizations outsource at least one HR function. Out of that percentage, 68% of them outsourced recruitment, 61% outsourced human resource information system followed by training (56%) and benefit administration (49%). HR outsourcing is only lauded as one of the strategic tool in the hyper competitive environment. In that, it assists organizations to focus on their scarce resources, increase customers’ perception towards quality and reduce the cost of outsourcing the HR functions (Marinaccio, 1994).

Despite the dramatic increase in outsourcing practices by organizations, empirical investigations on either HR outsourcing or performance of outsourcing are still lacking (Leiblein, Reuer and Dalsace, 2002; Bolat and Yilmaz, 2009). In fact, empirical evidence to connect both variables is next to none. Currently, only general aspects of outsourcing such as managerial motivation, relationship with

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