HUMAN RESOURCE OUTSOURCING EFFECTIVENESS: THE MODERATING EFFECT OF PARTNERSHIP QUALITY ON THE SERVICE QUALITY-SATISFACTION-LOYALTY FRAMEWORK

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STATEMENT OF ORIGINAL AUTHORSHIP

DECLARATION

The work in this thesis has not been previously submitted for a degree or diploma at any higher education institutions within or outside Malaysia. To the best of my knowledge and belief, the thesis contains no material previously published or written by other scholars except where due reference is made.

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ABSTRACT

Increased competition, downsizing, rapid growth or decline, globalisation as well as restructuring in the business world have driven more firms to outsource HR functions. Many Malaysian manufacturers consider outsourcing HR as a conduit to access expert services due to high growth and high investment in the manufacturing sector in recent years. In fact, Malaysia is regarded as a 2nd tier developing outsourcing destination, ranked consistently the 3rd most preferred outsourcing destination after India and China by AT Kearney since 2005. However, against such background, research being conducted to represent the Malaysian outsourcing context and its effectiveness from the service quality perspective is scarce. Relational conditions characterised by partnership quality and its effect on HRO effectiveness remain inadequately explored. Specifically, its conditioning influence on service quality, client satisfaction and loyalty has not been examined together. HR managers or executives who are dealing with HRO matters from 257 manufacturing firms in Malaysia are the respondents of this research. Data are analysed using PLS-SEM. The findings from the structural model for the service quality-satisfaction-loyalty link are consistent with literature, including the mediation effects. Service process quality has greater impact on client satisfaction and loyalty compared to service outcome quality. Interestingly, none of the partnership quality factors such as trust, commitment, mutual understanding and interdependence moderates the relationship between service quality and client satisfaction as hypothesized. However, these factors are consistently found to be negatively significant in moderating the relationship between client satisfaction and client loyalty. The results highlight that although achieving service outcome quality is important, service process quality has a greater impact on client satisfaction and loyalty. The findings also suggest that service providers who are prepared to build or are consciously building partnership quality with their clients are likely to experience greater client retention because by merely achieving client satisfaction is insufficient to retain a client. This research complements the scarcity in HRO literature by providing a nuanced and contextualised understanding of HRO effectiveness from service quality perspective. It contributes to the social exchange theory (SET) by potentially extending one of the SET facets to include other non-economic outcomes. It provides support to the relational exchange (RET) theoretical argument with regards to having to accept the existence of relationalism in all contracted relationships such as HRO without denying the value of formal contractual governance. This research makes several methodological contributions to the field of HRO research as it is one of the few HRO studies that has embarked on a more updated PLS-SEM modelling involving the reflective-formative model and addresses results reporting and the assessment of formative measurement models in human resource management research. Limitations of the research and future research directions are provided as well.

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ADP	=	Automatic Data Processing
ASP	=	Application Service Provider
B2B	=	Business-to-Business
AVE	=	Average Variance Explained
B2C	=	Business-to-Customer
BPO	=	Business Process Outsourcing
C	=	Commitment
CB-SEM	=	Covariance-based Structural Equation Modelling
CFA	=	Confirmatory Factor Analysis
CL	=	Comparison Level
CMV	=	Common Method Variance
CR	=	Composite Reliability
CTA-PLS	=	Confirmatory Tetrad Analysis Partial Least Square
EDS	=	Electronics Data Systems
EFA	=	Exploratory Factor Analysis
f^2	=	Effect Size
FMM	=	Federation of Malaysia Manufacturer
HCMs	=	Hierarchical Component Models
HOCs	=	Higher-order Components
HRO	=	Human Resource Outsourcing
HTMT	=	Heterotrait-Monotrait
ID	=	Interdependence

IS	=	Information Systems
IT	=	Information Technology
ITO	=	Information Technology Outsourcing
KPO	=	Knowledge Process Outsourcing
LOCs	=	Lower-order Components
LY	=	Client Loyalty
MU	=	Mutual Understanding
PEO	=	People Employer Organisations
PLS-SEM	=	Partial Least Square-Structural Equation Modelling
PQ	=	Partnership Quality
Q^2	=	Predictive Relevance
R^2	=	Coefficient of Determinant
RET	=	Relational Exchange Theory
SAT	=	Client Satisfaction
SET	=	Social Exchange Theory
SLA	=	Service Level Agreement
SOQ	=	Service Outcome Quality
SPQ	=	Service Process Quality
SQ	=	Service Quality
T	=	Trust
TCE	=	Transaction Cost Theory

CHAPTER 1

INTRODUCTION

1.1 Background

In the last decade, the global services outsourcing industry in which human resource outsourcing (HRO) is a part of, has grown in scale and scope (Rhodes, Lok, Loh & Cheng, 2016). HRO, is one of the services outsourcing segments within business process outsourcing (BPO) (Cullen, Lacity & Willcocks, 2014). It is projected to reach US$100 billion by 2019 (Deloitte, 2016) and will continue to show signs of growth in the future (PrismHR, 2018). The landmark deal worth US$600 million sealed between BP and Exult (Adler, 2003) gave birth to HRO which has since challenged the traditional approach to human resource management (HRM).

Increased competition, downsizing, rapid growth or decline, globalisation as well as restructuring in the business world have driven more firms to outsource HR functions as they attempt to refocus their business, reduce costs and expand capabilities to face future challenges (Glaister, 2014; Gottardello & Valverde, 2018; Susomrith & Brown, 2012; Hasliza & Norbani, 2010). Specifically, HRO can be used to boost HR productivity by eliminating low value but time-consuming activities such as payroll or benefits-related transactional activities (Adler, 2003; Woodall, Scoot-Jackson, Newham & Gurney, 2009) and provide a quick fix to a problem (Greer, Youngblood & Gray, 1999; Mahmud, Billah & Chowdhury, 2012; Susomrith & Brown, 2011). HRO can also accommodate a firm's move to relocate (Dickmann & Tyson,

2005) and help firms to be in compliance with HR laws and regulations. As a result, HRO is believed to be an important tool that can fundamentally transform HRM (Reichel & Lazarova, 2013; McCraken & McIvor, 2012; Adler, 2003; Sako, 2010; Guilloux & Kalika, 2011; Rajan & Pahal, 2012).

In Malaysia, many manufacturers tend to consider outsourcing HR as a conduit to access expert services due to high growth and high investment in the manufacturing sector in recent years (Outsourcing Malaysia, 2013; 2015). As most of these firms are aware of the changing business landscapes in the larger environment, they have started re-strategising their HR for skilled employees to focus on core HR activities (Hasliza and Norbani, 2010). They tap on the benefits of outsourcing HR to enhance internal HR capability in order to support business gowth in recent years. About half of the respondents surveyed from the manufacturing sector were found to have embraced HRO (Hasliza and Norbani, 2011b). The local HRO market was predicted to expand in tandem with the growing outsourcing industry (Outsourcing Malaysia, 2013) and it is the second largest market after finance and accounting outsourcing (MDEC, 2017).

Currently, Malaysia is regarded as a 2nd tier developing outsourcing destination (Deloitte, 2014), ranked consistently the 3rd most preferred outsourcing destination after India and China by AT Kearney since 2005 (AT Kearney, 2019). Malaysia is indeed a vital player in the global outsourcing arena (Vyas, 2016) in which human resources and finance and accounting sectors make up three-fourths of the total BPO market (Global Business Services, 2017). These sectors are expected to grow at a compounded annual growth rate of 7.9% and reach US$1.4 billion by end-2021 (Global Business Services, 2017). In fact, BPO such as HRO is anticipated to surpass IT outsourcing in Malaysia in the future (AT Kearney, 2019), indicating its significant of adoption in this country and hence an area of a research worth examining.

However, against such positive market positioning and growth, research being conducted to represent Malaysian outsourcing context remains very limited (Hasliza, Ee and Ramayah, 2014; Chiang, Chow & Birtch, 2010) because HRO research in the literature are mostly Western centric (Vyas, 2016) and few are HRO specific. Consequently, HRO researchers such as Khatri & Budhwar (2002), Shen (2005), Chiang et al. (2010) and Hasliza et al. (2014) have called for further research in the Asian context so that appropriate guidance can be provided to organisations in the developing countries.

The extant HRO literature is found to concentrate on the client's sourcing decisions such as when and what firms should and should not outsource (Lievens & Corte, 2008; Sim, Avvari &Kaliannan, 2016; Patel, Budhwar, Witzemann and Katou, 2017) which shows that knowledge gaps exist beyond the make or buy decisions. In particular, HRO effectiveness from the service quality perspective has not been adequately researched. This is unexpected because service quality has consistently been recognised as one of the most important factors in deciding early termination of an outsourcing contract (Deloitte, 2016a; 2014b; 2012). Poor service quality can erode the provider's profit and escalate the client's costs (Lacity & Wilcocks, 2017) which in turn can fundamentally affect the outsourcing relationship (Pepur, Mihanovic & Pepur, 2011).

Additionally, the relational conditions characterised by partnership quality and its contingent effects on HRO effectiveness remain inadequately explored despite it being regarded as a necessary condition or atmosphere (Kern & Willcocks, 2002) for effective outsourcing (Hasliza et al., 2014; Ee, Hasliza & Ramayah, 2013a; Chakrabarty, Whitten & Green, 2007; Lee & Kim, 1999; Swar Moon, Oh & Rhee, 2012; Kern & Willcocks, 2002; Grover, Cheon and Teng, 1996). Good partnership quality allows flexibility and greater responsiveness in the outsourcing relationship beyond the rigidity of contract (Cullen et al., 2014). Although an outsourcing relationship typically starts with a contract, all discrete transactions are embedded in relations (Macneil, 2000) and outsourcing contract is no panacea nor does it ensure successful relations (Rhodes et al., 2016; Kern & Willcocks, 2000). Hence, partnership quality is vital in ensuring good services are delivered to satisfy outsourcing clients in exchange for loyalty towards the service provider (Goode, Lin, Fernandez & Jiang, 2014).

Although the service quality-satisfaction-loyalty link has been well established in services marketing literature (Human & Naude, 2014, Goode et al., 2014; Juga, Juntunen, & Grant, 2010; Caceres & Paparoidamis, 2007; Gotlieb, Grewal & Brown, 1994; Chumpitaz & Paparoidamis, 2004), partnership quality has largely been examined separately from the service quality perspective (Goode et al., 2014). Specifically, its conditioning influence on service quality, client satisfaction and loyalty has not been examined together in determining HRO effectiveness.

Against this background, this research posits that there is a need to study the effect of partnership quality on the entire service quality-satisfaction-loyalty link. More precisely, this research hypothesises that service quality results in client satisfaction which in turn retains clients in continuing the outsourcing relationship while arguing that the strength of these linear relationships would change under the influence of relational conditions. This research underpins and integrates two core theories namely Social Exchange Theory (SET) and Relational Exchange Theory (RET) to explain the theoretical logic behind the moderating effects of partnership quality on the entire service quality-satisfaction-loyalty link in its attempt to evaluate HRO effectiveness from the service quality perspective.

1.2 Problem Statement

In almost all outsourcing relationships, outsourcing service providers place great emphasis on satisfying their clients' needs in the hope to get their contract renewed or to increase the scope (Levina & Ross, 2003). However, the findings on HRO effectiveness based on the outsourcing providers' service performance have been mixed. According to Schwarz (2014), many of the outsourcing ventures have been unable to achieve the expected outsourcing benefits. For example, Pollitt (2004) found that the majority of the respondents was very confident of the benefits but frank about their failure to anticipate problems, especially the cost implications. In another study, approximately half of the respondents surveyed indicated that their outsourcing programmes fell short of expectations with only 10% satisfied with the cost saving achieved (Gottfredson, Puryear & Phillips, 2005). High-profile HRO contracts being terminated or significantly altered have been featured in the case of NiSource, Wachovia, Starbucks, American Airlines and Sodexho (Wentworth, 2008). Some industry analysts and media commentators translate their findings into painful trade-offs: cost reduction versus growth, speed versus quality, and organisational cohesion versus knowledge and innovation while others suggest that outsourcing has come to its end (PriceWaterHouseCooper, 2008).

On the other hand, there are positive findings on the outsourcing providers' service performance. For example, in a large longitudinal study of 15 years, Domberger (1998) found that outsourcing generic services can often lead to cost saving of 20% while Greer et al. (1999) reported that some gained unintended benefits such as redeployment of internal HR expertise, development of negotiation skills, enhancement of HR credibility and reduction in risk in addition to the intended benefits. Cullen et al. (2014) revealed that 85% of the BPO deals performed well and Deloitte (2016a; 2016b) reported that 78% of their respondents rated their service provider as having met or exceeded cost related objectives.

So, in the attempt to understand these mixed experiences, overall service quality of the service provider was found to be the most important factor in deciding early termination of an outsourcing contract (Deloitte, 2012). Nearly 50% of the 140 companies surveyed reported poor service quality despite meeting service level as the source of problems (Deloitte, 2014). This suggests that service providers tend to be overly fixated with meeting service outcome quality governed by the service level agreement (SLA) than the service delivery or process quality. Poor service process quality may lead to dissatisfaction of the service and subsequently cause HR managers to terminate the service (Yan, Francesco, Zhang & Chen, 2013). Unfortunately, service process and outcome quality dimensions have not been examined together in determining HRO effectiveness to date. Ineffective HRO may also result in disasterous business impacts among the manufacturers in Malaysia, preventing them from achieving the business growth which they desired.

While there is no lack of service quality-satisfaction-loyalty research from services marketing literature, particularly in business-to-customer (B2C) contexts such as hospital services, spectator sports, participation sports, entertainment, health care, long-distance carriers, fast food, dentists, auto service, restaurants, hairstylists, higher education, urgent transport and hotel (e.g. Choi & Kim, 2013; Mohsin & Cyril de Run, 2010; Cronin, Brady & Hult, 2000; McDougall & Levesque, 2000; Markovic, 2006; Caro & Garcia, 2007; Akbaba, 2006), findings from the business-to-business (B2B) context show a great deal of inconsistencies when service quality-satisfaction-loyalty link is examined. This is further exacerbated by scarcity of research in business-to-business (B2B) contexts (Zhu & Zolkiewski, 2015) let alone in the HRO context, because most B2B studies adopt economic perspectives and very few emphasise the role of non-economic perspective in explaining organisational purchase (Mencarelli & Riviere, 2014; Leek & Christodoulides, 2012; Ngoc, Hau, Liem, Tania & Pham, 2016) like HRO.

Poor service quality experienced by purchasing organisations in the outsourcing context are often associated with poor partnership or collaborative quality such as having a ‘master-slave’ relationship or onerous relationship (Cullen et al., 2014; Deloitte, 2014a). The latest HRO research found that outsourcing HR may have long term negative effects on the operating performance if outsourcing participation is not optimal (Butler & Callahan, 2014) but regrettably, there is no concrete empirical evidence to demonstrate the extent to which partnership quality could influence the relationships in the service quality-satisfaction-loyalty link.

The majority of outsourcing literature focuses on manufacturing outsourcing rather than services outsourcing (Rhodes et al., 2016) such as HRO and overwhelmingly adopt a developed country’s perspective where it tends to apply macro- and meso-level perspectives and rarely embraces the micro or firm level (Hansen, Schaumburg-Müller, 2008; Vyas, 2016). Non-economic aspects like partnership quality and its effect on service quality-satisfaction-loyalty link was not explicitly examined although partnership quality is often reckoned as the key condition to outsourcing success (Goode et al., 2014; Hasliza et al., 2014; Juga et al., 2010 Poppo & Zenger, 2002; Goo, Krishore, Rao & Nam, 2009; Lee & Kim, 1999). Thus, the role of partnership quality has been taken for granted with little or no assessment in determining HRO effectiveness (Savino, 2016).

This demonstrates that there is lack of a holistic understanding of how the relationships among partnership quality (trust, commitment, mutual understanding and interdependence), service quality (process and outcome), client satisfaction and loyalty are inter-connected when examined together. Moreover, the research focusing on partnership quality among HRO partners in Malaysia is very limited as well (Ee, et a., 2013a). Therefore, this research sets out to close these knowledge gaps.

1.3 Research Questions

This research strives to address the aforementioned problem statement with the key research question: What is the impact of partnership quality on the entire service quality-satisfaction-loyalty link among manufacturing firms who have embarked on HRO in Malaysia?

More specifically, it encompasses the questions of:

1. Does the service outcome quality of the main service provider affect the client loyalty towards them?
2. Does the service process quality of the main service provider affect the client loyalty towards them?
3. Does service outcome quality of the main service provider affect the client satisfaction towards them?
4. Does service process quality of the main service provider affect the client satisfaction towards them?
5. Does client satisfaction affect their loyalty towards the main service provider?
6. Does client satisfaction mediate the effect of service outcome quality and loyalty towards the main service provider?
7. Does client satisfaction mediate the effect of service process outcome quality and loyalty towards the main service provider?

8. Does partnership quality moderate the effect of service outcome quality on client satisfaction towards the main service provider?
9. Does partnership quality moderate the effect of service process quality on client satisfaction towards the main service provider?
10. Does partnership quality moderate the effect of client satisfaction on loyalty towards the main service provider?

1.4 Research Objectives

Based on the research questions in the previous section, the key objectives for this research is to examine the effectiveness of HRO among manufacturing firms in Malaysia from the perspective of service quality by incorporating the moderating effect of partnership quality into the entire service quality-satisfaction- loyalty link.

More specifically, it aims:

1. To examine the service outcome quality of the main service provider and its effect on client loyalty.
2. To examine the service process quality of the main service provider and its effect on client loyalty.
3. To examine service outcome quality of the main service provider and its effect on client satisfaction.
4. To examine service process quality of the main service provider and its effect on client satisfaction.
5. To examine client satisfaction and its effect on their loyalty towards the main service provider.

6. To examine client satisfaction mediation effect between service outcome quality and loyalty towards the main service provider.
7. To examine client satisfaction mediation effect between service process outcome quality and loyalty towards the main service provider.
8. To examine partnership quality moderation effect between service outcome quality and client satisfaction towards the main service provider.
9. To examine partnership quality moderation effect between service process quality and client satisfaction towards the main service provider.
10. To examine partnership quality moderation effect between client satisfaction and loyalty towards the main service provider.

1.5 Significance of the Study

This research helps to make an inroad into expanding the knowledge on HRO effectiveness and the role of partnership quality through the clients' lens using the service quality perspective. The following paragraph describes the contribution of the study.

1.5.1 Theoretical contribution

Several knowledge gaps are set to be closed through this research. This research contributes to the under-researched area in outsourcing literature specifically in an emerging market context such as Malaysia. It evaluates HRO effectiveness from the service quality perspective which was deemed inadequately researched and conceptualised in past research.

This research has pushed the boundary of outsourcing research by researching beyond a direct factor-based model to provide a clearer understanding of why certain clients stay loyal with their service provider while others terminated the outsourcing contract. In addition, the effect of partnership quality as a multi-dimensional conditioning factor on the entire service quality-satisfaction-loyalty link is being explicitly examined for the first time in this research. This research integrates Relational Exchange Theory (RET) and Social Exchange Theory (SET) to provide explanatory power on the role of partnership quality acting as the conditioning factor between service quality and client satisfaction, and client satisfaction and loyalty.

In short, this research results in the development of a theoretical model which can be used to not just explore HRO effectiveness from the service quality perspective but also allows a deeper level of understanding on the effect of partnership quality on the entire service quality-satisfaction-loyalty link.

1.5.2 Practical contribution

This research provides insights to the practitioners, both the providers and clients alike on the HRO effectiveness among manufacturing firms in Malaysia. This is important because both parties get to gauge the level of HRO effectiveness based on the perceived outsourcing service quality and client satisfaction, and to understand how these factors then influence the intention to continue outsourcing with an existing provider. Besides, organisations get a better understanding on the role of partnership quality and how it impacts the entire service quality-satisfaction-loyalty link in a successful outsourcing relationship. The findings offer insightful guidance to organisations that have gone down the road of HRO and help them to identify how they can further enhance the effectiveness of the outsourcing relationship with their service provider or vice versa.

