



Strategic Role of Human Resource Outsourcing and Its Impact on Employee Management in Manufacturing Organizations

Sana Razzaq

Email: sanababarhussain@gmail.com

M. Phil HRM, National College of Business Administration & Economics, Lahore, Punjab, Pakistan

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Abstract

Human Resource Outsourcing (HRO) has evolved from a traditional cost-reduction approach into a strategic management practice that improves operational efficiency, provides specialized expertise, and enhances the strategic role of HR departments. In manufacturing organizations, where workforce capability, employee relations, productivity, and compliance are critical, selective outsourcing of HR activities can create significant organizational value. However, outsourcing may also create challenges related to employee trust, communication, organizational culture, and resistance to change. This study examines the strategic role of HR outsourcing and its impact on employee management in manufacturing organizations. A quantitative research design was adopted, and data were collected through a structured questionnaire from 200 manufacturing organizations in Pakistan. The findings indicate that organizations prefer outsourcing administrative and technology-based HR functions, such as payroll, recruitment support, and HR systems, while retaining strategic employee-focused functions internally. The study concludes that effective HR outsourcing requires proper vendor selection, cultural alignment, employee communication, and a balanced approach between external expertise and internal HR capabilities.

Keywords: Human Resource Outsourcing, Strategic HRM, Employee Management, Manufacturing Sector, Employee Relations, Organizational Culture, HR Efficiency



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1. Introduction

1.1 Background of the Study

Human Resource Management (HRM) has undergone a significant transformation from a traditional administrative function into a strategic organizational capability. Historically, HR departments were primarily responsible for routine operational activities, including recruitment documentation, payroll administration, employee record management, attendance monitoring, and compliance-related tasks. In this traditional role, HR was often viewed as a support function focused on maintaining employee records and ensuring administrative efficiency rather than contributing directly to organizational strategy.

However, globalization, technological advancement, digital transformation, and increasing competitive pressures have fundamentally changed the role of HR departments. Modern organizations operate in highly dynamic environments where employee knowledge, skills, innovation, and adaptability have become essential sources of sustainable competitive advantage. Consequently, organizations increasingly expect HR departments to contribute beyond administrative responsibilities by participating in strategic decision-making, workforce planning, talent development, organizational transformation, and long-term business growth (Armstrong & Taylor, 2023).

The strategic importance of human resources is strongly supported by the Resource-Based View (RBV) theory, which explains that organizations achieve sustainable competitive advantage through valuable, rare, inimitable, and non-substitutable resources. Human capital represents one of the most important strategic resources because employee knowledge, organizational culture, expertise, and collective capabilities are difficult for competitors to replicate (Barney, 1991). From this perspective, effective HR practices enable organizations to develop unique capabilities that improve innovation, productivity, employee commitment, and overall organizational performance.

In contemporary organizations, HR departments are therefore expected to perform strategic responsibilities such as:

- a) Talent management: Identifying, developing, and retaining skilled employees who contribute to organizational success.
- b) Workforce planning: Forecasting future workforce requirements and ensuring availability of appropriate human resources.
- c) Employee engagement: Developing practices that improve employee motivation, commitment, and organizational attachment.



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- d) Leadership development: Building future leaders through training, mentoring, and succession planning.
- e) Organizational strategy: Aligning HR policies and practices with overall business objectives.

Recent developments in strategic HRM emphasize that organizations increasingly rely on HR capabilities to manage workforce challenges, support innovation, and create competitive differentiation. The integration of digital technologies, HR analytics, and artificial intelligence has further expanded the strategic responsibilities of HR departments by enabling data-driven workforce decisions and improved employee experiences (Boon et al., 2024).

One important approach that supports this transformation is Human Resource Outsourcing (HRO). Human Resource Outsourcing refers to the practice of transferring selected HR activities to external service providers while maintaining internal responsibility for strategic HR decisions. Through outsourcing, organizations can access specialized expertise, advanced technology, professional HR services, and process efficiencies without developing every capability internally.

Initially, HR outsourcing was primarily adopted as a cost-reduction strategy, particularly for administrative activities such as payroll processing, employee benefits administration, and record management. However, the concept has evolved significantly, and organizations now view HR outsourcing as a strategic management approach that can improve organizational flexibility, enhance service quality, and allow internal HR professionals to focus on higher-value strategic activities (Sakib et al., 2023).

The evolution of HR outsourcing reflects a shift from a transaction-based approach toward a strategic partnership model. Modern outsourcing arrangements are not limited to transferring routine activities; they involve collaboration between organizations and external providers to improve HR capabilities, digital transformation, compliance management, and employee service delivery. According to Xiao et al. (2024), contemporary HR outsourcing research increasingly focuses on organizational competitiveness, strategic alignment, relationship management, and value creation rather than only financial savings.

However, while HR outsourcing provides several strategic benefits, it also creates important managerial challenges. Since HR functions directly influence employees, outsourcing decisions may affect employee trust, organizational culture, communication processes, and workplace relationships. Poorly managed outsourcing arrangements may result in reduced employee interaction, cultural misalignment, confidentiality concerns, and resistance to organizational change. Therefore, organizations must carefully evaluate which HR activities should be outsourced and which functions should remain internally controlled.



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Administrative and technology-based HR functions, including payroll processing, recruitment support, HR information systems, compliance management, and background verification, are often considered suitable for outsourcing because they are standardized and process-oriented. In contrast, employee-centered activities such as employee relations, performance management, organizational development, and workforce planning often require internal management because they depend heavily on organizational knowledge, culture, and employee relationships.

Therefore, strategic HR outsourcing requires a balanced approach where organizations combine external expertise with internal HR capabilities. Effective outsourcing should not replace the strategic role of HR departments; instead, it should enable HR professionals to move from administrative responsibilities toward strategic activities that enhance employee capability, organizational effectiveness, and competitive advantage.

This study examines the strategic role of Human Resource Outsourcing and its impact on employee management in manufacturing organizations. It focuses on how HR outsourcing influences HR efficiency, employee relations, organizational culture, employee satisfaction, and the strategic contribution of HR departments. By investigating these relationships, the study contributes to understanding how organizations can implement HR outsourcing strategies while maintaining effective employee management practices.

1.2 Strategic Importance of HR Outsourcing

Organizations adopt HR outsourcing because it provides:

Organizations adopt HR outsourcing because it provides:

Benefit	Explanation
 Cost Efficiency	Reduction in administrative expenses
 Specialized Expertise	Access to professional HR knowledge
 Technology Access	Improved HR systems
 Strategic Focus	HR professionals focus on business objectives
 Flexibility	Ability to adjust HR services



HR outsourcing enables organizations to save costs, access expert knowledge, leverage technology, stay focused on strategy, and remain flexible to changing needs.



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However, HR outsourcing is different from outsourcing other business activities because HR directly affects employees.

Poor outsourcing decisions may create:

- i. Employee dissatisfaction
- ii. Reduced trust
- iii. Communication problems
- iv. Cultural conflicts

Therefore, organizations must carefully decide which HR activities should be outsourced.

1.3 Research Contribution

This study contributes to HR outsourcing literature in three important ways.

- i. First, it examines HR outsourcing from an employee-management perspective rather than focusing only on cost and efficiency.
- ii. Second, it provides evidence from manufacturing organizations in Pakistan, where workforce-intensive industries face unique HR challenges.
- iii. Third, it identifies which HR functions are strategically suitable for outsourcing and which functions require internal management.

