



Impact of Human Resource Outsourcing on Organizational Performance in Manufacturing Sector

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 become an important strategic practice that helps organizations improve efficiency, reduce costs, access specialized expertise, and focus on core business activities. This study examines the impact of HR outsourcing on organizational performance in the manufacturing sector of Pakistan. The research investigates HR outsourcing adoption, commonly outsourced HR functions, reasons for outsourcing, and its effects on organizational performance. A quantitative research approach was adopted, and data was collected through a structured questionnaire from 200 manufacturing organizations representing different industries. The collected data was analyzed using descriptive statistical techniques, including frequency, percentage, graphical, and comparative analysis. The findings indicate that HR outsourcing is widely adopted, particularly for recruitment, payroll, employee verification, and administrative HR activities. Cost reduction was identified as the major reason for outsourcing, followed by access to expertise, improved efficiency, and strategic HR focus. The study concludes that selective HR outsourcing positively contributes to organizational performance by reducing administrative workload, improving HR efficiency, and supporting competitive advantage. However, challenges such as loss of control, confidentiality risks, and vendor dependency require effective management. The study provides practical insights for HR managers and organizational leaders regarding effective implementation of HR outsourcing strategies in the manufacturing sector.

Keywords: Human Resource Outsourcing, Organizational Performance, Manufacturing Sector, HR Functions, Outsourcing Strategy, Cost Reduction, Operational Efficiency, Strategic Human Resource Management, Pakistan.



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1. Introduction

1.1 Background of the Study

In the contemporary business environment, organizations operate under intense pressure to improve productivity, reduce operating costs, maintain regulatory compliance, and achieve sustainable competitive advantage. Globalization, technological change, digital transformation, economic uncertainty, and increased competition have significantly changed the way organizations manage their internal operations and human resources. The World Economic Forum's *Future of Jobs Report 2025* highlights that technological change, economic uncertainty, geoeconomic fragmentation, demographic shifts, and the green transition are major forces reshaping jobs, skills, and workforce strategies up to 2030 (World Economic Forum, 2025). Similarly, Deloitte's global human capital research emphasizes that organizations are increasingly required to redesign work, develop workforce adaptability, and integrate people, skills, technology, and data in more flexible ways (Deloitte, 2026).

Among all organizational resources, human resources remain one of the most critical assets because employees directly influence productivity, innovation, operational quality, customer satisfaction, and long-term business performance. The resource-based view argues that valuable, rare, inimitable, and well-organized resources can become a source of competitive advantage, and human capital is one of the most important strategic resources when it is effectively developed and managed (Barney, 1991). In this context, Human Resource Management has moved beyond traditional administrative responsibilities and has become an important strategic function that supports business growth, workforce planning, talent development, organizational learning, and performance improvement (Ulrich, 1997; Ulrich et al., 2012).

Traditionally, HRM was mainly viewed as an administrative function responsible for recruitment, payroll, employee record keeping, compensation administration, leave management, and compliance documentation. However, the changing nature of business has transformed HR into a strategic business partner. Modern HR departments are expected not only to manage employee-related processes but also to contribute to strategic decision-making, organizational culture, workforce capability, employee engagement, and sustainable performance (Deloitte, 2026; PwC, 2024). This shift has increased the workload and complexity of HR departments, particularly in organizations that operate in labor-intensive sectors such as manufacturing.

Manufacturing organizations face unique challenges because they manage large workforces that include production workers, technical staff, supervisors, engineers, administrative employees, and contract labor. These organizations must deal with production targets, labor cost control, employee safety, skills development, compliance with labor laws, quality standards, and global buyer



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requirements. In Pakistan, the manufacturing sector, especially the textile and apparel industry, plays a major role in exports and employment. Pakistan's official *Textiles and Apparel Policy 2020–25* states that the sector contributes around 60% of total exports and supports large, medium, and small-scale manufacturing and employment (Ministry of Commerce, Government of Pakistan, 2022). The same policy identifies high cost of doing business, technological advancement, regulatory compliance, low productivity, skill development, and global sourcing pressure as major challenges for Pakistan's textile and apparel industry (Ministry of Commerce, Government of Pakistan, 2022).

Due to these pressures, manufacturing organizations increasingly search for strategies that allow them to improve efficiency while focusing on their core production and business activities. One such strategy is outsourcing. Outsourcing refers to the transfer of selected business activities or processes to an external specialized service provider rather than performing them entirely within the organization. The outsourcing decision is often explained through transaction cost economics, which suggests that organizations compare the cost and efficiency of internal production with external contracting (Williamson, 1985). It is also linked with the core competency perspective, which argues that organizations should focus internal resources on activities that create unique value while outsourcing non-core or support functions to specialized providers (Prahalad & Hamel, 1990).

Human Resource Outsourcing has therefore emerged as an important strategic practice. Instead of managing all HR activities internally, organizations may outsource selected HR functions such as recruitment, payroll processing, training, background verification, benefits administration, HR information systems, and legal compliance. A recent systematic literature review by Sakib, Tabassum, and Uddin (2023) found that organizations adopt HRO mainly to achieve cost advantage, organizational learning, access to specialized expertise, and the ability to concentrate on core business functions. However, the same review also notes that HRO may create challenges such as lack of employee psychological connection, vendor opportunism, weak legislation, dependency on external providers, and limited prior outsourcing experience (Sakib et al., 2023).

In the manufacturing sector, HRO is particularly relevant because HR functions are closely connected with workforce availability, labor productivity, industrial relations, employee training, and legal compliance. Manufacturing firms often require timely hiring of skilled and semi-skilled workers, accurate payroll systems, training for technical and safety standards, and compliance with labor regulations. In Pakistan, initiatives such as the ILO Better Work Pakistan programme have emphasized the importance of improving labor law compliance, working conditions, and competitiveness in textile and garment export enterprises (International Labour Organization, 2025). These developments show that HR practices in manufacturing are no longer limited to internal administration; rather, they are directly linked with business competitiveness, compliance, export reputation, and organizational sustainability.



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Therefore, this study focuses on Human Resource Outsourcing in manufacturing organizations, particularly in the context of Pakistan's manufacturing sector. The study is important because many manufacturing organizations operate in competitive and cost-sensitive environments where HR efficiency can influence overall performance. Understanding the role, benefits, challenges, and adoption of HRO can help organizations decide which HR activities should be outsourced, which should remain internal, and how outsourcing can be managed strategically.

1.2 Introduction to Human Resource Outsourcing

Human Resource Outsourcing is defined as the practice in which an organization transfers responsibility for selected HR activities to an external service provider. The external provider performs these functions using its own expertise, technology, systems, and professional knowledge, while the client organization continues to focus on its core business activities (Cooke et al., 2005; Sakib et al., 2023). HRO may involve outsourcing a single HR activity, such as payroll processing, or a wider range of HR functions, such as recruitment, benefits administration, training, HR technology, and compliance management.

HRO can be classified into different forms. First, transactional HR outsourcing involves routine and repetitive HR tasks such as payroll, attendance records, employee documentation, and benefits processing. Second, professional or specialized HR outsourcing includes activities requiring technical expertise, such as recruitment process outsourcing, training design, compensation benchmarking, and legal compliance. Third, strategic HR outsourcing may involve broader HR support, such as workforce planning, talent management systems, HR analytics, and organizational development support (Cooke et al., 2005; Kremic et al., 2006; Sakib et al., 2023).

Commonly outsourced HR functions include recruitment and selection, payroll management, employee benefits administration, training and development, background verification, compensation management, HR information systems, and labor law compliance. According to Sakib et al. (2023), recruitment, payroll processing, and technology-centered HR activities are among the most commonly outsourced HR functions. These functions are often outsourced because specialized vendors may perform them more efficiently, accurately, and cost-effectively than internal departments, especially when the organization lacks advanced HR technology or specialist HR expertise.

Organizations choose HRO for several reasons. Cost reduction is one of the most frequently cited motives because outsourcing may reduce the need for large internal HR teams, expensive software, and administrative infrastructure (Kremic et al., 2006; Sakib et al., 2023). Access to specialized expertise is another important reason because external providers may have better knowledge of labor laws, recruitment markets, payroll systems, training methods, and HR technologies. HRO also allows



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organizations to focus on core business functions such as production, operations, marketing, and customer service (Prahalad & Hamel, 1990; Sakib et al., 2023).

However, HR outsourcing should not be treated as a simple cost-cutting tool only. It must be aligned with organizational strategy, employee needs, and long-term performance goals. Excessive outsourcing may weaken internal HR capability, reduce control over employee-related decisions, create dependency on vendors, and negatively affect employee trust if not properly managed (Cooke et al., 2005). Therefore, organizations must carefully decide which HR activities are suitable for outsourcing and which activities should remain under internal control.

1.3 Evolution of Outsourcing

Outsourcing has evolved significantly over the last few decades. In earlier business models, organizations preferred to perform most activities internally in order to maintain control, protect information, and reduce dependency on external parties. However, increased competition, globalization, and technological development encouraged organizations to reconsider this approach. Instead of internally managing every function, organizations began focusing on core competencies and outsourcing non-core activities to specialized providers (Prahalad & Hamel, 1990).

The evolution of outsourcing is closely related to changes in business strategy. Initially, outsourcing was mainly used for cost reduction and operational efficiency. Organizations outsourced activities such as cleaning, security, transportation, and basic administrative services. Later, outsourcing expanded into more complex business functions such as information technology, customer service, finance, logistics, and human resource management (Kremic et al., 2006). Today, outsourcing is no longer viewed only as a cost-saving practice; it is also used to access innovation, digital technology, expertise, flexibility, and improved service quality (Sakib et al., 2023).

The growth of outsourcing has been influenced by several factors. These include increasing global competition, pressure to reduce costs, technological advancement, digital platforms, availability of specialized service providers, changing labor markets, and the need for operational flexibility. In the HR field, the rise of HR information systems, cloud-based payroll, digital recruitment platforms, learning management systems, and HR analytics has made outsourcing more practical and attractive for organizations (Deloitte, 2026; Sakib et al., 2023).

The COVID-19 pandemic and post-pandemic digital transformation also accelerated the need for flexible HR models. Organizations had to manage remote work, workforce restructuring, health and safety requirements, employee wellbeing, and rapid digital adoption. PwC's global workforce research shows that many employees experienced increased change, higher workloads, and the need to learn new technologies, making workforce adaptability and upskilling central concerns for organizations



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(PwC, 2024). These trends have strengthened the importance of professional HR systems and external HR support.

In modern organizations, outsourcing decisions are increasingly strategic. Organizations do not simply ask whether outsourcing is cheaper; they also consider whether outsourcing improves quality, speed, compliance, technology access, and strategic focus. Therefore, HRO has become an important part of broader HR transformation and business process restructuring.

1.4 HR Outsourcing in the Manufacturing Sector

Manufacturing organizations have distinctive HR requirements because they operate in production-oriented environments where workforce efficiency directly affects output, quality, cost, and delivery time. These organizations employ different categories of workers, including skilled labor, semi-skilled labor, machine operators, supervisors, technicians, engineers, safety staff, and administrative employees. Managing such a diverse workforce requires strong HR systems, accurate payroll processing, effective recruitment, training, compliance monitoring, and employee relations management.

