

# Analysis of Human Resource Outsourcing Industry Practice in Shanghai, China

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**Abstract:** *The purpose of this study is to discover the reasons why companies decide to outsource their HR functions, the likelihood of the HR function that the company wants to use outsourcing companies, the criteria for choosing the Human Resource Outsourcing Services Company, and the benefits and drawbacks of outsourcing HR functions. Questionnaires were utilized in this study. The researcher combined the questions which were tested by many other researchers to do the survey. There were 11 questions with 96 items on the questionnaires. The researcher sent 400 questionnaires out and received 302 responses which resulted in a response rate of 75.5%. The data was analyzed using SPSS software to identify the highly selected items. The results of this study indicated the saving in costs and time consumption so as to be able to focus on the core of the business and its strategies, and getting external talent and experience were the main selected reasons for a company to use outsourcing. The more routine and administrative a function is then the more likely it is to be outsourced, the more the function that is core oriented and requiring good relationship maintenance within the organization, the less likely it is to be outsourced. Also the better the reputation and the more professional is the outsourcer, means the greater the popularity of using this outsourcer. The results of this study not only analyze the data but also the negative risks which may happen such as inability to achieve the expectation of the company or unexpected cost increases. Interestingly, business confidential data spillover is the least selected negative elements. Additionally, the discussion shows support from other researchers. Recommendations are made and presented for application purposes and future research.*

**Keywords:** outsourcing, human resource, human resource outsourcing, shanghai

## Introduction

With the higher competition of the 21st century, more and more organizations have realized that they had to improve their core competency if they want to continue their businesses. Outsourcing the Human Resource functions could help the organizations concentrate on their core business (Tang, 2007).

In China, Human Resource Outsourcing has just started and the economic situation globally requires organizations to increase their competition capital. One way to do this may be by outsourcing some of their human resource requirements, so that local enterprises will realize that Human Resource Outsourcing can help the organizations to focus on their core business values to achieve their goals more rapidly. Human Resource Outsourcing has a very good future in China according to Ho (2011). China's outsourcing market is in its infancy but the market is quickly evolving. Humans are the core capital or value of competition (Wright,

2009). Human resource outsourcing may not only help an organization to focus on its core business but also help it reduce the complexities of handling day- to -day human resource issues (Chadha, 2009).

Shanghai, the biggest city in China, is one of its economic and financial centers and one of the Outsourcing center in China although China started later than many other countries such as the U.K. and India though some issues need attention such as; the scale of local HRO companies being small, with a lack of HR elites, people who have a lot of knowledge or ability regarding the HR field including well known individuals of the HR field, low sense of intellectual property (Han, 2010), and spillover risk so customers need to be protected for example, confidential data released or leaked into the public arena or to competitors (Elite Women Entrepreneurs of China, 2013). Shanghai has a high quality of human capital which is necessary for the Human Resource Outsourcing industry. Also, it has a perfect geographic position, policy support and high human capital which makes the Human Resource Outsourcing industry in Shanghai to develop extremely well (Han, 2010). So analyzing the current situation for the Human resource outsourcing industry in Shanghai is important.

## Research Objectives

The researcher has set up four research objectives:

1. To explore the reasons why companies decide to outsource their HR functions.
2. To explore the likelihood of HR functions that a company wants to use from the outsourcing companies.
3. To explore the criteria for choosing a Human Resource Outsource Services Company.
4. To explore the benefits and drawbacks of outsourcing HR functions.

## Research Questions

Based on the objectives, there were four research questions:

1. What are the reasons that make companies decide to outsource their HR functions?
2. What are the most likely HR functions a company will outsource?
3. How do companies select a vendor to outsource their HR functions?
4. What are the benefits and drawbacks of HRO to organizations?

## Literature Review

With the financial attractiveness, people and skills availability, and business environment, China ranked second in the world as an outsourcing destination. China's outsourcing market is in its infancy but the market is quickly evolving (Wright, 2009).