2. Literature Review

2.1 Evolution of Human Resource Outsourcing

Human Resource Outsourcing (HRO) has developed significantly over the last three decades, evolving from a basic administrative support mechanism into a strategic organizational practice. Initially, organizations adopted outsourcing mainly to reduce operational costs, minimize administrative workload, and improve efficiency in routine HR activities. Early outsourcing models focused on transferring standardized functions such as payroll processing, employee record management, and benefits administration to external providers (Kroes & Ghosh, 2021).

With increasing globalization, digital transformation, and changing workforce requirements, the role of HR outsourcing has expanded beyond cost reduction. Organizations now use outsourcing to access specialized knowledge, advanced HR technologies, analytics capabilities, and external expertise that may not be available internally. Modern HRO practices are increasingly associated with strategic flexibility, innovation, workforce optimization, and improved employee service delivery (Mohiuddin & Mohteshamuddin, 2022).



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The evolution of HR outsourcing can be categorized into five major stages:

Evolution of Human Resource Outsourcing



Traditional HR Administration Stage

During the traditional HR management era, HR departments primarily performed administrative activities. These activities included maintaining employee files, processing salaries, managing attendance records, preparing employment documents, and ensuring compliance with labor regulations. HR was mainly considered a support function with limited involvement in strategic decision-making.



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Administrative Outsourcing Stage

The second stage emerged when organizations began outsourcing repetitive HR activities to reduce costs and improve efficiency. Payroll processing, employee benefits administration, and recruitment assistance became common outsourced activities because they were highly standardized and could be performed effectively by specialized providers.

According to Patel and Desai (2021), organizations adopted administrative outsourcing because external providers could achieve economies of scale and provide specialized services at lower operational costs.

Process Outsourcing Stage

The third stage focused on improving HR processes rather than only reducing costs. Organizations started outsourcing HR activities to improve service quality, introduce technology-based systems, and standardize workforce management processes.

Digital HR platforms, cloud-based HR systems, and automated workforce solutions have accelerated this stage by allowing organizations to integrate external HR expertise with internal operations (Marler & Boudreau, 2023).

Strategic Outsourcing Stage

Strategic HR outsourcing represents a shift from transactional activities toward capability development. Organizations increasingly outsource HR functions to obtain specialized expertise, improve workforce flexibility, and allow internal HR teams to focus on strategic responsibilities.

Recent research suggests that organizations achieve greater value from outsourcing when external providers contribute knowledge, innovation, and strategic solutions rather than simply performing routine tasks (Boon et al., 2022).

Strategic HR Partnership Stage

The latest stage of HR outsourcing involves long-term partnerships between organizations and HR service providers. These partnerships focus on:

- a) Digital transformation
- b) HR analytics
- c) Artificial intelligence applications
- d) Employee experience improvement
- e) Strategic workforce planning



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At this stage, outsourcing providers are considered strategic partners rather than external vendors.

According to Gartner (2024), organizations increasingly combine internal HR capabilities with external technology providers to create flexible workforce ecosystems.

Therefore, modern HR outsourcing has transformed from a cost-management approach into a strategic capability-building mechanism.

2.2 HR Outsourcing and Employee Relations

Employee relations represent the relationship between employees and organizations and include trust, communication, fairness, employee involvement, conflict management, and organizational support.

HR departments traditionally act as a bridge between employees and management. They provide support regarding workplace issues, employee concerns, performance discussions, career development, and organizational communication.

Because HR outsourcing transfers certain responsibilities to external providers, it can significantly influence employee relationships.

Positive Effects of HR Outsourcing on Employee Relations

HR outsourcing may improve employee relations through:

1. Professional HR Support

External providers often possess specialized HR expertise, allowing organizations to provide professional and standardized employee services.

2. Improved Service Delivery

Outsourcing can reduce delays in HR processes such as:

- a) Payroll issues
- b) Employee documentation
- c) Benefits management



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3. Better Technology Access

External HR providers often introduce advanced HR systems that improve transparency and employee access to information.

Negative Effects of HR Outsourcing on Employee Relations

Despite these benefits, outsourcing may create challenges.

Employees may experience:

- a) Reduced personal interaction with HR representatives
- b) Lower emotional connection with the organization
- c) Communication difficulties
- d) Concerns about confidentiality

According to Cooke et al. (2022), employee perceptions of outsourcing depend strongly on communication quality, trust, and perceived organizational support. Poor communication during outsourcing implementation can increase uncertainty and employee resistance.

Therefore, organizations should outsource administrative HR functions while maintaining internal responsibility for employee-centered activities such as:

- i. Employee relations
- ii. Conflict resolution
- iii. Employee engagement
- iv. Career discussions

2.3 HR Outsourcing and Organizational Culture

Organizational culture refers to shared values, beliefs, behaviors, and assumptions that influence how employees think and act within an organization.

Culture is developed through:

- 1) Leadership behavior
- 2) HR policies
- 3) Recruitment practices
- 4) Training systems
- 5) Employee experiences



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6) Internal communication

HR departments play an important role in maintaining organizational culture because they manage activities that directly influence employee experiences.

Relationship Between HR Outsourcing and Culture

HR outsourcing can influence organizational culture in both positive and negative ways.

Positive Cultural Effects

Outsourcing may improve culture by:

- a) Introducing professional HR practices
- b) Improving consistency
- c) Enhancing employee services
- d) Increasing transparency

For example, outsourced HR technology platforms may improve employee access to information and create a more modern workplace experience.

Negative Cultural Effects

However, outsourcing employee-centered HR activities may create cultural challenges.

Potential problems include:

- A. Loss of organizational identity
- B. Reduced employee connection
- C. External providers misunderstanding company values
- D. Differences in communication style

According to Vrontis et al. (2022), successful outsourcing requires strong alignment between external providers and organizational culture. Cultural mismatch can reduce outsourcing effectiveness and negatively influence employee attitudes.

Therefore, organizations must evaluate cultural compatibility before selecting outsourcing partners.

2.4 Theoretical Framework

This research is supported by three major theories:

1. Resource-Based View Theory (RBV)



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2. Transaction Cost Economics Theory (TCE)
3. Strategic Human Resource Management Theory (SHRM)

Theoretical Relationship Between HR Outsourcing and Strategic Management

Theoretical Relationship Between HR Outsourcing and Strategic Management

Theory	Core Concept	Application to HR Outsourcing
 Resource-Based View Theory	Organizations gain advantage through valuable internal resources	 Strategic HR activities should remain internally controlled because they create unique organizational capabilities
 Transaction Cost Economics Theory	Organizations choose structures based on efficiency and transaction costs	 HR activities should be outsourced when external providers provide greater efficiency and lower operational costs
 Strategic HRM Theory	HR practices should support organizational strategy	 Outsourcing enables HR departments to shift from administrative roles toward strategic responsibilities



These theories explain how HR outsourcing supports strategic management by balancing the retention of core capabilities, reducing costs through efficient outsourcing, and enabling HR to focus on activities that create long-term value for the organization.



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2.4.1 Resource-Based View Theory

The Resource-Based View (RBV) developed by Barney (1991) explains that organizations achieve sustainable competitive advantage through resources that are valuable, rare, difficult to imitate, and strategically organized.

Human resources represent such resources because:

- a) Employee knowledge supports innovation.
- b) Skills improve productivity.
- c) Organizational culture creates uniqueness.
- d) Employee commitment improves performance.

From an outsourcing perspective, RBV suggests that organizations should retain internally those HR activities that create strategic value while outsourcing standardized activities that external providers can perform more efficiently.

For example:

Remain Internal

- 1) Employee relations
- 2) Leadership development
- 3) Organizational culture management

Suitable for Outsourcing

- 1) Payroll
- 2) HR technology
- 3) Background verification
- 4) Administrative processing

2.4.2 Transaction Cost Economics Theory

Transaction Cost Economics, developed by Williamson (1985), explains organizational decisions regarding internal production versus outsourcing.