HR outsourcing can support manufacturing organizations in several ways. First, recruitment outsourcing can help firms access a larger pool of skilled candidates, especially for technical and production-related roles. Second, payroll outsourcing can improve accuracy, confidentiality, and timely salary processing. Third, training outsourcing can help manufacturing firms provide professional development, safety training, technical training, and compliance-related learning. Fourth, outsourcing legal compliance can reduce the risk of labor law violations and help firms meet regulatory and buyer requirements. Fifth, HR technology outsourcing can give firms access to modern HR systems without heavy internal investment (Gilley et al., 2004; Sakib et al., 2023).

Manufacturing firms may benefit from outsourcing because external HR providers often possess specialized knowledge, updated systems, and experience across multiple industries. For example, a payroll provider may have advanced software and tax knowledge, while a recruitment agency may have better access to labor markets and candidate databases. Similarly, training providers may offer specialized programs related to workplace safety, technical skills, leadership, and compliance.

In Pakistan, HR outsourcing is especially relevant for manufacturing industries such as textile, leather, chemical, automobile, food, pharmaceutical, rubber, sugar, telecom-related manufacturing, furniture, carpet, and handicrafts. Many of these industries are labor-intensive and operate under cost pressure, export competition, and compliance requirements. Pakistan's textile and apparel policy highlights that the sector faces challenges related to technological advancement, regulatory compliance, productivity, cost reduction, skill development, and sustainability (Ministry of Commerce, Government of Pakistan,



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2022). These challenges indicate the need for stronger HR systems and professional workforce management.

The ILO Better Work Pakistan evaluation further shows the importance of labor standards, working conditions, compliance assessments, and advisory support in Pakistan's textile and garment export factories (International Labour Organization, 2025). Such initiatives demonstrate that workforce management in manufacturing is not only an internal HR matter but also a competitiveness issue. Firms that manage recruitment, payroll, training, safety, and compliance more effectively may improve productivity, reduce risks, and strengthen their reputation with buyers and regulators.

However, HR outsourcing in manufacturing also involves risks. These include loss of internal control, poor vendor quality, employee dissatisfaction, confidentiality concerns, and misalignment between the external provider and organizational culture (Cooke et al., 2005; Kremic et al., 2006; Sakib et al., 2023). For this reason, manufacturing firms must carefully evaluate outsourcing decisions. Activities that are routine, standardized, and technology-based may be more suitable for outsourcing, while highly strategic HR activities such as employee relations, organizational culture, leadership development, and internal workforce planning may require stronger internal control.

Therefore, HR outsourcing should be adopted as a planned and strategic decision rather than an informal cost-cutting practice. Manufacturing organizations should assess vendor capability, service quality, data security, legal compliance, cost-effectiveness, employee impact, and long-term organizational needs before outsourcing HR activities.

1.5 Problem Statement

Manufacturing organizations operate in an increasingly competitive environment where they must improve productivity, control operational costs, manage workforce challenges, and maintain sustainable growth. Human resource management plays a crucial role in achieving these objectives; however, many manufacturing companies face difficulties in effectively managing HR activities due to increasing workforce complexity, skilled labor shortages, compliance requirements, administrative workload, and the need for advanced HR systems. Traditional in-house HR management often requires significant time, resources, and expertise, which may prevent organizations from focusing on their core production activities and strategic goals. Human Resource Outsourcing has emerged as a potential solution by allowing organizations to transfer selected HR functions to specialized external providers, but many manufacturing organizations remain uncertain about its effectiveness, potential benefits, risks, and suitability for their operational needs. Concerns related to loss of control, confidentiality, service quality, employee acceptance, and dependency on external providers create challenges in adopting outsourcing practices. Furthermore, limited research exists regarding the role and impact of HR outsourcing within manufacturing organizations, particularly in the context of



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developing economies. Therefore, this study aims to investigate the adoption of Human Resource Outsourcing in manufacturing organizations, examine its benefits and challenges, and evaluate how outsourcing HR functions can contribute to improved efficiency, workforce management, and overall organizational performance.

1.6 Research Objectives

The main objective of this study is to examine the role and impact of Human Resource Outsourcing (HRO) in manufacturing organizations. The specific objectives of the study are:

1. To examine the impact of HR outsourcing on overall organizational performance.
2. To determine whether HR outsourcing contributes to reducing organizational operational costs.
3. To analyze the effect of HR outsourcing on time efficiency and operational effectiveness.
4. To examine whether HR outsourcing enables HR professionals to focus on strategic human resource activities.
5. To identify the HR functions that are most suitable for outsourcing in manufacturing organizations.
6. To investigate whether the adoption of HR outsourcing varies according to organizational size.
7. To examine differences in HR outsourcing practices across different manufacturing industries.
8. To evaluate the relationship between HR outsourcing and organizational competitiveness.
9. To identify the major advantages and disadvantages associated with HR outsourcing adoption.
10. To provide recommendations for the effective implementation and management of HR outsourcing practices in manufacturing organizations.

1.7 Research Questions

This study seeks to answer the following research questions:

1. Does HR outsourcing improve organizational performance in manufacturing organizations?
2. Does HR outsourcing help organizations reduce operational costs?
3. Which HR functions are commonly outsourced by manufacturing organizations?
4. Does HR outsourcing enable HR departments to focus on strategic roles and activities?
5. What are the major benefits and challenges associated with HR outsourcing?



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6. Does HR outsourcing contribute to achieving competitive advantage for manufacturing organizations?
7. Does the adoption of HR outsourcing differ according to organizational size and industry type?
8. What factors influence organizations' decisions to adopt HR outsourcing practices?

1.8 Significance of the Study

This study is significant as it provides valuable insights into the role, effectiveness, and implications of Human Resource Outsourcing (HRO) in manufacturing organizations. The research contributes to understanding how outsourcing HR functions can influence organizational performance, cost efficiency, operational effectiveness, and competitive advantage. The findings of this study will be beneficial for various stakeholders:

HR Managers: This study will help HR managers understand which human resource functions are suitable for outsourcing and how outsourcing can improve HR service delivery, reduce administrative workload, and allow greater focus on strategic HR activities.

Manufacturing Organizations: The research will provide guidance to manufacturing organizations regarding the potential benefits, challenges, and practical considerations of adopting HR outsourcing practices to improve efficiency, reduce costs, and enhance workforce management.

Organizational Management: The study will support managers and decision-makers in developing effective outsourcing strategies by providing information about the factors influencing HR outsourcing decisions, implementation challenges, and its contribution to organizational competitiveness.

Researchers and Academics: This study will contribute to the existing literature on HR outsourcing by providing insights into outsourcing practices within the manufacturing sector of Pakistan. It may also serve as a reference for future researchers interested in human resource management, outsourcing strategies, and organizational performance.

1.9 Scope of the Study

This study focuses on Human Resource Outsourcing practices within manufacturing organizations operating in Pakistan. The research examines the outsourcing of different HR functions and evaluates their impact on organizational performance, operational efficiency, cost reduction, and competitiveness.

The study covers various manufacturing industries, including:

- a) Textile



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- b) Leather
- c) Chemical
- d) Automobile
- e) Food
- f) Pharmaceutical/Medicine
- g) Rubber
- h) Sugar
- i) Telecom-related manufacturing
- j) Furniture
- k) Carpet
- l) Handicrafts

The study investigates the extent to which manufacturing organizations outsource HR activities such as recruitment and selection, payroll management, employee training and development, benefits administration, HR information systems, and compliance-related activities. It also explores the benefits, challenges, and factors influencing HR outsourcing adoption.

The target population of the original research consisted of 7,297 manufacturing organizations operating in Pakistan, from which a sample of 200 organizations was selected for data collection and analysis. The study provides an understanding of HR outsourcing practices across different manufacturing sectors and organizational characteristics, including industry type and organizational size.

2. Literature Review

2.1 Introduction

The literature review provides a critical evaluation of existing academic research related to Human Resource Outsourcing (HRO), outsourcing strategies, organizational efficiency, and performance outcomes. The purpose of this chapter is to examine previous theoretical and empirical studies to understand how and why organizations adopt HR outsourcing practices, what factors influence outsourcing decisions, and how outsourcing affects organizational effectiveness. Unlike traditional personnel management approaches, modern Human Resource Management (HRM) has increasingly become a strategic function responsible for improving workforce capability, supporting organizational change, and contributing to competitive advantage. However, increasing workforce



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complexity, technological transformation, regulatory requirements, and cost pressures have encouraged organizations to reconsider how HR activities are managed.

Recent research suggests that organizations are increasingly adopting external service arrangements because internal departments may not always possess the required technological capabilities, specialist knowledge, or financial resources to manage all business processes effectively. Outsourcing has therefore developed from a simple cost-saving mechanism into a strategic management approach that enables organizations to access external expertise, improve flexibility, and concentrate resources on activities that create higher value (Tate & Ellram, 2019). In the human resource context, outsourcing allows organizations to transfer selected HR responsibilities to specialized providers while maintaining focus on strategic workforce management.

The increasing adoption of HR outsourcing has been influenced by several factors, including globalization, digital transformation, changing employment structures, and the growing importance of HR analytics and technology-based HR solutions. According to Marler and Boudreau (2017), although HR outsourcing initially focused mainly on administrative efficiency, contemporary organizations increasingly use external HR providers to access innovation, technology, and strategic HR capabilities.

However, the literature also highlights that HR outsourcing does not automatically guarantee organizational improvement. Successful outsourcing depends on several factors, including appropriate selection of outsourcing partners, effective communication, contract management, organizational readiness, and alignment between outsourced activities and business objectives (Belcourt, 2021). Poorly managed outsourcing arrangements may create problems related to loss of organizational control, employee dissatisfaction, information security concerns, and dependency on external providers.

This chapter therefore reviews the existing literature regarding outsourcing concepts, theoretical perspectives, HR outsourcing models, outsourced HR functions, advantages and disadvantages, and the relationship between HR outsourcing and organizational performance. Furthermore, previous studies related to manufacturing organizations and developing economies are analyzed to identify gaps that justify the current research.

2.2 Concept of Outsourcing

Outsourcing is a strategic business practice in which an organization transfers responsibility for specific activities, processes, or services to an external provider that possesses specialized resources and capabilities. Unlike traditional purchasing relationships, outsourcing generally involves a long-term partnership where the external provider becomes responsible for delivering agreed services according to predetermined quality and performance standards.



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According to Lacity et al. (2019), outsourcing represents a strategic decision through which organizations combine internal capabilities with external expertise to improve operational effectiveness. The decision to outsource is usually based on the assumption that external providers may perform certain activities more efficiently because they possess specialized knowledge, economies of scale, advanced technologies, and dedicated resources.

Modern outsourcing practices have expanded beyond traditional support activities and now include complex organizational functions such as information technology, finance, logistics, customer services, and human resource management. The development of digital platforms and cloud-based technologies has further increased outsourcing opportunities because organizations can now access specialized services without investing heavily in internal infrastructure (Moe & Päivärinta, 2020).

Outsourcing decisions are generally influenced by the strategic importance of an activity. Activities considered critical for maintaining competitive advantage are usually retained internally, whereas activities that are standardized, administrative, or require specialized external knowledge may be transferred to external providers.

The major forms of outsourcing include:

2.2.1 Total Outsourcing

Total outsourcing occurs when an organization transfers complete responsibility for a particular function to an external provider. Under this arrangement, the external provider manages all activities associated with that function.

For example:

- a) Complete payroll management
- b) Full recruitment management
- c) Complete HR administration services

Total outsourcing is usually adopted when organizations lack internal expertise or want to significantly reduce administrative responsibilities.