In the first framework of human resource functions, Corcoran (2005) mentioned that the HR department is responsible for Human Resource functions which **can be** judged to evaluate the value to a company with regards to; Compliance, Policies and **procedures** areas, recruitment and selection areas, the performance management area, the Training and development area, the Compensation and benefits area, and the Employee relations area.

Lawler III, Ulrich, Fitz-enz, and Madden (2004) summarized the main factors for **outsourcing** besides cost saving are improving HR service delivery/**quality**, gaining new technology, improving e-based self-service HR processes; and allowing **more** time for HR

management to deal with strategy issues. When a company decides to outsource a function or functions then the HR management can concentrate more on the internal company functions not outsourced which it manages so that the HR management can work more effectively and efficiently in areas such as performance management, training and development, employee relations and strategy issues would really depend on a company itself when it wants to improve the core competency or concentrate on the core business. For Armstrong (2006) three reasons for outsourcing the HR functions are: cost-saving, concentration of HR effort, and obtaining expertise. One main factor for the Human Resource Outsourcing industry in China developing rapidly is companies recognizing HRO. A company selecting HRO depends on the scale, employee structure and brand situation of the HRO company (Tang, 2007). Cost is the main reason to drive organizations to outsource but there are many other reasons of past experience with an HRO which can have an effect. Quality of the work by the outsourcing vendors, business data confidentiality, size of the company as large companies are more likely to outsource or size of the HR department such as a small HR team with large amount of work. Time consumption, and corporate culture can drive organizations to outsource their HR functions such as staff fear where the HR staff are afraid of losing their jobs and this can be a factor to affect whether an organization outsources or not (Peukam, 2009). Flexibility including demand flexibility, operational flexibility, and the resource flexibility can impact outsourcing such as long contracts outsourced for bureaucratic organizations which may improve flexibility (Bryce and Useem, 1998). Willcocks and Currie (1997) found (delete 'out') that one of the reasons that many organizations try outsourcing is because others are doing it.

The role of the HR function is to make the organization achieve its goals by providing guidance on all matters that relating to its employees. The HR function can play a major part to enable employees to make the best use of their abilities and skills, and realize their value to the organization and themselves through linking the organization improvement and individual performance (Armstrong, 2006).

There are two varieties of Human Resourcing Outsourcing companies according to the different kinds of requirements of the customers. One is generalists offering a wide variety of services. Another one is specialists focusing on specific areas (Chadha, 2009). The biggest problem for an organization to accept Human Resource Outsourcing service is the management perception (Ho, 2011). A company will outsource if training cannot be done in-house or if internal expertise skills are not good enough. To have HR focus on strategy, the routine and administrative assignments are more likely outsourced. Normally, an organization will not outsource some activities that require HR to maintain good relationships within the organization (Peukam, 2009). A heavily integrated function is less likely to be outsourced (Paoli and Prencipe, 1999). The more legal the environment the less likely does outsourcing occur (Kremic, Tukul and Rom, 2006). There may be legal people used such as lawyers not employed on a daily basis by a company. But any outsider does not necessarily know who is employed on the full time staff of a company at any time so it is possible for legal people to be employed as actual employees. But for any company there will be material relating to the legal environment in some way for example regarding labour, court proceedings and union involvement even payroll information which could be abused by members of the public or competitors if outsourcing occurs and this relates

to the possibility of confidential data being released or leaked into the public arena or to competitors if work related to a legal environment is outsourced.

Normally, organizations select HR outsourcing vendors by considering their expertise, professionalism, credibility, reputation, and quality of service (Peukam, 2009). Barthelemy and Adsit (2003) mentioned that seven deadly situations of outsourcing: (a) outsourcing the wrong processes or functions, (b) selecting the wrong vendor, (c) committing to a poor contract, (d) overlooking personnel issues in the organization, (e) losing control of the outsourced activity, (f) not taking into account all the costs, especially the hidden costs, and (g) failure to incorporate the exit strategy in the contract.