Organizations evaluate:

- 1) Cost efficiency
- 2) Control requirements



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- 3) Risk
- 4) Complexity
- 5) Provider capability

According to this theory, outsourcing is beneficial when external providers can deliver better value than internal resources.

However, activities involving employee relationships and organizational knowledge may involve higher risks when outsourced.

2.4.3 Strategic Human Resource Management Theory

Strategic HRM theory explains that HR activities should contribute directly to organizational goals.

Modern HR departments are expected to support:

- 1) Business strategy
- 2) Talent development
- 3) Innovation
- 4) Employee engagement
- 5) Organizational performance

HR outsourcing supports SHRM by allowing HR professionals to focus on strategic activities rather than routine administrative work.

3. Research Methodology

3.1 Research Design

Research methodology provides the systematic framework through which data are collected, analyzed, and interpreted to address research objectives. This study adopted a quantitative research approach using a descriptive research design to examine the strategic role of Human Resource Outsourcing (HRO) and its impact on employee management in manufacturing organizations.

A quantitative approach was considered appropriate because the study aimed to measure organizational perceptions, outsourcing practices, and employee-related outcomes through structured numerical data. The descriptive research design enabled the researcher to examine existing HR outsourcing practices and identify patterns regarding outsourcing adoption, employee management outcomes, and strategic HR transformation.

The study specifically focused on the following dimensions:



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- a) Current HR outsourcing practices in manufacturing organizations
- b) Types of HR functions outsourced
- c) Reasons behind HR outsourcing decisions
- d) Impact of outsourcing on employee relationships
- e) Influence of outsourcing on organizational culture
- f) Transformation of HR departments from administrative to strategic roles
- g) Employee resistance and acceptance toward outsourcing practices

Primary data were collected through a structured questionnaire administered to HR managers and management representatives of manufacturing organizations in Pakistan.



Research Design Summary

Research Element	Description
 Research Topic	Strategic Role of Human Resource Outsourcing and Its Impact on Employee Management in Manufacturing Organizations
 Research Approach	Quantitative Research
 Research Design	Descriptive Research Design
 Research Method	Survey Method
 Data Collection Instrument	Structured Questionnaire
 Target Population	Manufacturing Organizations in Pakistan
 Total Population	7,297 Organizations
 Sample Size	200 Organizations
 Respondents	HR Managers and Management Representatives
 Sampling Technique	Convenience Sampling
 Data Analysis Techniques	Frequency Analysis, Percentage Analysis, Tabular Analysis, and Graphical Presentation



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3.2 Research Population and Sample

The target population of this study consisted of manufacturing organizations operating in Pakistan. The population framework was developed from manufacturing organizations registered with the Lahore Chamber of Commerce and Industry.

Manufacturing organizations were selected because this sector represents a workforce-intensive environment where effective HR practices are essential for managing:

- 1) Skilled labor requirements
- 2) Employee productivity
- 3) Workforce planning
- 4) Labor relations
- 5) Compliance obligations
- 6) Employee development

The total population consisted of 7,297 manufacturing organizations. Due to limitations of time, accessibility, and research resources, a sample of 200 organizations was selected for data collection.

The selected organizations represented diverse manufacturing industries to ensure broader understanding of HR outsourcing practices across different organizational environments.

The industries included:



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The inclusion of multiple industries increased the diversity of the sample and provided a more comprehensive view of HR outsourcing practices within Pakistan's manufacturing sector.

Population and Sample Characteristics

Description		Details
 Research Population	•	 Manufacturing Organizations in Pakistan
 Total Population Size	•	 7,297 Organizations
 Selected Sample	•	 200 Organizations
 Industries Covered	•	 12 Manufacturing Sectors
 Respondents	•	 HR Managers and Management Representatives
 Research Country	•	 Pakistan
 Research Sector	•	 Manufacturing



The study was conducted among **200 organizations** selected from a population of **7,297** manufacturing organizations across Pakistan, covering **12 different manufacturing sectors**.





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3.3 Sampling Technique

This study employed a non-probability convenience sampling technique.

Convenience sampling was selected because the research required access to organizations that were willing to participate and provide information regarding their HR outsourcing practices. Manufacturing organizations were approached through multiple channels, including:

- 1) Personal organizational visits
- 2) Professional networks
- 3) Business contacts
- 4) Email communication

This approach enabled efficient data collection from organizations with practical accessibility.

However, convenience sampling also has certain limitations because participants are not randomly selected. Therefore, although the findings provide valuable insights into HR outsourcing practices, caution should be applied when generalizing the results to all manufacturing organizations.

3.4 Research Instrument and Data Collection

The primary data collection instrument used in this research was a structured questionnaire.

The questionnaire was designed based on the research objectives and previous HR outsourcing literature. It aimed to measure organizational characteristics, outsourcing practices, strategic HR outcomes, and employee-related impacts.

The questionnaire collected information regarding:

- 1) Organizational profile
- 2) Number of employees
- 3) Workforce characteristics
- 4) Level of HR outsourcing
- 5) Outsourced HR functions
- 6) Reasons for outsourcing
- 7) Criteria for selecting outsourcing providers
- 8) Perceived impact on employees
- 9) Organizational views regarding outsourcing effectiveness



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The questionnaire consisted of 13 major questions covering organizational information, outsourcing practices, strategic considerations, and employee-related outcomes.

Table 1: Questionnaire Structure and Measurement Areas

Question Numbers	Research Dimension
Q1-Q4	Organization profile, workforce size, and employee categories
Q5	Level of outsourcing among different HR functions
Q6	Ranking and preference of HR functions for outsourcing
Q7	Main reasons for HR outsourcing adoption
Q8	Factors considered while selecting outsourcing providers
Q9	Required experience and capability of HR outsourcing companies
Q10	Growth trend of HR outsourcing practices
Q11-Q13	General organizational perceptions regarding HR outsourcing

3.5 Measurement Scale

To evaluate the extent to which different HR functions were outsourced, the study used a five-point measurement scale.

The scale helped classify HR activities according to their level of outsourcing adoption, ranging from highly outsourced functions to activities that organizations preferred to manage internally.

Table 2: HR Outsourcing Measurement Scale

Scale Value	Interpretation
1	Mostly Outsourced
2	Sometimes Outsourced
3	Average Outsourcing
4	Less Outsourced
5	Never Outsourced



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3.6 Variables of the Study

The research model consisted of one independent variable and three major dependent variables.

The independent variable was Human Resource Outsourcing, while the dependent variables represented employee management outcomes, strategic HR transformation, and organizational culture.

3.6.1 Independent Variable: Human Resource Outsourcing

Human Resource Outsourcing was considered the main explanatory variable of the study.

It was measured through outsourcing practices related to:

- 1) Payroll outsourcing
- 2) Recruitment outsourcing
- 3) Training outsourcing
- 4) HR technology outsourcing
- 5) Compliance outsourcing

These indicators represent the extent to which organizations utilize external HR service providers.

3.6.2 Dependent Variables

Employee Management

Employee management represents the effect of HR outsourcing on employee-related outcomes.

Indicators included:

- a) Employee relations
- b) Employee satisfaction
- c) Employee trust
- d) Employee morale

Strategic HR Role

These variable measures whether outsourcing enables HR departments to perform more strategic responsibilities.

Indicators included:

- a) Workforce planning



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- b) Talent management
- c) HR strategic contribution
- d) Employee development

Organizational Culture

This variable examines whether HR outsourcing influences organizational values and employee experiences.