2.2.2 Selective Outsourcing

Selective outsourcing refers to transferring only specific activities while maintaining other related activities internally. This is the most common outsourcing approach because organizations can maintain control over strategic areas while obtaining external support for specialized tasks.

Examples include:

- a) Outsourcing recruitment activities while retaining employee relations internally



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- b) Outsourcing payroll processing while managing compensation policies internally
- c) Outsourcing employee training programs

Selective outsourcing provides organizations with flexibility because they can choose which activities should be performed externally.

2.2.3 Business Process Outsourcing (BPO)

Business Process Outsourcing involves transferring complete business processes to external service providers. The external organization manages the process using its own employees, technology, and operational systems.

Within HR management, BPO may include:

- a) Recruitment process outsourcing
- b) Payroll outsourcing
- c) Benefits administration
- d) Employee data management

Research by Oshri et al. (2020) indicates that BPO adoption has increased because organizations seek operational efficiency and access to specialized process management capabilities.

2.2.4 Technology-Based Outsourcing

Technology-based outsourcing involves obtaining specialized technological solutions from external providers. This type of outsourcing has become increasingly important due to digital transformation.

Examples include:

- a) Cloud-based HR information systems
- b) Digital payroll platforms
- c) Employee self-service systems
- d) HR analytics software

Organizations adopt technology outsourcing because developing and maintaining advanced HR systems internally can require significant investment and technical expertise.

2.3 Theoretical Foundations of Outsourcing

The decision to outsource organizational activities has been explained through several theoretical perspectives. These theories provide a foundation for understanding why organizations choose



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external providers and how outsourcing decisions influence organizational outcomes.

2.3.1 Transaction Cost Economics Theory

Transaction Cost Economics (TCE) explains outsourcing decisions by comparing the costs associated with performing activities internally with the costs of obtaining those activities from external providers. According to this perspective, organizations outsource activities when external providers can perform them at lower total costs while maintaining acceptable quality and reliability.

Recent studies have applied transaction cost theory to explain outsourcing decisions in service and manufacturing organizations. Mena et al. (2020) argued that organizations are more likely to outsource standardized activities when external providers possess economies of scale and specialized capabilities. However, activities involving high uncertainty, strategic importance, or confidential information are more likely to remain internally controlled.

In the context of HR outsourcing, transaction cost theory explains why organizations outsource administrative HR functions such as payroll, recruitment processing, and employee documentation. These activities often involve repetitive processes that specialized providers can perform efficiently.

2.3.2 Resource-Based View Theory

The Resource-Based View (RBV) suggests that organizations achieve competitive advantage through valuable and unique resources. According to this theory, organizations should focus internal resources on activities that create strategic value while outsourcing activities where external providers possess superior capabilities.

From an HR perspective, outsourcing routine administrative activities allows HR professionals to concentrate on strategic functions such as talent development, leadership management, employee engagement, and workforce planning.

Recent research by Meijerink et al. (2021) highlighted that organizations increasingly use HR outsourcing not only for cost reduction but also for accessing specialized knowledge and improving strategic HR capability.

2.3.3 Core Competency Theory

Core competency theory proposes that organizations should concentrate on activities that differentiate them from competitors and outsource activities that do not represent their unique capabilities.

For manufacturing organizations, core competencies may include:

- a) Production innovation



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- b) Product quality improvement
- c) Supply chain management
- d) Market development

Administrative HR activities such as payroll processing, employee verification, and HR system management may therefore be suitable for outsourcing.

According to Oshri et al. (2020), outsourcing allows organizations to redirect resources toward activities that contribute more directly to competitive advantage.

2.4 Drivers of Human Resource Outsourcing Adoption

Organizations adopt HR outsourcing because of various strategic, financial, and operational factors. Previous research indicates that outsourcing decisions are rarely based on a single factor; rather, they result from a combination of cost considerations, organizational capability, technological requirements, and strategic objectives.

2.4.1 Cost Reduction

Cost efficiency remains one of the primary reasons organizations outsource HR activities. Maintaining complete internal HR systems requires investment in employees, technology, infrastructure, and continuous training. External HR providers can often deliver services at lower costs because they achieve economies of scale by serving multiple organizations.

According to Patel and Cardon (2022), outsourcing can reduce administrative expenses by allowing organizations to share specialist resources rather than developing expensive internal capabilities.

However, researchers argue that cost reduction should not be the only objective of outsourcing. Excessive focus on reducing expenses may negatively affect service quality, employee satisfaction, and long-term HR effectiveness.

2.4.2 Access to Expertise

Modern HR management requires specialized knowledge in areas such as recruitment analytics, employment regulations, digital HR systems, compensation management, and workforce planning. Many organizations, especially small and medium-sized enterprises, may not have sufficient internal expertise.

HR outsourcing enables organizations to access professionals who specialize in particular HR functions. Meijerink and Bondarouk (2021) found that organizations increasingly outsource HR activities to obtain knowledge-based resources and improve HR service quality.



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2.4.3 Strategic Focus

One major advantage of HR outsourcing is that it allows internal HR departments to move away from routine administrative responsibilities and focus on strategic activities.

Strategic HR activities include:

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

According to Jeske and Axtell (2019), outsourcing administrative HR activities can increase HR professionals' ability to contribute to organizational strategy.

2.4.4 Technological Advancement

Digital transformation has significantly influenced HR outsourcing decisions. Many organizations outsource HR technology because developing advanced systems internally requires significant financial and technical resources.

Cloud-based HR platforms, artificial intelligence recruitment tools, and HR analytics systems have increased opportunities for organizations to access advanced HR capabilities through external providers.

Research by Vrontis et al. (2021) highlights that digital transformation has accelerated the adoption of external service models because organizations seek flexible access to technological expertise.

2.5 Human Resource Outsourcing Models

Human Resource Outsourcing (HRO) has developed into different models depending on the level of responsibility transferred to external providers and the strategic requirements of organizations. The selection of an appropriate outsourcing model depends on organizational size, available internal capabilities, HR complexity, cost considerations, and the strategic importance of outsourced activities.

2.5.1 Professional Employer Organization (PEO) Model

A Professional Employer Organization (PEO) model involves a contractual relationship where an external provider manages several employer-related responsibilities while the organization continues managing its core operations. Under this arrangement, the outsourcing provider may handle payroll administration, employee benefits, compliance management, taxation, and employee documentation.



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The PEO model is particularly useful for small and medium-sized organizations that lack dedicated HR infrastructure. By using a PEO provider, organizations can access professional HR services without establishing a large internal HR department. According to Block and Pickett (2020), PEO arrangements have become increasingly common because they allow organizations to reduce administrative complexity while improving compliance management.

However, researchers also highlight potential challenges associated with PEO arrangements, including reduced organizational control, dependency on external providers, and possible conflicts regarding employee management responsibilities.

2.5.2 Human Resource Business Process Outsourcing (HR-BPO)

Human Resource Business Process Outsourcing refers to transferring complete HR processes to external organizations that specialize in managing specific HR activities. Unlike simple service contracts, HR-BPO providers assume responsibility for managing processes according to agreed performance indicators.

Common HR-BPO activities include:

- a) Payroll processing
- b) Recruitment process outsourcing
- c) Employee benefits administration
- d) Training management
- e) HR documentation

HR-BPO has expanded due to increasing digitalization and organizations' need for operational efficiency. According to Lacity et al. (2019), business process outsourcing allows organizations to access specialized capabilities while reducing investment in internal systems.

In manufacturing organizations, HR-BPO can be particularly valuable because companies often require large-scale recruitment, workforce administration, and compliance management.

2.5.3 Application Service Provider (ASP) Model

The Application Service Provider model focuses on providing technology-based HR solutions through external platforms. Instead of developing internal HR systems, organizations use external providers that deliver cloud-based applications.

Examples include:

- a) Human Resource Information Systems (HRIS)



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- b) Online payroll systems
- c) Employee performance management platforms
- d) Recruitment management systems

The increasing adoption of digital HR technologies has strengthened ASP-based outsourcing. Vrontis et al. (2021) suggested that organizations increasingly rely on external digital solutions because they provide flexibility, scalability, and access to advanced technologies.

For manufacturing organizations, technology outsourcing can improve workforce data management, attendance monitoring, payroll accuracy, and compliance reporting.

2.6 Human Resource Functions Suitable for Outsourcing

Not all HR functions have the same suitability for outsourcing. Organizations generally outsource activities that are repetitive, standardized, technology-driven, or require specialized expertise. Strategic activities involving organizational culture, leadership development, and employee relationships are usually retained internally.

2.6.1 Recruitment and Selection

Recruitment is one of the most commonly outsourced HR functions because external recruitment providers have access to larger talent pools, advanced recruitment technologies, and specialized selection methods.

Recruitment Process Outsourcing (RPO) enables organizations to improve hiring speed, candidate quality, and recruitment efficiency. According to Kwon and Kim (2020), outsourcing recruitment activities helps organizations manage workforce demands more effectively, particularly in industries experiencing skill shortages.

Manufacturing organizations frequently outsource recruitment because they require continuous hiring of skilled workers, technicians, engineers, and production employees.

2.6.2 Payroll Administration

Payroll outsourcing is among the most widely adopted HR outsourcing practices because payroll requires accuracy, confidentiality, and compliance with taxation and employment regulations.

External payroll providers use specialized systems that reduce calculation errors and administrative workload. According to Patel and Cardon (2022), payroll outsourcing improves efficiency because organizations can access professional systems without maintaining expensive internal payroll infrastructure.



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2.6.3 Training and Development

Organizations may outsource employee training when external providers possess specialized knowledge unavailable internally.

Examples include:

- a) Technical training
- b) Safety training
- c) Leadership development
- d) Compliance training

However, training outsourcing requires careful selection because training effectiveness depends on alignment between external programs and organizational objectives.

2.6.4 Employee Benefits Administration

Benefits administration involves managing employee insurance, retirement plans, compensation packages, and welfare programs. Outsourcing this function allows organizations to access specialist knowledge and improve administrative accuracy.

External providers may also negotiate better employee benefit packages due to their experience managing multiple organizations.

2.6.5 HR Information Systems Management

Technology-based HR functions are increasingly outsourced because organizations require advanced systems for workforce analytics, employee records, attendance management, and performance tracking.

Digital HR outsourcing enables organizations to access modern technology without significant investment in software development and maintenance.

2.7 Advantages of Human Resource Outsourcing

Human Resource Outsourcing provides several strategic and operational advantages. However, these benefits depend on effective implementation, appropriate vendor selection, and continuous relationship management.

2.7.1 Reduction in Operational Costs

Cost reduction remains one of the strongest motivations for HR outsourcing adoption. Organizations can reduce expenses associated with HR staffing, infrastructure, technology investment, and administrative processes.



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External providers achieve economies of scale because they provide similar services to multiple organizations. This enables them to distribute operational costs and offer competitive pricing.

According to Patel and Cardon (2022), organizations that outsource administrative HR functions often experience improved cost efficiency because they avoid unnecessary investments in internal HR systems.

2.7.2 Improved Operational Efficiency

Outsourcing can improve HR efficiency by allowing specialized providers to manage processes using standardized systems and professional expertise.

Benefits include:

- a) Faster recruitment processes
- b) Accurate payroll management
- c) Better compliance monitoring
- d) Improved employee data management

Research by Meijerink et al. (2021) suggests that external HR service providers can enhance HR service quality because they possess specialized knowledge and advanced operational capabilities.