Meanwhile, this research is timely as client dissatisfaction with the overall service quality despite having met service level was recently highlighted as the main problem behind most outsourcing contract termination among practitioners (Deloitte, 2014a). It is time to reflect on why the clients remained unhappy even though their demands outlined in the outsourcing agreement have been honoured by their service provider. This research provides some explanation to this perplexing scenario, making the findings of this research useful to practitioners.

1.6 Operationalisation of Key Terms

To avoid potential confusion in interpreting the concepts employed in this research, the definitions of the terminologies used in this research are presented below:

Outsourcing

The practice of obtaining goods or services from an outside provider through a long-term legally binding contract, substituting internal sourcing (Lacity & Willcocks, 2012).

HR Outsourcing

The externalisation of at least 25% of a specific HR activity or function to a service provider through a long-term legally binding contract no shorter than two years.

HRO Effectiveness

The extent to which HRO perceived service performance prescribed by service quality objectives made up of service outcome quality and service process quality are met satisfactorily which in turn result in client loyalty.

Service Quality

Perceived service performance as the result of a client's view of a bundle of service dimensions, some of which are technical, which answers the question of what the customer gets and some of which are functional, which answers the question of how the customer gets it (Gronroos, 1984).

Service Process Quality

Functional quality which denotes the 'how' performance, conforming to client's requirements in the *delivery* of a service in the form of tangibility, reliability, responsiveness, assurance and empathy (Chakrabarty et al., 2007).

Service Outcome Quality

What is being delivered through outsourcing as a result of client interactions with the service provider judged by outsourcing benefits achieved.

Client Satisfaction

Outsourcing client's fulfilment or judgement of all aspects of the service provided (or is providing) a pleasurable consumption experience on a recurrence and cumulative basis in a given contracted period of time reflective of the impact of service performance.

Client Loyalty

The intention of a buyer to retain or continue the outsourcing contract, expand the quantity and volume of the contract, and provide referrals (Homburg et al., 2003 and Wallenburg et al., 2011; Wallenburg, 2009).

Partnership Quality

A working cooperative relationship characterised by trust, commitment, mutual understanding and interdependence which serves as the important condition responsible for the success or failure of an outsourcing outcome.

Service Level Agreement

A formal written contractual agreement between the service recipient and the service provider which specifies the various facets of the service to be provided at certain levels to meet business objectives (Goo et al., 2009) and which defines work responsibilities of each party, what good work (and poor work) is through the key performance indicators (Cullen, et al., 2014).

1.7 Structure of the Thesis

This research starts with Chapter One which introduces the context of the research such as the research background, problem statement, research objectives, research questions and significance of the research in order to provide an overview direction of this research.

Chapter Two reviews the meaning of outsourcing and HRO to provide an understanding of what outsourcing is and is not. It covers the what, why and why not of HRO, how outsourcing parties interact and phases in outsourcing evolution. This information is crucial for readers to understand the fundamentals of HRO.

Chapter Three presents the conceptualisation of the key constructs - HRO effectiveness followed by conceptualisation of service outsourcing performance which integrates HRO effectiveness with service quality literature. Subsequently, a review of the service quality literature and HRO literature ensued. Gaps in the entire HRO literature are identified while gaps to be closed by this research have also been clarified. Theories as well as constructs relevant to this research are discussed accordingly.

Chapter Four presents the research framework aimed to fill the knowledge gaps identified in the previous chapter. In the proposed framework, service quality is an independent variable with two dimensions which are service process quality and service outcome quality. Client satisfaction serves as the mediating variable between service quality and client loyalty. Partnership quality consists of four dimensions namely trust, commitment, mutual understanding and interdependence which serve as a moderating variable to the entire service quality-satisfaction-loyalty link. Hypotheses of these relationships are developed and presented in this chapter.

Chapter Five covers research design and methodology that are used in the conduct of the research and data analysis. It starts off with research worldviews followed by research procedure, sampling and measures. Lastly, data analysis methods suitable for the purpose of this research is also discussed.

Chapter Six discusses data examination, common method bias, analysis and findings of the path model namely the structural model (inner model) and the measurement models (outer models).

Chapter Seven provides discussion on the research findings, achievement of the research objectives, contribution of the research, limitations of the research and recommendations for future research. This will be the last chapter in the thesis.

CHAPTER 2

LITERATURE REVIEW ON HRO

2.1 Introduction

The previous chapter has provided background information with regards to HRO such as problem statement, research objectives, research questions, significance of this research and operationalisation of key terms which are important to understand the context of this research. This chapter reviews the meaning of outsourcing and attempts to provide an understanding of what outsourcing is and is not. It covers the what, why and why not of HRO, and types of human resource outsourcing.

2.2 Definition of Outsourcing and Human Resource Outsourcing

Outsourcing is getting complicated and highly conditional (Cullen, Seddon & Willcocks, 2008); yet it has become an increasingly popular business trend nowadays (Kaipia & Turkulainen, 2017). Therefore, understanding the context and background of general outsourcing is imperative prior to understanding HRO. This section aims to provide comprehensive information about the nature of outsourcing and human resource outsourcing.

2.2.1 Definition of Outsourcing

Generally, there are three segments of outsourcing namely knowledge process outsourcing (KPO), information technology outsourcing (ITO) and business process outsourcing (BPO)

(Outsourcing Malaysia, 2013). In the early 1980s, ‘outsourcing’ was typically referred to the situation when firms expanded their purchases of manufactured physical inputs, like car manufacturers purchasing window cranks and seat fabrics from outside the firm rather than making them inside. But in 2004, outsourcing took on a different meaning at the global level. It refers to a specific segment of the growing international trade in services. This segment consists of arm's-length, or what Bhagwati (1984) called ‘long-distance’ purchase of services abroad, principally, but not necessarily, via electronic mediums such as the telephone, fax and the Internet; as such this definition actually refers to offshoring.

Not limited to offshoring, Quelin & Duhamel (2003, p. 648) define outsourcing as ‘the operation of shifting a transaction previously governed internally to an external supplier through a long-term contract, involving the transfer of staff to the vendor’. This means, outsourcing need not necessarily be offshore but can be onshore and nearshore as well. In a similar definition, Kotabe & Mol (2006, p. 5) define the outsourcing process as ‘a range of actions within a clearly identifiable time-frame that lead to the transfer to outside suppliers of activities, possibly involving the transfer of assets including people as well, that were previously performed in-house or procured from other units within the corporate system’. Generally, outsourcing is ‘a process which begins with the development of a sound business case followed by the implementation of the external sourcing model, and ultimately the management of the relationship with the provider’ (Handley & Benton, 2009, p. 344) and this process involves contracting with an outside vendor to provide either a product or service to the firm, as opposed to producing the product using employees within the firm (Noe, Hollenbeck, Gerhart and Wright, 2012). This clarifies that outsourcing is the practice of obtaining goods or services from an outside provider, substituting internal sourcing (Lacity & Willcocks, 2012). It is a conscious decision not to carry out an activity in-house (Kaipia & Turkulainen, 2017).

2.2.2 Definition of Human Resource Outsourcing

Generally, HRO researchers define outsourcing by basing it on outsourcing definition used for other organisational activities (Yan et al., 2013), such as ITO. As a result, HRO is commonly defined as externalising HR activities previously performed in-house to external providers (e.g. Delmotte & Sels, 2008; Cooke, Shen &McBride, 2005; Greer et al., 1999; Turnbull 2002). However, the definition can be inconsistent and often implicit (Woodall et al., 2009; Yan et al., 2013). For example, the definition provided by Greer et al. (1999), Cook (1999) and Delmotte & Sels (2008) emphasises that the outsourced HR tasks ought to be previously performed in-house and the service provider has to perform the tasks on a repetitive basis.

Meanwhile, Turnbull (2002) refers to HRO simply as placing responsibility for HR function with a third-party provider. These two definitions seem converging but are challenged by Macbeth (2008) who takes on a resource-based view and argues that HRO is about gaining resources from other organisations in support of the core business and need not be performed in-house prior to the outsourcing decision. Subsequently, the definition of HRO takes on a new perspective when a definition underpinning a structural design view was provided by Gospel & Sako (2010) who regard HRO as an unbundling of corporate structure which is conceptually distinct from the rest of the definitions.

Given this background, the conceptualisation of HRO is still vague due to loose conditions applied when defining them. It has resulted in freedom of interpretations. There is little consensus on the definition of 'outsourcing' which can have implications on the validity of findings from the various outsourcing surveys and case studies (Woodall et al., 2009). Besides, such inconsistencies may cause the HRO definition to be mixed with the concepts of external HR subcontracting, HR expert leasing, and HR shared services (Yan et al., 2013).

Therefore, further clarification on the HRO definition is required. Yan et al. (2013) argue that HR subcontracting such as using external employees and temporary contract workers including leasing of HR experts to client organisations should not be considered as HRO. They based their argument on the fact that these external experts and employees are not directly employed by the focal organisation. However, the researcher maintains that this justification is not fully agreeable.

First, there is no clear-cut line between HR subcontracting and outsourcing in the literature; in fact, HR outsourcing evolved from HR subcontracting (Woodall et al., 2009; Kakabadse & Kakabadse, 2002). Second, the nature of outsourcing is generally characterised by externalising HR activity on a long-term basis where the focal organisation may outsource a different HR activity driven by different reasons and sometimes to different providers to suit business needs. Moreover, employees of the service providers are often not under the direct employment of the focal organisation. Therefore, the departure point in deciding whether a practice is deemed HRO may need to consider the two generally agreed upon criterion; long-term engagement of provider and externalisation of HR activity.

With reference to Lacity, Khan, Yan & Willcocks (2010), Gilley & Rasheed (2000) and Willcocks, Fitzgerald and Lacity (1994), HRO is defined as the externalisation of at least 25% of a specific HR activity or function to a service provider through a long-term legally binding contract no shorter than two years. This will be the definition of HRO in the context of this research.

2.3 Outsourcing and Its Historical Development

The concept of outsourcing is not new as the early practice of outsourcing can go as far back as the era of the Roman empire (Beregszaszi & Polay, 2012). However, the outsourcing industry is still at the infant stage of professionalising itself where standard practices, codes of conduct, minimum standards of competence, and understanding of effective outsourcing are still largely absent (Cullen et al., 2014).

In order to understand human resource outsourcing development, one has to first understand the roots from which outsourcing began. By understanding the past, it allows us to understand how the market has developed and how the outsourcing industry has evolved into where it is today.

In 1949, Henry Taub founded Automatic Payrolls and subsequently changed its name to Automatic Data Processing (ADP) in 1958. The establishment of ADP marked payroll as one of the first business services to be outsourced (Cullen et al., 2014). In 1962, a frustrated salesman at IBM, Ross Perot started Electronics Data Systems (EDS) targeted at large corporations by offering long-term contracts (Arhos, 2010). EDS marked the birth of IT outsourcing (Cullen et al., 2014). In 2008, EDS was acquired by Hawlett Packard to form the largest world's technology company (Hawlett Packard, 2008).

In a span of twenty-five years, ITO has grown into a multi-billion-dollar industry. The landmark case of Eastman Kodak $US500 million outsourcing deal in 1989 with IBM marked the beginning of modern ITO, immediately followed by Enron's $US750 million ten-year contract with EDS (Cullen et al., 2014). Since then, IT became the single outsourcing target as firms in the early 1990s looked to IT outsourcing to reduce costs, access expertise and increase performance; mostly characterised by large-scale ITO deals although sometimes with a single provider. The practice of ITO took on a deep change in 1999 where shorter-term contracts were favourable involving multiple service providers. ITO market was estimated to worth $325 billion in 2013 by Gartner (Cullen et al., 2014).

According to Lacity and Rottman (2009), more strategic interest in multi-sourcing was evident during the period of 2000 to 2010 while smaller short–term contracts drove market growth during the period of 2005 to 2010. Nonetheless, the economic downturn in 2007 has pushed for greater service provider consolidations resulting in 'bundled' outsourcing after single service providers.

Historically, the ITO industry was the first to emerge before BPO because BPO is a less mature market with some BPO deals (including HRO) piggybacked on ITO deals (Cullen et al., 2014). Offshoring is also worth mentioning because it was the key that contributed to the development of the Indian service providers' capabilities in providing outsourcing services (e.g. Infosys, Wipro, TCS). As a result, both BPO and offshoring have opened up the global outsourcing market.

HRO, on the other hand, embedded in BPO, officially emerged in 1999 when the HR BPO deal was signed between a start-up called Exult, based in Irvine California with an oil giant BP Amoco (Eastwood, 2006). While BPO providers are developing their capabilities, there have been rapid BPO expansion with many untapped potential growth (Cullen et al., 2014).

2.4 HR and HRO

Driven by increased competition, downsizing, rapid growth or decline, globalisation as well as restructuring (Greer et al., 1999), HR Managers are expected to align HR practices with business strategy (Greer et al., 1999) because the changes in the broader environment affect how a firm manages their human resources (Adler, 2003). Increasingly, HR departments are expected to create more value in support of a firm's objectives (Ulrich, Younger & Brockbank, 2008). Today, HR professionals are expected to possess six primary competencies, namely strategic positioner, credible activist, capability builder, change champion, human resource innovator and integrator, and technology proponent (Brockbank, Ulrich, Younger & Ulrich, 2012).

However, contrary to such forward-thinking expectations, HR managers are often not involved in key strategic decisions and remain stubbornly traditional with many necessary changes left unimplemented (Bondreau & Lawler, 2014). This highlights the urgent need of HR departments to undergo massive HR transformation. On the verge of such urgency, outsourcing HR appears to be a useful tool to transform existing HR (Adler, 2003; Sako, 2010; Guilloux & Kalika, 2011; McCraken & McIvor, 2012; Rajan & Pahal, 2012).

2.5 Types of Human Resource Outsourcing

There are many ways to classify and label the types of HR Outsourcing, generally it can be categorised into the following five types:

2.5.1 Automated Data Processing (ADP)

ADP is about using a third party to perform the payroll function. Such practice started in the 1940s but it was not until 1999 that the first major HR BPO deal was signed between Exult and BP Amoco (Automati Data Processing, 2014). This deal was claimed as the pioneer of the industry after Exult managed to persuade BP to hand over control of the majority of its HR processes in a seven-year deal worth $600m (Eastwood, 2006). Over time, ADP has expanded from payroll processing to providing broader human resource management solutions such as talent management, benefits administration, taxation, analytics and compliance.

2.5.2 HR-IT Outsourcing or Application Service Provider (ASP)

ASP refers to outsourcing the technical infrastructure and transaction processing components of a function while retaining the control and ownership of the business process itself in-house, with the ASP hosting the technology and providing full technical support, such as for desktops, networks, data centres, and software applications. The client or buyer is responsible for owning and handling the entire business process (Beaman, 2004). For example, ASP hosts and supports a company's HR payroll system but the data entry and processing are performed and owned by the client. ASP allows small client firms access to expensive software but many ASP providers went bankrupt due to the inability to generate revenues (Lacity, Khan & Wilcocks, 2009). Some term it as 'netsourcing' which grew well during 1997-2001 but fell terribly due to the internet bubble burst (Cullen et al., 2014). It has now resurrected in a newer form which is 'cloud computing' through many derivatives of 'XaaS' (Cullen et al., 2014).

2.5.3 Selective or Partial or Multi-outsourcing

This type of outsourcing adopts the best-of-breed approach in which each function is evaluated individually to identify which functions should be outsourced and which vendors are best fit in meeting each functional need (Beaman, 2004). For example, a company may engage an ASP to support their payroll, a recruitment agency to handle their recruitment function and a consulting firm to manage their compensation and benefits. It is also feasible to retain some activities and outsource others, including selectively outsourcing only some activities within a single function (Cook, 1999), for example, outsourcing only the administrative part of recruitment such as job advertising, reference check and etc.

2.5.4 Comprehensive Business Process Outsourcing (BPO)/ Total HR Outsourcing

This type of HRO involves a complete turnover of HR by engaging the outsource provider to handle the full management of all business and transaction processing. It is defined as 'the management of a set of logically related tasks performed to achieve a defined business outcome by a third party' (Gewald, 2010, p. 90). The outsourcing provider owns the business processes, handling the technology and infrastructure, the people and all related business processing (Beaman, 2004). However, this may pose problems to midsize and large companies because there is still a need for a core HR group to coordinate, interact and serve employees and management on a daily basis. On the other hand, it may be easier for small businesses to adopt total HRO (Cook, 1999). It is likely suitable for well-defined, standardised, IT-enabled and easy measurable processes (Borman, 2006).

2.5.5 Employee Leasing or Professional Employer Organisations (PEOs)

Some companies prefer to retain all HR functions in-house but do not wish to own the HR headcounts. This preference leads to the adoption of PEOs whereby the organisation hires a service provider to supply the manpower needed for HR services delivery yet retains the ownership of these activities in-house. According to Cook (1999), it is equivalent to employee leasing arrangement because companies that move in this direction normally ask the outsourcing service providers to continue hiring their current employees. PEOs services include payroll, taxes, benefits programmes, such as medical, dental, vision insurance and workers' compensation, and other administrative functions to small and midsize businesses at a rate that small employers cannot afford on their own.

