

HUMAN RESOURCE OUTSOURCING: A NECESSITY FOR ORGANISATIONAL PERFORMANCE AMID THE RISKS OF EMPLOYEE TURNOVER INTENTIONS AND LOSS OF CONTROL

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Abstract

Human resources with a high degree of efficiency are a valuable asset for the organisation. Any organisation with forward-looking business objectives cannot perform well in this digitized world without having specialised, innovative, competent human resources. Acquiring and retaining such quality staff has multiple types of costs and affects the overall profitability of an organisation; here comes the concept of human resource outsourcing. Human resource outsourcing is a function of deployment and handling of all or specific HR activities carried out by an external organisation to achieve its goals, with the aim of overall effectiveness and improved performance. Many HR functions are specialized, like compensation management, training, performance management, which can be performed with professionalism by specialised people. Outsourcing has a cost, and this cost will be usually much less than the cost incurred to have in-house staff. HR outsourcing effectively handles the dynamic demographic nature of the world, cost of labour, emerging HR technologies for a lesser cost with more efficiency and effectiveness. Human resource outsourcing optimizes the cost of the workforce for carrying the key activities with competence and desired capabilities.

In this paper, with the strength of literature review and research, we will try to understand what kind of organisational activities can be outsourced and what will be the implications of outsourcing on the organisational performance. The research will also try to understand the correlation between the requirement of higher education levels in the organisations and outsourcing engagement. Outsourcing is no longer the privilege of very large organisations; it is being done by medium, small and even startup companies to take advantage of specialized HR related activities. This paper will also examine the different motives for doing the outsourcing by keeping the company's culture and loyalty intact. Finally, the paper also presents its recommendations on which non core activities can be outsourced by an organisation.

Introduction

In developing countries, more and more organisations are giving importance and preference to productivity, business application, and adoption of technology instead of conventional preferences which generally aim at reducing the cost. Now the business applications are seeking new innovations and access to better skills (Elmuti, 2004; Gilley et al., 2004). Outsourcing has become a very popular and everyday business activity for different industries irrespective of their size. There are strategic reasons also which are part of the economic framework of the organisation which motivate them to go for human resource outsourcing. Certain organisations have expertise in certain areas of HR functions. They achieve efficiency and professionalism due to their speciality, focus and experience. In-house staff of an organisation cannot meet their efficiency levels as it is not their core area of work. Organizations evaluate the opportunity cost of doing these HR functions in-house or getting it outsourced from an external agency. Based on the outcomes of the evaluation, a prudent decision as per their business strategy will be taken. Whether to do it themselves or outsource it to the other organisation. Considerable research has explored this activity to compare the relationship of human resource outsourcing with various other factors which will affect the organisational performance and effectiveness for both the cases of outsourcing the HR activities and managing HR activities by in-house staff itself.

Organizations have a clear choice with them either to impart or improve the skills of the in-house staff by providing them requisite training or opt for external agencies who have experience, expertise and capability to handle HR functions by entering into a relationship or agreement for managing human resource and other organisational activities. It is found that HR outsourcing usually saves long term expenses and setting up costs. Research has been done and it has been found that the human resource management administration is done at a faster rate and at a reasonable expense when some non core business activities are done through HR specializing organisations in that particular field. We find that HR outsourcing is expanding worldwide. Firms are redistributing their activities and choosing to do only core activities by themselves and identifying non-core activities to be managed by other

external agencies. The core activities come under the category of main strategic activities. They are basic, high value activities which only need to be done by the organisation itself, whereas non core human resource activities can be managed in a cost efficient and effective manner by following the model in which such activities will be outsourced. Such decisions will impact the organisation in respect of its performance in a direct as well as indirect way. Not only the benefits will be in terms of efficiency of the cost, there will be good scope for HR development and HR flexibility.

There are two influential theories which determine the decision to go for outsourcing. One is transaction cost theory which works on the principle of reducing the cost in doing business in the organisation, and the second theory is resource based theory which emphasis on utilization of assets and resources for employment in the industry .