2.7.3 Access to Specialized Knowledge

Many organizations lack internal expertise in areas such as employment legislation, HR analytics, recruitment technology, and compensation management.

Outsourcing provides access to professionals who specialize in these areas.

This is particularly important for manufacturing organizations where compliance requirements, workforce safety, and labor regulations require specialized knowledge.

2.7.4 Strategic Focus of HR Departments

By outsourcing administrative responsibilities, HR professionals can devote more time to strategic activities.

These activities include:

- a) Workforce planning
- b) Talent management
- c) Employee engagement



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- d) Leadership development
- e) Organizational improvement

Jeske and Axtell (2019) argued that outsourcing routine HR activities allows HR departments to transition from administrative support functions toward strategic organizational roles.

2.8 Challenges and Disadvantages of Human Resource Outsourcing

Despite its benefits, HR outsourcing also creates several challenges that organizations must consider before implementation.

2.8.1 Loss of Control

One major concern is the possibility of reduced control over HR processes. When organizations transfer responsibilities to external providers, monitoring service quality and ensuring alignment with organizational values may become difficult.

Poor communication between organizations and outsourcing providers can negatively affect service outcomes.

2.8.2 Data Security and Confidentiality Risks

HR departments manage sensitive employee information, including salaries, personal records, performance data, and employment histories.

Outsourcing creates potential risks related to data privacy and cybersecurity.

According to Vrontis et al. (2021), digital outsourcing requires strong governance mechanisms to protect organizational information.

2.8.3 Employee Resistance

Employees may perceive HR outsourcing as a threat because they may fear job insecurity, reduced support, or loss of personal relationships with HR staff.

Successful outsourcing requires effective communication and employee involvement.

2.8.4 Dependency on External Providers

Overdependence on outsourcing providers may reduce internal organizational capability.

If the external provider performs critical HR activities for a long period, organizations may lose internal knowledge and flexibility.



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2.9 Human Resource Outsourcing and Organizational Performance

Organizational performance represents the extent to which an organization achieves its objectives through effective utilization of resources. It includes financial performance, productivity, operational efficiency, employee satisfaction, and competitive position.

Previous research suggests that HR outsourcing can positively influence organizational performance by improving HR service quality, reducing administrative costs, and allowing organizations to focus on strategic activities.

According to Meijerink et al. (2021), HR outsourcing contributes to performance improvement when organizations successfully integrate external HR capabilities with internal strategic objectives.

The relationship between HR outsourcing and organizational performance can be explained through several mechanisms:

Cost Efficiency

Outsourcing reduces administrative expenses and allows organizations to allocate resources toward productive activities.

Improved HR Quality

Specialized providers may improve recruitment quality, payroll accuracy, and compliance management.

Strategic HR Transformation

Outsourcing allows HR professionals to focus on activities that contribute directly to organizational success.

Competitive Advantage

Organizations can achieve competitive advantage by combining internal capabilities with external expertise.

However, outsourcing does not automatically improve performance. The outcomes depend on vendor capability, organizational readiness, contract quality, and effective management of outsourcing relationships.

2.10 Human Resource Outsourcing in Manufacturing Sector

Manufacturing organizations represent an important context for studying HR outsourcing because workforce management directly influences productivity, quality, safety, and operational performance.

Manufacturing companies often manage:



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- a) Large numbers of production employees
- b) Technical workers
- c) Engineers
- d) Supervisory staff
- e) Contract workers

These workforce requirements create significant HR challenges related to recruitment, training, compliance, and employee administration.

According to Kwon and Kim (2020), industries facing skill shortages increasingly rely on external HR providers to improve workforce availability and recruitment effectiveness.

Manufacturing organizations commonly outsource:

HR FUNCTIONS AND THEIR PURPOSES





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HR outsourcing can therefore support manufacturing organizations by improving workforce flexibility and reducing administrative complexity.

2.11 Human Resource Outsourcing Practices in Pakistan

Human Resource Management practices in Pakistan have gradually shifted from traditional personnel administration toward strategic HR management. However, many organizations continue to face challenges related to limited HR technology adoption, shortage of specialized HR professionals, and administrative workload.

Manufacturing industries in Pakistan, including textile, automobile, pharmaceutical, chemical, and food sectors, operate in highly competitive environments where workforce efficiency is essential.

Organizations in Pakistan commonly outsource:

- a) Recruitment services
- b) Payroll processing
- c) Employee verification
- d) Training programs
- e) Compliance support

The adoption of HR outsourcing depends on factors such as:

- a) Organization size
- b) Financial resources
- c) Industry requirements
- d) Management attitude
- e) Availability of service providers

However, research on HR outsourcing in Pakistan remains limited compared with developed economies. Therefore, further investigation is required to understand how Pakistani manufacturing organizations perceive and implement outsourcing practices.

2.12 Empirical Review of Previous Studies

Previous empirical studies provide evidence regarding the relationship between HR outsourcing and organizational outcomes.

Meijerink et al. (2021) examined HR service delivery models and found that organizations increasingly adopt external HR services to improve efficiency and access specialized capabilities. The



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study emphasized that outsourcing creates value when external providers complement internal HR resources.

Vrontis et al. (2021) investigated digital transformation and outsourcing practices and concluded that technology-enabled outsourcing improves organizational flexibility and access to advanced systems.

Patel and Cardon (2022) analyzed outsourcing decisions among organizations and found that cost efficiency, expertise access, and operational flexibility were major drivers of outsourcing adoption.

Kwon and Kim (2020) examined recruitment outsourcing practices and found that external recruitment providers improve access to skilled candidates and reduce hiring difficulties.

Jeske and Axtell (2019) highlighted that outsourcing administrative HR activities enables HR professionals to focus on strategic workforce management.

These studies demonstrate that HR outsourcing can provide significant organizational benefits; however, outcomes vary depending on organizational context, industry characteristics, and implementation practices.

2.13 Research Gap

Although previous studies have examined outsourcing and HR outsourcing practices, several research gaps remain.

First, most existing studies have focused on developed economies, while limited research has examined HR outsourcing practices in developing countries such as Pakistan.

Second, previous studies have generally examined outsourcing at a broad organizational level, with limited attention given to manufacturing industries where workforce management challenges are unique.

Third, limited research has explored whether HR outsourcing adoption differs according to organizational size and industry type.

Fourth, insufficient attention has been given to identifying which specific HR functions are most suitable for outsourcing within manufacturing organizations.

Therefore, this study attempts to address these gaps by examining HR outsourcing practices among manufacturing organizations in Pakistan and analyzing their relationship with organizational performance, efficiency, cost reduction, and competitiveness.



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3 Research Methodology

3.1 Introduction

Research methodology provides a systematic framework that explains the procedures, techniques, and approaches used to conduct a research study. It describes how data is collected, measured, analyzed, and interpreted to answer research questions and achieve research objectives. A well-designed methodology ensures that research findings are reliable, valid, and scientifically acceptable.

This study aims to examine the impact of Human Resource Outsourcing (HRO) on organizational performance in the manufacturing sector of Pakistan. The research investigates the extent to which manufacturing organizations outsource HR functions, the reasons behind outsourcing decisions, the benefits and challenges associated with outsourcing, and the relationship between HR outsourcing practices and organizational performance.

The study adopts a quantitative research approach because numerical data was collected from manufacturing organizations through a structured questionnaire. The collected data was analyzed using statistical techniques to identify outsourcing trends, differences among industries, and the impact of HR outsourcing on organizational outcomes.

3.2 Research Approach

This study follows a quantitative research approach. Quantitative research focuses on collecting numerical information and analyzing relationships between variables through statistical methods.

The quantitative approach was selected because the study aims to measure:

- a) Level of HR outsourcing adoption
- b) Frequency of outsourced HR functions
- c) Reasons for outsourcing
- d) Perceived benefits and challenges
- e) Relationship between HR outsourcing and organizational performance

A structured questionnaire was used as the primary data collection instrument, and responses were analyzed statistically using descriptive analysis techniques.

3.3 Research Design

Research design represents the overall framework used to conduct a research study. It provides guidance regarding data collection methods, sample selection, measurement techniques, and analysis procedures.



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This research adopted a descriptive research design because the study focuses on examining existing HR outsourcing practices among manufacturing organizations.

The descriptive design was appropriate because the research aimed to understand:

- Current HR outsourcing practices
- Frequently outsourced HR functions
- Factors influencing outsourcing decisions
- Benefits and challenges of outsourcing
- Relationship between HR outsourcing and organizational performance



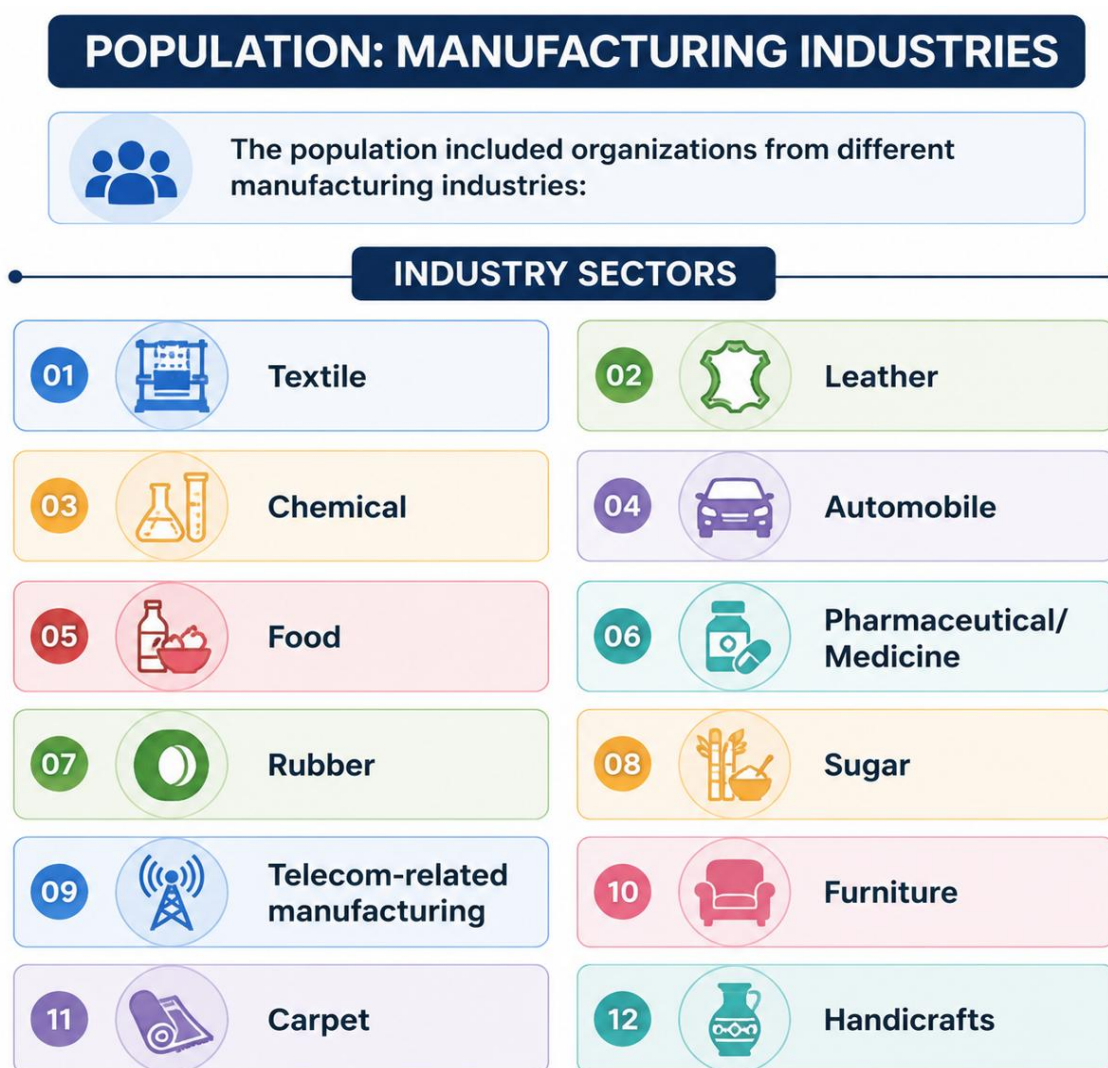


3.4 Research Population

The target population of this study consisted of manufacturing organizations registered with the Lahore Chamber of Commerce and Industry (LCCI).