Indicators included:

- 1. Internal communication
- 2. Organizational values
- 3. Employee connection
- 4. Management philosophy

Table 3: Variables and Measurement Indicators

Variable Type	Variable	Measurement Indicators
Independent Variable	Human Resource Outsourcing	Payroll outsourcing, recruitment outsourcing, HR systems, training outsourcing, compliance services
Dependent Variable	Employee Management	Employee satisfaction, trust, relations, morale
Dependent Variable	Strategic HR Role	Workforce planning, talent management, strategic HR contribution, employee development
Dependent Variable	Organizational Culture	Organizational values, communication, employee connection, management philosophy

3.7 Data Analysis Procedure

After data collection, responses were organized and analyzed using descriptive statistical techniques.

The following analytical methods were applied:

Frequency Analysis

Used to determine the number of organizations responding to each category.

Examples:



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1. Number of organizations outsourcing payroll
2. Number of organizations outsourcing recruitment
3. Number of organizations experiencing resistance

Percentage Analysis

Used to present responses in comparative form and identify trends among organizations.

Tabular Analysis

Tables were developed to summarize:

1. Organizational characteristics
2. Outsourcing practices
3. Employee-related impacts
4. Strategic HR outcomes

Graphical Analysis

Graphs and visual presentations were used to improve understanding of outsourcing patterns and organizational responses.

3.8 Ethical Considerations

The study followed standard research ethics throughout the data collection process.

The following ethical principles were maintained:

- 1) Participation was voluntary.
- 2) Respondents were informed about the academic purpose of the research.
- 3) Organizational information was kept confidential.
- 4) Data was used only for research purposes.
- 5) Responses were analyzed objectively without manipulation.



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Research Framework

The proposed framework explains the relationship between HR outsourcing and organizational outcomes.

Conceptual Framework of Strategic HR Outsourcing





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Hypotheses Development

Based on theoretical foundations and previous research, the following hypotheses were developed:

H1: Human Resource Outsourcing has a positive impact on HR efficiency.

H2: Human Resource Outsourcing influences employee relations.

H3: Human Resource Outsourcing affects organizational culture.

H4: Selective HR outsourcing improves the strategic role of HR departments.

H5: Employee-centered HR functions are more suitable for internal management.

Data Analysis Techniques

The collected data was analyzed using descriptive statistical techniques.

The following methods were applied:

Frequency Analysis

Used to identify response distribution.

Example:

- 1) Number of organizations outsourcing payroll
- 2) Number of organizations experiencing resistance

Percentage Analysis

Formula:

Percentage = (Frequency / Total Responses) × 100

Tabular Analysis

Tables were developed to compare:

- 1) Industry distribution
- 2) Outsourcing patterns
- 3) Employee impact
- 4) HR transformation

Graphical Analysis

Graphs were used to visually represent:



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- 1) Outsourcing trends
- 2) Employee perceptions
- 3) Strategic HR changes

Cumulative Frequency Analysis

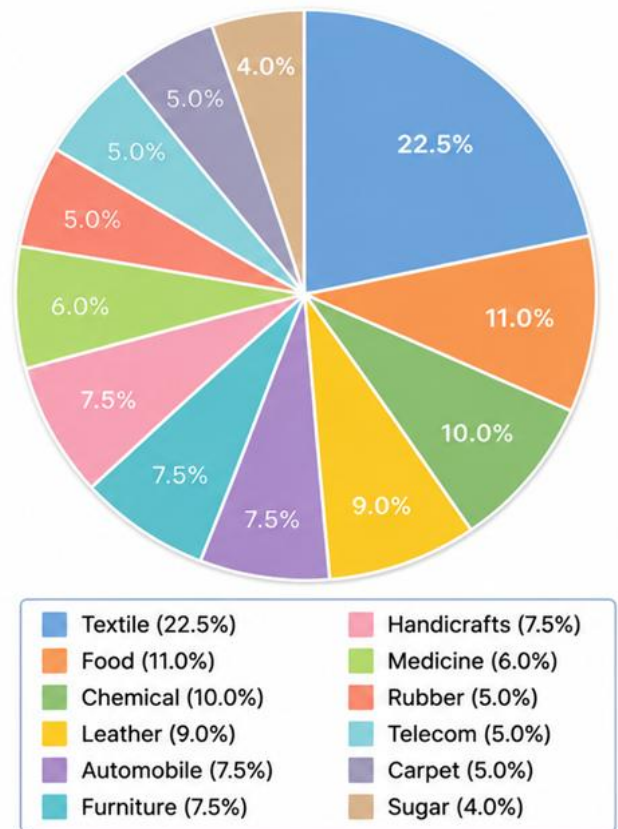
Used to identify overall outsourcing levels of HR functions.

4. Results and Findings

4.1 Industry-wise Distribution of Sample Organizations

Distribution of Organizations by Industry Sector (N = 200)

Industry Sector	Number of Organizations	Percentage
Textile	45	22.5%
Food	22	11.0%
Chemical	20	10.0%
Leather	18	9.0%
Automobile	15	7.5%
Furniture	15	7.5%
Handicrafts	15	7.5%
Medicine	12	6.0%
Rubber	10	5.0%
Telecom	10	5.0%
Carpet	10	5.0%
Sugar	8	4.0%
Total	200	100%



The table and pie chart show the percentage distribution of 200 manufacturing organizations across 12 industry sectors.

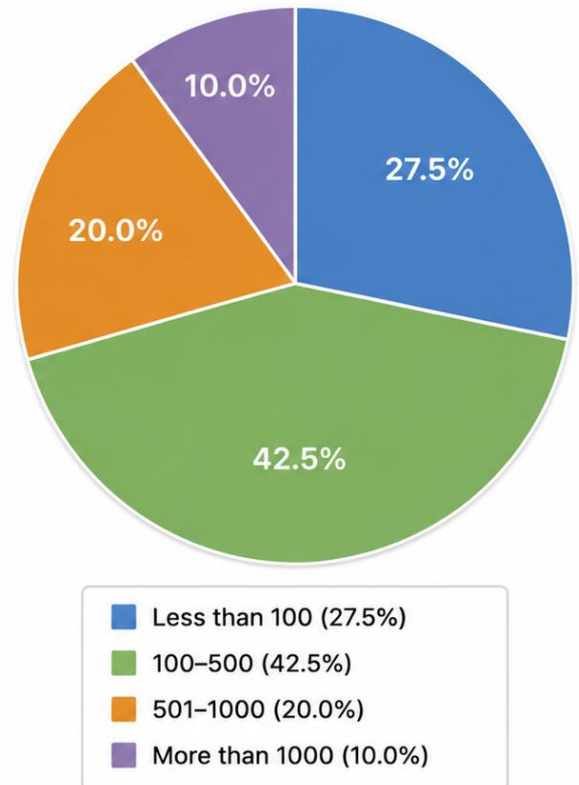


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Organization Size According to Number of Employees

Distribution of Organizations by Number of Employees (N = 200)

Number of Employees	Organizations (Count)	Percentage (%)
 Less than 100	55	27.5%
 100–500	85	42.5%
 501–1000	40	20.0%
 More than 1000	20	10.0%
Total	200	100%



The table and pie chart show the distribution of 200 manufacturing organizations across different employee size categories.

