



Outsourcing HR Activities: A Case of Service Sector Organizations in Pakistan

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ABSTRACT

This study aims to identify the factors that service sector organisations in Pakistan consider when determining the outsourcing of human resources (HR) activities and assessing future preparations for it. A quantitative research design was employed to collect and analyze data from HR managers currently working in service sector organizations in Pakistan. The findings reveal that factors such as experience, cost, quality level, specialization, and strategic focus significantly influence the decision to outsource HR activities. To enhance future organizational tendencies toward outsourcing HR processes, this study recommends clarifying that outsourcing does not equate to removing work from an organization; rather, it allows the organization to concentrate on its core business processes while gaining access to specialized services and knowledge, thereby illustrating the concept of outsourcing and how its advantages can be maximized.

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INTRODUCTION

Organizations relying on external third parties that are able to offer different types of services are emerging in the technological advanced era. Since mid-1970s, the human resources (HR) tasks have been progressively outsourced through the external source of suppliers which are able to accomplish them successfully at less cost (Poór et al., 2016). The delivery of training and development activities, relocation and employee incentive programs, and provision of pension and payroll services, are a few examples of outsourcing activities that have been carried out for a very long time. As per Nyarangi (2017), Since the start of the 1990s, the growing predominance of outsourcing in HR

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field, especially in the Eastern and Asian countries; where there are numerous examples here, for instance, in 1999, Hewlett Packard consented to an arrangement with China Talent Group worth \$ 250 million to oversee the administrative accounting duties by assisting the payroll frameworks. Furthermore, in 2000, AMEX consented to an arrangement with Wipro, an Indian IT services firm to oversee employee training, accounts payable, human resources, payroll, and different activities in a five-year deal for an unrevealed sum (Chung, 2016). This paper attempts to identify the factors that service sector organizations in Pakistan evaluate to determine to outsource Human Resources (HR) activities and identify the future preparations of it.

Objectives

- To explore the inclination of service sector organizations towards outsourcing the HR activities.
- To determine the variables impacting the decisions of the service sector organizations with respect to outsourcing HR activities

LITERATURE REVIEW

Outsourcing

According to Siew –Chen and Vinayan (2016), much of the literature regarding the matter has been centered on a few broad definitions of outsourcing which are; operational implementation of organizational processes or activities by a third party. Buying goods or services as opposed to producing them internally and the process of procurement of services from an external source (Van der Valk & Rozemeijer, 2009). From a researcher's viewpoint, in the field of human resource activities outsourcing can be characterized as: assignment of all or a part of the HR activities and administrations, as well as the assignment of related staff and resources to an external organization - under an authoritative agreement. It additionally includes the implementation and management of those activities and administrations, including the obligation regarding management with the transferred staff. Because of the increasing attention towards outsourcing related to the partnerships with the human resources outsourcing service providers (HROSPs), instead of simply thinking of them as a one-time service provide, three kinds of outsourcing were defined as a) Total Human Resources Outsourcing (THRO) to transfer the majority of HR task to a third-party), b) Multi-Process Services, to outsource two or more HR functions) and c) Discrete Services (to outsource a one part of a business of an organization to a third-party) (Gottardello & Valverde, 2018).

Experience

It is obvious that the impulse to consider outsourcing business processes especially the HR activities typically came from somewhere else in the business. In accordance with Hunter and Saunders (2017), a few organizations had experienced outsourcing of some of their business processes, most oftentimes ICT administrations, financial services, or facilities management, and most had likewise contracted a few parts of HR (pay and benefits, executive search, recruitment, and selection – yet in addition considerable parts of the delivery, design, and development of T&D, improvement, and conveyance of preparing and development. When an HR manager has an accurate outlook and experience of the advantages and disadvantages of HR outsourcing, they are easily able to settle on decisions and outsources business functions (Budhwar & Varma, 2011).

H₁: The experiences of an organization significantly impact of the choice of outsourcing HR activities

Cost

As per the research by Gilani and Jamshed (2016), HR functional costs can be a critical amount of any firm's overhead –somewhere in the range of 5 and 15% of total overhead. When taking a look at costs for carrying out a process in-house, the organization should pay attention to lessening expenses and cost to upgrade competitive capacity. Outsourcing can help in lessening costs through taking on the development costs for the technology, the implementation of self-service technologies, and labor arbitrage (Haji Hassani, 2019). Holding down long-standing HR expenses can likewise be accomplished through economies of scale – the more individuals requiring similar assistance, the less the administration costs per individual.