Beasley, Bradford, and Pagach (2004) defined the risk of outsourcing from the six perspectives of impact on an enterprise; 1. Market Risks, 2. Operational Risks, 3. Financial Risks, 4. Human Capital Risks, 5. Information Technology Risks, 6. Possible legal and regulatory risks related to the privacy, confidentiality, and security of business transactions. Thus, organizations need to consider each of these risks and try to minimize or eliminate the effect of these risks.

## Research Method

A quantitative method approach was selected for the research study. The researcher had the questionnaire validated by 5 experts using an Index of Consistency (IOC) which relates to The Evaluation of Index of Consistency presented in the appendices of the research study. The researcher revised the questionnaire accordingly to the experts' suggestions. The reliability of the whole set of the questionnaires was 0.921. The questionnaires were sent to 35 respondents working in Shanghai, and the data processed using the SPSS program. In the questionnaire there were on three aspects with 32 items. Thirty one respondents answered that their companies outsourced human resource functions whilst four respondents answered that their companies did not outsource any human resource functions. The data was analysed, the scale selected, the variables were selected and in the end for the Reliability Statistics there were thirty two items giving a Cronbach's Alpha of 0.921.) The researcher distributed 400 questionnaires to the target respondents which were administrators and staff working in companies in Shanghai, some of whom were friends of the researcher working in the HR administration of their companies and they also distributed the questionnaires on behalf of the researcher to other companies with the personnel being the CEO, vice-president, HR management, departmental heads and HR officers. There were 302 questionnaires returned which was 75.5% of the sent out questionnaires. Ethical issues were considered such as preserving confidentiality of the participants, no harm to the participants, and consent forms with voluntary agreements were made between the participants and the researcher.

## Data Analysis and Research Results

The data were analyzed by using the Statistical Package for Social Science Program (SPSS 19.0) as the researcher focused on the means, frequencies, percentages and standard deviations which were more relevant to this research study than other statistical measures available for use. The data was divided into five sections:

### Section 1: Respondents' Demographic Data

When the 'Percentage of companies outsourcing the HR function' was investigated the results demonstrated that 252 (83.44%) of the companies in the survey outsourced their human resource functions and 50 (16.56%) companies did not outsource their HR functions.

With regards to the 'The current job title of the respondents' the current job titles of the respondents were; 50 (16.56%) HR officer, 90 (29.80%) HR management level, and 162 (53.64%) for other management levels thus showing the reliability of the questionnaire.

### Section 2: According to the first research question; "What are the reasons that make the company to decide to outsource their HR functions?"

The results of the research study which was quantitative using such values as means, standard deviations, frequencies and percentages provided supportive evidence to answer the question. The 'Means and Standard Deviations of the reasons that make the companies decide to outsource their HR functions from 252 respondents showed that the respondents agreed with the 13 items. For the mean, the top three functions were; to save money/ reduce operating costs (mean=4.27) ( $SD=0.68$ ), to allow the company to focus on its core business (mean=4.26) ( $SD=0.67$ ), and to gain access to agency talent/expertise (mean=4.25) ( $SD=0.73$ ). The bottom three functions were: to gain access to agency technology (mean=3.81) ( $SD=0.96$ ), securing for companies' human resources data (mean=3.88) ( $SD=0.77$ ), and to provide consistent/improved service delivery (mean=3.97) ( $SD=0.81$ ).

The results of the obstacles that a company faced when it decided to outsource its HR functions showed that the percentage of each obstacle a company faced when it decided to outsource its HR functions. The top three obstacles were; fears that customer service to our employees might be affected was selected by 112 respondents (44.44%), fear that outsourcing might impact company culture which was selected by 111 respondents (44.05%), and fears of loss of control was selected by 100 respondents (39.68%). The bottom three obstacles were: resistance within senior management selected by 10 respondents (3.97%), resistance within HR selected by 38 respondents (15.08%), and resistance from employees in general selected by 51 respondents (20.245%). Just one person mentioned one other specific obstacle which was outsourcing the HR function may cause lower effectiveness for their company, this obstacle was 0.4% of all the obstacles.