4. Results and Findings (Continued)

4.2 HR Outsourcing Practices in Manufacturing Organizations

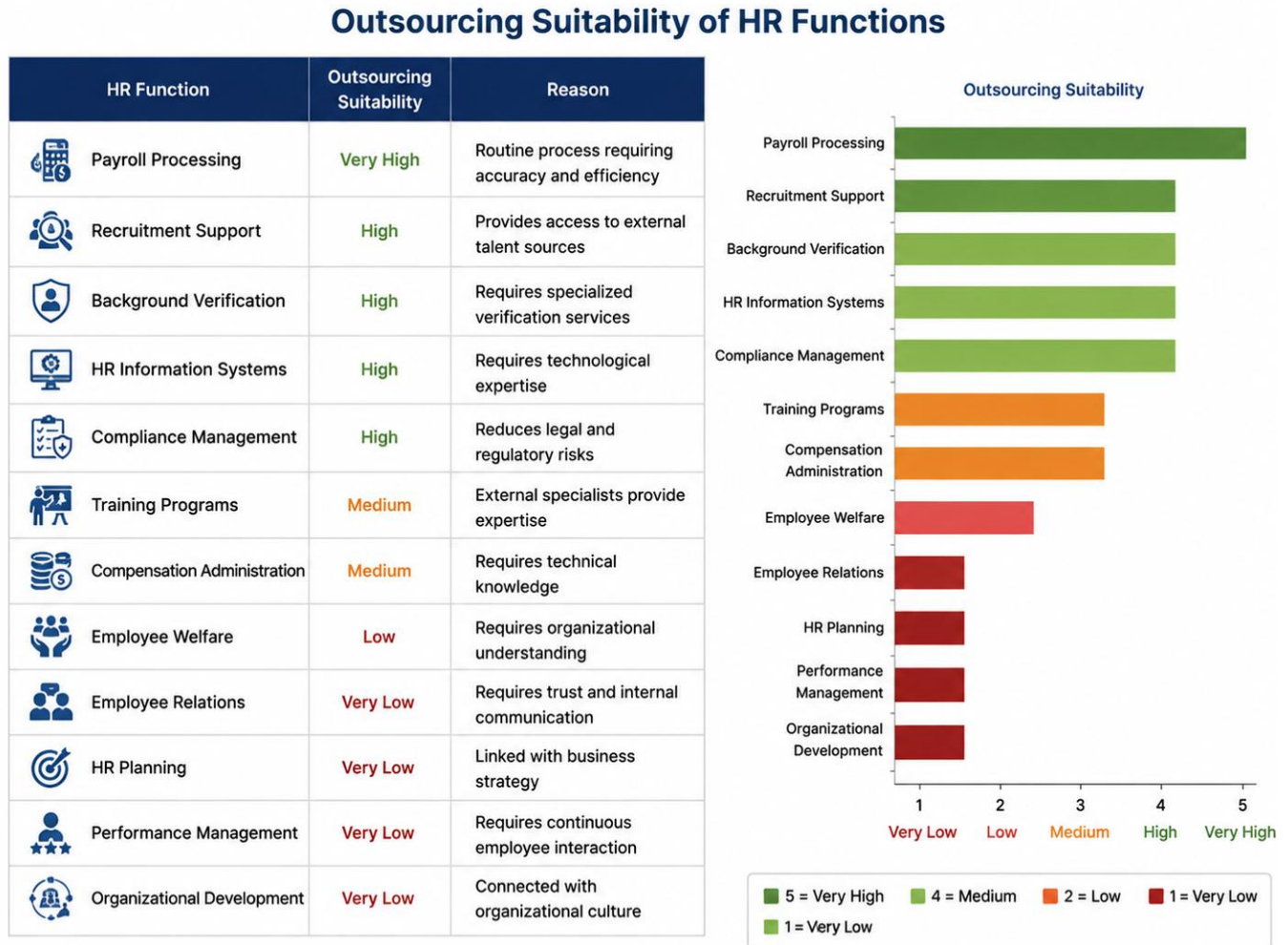
The study examined the extent to which different HR functions are outsourced by manufacturing organizations. The findings indicate that organizations do not outsource all HR activities equally. Instead, outsourcing decisions depend on the nature of HR functions, strategic importance, complexity, and employee impact.



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Administrative and technical HR activities are more frequently outsourced, while strategic and employee-centered activities are usually retained internally.

Outsourcing Level of Different HR Functions



The table and chart indicate the suitability level of different HR functions for outsourcing along with the reasons for outsourcing.

4.3 Impact of HR Outsourcing on Employee Relations

Employee relations represent the relationship between employees and management. Effective employee relations require:



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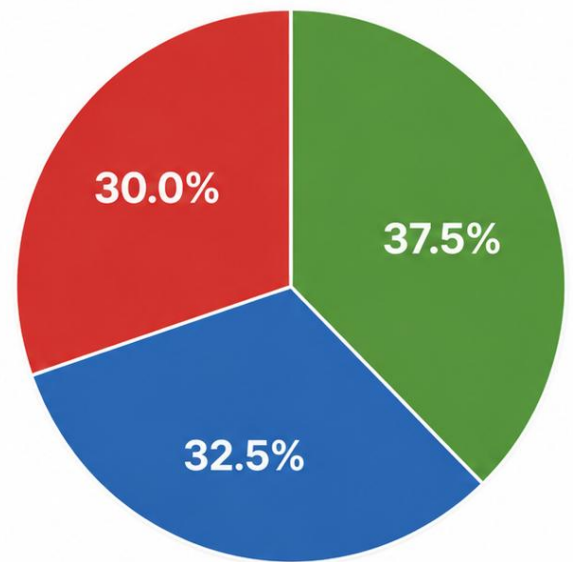
- Trust
- Communication
- Fair treatment
- Employee support
- Conflict resolution

The study examined whether HR outsourcing improves or reduces employee relations.

Impact of HR Outsourcing on Employee Relations

Impact of HR Outsourcing on Employee Relations (N = 200)

Response	Number of Organizations	Percentage
 Improves Employee Relations	75	37.5%
 No Significant Impact	65	32.5%
 Reduces Employee Interaction	60	30.0%
Total	200	100%



- Improves Employee Relations (37.5%)
- No Significant Impact (32.5%)
- Reduces Employee Interaction (30.0%)



The results show that 37.5% of organizations believe HR outsourcing improves employee relations, while 32.5% report no significant impact and 30.0% feel it reduces employee interaction.



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Interpretation

The results show that HR outsourcing has mixed effects on employee relations.

A total of 37.5% organizations reported improved employee relations after outsourcing. These organizations believe that external providers improve HR service quality and response efficiency.

However, 30% organizations reported reduced employee interaction. This indicates that outsourcing may create distance between employees and HR departments.

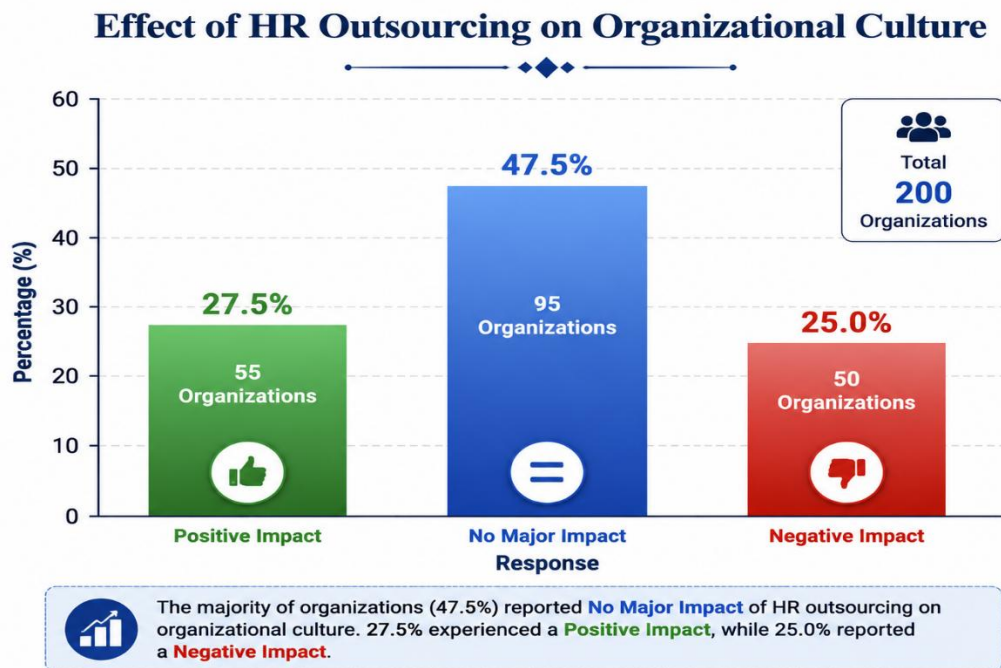
Therefore, organizations should outsource administrative functions while maintaining strong internal employee communication.