2.6 Human Resource Functions Outsourced

To begin with, it is necessary to be aware that not all firms outsource their HR entirely, and even for firms that have selectively outsourced a HR function, they may only outsource part of the activities within the same function. Few sources (Cook, 1999; Hunter & Saunders, 2007 and, Lawler & Bondreau, 2009) have been referred to in order to classify HR activities by functions that are being outsourced. So far, this is one of the most comprehensive compilation of the types of HR functions/ activities outsourced from the literature. The classification for the types of HR functions/ activities outsourced is as follows:

Table 2.1: Types of HR Function Outsourced

HR Function	Activity/ Processes	Reference
Employee Data/ Record Management	Employee data record update	Hunter & Saunders (2007)
	Maintenance of HRIS systems reporting hierarchies	Hunter & Saunders (2007)
	Compliance and reporting	Hunter & Saunders (2007)
	Personnel record keeping	Cook (1999)
	Administration of daily employee status	Hunter & Saunders (2007)
	Changes and nontechnical HRIS maintenance	Cook (1999)
	Maintenance of on-site personnel files	Cook (1999)
Metrics	Data analysis and mining	Lawler III & Bordreau (2009)
	HR metrics	Lawler III & Bordreau (2009)
Travel and Expense	Expense Claim Processing	Hunter & Saunders (2007)
	Expense Record Management	Hunter & Saunders (2007)
	Reimbursement and Cost Allocation	Hunter & Saunders (2007)
Payroll	On cycle pay	Hunter & Saunders (2007)
	Off cycle pay	Hunter & Saunders (2007)
	One off payments	Hunter & Saunders (2007)
	Tax calculation and reporting	Hunter & Saunders (2007)
	Disbursements	Hunter & Saunders (2007)
	Accounting to general ledger	Hunter & Saunders (2007)
	HM Revenue and Customs reporting	Hunter & Saunders (2007)
	Year end management	Hunter & Saunders (2007)
Benefits	Enrolment and options administration	Hunter & Saunders (2007)
	Plan administration	Hunter & Saunders (2007)
	Recor maintenance	Hunter & Saunders (2007)
	Claims administration	Hunter & Saunders (2007)
	3rd party management and liaison	Hunter & Saunders (2007)
	Car fleet management admin	Hunter & Saunders (2007)
	Pension administration	Hunter & Saunders (2007)
Compensation	Salary administration	Hunter & Saunders (2007)
	Bonus administration	Hunter & Saunders (2007)
	Stock option/ Restricted share administration	Hunter & Saunders (2007)
	Savings plan administration	Hunter & Saunders (2007)
	Total rewards statements	Hunter & Saunders (2007)

	Executive compensation planning and administration	Hunter & Saunders (2007)
	Reward policies and strategy	Hunter & Saunders (2007)
	Job descriptions	Cook (1999)
	Job evaluations	Cook (1999)
	Salary surveys	Cook (1999)
	Salary program development	Cook (1999)
	Salary program training for managers	Cook (1999)
Performance Management	Performance review cycle administration	Hunter & Saunders (2007)
	Absence monitoring	Hunter & Saunders (2007)
	Absence management	Hunter & Saunders (2007)
	Disciplinary and grievance record management	Hunter & Saunders (2007)
	Interpretation of policy and practice around disciplinary and grievance processes	Hunter & Saunders (2007)
	Industrial tribunal/ legal support	Hunter & Saunders (2007)
	Performance appraisal	Lawler III & Bordreau (2009)
	Competency/talent assessment	Lawler III & Bordreau (2009)
Learning and Development	Development review process cycle administration	Hunter & Saunders (2007)
	Learning plan maintenance	Hunter & Saunders (2007)
	Catalogue maintenance	Hunter & Saunders (2007)
	Demand management (scheduling)	Hunter & Saunders (2007)
	3rd party sourcing management	Hunter & Saunders (2007)
	Delivery of training	Hunter & Saunders (2007)
	Evaluation and assessment	Hunter & Saunders (2007)
	Training record administration	Hunter & Saunders (2007)
	Competency model development and maintenance	Hunter & Saunders (2007)
	Standard training needs analysis	Hunter & Saunders (2007)
	Career pathing and succession planning	Hunter & Saunders (2007)
	Talent management administration	Hunter & Saunders (2007)
	High flier development programme design and delivery	Hunter & Saunders (2007)
	Design of training solutions	Hunter & Saunders (2007)
	Coaching and mentoring	Hunter & Saunders (2007)
	Strategic needs analysis	Hunter & Saunders (2007)
	Identification of high-fliers	Hunter & Saunders (2007)
	Talent management/ Executive succession	Hunter & Saunders (2007)

Training	Skills training	Cook (1999)
	Supervisory training	Cook (1999)
	Management development	Cook (1999); Lawler III & Bordreau (2009)
	Safety training	Cook (1999)
	Team building	Cook (1999)
	Computer training	Cook (1999)
	Education reimbursement	Cook (1999)
	Training and education	Lawler III & Bordreau (2009)
Global Mobility/ Relocation	Relocation query handling	Hunter & Saunders (2007)
	Policy briefing and administration	Hunter & Saunders (2007)
	Expenses processing and accounting	Hunter & Saunders (2007)
	Inventory management	Hunter & Saunders (2007)
	Relocation assistance (physical move support)	Hunter & Saunders (2007)
	Pre-departure administration and advice	Hunter & Saunders (2007)
	On assignment support and administration	
	Visa and work permit administration	Hunter & Saunders (2007)
	Repatriation management	Hunter & Saunders (2007)
	Post repatriation support	Hunter & Saunders (2007)
	Expatriate policies and programs	Cook (1999)
	Completion of assignment cost projections, assignment letter and packages	Cook (1999)
	Expatriate compensation and benefits	Cook (1999)
	Expatriate employee and family orientation	Cook (1999)
	Relocation	Cook (1999)
	Communications	Cook (1999)
	Expatriate participant interaction	Cook (1999)
	Social Security treaty administration	Cook (1999)
	Policy compliance monitoring	Cook (1999)
	Repatriation	Cook (1999)
Exit	Exit administration	Hunter & Saunders (2007)
	Voluntary exit administration	Hunter & Saunders (2007)
	Involuntary exit administration	Hunter & Saunders (2007)
	Exit data services (payroll and pension data updates)	Hunter & Saunders (2007)
	Redundancy and severance programme administration	Hunter & Saunders (2007)
	Outplacement support	Hunter & Saunders (2007)
	Exit interviews and analysis	Hunter & Saunders (2007)
	Exit/ severance decisions	Hunter & Saunders (2007)

Management Reporting	General HR and management report support	Hunter & Saunders (2007)
	Team and individual reports	Hunter & Saunders (2007)
	Report writing services	Hunter & Saunders (2007)
	Standard monthly reporting	Hunter & Saunders (2007)
	Trend analysis	Hunter & Saunders (2007)
	Surveys	Hunter & Saunders (2007)
Vendor/ 3rd Party Management	Service management and reporting	Hunter & Saunders (2007)
	Supplier sourcing and procurement	Hunter & Saunders (2007)
	Invoicing and accounts	Hunter & Saunders (2007)
Recruiting (internal and external)	Recruitment administration	Hunter & Saunders (2007)
	Graduate recruitment activities	Hunter & Saunders (2007)
	Senior management recruitment (specialised search agencies)	Hunter & Saunders (2007)
	Executive recruitment (specialised search engines)	Hunter & Saunders (2007)
	Recruitment/ resource planning	Cook (1999); Lawler III & Bordreau (2009)
	Authority to recruit	
	Final interviews	Hunter & Saunders (2007)
	Selection decisions	Cook (1999); Lawler III & Bordreau (2009)
	Offer package sign-off	Hunter & Saunders (2007)
	Sourcing for new staff	Cook (1999)
	Employment advertising	Cook (1999)
	Hiring (interviewing, prescreening, testing)	Cook (1999)
	Reference and background checks	Cook (1999)
	EEO and affirmative action	Cook (1999)
	Employment verification	Cook (1999)
	Government reporting	Cook (1999)
	Alternative staffing	Cook (1999)
	Employee leasing	Cook (1999)
Policy and Strategy	Corporate strategic planning, goal setting and forecasting	Hunter & Saunders (2007); Cook (1999); Lawler III & Bordreau (2009)
	HR policy development and design	Hunter & Saunders (2007)
	Legal compliance monitoring	Hunter & Saunders (2007)

HR Business Partnering	Strategic advice and support to business unit managers	Hunter & Saunders (2007)
	Business unit strategy and policy design	Hunter & Saunders (2007)
Employee Relations	Union/ employee consultation and negotiation	Hunter & Saunders (2007); Cook (1999); Lawler III & Bordreau (2009)
	Collective bargaining activities	Hunter & Saunders (2007)
	Management guidance	Cook (1999)
	Arbitration and dispute resolution	Cook (1999)
	Labour contract negotiations (can be done together with outside counsel)	Cook (1999)
	Workforce reductions (RIFs)	
	Communications strategies, policies and programs	Cook (1999)
	Diversity planning, training and recruitment	Cook (1999)
	Health and safety issues (first report of injury, etc.)	Cook (1999)
	Employee career development	Cook (1999); Lawler III & Bordreau (2009)
	Performance appraisal	Cook (1999)
	Employee counseling	Cook (1999)
	Employee assistance	Lawler III & Bordreau (2009)
Communications	Verbal and written employee communications	Cook (1999)
	Teleconferences with outlying HR offices	Cook (1999)
	Company parties or picnics for employees	Cook (1999)
	Employee newsletter	Cook (1999)
Human Resource Information Systems	Computer system setup and technical human resources information systems (HRIS) maintenance	Cook (1999)
	HR information systems	Lawler III & Bordreau (2009)
Organisational Development	Training of planning development and delivery	Cook (1999)
	Succession planning	Cook (1999)
	Outplacement	Cook (1999)
	New-hire orientation	Cook (1999)
	Organisation design/development	Lawler III & Bordreau (2009)
Regulatory	Display of federal and state posters required at each company location	Cook (1999)

	Preparation of required state and federal reports [some, like Form 5500s, can be outsourced to the 401(k) vendor]	Cook (1999)
	Legal affairs	Lawler III & Bordreau (2009)
Safety and Risk Management	OSHA training and reporting	Cook (1999)
	Workers' compensation management	Cook (1999)
	Workers' compensation reporting	Cook (1999)
	Management of HR-related insurance policies	Cook (1999)
	Regulatory reporting	Cook (1999)
Work/Life	Programs and policies	Cook (1999)
	Program evaluation	Cook (1999)
	Child/elder care resource services	Cook (1999)
	Alternative work arrangements	Cook (1999)
Human Resources Planning	Planning for growth and expansion	Cook (1999)
	Planning for downsizing	Cook (1999)
	Planning for organisational development	Cook (1999)
	HR Staff planning	Cook (1999); Lawler III & Bordreau (2009)

Source: Hunter & Saunders (2007), Cook (1999*)* and Lawler III & Bordreau (2009).

Table 2.2 provides an overview of a direct comparison of HR functions outsourced across countries based on academic research literature. Although the percentages indicated in the table are based on different sample sizes, they are still useful in providing a snapshot of the types and extent of outsourcing HR across countries. It also shows that HRO research are mostly country specific as the degree of outsourcing practices vary at different points across countries as the HRO phenomenon continues to expand, evolve and transform.

Table 2.2: HR Functions Outsourced Across Countries

Country /HR Functions outsourced	**US** Lever, (1997)	**Europe** Vernon, Phillips, Brewsters & Ommeren (2000)	**Greece** Galanaki & Papalexandris (2005)	**Russia** Smith, Vozikis & Varaksina (2006)	**Belgium** Delmotte & Sels (2008)	**UK** Woodall, Scoot-Jackson & Newham (2009)	**Hong Kong** Chiang, Chow & Birtch (2010)	**Malaysia** Hasliza & Norbani (2010)	**German** Braun, Pull, Alewell, Störmer & Thommes (2011)	**Australia** Susomrith & Brown (2013)
Training	**65%**	**77%**	**60%**	**56%**	**61%**	**72%**	**13%**	**64%**	**62%**	**16%**
Staffing	**50%**	**59%**	**35%**	**95%**	**72%**	**88%**	**7%**	**83%**	**32%**	**23%**
Pay & Benefits	**30%**	**30%**	**24%**	**27%; 49%**		**53%**	**6%; 3%**	**27% ;13%**		**10%**
Workforce outplacement		**29%**	**4%**		**5%**	**71%**				
Occupational safety and health						**59%**	**1%**			**14%**
ER/ legal advice						**53%; 59%**	**2%**	**11%**	**54%**	**6%**
HRIS	**30%**			**61%**			**9%**	**9%**	**2%**	**2%**
Appraisal					**5%**	**59%**	**3%**			
Career coaching				**39%**	**2%**					
HR admin & record keeping						**77%**				
HR policy / consulting						**35%**			**34%**	
Employee services							**8%**	**8%**		
HR planning			**3%**				**3%**			**1%**
Compensation and rewards	**17%**				**8%**	**59%**	**1%**			
Performance management										**1%**
Talent management						**47%**				
Organisational change						**52%**				
Temporary agency work					**53%**				**50%**	

In Malaysia, among the manufacturers, recruitment and selection has been outsourced more extensively than training (Hasliza & Norbani, 2010; Outsourcing Malaysia, 2013). This could be attributed to two factors: the existence of a reliable local (e.g. Symphony) and international providers (e.g. KellyOCG, Manpower, Talent2) to choose from and the constant changing nature of these functions (recruitment and training) (Hasliza & Norbani, 2010) due to operational peak-off peak periods, technological changes and war for talents. Other than staffing and training, payroll and benefits are reasonably outsourced too.

2.7 Reasons for Outsourcing HR

Factors influencing outsourcing decision has received much academic attention (Gewald, 2010). Firms have varying reasons to outsource, and these reasons have been categorised by researchers differently. Gewald (2010) has identified and grouped benefits of outsourcing into cost advantages, core competencies, specialised resources and quality improvement whereas Domberger (1998) has identified four types of benefit namely specialisation, market discipline, flexibility and cost savings in his attempt to explain why organisations chose to outsource. Grover et al. (1996) has grouped outsourcing benefits into three categories: economic, strategic and technological while Cullen et al. (2008) categorised them into value for money, improved financial results, operational and strategic.

Among the HRO researchers, Greer et al. (1999) categorised these benefits into operational and strategic benefit but MacVaugh (2008) categorised them into cost and organisational capabilities. Other HRO researchers such as Belcourt (2006), Mahmud et al. (2012), Chiang et al. (2010), Susomrith & Brown (2012), Klaas, McClendon & Gainey (1999) unanimously regard HRO motivations stem from perceived outsourcing benefits.

These HR outsourcing benefits may be partly similar with ITO benefits but it may still differ in several aspects. For example, ITO may emphasise more on technological benefits whereas HRO focuses more on acquisition of specialised HR capabilities, allowing more flexible work practices, and improving HR efficiency. The following sub-sections will discuss the commonly sought after HRO benefits in three categories – cost, operational and strategic.

2.7.1 Cost benefits

Although many practitioners would say that cost is no longer their main priority, outsourcing HR is still usually expected to save costs (PrismHR, 2018), apart from achieving other, non-financial goals. In over more than a decade of HRO studies, HRO researchers found cost reduction the primary motivator for firms to consider outsourcing HR functions (Adler, 2003; Woodall et al., 2009; Hasliza and Norbani, 2010; Dickmann & Tyson, 2005; Klass et. al., 1999; Lever, 1997; Chiang et al., 2010; Susomrith & Brown, 2013; Quelin & Duhamel, 2003). Consistent with ITO literature, cost reduction motivated outsourcing in the 1990s and continues to drive outsourcing in the 2000s (Lacity et al., 2009; Mansor, Abu, Abashah and Mohd Kassim, 2018).

At the onset of HRO introduction, HR departments were viewed as a cost centre, burdening their firm's performance (Davidson, 2005). In the early 1990s, as firms laid off hundreds and thousands of workers each year through a series of HR downsizing activities, the HR department has inevitably become the target as well (Greer et al., 1999). HRO is a response to an overwhelming demand for reduced costs of HR services.

Economies of scale can be achieved when providers, such as Ranstad Source Right, have specialised expertise in recruitment outsourcing, serving more customers (Belcourt, 2006). For example, firms who engage an external provider get access to the provider's advanced integrated HR recruitment systems which could be either too expensive for individual firms or does not justify cost effectiveness to possess one. As providers expand the customer base, they can better spread the fixed cost, resulting in on-going cost reduction.

In this way, it not only frees up firms from having to invest in costly infrastructure but also takes away the burden of having to maintain the HR systems, particularly in dealing with technological obsolescence, skills obsolescence, downed systems or systems upgrades (Lever, 1997; Dickmann & Tyson, 2005; Afshan, Abbas, Khan and Shahid, 2018). Firms can have access to latest technology without having to own them and spending resources on training and developing internal capabilities. This is predominantly crucial for small business start-ups as it is risky for firms to invest heavily in both software and hardware without first establishing their customer base, ensuring business concentrates on growth for survival. So, outsourcing this part of a business process can allow scarce financial resources to be channelled into other critical business areas.

To date, 10 to 20% of firms using outsourcing experienced improved financial results while more than 50% of them felt that their cost savings objectives had been met, and in most cases labour productivity had improved as well (Belcout, 2006). Improved financial results may be driven by the ability to cost-control better after outsourcing because users tend to be more cautious when providers charge for each service rather than obtaining the services “freely” in-house (Belcourt, 2006; Davidson, 2005). On the other hand, failure to deliver service according to the agreed standard will also implicate cost penalty on providers directly as performance expectations are usually explicitly written in the service level agreement.

For HR managers who are constantly under cost pressure such as to downsize HR or to reduce HR staff, outsourcing allows the HR department to take advantage of the immediate cost reduction as having the job outsourced justifies headcount cuts. Coinciding with other departments’ efforts to become leaner, HR as the advocate of organisational change must show leadership example by eliminating some HR headcounts, as a way to share the pain of organisational overall downsizing and to keep HR lean (Greer et al., 1999; Dickmann & Tyson, 2005). Outsourcing fulfils this need seamlessly by allowing the transfer of internal HR staff to the provider, thereby eliminating fixed HR cost associated with it.

Outsourcing can also convert fixed costs to variable cost by getting providers to share the risk of their client's business volatility. This means clients are flexible to scale themselves up and down during peak and off-peak periods without having to hire permanent headcounts (Belcourt, 2006; Hirschheim & Lacity, 2000; Levina & Ross, 2003; Rajan & Pahal, 2012). When the variable and unpredictable activities are transferred to providers, it allows greater control of costs.

Outsourcing can standardise HR services for large-scale, international firms operating in multiple countries. Such standardisation not only helps streamline various HR processes, but also reduces work redundancy and inconsistency. Furthermore, it facilitates greater integration across HR activities despite further reduced wage and other costs (Gospel & Sako, 2010) which ultimately drives down the overall cost.

2.7.2 Operational benefits

For small companies, employing a full-time specialist may not be a viable option. With outsourcing, these firms can improve HR service quality and minimise errors (Gottardello & Valverde, 2018) for example, reduced error in payroll by engaging an expert at a reasonably cheaper price (Dickmann & Tyson, 2005). In Greece, companies that do not need a permanent full-time HR manager outsource all HR functions to experienced professional HRM services firms (Ganalaki & Papalexandris, 2005). In Germany, one thousand firms out of one thousand and twenty-one firms, regardless of their current outsourcing status expect external providers to deliver higher HR service quality (Braun, Pull, Alewell, Störmer and Thommes, 2011).

As for firms with constant poor internal HR performance, outsourcing HR allows access to specialised expertise or getting remedy for poor internal HR performance (Gottardello & Valverde, 2018; Belcourt, 2006; Afshan et al., 2018). Poor HR performance potentially results in high employee turnover, low employee motivation, operational disruption which can then be translated into higher recruitment cost and productivity loss respectively. Outsourcing makes 'solutions' readily available for purchase to quickly fill voids in critical HR capabilities (Greer et al., 1999), easing time constraints to build HR competencies from within (Afshan et al, 2018). Outsourcing providers can be more efficient such as providing faster response time because they are the specialists who have devised their time, money and learning on a specific area for performing the work serving multiple clients across the globe (Lever, 1999).

Operational efficiency and effectiveness can also be granted when outsourcing HR permits access to better HR-related technology, aligns resource supply and demand, allows more flexible work practices, obtains services not available internally, and improves accountability (Belcourt, 2006; Davidson, 2005; Hasliza and Norbani, 2010; Dickmann & Tyson, 2005) by having greater control of HR deliveries. Outsourcing HR can also be used as a tool to boost HR productivity by eliminating low value but time-consuming activities such as payroll or benefits-related transactional activities (Adler, 2003; Woodall et al., 2009). When dealing with time-sensitive and competing demands, outsourcing permits a quick fix to a problem (Greer et al., 1999, Afshan et al., 2018) i.e. engaging a provider for filling up vacancies with tight operational deadlines because internal HRs do not have time to train and recruit a new recruiter. This can invariably decrease time pressure for internal HRs because the outsourced HR workload can be taken over by someone else instantaneously (Susomrith & Brown, 2011; Greer et al., 1999; Mahmud et al., 2012).

Sometimes, outsourcing can also help accommodate a firm's move to relocate (Dickmann & Tyson, 2005; Hartman, Ogden and Hazen, 2017), for example, when a firm decides to move to a new location where the payroll specialists are reluctant to move. Hence, outsourcing may be a good solution to facilitate the move in such situations.

Operationally, firms are required to be in compliance with HR laws and regulations. However, keeping up with the changes in the regulations can be a major challenge especially for smaller firms. Therefore, outsourcing allows firms to be assured of compliance while focusing their attention and resources on generating demand for their products. In countries such as the United States, HR related matters are strictly governed by a string of laws where these laws are frequently revised. It is difficult for firms to keep track and make necessary changes in time. So, given such complex situations, outsourcing appears to be a feasible solution because it allows timely acquisition of information (Susomrith & Brown, 2011). In Russia, 55% of the firms surveyed outsourced to achieve this objective (Smith, Vozikis & Varaksina, 2006).

2.7.3 Strategic focus

For most of its history HR has mainly focused on the administrative aspects of human resource management (Lawler and Mohrman, 1999; Bondreau & Lawler, 2014). In recent years, HR managers are urged to secure a seat at the strategic table (Gorttardello & Valverde, 2018). This would also mean HR has to be transformed from performing traditional supporting roles to strategically being involved in business competitive advantage creation. Strategically focused HR managers will direct attention to HR activities that are central to organisational performance (Klass, McClendon & Gainey, 2001). In fact, outsourcing HR can alleviate internal HR from spending too much time on the non-value- added administrative and routine activities so that internal HR can embrace a more strategic role (Adler, 2003), refocusing on their core business activities (Cooke et al., 2005; Gottardello & Valverde, 2018).