The manufacturing sector was selected because manufacturing organizations operate in highly competitive environments where workforce management, productivity, labor compliance, and operational efficiency are critical factors.

The population included organizations from different manufacturing industries:





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These organizations represented different manufacturing sectors operating in Pakistan.

3.5 Sample Size

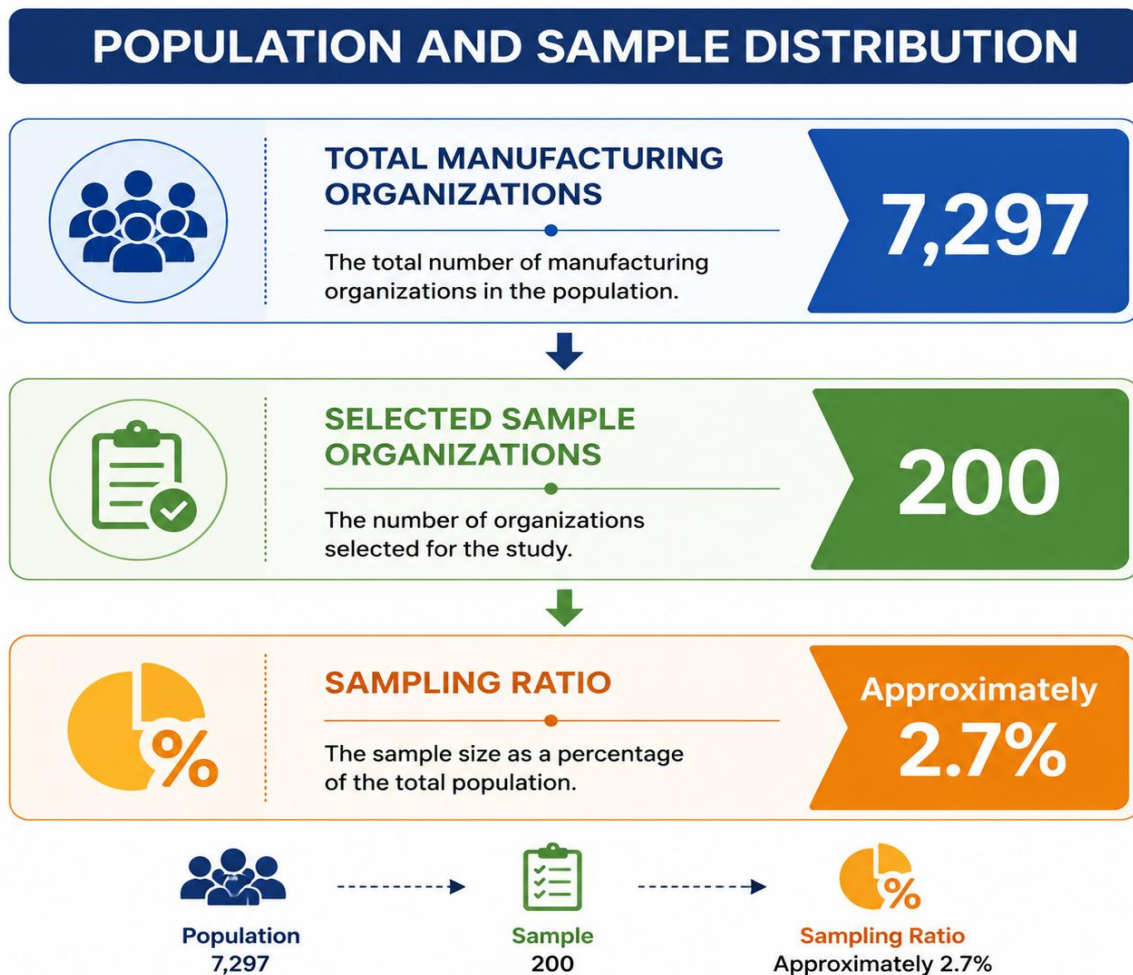
Due to limitations related to time, accessibility, and research resources, it was not possible to collect information from the entire population.

Therefore, a sample of:

200 manufacturing organizations

were selected for the study.

The selected sample included organizations from different manufacturing industries to ensure diversity and improve the representation of the manufacturing sector.





SAMPLING TECHNIQUE



This study used a
**NON-PROBABILITY CONVENIENCE
SAMPLING TECHNIQUE.**

REASONS FOR USING CONVENIENCE SAMPLING



**Availability of
HR representatives**



**Willingness of
organizations to
participate**



**Accessibility of
company
information**



**Availability of
respondents during
the research period**

RESPONDENTS SELECTED FOR THIS RESEARCH



HR Managers



HR Officers



**Administrative
Managers**



**Organizational
Representatives
involved in HR
decision-making**



3.6 Data Collection Method

Primary data was collected through a structured questionnaire.

The questionnaire was distributed through multiple channels:

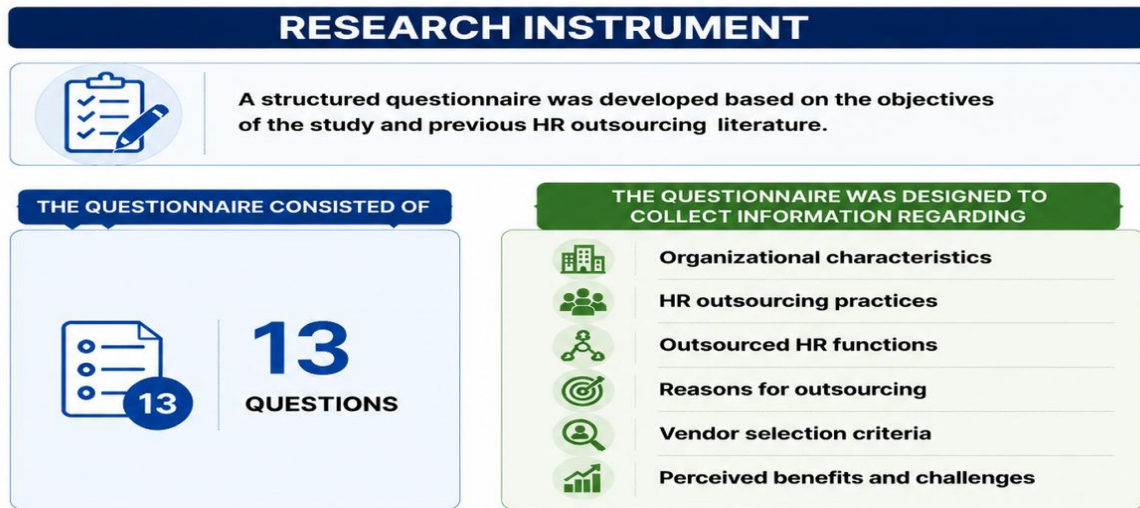


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Table 1: Data Collection Method

Data Collection Method	Description
Personal visits	Direct collection from organizations
LCCI contacts	Access through business network
Email communication	Electronic questionnaire distribution

The respondents were requested to provide information regarding their organization's HR outsourcing practices, outsourcing preferences, and perceived outcomes.



QUESTIONNAIRE DESIGN

SECTION	QUESTION NUMBERS	PURPOSE
 Section A	Q1–Q4	Organization profile and workforce information
 Section B	Q5	Level of HR function outsourcing
 Section C	Q6	Ranking of outsourced HR functions
 Section D	Q7	Reasons for adopting HR outsourcing
 Section E	Q8	Vendor selection factors
 Section F	Q9	Experience requirements of HR providers
 Section G	Q10	Growth trend of HR outsourcing
 Section H	Q11–Q13	General perceptions regarding HR outsourcing



MEASUREMENT SCALE & RESEARCH VARIABLES

MEASUREMENT SCALE



A five-point Likert-type scale was used to measure the outsourcing level of different HR functions.

HR OUTSOURCING MEASUREMENT SCALE

SCORE	INTERPRETATION
1	Mostly Outsourced
2	Frequently Outsourced
3	Moderately Outsourced
4	Rarely Outsourced
5	Never Outsourced



This scale allowed the researcher to identify which HR functions were most commonly outsourced by manufacturing organizations.

RESEARCH VARIABLES

INDEPENDENT VARIABLE



Human Resource Outsourcing

Measured through:

- ✓ Outsourcing intensity
- ✓ Outsourced HR functions
- ✓ Reasons for outsourcing
- ✓ Vendor selection criteria



DEPENDENT VARIABLE



Organizational Performance

Measured through:

- ✓ Cost reduction
- ✓ Operational efficiency
- ✓ Productivity improvement
- ✓ Strategic HR contribution



MODERATING VARIABLES



Organization Characteristics

Factors:

- ✓ Organization size
- ✓ Industry type

VARIABLES AND MEASUREMENT INDICATORS

VARIABLE TYPE	VARIABLE	MEASUREMENT INDICATORS
 Independent Variable	HR Outsourcing	     Recruitment, Payroll, Training, Benefits, HR Systems
 Dependent Variable	Organizational Performance	    Cost Efficiency, Productivity, Operational Improvement
 Moderating Variable	Organization Characteristics	  Organization Size and Industry Category



DATA ANALYSIS TECHNIQUES



The collected data was analyzed using descriptive statistical techniques.
Statistical analysis was performed using: **Statistical Package for Social Sciences (SPSS)**
The following techniques were applied:

FREQUENCY ANALYSIS



Frequency analysis was conducted to identify:

- ✓ Number of organizations adopting HR outsourcing
- ✓ Most commonly outsourced HR functions
- ✓ Industry-wise outsourcing patterns

PERCENTAGE ANALYSIS



Percentage analysis was used to compare responses among different categories of organizations.

It helped identify:

- ✓ Outsourcing adoption rates
- ✓ Industry differences
- ✓ Organizational preferences

GRAPHICAL ANALYSIS



Graphs were developed to present outsourcing patterns visually.

The study used:

- ✓ Bar charts
- ✓ Frequency graphs
- ✓ Comparative charts

TABULAR ANALYSIS



Tables were prepared to compare:

- ✓ HR functions outsourcing levels
- ✓ Industry-wise outsourcing practices
- ✓ Organization characteristics

CUMULATIVE FREQUENCY ANALYSIS



Cumulative frequency analysis was used to examine the distribution and concentration of HR outsourcing practices among manufacturing organizations.

RELIABILITY AND VALIDITY

RELIABILITY



Reliability refers to the consistency and stability of measurement results.

The questionnaire was designed carefully to ensure that all questions measured relevant aspects of HR outsourcing practices. The reliability of the research instrument was assessed through consistency among questionnaire items.