4.4 Impact of HR Outsourcing on Organizational Culture

Organizational culture is influenced by HR practices including recruitment, training, communication, and performance management.

Since HR outsourcing can influence employee interaction, the study examined whether outsourcing affects organizational culture.

Effect of HR Outsourcing on Organizational Culture





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Interpretation

The majority of organizations (47.5%) believe that HR outsourcing does not significantly affect organizational culture.

Around 27.5% reported positive effects because outsourcing improved HR processes and professionalism.

However, 25% reported negative effects, suggesting that outsourcing may create cultural problems if external providers do not understand organizational values.

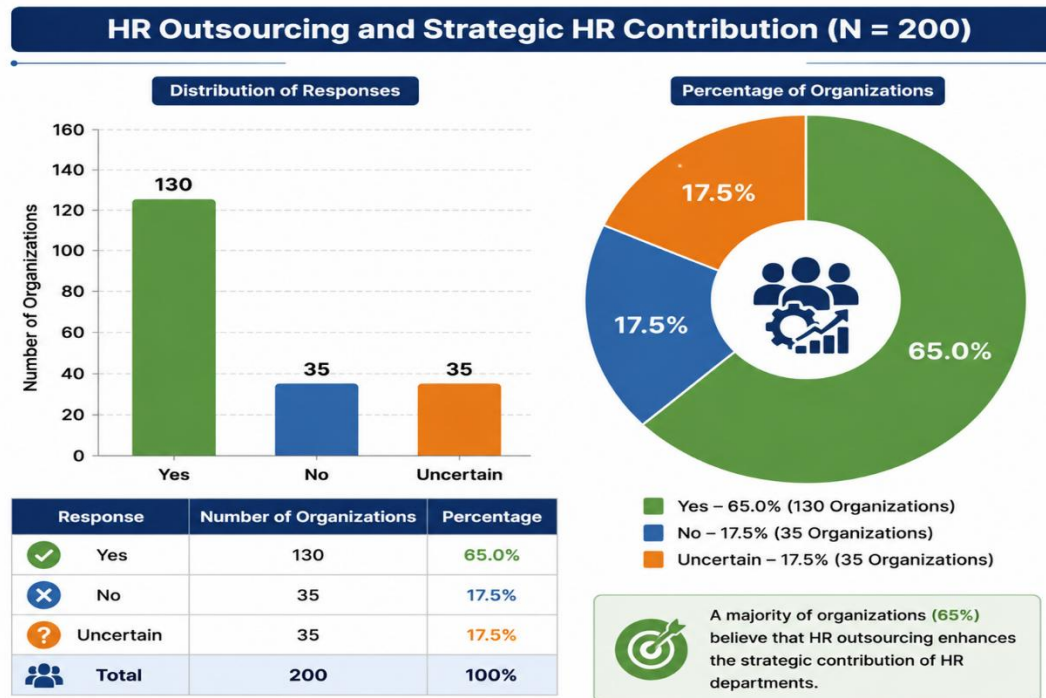
Organizations should ensure that outsourcing partners are culturally aligned with organizational objectives.

4.5 Impact of HR Outsourcing on Strategic Role of HR Department

One major objective of HR outsourcing is to allow internal HR professionals to focus on strategic responsibilities.

The study examined whether outsourcing increases the strategic contribution of HR departments.

HR Outsourcing and Strategic HR Contribution





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Interpretation

The findings strongly support the strategic value of HR outsourcing.

A majority of organizations (65%) believe outsourcing allows HR departments to focus on:

- Talent management
- Workforce planning
- Leadership development
- Employee engagement
- Organizational improvement

This demonstrates that outsourcing can transform HR from an administrative function into a strategic business partner.

4.6 Employee Resistance Toward HR Outsourcing

Employee resistance is one of the most important challenges associated with HR outsourcing.

Employees may resist outsourcing due to:

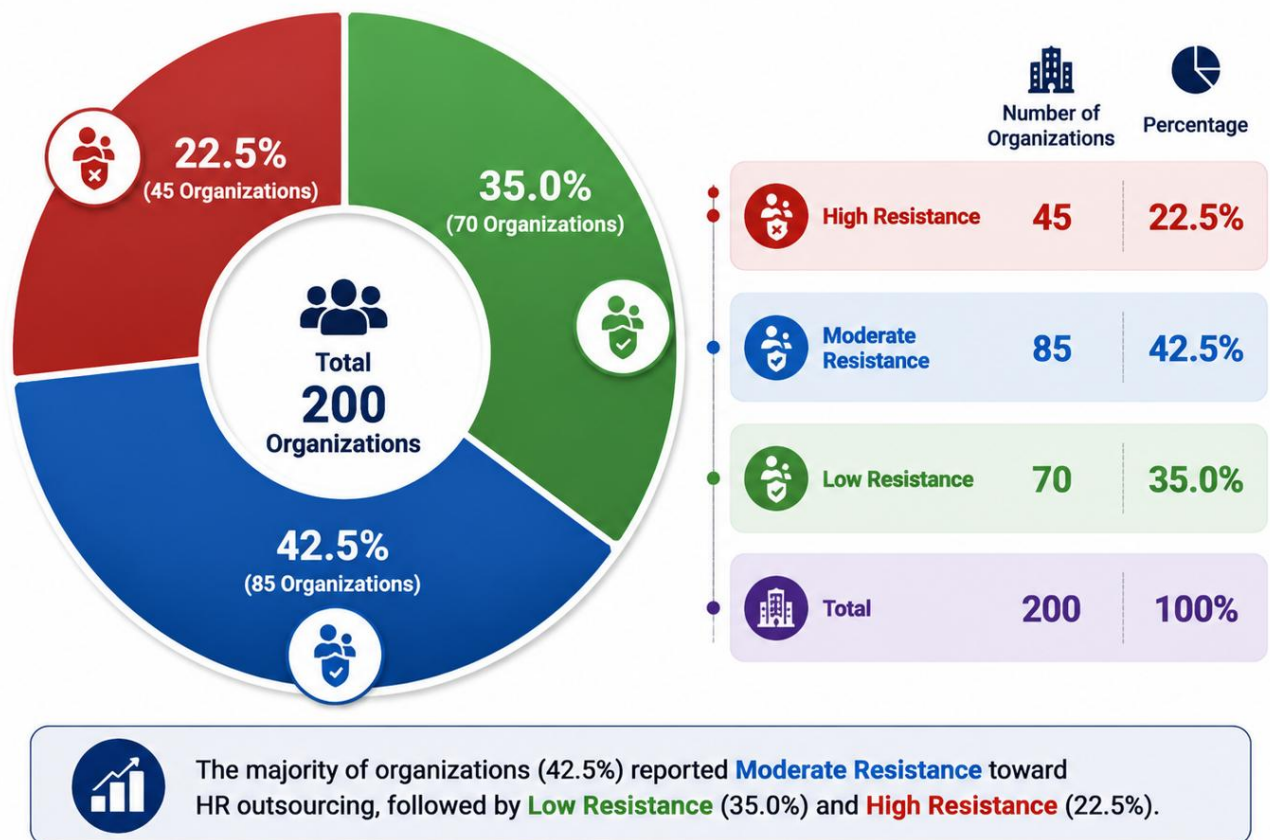
- i. Fear of job insecurity
- ii. Lack of information
- iii. Reduced HR interaction
- iv. Confidentiality concerns
- v. Uncertainty about future changes



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4.7 Employee Resistance Toward HR Outsourcing

Employee Resistance Toward HR Outsourcing



Source: Survey of 200 Organizations

Interpretation

Moderate resistance was the highest category (42.5%).