HR outsourcing decisions become very important from the point of view of developing organisational culture to achieve the standards of efficiency. The decision of the organisation depends on utilising their inherent strengths and focussing on core competencies more efficiently with their own resources and enabling outsourcing to achieve better organisational performance in terms of administrative services. Services like transportation, catering, training, cleaning, payroll management are such activities which does not fit in the organisational core activities or culture, however getting them managed from outside agency, as per the standards or the requirements of the organisation will facilitate and make it convenient for them to work on and add value to the organisational performance. At the same time it is also necessary to influence the workers attitude towards the outsourcing and familiarise them with the decisions of the organisation and nurture better relationship with them to improve industrial relations and minimise turnover intentions. It is necessary to educate the employees and make them realize that alliances with the external sources will result in the reduction of costs and bring about improvement in quality. Under such arrangements, internal resources will be able to focus on innovation and flexibility, pertaining to core activities, in a more dynamic manner to affect the performance of the organisation positively.

There is a contention that improved organisational culture can help to get better outcomes for motivating and unifying the employees to feel and have better perception about the organisation and consider themselves as involved in sharing the goals and shaping the fortunes of their workplace . Organisations need to inculcate the feeling of confidence among the employees so that their behaviour is more positive towards the organisational goals and have orientation for its development and progress considering themselves as equal partners. There should be a positive impact on the willingness to develop the organisational culture for effective formulation and implementation of strategies for its development. There should be collaboration between employees and organisations. A culture of transparency and effective communication can be developed to nurture and create confidence towards HRM systems of the organisation.

Objectives of the Study

The specific objective of carrying out this study are as under

1. To identify and investigate the concept and scope of human resource outsourcing.
2. To assess the potential risks associated with human resource outsourcing.
- 3 To find out the influence of human resource outsourcing and its impact on the perception of various stakeholders in an organisation.
4. To evaluate the impact of human resource outsourcing on Talent retention or Employee turnover in the organisation as well as their job satisfaction .
5. To discuss and analyse the impact of human resource outsourcing on the performance of the organisation.

Methodology

Present study is conceptual and descriptive in nature having scope for comprehensive analysis while investigating into researched literature review and various other sources describing human resource outsourcing and its influence on various stakeholders. Data has been collected through literature review, interviews, surveys, academic journals, websites and various other social media platforms. Coverage of the study has been big industries in urban and rural areas .The descriptive methods used are interviews and open discussions to support and will facilitate the process of understanding the opinion of the staff with regard to HR Outsourcing . This will also provide insight into the relationship of HR Outsourcing with the Performance at organisation and employees level. Study has kept focus to analyse different core and non core activities becoming the part of outsourcing model and policy, with their rationales and objectives .How and Why enterprises should concentrate on staff satisfaction by adopting labour

centric policies by providing atmosphere and institutional support for holistic development internally to improve morale and satisfaction by increasing motivation is also part of study.

Scope of HR Functions Outsourcing

While making the outsourcing decisions, organisations have to keep in mind what kind of effects such decisions will have on its performance. It is necessary that they should distinguish between two types of activities being done in the organisation; first kind of activity falls in the core category and the second falls in the non core category. Core category activities are such activities which are related to basic activities, fundamental activities such as strategy at top level, HR policy, line management, and roles of the top management to perform in the area of discipline and performance management. There are non core activities which come under the category of recruitment, selection, payroll, and other repetitive routine personnel administration level activities. The organisation can decide how they can get benefit of cost and specialization by outsourcing non- core activities.

As described earlier, the non core activities which are generally outsourced can be described as under. However, it depends on the policy of the organisation and their strategies to take decisions about the various activities to be outsourced, keeping in view the confidentiality of data of the organisation as well as their trade secrets. The comparison has to be made with the amount of time and level of human resource involved as well as the benefit which shall arise due to reduction in the cost, and further to maximize the benefit of competitive advantage.

Following activities can be outsourced to the third party vendors.