VALIDITY



Validity refers to whether the research instrument accurately measures the intended concepts.

The validity of the questionnaire was ensured through:

- ✓ Review of previous HR outsourcing studies
- ✓ Inclusion of relevant HR outsourcing dimensions
- ✓ Alignment with research objectives
- ✓ Collection of responses from HR-related professionals



3.7 Limitations of the Study

Table 2: Although every effort was made to conduct a comprehensive study, certain limitations existed:

Limitation	Description
Industry limitation	The study focused only on manufacturing organizations
Sample limitation	Data was collected from 200 organizations rather than the complete population
Information limitation	Some organizations were reluctant to share internal HR information
Response limitation	Findings depend on respondents' perceptions
Time limitation	Limited research duration restricted extensive data collection

4 Data Analysis and Interpretation

4.1 Introduction

This chapter presents the analysis and interpretation of primary data collected from manufacturing organizations to examine Human Resource Outsourcing (HRO) practices and their relationship with organizational performance. The purpose of this analysis is to identify the extent to which manufacturing organizations outsource HR functions, determine the major factors influencing outsourcing decisions, and evaluate the perceived impact of outsourcing on organizational efficiency and effectiveness.

The data was collected from 200 manufacturing organizations operating in different industrial sectors of Pakistan. The collected responses were analyzed using descriptive statistical techniques, including frequency distribution, percentage analysis, graphical representation, and comparative analysis.

The analysis focuses on the following areas:

- Demographic characteristics of respondent organizations
- Industry-wise distribution of organizations
- Organizational size analysis
- Outsourcing trends of different HR functions
- Reasons behind HR outsourcing adoption



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- f) Perceived benefits of outsourcing
- g) Management perceptions regarding HR outsourcing

The findings presented in this chapter provide empirical evidence regarding HR outsourcing practices within the manufacturing sector.

4.2 Demographic Analysis of Respondent Organizations

Demographic analysis provides an overview of the characteristics of organizations included in the study. Understanding organizational characteristics is important because outsourcing decisions may vary according to industry type, workforce size, and operational requirements.

4.2.1 Industry-wise Distribution of Sample

The study included manufacturing organizations from different industrial sectors to ensure representation of diverse manufacturing activities.

Table 3: Distribution of Organizations by Industry Type

Industry Type	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%
Pharmaceutical/Medicine	12	6.0%
Rubber	10	5.0%
Telecom-related Manufacturing	10	5.0%
Carpet	10	5.0%
Sugar	8	4.0%
Total	200	100%



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The distribution of respondents indicates that the textile sector represented the largest proportion of the sample, accounting for 22.5% of total organizations. This reflects the importance of the textile industry within Pakistan's manufacturing sector and its large workforce requirements.

Food and chemical industries represented 11% and 10% of respondents respectively, while leather, automobile, furniture, and handicraft industries also contributed significant representation.

The inclusion of multiple manufacturing sectors strengthens the study because HR outsourcing practices may differ depending on industry characteristics, workforce requirements, and operational complexity.

4.3 Organization Size Analysis

Organizations were classified according to employee strength to examine whether outsourcing adoption differs according to organizational size.

Table 4: Distribution of Organizations According to Employee Strength

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

The findings show that organizations having 100–500 employees represented the largest group (42.5%). This indicates that medium-sized manufacturing organizations form an important segment of HR outsourcing users.

Medium-sized organizations often face a situation where they require professional HR services but may not have sufficient resources to establish large internal HR departments. Therefore, outsourcing becomes an attractive option for improving HR efficiency.

Large organizations with more than 1000 employees represented only 10% of the sample. This may indicate that larger organizations are more likely to maintain internal HR departments due to greater financial and administrative capacity.

4.4 Analysis of HR Function Outsourcing

The study examined outsourcing patterns of different HR functions. Respondents were asked to



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indicate the extent to which specific HR activities were outsourced.

Table 5: The outsourcing level was measured using five categories:

Score	Outsourcing Level
1	Mostly Outsourced
2	Sometimes Outsourced
3	Moderately Outsourced
4	Less Outsourced
5	Never Outsourced

4.4.1 Recruitment Advertisement Outsourcing

Recruitment advertisement is an important HR activity because organizations require effective methods to attract qualified candidates.

Table 6: Recruitment Advertisement Outsourcing

Outsourcing Level	Number of Organizations
Mostly Outsourced	35
Sometimes Outsourced	65
Moderately Outsourced	45
Less Outsourced	35
Never Outsourced	20
Total	200

The results indicate that recruitment advertisement is frequently outsourced among manufacturing organizations. A total of 65 organizations reported occasional outsourcing, while 35 organizations mostly outsourced this activity.

Organizations outsource recruitment advertisement because external recruitment agencies provide:

- a) Wider access to potential candidates
- b) Professional recruitment platforms
- c) Reduced recruitment time



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d) Lower advertising expenses

The findings suggest that organizations prefer external support for attracting candidates while maintaining control over final recruitment decisions.

4.4.2 Recruitment and Selection Outsourcing

Table 7: Recruitment and Selection Outsourcing

Outsourcing Level	Organizations
Mostly Outsourced	40
Sometimes Outsourced	70
Moderately Outsourced	50
Less Outsourced	30
Never Outsourced	10
Total	200

Recruitment and selection represent one of the most important outsourced HR activities. The results show that 70 organizations sometimes outsource recruitment and selection, indicating considerable reliance on external recruitment providers.

External recruitment companies provide organizations with:

- a) Candidate databases
- b) Recruitment expertise
- c) Screening methods
- d) Market knowledge

However, many organizations retain final selection authority internally because employee selection directly influences organizational culture and long-term workforce quality.

4.5 Analysis of Training and Development Outsourcing

Training and development is an important HR function because manufacturing organizations require continuous employee skill improvement, technical knowledge development, and workplace safety training. The study examined the extent to which organizations outsource employee training activities.



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Table 8: Training and Development Outsourcing

Outsourcing Level	Number of Organizations
Mostly Outsourced	25
Sometimes Outsourced	60
Moderately Outsourced	55
Less Outsourced	40
Never Outsourced	20
Total	200

The findings indicate that training and development outsourcing is moderately practiced among manufacturing organizations. The largest group of respondents (60 organizations) reported that they sometimes outsource training activities, while 55 organizations indicated moderate outsourcing practices.

Manufacturing organizations often outsource training because external providers can offer:

- Specialized technical knowledge
- Industry-specific training programs
- Safety and compliance training
- Professional trainers with practical experience

However, complete outsourcing of training activities remains limited because organizations prefer to retain internal involvement to ensure that training programs are aligned with organizational culture, production procedures, and operational requirements.

The findings suggest that training outsourcing is considered a supportive HR strategy rather than a complete replacement of internal training systems.

4.6 Payroll Outsourcing Analysis

Payroll management is one of the most commonly outsourced HR functions because it requires accuracy, confidentiality, taxation knowledge, and compliance with employment regulations.



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Table 9: Payroll Outsourcing Trend

Outsourcing Level	Number of Organizations
Mostly Outsourced	55
Sometimes Outsourced	70
Moderately Outsourced	40
Less Outsourced	25
Never Outsourced	10
Total	200

The results show that payroll is among the most frequently outsourced HR functions. A total of 70 organizations reported occasional outsourcing, while 55 organizations indicated that payroll was mostly outsourced.

Manufacturing organizations prefer outsourcing payroll because payroll processing involves:

- a) Salary calculations
- b) Tax deductions
- c) Employee attendance records
- d) Compliance requirements
- e) Confidential financial information

The high level of payroll outsourcing indicates that organizations consider payroll a standardized administrative function that can be effectively managed by specialized external providers.



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4.7 Analysis of Reasons for HR Outsourcing

Respondents were asked to identify the main reasons behind outsourcing HR activities.

Table 10: Reasons for HR Outsourcing

Reason for Outsourcing	Percentage
Cost Reduction	35%
Focus on Core Business Activities	25%
Access to Specialized Expertise	20%
Time Saving	15%
Technology Access	5%
Total	100%

The findings demonstrate that cost reduction was the most important reason for HR outsourcing, reported by 35% of organizations.

Manufacturing organizations operate under significant cost pressures; therefore, outsourcing allows them to reduce administrative expenses related to HR employees, technology investment, and infrastructure.

The second major reason was allowing organizations to focus on core business activities (25%). This indicates that organizations use outsourcing not only as a cost-saving strategy but also as a method for improving strategic focus.

Access to specialized expertise was identified by 20% of respondents, showing that organizations value external HR providers for their professional knowledge and specialized capabilities.

Technology access received the lowest response (5%), suggesting that HR outsourcing decisions in manufacturing organizations are still mainly driven by cost and operational considerations rather than digital transformation.



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4.8 Factors Considered While Selecting HR Outsourcing Providers

Organizations were asked about important factors considered when selecting external HR service providers.

Table 11: Vendor Selection Factors

Selection Factor	Percentage
Service Quality	30%
Cost Effectiveness	25%
Previous Experience	20%
Industry Knowledge	15%
Technology Capability	10%
Total	100%

The results indicate that service quality was the most important factor considered by organizations when selecting HR outsourcing providers.

Although cost reduction is a major motivation for outsourcing, organizations also recognize that poor-quality HR services may negatively affect employee management and operational performance.

Previous experience and industry knowledge were also important considerations because manufacturing organizations require providers who understand workforce requirements, labor regulations, and operational challenges.

4.9 Impact of HR Outsourcing on Organizational Performance

The study examined whether HR outsourcing contributes to improved organizational performance.

Table 12: Perceived Impact of HR Outsourcing

Performance Indicator	Positive Impact Reported
Cost Reduction	78%
Administrative Efficiency	75%
Time Saving	72%
Access to Expertise	70%
Strategic HR Focus	68%
Productivity Improvement	65%



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The findings indicate that HR outsourcing has a positive perceived impact on organizational performance.

The highest improvement was observed in cost reduction (78%), suggesting that organizations mainly experience financial benefits through outsourcing.

Administrative efficiency was reported by 75% of respondents, indicating that outsourcing reduces routine HR workload and improves process management.

Time saving was identified by 72% of organizations, showing that external providers help organizations complete HR activities more efficiently.

The results also show that outsourcing supports strategic HR activities, as 68% of respondents agreed that outsourcing allows HR professionals to focus on more strategic responsibilities.

Overall, the findings indicate that HR outsourcing contributes positively to organizational performance when implemented effectively.

4.10 Challenges Associated with HR Outsourcing

Although HR outsourcing provides several benefits, organizations may experience certain challenges.

Table 13: Challenges of HR Outsourcing

Challenge	Percentage
Loss of Control	28%
Data Confidentiality Concerns	25%
Vendor Dependence	20%
Employee Resistance	15%
Service Quality Issues	12%
Total	100%

The results show that loss of control was the major challenge associated with HR outsourcing.

Some organizations expressed concerns that transferring HR responsibilities to external providers may reduce their direct control over employee-related processes.

Data confidentiality was another important concern because HR departments manage sensitive employee information.

Vendor dependency was also identified as a challenge, indicating that organizations need effective



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contract management and monitoring systems to maintain outsourcing quality.

The findings suggest that while HR outsourcing provides significant benefits, organizations must carefully manage risks related to control, confidentiality, and service quality.

4.11 Industry-wise HR Outsourcing Trends

The study also examined differences in outsourcing practices among different manufacturing industries.