This indicates that employees are not completely against outsourcing but may have concerns regarding implementation.



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Organizations can reduce resistance through:

- Transparent communication
- Employee involvement
- Training sessions
- Clear explanation of outsourcing objectives

HR Functions Recommended to Remain Internal

Although outsourcing provides efficiency benefits, some HR functions require internal management because they directly influence organizational identity.

HR Functions Less Suitable for Outsourcing

HR Functions Less Suitable for Outsourcing

HR Function	Reason for Internal Management
 Employee Relations	Requires trust and employee understanding
 HR Planning	Connected with future organizational strategy
 Performance Management	Requires continuous interaction
 Organizational Development	Linked with culture and values
 Leadership Development	Requires internal organizational knowledge



Certain HR functions are core to organizational identity, culture, and long-term growth. Therefore, they are less suitable for outsourcing and should remain under internal management to ensure alignment with organizational goals and employee trust.



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4.8 Summary of Major Findings

The major findings of the study are:

1. Human Resource Outsourcing has become a strategic HR practice rather than only a cost-saving approach.
2. Manufacturing organizations prefer selective outsourcing instead of complete outsourcing.
3. Payroll, recruitment support, HR technology, and compliance services are the most suitable outsourced functions.
4. HR outsourcing improves HR efficiency and reduces administrative workload.
5. Outsourcing allows HR departments to focus on strategic responsibilities.
6. Employee relations may improve or decline depending on outsourcing implementation.
7. Organizational culture is not automatically damaged by outsourcing.
8. Employee resistance exists mainly because of uncertainty and communication gaps.
9. Strategic HR functions should remain internally managed.
10. A balanced outsourcing strategy creates greater organizational value.



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4.9. Hypothesis Testing

The study evaluated five hypotheses based on findings.

Hypothesis Testing Results

Hypothesis Testing Results

Hypothesis	Statement	Result
 H1	HR outsourcing positively affects HR efficiency	 Accepted
 H2	HR outsourcing influences employee relations	 Partially Accepted
 H3	HR outsourcing affects organizational culture	 Accepted
 H4	Selective outsourcing improves strategic HR role	 Accepted
 H5	Employee-centered HR functions are more suitable for internal management	 Accepted



The results indicate that four out of five hypotheses (**H1**, **H3**, **H4**, **H5**) are **Accepted**, while **H2** is **Partially Accepted**, suggesting that HR outsourcing has a significant overall impact on organizational outcomes.

Note: Based on survey data from 200 organizations

The findings of this study demonstrate that Human Resource Outsourcing (HRO) has evolved from a traditional cost-saving mechanism into an important strategic management practice that influences organizational efficiency, employee management, and the strategic contribution of HR departments. The results indicate that manufacturing organizations mainly outsource administrative and technology-oriented HR activities, such as payroll processing, recruitment support, HR information



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systems, and compliance-related services, while retaining employee-centered and strategically sensitive functions internally. This pattern reflects the contemporary understanding that outsourcing creates the greatest value when organizations combine external expertise with internal strategic control.

The finding that organizations prefer selective outsourcing rather than complete outsourcing is consistent with recent HR outsourcing literature. Modern organizations increasingly view outsourcing as a capability-enhancing strategy rather than simply a cost-reduction approach. According to Xiao et al. (2024), HR outsourcing has shifted toward strategic partnership models where organizations utilize external providers for specialized knowledge, technology, and operational efficiency while maintaining internal ownership of activities that influence organizational identity and competitive advantage. Similarly, Sakib et al. (2023) emphasized that successful HR outsourcing depends on balancing efficiency benefits with organizational control, employee considerations, and strategic alignment.

The results of this study also support the principles of Strategic Human Resource Management (SHRM) theory. A significant finding of the research is that 65% of organizations believe HR outsourcing enhances the strategic contribution of HR departments. This suggests that outsourcing routine administrative activities allows HR professionals to redirect their attention toward higher-value activities, including talent management, workforce planning, leadership development, employee engagement, and organizational improvement. This finding is supported by Armstrong and Taylor (2023), who argue that modern HR departments are expected to move beyond administrative responsibilities and contribute directly to organizational strategy and long-term performance.

The study findings further align with recent research on digital transformation and HR technology. As organizations increasingly adopt cloud-based HR systems, automation, and HR analytics, outsourcing provides access to specialized technological capabilities that may be difficult to develop internally. Marler and Boudreau (2023) highlighted that digital HR transformation enables organizations to improve workforce decision-making and operational efficiency by combining internal HR expertise with external technological solutions. Therefore, the outsourcing of HR information systems and technology-based functions identified in this study reflects the growing importance of digital capabilities in modern HR management.

The findings also provide support for the Resource-Based View (RBV) theory. According to RBV theory, organizations achieve sustainable competitive advantage through resources that are valuable, rare, difficult to imitate, and strategically managed (Barney, 1991). The results indicate that organizations prefer to retain internally those HR activities that contribute to unique organizational capabilities, particularly employee relations, organizational development, leadership management, and workforce planning. These functions are closely associated with organizational culture, employee



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commitment, and strategic knowledge, making them difficult to transfer completely to external providers. This finding is consistent with Boon et al. (2022), who emphasized that strategic HR practices create value when they are aligned with organizational capabilities and business objectives.

The study findings also support Transaction Cost Economics (TCE) theory, which suggests that organizations decide between internal management and outsourcing based on efficiency, cost, risk, and control considerations (Williamson, 1985). The results show that manufacturing organizations outsource activities where external providers can deliver greater efficiency, expertise, and cost advantages. For example, payroll processing, recruitment support, and compliance services are frequently outsourced because they are standardized processes with measurable outcomes. However, activities involving employee relationships and organizational culture are retained internally because outsourcing these functions may increase coordination challenges and reduce managerial control.

The relationship between HR outsourcing and employee relations requires careful consideration. Although some organizations reported improved employee relations due to professional HR services and better process efficiency, others expressed concerns regarding reduced employee interaction and organizational connection. This finding supports previous research indicating that outsourcing outcomes depend heavily on communication, trust, and employee perceptions of organizational support. Cooke et al. (2022) highlighted that employees evaluate outsourcing decisions not only based on operational outcomes but also according to fairness, transparency, and the quality of communication during implementation. Therefore, organizations should ensure that outsourcing decisions are communicated clearly and that employees continue to receive adequate internal support.

The study also highlights the importance of organizational culture when implementing HR outsourcing. Since HR practices influence organizational values, employee experiences, and workplace identity, outsourcing culturally sensitive activities requires careful planning. Recent studies emphasize that outsourcing partnerships are successful when external providers understand organizational values, leadership philosophy, and employee expectations. Vrontis et al. (2022) noted that technology and external service providers can enhance HR effectiveness, but successful implementation requires alignment between external solutions and organizational culture.