1. Recruitment

Recruitment process is a regular activity of repetitive nature and over a period of time it is generally outsourced to a specialised agency to avail their expert services in this field. Recruitment process outsourcing has become increasingly popular and more and more organisations are approaching this method because of its scope, expertise, and knowledge possessed by the practicing vendor and the resulting cost efficiency for the organisation which is outsourcing it. The recruitment process outsourcing from external sources has been in practice for a very long time and it is growing rapidly. Since the recruitment process outsourcing has increased in its size over a period of time to increase the expertise of doing the work as well as lowering the cost, it has been outsourced since a long and it is being continued.(Norman, 2009)

2. Training

Online training and offline training are two different methods of conducting training programmes which are outsourced by the companies. For example, trainings on proficiency in computer usage for understanding the regular functioning of the organisation or offline training for developmental activities through relevant training programs come under this category which are generally outsourced.

One has to analyse the transaction cost and benefits, both direct and indirect, arising out of these in terms of improvement of resource and social exchanges. External training vendors are generally well equipped with requisite resources and have a good setup for conducting regularly such training courses. Such training and developmental activities outsourced are able to have positive impact on the employees and organisation as well.

Keeping in view, the benefits of getting the training done by the specialised people, it has been outsourced to institutions who have expertise in providing the training for a long time. And this has been increasingly being used as an outsource activity with respect to training projects and developmental activities.

3. Pay Roll

Calculations of payrolls and maintaining the record of the employees for their salaries, bonus, provident fund, and other benefits are more of transactional kind of routine activities which are of repetitive nature and can be frequently outsourced as the HR activity to specialised firm. The cost involved in getting the work done is much less than arranging and organising in house setup where cost of man power, infrastructure and other overhead costs will always much higher.

4. Information System

Human resource information system is very important arrangement and engagement for various organisations for their operations and efficient functioning. Information technology has added and contributed to organisational efficacy. Enterprise resource planning applications (ERP) like SAP and other information system technologies can

be easily outsourced as various organisations with expertise and experience in these areas are able to deliver better and effective manner and the cost effectiveness is in favour of lender.

5. Surveys and Research

Market surveys and research on demand forecast, consumer's preferences, social changes and cultural insights are some of the important tools often used by firms to prepare their plans and strategies to maintain or improve their market share. Organization often themselves cannot conduct these surveys and research work due to lack of infrastructure and expertise. They often engage an external agency to perform these functions for them. This will be a very convenient and cost effective method giving better results.

Literature Review

Many researchers have advocated in favour of human resource outsourcing in terms of saving of cost and improvement in the efficiency in the functioning of an organisation. There has been better access to external human resource management services. Outsourcing of human resource management services to a capable and experienced external agency is always beneficial and quite flexible also. It results in cost efficiency, better outcomes and practices. The flexibility will be better for the organisations and the economies with regard to transaction cost will be favourable. (Bendorf, Barge, & Graziano, 2005; Marquez, 2007; Oshima, Kao, & Tower, 2005).

Core activities which are considered transformational are of great value to employees, customer, investors and outsiders, whereas non core activities come under category of transactional ones, can be done with the help of technology. They are of routine, repetitive and standard activities. The supervision and compliance of non core activities can be done and monitored by giving these services and activities to people who are specialising in doing these kind of jobs. The information technology system as adopted by the new generation has brought a real game change in the functioning of activities of routine nature and have a very good streamlining effect on the compliance of routine functions such as payrolls etc., and it has brought down the cost of doing the work also (Jarvis et al., 2006).

It is the business strategy of the organisation which will decide which core activities are to be done in house and which non core ones are to be outsourced. The decision between keeping any activity under core and non core will be determined as per the strategy of an enterprise (Abdul-Halim, Che-Ha, 2009).

However, it has been seen that performance of the firm and HR outsourcing are directly associated with each other, Yet no existing literature has been able to link it with great authority as far as the perception of the market is concerned. (e.t Lai & Chang, 2010). With regard to HR Outsourcing decisions, the stakeholders and investors are also interested in knowing the facts about the performance with regard to outsourcing. It is necessary to understand stakeholders mind while taking such decisions (Shen, 2005).