Additionally, it allows access to expertise by tapping on the provider's rising comparative advantages of specialised services which can fundamentally enable internal HR to develop its core capabilities further, thus delivering better services to internal customers (Cooke et al., 2005; Hasliza and Norbani, 2010). Throughout the outsourcing relationship, clients and providers interact and exchange information which promote organisational learning and access to up-to-date best practices (Susomrith & Brown, 2011). Continuous learning is regarded as a way of preparing an organisation to embrace change in the on-going effort of improving organisational performance. Hence, the knowledge acquired from the interactions with the provider may be used as a source of competitive advantages. So, outsourcing HR can also be observed as a strategy for HR departments to produce competitive advantages through HR activities (Afshan et al., 2018; Greer et al., 1999).

2.8 Drawbacks of Outsourcing HR

Although outsourcing tends to be portrayed as a useful tool, HR Managers have to be aware that getting positive results from the outsourcing provider is not automatic (Gottardello & Valverde, 2018; Shen, 2005). Some of the common reasons against outsourcing are as follows:

2.8.1 Loss of skills

Consistent with Shen (2005) and Gottardello & Valverde (2018), Woodall et al. (2009) argues that outsourcing can cause serious problems in skill supply and retention of knowledge. This is because when the role and responsibilities of the outsourced job are transferred to an external party, the skills that hitherto resided in the firm also move away. This can affect a firm's competitive advantage as Prahalad & Hamel (1990) doubt that outsourcing can positively influence the sustainability of a product due to loss of skills embodied in the people. In some instances, it leads to loss of business secrets and expertise (Edwin & Ohaegbu, 2015).

2.8.2 Switching costs

Most outsourcing contracts bind firms and providers for a period of five years or more. This is because providers want to spread out their start-up costs on the one hand, and on the other hand firms want to get volume discounts from providers. However, long-term and high value contracts tend to expose firms to greater opportunistic behaviour (a form of risk) as terminating the contract prematurely or switching providers not only incurs financial penalties, but also disrupts the continuity of work. Therefore, risk evaluation is necessary during the outsourcing decision-making process (Kulkani & Jenamani, 2008).

2.8.3 Lack of individual attention

As outsourcing providers often serve multiple clients, the services they deliver are usually standardised. However, standardised services do not fit all firms. Sometimes, a failure to anticipate or react to firms' unique requirements can cause disastrous consequences. In addition, since providers are serving various firms, they may be less committed to finding the best solutions for a given firm.

2.8.4 Loss of control or flexibility

When a particular HR function is outsourced, firms may realise that they no longer have direct control over it (Smith et al., 2006). Particularly, a multi-year outsourcing contract can result in loss of flexibility that is vital to react to market changes (Gottardello & Valverde, 2018). According to Belcourt (2006), the vendor will provide services according to what has been stipulated in the contract and if there is a need for change, contracts will have to change. In other words, once a contract is written, it will be difficult and costly to make subsequent changes to the contract (Vyas, 2016). As a result, the flexibility of adding new or reducing existing services is reduced. It is also possible that the vendor may enter the market and become a competitor eventually.

At times, firms may be unaware of a problem until it becomes irreparable such as firms may find themselves engaging more in damage repair than damage prevention. This is because firms are uncertain about the outsourcing service quality and have little influence in deciding how the job is to be carried out (Chiang et al., 2010).

Cooke et al. (2005) also highlighted that outsourcing HR may bring inconvenience to the line managers due to the fact that external providers are likely located in a different location. This may result in a longer time to get a problem solved compared to having the activities performed in-house previously.

2.8.5 Dependency

When a firm entrusts a provider to carry out a HR function on their behalf, a dependency relationship evolves. For example, in recruitment outsourcing, the first person a job candidate meets could be the recruitment specialist working for the outsourcing provider – who is not an employee of the firm. Hence, the client firm relies on this ‘outsourced representative’ to present a positive image and conduct the interview professionally. In some situations, client firms may even find themselves at the mercy of the provider in getting a problem solved which can be easily resolved if the processes are performed internally (Gottardello & Valverde, 2018; Cooke et al., 2005).

2.8.6 Incurrence of more cost

Firms remain unconvinced of the benefits of outsourcing HR. The lack of management support and uncertainties about the outsourcing outcomes hinder HR outsourcing (Chiang et al., 2010). Some firms may end up incurring more HR costs instead of achieving the promised cost saving (Smith et al., 2006; Gottardello & Valverde, 2018; Hasliza and Norbani, 2010; Chiang et al., 2010). Half of the respondents found that service levels were not as good as expected and managing the outsourced activity was more costly (Albertson, 2000). Consistent with Albertson (2000) and Smith et al. (2006), it was found that more than half of the responding firms do not experience savings from outsourcing. Similarly, Geary & Coffey-Lewis (2002) also found that over 30% of outsourcing deals were not renewed due to not achieving cost savings.

In Malaysia, Haasliza and Norbani (2010) and Sim et al., (2016) have pointed out a few major concerns among firms unwilling to outsource their HR. Among the concerns are confidentiality, inappropriate with the business, costly, not relevant to company culture and values, unaware of HR outsourcing, effective in-house HR, unconvinced with the HRO benefits, already using shared service model, poor outsourcing experienced elsewhere in the organisation, and perceived HRO as a risky decision.

Summarising from this chapter, it is observed that the definition of HRO varies in the literature and the type of HRO varies too ranging from data processing which is of more transactional in nature to comprehensive business process solutions which is of greater complexity in nature. There is no one best reason for outsourcing HR as it has advantages and its own drawbacks in which firms needed to be aware of and weigh them before proceeding with the decision. This section has clarified and further refined the definition of HRO, compiled and provided an overview of the types of HR functions and activities outsourced across research in the literature while tracing the root of HRO from its historical development to enhance understanding of the background of the subject under study.

CHAPTER 3

LITERATURE REVIEW ON

CONCEPTUALISATION, RESEARCH GAPS AND THEORY

3.1 Introduction

This chapter presents the conceptualisation of the key constructs which is "HRO effectiveness" by integrating outsourcing and service quality literature. Subsequently, a review of the service quality literature and HRO literature ensued. Gaps in the literature are identified and gaps to be closed by this research are also clarified. Theories as well as constructs relevant to this research are discussed.

3.2 Conceptualisation of HRO Effectiveness

Whilst companies outsourced their HR to enhance HR performance, what 'HR outsourcing effectiveness' is remains ambiguous. The importance of conceptualising a construct has been emphasised by MacKenzie, Podsakoff & Podsakoff (2011) in which failure to adequately specify the focal construct of a study causes sequences of construct validity issues. To date, there is a major inherent constraint in conceptualising HRO effectiveness due to limited research being conducted in the HRO context to provide sufficient descriptions. Even in ITO where outsourcing research is deeply rooted, there is a lack of consistency in articulating the dimensions of outsourcing success (Schwarz, 2014).

So far, to the knowledge of the researcher, only one study from HRO examined outsourcing effectiveness based on line managers' perceived human resource function effectiveness (Shih

& Chiang, 2011). Gainey & Klaas (2003) determine HR outsourcing success in training and development based on client organisation's satisfaction over the service delivery experience. On the other hand, recently, Ee et al. (2013a) and Hasliza et al. (2014) adapted Grover et al. (1996) and Lee & Kim (1999) ITO success measures to examine HRO success. Notably, there is a fragmented approach used in defining HRO effectiveness and no particular approach appears to be the norm. As a result, this has directed the researcher to turn to the wider and more established outsourcing literature such as ITO.

Extracting from ITO literature, Grover et al. (1996) and DiRomanualdo & Gurbaxani (1998) evaluate outsourcing success based on the delivery of expected benefits. Consistently, Kim, Shin, & Lee, (2010) and Lee, Miranda & Kim (2004) refer to IT outsourcing effectiveness as the degree that predefined outsourcing objectives or benefits are realised in terms of strategic, economic, and technological benefits of outsourcing. It is notably common that the terms outsourcing success and effectiveness are used interchangeably in the outsourcing literature.

Specifically, in Grover et al., (1996), one of the most cited papers, outsourcing success is evaluated based on the achievement of the three types of benefits: technological benefits, strategic benefits and economic benefits. Then, Grover et al's work was extended by Lee & Kim (1999) where the evaluation of technological benefits, strategic benefits and economic benefits from the business perspective and user perspective was added. However, as ITO becomes mature, economic benefits have been regarded as an implicitly expected benefit compared to other benefits. As a result, Goo, Huang & Hart (2008) defined outsourcing success based on the attainment of technological benefits, strategic benefits and functional benefits and replaced Grover's (1996) economic benefits with functional benefits. Using a similar approach, Handley & Benton (2009) measured outsourcing performance based on meeting the intended outsourcing benefits and delivery. Goles (2003) uses the same approach as Gainey & Klaas (2003) in which they focused on client's satisfaction to determine the success of ITO and HRO respectively.

Following this, in order not to be confused by the many yet inconsistent approaches used in determining outsourcing effectiveness, a systematic review of the above-mentioned literature is presented below. It is discovered that outsourcing effectiveness is generally examined based on the following five approaches.

<u>Approach 1: Satisfaction over outsourcing benefits attainment</u>

Ee et al. (2013a) and Hasliza et al. (2014) examined HRO effectiveness using a measure adapted from Lee & Kim (1999) and Grover et al. (1996). The measure used is as follows:

(a) We have been able to refocus on core business

(b) We have enhanced our IT competence.

(c) We have increased access to skilled personnel.

(d) We have enhanced economies of scale in human resources.

(e) We have enhanced economies of scale in technological resources.

(f) We have increased control over IS expenses

(g) We have reduced the risk of technological obsolescence.

(h) We have increased access to key information technologies.

(i) We are satisfied with our overall benefits from outsourcing.

A simpler version was used by Kim et al. (2010) to measure IT outsourcing effectiveness. They focused on the achievement of outsourcing benefits such as a refocus on core business, an enhanced IT competence, a reduced risk of technological obsolescence, and satisfaction. Their measure consists of the following:

(a) We have been able to refocus on core business.

(b) We have enhanced our IT competence.

(c) We have reduced the risk of technological obsolescence.

(d) We are satisfied with our overall benefits from outsourcing.

Goo et al. (2008b) revised their measure based on Grover et al. (1996) to the following:

Functional benefits

(a) The service provider has helped in increasing accuracy in output information

(b) The service provider has helped in increasing timeliness in output information

(c) The service provider has helped in increasing relevancy in output information

(d) The service provider has helped in increasing reliability in output information

Strategic benefits

(a) We have been able to refocus on core business

(b) We have been able to enhance customer satisfaction and loyalty

(c) We have been able to introduce new ways to compete

Technological benefits

(a) We have been able to gain access to world-class key information technologies

(b) We have been able to reduce the risk of technological obsolescence

(c) We have been able to enhance operating efficiency of technological resources

In recent years, Kim, Lee, Choo and Nam (2013) measured outsourcing performance based on three dimensions:

Cost efficiency

(a) We have enhanced economies of scale in human resources

(b) We have enhanced economies of scale in technological resources

(c) We have increased control of IT expenses

Performance improvement

(a) We have been able to refocus on core business

(b) We have enhanced our IT competence

(c) We have increased access to skilled personnel

(d) We have reduced the risk of technological obsolescence

(e) We have increased access to key information technologies

Overall satisfaction

(a) We are satisfied with our overall benefits from IT outsourcing

Approach 2: Satisfaction over the service delivery quality

Chakrabarty et al. (2007) used Parasuraman's five service quality dimensions (tangibles, assurance, reliability, responsiveness and empathy) to measure ITO effectiveness.

Tangibles

(a) The outsourcing provider had up-to-date hardware and software

(b) The outsourcing provider's physical facilities were visually appealing

(c) The outsourcing provider's employees were professionally dressed

(d) The appearance of the physical facilities of the outsourcing provider was in keeping with the kind of services provided

Reliability

(a) When the outsourcing provider promised to do something by a certain time, they did

(b) When the client had a problem, the outsourcing provider showed a sincere interest in solving it

(c) The outsourcing provider was dependable

(d) The outsourcing provider provided their services at the times they promised to do so

(e) The outsourcing provider insisted on error-free records

Responsiveness

(a) The outsourcing provider told the client exactly when services would be performed

(b) The outsourcing provider’s employees gave prompt service to the client

(c) The outsourcing provider’s employees were always willing to help the client

(d) The outsourcing provider’s employees were never too busy to respond to the client’s requests

Assurance

(a) The behaviour of the outsourcing provider’s employees instilled confidence in the client

(b) Clients felt safe in their transactions with the outsourcing provider’s employees

(c) The outsourcing provider’s employees were consistently courteous

(d) The outsourcing provider’s employees had the knowledge to do their job well

Empathy

(a) The outsourcing provider gave clients individual attention

(b) The outsourcing provider had operation hours convenient to all their clients

(c) The outsourcing provider had employees who gave clients personal attention

(d) The outsourcing provider had the client’s best interest at heart

(e) The employees of the outsourcing provider understood the specific needs of their client

Similarly, Gainey & Klaas (2003) measured HR outsourcing success in training and development based on purchasing organisation’s satisfaction over the quality of service delivery. The measure used by Gainey & Klaas (2003) is as follows:

Our outside training suppliers:

(a) Consistently meet expectations

(b) Are pleasant to work with

(c) Provide quality services in a timely manner

(d) Make a genuine effort to meet our needs

(e) Provide a high level of satisfaction

(f) Are dependable

<u>Approach 3: Attainment of outsourcing benefits and service delivery</u>

Handley & Benton (2009) have evaluated outsourcing performance based on meeting or exceeding the cost, quality, responsiveness and reliability dimensions in which the first two are the outsourcing benefits whilst the latter are the service delivery. The measure is illustrated as follows:

(a) Has met or exceeded expectations for total annual costs

(b) Has met or exceeded expectations for quality performance

(c) Has met or exceeded expectations for responsiveness or flexibility

(d) Has met or exceeded expectations for reliability or dependability

A more recent study by Schwarz (2014) has conceptualised ITO success using the Delphi method involving 16 academic experts and 9 practitioner experts. Below is the conceptualisation of ITO success in which both outsourcing benefits and service delivery features are encapsulated:

(a) Client acquires additional capabilities

(b) Objectives are achieved on time

(c) Client receives financial benefits

(d) Quality is improved

(e) Enables flexibility to accommodate changing circumstances/needs

(f) Flexibility to accommodate changing circumstances or needs is achieved

(g) Develops a mutually beneficial relationship

(h) Mutual satisfaction is achieved

(i) SLAs are met or exceeded

Approach 4: Satisfaction of the overall outsourcing experience

The study by Goles (2003) regards IT outsourcing success based purely on satisfaction over the entire outsourcing experience in general. The measure is as follow:

(a) My firm is satisfied with the outsourcing arrangement

(b) Overall, my organisation regards the outsourcing arrangement as satisfactory

(c) My firm's level of satisfaction with the outsourcing arrangement is high

Using a similar approach, Swar et al. (2012) examined outsourcing success based on the overall evaluation of the satisfactory outsourcing outcome and continuance of the outsourcing relationship. The measure is as follows:

(a) We are satisfied with the result of the outsourcing project

(b) The result of the outsourcing project is useful

(c) We intend to continue the outsourcing relationship with the vendor

Approach 5: Satisfaction over HRO service and its impact on HR performance

Last but not least, Shih & Chiang (2011) examined HRO effectiveness based on satisfaction over HRO service and its impact on HR performance. They adopted the measure originally developed by Wright et al. (2001) as follows:

(a) Overall, I am satisfied with the service and support provided by the HR professionals in our company

(b) The HR professionals in our company are efficient (i.e. timely, cost-efficient) when recruiting candidates needed for business development

(c) The HR department is performing jobs the way I would like it to be performed

(d) The HR department is very responsive in meeting line managers' and employees' needs

(e) The HR department provides me with useful and timely information regarding HR issues

(f) The HR department has helped to enhance our firm's competitive position

(g) The HR department provides value-added contribution to our firm's bottom line

(h) The HR department contributed to building our firm's human capital as a source of competitive advantage

(i) The policies, practices, and procedures coming from the HR department help line managers and employees perform their jobs well

(j) The HR policies, practices, and procedures help support the firm's business plan

Based on the past studies presented above, studies using approach 1 examined outsourcing success based on 'what' outsourcing benefits achieved. This is expected because outsourcing researchers such as Bharadwaj & Saxena (2009) and Cullen et al. (2008) respectively claim that BPO (including HRO) and ITO success should refer to the realisation of a client's intended outsourcing benefits. No obvious difference is observed between outsourcing success for ITO and HRO. Studies using approach 2 examined outsourcing success based on 'how' the outsourcing service is being delivered. This is also expected because clients do not want to endure an unsatisfactory outsourcing process (Schwarz, 2014).

In fact, clients' endorsement on the quality of outsourced service delivery is emphasised as one aspect of HRO success (Johnson, Wilding & Robson, 2014). Approach 3 encompasses both the 'what' and the 'how' aspect, combining approach 1 and 2. Studies using approach 4 examined outsourcing effectiveness based on satisfactory evaluation of the overall outsourcing experience in general. Again, this is expected because satisfaction is the closest proxy to perceived outsourcing effectiveness (Kim & Chung, 2003). It is the focal consequence of working partnerships based on overall evaluation of a firm's working relationship with another firm (Anderson & Narus, 1990). Lastly, approach 5 though, takes a more functional view by evaluating HRO effectiveness based on HRO impact on HR performance yet satisfaction over the outsourcing service received is still emphasised. To summarise, Table 3.1 provides an overview of the outsourcing effectiveness dimensions. In short, the 'what', 'how' and 'satisfaction' emerged as the three most important factors in determining outsourcing success from the literature.

The 'what' and 'how' aspects correspond with Gronroos' (1984) definition of service quality which recognises that a client is not just interested in what he gets but also in how he gets it. The 'how' aspect has been best described by Parasuraman, Zeithaml & Berry (1988) as the service process quality; whereas the 'what' dimension is the service outcome quality which is referring to the outcome of the service act (Choi & Kim, 2013) or what a customer is left with (Gronroos, 1984). Hence, arguably, satisfactory fulfilment of the service process quality and service outcome quality expected of an outsourcing service is likely to lead to the satisfaction of an outsourcing experience and in turn retains the client to continue the outsourcing relationship. Both service process and service outcome have been considered as critical factors in business-to-business success (Zhu & Zolkiewski, 2015).

It is also worth mentioning that early ITO studies (e.g. Grover et al., 1996; Lee & Kim, 1999) generally regard outsourcing success as a unidimensional construct whereas newer studies have demonstrated that outsourcing success is made up of multiple dimensions such as cost savings, satisfaction and performance improvement (Kim, Lee, Choo & Nam, 2013; Goo et al., 2008b). In fact, Kim et al. (2013) have explicitly contested that previous studies had mistakenly regarded outsourcing performance as a single dimensional construct.

Thus, HRO effectiveness is conceptualised as the extent to which HRO prescribed quality objectives are met satisfactorily which in turn results in client retention in this research. For this reason, it lays a foundation for this research to examine HRO effectiveness from the service quality perspective, that is, evaluating HRO effectiveness based on the service performance of the service provider from the eyes of the client.

Table 3.1: An Overview of the Outsourcing Effectiveness Dimensions

Author	Service Outcome quality "What"			Service Process Quality "How"					Satisfaction
	Cost benefits	Operational benefits	Strategic benefits	Reliability	Responsiveness	Empathy	Tangibles	Assurance	
Hasliza et al. (2014)	√	√	√						√
Ee et al. (2013a)	√	√	√						√
Cullen et al. (2008)	√	√	√						
Lee & Kim (1999)	√	√	√						√
Grover et al. (1996)	√	√	√						√
Kim et al. (2010)		√	√						√
Goo et al. (2008b)		√	√	√	√				√
Kim et al. (2013)	√	√	√						√
Gainey & Klaas (2003)				√	√	√		√	√
Goles (2003)									√
Swar et al. (2012)									√
Chakrabarty et al. (2007)				√	√	√	√	√	
Handley & Benton (2009)	√		√	√	√				
Schwarz (2014)	√	√	√	√	√			√	√
Shih & Chiang (2011)									√
Gonzalez, Gasco & Llopis (2016)	√	√	√						√

3.3 Conceptualising Perceived Outsourcing Service Performance

Building from the previous section, effective HRO is believed to demonstrate a high level of service performance reflected by the service quality received. In fact, service performance is conceptualised as a measure of service quality in service marketing research (Ahrholdt, Gudergan & Ringle, 2017). This has further reaffirmed the evaluation of HRO effectiveness from the service quality perspective. For this reason, it has also directed this research to revisit service quality literature to conceptualise the perceived HRO service performance.