From the analysis of the results the researcher concluded that the reasons for the companies to outsource their HR functions from the 252 respondents were; the costs, focus on core business, external talent, control of the program, and company culture.

With regards to reasons of those companies choosing not to outsource HR functions' from 50 respondents showed that the top three reasons that the companies did not outsource the HR functions were; not wanting to lose control of their HR functions (72% of the 50 respondents), we wanted to maintain face-to-face contact with our employees selected by 26 respondents (52% of the 50 respondents), and they felt it would negatively impact the company culture selected (40% of the 50 respondents).

The bottom three reasons why the companies did not outsource the HR functions were; preferring to invest in in-house technology (10%), preferring to develop expertise in-house (14%), having bad experience with outsourcing and encountering resistance within senior management (16%).

### Section 3: according to the second research question, "What are the most likely HR functions for the company to do the outsourcing?"

According to the data of the research study the 'HR function areas the companies partially or completely outsource were that: for outsource partially, the function most wanted was the strategic business planning (64.68% ) The function wanted to outsource the least was the performance management & evaluation (34.13%). For completely outsourcing, the function wanted most was training and development programs (63.89%) and the function wanted to outsource the least was the strategic business planning (8.73%).

With regards to the 'Comparison of means of HR function areas which a company wants to outsource or outsource add most in the future' the following was found that;

1. For the strategic business planning function, the 252 respondents of companies outsourcing agreed (mean=3.56,  $SD=1.02$ ), the 50 respondents of companies not outsourcing were neutral (mean=2.88,  $SD=1.15$ ), the opinions' from all the 302 respondents were neutral (mean=3.45,  $SD=1.07$ ). The mean indicated it was easier for companies outsourcing to accept the outsourcing strategic business planning function rather than those not outsourcing.

2. For the recruitment function, the 252 respondents of companies outsourcing agreed (mean=4.27,  $SD=0.90$ ), the 50 respondents of companies not outsourcing were neutral (mean=3.48,  $SD=1.01$ ), the opinions' from all the 302 respondents agreed (mean=4.14,  $SD=0.97$ ). The mean indicated that it is easier for companies outsourcing to accept outsourcing recruitment function rather than the companies not outsourcing.

3. For the training and development programs function, the 252 respondents of the companies outsourcing agree (mean=4.41,  $SD=0.68$ ), the 50 respondents of companies not outsourcing agreed (mean=4.14,  $SD=0.88$ ), the opinions' from all the 302 respondents agreed (mean=4.36,  $SD=0.72$ ). The mean indicated that companies outsourcing or not, accepted the outsourcing training and development programs function.

4. For the payroll administration function, the 252 respondents of companies outsourcing agreed (mean=4.09,  $SD=0.80$ ), the 50 respondents of companies not outsourcing were neutral (mean=3.30,  $SD=1.15$ ), the opinions' from all 302 respondents agreed (mean=3.96,  $SD=0.92$ ). The mean indicated that it was easier for companies outsourcing to accept outsourcing payroll administration function rather than the companies not outsourcing.

5. For the performance management & evaluation function, the 252 respondents of the companies outsourcing agreed (mean=4.13,  $SD=0.88$ ), the 50 respondents of companies not outsourcing were neutral (mean=3.30,  $SD=1.13$ ), the opinions' from all the 302 respondents agreed (mean=3.99,  $SD=0.97$ ) The mean indicated that it was easier for companies outsourcing to accept outsourcing performance management & evaluation function rather than companies not outsourcing.

6. For the employee relationship function, the 252 respondents of companies outsourcing agreed (mean=4.14,  $SD=0.77$ ), the 50 respondents of companies not outsourcing were neutral (mean=3.24,  $SD=1.13$ ), the opinions' from all the 302 respondents were neutral (mean=3.99,  $SD=0.91$ ). The mean indicated that it was easier for companies outsourcing to accept outsourcing employee relationship function rather than companies not outsourcing.

All the data demonstrated that the HR function wanted to outsource most was the training and development programs; and the HR functions wanted to outsource the least was the strategic business planning.