Some of the studies affirmed that there is a less evidence about the data on human resource outsourcing and often decisions are taken based on the perceptions of the managers who are engaged in getting the work done and it is their perception on performance which matters more in taking the decision on outsourcing in an organisation. (De Vita, Tekaya, & Wang, 2010; Dickmann).

Managing employee turnover was identified as challenge while discussing about the various challenges of outsourcing. One of the important challenges described is managing the turnover of the employees and this can take place at the level of service providers as well as the clients. (Fisher)

Same has been advocated and supported with regard to turnover intention and there have been arguments that in case we are interested in combating the turnover intentions of the employees, we need to develop such strategies which will motivate the people to stay in the organisation. Technically they are known as retention strategies which include taking various measures to ensure that the stay of the employees in the organisation is for longer period and challenges of turnover are combated (Griffeth et al., 2000; Rubenstein et al., 2018), and turnover intention has also been investigated as a separate outcome (Park & Min, 2020). Kaur and Dilawari (2017).

It has been suggested that the employees should be involved in such a manner in the organisation that they feel as if they are the part of the organisation (Khan & Bhagat, 2022).

It is necessary to create an inclusive atmosphere in the organisation and employees should be a part of all activities (Park & Min, 2020; Rubenstein et al., 2018).

Retaining the employees in the smaller organisations over a long period of time has become a challenge because of non availability of training facilities for such staff. It has been seen that many organisations are not able to survive

in their first five years of establishment because of the fact that customers and staff choose to leave them. This happens because of the failure of the organisation to motivate the employees to continue to stay in the same organisation where they are working. For long time stay of employees and for organisational survival, the training needs are to be fulfilled (Lightspeed, 2024).

The researches have established the benefit of flexible working hours practices and transferring of resources between departments, and offering cross functional roles and responsibilities to employees have always made positive impact on the employees engagement and has resulted in less employees turnover (Heilmann et al., 2020).

Outsourcing has become a very important activity in almost all the businesses. Researchers have defined outsourcing as employing an external party to carry out all or some of the functions and idea behind that is to motivate the internal resources and using outside human resources to have less cost of transactions and these transactions will result in cost efficiencies (Wallo and Kock, 2018).

Involvement, consistent commitment are important traits of the employee, which can develop better and effective office culture, work as support a internal factors for development of adaptability regarding achieving organisations mission as per its vision. (Denison et.al, 2014)

Employee engagement, HR Responsiveness and Organisation culture are strongly related, steering and controlling them can affect turnover intentions in positive way .(Spector 2021)

Both qualitative and quantitative variable research as mixed method is needed for data collection and analysis for comparisons and analysis by HR department concerning staff .(Creswell, 2021)

Empirical links are missing between Human Resource Outsourcing and organisation performance, nor any link is associated with equity capital market, client decision to outsource, relationship with firms performance are important reasons for HR Outsourcing .(Butler & Callahan (2014)

Vigor, dedication and involvement of employee is improved in case organisations focus on employee's work related well-being by focussing on psychological health issues. (Schaufeli, Bakker & Salanova, 2006)

Employees Perception and Response towards Outsourcing

It is of prime importance that the attitude of the staff is constantly observed and studied with respect to decisions of outsourcing. However, not much research has been done in this area. It is necessary to investigate the psychological effect of HR outsourcing decisions on employees and study their behaviour, participation, attitude and involvement which will affect the performance in the organisation .Employees' cognition and their familiarity with the decisions of the outsourcing should also be kept in mind and organisations must ensure that introduction and implementation of HR outsourcing activities are welcomed by and evaluated favourably by the employees and they in any case do not become detrimental to the organisation .

One has to address various fears and uncertainties which are associated with the concept of outsourcing. The employees need to feel secured and relate themselves with the organisation's decision of outsourcing. The faith of the employees may get affected adversely and there comes a resistance to the outsourcing as they are afraid to lose their jobs .They may perceive that their efficiency report is not good and outsiders are considered to be more competent for the same job .Such kind of rumours and perceptions compel talented employees to look for the jobs outside the organisation and it not only creates anxiety in the mind of staff but it also affects the productivity in a negative way (Belcourt, 2006).