Perceived service performance is predominantly determined by service quality of the service received (Cronin & Taylor, 1992, 1994; Kanning & Bergmann, 2009). There are two conceptualisations of service quality, one based on Nordic perspective and the other based on the American perspective (Hsieh & Hiang, 2004). The American perspective, which is suggested by Parasuraman et al. (1988) uses a scale called SERVQUAL, focusing on the delivery of the service or at times is termed as customer service (Parasuraman, 1998). Studies using this measure conform to Gronroos' (1982; 1984) concept of functional quality which denotes the 'how' (service is delivered) performance. This corresponds with the concept of 'supplementary services' posited by Ferguson, Paulin, Pigeassou & Gauduchon (1999), referring it to a range of other services that relate to how the service is delivered to the client. Some authors also termed this type of quality as relational or process quality (McDougall & Levesque, 1992; 2000; Kim et al., 2013; Gronroos, 1982; 1984; Braun et al., 2011) or interaction quality (Lehtinen & Lehtinen, 1982; Choi & Kim, 2013; Hsieh & Hiang, 2004).

Owing to the intangibility and complexity of service performance evaluation, researchers such as Hausman (2003) and La, Patterson & Styles (2009) argue that clients lack the technical expertise in evaluating core services (the capability of utilising technical know-how) provided by the service provider. Hence, clients often evaluate service performance via supplementary service attributes like reliability, working relationship and the like. Moreover, failure of core service is rare (Lovelock, 1996; Hausman, 2003). An example quoted by Hausman (2003) is that banks rarely fail to properly credit customers' accounts therefore customers have difficulty in evaluating and differentiating the same service provided across different banks. In this case, service process quality can be useful in differentiating service firms when they find difficulty in differentiating themselves through core services offerred (Sharma & Patterson, 1999). This explains why customers weigh functional components more heavily and regard technical quality as expectedly inherent in service. Accordingly, attributes used to evaluate perceived service performance are primarily based on the supplementary services (Patterson & Spreng, 1997b) in service quality literature, focusing on the delivery of the service instead of the outcomes of the service.

Similarly, in the outsourcing context, satisfaction over service process quality, that is, how the service is delivered, has been regarded as one of the key indicators of a good outsourcing service performance (Goo et al., 2008b; Goode et al., 2014; Gainey and Klass, 2003; Handley & Benton, 2009; Schwarz, 2014; Chakrabarty et al., 2007). Thus, service process quality is being operationalised as functional quality which denotes the 'how' performance.

Meanwhile, there is another school of thought which suggests that overall service quality does not and should not be limited only to the process quality aspect (McDougall & Levesque, 2000; Brady & Cronin, 2001; Gronroos, 1982; 1984;1988; Lehtinen & Lehtinen, 1982). The Nordic perspective, which is proposed by Gronroos (1982; 1984) has specified another dimension of service quality which is the core quality aspect. Core quality refers to what is being delivered, that is what the customer is left with as a result of his interactions with the service firm (Gronroos, 1984). It is the outcome of the service act (Choi & Kim, 2013).

While most researchers do not challenge the definition of core quality, there is still no agreement in the literature regarding the attributes that define service outcome quality (Brady & Cronin, 2001; Hsieh & Hiang, 2004; Choi & Kim, 2013; Ladhari, 2008). Unlike the case of services provided by physicians, ministers, hairstylists and social workers studied by Hausman (2003), service performance judgement is difficult because the services involved are contract free, have high one-on-one personal involvement and clients do not have technical knowledge about the services. The service delivery of these services is not governed by a formal contract like HRO in which both parties involved in the service do not pre-specify the agreed level of service based on what is expected out of the service.

In the case of HRO, an outsourcing deal is typically sealed with a contract accompanied by service level agreement to specify product or services to be provided at a certain level (Goo & Huang, 2008a). The client must be clear of what benefits they want and decide on how to achieve them because they should not outsource processes that they do not fully understand (Deloitte, 2012). HR managers or the person-in-charge of HRO must possess and have a clear vision of what HRO benefits they want to achieve prior to starting an outsourcing relationship (Glaister, 2014). Failure to clearly specify outsourcing requirements and outcome potentially affects outsourcing performance monitoring and is likely to lead to outsourcing failure (Cullen et al., 2014).

Therefore, achieving outsourcing objectives or benefits is an important aspect of outsourcing service performance or success (Lee & Choi, 2011; Cullen et al., 2008; Grover et al., 1996; Lee & Kim, 1999). A client's post purchase thoughts (after signing the outsourcing deal) tend to focus more on the outcomes of the purchase (Oliver, 2010). Table 3.1 in section 3.2, provides the dimensions of service outcome quality characterised by outsourcing benefits achieved. This is in line with the fact that HRO is being delivered in a form of service and service is about application of competences for the benefits of another (Vargo & Lusch, 2004; Vargo & Akaka, 2009). In fact, a B2B study on professional services has explicitly regarded benefits gained from engaging a service provider as the outcome or technical dimension (Patterson and Spreng, 1997b) of service quality. Hence, for the purpose of this research, service outcome quality is operationalised as what is delivered through outsourcing as a result of client interactions with the service provider judging by outsourcing benefits achieved.

Notably, over the years, researchers in service quality have employed industry-specific measures where the number of dimensions varied according to the service context, conforming to the view that a single measure of service quality across industries is not feasible (Ladhari, 2008). However, most researchers agree that service quality comprises attributes that are both measurable and variable (Asubonteng, McCleary & Swan, 1996). Thus, service quality is generally regarded as a multi-dimensional construct (Woo & Ennew, 2005, Cronin & Taylor, 1992, Gronroos, 1982; 1984; 1988, Brady & Cronin, 2001, McDougall & Levesque, 1992; 2000), but there is no general consensus on the content and the exact dimensions of the construct (Hsieh & Hiang, 2004; Ladhari, 2008).

So, with reference to the conceptualisation of HRO effectiveness in section 3.2 as well as the literature review findings in Table 3.1, the evaluation of HRO effectiveness from service quality perspective is operationalised by examining HRO service performance made up of both service process quality and service outcome quality which in turn results in client loyalty.

Table 3.2 provides a summary of service quality dimensions used in past outsourcing studies. This summary shows that almost all the measures used measured both service process and outcome quality dimensions. This provides further justification to the conceptualisation and operationalisation of evaluating HRO effectiveness from service quality perspective in this research.

Table 3.2: An Overview of the Service Quality Dimensions Used in Outsourcing Literature

Study	**Service Industry (country)**	**Sample**	**Questionnaire administration**	**Data analysis procedure**	**Scale**	**Dimensions**	**Reliability**
Grover et al. (1996)	IT Outsourcing	188 IS top executives	Mail survey	Cronbach's alpha	9 items; perception-minus-expectation scores. Seven-point Likert scale, ranging from strongly disagree (1) to strongly agree (7)	2 dimensions: tangible, reliability	Ranged from 0.889 to 0.969
Chakrabarty et al. (2007)	IT Outsourcing	160 users' responses from the Directory of Top Computer Executives	Survey	Cronbach's alpha	22 items; Perception only scores	5 dimensions: reliability, responsiveness, assurance, empathy, tangibles	Ranged from 0.83 to 0.91
Braun et al. (2011)	HR Outsourcing	1021 chief executives and HR managers	Telephone interviews	NA	11 items; perception-only scores. Five-point Likert scale, ranging from much worse to much better	4 dimensions; tangibles, reliability, responsiveness, empathy	NA
Park & Kim (2005)	ITO (Korea)	107 System users in financial industry	on-site survey	NA	13 items; Seven-point Likert scale using gap scores	4 dimensions; reliability, responsiveness, assurance, empathy	NA
Sigala (2004)	IT (ASP) Outsourcing (Greece)	436 general managers	Web-based administration	Cronbach's alpha	41 items; perception-only scores. Seven-point Likert scale, ranging from strongly disagree/poor (1) to strongly agree/excellent (7)	10 dimensions: tangibles, reliability, responsiveness, assurance, empathy, trust, business understanding, benefit and risk share, conflict, commitment	Ranged from 0.642 to 0.863
Juntunen, Grant & Juga. (2010)	Logistic outsourcing (Finland)	235 business customers of logistic services	Web-based administration	Composite reliability	5 items; perception-only scores. Seven-point Likert scale, ranging from weak to excellent	2 dimensions: operational service quality (schedule, quick), personal service quality (service, contact, expert)	Ranged from 0.81 to 0.89
Gorla and Somers (2014)	IS users (USA)	337 CIOs and other top-level executives	Mail survey	Composite reliability	22 items; perception-minus-expectation scores. Nine-point Likert scale, ranging	5 dimensions: tangibles (4), reliability (5), responsiveness (4), assurance (4), empathy (5)	Ranged at or above 0.70

					from low service level (1) to high service level (9)		
Juga et al. (2010)	Logistic outsourcing (Finland)	235 business customers of logistic services	Web-based administration	Composite reliability	7 items; perception-only scores. Seven-point Likert scale, ranging from poor to excellent	3 dimensions: operational service quality (schedule, quick), personal service quality (service, contact, expert), technical quality (physical, IS, communication)	Ranged from 0.76 to 0.89
Hasliza et al. (2014)	HRO Outsourcing	96 HR managers from manufacturing companies		Cronbach's alpha	Perception-only scores.	5 dimensions: reliability, responsiveness, assurance, empathy, tangibles	Ranged from 0.71 to 0.93
Goode et al. (2014)	ITO (ASP)	135 responses from ASP customers	Email, mail and Web	Composite reliability	2 items. Perception-only scores.	Single dimension	0.83

3.4 Literature Gaps in Human Resource Outsourcing Research

Over the past 21 years, a large number of relationships involving a variety of independent and dependent variables have been examined, forming a rich yet diverse body of knowledge on human resource outsourcing (HRO). Because of this diversity, findings in the HRO literature have been difficult to summarise, analyse and evaluate.

There are a few notable HRO literature review papers (i.e. Cooke et al., 2005; Shen, 2005; Seth & Sethi, 2011) in the extant literature but these papers fail to provide a clear overview over the type, frequency and findings of variables examined in the literature. Hence, this review adapted the grounded coding technique originally developed and published by Jeyaraj, Rottman, & Lacity (2006). It is hoped that the gaps in the HRO literature can be identified in a way that is meaningful and concise.

In total, 36 empirical papers published from 1997 to 2018, representing 36 dependent variables and 99 independent variables were coded and a total of 449 relationships were examined. First, the integration of various research papers in the literature into a single list required the development of a list of master codes to capture variables that describe the same construct under different terminologies. The development of the master list began by listing all the variables studied in all the journal articles, broken down into independent and dependent variables. The descriptions from the original authors were noted as well, for comparative purposes. Next, variables with similar descriptions were combined to build a 'master variable', and the descriptions were integrated to develop a 'master description'.

Different authors tend to use slightly different terminologies to describe the same variables. For instance, the master variable termed ‘Strategic HR involvement’ is derived from variables termed ‘HR Strategic Role’ (Tremblay, Patry, & Lanoie, 2008), ‘Strategic position of enterprise human resource function’ (Zhao, Li, & Li, 2013), ‘Strategic involvement of HRM (Delmotte & Sels, 2008), and ‘HR Manager Strategic Involvement’ (Ordanini & Silvestri, 2008). Occasionally, some master variables were identically mapped with the variables in the author’s original paper. One of such variables is ‘Firm Size’, for which most authors agree on using the number of employees as the measure (e.g. Lever, 1997; Hasliza and Norbani, 2011a; Galanaki & Papalexandris, 2007; Tremblay et al., 2008; Shih & Chiang, 2011).

Some variables require more consideration such as the ‘Degree of Outsourcing’ because some measure the variable by the percentage of the activity being outsourced (e.g. Lievens & Corte, 2008; Zhao et al., 2013), while others measure it by the number of activities outsourced (e.g. Delmotte & Sels, 2008; Hasliza and Norbani 2011a; Sheehan & Cooper, 2011; Tremblay et al., 2008). While recognising this inconsistency, this group of variables are still being grouped together as ‘Degree of Outsourcing’. A similar procedure was repeated for all the journal articles until all the variables were accounted for. The master variables were then accumulated and ultimately arranged into a list of master codes and descriptions – which can be seen in Appendix A.

After a complete master list was developed, the statistical relationships between the independent variables and dependent variables were coded. Emulating Lacity et al.’s (2010) coding scheme, four different values were used to indicate the various possible relationships: ‘+1’ to indicate a statistically significant positive relationship; ‘-1’ to indicate a statistically significant negative relationship; ‘0’ to indicate no statistically significant relationship; and ‘M’ for a significant non-directional relationship. Below are more detailed explanations of each relationship.

When higher values of the independent variable are tied to higher values of the dependent variable, the relationship is said to have a positive relationship. On the other hand, if higher values of the independent variable are tied to lower values of the dependent variable, the relationship is said to have a negative relationship. When the relationship has a $P>0.1$, it is considered to be statistically insignificant. Non-directional relationships are utilised when the variable meets the $P<0.1$ criterion, and yet involved categorical variables. A common example is 'Industry'. Since this variable is not an ordinal or a scale variable, the dependent variable could not possibly be affected by its increase or decrease. If different categories of industry yield statistically significant results, it would be considered as having a non-directional statistically significant relationship.

Using the above method, similar variables termed differently in various articles were synthesised into one variable, and segmented into categories accordingly. The resulting list of master codes and definition of the variables is available in Appendix A.

The findings are separated into four sections. First, there is a discussion of the dependent variables used in HRO studies. This is followed by an analysis of the independent variables used in the academic literature. Next, the relationships between the dependent and independent variables are assessed. Lastly, a report on the moderators and mediators used in HRO journals is presented.

3.4.1 Dependent variables examined in past HRO research

The review identified 36 dependent variables used in HRO literature, classified into two categories – HRO decisions and HRO outcomes. Between these two categories, the 17 HRO decision variables received more attention in the literature, representing 272 out of the total 449 relationships identified (60.6%). The 19 HRO outcome variables meanwhile accounted for a total of 177 of the 449 relationships studied (39.4%). The distribution of all the variables is shown in Table 3.3.

Table 3.3: Dependent Variables Examined in Past HRO Research

	Outsourcing Decision		
1	Outsourcing Decision - Make or Buy	10	
2	Outsourcing Decision - Transactional Functions	5	
3	Outsourcing Decision – Payroll	27	
4	Outsourcing Decision – Benefits	25	
5	Outsourcing Decision – HRIS	27	
6	Outsourcing Decision -Employee Welfare	17	
7	Outsourcing Decision – Performance	11	
8	Outsourcing Decision - Legal	5	
9	Outsourcing Decision - Traditional Functions	5	
10	Outsourcing Decision – Compensation	6	
11	Outsourcing Decision - Employee Relations	12	
12	Outsourcing Decision - Recruitment/Selection	36	
13	Outsourcing Decision – Training	36	
	Outsourcing Decision - Transformational Functions		
14	Outsourcing Decision - Change Management	2	
15	Length of Outsourcing (in years)	2	
16	Degree of Outsourcing	45	
17	Frequency of Outsourcing	1	
	Total		**272**
	Outsourcing Outcome		
1	Outsourcing Success	47	
2	Outsourcing Outcome - Financial Performance	8	

3	Outsourcing Outcome - Innovation Performance	4	
4	Outsourcing Outcome - Stakeholder Performance	4	
5	Outsourcing Outcome - Operating Performance	4	
6	Outsourcing Outcome - Capital Market Performance	2	
7	Satisfaction	11	
8	Trust	21	
9	Job Acceptance Intention	1	
10	Commitment	20	
11	Strategic position of HR department	7	
12	Cost Benefit	12	
13	Quality Benefit	12	
14	Flexibility Benefit	12	
15	Firm Size	1	
16	Size of HR Department	2	
17	Firm Attractiveness	2	
18	Contractual Specificity	3	
19	Labour Cost	4	
	Total		**177**
	Total number of dependent variables: 36		**Grand total** **449**

Within the HRO decision category, the variables were further categorised by the type of activity outsourced, as defined in Carrig's (1997) continuum of human resource activities. A substantial number of researchers studied decisions to outsource HR activities as a whole (e.g. Chiang et al., 2010) or individual activities (e.g. Wehner, Giardini, & Kabst, 2012; Galanaki, Bourantas, & Papalexandris, 2008). A few studies also looked at the length and depth of the outsourcing contract (e.g. Lievens & Corte, 2008). Among the HR functions outsourced, recruitment and selection, training, payroll and human resource information system (HRIS) were the most commonly outsourced functions.

Among the 19 variables identified in the HRO outcome category, the most studied were HRO Success, Trust and Commitment. Researchers generally studied HRO outcomes using clients' satisfaction (e.g. Klaas, Gainey, McCledon, & Yang, 2005), organisational performance (e.g.

Gilley, Greer, & Rasheed, 2004; Butler & Callahan, 2014), and achieved objectives (e.g. Galanaki et al., 2008). Limited research has been conducted to examine client loyalty so far.

3.4.2 Independent variables examined in past HRO Research

As many as 99 independent variables were identified from the review of the HRO literature. These were segregated into 12 separate categories. The Firm Characteristics category emerged with the highest number of variables as well as the largest number of relationships studied (117 out of the 449 relationships, 26.1%). The overall distribution is presented in Table 3.4, and a discussion of each category is provided below.