**Section 4: according to the third research question, “How do companies select a vendor while they outsource their HR functions?”**

The results of the research study provided supportive evidence to answer this question.

According to the results of the ‘Means and standard deviations of the answers concerning the main factors to consider when selecting a HR outsourcing agency from the 252 respondents’ it was shown that; the main factors to consider when selecting a HR outsourcing agency from the 252 respondents. According to the mean, the top three criteria are: a proven track record (mean=4.41,  $SD=0.68$ ), guaranteed service levels (mean=4.35,  $SD=0.71$ ), the kinds of projects provided by the agency (mean=4.33,  $SD=0.62$ ), and the bottom three criteria are: physical location of agency (mean=3.71,  $SD=0.92$ ), agency can provide other jobs for HR staff laid off due to outsourcing (mean=3.88,  $SD=0.97$ ), recommendations from other companies (mean=3.92,  $SD=0.82$ ).

A ‘Comparison of the kinds of HRO Services Company to be selected most in the future if possible’ showed that the companies that outsourced their HR functions would prefer to select multinational corporate HRO services companies the most, the local HRO services companies in the second place and the foreign - funded HRO services companies the least. The companies which did not outsource their HR functions would prefer a local HRO services company the most, then Multinational corporate HR services company and the least was the foreign - funded HRO services company. But from the whole perspective (all the respondents), the local HRO services company would be preferred first, then the multinational corporate HRO services company and the foreign - funded HRO services company the least. Whichever the situation the foreign - funded HRO services company was considered the least.

**Section 5: according to the fourth research question, “What are the benefits and drawbacks of HRO to organizations?”**

The research study results provide supportive evidence to answer this question.

With regards to the data of the research study the ‘benefits of outsourcing HR functions for HR professionals’ from 252 respondents showed that the top three benefits of outsourcing from the companies’ experience were; it allows HR to spend more time on strategy development and execution (71.42%), it allows HR to be perceived as strategic business partners (59.92%) and HR is able to focus on core business functions (58.33%);. The bottom three benefits of outsourcing from the companies’ experience were; HR has a better reputation among employees (26.19%), HR has a better reputation among senior management (29.37%), and It improves HR metrics/measurement (36.91%). No one gave any other options.

According to the ‘The negative outcomes of outsourcing’ for 252 respondents it was shown that the top three negative outcomes of outsourcing from the companies’ experience were; unable to effectively manage the relationship with an agency (39.29%), a loss of in-house talent/expertise (35.32%), and a lack of face-to-face contact with employees/less personal (34.92%).

The bottom three negative outcomes of outsourcing from the companies’ experience were; cause the business confidential data spillover (5.56%), negative impact on company culture (12.30%); a decrease in employee morale (19.84%). There were only 11.11% of respondents who said no negative outcomes.

## Conclusions and Discussions

This section interprets the results, based on the quantitative data such as means, the standard deviations, frequencies and percentages analysis of the mail survey between companies which did or did not outsource HR functions with respect to the four research questions.

For the companies that did outsource their HR functions;

i) From the research study data it was indicated that the cost savings and to reduce investment in the technology was the most selected reason for them, followed by, to let the internal staff focus on the strategy and core business was also highly selected, then, to use the external talents and make-up for the lack of in-house talent was another of the highly rated reasons for them to select outsourcing. The reasons of; gain access to agency technology, securing for companies' human resources data, and minimize legal risk were not that highly selected.

ii) According to the means, the standard deviations, frequencies and percentages of the data of the research study, it indicated that most had fears that outsourcing might have negative effect to their employees and the company culture, fears of loss control and business confidential spillover and have dependency on the vendors. The secondary level obstacles encountered were related to selecting the vendors, such as, how to look for vendors where to find the qualified vendors. The third level obstacles were the resistance from the internal employees and the senior management.

iii) For those companies that did not outsource their HR functions, the data indicated by the research study showed that the primary level reasons for them not to do outsourcing was that they did not want to lose control, they wanted to maintain face-to-face contact with the internal employees, were afraid of the negative effects to the company culture and the cost might be expensive. The second level reasons for them to not outsource were encountering the resistance from the internal staff and then doubting the ability of the vendor. The third level reasons for them were that they preferred to develop expertise in-house or invest in technology in-house.