It should be noted that if management is responsive to the needs of the employee, the performance of the organization increases. We need to handle responsiveness with caution and care. Employee benefits and relationships need to be positively affected with the managerial decisions of HR outsourcing. The institution must have highly committed HR practices for the welfare of employees, and all systems should be implemented with flexibility. Provisions should be made to invite feedback and suggestions from the employees in case they are unable to manage innovations and change in the work. There is a need for increased engagement and stronger organizational culture to improve the coordination and responsiveness with the staff. High employee turnover may arise unless these critical issues are addressed promptly in an organised manner.

Employee's Attitude and Turnover Intentions

Positive employee engagement is essential to boost the morale of employees and ensure that they work with full zeal and enthusiasm at the organisation. The employee engagement should be focused on achieving the targets through consistent and continuous participation of employees to achieve the goals of the organization. Positive

attitude of the employee and his faith in the organization will be his key strengths in achieving his personal goals. Employers need to work towards the skills of the employees as well as on the relationship between the organisational goals and their personal goals. Organizations must create an atmosphere of good HR practices, clearly defining the functioning of the employees as per the strong organizational culture.

In the area of research, less empirical research has been done on the subject of psychological health of the employees due to decisions of HR outsourcing. One has to conduct an investigative study regarding its effect on employees' behaviour as well as attitude towards various organisational decisions and with specific reference to HR outsourcing. Employees' understanding and effect of the decisions of outsourcing affect differently on different people. Some will take it favourably and others may view it as detrimental to their interest. Organizations need to evaluate their feelings of insecurity and resentment due to such decisions and their perception regarding risk of losing their jobs. Many employees may fear that outsourcing arrangements will create a situation where their services are not required and in this process develop anxiety and uncertainty. This may lead to even talented employees forcing themselves to look for jobs elsewhere and this will affect organisations adversely with negative outcomes.

Managing employee turnover is a major challenge as it involves the cost of recruitment and training. It has been investigated as well as argued that one needs to be careful before taking the decision of outsourcing as it may affect the loyalty or continuity of the employees working in an organisation. They may begin to feel insecure and start thinking that the organisation may not trust their capacity and capabilities, they may be replaced with another set of people with better skills and eventually they may lose the job. Under such circumstances there is a need to incorporate an internal development system which creates a sense of security among the people. Such a move will assure them that they are important and sought after by the organisation. Proper coordination and more importantly employees' perception needs to be addressed to create increased engagement. Organization should involve them in the organisational activities in such a manner that turnover intentions may be checked at the right time. The effective way to combat the turnover intentions are to develop retention strategies to win the confidence of the workers and/or the managers in the organisation.

Organization Performance and Outsourcing

How performance of the organisation is effected is a cause of concern and a matter of investigation and research. Worldwide, shortage of resources and financial constraints have created a situation to adopting the evolving practices of human resource outsourcing. One must understand and study the effects of such increased activities and practices on the performance at the level of employees and then at organisational level also. The concept of performance is multifaceted and somewhat complicated to measure; still we may develop an insight into the performance of the work and compare it with the decision of outsourcing and in-house HR management. The situation may differ on the basis of different findings in different organisations in diversified fields but the relationship among the human resource outsourcing and organisational performance through the performance of employees cannot be undermined. HRM outsourcing has its impact on performance of the organisation and it also affects the cost structure, HR development, and HR flexibility directly and indirectly.

Challenges

Many challenges are expected and observed while outsourcing HR related functions by organisations. Various organisations face the challenges of losing the control of certain HR functions following the outsourcing decisions because there is a possibility of key and confidential information being passed on to the partners to whom the work is outsourced. There are concerns of confidentiality of sensitive data pertaining to employees which needs to be protected all the time. For the data security measures it is necessary that some confidentiality agreements are undertaken between the vendor and outsourcing partner to protect the data integrity and confidentiality. One has to be very careful while selecting the vendor about his reputation and his capacity to come up to the expectations as far as the organisational needs are concerned. These insights are to be considered before taking the final decision of giving the work to the vendor.