H₂: The cost of outsourcing significantly impacts the choice of outsourcing HR activities

Level of Quality

The world is changing rapidly and, specifically, with the development of new technology and particularly the TQM practices, considering the level of quality of products or services that firms are able to provide. As indicated by Nyarangi (2017), this in turn has played a powerful part in a large part of the taken decisions, including the choice to outsource HR. The organization is continuously focused on the degree of quality of administrations and process of its employees and products either without help from anyone else or moving to consider outsourcing to reflect the degree of their commitment towards the quality. It can be hard for outsource service organizations to comprehend the desires for quality at a consistent performance and low price (Nguyen & Chang, 2017). In this way, if an understanding between an outsource service organization and the organization cannot be met, it very well might merit keeping HR in-house.

H₃: The level of quality significantly impacts the choice of outsourcing HR activities

Specialization

The degree of skill needed in carrying out an HR activity helps in evaluating the level and degree of outsourcing. HR activities requiring high levels of aptitude normally depend on exceptionally proficient experts to perform them (Galanaki & Papalexandris, 2007). Having knowledge about the new experiences and professional advice and experiences in the HR field is significant for organizations that wish to compete in a dynamic market that has increased competition. At a point when an organization needs HR expert aptitude and does not have it in-house, they go to HR consultants and providers, as they are able to outsource services that can be carried out better by an outside vendor than the organization (Pandey, 2021).

H₄: Specializations offered significantly impacts the choice of outsourcing HR activities

Strategic Focus

HR departments usually lack strategic focus since they are preoccupied with operational activities. The HR office is often over-burden with work to perform conditional processes like attendance and payroll administration. As per Savino (2016), HR staff spend up to 85% of their time overseeing standard operational cycles and just 15% on strategic activities. In best-practice organizations, these rates would commonly be turned around. By outsourcing these non-core business processes, HR capacities can pay attention to the administrative effort on providing the strategic and high effect strategy matters such as accomplishing business objectives (Boxall & Purcell, 2000).

H₅: The necessary strategic focus for HR management significantly impacts the choice of outsourcing HR activities

METHODOLOGY

The study used a quantitative research design that is a systematic and structured approach to studying phenomena that involves the collection of measurable data and the application of statistical, mathematical, or computational techniques for analysis (Fischer, et al., 2024). The researcher adopted the descriptive research strategy following survey design to collect the data. A pre-designed questionnaire having pre-selected constructs and items were used to collect data to explore the answers to the research questions. According to Roopa and Rani (2012), "A questionnaire is the main means of collecting quantitative primary data. A questionnaire enables quantitative data to be collected in a standardized way so that the data are internally consistent and coherent for analysis" (p. 273). Based on the reviewed literature, an adopted questionnaire was used for this study that was segregated into two sections. The first section was used for the measurement of demographic information of the participants. The second section was used for testing the hypothesized statements. Certain tests were carried out to evaluate the responses received from the targeted population. For this reason, SPSS was utilized as a statistical tool to carry out Multiple Regression Analyses. The targeted population included the organizations inside Pakistan that provided the services. Whereas, the research sample included 386 HR managers currently serving in the service sector organizations in Pakistan, which were chosen relying upon the technique of facilitated sample. The

gathered data was analyzed via statistical processes. Since the study used a quantitative methodology research design. The researcher applied descriptive and inferential statistics to analyses the data.

Research Model

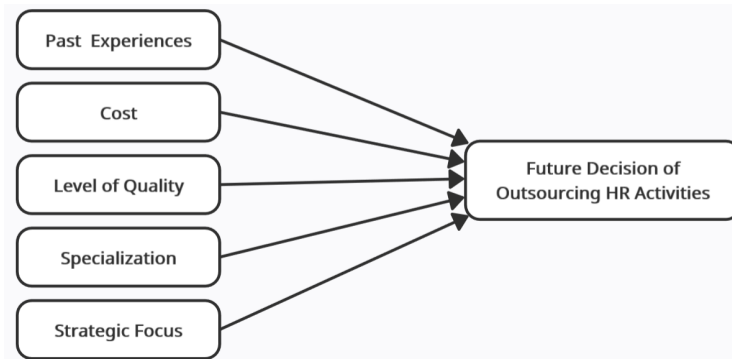


Fig. 1. Research model and variables

The Independent Variables

- Experience - implies what services have the organization outsourced from different business activities including HR activities.
- Cost: implies what is being paid for an activity with respect to time of delivery, effort, or money.
- Level of Quality: implies the assurance towards the adoption of the principles set up by the organization for completing the service delivery or activity.
- Specialization: refers to the activity or function performed by third-party service provides who specialize considerably in one of the HR activities. Or the process by which the organization, group, or individual is devoted to carrying out activity, function, or task.
- Strategic Focus implies time to focus on the essential strategic issues of HR management.