The findings regarding employee resistance further demonstrate that outsourcing is not only an operational decision but also a change-management challenge. Employees may resist outsourcing due to uncertainty, fear of reduced support, concerns about job security, or reduced connection with internal HR departments. Therefore, effective communication, employee involvement, and transparent implementation processes are essential for reducing resistance. This supports the findings of Ruel and Njoku (2021), who emphasized that employee acceptance of HR transformation



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initiatives depends strongly on trust, communication quality, and perceived organizational commitment.

Overall, this study confirms that HR outsourcing provides significant strategic benefits when implemented through a balanced approach. Organizations should outsource routine, technology-based, and specialized HR activities while maintaining internal control over strategic employee-focused functions. The findings suggest that the success of HR outsourcing depends not only on cost savings but also on strategic alignment, vendor capability, cultural compatibility, employee communication, and continuous performance monitoring.

Therefore, the study concludes that effective HR outsourcing does not replace the strategic role of HR departments; rather, it enables HR professionals to transition from administrative managers to strategic partners who contribute to organizational effectiveness and sustainable competitive advantage.

4.10. Managerial Implications

The findings provide several practical implications.

For HR Managers

HR managers should evaluate each HR activity before outsourcing.

They should consider:

- i. Strategic importance
- ii. Employee impact
- iii. Cost efficiency
- iv. Vendor capability

For Manufacturing Organizations

Organizations should outsource:

- i. Payroll processing
- ii. Recruitment support
- iii. Background verification
- iv. HR technology services

Organizations should maintain internal control over:

- i. Employee relations



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- ii. Performance management
- iii. HR planning
- iv. Organizational development

For Outsourcing Providers

Service providers should focus on:

- i. Understanding organizational culture
- ii. Maintaining confidentiality
- iii. Providing customized HR solutions
- iv. Improving employee experience

4.11. Recommendations

Based on the findings of this study, the following recommendations are proposed for manufacturing organizations implementing Human Resource Outsourcing strategies.

4.11.1 Adopt Selective HR Outsourcing

Organizations should avoid complete outsourcing of all HR activities. Instead, they should adopt a selective outsourcing approach where only suitable functions are transferred to external providers.

Functions recommended for outsourcing include:

- i. Payroll processing
- ii. Recruitment support
- iii. Background verification
- iv. HR information systems
- v. Compliance management
- vi. Administrative HR activities

These functions are process-oriented and can be performed efficiently by specialized providers.

However, strategic employee-related functions should remain internally managed.

4.11.2 Maintain Internal Control Over Employee-Centered Functions

Certain HR activities directly influence organizational culture and employee commitment. Therefore, organizations should maintain internal responsibility for:



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1. Employee relations
2. Performance management
3. Organizational development
4. Workforce planning
5. Leadership development

These functions require direct understanding of employees, workplace culture, and organizational goals.

4.11.3 Improve Employee Communication During Outsourcing

Employee resistance was identified as an important challenge.

Organizations should communicate clearly with employees regarding:

1. Reasons for outsourcing
2. Expected benefits
3. Changes in HR processes
4. Employee support mechanisms

Effective communication can reduce uncertainty and improve employee acceptance.



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4.11.4 Select Appropriate Outsourcing Partners

Organizations should carefully evaluate outsourcing providers before establishing partnerships.

Vendor selection criteria should include:

Vendor Selection Criteria

Key factors to consider when selecting an HR outsourcing vendor

Selection Factor	Importance
 Industry Experience	 Understanding of manufacturing HR requirements
 Reputation	 Reliability and service quality
 Technology Capability	 Availability of modern HR systems
 Data Security	 Protection of employee information
 Communication Ability	 Effective coordination with employees
 Compliance Knowledge	 Understanding of labor regulations
 Selecting the right HR outsourcing vendor is critical for ensuring efficiency, compliance, data security, and employee satisfaction. 	



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4.11.5 Establish Service Level Agreements (SLAs)

Organizations should develop clear agreements with outsourcing providers.

SLAs should define:

1. Service responsibilities
2. Response time
3. Performance standards
4. Confidentiality requirements
5. Reporting procedures
6. Evaluation methods

Continuous monitoring ensures that outsourcing improves HR effectiveness rather than reducing service quality.

4.11.6 Protect Employee Information

HR outsourcing involves sharing sensitive employee information with external providers.

Organizations must establish strong data protection measures for:

1. Employee records
2. Salary information
3. Personal details
4. Performance information
5. Employment history

Confidentiality agreements and secure HR technology systems should be implemented.

4.12. Limitations of the Study

Although this research provides valuable insights, several limitations should be considered.

First Limitation: Research Scope

The study focused only on manufacturing organizations in Pakistan.

Therefore, findings may not fully represent:

1. Service organizations



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2. Public-sector organizations
3. International organizations

Second Limitation: Sampling Method

The study used convenience sampling.

Although this method allowed practical data collection, it may reduce the generalizability of findings.

Future studies should use probability sampling techniques.

Third Limitation: Respondent Perspective

Data was collected mainly from:

1. HR representatives
2. Management representatives

The direct opinions of employees were not extensively examined.

Future studies should include employee perspectives.

Fourth Limitation: Research Method

The study mainly used descriptive statistical analysis.

Future research may apply advanced statistical techniques such as:

1. Regression analysis
2. Structural Equation Modeling (SEM)
3. Correlation analysis
4. Comparative analysis

4.13. Future Research Directions

Future studies may explore the following areas:

4.13.1 HR Outsourcing and Employee Motivation

Future research can examine whether outsourcing influences employee motivation, engagement, and commitment.

4.13.2 Outsourcing and Employee Retention

Future studies may investigate whether HR outsourcing affects employee turnover and retention rates.



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4.13.3 Technology and HR Outsourcing

The role of:

1. Artificial Intelligence
2. HR Analytics
3. Digital HR platforms
4. Automation

in HR outsourcing requires further investigation.

4.13.4 Cross-Sector Comparison

Future research may compare HR outsourcing practices between:

1. Manufacturing sector
2. Banking sector
3. Healthcare sector
4. Education sector
5. Technology sector

4.13.5 Cross-Country Research

Comparative studies between Pakistan and other developing or developed economies may provide deeper understanding of outsourcing practices.

4.13.6 Conclusion

Human Resource Outsourcing has become an important strategic practice for modern organizations. This study examined the strategic role of HR outsourcing and its impact on employee management in manufacturing organizations.

The findings demonstrate that HR outsourcing provides several benefits, including:

- 1) Improved HR efficiency
- 2) Reduced administrative workload
- 3) Access to specialized expertise
- 4) Better HR technology utilization
- 5) Increased strategic contribution of HR departments



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The study confirms that outsourcing enables HR professionals to shift from routine administrative activities toward strategic responsibilities such as:

- 1) Talent management
- 2) Workforce planning
- 3) Employee development
- 4) Leadership development

However, the research also demonstrates that outsourcing should not replace internal HR management completely.

Functions such as:

- 1) Employee relations
- 2) Performance management
- 3) Organizational development
- 4) HR planning

Should remain internally managed because they directly influence:

- 1) Organizational culture
- 2) Employee trust
- 3) Commitment
- 4) Workplace relationships

The most effective strategy is a balanced HR outsourcing approach. Organizations should outsource routine and technical HR activities while maintaining internal control over strategic employee-centered functions.

When properly planned and implemented, Human Resource Outsourcing can become a powerful tool for improving organizational effectiveness and achieving sustainable competitive advantage.



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