### Discussion 1

The reasons why the companies decided to outsource their HR functions were: cost saving, get external talents, technology and experience, get more time to focus on the core business. The findings are supported by Ho (2011), who said the global economy requires organizations to increase competition capital, and somehow the local enterprise will realize that Human Resource Outsourcing can help the organization focus on their core business value then achieve its goals rapidly. Peukam (2009) supported this and said, cost is the main reason to drive an organization to outsource as the cost of recruiting a worker in a rural area is more expensive to do in-house than outsourcing. Peukam (2009) also mentioned that pursuit of new technology, the past experience with HRO, the company size, time consumption and corporate culture are other reasons for a company to decide to outsource.

Kakabadse and Kakabadse (2000) mentioned that cost, strategy, and politics are three major categories of motivation for outsourcing. Cost and strategy are generally driven for outsourcing by private industry and political factors often drive outsourcing by government organization. Finally, these reasons are also mentioned by other researchers, such as Lawler III, Ulrich, Fitz-enz, & Madden (2004), Armstrong (2006), Tang (2007), and Tsang (2000).



### **Conclusion two**

From the research study data, the results showed the functions they were outsourcing as follows. To outsource partially they liked to outsource strategic business planning the most (64.68%) but performance management & evaluation the least (34.13%). To outsource completely they liked to outsource training and development programs the most (63.89%) but strategic business planning the least (8.73%). Second, the research study data indicated what functions they would like to outsource or outsource add most in the future and the results were different for the companies which did or did not outsource now. The data did demonstrate that the HR function they would like to outsource most is the training and development programs, while the strategic business planning function was the least.

### **Discussion three**

The likelihood of HR functions that the companies wanted to use from the outsourcing companies were; they would like to outsource partially strategic business planning the most, and performance management & evaluation the least. They would like to outsource completely the training and development programs the most and strategic business planning the least. This finding is supported by Peukam (2009), who said that training can't be easily done in-house or when the skills of internal expertise is not enough then it is more likely to be outsourced by a company. In order to allow HR to focus on strategy, the routine and administrative assignments are more likely to be outsourced. Normally, an organization will not outsource some activities that require HR to maintain good relationships within the organization. This finding is also supported by Quinn (1999) who said that functions which are more core to the organization are less likely to be outsourced.

### **Conclusion four**

According to the research study results for those companies that did outsource their HR functions, the data indicated that the primary level (mean=4.41-4.31) factors to consider when selecting a HR outsourcing vendor are; a proven track record, guaranteed service levels, the kinds of projects provided by the agency, the background, reputation and history of the agency. The second level (mean=4.25-3.96) factors to consider when selecting a HR outsourcing vendor are; size of vendor's company, cost of agency services, financial security of the agency, niche in a specific area, and the properties of the vendor. The third level (mean=3.93-3.71) factors to consider when selecting a HR outsourcing vendor are; the vendor's company has a compatible corporate culture, recommendations from other companies, vendor can provide other jobs for HR staff laid off due to outsourcing, and physical location of agency.

Second, from the research study results for the 'comparison of the kind of HRO Services Company will be selected most in the future if it is possible' the data indicated that multinational corporate HRO Services Company were most popular, then the local HRO services company and the foreign - funded HRO services company were the least popular. For those companies which did not outsource their HR functions, the data from the research study indicated that the local HRO services companies were the most popular choice, then the multinational corporate HRO services company and the foreign - funded HRO services company were the least popular choice. But from the whole perspective (all the respondents), the local HRO services company would be preferred first, then the multinational corporate

HRO services company and the foreign - funded HRO services company the least. Whichever the situation the foreign - funded HRO services company is considered the least.