Table 3.4: Independent Variables Examined in Past HRO Research

	Motivation to Outsource		
1	Cost benefits	17	
2	Access to specialised capabilities	12	
3	Downsizing	7	
4	Competitive advantage	7	
5	Flexibility benefits	4	
6	Quality benefits	4	
7	Supplementing workload	1	
8	Project independence	1	
	Total		**53**
	Outsourcing Decision		
1	Outsourcing Decision - Make or buy	1	
2	Outsourcing Decision - Transactional Functions	1	
3	Outsourcing Decision – Payroll	6	
4	Outsourcing Decision – Benefits	3	
5	Outsourcing Decision – HRIS	2	
6	Outsourcing Decision – Pension	1	
7	Outsourcing Decision – Performance	1	
8	Outsourcing Decision - Employee Welfare	1	
9	Outsourcing Decision - Traditional Functions	1	
10	Outsourcing Decision – Training	7	
11	Outsourcing Decision - Recruitment/Selection	7	
12	Outsourcing Decision – Compensation	1	
13	Outsourcing Decision - Employee Relations	1	
14	Outsourcing frequency	1	

15	Outsourcing Knowledge, Skills and Abilities	3	
16	HR Outsourcing contract announcement	5	
17	Extent of outsourcing (number of activities outsourced)	6	
	Total		**48**
	HR Characteristics		
1	Idiosyncratic HR practices	17	
2	Frequency of training	8	
3	HR devolution	5	
4	HRM intensity	1	
5	HR scorecard (Y/N)	1	
6	Proportion of HR employees	1	
7	HR resource adequacy	1	
8	SHR index	1	
9	Measurability of activity	1	
10	Human capital enhancing services	1	
11	Gender	2	
12	Education	2	
13	Relevance of Outsourced Activity	2	
	Total		**43**
	HRM Strategies		
1	Innovative HRM Strategy	2	
2	Quality-conscious HRM Strategy	2	
3	Cost Efficiency HRM Strategy	2	
4	Commitment HRM Strategy	2	
5	Conventional HRM strategy	2	
6	Employee Development Strategy	2	**12**
	Firm Characteristics		
1	Firm Size	50	
2	Industry	14	
3	Sector (Profit/non-profit)	10	
4	Promotional opportunities	8	
5	Outsourcing experience	7	
6	HR departmental size	6	
7	Foreign ownership	4	
8	Organisational age	5	
9	Union	3	
10	Change in headcount	2	
11	Reputation – Service Provider	1	
12	Percentage of graduated workforce	1	
13	Business group affiliation	1	
13	Enterprise scale	1	
15	Firm attractiveness	1	
16	Client receptivity	1	

17	Transactional services	1	
18	Outsourcing emphasis	1	
	Total		**117**
	Firm Strategies		
1	Pay strategy	10	
2	Quality based strategy	6	
3	Proactive strategy	6	
4	Breadth strategy	6	
5	Reactive strategy	6	
6	Facilitation strategy	1	
7	Accumulation strategy	1	
8	Utilisation strategy	1	
9	Prospector Strategy	1	
	Total		**38**
	Environment		
1	Uncertainty	19	
2	Risk	9	
3	Competitor's HR Outsourcing	8	
4	Availability of Alternatives - Service Providers	7	
5	Technology/knowledge intensive context	1	
6	Information asymmetry	1	
	Total		**45**
	Decision Characteristics		
1	Strategic HR involvement	17	
2	Investment	9	
3	Top Management support	11	
4	Asset specificity	7	
5	Benchmarking	1	
6	Task Complexity	1	
7	Integration	1	
	Total		**47**
	Outsourcing Outcomes		
1	Positive HR Outcomes	8	
2	Satisfaction	1	
	Total		**9**
	Relationship Characteristics		
1	Communication	9	
2	Commitment	7	
3	Trust	4	
4	Vendor dependency	3	
5	Shared values	1	

6	Approachability	1	
7	Business understanding	2	
8	Relationship tenure	1	
	Total		**28**
	Contractual Governance		
1	Contract specificity	4	
	Total		**4**
	Service Quality Variables		
1	Service Quality – Tangibles	1	
2	Service Quality – Reliability	1	
3	Service Quality – Responsiveness	1	
4	Service Quality – Assurance	1	
5	Service Quality – Empathy	1	
	Total		**5**
	Total number of independent variables: 99		**Grand Total 449**

Independent variables, Motivations to Outsource were studied 53 times. The most commonly studied variable was Cost Benefits (studied 17 times), followed by Access to Specialised Capabilities (studied 12 times). The category as a whole accounted for 11.8% of the 449 relationships studied which is slightly higher than the next category, Outsourcing Decision. None of the variables within the Outsourcing Decision category was examined more than seven times and so, despite the large number of variables, it only represented a total of 48 of the relationships studied (10.7%). The most studied variables in this category were Outsourcing Decision – Recruitment/Selection and Training.

The next category, HR Characteristics, consists of variables describing the HR department. It has the third highest number of variables, although more than half of these were studied only once. The most often examined variable in this category was Idiosyncratic HR practices; studied 17 times. Overall, this category covered 43 of the 449 relationships (9.6%). As for

HRM Strategies category, 12 relationships were examined (2.7%) and it was mainly focused on whether a specific HRM strategy affects the type of HR functions outsourced.

The next largest category, Firm Characteristics, comprises variables related to or affected by the firm. The most studied of these was Firm Size (examined 50 times), followed by Industry (examined 14 times). Moving further down the list, the category Firm Strategies comprises the strategies that firms employed. It had nine variables, with the most studied variable, Pay Strategy, being studied 10 times. It would appear that, with the exception of Pay Strategy, most of the other strategies in this category were mainly studied by Hasliza & Norbani (2011b) and Hasliza, Norbani, & Geare (2009). This category produced a total of 38 relationships studied (8.5%).

The next category, Environment, focuses on variables affected by a firm's business environment. It may be unsurprising that the most frequently examined variable in this category was Uncertainty (studied 19 times), followed by Risk (studied nine times). Overall, the Environment variables were studied 45 times (10%).

Decision Characteristics are variables that are taken into account in outsourcing decision making. Strategic HRM involvement (studied 17 times), Investment (studied nine times) and Top Management Support (studied 11 times) were the most often studied variables in this category. In all, this category accounted for 47 relationships from the 449 identified (10.5%).

Outsourcing Outcomes emerged as the second smallest category, with only two variables. This is unsurprising, given that outcomes are more conventionally used as dependent variables. With only nine relationships in the category in total, it accounted for only 2% of the total relationships examined.

The category Relationship Characteristics consists of variables that look into the relationship between the client and vendor. Relationship variables seem to be getting increasing attention, as they can potentially improve outsourcing success (e.g. Ee, Hasliza & Ramayah, 2013b). Nonetheless, this category accounted for only 28 relationships overall (6.2%) – perhaps because research on it is generally still in the early stages.

Next is Contractual Governance, the smallest category with only one variable that is, Contract Specificity. With four relationships identified, it accounted for 0.9% of the 449 relationships identified. Lastly, the category Service Quality was examined based purely on the service process quality dimension, by Hasliza et al. (2014) in relation to Outsourcing Success. They only accounted for the final 1.1% of the total relationships studied. Obviously, this shows that HRO effectiveness from the lens of service quality and its subsequent effect on the firm's intention to continue HRO has not been adequately examined.

3.4.3 Relationship between dependent and independent variables examined in past HRO research

Based on the 36 dependent variables and 99 independent variables identified, 449 relationships have been coded in total. Appendix B contains a full list of the 449 relationships between the independent variables and dependent variable categories (HRO Decision and HRO Outcome). This detailed data enables the identification of variables which were the most frequently studied and what were the specific findings in relation to the dependent variable categories.

In order to aid discussion, Figure 3.1 and 3.2 were produced by extracting the variables that were examined several times and yielded consistent significant results. More specifically, the relationships need to have been examined in at least three incidences, with at least 50% of the findings yielding consistent results. It will be denoted as '*' and bordered by a box (refer Appendix B). An example that qualifies for this is the variable Access to Specialised Capabilities which was examined 12 times, with seven out of these 12 relationships (58.3%) having a positive significant relationship with Outsourcing Decisions.

Meanwhile, it is useful to differentiate variables with stronger evidence from those that are less strong. In this case, the relationship is deemed to have strong evidence if the findings are consistent in 80% of the cases or more. For example, from Appendix B it can be seen that the independent variable Communication was coded as having nine relationships, of which eight (88.9%) were found to be positively and significantly related to Outsourcing Outcomes. In order to differentiate them, variables with 50 to 80% of consistent positive findings are assigned '(+)', while those with more than 80% consistent positive findings are denoted with '(++)'. Likewise, variables with more than 80% significant negative relationships are coded as '(- -)', while those with between 50 and 80% significant negative relationships are denoted as '(-)'. Furthermore, significant non-directional relationships are marked as '(MM)' if they have more than 80% consistency, and '(M)' if their consistency falls between 50 to 80%. It must be noted that the findings are based on the above decision rules, and might differ if different cut-off points were used. Variables with strong evidence of consistent significant findings subject to the said criteria are identified and presented in Figure 3.1 and Figure 3.2.

Figure 3.1: Determinants of HRO Decision

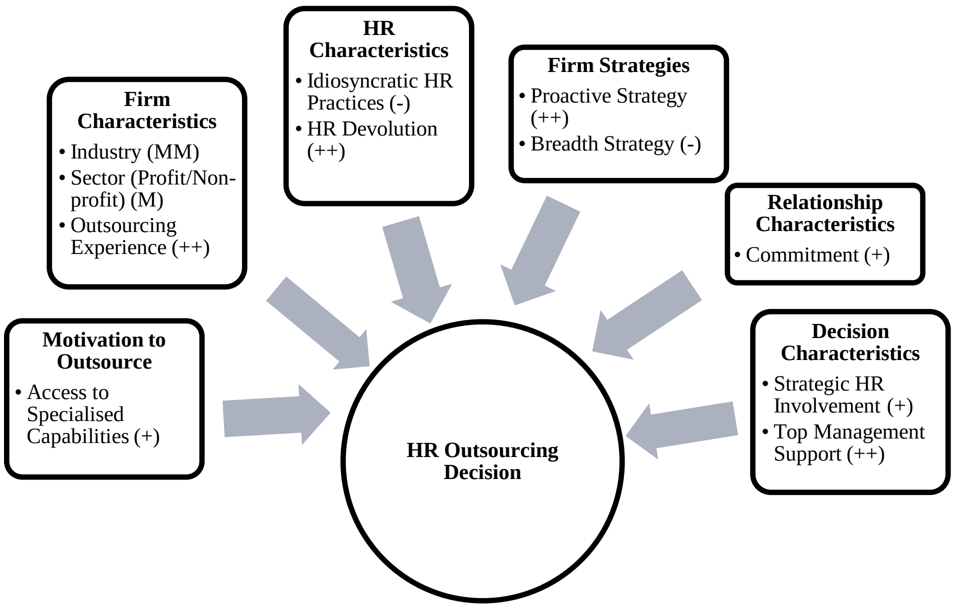


Figure 3.1 shows the 11 independent variables that have been studied at least three times, with consistent results in at least half of the cases. The variables are separated into their respective categories. Of the 12 categories of independent variables, five – Outsourcing Decision, Environment, HRM Strategies, Outsourcing Outcomes, Contractual Governance and Service Quality Variables – had no variables that fit the criteria. Of the remainder, there is one variable from each of the two groups- Motivations to Outsource and Relationship Characteristics; two variables from each of the three groups- HR Characteristics, Decision Characteristics and Firm Strategies fit into the decision rules. The category Firm Characteristics had the most variables that fulfil the decision rules.

From Motivation to Outsource, only one variable was found to have been studied at least three times and to have consistent findings at least half of the time: namely the variable Access to Specialised Capabilities, which has been studied 12 times, with seven (58.3%) of the relationships yielding positive significant results. There were some mixed results – for example, Lever (1997) found that access to specialised capabilities significantly affects HRO decisions on training, but had no significant effects on other variables such as payroll, benefit, HRIS and recruitment; whereas Lepak, Bartol, and Gardner (2004) found the exact opposite.

Perplexingly, cost benefits which was the most frequently studied variable, yielded equal amounts of significant and insignificant results in relation to Outsourcing Decisions. The same results pattern also applies to Flexibility Benefits. Interestingly, Downsizing HR was found six times insignificant of the total seven times being examined. There are insufficient studies to determine whether the remaining variables in the category are significant or not. Although the variable Competitive Advantage was found not affecting Outsourcing Decision, it was found to affect Outsourcing Outcome.

Comparing the first three variables in Firm Characteristics, Industry had the highest consistent findings. Of the total 14 relationships coded involving this variable, 12 were connected to HRO Decisions while the remainder linked with HRO Outcomes. Furthermore, the effect of Industry on HRO Decision was proven to be positively significant and consistent in all 12 occasions. The Sector variable produced similar, albeit less consistent findings, with only five (55.6%) of the nine studied relationships showing significance. Lastly, Outsourcing Experience was found to have significant positive relationships with Outsourcing Decision, in six (85.7%) of the seven relationships studied. Promotional Opportunities and HR Departmental Size had been examined occasionally, but more than half of the findings were insignificant. Although Firm Characteristics was the category with the largest number of variables overall, the remaining variables in that category either yielded no significant results or did not pass the decision rules.

In the HR characteristics category, only two independent variables namely Idiosyncratic HR Practices and HR Devolution were found to 78ulfil the decision rules. Of the total 17 relationships studied involving Idiosyncratic HR Practices variable, nine were associated with Outsourcing Decision and eight with Outsourcing Outcome. Five (55.6%) out of the nine relationships with Outsourcing Decision examined yielded negatively significant results, while the remaining four showed no significance. Five out of eight relationships (62.5%) between Idiosyncratic HR Practices and Outsourcing Outcome were insignificant while the other three relationships were found having significant relationships. HR Devolution was found to be positively and reliably significant in all four relationships examined. Frequency of Training was examined eight times with Outsourcing Outcome but seven out of eight (87.5%) were found to have no relationships.

Turning next to Firm Strategies, two variables were found to have fulfilled the decision rules. Proactive Strategy is positively related to Outsourcing Decision, both transactional (payroll, HRIS and benefits) and traditional (training, recruitment and compensation) HR functions, while Breadth Strategy is negatively related to outsourcing traditional HR functions only (Hasliza et al., 2009). Other strategies yielded more insignificant results, and some did not comply with the decision rules either.

From the category of Relationship Characteristics, Commitment was studied seven times in total; five in association with Outsourcing Decision and twice in relation to Outsourcing Outcome. Three (60%) of the five relationships coded with Outsourcing Decision showed positive significance. Furthermore, it is noteworthy that Commitment is the only variable in the Relationship Characteristics category that is associated with Outsourcing Decision. In contrast, all the other variables in this category were commonly associated with Outsourcing

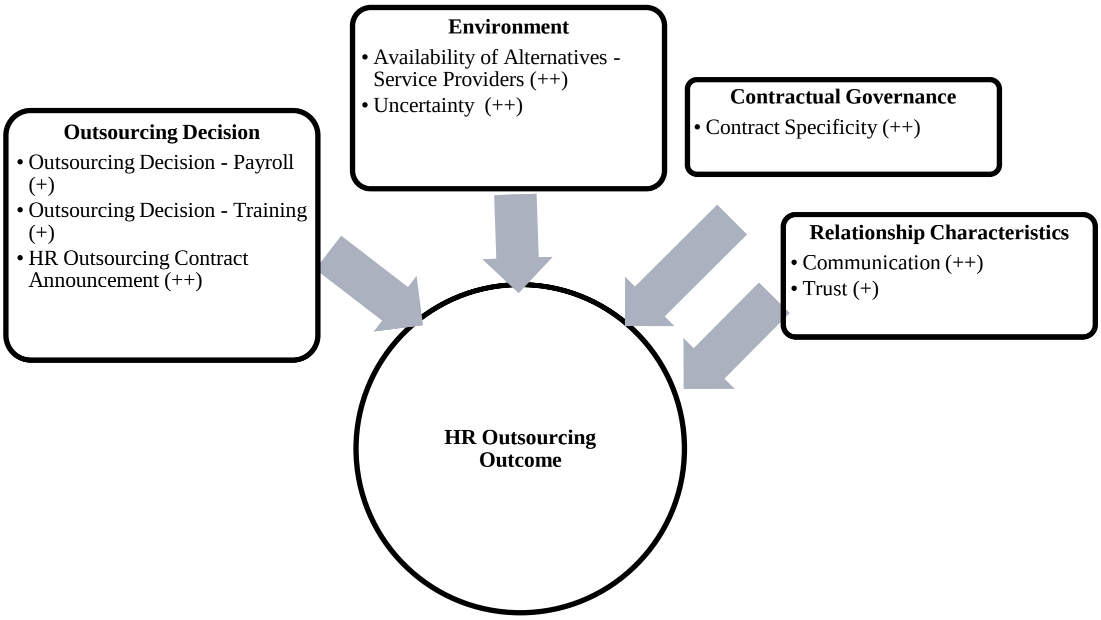
Outcome which suggests that Relationship Characteristics was more often considered as a determinant of Outsourcing Outcome than Outsourcing Decision.

Lastly, Strategic HR Involvement and Top Management Support from the Decision Characteristics category were found to meet the decision rules. Strategic HR Involvement was studied 14 times with Outsourcing Decision and three times with Outsourcing Outcome. Of these relationships, eight (57.1%) were found to be positively linked with Outsourcing Decision. Likewise, Top Management Support was examined seven times with Outsourcing Decision and four times with Outsourcing Outcome; all the relationships with Outsourcing Decision proved to be positively significant, while half were positively significant with Outsourcing Outcome. This implies that Top Management Support may be a strong determinant for Outsourcing Decision.

From the same category, studies on Investment and Asset Specificity were mostly related to Outsourcing Outcome, although most produced insignificant results. Interestingly, Asset Specificity as a key construct of Transaction Cost Economics (TCE) has only been examined twice in the HRO decision and outcome model, by Zhao et al. (2013) and Galanaki et al. (2008) respectively. The results were equally intriguing, in that it was contrary to the TCE proposition which predicts a negative relationship between asset specificity and outsourcing decision. Asset Specificity was found to positively influence the level of outsourcing (Zhao et al., 2013) and to have no effect on HRO Outcomes in terms of the benefits achieved in five of the six times this relationship was examined (Galanaki et al., 2008).

Figure 3.2 illustrates the independent variables associated with Outsourcing Outcome that met the decision rules. Only eight such independent variables were identified, from four different categories. Outsourcing Decision had the most variables (three independent variables); Relationship Characteristics and Environment had two variables each; and the remaining category, Contractual Governance, had one variable.

Figure 3.2: Determinants of HRO Outcome



From the Outsourcing Decision category, five of the 12 independent variables studied fulfilled the decision rules. Outsourcing Decision – Payroll was studied on six occasions and yielded positive significant results in half of the cases. The Outsourcing Decision – Training variable produced a consistency of 57.1%, which suggests that outsourcing training may result in better performance (e.g. Gilley et al., 2004). In addition, Butler's studies on HRO Contract Announcements (Butler, Carolyn, & Smith, 2010; Butler & Callahan, 2014) showed significance in all five cases studied, indicating that, to a certain degree, announcements of HRO contracts can affect both the provider's and client's performance. Two other variables in this category may be noteworthy: Outsourcing Decision – Benefits and Outsourcing Decision – Recruitment/Selection. Outsourcing Decision – Benefits was studied three times previously, with all three yielding significant albeit somewhat mixed results. Similarly, Decision – Recruitment/Selection was studied seven times (refer Appendix B), but all yielded mixed results: two showed a positive relationship, two were insignificant, and the remainder yielded negative results. It might be interesting to explore further why this outcome was so mixed.

Availability of Alternatives – Service Providers and Uncertainty were the only two independent variables from the Environment category that were studied in relation to Outsourcing Outcome. Although Uncertainty had more associations with Outsourcing Decision, the results were mostly insignificant (nine out of 15), whereas all four of the results in relation to Outsourcing Outcome were positively significant. In addition, Availability of Alternatives – Service Providers also showed consistent significant results, with six (85.7%) of the seven examinations yielding positive significant relationships. This was in line with Galanaki et al's (2008) findings that the availability of training services in the market was positively associated with the quality of outsourcing (outsourcing outcome).

While all the variables in the Relationship Characteristics category were examined at least once in relation to Outsourcing Outcome, some variables were examined more frequently than others. Nevertheless, only two of these variables, Communication and Trust, were studied enough times to pass decision rules. Communication produced a significantly positive result in eight (88.9%) of nine times it was examined, which strongly suggests that it may be a determinant of Outsourcing Outcome. Furthermore, Trust studied significantly positive for three out of the four times it was examined with Outsourcing Outcomes (75%), which points towards a substantial relationship connecting Communication and Trust to Outsourcing Outcome. All other variables also showed positive findings but did not meet the decision rules, and may warrant further research to confirm its impact on Outsourcing Outcome. Clearly, this indicates that relational impact on HRO effectiveness has not been thoroughly examined yet. Finally, Contract Specificity, the only variable under the Contractual Governance category, was found to be consistently positively significant in relation to Outsourcing Outcome. A majority of these examinations were conducted by Gainey & Klaas (2003, 2005), tying Contract Specificity to Trust and Satisfaction. Since Contract Specificity was found to be significant, further research into this area may be desirable. This could help to identify and study other variables within the Contractual Governance category in order to gain a better understanding of their overall effects on Outsourcing Outcome.

At a glance, although the variable list from Table 3.3 and Table 3.4 seem long, not many variables were sufficiently examined to warrant a position in either Figure 3.1 or Figure 3.2. This may suggest that HRO literature might have covered the breadth but more work is required to cover the depth.

3.4.4 Moderators and mediator examined in past HRO Research

Besides coding the relationships between independent and dependent variables, the moderators and mediators studied in previous works were also recorded and listed. Table 3.5 presents the moderators that have been studied as well as their impact on the relationship between the independent and dependent variables. Positive significant relationships are denoted with ‘+1’, negative significant relationships with ‘-1’, no significant relationship with ‘0’, and non-directional significant relationships with ‘M’. The relationships coded are based on the interaction terms reported by the authors.