Table 14: HR Outsourcing Adoption by Industry

Industry	Outsourcing Adoption Level
Chemical	High
Textile	Moderate to High
Food	Moderate
Automobile	Moderate
Pharmaceutical	Moderate
Leather	Moderate
Furniture	Low to Moderate
Handicrafts	Low
Sugar	Low
Carpet	Low

The findings indicate that outsourcing adoption varies among industries.

Chemical and textile industries demonstrated relatively higher outsourcing adoption due to:

- Large workforce requirements
- Compliance requirements
- Need for skilled employees
- Operational complexity

Industries such as handicrafts, carpet, and sugar showed lower outsourcing adoption, which may be associated with smaller organizational structures and limited availability of external HR providers.



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The results suggest that industry characteristics influence HR outsourcing decisions.

4.12 Objective-wise Findings Summary

Table 15: Research Objectives and Findings

Research Objective	Major Finding
Impact of HR outsourcing on performance	Positive relationship identified
Cost reduction through outsourcing	Major benefit reported
Time saving and efficiency improvement	Significant improvement observed
Strategic HR focus	HR professionals gained more strategic capacity
Suitable HR functions	Payroll and recruitment most outsourced
Influence of organization size	Medium organizations showed higher adoption
Industry differences	Outsourcing varied among sectors
Competitive advantage	Outsourcing improved operational flexibility
Advantages and disadvantages	Benefits exceeded challenges
Implementation recommendations	Need for proper vendor selection and monitoring

5 Findings, Conclusion and Recommendations

5.1 Major Findings of the Study

5.1.1 Increasing Adoption of HR Outsourcing in Manufacturing Organizations

The findings of the study indicate that Human Resource Outsourcing has become an increasingly important management practice among manufacturing organizations. Organizations are gradually shifting from managing all HR activities internally toward selective outsourcing of specific HR functions.

The increasing adoption of HR outsourcing is mainly driven by the need to:

- Reduce administrative workload
- Improve operational efficiency
- Access specialized expertise
- Reduce HR-related costs



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- e) Focus on core manufacturing activities

The findings suggest that organizations view outsourcing as a strategic approach rather than only an administrative solution.

5.1.2 Cost Reduction is the Primary Motivation for Outsourcing

The study identified cost reduction as the most important reason behind HR outsourcing adoption.

Manufacturing organizations outsource HR activities because outsourcing helps reduce expenses related to:

- a) HR administration
- b) Employee management systems
- c) Technology investment
- d) Training infrastructure
- e) Specialized HR personnel

External providers are often able to deliver HR services more economically because they serve multiple organizations and achieve economies of scale.

The findings confirm that financial efficiency remains a major factor influencing outsourcing decisions among manufacturing organizations.

5.1.3 Recruitment is One of the Most Commonly Outsourced HR Functions

The analysis revealed that recruitment activities represent one of the most frequently outsourced HR functions.

Organizations prefer outsourcing recruitment because external providers offer:

- a) Access to wider candidate databases
- b) Professional recruitment expertise
- c) Faster hiring processes
- d) Improved candidate screening methods

However, organizations generally maintain control over final selection decisions because employee selection directly affects organizational culture, workforce quality, and long-term performance.

The findings indicate that recruitment outsourcing provides operational support while strategic hiring decisions remain internally controlled.



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5.1.4 Payroll Outsourcing Has High Adoption Among Organizations

The study found that payroll processing is among the most commonly outsourced HR functions.

Organizations outsource payroll because it involves:

- a) Complex salary calculations
- b) Tax management
- c) Compliance requirements
- d) Employee attendance records
- e) Confidential financial information

Payroll outsourcing enables organizations to improve accuracy and reduce administrative workload. The findings indicate that manufacturing organizations consider payroll a standardized HR activity that can be effectively managed by specialized providers.

5.1.5 HR Outsourcing Improves Operational Efficiency

The research findings demonstrate that HR outsourcing contributes positively to HR efficiency.

By transferring routine administrative activities to external providers, internal HR departments can focus on more strategic responsibilities, including:

- a) Workforce planning
- b) Employee development
- c) Talent management
- d) Performance improvement
- e) Organizational development

The findings indicate that outsourcing allows HR professionals to shift from administrative roles toward strategic contributors within organizations.

5.1.6 Outsourcing Provides Access to Specialized Expertise

The study found that access to professional expertise is an important advantage of HR outsourcing.

External HR providers support organizations by offering:

- a) Professional recruitment services
- b) Updated HR practices



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- c) Labour law knowledge
- d) HR technology solutions
- e) Compliance expertise

This benefit is particularly important for medium-sized manufacturing organizations that may not have sufficient internal HR resources.

5.1.7 Organizational Size Influences HR Outsourcing Adoption

The findings indicate that organizational size affects HR outsourcing decisions.

Medium-sized organizations demonstrated greater outsourcing adoption because they often face a balance between HR requirements and limited internal resources.

These organizations outsource HR functions because:

- a) They require professional HR support
- b) They cannot maintain large HR departments
- c) They need flexible workforce solutions

Large organizations may also outsource specific activities but generally retain strategic HR functions internally.

5.1.8 Strategic HR Functions Are Less Frequently Outsourced

The study revealed that organizations prefer maintaining strategic HR activities internally.

Functions commonly retained internally include:

- a) Employee relations
- b) Performance management
- c) HR planning
- d) Organizational development
- e) Culture management

These functions require a strong understanding of organizational values, employee relationships, and long-term business objectives.

Therefore, organizations generally adopt selective outsourcing rather than complete HR outsourcing.



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5.1.9 HR Outsourcing Contributes to Competitive Advantage

The findings indicate that HR outsourcing can improve organizational competitiveness.

Through effective outsourcing practices, organizations can achieve:

- a) Better cost management
- b) Improved workforce efficiency
- c) Faster HR service delivery
- d) Greater operational flexibility
- e) Increased focus on core manufacturing activities

The results suggest that outsourcing allows organizations to redirect resources toward activities that directly contribute to business growth.

5.1.10 Challenges Associated with HR Outsourcing

Although HR outsourcing provides several benefits, the study identified various challenges.

Table 16: Major Challenges of HR Outsourcing

Challenge	Impact
Loss of control	Reduced direct monitoring of HR activities
Confidentiality risks	Possible employee information security issues
Vendor dependency	Increased reliance on external providers
Employee resistance	Negative employee perceptions
Cultural differences	Difficulty maintaining organizational values

The findings indicate that successful outsourcing requires proper planning, vendor management, and continuous communication.



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5.2 Summary of Major Findings

Table 17: Summary of Research Findings

Research Area	Major Finding
HR outsourcing trend	Adoption of HR outsourcing is increasing
Main outsourcing motivation	Cost reduction
Most outsourced functions	Recruitment and payroll
Major benefit	Improved efficiency
Strategic contribution	HR professionals focus on strategic activities
Organization size impact	Medium organizations show higher adoption
Competitive impact	Outsourcing improves operational flexibility
Major challenge	Loss of control and confidentiality concerns

6.1 Discussion of Major Findings

6.1.1 Increasing Adoption of HR Outsourcing in Manufacturing Organizations

The current study found that Human Resource Outsourcing is becoming an increasingly important practice among manufacturing organizations. Organizations are moving from completely internal HR management toward selective outsourcing of specific HR activities.

This finding is consistent with the research of Galanaki and Papalexandris (2020), who examined HR outsourcing trends among European organizations and found that companies increasingly outsource transactional HR activities because outsourcing enables greater flexibility and access to specialized capabilities. Their findings support the current study by demonstrating that outsourcing is becoming an important component of modern HR transformation.

Similarly, Cooke et al. (2020) found that organizations increasingly adopt HR outsourcing as part of broader organizational restructuring strategies. Their study showed that outsourcing is no longer considered only a cost-saving approach but also a method for improving HR service delivery.

However, the current findings partially contradict the results of Liu et al. (2021), who reported that some organizations hesitate to outsource HR activities because they consider HR functions closely connected with organizational culture and employee relationships. Their study suggested that organizations prefer maintaining greater internal control over HR processes.



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The difference may be explained by organizational context. Manufacturing organizations in Pakistan operate under significant cost pressures and workforce management challenges, which may increase their motivation to adopt outsourcing compared with organizations operating in more developed economies.

6.1.2 Cost Reduction as the Main Reason for HR Outsourcing

The current study identified cost reduction as the strongest motivation behind HR outsourcing adoption. Manufacturing organizations reported that outsourcing helps reduce HR administrative expenses, technology costs, and workforce management costs.

This finding is strongly supported by Adewoye and Salawu (2020), who investigated outsourcing practices in Nigerian organizations and found that cost efficiency was the primary determinant influencing outsourcing decisions. Their findings suggested that organizations adopt outsourcing because external providers can achieve economies of scale and provide services at lower operational costs.

Similarly, Mohiuddin and Su (2021) found that cost reduction remains one of the dominant factors influencing outsourcing decisions among developing-country organizations. Their study emphasized that organizations facing resource constraints are more likely to outsource non-core activities.

The current findings therefore support previous evidence that financial efficiency remains a major driver of HR outsourcing.

However, some researchers argue that excessive focus on cost reduction may create long-term risks. Kakabadse and Kakabadse (2019) found that organizations focusing only on short-term financial benefits may experience problems related to service quality, dependency, and loss of internal capabilities.

Therefore, while the present study confirms cost reduction as a major outsourcing motivation, it also highlights the importance of balancing cost objectives with quality and strategic considerations.

6.1.3 Recruitment as a Frequently Outsourced HR Function

The current study found that recruitment is among the most commonly outsourced HR activities. Organizations reported outsourcing recruitment because external providers offer wider candidate access, professional recruitment expertise, and faster hiring processes.

This finding agrees with Galanaki and Papalexandris (2020), who found that recruitment outsourcing is widely adopted because external recruitment providers possess specialized labour market knowledge and advanced candidate sourcing systems.



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Similarly, Keller and Ozment (2021) reported that recruitment outsourcing improves hiring efficiency by reducing recruitment time and increasing access to qualified candidates.

However, the current study found that organizations usually retain final selection decisions internally. This finding is supported by Wiblen and Marler (2021), who argued that although organizations may outsource recruitment processes, strategic decisions related to employee selection are often maintained internally because they influence organizational culture and long-term workforce quality.

Therefore, the current study supports previous research indicating that recruitment outsourcing is commonly used as a support mechanism rather than a complete transfer of recruitment responsibility.

6.1.4 Payroll Outsourcing and Administrative Efficiency

The current study identified payroll as one of the most outsourced HR functions. Organizations indicated that payroll outsourcing improves accuracy, reduces administrative workload, and supports compliance management.

This finding is consistent with Richter and Brühl (2021), who found that organizations frequently outsource standardized HR processes such as payroll because these activities are repetitive, technology-driven, and require high accuracy.

Similarly, Bondarouk and Brewster (2019) suggested that transactional HR activities are particularly suitable for outsourcing because external providers can deliver standardized services efficiently.

The findings of the current research therefore support the argument that payroll represents one of the most appropriate HR functions for outsourcing.

However, Wirtz et al. (2020) highlighted that outsourcing payroll and employee data management may create confidentiality and cybersecurity risks. This concern is reflected in the present study, where data security was identified as an important outsourcing challenge.

6.1.5 HR Outsourcing Improves Strategic HR Focus

The current study found that outsourcing routine HR activities allows HR professionals to focus on strategic responsibilities such as workforce planning, employee development, and talent management.

