

Human Resource Management Outsourcing in Chinese Large and Medium-sized Enterprises: Its Effect on Organisational Performance

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Extended Abstract

While HRM outsourcing has received significant empirical attention in the West, academic research on this topic in the Chinese context is incomplete, especially in relation to LMEs (Wang, 2016). At present, there are many shortcomings in the implementation of HRM outsourcing in China (Wang and Zheng, 2014). In this regard, Liu (2017) finds that HRM outsourcing practice still faces many difficulties, in terms of outsourcing recruitment, training, salary and welfare, for example. Moreover, earlier research identified problems caused by unexpected high transaction and administration costs; the bureaucracy hinders development; loss of control of capability, skills and intellectual property; and management risks control as a whole (Lorentz, Töylia, Solakivia, & Ojalaa, 2015). However, the value of HRM outsourcing outcomes still needs to be further examined. In particular, does HRM outsourcing influence organisational performance? And, if so, how? As a result of this gap in the literature, HRM outsourcing among Chinese LMEs is explored in this paper. More specifically, the objective of this paper is to examine the effects of outsourcing human resource management (HRM) activities –specifically, recruitment and selection, training, payroll management, and human resource information systems – on organisational performance through the mediating influences of HR cost efficiency and HR flexibility.

Within the HRM outsourcing performance literature, this study is distinct in investigating the relationship between HRM outsourcing (recruitment and selection, HR development, payroll management and HR information systems) and organisational performance (growth and efficiency) via the mediating influences of HR cost efficiency and HR flexibility. The paper is structured as follows: section 2 discusses the previous relevant literature and hypotheses; section 3 details the research methods, including data collection, measurement, and statistics; section 4 presents the findings; while the concluding section outlines the contribution of the research, its limitations, as well as future directions for research in this area.

To extend on the previous literature, this paper adopts RBV and agency theory and proposes that HRM outsourcing may have a positive impact on a firm's organisational performance. In addition, the effect will be mediated by HR cost efficiency and HR flexibility. Figure 1 below presents the proposed conceptual framework.

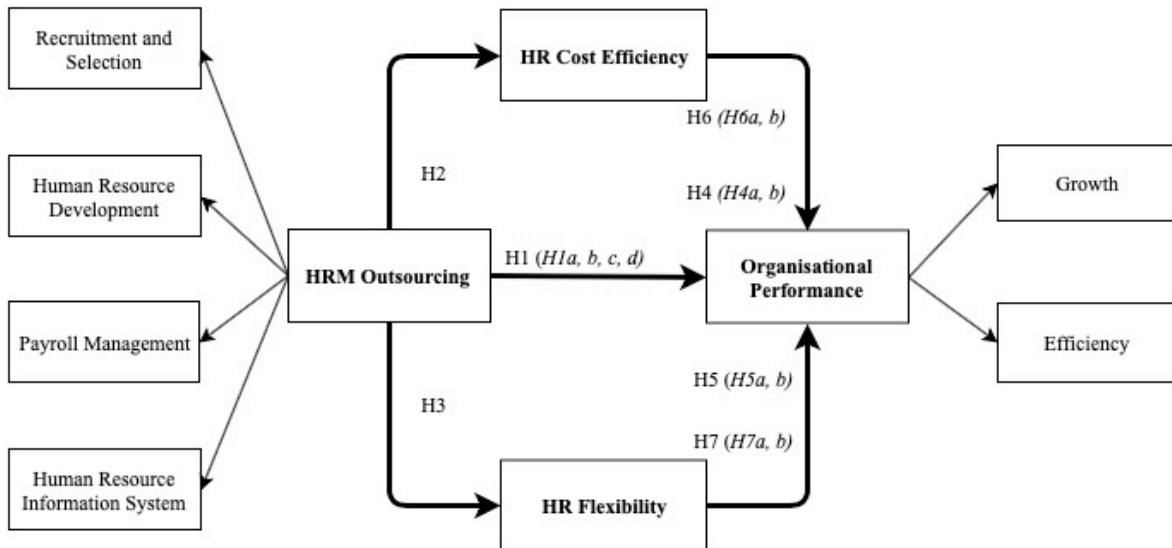


Figure 1: Conceptual Framework –Relationship between HRM Outsourcing and Organisational Performance

Based on the previous research, the following hypotheses were developed:

H1: HRM outsourcing significantly and positively influences growth and efficiency.

H1a: The outsourcing of recruitment and selection activity significantly and positively influences growth and efficiency.

H1b: The outsourcing of human resource development activity significantly and positively influences growth and efficiency.

H1c: The outsourcing of payroll management activity significantly and positively influences growth and efficiency.