Overall, there are seven main papers that have contributed to the study of moderators in the HRO context. Perhaps the greatest contributors are Hasliza et al. (2014), who studied service quality dimensions as moderators; and Klaas et al. (1999), who studied seven different moderators across four classifications of HR activities – HR generalist, transactional, human capital, and recruiting and selection. Firm size seems to be the most frequently studied moderator, where three papers studied it a total of eight times. However, the results do not seem encouraging, as most studies found firm size to have no significant moderation effects. Uncertainty, on the other hand, seems to be a more worthwhile moderator to investigate, since Klaas et al. (1999) found three positive significant relationships from the four relationships studied, while the last relationship, with HR generalist activities, was found to be negatively significant.

Overall, Klaas et al. (1999) found evidence for four out of the seven moderators studied: idiosyncratic HR practices, uncertainty, firm size and cost pressures. However, when firm size was studied as a moderator by Gilley et al. (2004), they found no significant moderating effects, although they attributed their non-findings to the small sample size. Furthermore, Sheehan and Cooper (2011) found firm size to moderate the relationship between HRM outsourcing and perceived financial performance, although no evidence was found for its relationship with organisational effectiveness.

Meanwhile, outsourcing was found to moderate strategic HR involvement with organisational effectiveness, but not financial performance (Sheehan & Cooper, 2011). Klaas et al. (2005) found that contract specificity and client receptivity moderate the relationship between human capital enhancing services and satisfaction with HR outcomes, while Shih & Chiang (2011) found evidence that prospector strategy moderates recruitment HRO and HR effectiveness.

Hasliza et al. (2014) found evidence of moderation effects for three out of five service quality dimensions – tangibles, responsiveness and empathy. In a recent study, Nguyen & Chang (2017) examined the effects of non-core HR activities and positive HRO outcome moderation effects on degree and core HR activities respectively but both yielded insignificant results.

Table 3.5: Moderators studied in HRO literature

Independent Variables	**Source**	**Moderator**	**Interaction Term**	**Dependent Variables**
Degree of outsourcing – HR generalist activities	Klaas, McClendon, & Gainey (1999)	Idiosyncratic HR Practices	0	Outsourcing Success
Degree of outsourcing – Transactional activities			0	
Degree of outsourcing – Human Capital activities			-1	
Degree of outsourcing – Recruiting and Selection			-1	
Degree of outsourcing – HR generalist activities		Uncertainty	-1	
Degree of outsourcing – Transactional activities			1	
Degree of outsourcing – Human Capital activities			1	
Degree of outsourcing – Recruiting and Selection			1	
Degree of outsourcing – HR generalist activities		Firm Size	0	
Degree of outsourcing – Transactional activities	Klaas, McClendon, & Gainey (1999)	Firm Size	0	Outsourcing Success
Degree of outsourcing – Human Capital activities			0	
Degree of outsourcing – Recruiting and Selection			-1	
Degree of outsourcing – HR generalist activities		Cost Benefits	0	
Degree of outsourcing – Transactional activities			1	
Degree of outsourcing – Human Capital activities			1	
Degree of outsourcing – Recruiting and Selection			0	
Degree of outsourcing – HR generalist activities		Pay Strategy	1	
Degree of outsourcing – Transactional activities			0	
Degree of outsourcing – Human Capital activities			0	
Degree of outsourcing – Recruiting and Selection			0	
Degree of outsourcing – HR generalist activities		Outsourcing Emphasis	0	

Degree of outsourcing – Transactional activities			-1	
Degree of outsourcing – Human Capital activities			0	
Degree of outsourcing – Recruiting and Selection			0	
Degree of outsourcing – HR generalist activities		Strategic HR Involvement	0	
Degree of outsourcing – Transactional activities			0	
Degree of outsourcing – Human Capital activities			0	
Degree of outsourcing – Recruiting and Selection			0	
Outsourcing Decision – Payroll	Gilley et al. (2004)	Firm Size	0	Firm Performance
Outsourcing Decision – Training			0	
Human Capital Enhancing Services	Klaas et al. (2005)	Delivery Model	M	Satisfaction
Human Capital Enhancing Services		Contract Specificity	1	
Human Capital Enhancing Services		Communication	0	Satisfaction
Human Capital Enhancing Services		Client Receptivity	1	
Degree of Outsourcing	Sheehan & Cooper (2011)	Firm Size	0	Outsourcing Success
Degree of Outsourcing			-1	Outsourcing Outcome – Financial Performance
Strategic HR Involvement		Degree of Outsourcing	-1	Outsourcing Success
Strategic HR Involvement			0	Outsourcing Outcome – Financial Performance
Outsourcing – Recruitment/Selection		Prospector Strategy	1	Outsourcing Success
Outsourcing – Training			1	
Trust	Hasliza et al. (2014)	Service Quality – Tangibles	1	Outsourcing Success
Business Understanding			0	
Commitment			-1	
Communication			1	
Top Management Support			0	
Trust		Service Quality – Reliability	0	
Business Understanding			0	
Commitment			0	
Communication			0	
Top Management Support			1	
Trust		Service Quality – Responsiveness	0	
Business Understanding			0	
Commitment			0	

Communication			1	
Top Management Support			0	
Trust		Service Quality – Assurance	0	
Business Understanding			0	
Commitment			0	
Communication			0	
Top Management Support			0	
Trust		Service Quality – Empathy	1	
Business Understanding			0	
Commitment			0	
Communication			0	
Top Management Support		Service Quality – Empathy	0	Outsourcing Success
Lack of HR Expertise	Nguyen & Chang, 2017	Core HR activities	1	Degree of HRO
Strategic HR Involvement		Core HR activities	1	Degree of HRO
Lack of HR Expertise	Nguyen & Chang, 2017	Non-core HR activities	0	Degree of HRO
Strategic HR Involvement		Non-core HR activities	0	Degree of HRO
HRO Decision	Nguyen & Chang, 2017	Positive HR Outcome	0	Core HR activities
		Positive HR Outcome	0	Non-core HR activities

In contrast with moderators, there have unfortunately not been many studies on mediators in the HRO context to date, hence, no table is established. An exception is Wehner et al. (2012), who studied mediating effects within the recruitment process outsourcing context. Their findings revealed that the relationship between the degree of outsourcing and the job acceptance intentions of candidates is mediated by satisfaction with the recruitment process and company attractiveness. The indirect effects imposed by these mediators were found to be negative and significant. No study has advanced into examining mediated-moderated model with the majority of them still concentrated on direct factor-based model.

3.4.5 HRO gaps identified from the overall HRO literature

Through the application of systematic coding, not only a systematic synthesis of HRO literature can be presented but gaps in knowledge within HRO can also be identified. After reviewing 36 articles for this paper, it is concluded that some areas have been addressed by HRO researchers, while some areas for which there have been calls for more research remain unaddressed. For example, the call for more studies on the impact of firm characteristics on HRO decisions has been addressed very well. With reference to Appendix B, 18 independent variables were examined across 87 relationships (e.g. Klaas et al., 2005; Galanaki et al, 2008; Delmotte & Sels (2008), Shih & Chiang, 2011; Hasliza, 2011a). With regard to HRO impact on organisational performance, various performance indicators such as financial performance, stakeholder performance, innovation performance (e.g. Butler & Callahan, 2014; Gilley et al., 2004; Shih & Chiang, 2011) have been studied in response to the call by Shen (2005).

Generally, it is observed that the relationships examined in HRO literature remained scarce and patchy. HRO researchers have made considerable progress, but there is still a gap in large-scale collective work, leaving many unanswered puzzles. With outsourcing practice maturing in other outsourcing contexts such as IT, HRO empirical work still requires more attention. The reasons for this are evident, with more than half (57 out of 99) of the independent variables, and nine out of 36 dependent variables, having been studied less than three times. In short, even within the list of variables previously studied, there is a lack of rigor in studying them. The overall HRO literature gaps are outlined below:

More studies on reasons to outsource HR

Cost benefit has been the most frequently examined aspect in research about the motives for outsourcing, but the results have been inconsistent and mostly insignificant. With eight insignificant versus eight positive significant results having emerged, it is difficult to judge whether cost benefit really matters in the decision to outsource HR.

To explain this, it could be assumed that our body of research is representative of reality and hence reflects the fact that not all companies outsourcing HR are motivated by cost benefit. For example, outsourcing human resource information systems (HRIS) can largely be prompted by cost benefits in terms of getting rid of expenditure incurred due to technology obsolescence and acquisition, but outsourcing training and development for cost benefits, where the knowledge and skills obtained can become a source of competitive advantage in the long run is unlikely.

A second possible explanation is that academic studies on HRO have not been representative. This could explain the contradiction whereby many HRO researchers strongly believe and are convinced that cost benefit is the primary reason for outsourcing HR, but the facts suggest otherwise. Perhaps, although cost benefits are generally regarded as the main reason that drives outsourcing, it may not, in practice, be sufficient to outweigh the belief that intangible costs such as losing control, demotivation, and so on are in fact costlier than the expected financial cost savings.

Moreover, the more critical the human resources are (or are perceived to be) in an organisation, the greater is the need to manage these resources carefully and well. So, if an external party is believed to possess greater capabilities in managing these vital intangible assets, HR managers will likely consider accessing these capabilities through outsourcing. This may explain why access to specialised capabilities appears to be the only consistent reason for outsourcing HR.

A careful examination of the independent variables shows that all the statistical tests on competitive advantage and its effects on HRO decisions are derived from a single paper by Ganalaki et al., (2008). There is therefore a need to examine the same or other strategic reasons for outsourcing HR (Delmotte & Sels, 2008; Gospel & Sako, 2010; Susomrith & Brown, 2012). Political reasons such as sharing the pain of downsizing have also been identified as an important driver of HRO (e.g., Greer et al., 1999; Susomrith & Brown, 2012); but unfortunately, their effects on HRO decisions have not been examined adequately.

In comparison with research in a more mature outsourcing context such as IT, Motivation to Outsource HR has been little studied: only 53 times compared with 161 times – more than three times as many – for Motivation to Outsource IT (Lacity et al., 2010). Of the eight motivational variables, half were studied fewer than five times, and most of the relationships examined were from the same papers. Although a considerable effort has been spent on examining the reasons for or expected benefits of outsourcing HR, there has so far been no consensus on the types of reasons as well as the categorisations of them. For example, Klaas et al. (1999) regarded perceived HRO benefits as a single dimensional construct, whereas Susomrith & Brown (2012) found that the motivation to outsource HR is primarily driven by multi-dimensional benefits.

Clearly, more research is required to address these issues. This is important because HRO benefits are the basis for answering the question on what HR managers expect to achieve from outsourcing HR – which can then be translated into the goals of outsourcing HR. Having clearly defined goals can in turn help lay the foundation for answering the subsequent questions: how to achieve these goals? To what extent these goals have been achieved? Moreover, further research will not only help answer the two critical questions above but also allow us to track whether motivations to outsource HR change over time.

Meanwhile, instead of adopting measures directly from IT outsourcing literature, HRO researchers may need to expand research in the context of HRO because this will facilitate the identification of differences in findings across other outsourcing contexts. Meanwhile, researchers should refrain from assuming that the same outsourcing reasons apply across different contexts because, although some of the reasons might seem recurrent, outsourcing is a highly contextual and conditional phenomenon (Cullen et al., 2008).

More studies on HRO outcomes

HRO researchers have used a total of 19 variables, including satisfaction, outsourcing benefits, trust, commitment and outsourcing performance, to explore Outsourcing Outcomes. The majority of studies reviewed used cross-sectional data, which may impede understanding the extent to which firms achieve their outsourcing objectives in the longer term. HRO outcomes should ideally be studied longitudinally or should at least set a minimal outsourcing duration to qualify respondents because it takes time for some of the benefits to come to fruition. Such a longer-term understanding is crucial for gauging the effectiveness of HRO, and to ascertain which processes and practices differentiate successful and unsuccessful outcomes. So far, although service quality repeatedly surfaced as the key issue among practitioners (Deloitte, 2016a; 2014a; 2012), there has been only one paper examining service quality variable by Hasliza et al. (2014) – which connotes the paucity of research in this area. The provider's perspective on various aspects of HRO has received similarly scant attention. There is no study on HRO client satisfaction and its impact on client loyalty in terms of contract renewal, expansion and referral which again connote another knowledge gap.

Finally, more research could be conducted using other streams of literature, such as services and relationship marketing literature because the relevance and usefulness of these literature have already been long acknowledged by a number of outsourcing researchers (e.g.

Chakrabarty et al., 2007; Kim et al. 2013; Sigala, 2004; Stank, Goldsby & Vickery, 1999,2003; Juga et al., 2010) in other outsourcing contexts such as ITO and logistics outsourcing.

More studies on HR outsourcing governance

An interesting yet little studied area is the impact of governance on the effectiveness of HRO (e.g. Klaas et al., 2005; Gainey & Klaas, 2003; Gainey & Klaas, 2005). These findings have prompted a number of further questions, such as: Does contractual governance in the form of contract specificity remain effective over time given that outsourcing involves long term inter-organisational interaction? To what extent does contractual governance help ensure positive HRO outcomes? Is it sufficient to just rely on contractual governance? Does relational governance also affect the effectiveness of HRO? If yes, is relational governance superior to contractual governance? Or does relational governance complement contractual governance?

More studies on the effect of environment

The limited evidence so far suggests that the availability of providers in the market affects the achievement of the intended outsourcing benefits (e.g. Galanaki et al., 2008). Although it seems logical that greater supplier competition is linked with favourable outcomes, it is surprising that only two papers (Galanaki et al., 2008 and Lievens & Corte, 2008) have studied these relationships. Lievens & Corte (2008) found that the availability of suppliers does not affect the likelihood of an outsourcing company continuing with outsourcing. This somewhat contradicts the social exchange theory that parties will remain in a relationship provided that it is the best choice for them (Lambe, Wittmann, & Spekman, 2001; Thibaut & Kelley, 1959). It is unsure at this stage, whether there are other key variables not included in the model that may help to explain this surprising finding; or perhaps other variables in the model have largely absorbed the supposedly positive effects of the availability of alternatives on the likelihood of continuance. Further research is required to examine this relationship and improve understanding of the logic behind the findings. In addition, research incorporating other environmental conditions appears still lacking. Most of the past research has examined firm-driven outsourcing decisions, leaving the larger external environmental factors impact on HRO under-researched.

More studies on the effect of relationship characteristics

Although good relationship is one of the keys to HRO success, it was a surprise to find that there is very little research conducted on the effects of relationship characteristics. It is observed that there has so far been no consensus on the dimensions of partnership or relationship quality in outsourcing research. In fact, most of the research did not consider the difference between factors affecting partnership and the quality of partnership, (Lee & Kim,1999) which is of concern.

It was also surprising to discover that some relationship characteristics studied frequently in other outsourcing contexts have never been studied in HRO research. In particular, the effects of knowledge sharing, cultural congruency, supplier and organisational capabilities and prior supplier working relationship have been proven to positively influence outsourcing outcomes in other contexts (Lacity et al., 2010), but none of them has been studied in the HRO context.

More studies beyond direct effects

From the synthesised literature, the relationships examined between independent and dependent variables translate into the two models depicted in Figures 3.1 and 3.2, suggesting that HRO literature is largely fragmented into two factor-based models. Some of the most interesting work considers integrating multiple variables, examining relationships beyond direct effects: for example, matching transaction attributes with contractual governance and its impact on client satisfaction (e.g. Gainey & Klaas, 2003), matching transaction attributes and social attributes and their impact on the continuity of outsourcing (e.g. Lievens & Corte, 2009), the degree of outsourcing by functions and perceived benefits moderated by organisational characteristics (e.g. Klaas et al., 1999) and others.

Moderators such as idiosyncratic HR practices, cost pressures and prospector strategy, for example, have strong potential to be moderators, as each already has two significant findings studied in the literature. Future studies on contract specificity and client receptivity may further support or reinforce their role as moderators. While there are some articles doing research beyond direct effects, clearly more are needed.

Keeping track of emerging models and trends

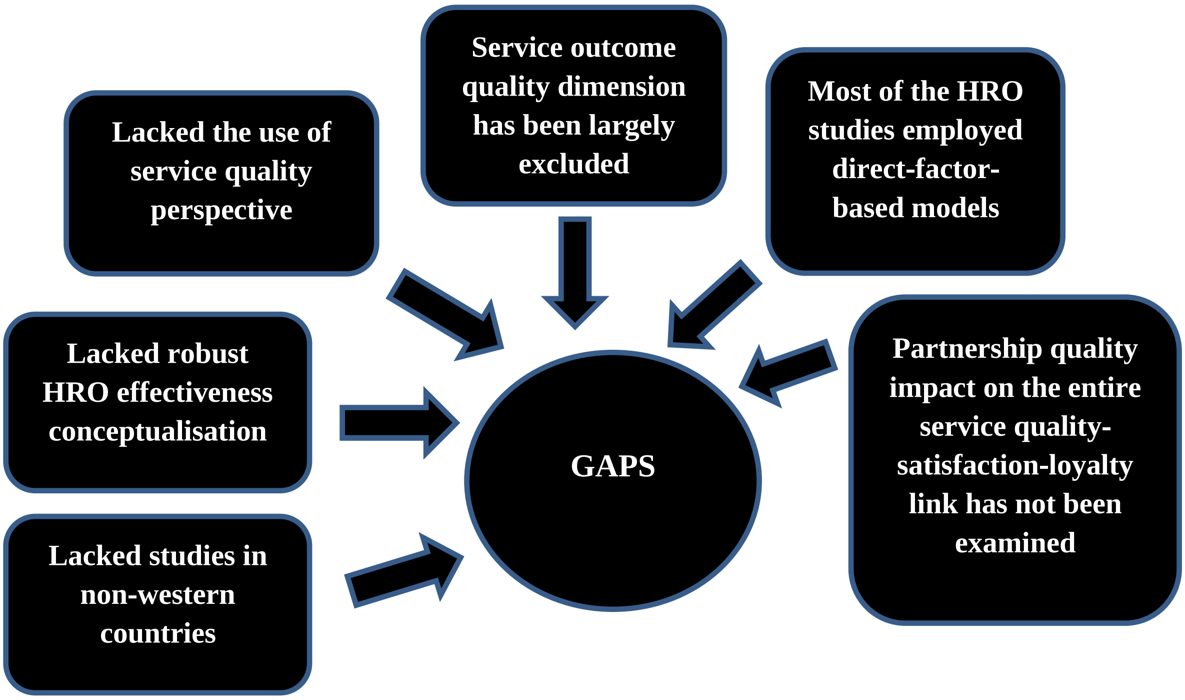
While HR outsourcing continues to evolve, many sourcing models have since emerged under the influence of technology. HR practitioners are looking to academic research to help provide a better understanding and evaluation of those sourcing models. For example, many HR practitioners are interested in cloud solution services since these came into being, but struggle to understand what these are in practice and how they can improve HR performance. Another buzzword in HR now is HR big data; which raises the question of how big data might influence HR outsourcing practices. Will there be another outsourcing ‘big bang’ when these two meets? How can HR managers and outsourcing providers benefit from HR big data? How can different outsourcing approaches, such as outsourcing to a single provider or multiple providers, affect HR performance? How can HR managers enjoy the benefits of outsourcing, yet avoid the potential loss of internal skills and knowledge?

3.5 Research Gaps in the Study

Overall, with reference to Section 3.4, there are still many niche areas worthy of study and HRO is still at the stage of development. As a result, it is impossible for this PhD research to close all the aforementioned gaps. With reference to Table 3.4 and Table 3.5, the service quality variable has only been examined twice: once as an independent variable, and once as a moderator in HR outsourcing studies, indicating a lack of studies in this area. In both cases, service quality was examined based solely on service process quality without the service outcome quality dimension. Hence, there is a lack of inclusiveness on how service quality was examined in the HRO literature. There was also limited research conducted to examine the relationship between client satisfaction and loyalty. In a nutshell, the service quality-satisfaction-link is surprisingly under-researched. In fact, the research on HRO effectiveness is limited in general particularly in this region such as Malaysia (Vyas, 2016; Hasliza, Ee and Ramayah., 2014; Chiang, Chow & Birtch, 2010).