The Dependent Variable

- Future Decision of Outsourcing - alludes to the decision by which an organization will designate the execution of specific business processes to the outsourcer. Moreover, the choice to appoint the management and execution of at least one of their specific business processes to the outsourcer.

RESULTS & FINDINGS

Table 1
Demographics

	Variables	Frequencies	Percentages
Gender	Male	290	75.13
	Female	96	24.87
Age	18-25	47	12.18
	26-35	119	30.83
	36-45	204	52.85
	45-Above	16	4.15
	Less than 5 years	113	29.27
Working Experience	5-10 years	85	22.02
	11-15 years	149	38.60
	16-20 years	35	9.07
	More than 20 years	4	1.04
	Senior	140	36.27
Position	Middle	125	32.38
	Junior	89	23.06
	Staff	32	8.29

The respondents of this study included 386 individuals currently serving to the HR organizations. As indicated by Table 1, there were 290 male and 96 female employees. Age of the respondents included, 12.18% were under 19, 30.83% were somewhere in the range of 26 and 35 years of age. 52.85% were somewhere in the range of 36 and 45 years of age and 4.15% were somewhere in the range of 40 and above in age. Moreover, regarding the work experience, 29.27% of the respondents had under 5 years of work experience, 22.02% of the respondents have 5 to 10 years of experience, 38.60% of the respondents had 11 to 15 years of experience, 9.07% had between 16 and 20 years and 1.04% of the respondents had more than 20 years of experience. Furthermore, 36.27% of the respondents were in senior positions, 32.38% were in the middle position, 23.06% were in junior positions, 8.29% were in staff positions (Table 1).

Table 2
Reliability Analysis

Constructs	No. of Items	Cronbach Alpha
Past Experiences	5	0.892
Cost	5	0.909
Level of Quality	6	0.872
Specialization	6	0.845
Strategic Focus	6	0.835

As indicated by Cronbach's Alpha, the reliability can be assessed by the value of Cronbach's Alpha, which should be > 0.6 , the value that is more than 0.6 is called reliable. Cronbach's Alpha technique was utilized to assess the internal consistency of the variables. As indicated by Guilford (1950), Cronbach's alpha worth needs to be more prominent than 7, which affirms the reliability of the test, as can be seen (in Table 2) the variables have their values above 0.7 indicating reliability.

Table 3
Descriptive Statistics

	N	Max.	Min.	Mean	St. Deviation
Experiences	94	1.37	5.00	3.8641	.65645
Cost	94	1.28	5.00	3.6651	.78556
Level of Quality	94	1.99	5.00	3.5646	.85651
Specialization	94	1.60	5.00	3.8714	.75635
Strategic Focus	94	1.23	5.00	3.9621	.74874

Through descriptive statistics, a central position can be described, including mean, maximum, and minimum. Various statistics are accessible to describe this spread, including standard deviation, variance, and range. The mean value demonstrates the respondent's satisfaction with outsourcing HRM services (Table 3).

Correlations

The first variable 'experiences' was found to be highly correlated with cost, level of quality, specialization, and strategic focus with a value of 0.780, 0.724, 0.799, and 0.733 respectively, implying that expanding experiences are in line with HR outsourcing decision. The Cost variable was found to be highly correlated with other variables as well, as the value is above 0.5. In any case, there is a high correlation among the variables. The level of Quality likewise had a high correlation with experiences, cost, specialization, and strategic focus at 0.724, 0.733, 0.706, and 0.724 and this implies that there is a positive connection among these variables. It is inferred that there is a high Pearson correlation, or Pearson relationship, with specialization, strategic focus with other variables as well as the values were well $< .05$ indicating strong relationship.

Table 5
Correlations

	Experiences	Cost	Level of Quality	Specialization
Experiences	1			
Cost	.780*	1		
Level of Quality	.724*	.733*	1	
Specialization	.799*	.727*	.706*	1
Strategic Focus	.633*	.721*	.724*	.718*

*. Correlation is significant at the 0.01 level (2-tailed)

Hypothesis Testing

In order to test the validity of hypotheses, a multiple regression was run to test the relationship between independent variables (strategic focus, specialization, quality, cost, and previous experience regarding outsourcing), and dependent variable (the future choice of outsourcing HR activities). As indicated by Table 6, the future decision to outsource HR activities had 81.1% variation due to predictions (Experiences, Cost, Level of Quality, Specializations Strategic, and Focus).