H1d: The outsourcing of human resource information system activity significantly and positively influences growth and efficiency.

H2: HRM outsourcing significantly and positively influences HR cost efficiency.

H3: HRM outsourcing significantly and positively influences HR flexibility.

H4: HR cost efficiency significantly and positively influences organisational performance.

H4a: HR cost efficiency significantly and positively influences growth.

H4b: HR cost efficiency significantly and positively influences efficiency.

H5: HR flexibility significantly and positively influences organisational performance.

H5a: HR flexibility significantly and positively influences growth.

H5b: HR flexibility significantly and positively influences efficiency.

H6: HR cost efficiency fully mediates the relationship between HRM outsourcing and organisational performance.

H6a: HR cost efficiency fully mediates the relationship between HRM outsourcing and growth.

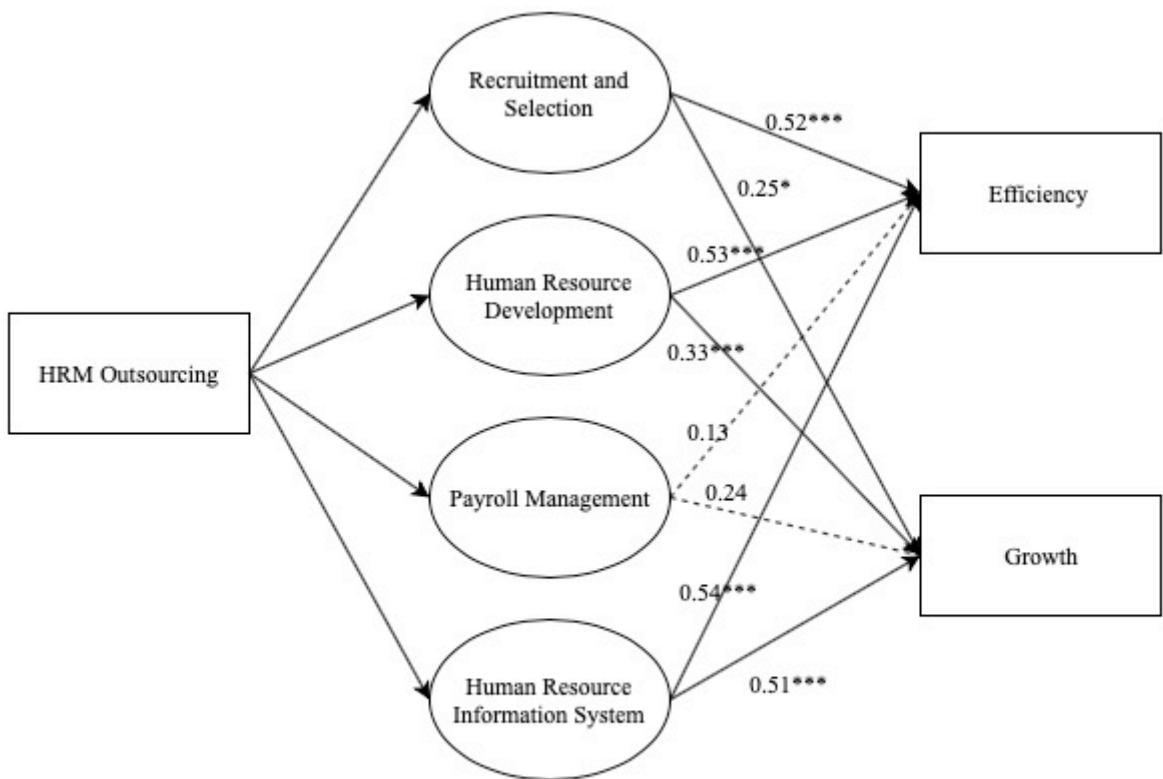
H6b: HR cost efficiency fully mediates the relationship between HRM outsourcing and efficiency.

H7: HR flexibility fully mediates the relationship between HRM outsourcing and organisational performance.

H7a: HR flexibility fully mediates the relationship between HRM outsourcing and growth.

H7b: HR flexibility fully mediates the relationship between HRM outsourcing and efficiency.