#### **Discussion five**

The criteria for choosing the Human Resource Outsource Services Company are as follows highly selected; a proven track record, guaranteed service levels, the kinds of projects provided by the agency, the background, reputation and history of the agency. The business confidentiality is not that highly selected. The findings are supported by Chadha (2009) who said there are two varieties of Human Resourcing Outsourcing companies according to the different kinds of requirements of the customers where one is 'generalists' offering a wide variety of services and another is 'specialists' focusing on specific areas. The findings are also supported by Peukam (2009) who said that organizations selecting HR outsource vendors focus on; consider their expertise, professionalism, credibility, reputation, and quality of service.

#### **Discussion six**

The research study data indicated a descending order of benefits of doing outsourcing as; it allows HR to spend more time on strategy development and execution, it allows HR to be perceived as strategic business partners, HR is able to focus on core business functions, it proves HR metrics/measurement, HR has a better reputation among senior management and HR has a better reputation among employees.

#### **Discussion seven**

Regarding the benefits and drawbacks of outsourcing HR functions for those companies which outsource their HR functions are as follows; some of them can save on cost but some of them don't, some of them can improve the employee's satisfaction but some don't. This finding is supported by Krcmic, Tukel & Rom (2006), in that it is impossible to list every risk of outsourcing but some of them are as follows; increase costs, employee morale problems, over dependence on a supplier, lost corporate knowledge and future opportunities and dissatisfied customers. This finding is also supported by Peukam (2009) who said that the organizations have to take the risks of HRO such as; the quality of service is poor, get unqualified candidates, lose control of the performance of the staff, cost more, and time consumption is more, higher turnover rate, higher absence rate and the relationship between HR and other staff may be reduced. Barthelemy and Adsit (2003) mentioned the seven deadly situations of outsourcing are as follows; (a) outsourcing the wrong processes or functions, (b) selecting the wrong vendor, (c) committing to a poor contract, (d) overlooking personnel issues in the organization, (e) losing control of the outsourced activity, (f) not taking into account all the costs especially the hidden costs, and (g) failure to incorporate the exit strategy in the contract.

### **Recommendations for the Applications**

From the study the researcher has found that the best reason the companies do outsourcing is because they want to save on cost. It is recommended that for those newly set up companies should consider outsourcing if they want to save on cost of operation.

Except for the saving on cost, the companies which outsource also can gain new technology and external talent and their own HR staff can have more time to focus on the core business. It is recommended that newly set up companies should consider outsourcing if they want to focus on their core business.

The researcher found out that the business confidential information spillover is not a main factor for those companies considering to outsource their Human Resource functions.

From the study the researcher found that the highly selected reason for companies to select an outsourcing vendor was the vendors' proven track record, guaranteed service levels and the background, reputation and history. So it is recommended that those newly set up companies should consider those reasons to select an outsourcing vendor.

From the study the researcher found that the core HR function is less likely to be outsourced. But the more time and people the HR function needs then it will be more likely outsourced. It is recommended that those newly set up companies should consider the time consumption of their own HR functions while wanting to improve work efficiency.

Even though HR outsourcing is the fastest growing sector among the Business Process Outsourcing (BPO) services there have been some failures because of misguided expectations with regards to; the HR outsourcing will be tailored to fit the organizational culture, strategy, structure, business scope and volume of HR activities. Thus, if a company wants to get what they expect from outsourcing their HR they should not only focus on the cost savings but also the employee satisfaction and organizational performance.

### **Recommendations for Further Research**

Because this study is about the analysis of the human resource outsourcing industry practice in Shanghai, please note that the study covered only some companies such as; transportation companies, food industry companies, retail trade companies in Shanghai, China. The researcher carried out a survey by questionnaire with a focus on target respondents who were: Human Resource Officers; HR manager and other managers. Because of the limitations of the questionnaire the questions were not that deep and the questions could not be adjusted according to the respondents' answers. So for further research the researcher suggests that future researchers use mix-method research so as to get more detailed answers.

Since the study did not investigate in the HR functions for different size companies the researcher suggests there should be a study to investigate the outsourcing practices of companies with different sizes.

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