



6th International Research Symposium in Service Management, IRSSM-6 2015, 11-15 August
2015, UiTM Sarawak, Kuching, Malaysia

Exploring Human Resource Outsourcing Trends in Malaysia

Sim Siew-Chen^{a,*}, Yee Seow-Voon^b

^{a,b} Nottingham University Business School, The University of Nottingham Malaysia Campus, 43500 Selangor, Malaysia

Abstract

Globally, many organisations outsource human resource functions selectively to achieve operational efficiency and transformation. Research in the Malaysian context is limited and insights on the latest HRO trends which are important to understand the HRO phenomenon in Malaysia are unavailable. The questionnaire survey was used to elicit data in this study. 145 HR managers from various sectors responded. 58 of them have partially outsourced the HR functions. Findings indicate that firms from manufacturing and services sectors were both outsourcing at about 40 percent. Large firms appeared more receptive toward HRO compared to smaller firms. Training, recruitment and payroll were the top three HR functions outsourced. More than half of the HRO decisions were made by the top management. This study found that the two main drivers of HRO were resource-based benefits and cost benefits. Among the benefits investigated were keeping up with changes, less investment in and maintenance of, software, access to best practices or new development, and converting fixed costs to variable costs. The future direction of the Malaysian HRO is likely to revolve around HR traditional functions such as training, recruitment and performance management in the next five years.

© 2016 The Authors. Published by Elsevier Ltd. This is an open access article under the CC BY-NC-ND license (<http://creativecommons.org/licenses/by-nc-nd/4.0/>).

Peer-review under responsibility of the Universiti Teknologi MARA Sarawak

Keywords: outsourcing, human resource outsourcing, trends, Malaysia

1. Introduction

Traditionally, almost all human resource (HR) activities were performed in-house with many HR staff responsible for a broad range of administrative and strategic HR activities (Greer, Youngblood, & Gray, 1999; Klaas, 2008). Today, internal HR team can concentrate on strategy and change by outsourcing transactional HR activities. Cumulative pressure on cost-saving has driven the use of human resource outsourcing (HRO) further, causing many HR activities being outsourced to external HRO service providers (Glaister, 2014).

* Corresponding author. Tel.: +6-038-924-8294; fax: +6-038-924-8019.
E-mail address: mandy.sim@nottingham.edu.my

The magnitude of HRO impact is pervasive especially in the western countries such as Europe, Canada and North America (Chiang, Chow, & Birtch, 2010) while the global HRO market continues to burgeon and is estimated to worth \$199.6 billion by 2017 (Bodimeade, 2012). Nevertheless the Asian market has just begun to show signs of growth in recent years with 80 to 90 percent of the HR Executives considering HRO as a solution to key HR challenges (Talent2, 2011).

Recently, Malaysia has positioned itself as one of the prominent outsourcing destinations in the Asia-Pacific region with 340 outsourcing and shared services centers, employing 82,000 people. It accounts for 16 percent of the Malaysian GDP (SSON Market Update, 2015). In particular, the HRO segment demonstrates potential growth with many manufacturing firms willing to outsource to gain access to expert services (Outsourcing Malaysia, 2013).

Unfortunately, despite Malaysia being ranked third most preferred outsourcing destination after India and China by AT Kearney (2014), HRO research specific to the Malaysian context remains very limited (Abdul-Halim et al., 2014) and updated information about HRO trends in this country is unavailable. For this reason, this study aims to extend the coverage of HRO trends studies and provide the latest HRO trends in Malaysia through an exploratory approach.

2. Literature review and theoretical background

Driven by the race to increase business competitiveness, organisations are fighting to become leaner and more efficient. All business units including HR are pressured to cut costs and deliver more value (e.g. Lever, 1997; Greer et al., 1999; Klaas, McClendon, & Gainey, 2001; Shelgren, 2004). One way to achieve this is through outsourcing - a tool that can be used to boost HR productivity by eliminating low value yet time consuming activities (Adler, 2003; Woodall et al., 2009) while permitting a quick fix to a problem (Greer et al., 1999; Mahmud, Billah, & Chowdhury, 2012; Susomrith & Brown, 2013).

Outsourcing for cost savings is normally governed by the theory of transaction cost economics (TCE) because the decision would be dependent on the comparative efficiency and costs of each respective transaction (Williamson, 1975). On the other hand, outsourcing for acquiring resources usually anchors on resource-based view (RBV). This theory suggests that core HR activities should be retained in-house while noncore ones should be outsourced (Pralhad & Hamel, 1990).

There are three recent HRO studies that exist, predominantly that of Abdul-Halim & Che-Ha (2010; 2011a; 2011b) who have examined HRO phenomenon among manufacturers in the Malaysian context. Areas that have been examined include reasons for and against HRO, organisational size and maturity impact on degree of HRO, degree of HRO by types, human resource management (HRM) strategy impact on HR department size, and degree of HRO on HR department size. Additional areas such as the HR manager's involvement in making HRO decision, HRO effectiveness and future HRO direction that have been examined in other outsourcing contexts (CIPD, 2009; SHRM, 2004; Talent2, 2011; Raja 2012; Kumar, 2007) but not included in Abdul-Halim's work, if researched, would likely expand the knowledge on current HRO trends in Malaysia.

The literature indicates no clear agreement as to which HR activity should be outsourced because what constitutes a core or noncore activity is subject to the judgement of individual organisations (Gilley & Rasheed, 2000). Accordingly, the HR functions outsourced might differ across different countries due to varying degree of HRO maturity characterised by different needs.

Just as HRO researchers continue to understand HRO practices across various contexts, research findings on the influence of firm size and sector on outsourcing HR has not been conclusive. Several researchers such as Susomrith & Brown (2013), Sheehan (2009), Greer et al. (1999), DeImotte & Sels (2008) and Butler & Callahan (2014) found that larger firms are more likely to outsource HR services. However, Lever (1997), Chiang, Chow, & Birtch (2010), Klaas et al. (2001) found that smaller firms are more likely to rely on HRO whilst Galanaki & Papalexandris (2007) found that firm size did not have effect on the degree of HRO.

So far, studies on the degree of HRO among firms in the services sector appear almost next to none, leaving behind no clue if comparison with other sectors is to be made. Top management support has been highlighted as one of the crucial factors affecting outsourcing success (Ee, Abdul-Halim, & Ramayah, 2013), but research into examining the top management and HR managers' involvement in HRO decision is scarce. Moreover, the majority of the extant HRO literature examined the 'what', 'when', and 'why' of outsourcing and had its predominance

Download English Version:

<https://daneshyari.com/en/article/1107440>

Download Persian Version:

<https://daneshyari.com/article/1107440>

[Daneshyari.com](https://daneshyari.com)