Using a simple random sampling method, a total of 1100 questionnaires were distributed to the respondents via email throughout China. Of the surveys completed and received, only 501 are usable. However, four outliers were detected and removed from the data set, resulting in a total of 497 cases without the missing data that remained for further analysis. Figure 2 depicts the path analysis between each of the four outsourced HRM activities and organisational performance. The results show that recruitment and selection has a significant positive relationship with both growth ($\beta = 0.25$, $p < 0.05$) and efficiency ($\beta=0.52$, $p<0.001$). Hence, **these results show full support for H1a**. Human resource development has a significant positive relationship with both growth ($\beta = 0.33$, $p < 0.001$) and efficiency ($\beta=0.53$, $p<0.001$). Hence, **these results show full support for H1b**. The path between payroll management and growth is positive but not significant ($\beta = 0.24$, $p > 0.05$), and the path between payroll management and efficiency is positive but not significant ($\beta = 0.13$, $p > 0.05$). Therefore, there was a positive yet insignificant relationship between payroll management and both growth and efficiency, so **H1c is rejected**. Human resource information system has a significant positive relationship with both growth ($\beta = 0.51$, $p < 0.001$) and efficiency ($\beta=0.54$, $p<0.001$). Hence, **these results show full support for H1d**. Thus, in summary, **H1 is partially supported**.



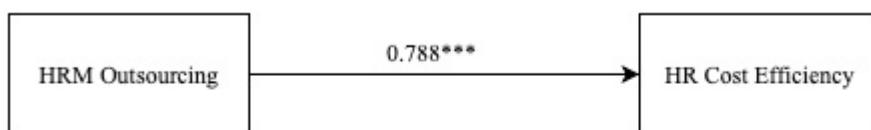
Notes: Dashed arrows denote nonsignificant relationships

* $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.946, AGFI=0.896, RMSEA=0.052, CMIN=473.871, CFI=0.865

Figure 2: Path of Direct Model: Factors of HRM Outsourcing and Organisational Performance

Figure 3 represents the path analysis between HRM outsourcing and HR cost efficiency. The findings reveal that the HRM outsourcing have a significant positive relationship with HR cost efficiency ($\beta = 0.788$, $p < 0.001$). Hence, **the results support H2**.

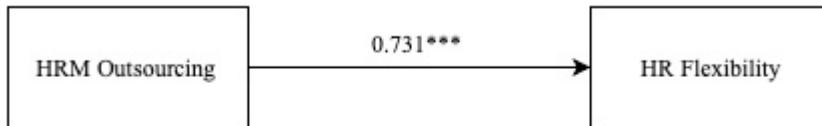


Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.918, AGFFI=0.902, RMSEA=0.051, CMIN=236.763, CFI=0.859

Figure 3: Path of Direct Model: HRM Outsourcing and HR Cost Efficiency

Based on the result shown in Figure 4, HRM outsourcing have a significant positive relationship with HR flexibility ($\beta = 0.731$, $p < 0.001$). Hence, **this result supports H3**.

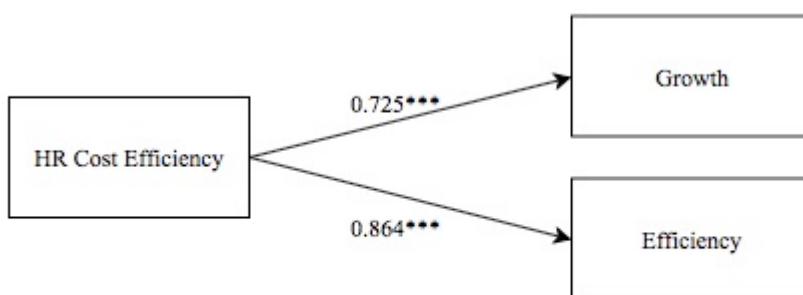


Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.908, AGFFI=0.913, RMSEA=0.048, CMIN=288.295, CFI=0.879

Figure 4: Path of Direct Model: HRM Outsourcing and HR Flexibility

Based on the result shown in Figure 5, the path between HR cost efficiency and growth is positive and significant ($\beta = 0.73$, $p < 0.001$), **which thus shows support for H4a**; and the path between HR cost efficiency and efficiency is positive and significant ($\beta = 0.86$, $p < 0.001$), **which shows support for H4b**. Hence, **H4 is fully supported**.

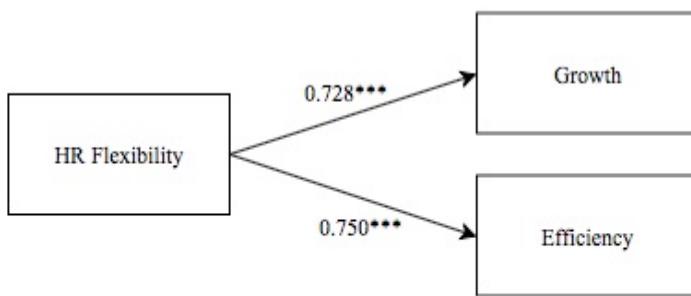


Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.958, AGFFI=0.942, RMSEA=0.045, CMIN=149.092, CFI=0.951

Figure 5: Path of Direct Model: HR Cost Efficiency and Organisational Performance

Based on the result shown in Figure 6, the path between HR flexibility and growth is positive and significant ($\beta = 0.73$, $p < 0.001$), **which supports H5a**; and the path between HR flexibility and efficiency is positive and significant ($\beta = 0.75$, $p < 0.001$), **which shows support for H5b**. Hence, **H5 is fully supported**.