This finding is supported by Marler and Boudreau (2020), who argued that outsourcing administrative HR activities enables HR departments to transition from operational roles toward strategic business partnership.

Similarly, Minbaeva (2021) found that organizations achieve greater HR effectiveness when HR professionals spend less time on administrative activities and more time on strategic workforce development.



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However, Angrave et al. (2019) reported that outsourcing does not automatically improve HR strategic contribution. Their study suggested that organizations must develop HR analytical capabilities and strategic skills to fully benefit from outsourcing.

Therefore, the current study supports the positive relationship between outsourcing and strategic HR focus but suggests that outsourcing alone is insufficient without internal HR capability development.

6.1.6 Access to Specialized Expertise

The present study found that access to specialized expertise is an important benefit of HR outsourcing.

This finding is consistent with Boon et al. (2019), who found that organizations outsource HR functions to gain access to knowledge and capabilities that are difficult to develop internally.

Similarly, Meijerink et al. (2021) demonstrated that external HR providers can contribute knowledge-based resources and improve HR service quality.

The current findings are particularly relevant for medium-sized manufacturing organizations because such organizations may require professional HR services but lack resources to maintain specialized internal departments.

6.1.7 Organizational Size and HR Outsourcing Adoption

The current study found that medium-sized organizations showed higher levels of HR outsourcing adoption compared with smaller and larger organizations.

This finding is supported by Kroes and Ghosh (2021), who found that medium-sized organizations often adopt outsourcing because they require professional capabilities but cannot achieve economies of scale internally.

However, this finding differs from Mohiuddin and Su (2021), who found that larger organizations were more likely to outsource because they had greater financial resources and stronger awareness of outsourcing benefits.

The difference may be explained by country-specific factors. In developing economies, medium-sized organizations may experience stronger resource limitations, making outsourcing a practical solution for accessing HR expertise.

6.1.8 HR Outsourcing and Competitive Advantage

The current study found that HR outsourcing contributes to competitive advantage by improving efficiency, reducing costs, and allowing organizations to focus on core manufacturing activities.

This finding agrees with Patrucco et al. (2020), who found that outsourcing creates competitive value when organizations strategically integrate external capabilities with internal resources.



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Similarly, Handfield et al. (2020) argued that outsourcing improves competitiveness when external providers contribute specialized knowledge and operational flexibility.

However, Kakabadse and Kakabadse (2019) cautioned that outsourcing may reduce competitive advantage if organizations become overly dependent on external providers.

Therefore, the current study supports the positive contribution of HR outsourcing to competitiveness but highlights the importance of maintaining internal strategic capabilities.

6.1.9 Challenges of HR Outsourcing

The current study identified loss of control, confidentiality concerns, vendor dependency, and employee resistance as major outsourcing challenges.

These findings are consistent with Wirtz et al. (2020), who emphasized that outsourcing relationships create governance and information security challenges.

Similarly, Lacity et al. (2020) found that outsourcing failures often occur due to poor vendor management, unclear contracts, and weak communication.

The current findings therefore support previous research indicating that outsourcing benefits depend heavily on effective relationship management and governance mechanisms.

6.2 Discussion Conclusion

The discussion of findings demonstrates that the results of the current study are largely consistent with previous research on Human Resource Outsourcing. The study confirms that HR outsourcing is increasingly adopted by manufacturing organizations as a strategic approach to improve efficiency, reduce costs, and access specialized expertise.

The findings support previous studies indicating that cost reduction, operational efficiency, and access to professional HR services are major drivers of outsourcing decisions. Recruitment and payroll were identified as the most suitable HR functions for outsourcing because they are standardized activities that can be effectively managed by external providers.

The study also confirms that HR outsourcing enables HR professionals to focus on strategic activities such as workforce planning, employee development, and talent management. This supports the view that outsourcing can transform HR departments from administrative units into strategic contributors.

However, the findings also highlight that outsourcing does not eliminate all HR challenges. Issues related to loss of control, confidentiality risks, vendor dependency, and employee resistance require effective management. Therefore, successful HR outsourcing depends on proper vendor selection, clear agreements, continuous monitoring, and maintaining internal strategic HR capabilities.



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Overall, the study concludes that selective HR outsourcing can positively contribute to organizational performance and competitive advantage in the manufacturing sector, particularly when organizations balance cost benefits with service quality, security, and strategic alignment.

6.3 Recommendations of the Study

Based on the findings of this research, several recommendations are proposed for manufacturing organizations to maximize the benefits of Human Resource Outsourcing (HRO) while minimizing associated risks. The recommendations are developed considering the study findings regarding cost reduction, HR efficiency, outsourcing practices, organizational performance, and challenges associated with outsourcing.

6.3.1 Adopt a Selective HR Outsourcing Strategy

Manufacturing organizations should adopt a selective outsourcing approach rather than completely transferring all HR responsibilities to external providers. The findings indicate that certain HR functions, particularly administrative and standardized activities, are more suitable for outsourcing.

Organizations should consider outsourcing functions such as:

- a) Payroll processing
- b) Recruitment support activities
- c) Employee background verification
- d) HR information system management
- e) Compliance documentation

Selective outsourcing enables organizations to benefit from external expertise while maintaining internal control over strategic HR activities.

6.3.2 Retain Strategic HR Functions Internally

Organizations should maintain internal responsibility for HR functions that directly influence organizational culture, employee relationships, and long-term workforce strategy.

Functions that should generally remain internally managed include:

- a) Employee relations
- b) Workforce planning
- c) Performance management
- d) Leadership development



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- e) Organizational development
- f) Talent management

These activities require a deep understanding of organizational values, employee expectations, and business objectives; therefore, excessive outsourcing of these functions may negatively affect organizational identity and employee commitment.

6.3.3 Develop a Proper Outsourcing Evaluation Framework

Before outsourcing any HR function, organizations should conduct a detailed evaluation to determine whether outsourcing will create value.

The evaluation process should consider:

- a) Strategic importance of the HR function
- b) Expected cost savings
- c) Service quality improvement
- d) Internal capability limitations
- e) Potential risks and challenges
- f) Impact on employees

A systematic evaluation framework can help organizations avoid inappropriate outsourcing decisions and ensure that outsourcing supports organizational objectives.

6.3.4 Select Reliable and Experienced HR Service Providers

The success of HR outsourcing depends largely on the capability and reliability of external service providers. Organizations should carefully evaluate potential vendors before establishing outsourcing agreements.

Important vendor selection criteria should include:

- a) Previous industry experience
- b) Professional reputation
- c) Service quality standards
- d) Technical capabilities
- e) Compliance expertise
- f) Data protection policies



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g) Financial stability

Manufacturing organizations should select providers that understand industry-specific workforce requirements and operational challenges.

6.3.5 Establish Clear Service Level Agreements (SLAs)

Organizations should develop detailed service level agreements with HR outsourcing providers to ensure accountability and maintain service quality.

SLAs should clearly define:

- a) Scope of outsourced services
- b) Expected service standards
- c) Response time requirements
- d) Performance indicators
- e) Reporting procedures
- f) Problem resolution mechanisms

Clear agreements help reduce misunderstandings and improve coordination between organizations and outsourcing providers.

6.3.6 Strengthen Data Security and Confidentiality Measures

Since HR functions involve sensitive employee information, organizations must establish strong data protection mechanisms when outsourcing HR activities.

Recommended measures include:

- a) Confidentiality agreements with vendors
- b) Restricted access to employee information
- c) Secure data management systems
- d) Regular security audits
- e) Compliance with data protection regulations

Organizations should ensure that outsourcing providers maintain the same level of confidentiality and security expected from internal HR departments.



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6.3.7 Improve Employee Communication Regarding Outsourcing Decisions

Employee resistance was identified as one of the challenges associated with HR outsourcing. Therefore, organizations should develop effective communication strategies before implementing outsourcing decisions.

Organizations should clearly communicate:

- a) Reasons for outsourcing
- b) Expected benefits
- c) Impact on employees
- d) Changes in HR processes

Transparent communication can reduce uncertainty, improve employee acceptance, and minimize negative perceptions regarding outsourcing.

6.3.8 Use Outsourcing to Support Strategic HR Transformation

Organizations should not view HR outsourcing only as a cost reduction tool. Instead, outsourcing should be integrated into broader HR transformation strategies.

By outsourcing routine administrative activities, HR professionals can focus on:

- a) Employee engagement
- b) Workforce development
- c) Strategic planning
- d) Innovation
- e) Organizational improvement

This approach can increase the strategic contribution of HR departments.

6.3.9 Develop Internal HR Capabilities Alongside Outsourcing

Although outsourcing provides access to external expertise, organizations should continue developing internal HR capabilities.

Organizations should invest in:

- a) HR analytics skills
- b) Digital HR knowledge
- c) Strategic HR management skills



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d) Leadership development

Maintaining internal expertise reduces excessive dependency on external providers and improves long-term organizational flexibility.

6.3.10 Regularly Monitor Outsourcing Performance

Organizations should continuously evaluate whether outsourcing arrangements are achieving expected outcomes.

Performance evaluation should include:

- a) Cost savings achieved
- b) Service delivery quality
- c) Employee satisfaction
- d) Compliance performance
- e) Process efficiency
- f) Vendor responsiveness

Regular monitoring allows organizations to identify problems early and improve outsourcing effectiveness.

6.3.11 Encourage HR Technology Adoption

Manufacturing organizations should consider technology-enabled HR outsourcing solutions to improve workforce management.

Organizations can benefit from:

- a) Cloud-based HR systems
- b) Digital payroll platforms
- c) Automated recruitment systems
- d) Employee self-service portals
- e) HR analytics tools

Technology integration can improve accuracy, efficiency, and decision-making capability.

6.3.12 Develop Long-Term Outsourcing Policies

Organizations should establish formal HR outsourcing policies aligned with their long-term business strategies.



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The outsourcing policy should define:

- a) Functions suitable for outsourcing
- b) Vendor selection procedures
- c) Risk management practices
- d) Performance monitoring methods
- e) Data security requirements

A strategic outsourcing policy ensures that outsourcing decisions remain consistent with organizational goals rather than being based only on short-term cost considerations.

Table 18: Summary of Recommendations

Area	Recommendation
Outsourcing approach	Adopt selective HR outsourcing
HR strategy	Retain strategic HR functions internally
Vendor management	Select experienced and reliable providers
Risk management	Strengthen confidentiality and security measures
Employee relations	Improve communication regarding outsourcing
Performance improvement	Monitor outsourcing outcomes regularly
Technology	Utilize digital HR outsourcing solutions
Long-term planning	Develop strategic outsourcing policies

Overall, this study recommends that manufacturing organizations should adopt strategic and selective HR outsourcing practices. Outsourcing should be implemented as a tool for improving efficiency, accessing expertise, and supporting organizational growth rather than merely reducing costs. When properly planned and managed, HR outsourcing can contribute significantly to improved organizational performance and sustainable competitive advantage.

6.4 Future Research Directions

Future studies may explore:

1. HR outsourcing practices in service-sector organizations.
2. Comparison between outsourced and internally managed HR systems.



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3. Impact of HR outsourcing on employee satisfaction and engagement.
4. Role of artificial intelligence and digital HR technologies in outsourcing.
5. Long-term effects of outsourcing on organizational culture.
6. Cross-country comparison of HR outsourcing practices.
7. Relationship between HR outsourcing and financial performance.



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