Guidance to Managers to mitigate Risks associated with HR Outsourcing :

Considering there are many core types of outsourcing such as business process outsourcing, information technology outsourcing, finance and accounting outsourcing, human resource management outsourcing and few more such as in the area of legal and manufacturing. It is necessary that management looks after the guidelines and precautions are taken by the managers to maintain the balance of understanding among various people who are affected directly and indirectly. The risks associated with HR outsourcing as described above are resistance to change, non adoptability, non responsiveness, turnover intentions, loss in production and many others. It is advised that the

whole system from introduction to implementation should be followed in a scientific manner with strength of some principles and defined procedure. We may incorporate systems' development for HR outsourcing: find out, analyse, understand, implement and follow up with the managers as well as staff.

It is necessary to evaluate the present HR capabilities in the organization and accordingly the outsourcing opportunities should be explored. Specific HR processes need to be defined and a list of various tasks which are needed to be outsourced be prepared. We need to do comprehensive research about the potential partners to whom the activities are going to be outsourced and see their capabilities. Comparative analysis is needed to be made, tabulated and analysed. Researching potential partners and conducting a comparative study must be done concurrently with the rise in HR outsourcing and its comparison with local expenditures. There must be transparency about the whole expenses involved and detailed breakdown of cost should be made to show that there is a clear understanding about any additional undescribed expenditures which might be there or may occur in times to come. There is no need to hurry. Planning for a seamless transition from outsourcing providers and implementation is necessary to prevent confusion and make sure that everyone understands what is expected of him during this transition. It is necessary to communicate different changes which are going to be there with the employees at the earlier stage so that their support can be taken. Regarding compliance status, data processing, administrative contributions, and functional benefits in terms of performance matrix, communication and reporting mechanisms must be developed not only with the outsourcing partner but also with internal staff and managers. These mechanisms must be understood, analysed, and shared with all parties involved in HR outsourcing decisions. It is necessary to monitor the performance periodically and adjust your strategies as necessary. If handled correctly, outsourcing can be a powerful strategy to lower costs and provide expertise of specialised nature while improving business operations. This will reduce your risk of being rejected by a non-corporation and enhance HR capabilities and organisational performance.

Making a base and directions for future research:

As we understand that there is a need for research in the field of HR outsourcing with regard to various variables such as employees responsiveness, turnover intentions, and organizational performance. There are research limitations as we are not able to get required data of various variables and are not able to analyse the relationship among various variables. It is necessary to have comprehensive research design to analyse independent variables concerning turnover intentions. Research also needs to be done on the involvement of the employee and its consistency in terms of adaptability of the machines of the organization. We also need to analyse and make exploratory study comparing the benefits of decisions taken regarding HR outsourcing and results thereof. By this we will be able to study whether the actual decision taken was correct or we need to revisit the decision to identify the cost benefit analysis and take a considered decision in future, whether to continue with the HR outsourcing or go back to in house management of organizational functioning. The research should be quantitative as well as qualitative for different periods and period-wise comparison also should be done.

Conclusion

Outsourcing is a very strategic move to utilise the resources in the best possible manner to improve the optimal performance of the organisation and is a very cost efficient move. But there is a need for careful planning and investigation into the reputation and competence of the vendor before finalizing the agency to do the outsourced job for the organisation. Proper communication and coordination will be vital to evolve a workable and successful partnership between the vendor and the organisation. HR outsourcing is becoming dynamic in nature and organisation needs to be adoptive to handle the complexity of modern technology and incorporate them into human resource system management functioning in the organisation. It is also necessary that more research should be conducted into psychological aspects of human resource outsourcing activity to address the gaps between the existing system and the emerging situation because of changing trends. The study concludes from the research done on the basis of literature review that overall impact of outsourcing in the corporate sector is very effective and it has to be considered as a strategy option to improve the organisational performance.

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