Table 6
Multiple Regression

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.207	0.246		2.842	0.04
Experiences	0.104	0.052	0.411	3.277	0.003
Cost	0.218	0.055	0.005	6.827	0.069
Level of Quality	0.254	0.046	0.269	3.353	0.001
Specialization	0.469	0.051	0.27	2.395	0.017
Strategic Focus	0.216	0.045	0.29	2.745	0.044

a. Dependent Variable: Future Decision to Outsource HR Activities
R = .811, R Square = .757

Hypotheses Summary

No.	Hypotheses	Sig.	Conclusion
H ₁	The experiences of an organization significantly impact of the choice of outsourcing HR activities	0.003	Supported
H ₂	The cost of outsourcing significantly impacts the choice of outsourcing HR activities	0.069	Supported
H ₃	The level of quality significantly impacts the choice of outsourcing HR activities	0.001	Supported
H ₄	Specializations offered significantly impacts the choice of outsourcing HR activities	0.017	Supported
H ₅	The necessary strategic focus for HR management significantly impacts the choice of outsourcing HR activities	0.044	Supported

Discussion

Regarding the corresponding value of Sig for the past experience variable, it was discovered that Sig is less than 0.05 and, in this manner, there is a significant relationship between the organization's past experience and its future eagerness to outsource HR processes. As the value of t is more than 2 hypothesis 1 is accepted. It can be seen that there is a significant relationship between the implementation cost and the outsource HR processes as the value of sig is less than 0.05 and the value of t is more than 2 therefore this hypothesis is accepted (Mansor et. al., 2018). As can be seen from Table 4, the value Beta value of the variable between the level of quality shows that the organization's expected level of quality positively affects its ability to outsource human resources activities, as the value of t is more than 2, the hypothesis is accepted, subsequently, this variable is accepted as well. For the specializations offered variable, the value of Sig was likewise less than 0.05, and hence there is a significant relationship between specializations offered and future inclination to outsource human resources activities. Since the value of t is more than 2, the hypothesis is accepted. There is a significant relationship between the necessary and

the future decision to outsource human resources activities as the t value is more than 2 and the sig value is less than 0.05, therefore the fifth variable is accepted as well. The findings are aligned with the studies reviewed (Bagińska, 2018; Bautista et. al., 2020).

CONCLUSION

In conclusion, it can be said that a large extent of the services sector organizations in the sample, by all accounts, is ready to outsource their HR processes, particularly for specific exercises. However, this inclination depends on the presence of an expert and productive service provider that is able to provide a high level of responsibility and trust, in order to guarantee that these organizations get the best human resource services and administrations and to assist them with improving their human resource effectiveness. The past experience of organizations in the field of outsourcing has had a huge and constructive outcome on future choices to outsource HR processes. Fulfilled expectations and successful experiences consequently encourage organizations to show their inclination towards outsourcing their HR processes. There is a positive and significant relationship between the future decisions of outsourcing human resources activities and the required strategic focus to manage human resources. Which basically points towards the future trends in the industry, as the economic cycle increases, in the coming years, these sample organization will require a specific outsource vendor help to have the option to focus more on significant issues of human resources. A quantitative analysis helped in explaining that there is a significant effect of different variables on the future decision so organizations to outsource their HR processes. This can be explained by the clarity of the outsourcing idea which the organizations in the research sample have and the HR activities and their difference.

Recommendations

To improve future inclination of organizations outsource HR processes that are being communicated by the organization, the research recommends the following; Make it clear that outsourcing does not mean stripping the organization of its work - as some accept - surprisingly, it causes the organization to pay attention to its core business process while getting specific services and access to knowledge that explains the idea of outsourcing and how the advantages of outsourcing can be utilized. There is a need to explain the significance of rethinking the commitment of standards and current policies in outsourcing vendors to pick up trust and accomplish a positive relationship with vendors. Encourage the educational institutions to open subsidiary consultancy and recruitment workplaces to offer these types of assistance to the corporate area. Specifically, the educational institutions have an enormous number of experts in different fields of business. As well as, encourage stockholders to have some background in specialization human resources field organizations that can help in ensuring high-quality services at a reasonable cost.

Competing Interests

The authors declared no competing interests.

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