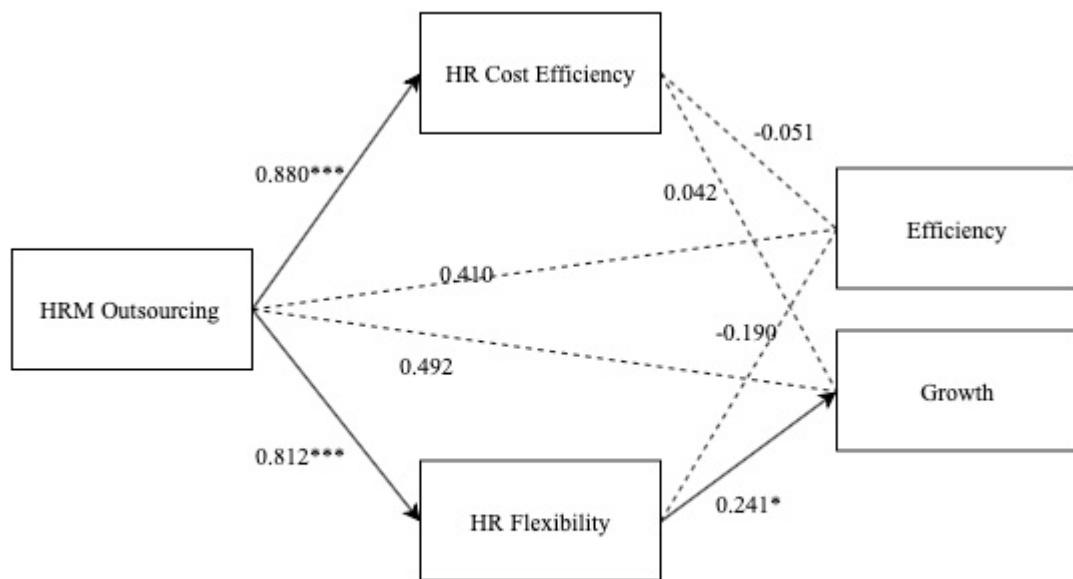
Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.949, AGFFI=0.932, RMSEA=0.046, CMIN=210.091, CFI=0.942

Figure 6: Path of Direct Model: HR Flexibility and Organisational Performance

The results presented in Figure 7 show that, in the indirect model, the relationship between HRM outsourcing and growth is reduced to ($\beta=0.492$, $p> 0.05$), where it is not significant after the mediation variable is included. These results indicate that HR cost efficiency fully mediates the effect of HRM outsourcing on growth, and therefore

H6a is supported. Further, the relationship between HRM outsourcing and efficiency is reduced to ($\beta=0.410$, $p> 0.05$), where it is not significant after the mediation variable is included. These results indicate that HR cost efficiency fully mediates the effect of HRM outsourcing on efficiency, and **H6b is thus supported.** The relationship between HRM outsourcing and growth is reduced to ($\beta=0.492$, $p> 0.05$), where it is not significant after the mediation variable is included. These results indicate that HR flexibility fully mediates the effect of HRM outsourcing on growth, and suggest that **H7a is supported.** The relationship between HRM outsourcing and efficiency is reduced to ($\beta=0.410$, $p> 0.05$), where it is not significant after the mediation variable is included. These results indicate that HR flexibility fully mediates the effect of HRM outsourcing on efficiency, and therefore **H7b is supported.** In summary, **H6 and H7 are fully supported.**



Note: * $p<0.05$, ** $p<0.01$, *** $p<0.001$

Goodness of fit statistics: GFI=0.904, AGFFI=0.888, RMSEA=0.0461 CMIN=813.243, CFI=0.890

Figure 7: Path of Mediating Model of HR Cost Efficiency and HR Flexibility in the Relationship between HRM Outsourcing and Organisational Performance

In conclusion, the results of the regression analysis showed that outsourcing HRM activity has a significant impact on organisational performance, both directly and indirectly via HR cost efficiency and HR flexibility. This research provides valuable knowledge for HR managers and staff indicating that organisational performance could be improved when HRM functions are outsourced. The research findings suggest that Chinese HRM outsourcing practices will likely be focused on the more traditional HR functions such as recruitment, training, payroll and performance management in the future.

Keywords: Outsourcing, HRM, Performance, Productivity, Efficiency, Chinese, LMEs

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