In addition, partnership quality, although often recognised as a crucial factor associated with outsourcing success, and its effect on the entire service quality-satisfaction-loyalty link have never been examined together. As a result, this research aims to close these knowledge gaps examining partnership quality and its conditioning effect on the entire service quality-satisfaction-loyalty link. Figure 3.3 summarises and depicts the literature gaps which have mooted this research.

Figure 3.3 HRO Literature Gaps to be Addressed in this Research



3.5 Service Quality

Because this research uses service quality perspective to examine HRO effectiveness, this section will discuss in detail the literature pertaining to service quality. The origin of the importance of quality stems from the belief that quality drives technological excellence in manufacturing, leading to quality products but when the product is a service, service quality derives from long term cumulative experiences of many episodes based on reflections or current memories of past experiences (Oliver, 2010). At this point, it should be borne in mind that service quality is essentially the attribute used to measure service performance (Taylor & Cronin, 1992, 1994; Kanning & Bergmann, 2009).

Because HR Outsourcing is a service provided by a service provider over a contracted period of time through many interaction episodes with a client's firm, aimed at improving the overall HR performance, applying the service quality perspective is deemed suitable (as discussed in section 3.2 and 3.3). In this respect, the provider's service performance is capable of affecting the delivery of HR services within a client's firm. This translates into the importance of evaluating the provider's service quality. Unlike products produced through manufacturing processes, the quality of the product can be defined and measured accurately but measuring the service delivery of a service product has proven to be difficult (Oliver, 2010; Chakrabarty et al., 2007).

From the service quality literature, there are two key models, namely SERVQUAL and SERVPERF which are fundamentally responsible for the studies in this area. Hence, in order to evaluate the service provider's performance from the perspective of the clients, it is relevant to review literature related to service quality from marketing literature. As recognised by some outsourcing researchers, marketing literature provides important literature foundation on service performance and the relationships between providers and buyers for outsourcing research (Grover et al., 1996; Chakrabarty et al., 2007; Goode et al., 2014).

3.5.1 SERVQUAL

The beginning of SERVQUAL as a service process quality measure starts with a series of focus group interviews conducted in the 1980s by Parasuraman et al. (1985, 1988). Subsequently, the SERVQUAL model emerged from their work and has since been frequently used to measure service quality. SERVQUAL originated from the 'gap' model using expectancy-disconfirmation theory as its theoretical foundation. This instrument is intended to measure customer satisfaction based on the difference between expectation and performance introduced by Oliver (1980, 1981).

The foundation of SERVQUAL is that it believes it is common that customers form perceived acceptable service levels that should be met by vendors (Parasuraman, Berry & Zeithaml, 1991). Early work of Parasuraman et al. (1985) developed the SERVQUAL model consisting of 10 dimensions: tangibles, reliability, responsiveness, communication, credibility, security, competence, understanding/knowing customers, courtesy and access. Their respondents were first asked to rate on a 7-point scale, the extent to which they think the offering firms should possess certain features. Then, they were asked to rate about their feelings on their belief that offering firms have those features described. Later in their work, the ten dimensions were reduced to five dimensions (Parasuraman et al., 1988). These dimensions are tangibles, reliability, responsiveness, empathy and assurance. Verbatim definitions for each of the dimension are as follows:

Tangibles: Physical facilities, equipment, and appearance of personnel

Reliability: Ability to perform the promised service dependably and accurately

Responsiveness: Willingness to help customers and provide prompt service

Assurance: Knowledge and courtesy of employees and their ability to inspire trust and confidence

Empathy: Caring, individualised attention the firm provides its customers

Assurance and empathy dimensions contain items representing communication, credibility, security, competence, courtesy, understanding/knowing customers, and access from the original dimensions (Parasuraman et al., 1988).

From the literature, much of the research work using the SERVQUAL model involved end consumers (or customer) rather than business clients (Parasuraman, 1998; Ladhari, 2008). The application of the SERVQUAL model in B2B market has been highlighted by Parasuraman (1998) that customer service is a prerequisite for long term customer retention, and it is still important regardless whether the core offering is tangible or intangible. Thus, service process quality is synonymous with customer service which is conceptualised as a supplement to a tangible or intangible noncore offering (Parasuraman, 1998) in which Lovelock (1994) refers to as "flower of service".

Despite the fact that it was abundantly used in marketing and satisfaction research, this model is not without criticism. Parasuraman, Zeithaml & Malhotra (2005) have made three broad concluding remarks on the SERVQUAL model after twenty over odds years since its introduction. They concluded that (a) the notion of service quality measured based on the difference between the actual performance and what it should or would be has derived great conceptual support; (b) the five service quality dimensions capture the general domain of service quality rather well although some still question whether they are five distinctive dimensions; (c) service quality is strongly linked to perceived value and behavioural intentions.

Despite such affirmation, the SERVQUAL model has received a considerable amount of criticism. To further understand the weaknesses of this model and the debates surrounding the SERVQUAL model, the following section highlights some of the critical and common criticisms about this model.

<u>Criticism on SERVQUAL</u>

Despite this model's popularity, there are criticisms on this model. In an effort to investigate the inappropriate use of difference scores and why difference score measures should be avoided, Peter, Churchill & Brown (1993) presented a conclusion that the SERVQUAL scale has a serious problem in conceptualising service quality as a difference score.

Cronin & Taylor (1992) pointed out that the SERVQUAL gap measure is an incomplete form of the summary comparative judgement of consumers in making quality decisions because SERVQUAL only fulfils the inferential measure but lacks summary measure in comparison with the explanation power of the Expectancy-confirmation model. Plus, they also pinpointed the problem of Parasuraman et al. (1985, 1988) in generalising satisfaction paradigm to service quality evaluations due to general ambiguity inherent in the service quality literature with no clear distinction between service quality and customer satisfaction. The ambiguity inherent could possibly reflect an equitable ambiguity in consumers' and managers' understanding of the difference between service quality and satisfaction in the focus group conducted by Parasuraman et al. (1985).

A more comprehensive review of the literature has identified the consensus understanding of service quality and customer satisfaction: 'service quality is a long-term attitude, whereas consumer satisfaction is a transitory judgement made on the basis of a specific service encounter' (Cronin & Taylor, 1992; Oliver, 1993; Bitner, 1990; Bolton & Drew, 1991; Patterson and Johnson, 1993). The former reflects a customer's evaluative perception of a service encounter at a specific point in time while the latter involves customer satisfaction judgements over experience that are reflective of both emotional and cognitive elements

(Cronin & Taylor, 1992; Oliver, 1993). It is worth noting that these consensuses are entirely based on service quality research in the B2C context.

According to Brown, Churchill & Peter (1993), not only does SERVQUAL difference score measures often demonstrate poor reliability, it also fails to demonstrate construct validity (Cronin & Taylor, 1994). Carman (1990) found that the item–factor relationships in SERVQUAL are unstable. On the basis that difference score measures are normally less reliable than non-difference score measures and will not typically demonstrate discriminant validity from their components, the construct validity is thus questionable (Brown et al., 1993).

According to Cronin & Taylor (1992), in terms of regression analysis, it is inappropriate to assign 22 items to the five dimensions because the bulk of empirical evidence shows that SERVQUAL fails to exhibit the five dimensions when study was conducted in different contexts. In addition, the comparison value derived should exclude the importance weighted measures because one cannot disaggregate the importance, performance, and interaction effects. When unweighted measures are tested, the pattern of significant regression coefficients reported by Parasuraman, Zeithaml and Berry (1994a) changes dramatically. In the same work, Parasuraman et al. (1994a) also asked respondents to assign weights to each measure which is mathematically not meaningful because multiple regression calculates beta coefficients that determine the ability of a predictor in explaining variation in dependent measure and that is simply not the same and does not carry the same effects as when multiple regression is performed.

SERVQUAL is also subject to a variance restriction problem when one of the component scores used to calculate the difference score is consistently rated higher than the other components. As highlighted by Brown et al. (1993) there is ample evidence that people tend to rate higher when responding to “what is desirable” than “what there is now” which is seemingly similar in the case of SERVQUAL; the expectation is almost always higher than the perceived level of actual service. This poses many statistical problems in statistical analysis that require equality of variances.

As a result of the methodological shortcomings of the SERVQUAL model, the use of the SERVQUAL model must be done with caution in which the non-difference score version can be used to improve the measurement of service quality in a specific environment (Brown et al., 1993). Carman (1990) suggests that the SERVQUAL model should be customised with more dimensions despite its original intent to provide a generic measure that could be applied to any service. Furthermore, Carman (1990) again re-emphasised that the measurement of expectation is indeed a problem. In short, SERVQUAL should not be treated as an ‘off the shelf’ measure of perceived service quality and managers are advised to carefully considered the importance of issues pertaining to service quality specific to their environment and to modify the scale as needed (Brown et al., 1993).

The literature review has demonstrated that a great deal of care is necessary when using the SERVQUAL scale. The various factor structures that have been identified in the literature should be examined and compared to ensure that an appropriate structure is chosen for a given experimental setting (Ladhari, 2009).

3.5.2 SERVPERF

SERVPERF was introduced as a result of the many criticisms on SERVQUAL model (as discussed above) because past research showed that the effect of perceived performance using the SERVQUAL model on customer satisfaction had been inconsistent. Although Parasuraman et al. (1985) argued that "the position of a consumer's perception of service quality on the continuum depends on the nature of the discrepancy between the expected service and perceived service", Cronin and Taylor (1992, p.48) offered the first theoretical justification for discarding the gap portion of SERVQUAL model and developed a performance-based measurement instrument which is the SERVPERF model to only focus on the service quality perception.

Cronin & Taylor (1992) compared SERVQUAL and SERVPERF models in banking, pest control, dry cleaning and fast food industries using the following equations:

Service Quality = (Performance – Expectation)

Service Quality = Importance*(Performance – Expectation)

Service Quality = (Performance)

Service Quality = Importance*(Performance)

All the 22 items representing five SERVQUAL dimensions (tangibles, reliability, responsiveness, assurance and empathy) measuring expectation and performance were paired up just as in the SERVQUAL original scale. They found that both unweighted SERVQUAL and SERVPERF scales explain more of the variation in service quality than the weighted scales. Unweighted SERVQUAL only had a good fit in two of the four industries (banking and fast food) while the unweighted SERVPERF had a good fit in all the four industries, capturing more of the variation in service performance than any of the other identified alternatives.

Then, unweighted SERVPERF (Service Quality = Performance) was used to assess the relationship between service quality, consumer satisfaction and purchase intention. The findings are (1) service quality has a significant impact on consumer satisfaction; (2) consumer satisfaction has a significant effect on purchase intention in all four samples representing the four industries studied. Adding to the strength of SERVPERF, this model provides an overall service quality score that can be plotted relative to time and specific consumer subgroups, measuring overall service quality attitudes of the service managers (Cronin & Taylor, 1994).

Subsequently, the bulk of research conducted by Anderson, Fornell & Lehmann (1994); Anderson & Sullivan, (1993); Churchill & Suprenant (1982); Oliver (1993); Tse and Wilton (1988); Bolton and Drew (1991) and Patterson (1993) found that perceived performance using SERVPERF model has a consistent direct effect on customer satisfaction, functioning as a more reliable measure compared to SERVQUAL.

Patterson (1993) provides strong support through their findings of a longitudinal study in which he found perceived product performance to be the most powerful determinant of customer satisfaction because although prior expectation interacts with performance, it has only a minor impact on satisfaction. This has further endorsed Cronin and Taylor's (1992, p.57) assertion that while customers have service performance expectations, these expectations do not constitute their "perceptions of service quality" which led to their conclusion that "perceived performance is the most appropriate measure of service quality and that the performance minus expectations construct is an inappropriate basis for the measurement of service quality" (Cronin

& Taylor, 1994, p.125). Moving beyond B2C, SERVPERF was among the first to be tested in the B2B ocean freight shipping service context by Durvasula, Lysonski & Mehta (1999). They too found that the SERVPERF model predicts better than the gap model.

It is further argued that the performance-only model fits the practitioners' worldview because customers' assessment on the performance of the firm's business processes often serves as the determinant of perceived quality or perceived performance (Cronin & Taylor, 1992). Cronin & Taylor (1994) contend that it is consumer literature perceptions, not calculations that govern behaviour.

However, according to Palmer (2008), a service performance should ideally be measured against pre-purchase expectations but acknowledged that this may be impractical in reality due to conceptual difficulties in defining expectations. This is also the case for HR outsourcing in this research. Moreover, since both services marketing (B2B and B2C) and outsourcing literature have advanced in this direction, this research has therefore adopted the performance–only perspective in measuring HR outsourcing service performance. Moreover, the performance only measure featuring the five service quality dimensions of SERVPERF has been used in the HRO Malaysian context (eg. Hasliza et al.,2014) which further justifies for using this non-gap service quality approach.

3.6 Client Satisfaction

Howard & Sheth (1969) were among the first to adapt the definition of satisfaction from job satisfaction to a consumer context. They defined satisfaction as the "cognitive state of being adequately or inadequately rewarded for the sacrifice he has undergone" (p.145). Later Hunt

(1977) concluded that satisfaction can be defined as "the evaluation rendered that the (product) experience was at least as good as it was supposed to be" (p.459-460). It was argued that satisfaction is not simply about feeling pleasant over an experience but it is the evaluation of an emotion, not the emotion itself (Bahia, Paulin and Perrien, 2000). Oliver (2010) clarifies that satisfaction is the 'internal frame of mind; it is tied only to mental interpretations of performance level' (p.35) and defines satisfaction as 'the consumer's fulfilment response. It is a judgement that a product/service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under- or over fulfilment' (p.8).

So, satisfaction can be regarded as both an evaluative and emotion-based response to service encounter (Oliver, 1997; Cronin et al., 2000). Lately, Oliver (2010) describes satisfaction as a consumer reaction, dependent on usage experience (purely experiential), product-or service-specific and providing strategic feedback. As the formation of satisfaction is based on a discrete service encounter, it is fundamentally a transaction-specific satisfaction (Parasuraman, Zeithaml and Berry, 1994b). It is worthy to note that these definitions are generally derived from B2C studies.

Whereas in B2B research, satisfaction is the focal consequence of working partnerships based on overall evaluation of a firm's working relationship with another firm (Anderson & Narus, 1990). Satisfaction, is not only considered as a close proxy for concepts such as perceived outsourcing effectiveness (Kim & Chung, 2003); it is also identified as an important outcome of successful B2B relationships (Huntley, 2006; Gaur, Xu, Quazi & Nandi, 2011; Hsieh & Hiang, 2004; Caruana & Malta, 2002; Kang an&d James, 2004; McDougall & Levesque, 2000; Eggart & Ulaga, 2002).

In the context of HRO, satisfaction is likely to represent an evaluative response which is formed based on cumulative past experiences with the service provider. It can also be viewed as a function of all previous transaction-specific satisfactions (Jones & Suh, 2002). Parasuraman et al. (1994b) termed it as a global framework reflecting an aggregation of customer's evaluations of multiple transactions. In an ITO research, satisfaction is defined as the evaluation of all aspects of the outsourcing relationship, acting as a close proxy for perceived effectiveness of the relationship (Kim & Chung, 2003). Parties involved in the exchange relationship can expect to derive complex, personal and non-economic satisfaction (Dywer, Schurr & Oh, 1987).

Consistently, satisfaction has been identified as the outcome of effective or successful outsourcing (Goles & Chin, 2005; Gainey & Klaas, 2003; Kim et al., 2010; Lee, et al., 2004; Levina & Ross, 2003; and Lacity et al., 2010; Kim & Chung, 2003; Schwarz, 2014) when clients' expectations are achieved (Kern & Willcocks, 2000). In HRIT outsourcing, satisfaction was emphasised as an important outcome when a client's needs are fulfilled because providers hope that by fulfilling the client's needs, it brings about a higher number and variety of projects outsourced (Levina & Ross, 2003).

Summing from the above, for the purpose of this research, satisfaction is operationalised as the outsourcing client's fulfilment or judgement of all aspects of the service provided (or is providing) a pleasurable consumption experience on a recurrence and cumulative basis in a given contracted period of time reflective of the impact of service performance.

3.7 Partnership Quality

In the case of HRO, a client cannot take outsourcing simply as paying someone to do the job; a partnership arrangement has to be formed (Carrig, 1997). The presence of a partnership can reduce the risk of inadequate contractual provision which may be comforting for clients (Gottschalk & Solli-Sæther, 2005) and plays an important role in outsourcing success (Goles & Chin, 2005).

Partnership is defined as "working relationships that reflect a long-term commitment, a sense of mutual cooperation, shared risks and benefits, and other qualities consistent with concepts and theories of participatory decision making" (Henderson, 1990, p.8). Essentially, both parties involved in a partnership are equally responsible for the business success or failure of the project or product (Lasher, Ives & Jarvenpaa, 1991 p.551). As such, a service provider firm must establish a relationship with the client in order to act in the client's best interests and have knowledge of the client's unique needs (Belcourt, 2006). Ideally, the tie between the service provider and the client should be strong during outsourcing (Yan et al., 2013) because it provides the flexibility needed to overcome challenges arising beyond what was outlined in the contract (Yang, Zhao, Yeung & Liu, 2016).

Firms which opted to outsource have invariably entered an inter-organisational relationship typified by a series of on-going and interrelated exchanges (Goles & Chin, 2005) which often go beyond specifications, agreements, and exceptions specified in the legal contract (Lee & Kim, 2005). Clearly, an outsourcing relationship is fundamentally endorsed by a contract but its success requires the complementary of the relational elements (Poppo & Zenger, 2002; Goo et al., 2009). The HR outsourcing providers should be recognised and treated as partners rather than vendors to make the relationship work (Deloitte, 2014a). The relational aspect may take effect by having good partnership quality (Lee & Kim, 1999).

Research in B2B services industry reveal that satisfying a customer's needs is necessary but may not be a sufficient condition for success (Visentin & Scarpi, 2012), that is satisfied clients may not necessarily be loyal (Oliver, 1999). Another B2B study conducted by Sivadas, Holmes & Dwyer (2012), suggests that developing closer relationships with the exchange members in the supply network may ease B2B project implementations and could benefit from these closer relationships. This is because relationship quality is the indicator of the health and future well-being of long-term buyer-seller service relationships that can be materialised through successful exchange episodes (Crosby, Evans, & Cowles, 1990).

From the outsourcing literature, the relational quality (RQ) between two parties is interchangeably termed as partnership quality (PQ) (Lee & Kim, 1999; Ee et al., 2013a; Ee, et al., 2013b; Hasliza et al., 2014) and relationship quality (Swar et al., 2012; Chakrabarty et al., 2007). Lee & Kim (1999) found a strong relationship between partnership quality and outsourcing success which indicates the importance of fostering cooperative outsourcing relationship. In addition, a recent study by Yang et al. (2016) found that relational norms affect client satisfaction more than contract, emphasising the importance of relational elements once again.

To date, academic literature indicates no consensus as to which dimensions should be used for measuring relationship or partnership quality construct (Hutchinson, Wellington, Saad & Cox, 2011). This is the case for both B2B and outsourcing literature. In B2B service marketing literature, it is observed that there is consistency in the use of the term relationship quality in services marketing studies among researchers but often with different dimensions. Crosby et al. (1990) regard trust in the sales person and satisfaction with the sales person as the two dimensions of relationship quality. Woo & Ennew (2004) use cooperation, adaptation and atmosphere whereas Rauyruen & Miller (2007) use service quality, trust, overall satisfaction and commitment as the relationship quality dimensions.

In a meta-analysis by Palmatier, Dan, Grewal & Evans (2006), trust, commitment, relationship satisfaction and relationship quality (relationship strength) are grouped together as composite relational constructs. Subsequently, relationship quality is being conceptualised as a single combined second-order construct made up by satisfaction, trust and commitment dimensions (Hutchinson et al., 2011) but was found to have inferior fit because it lacks explanatory power and masks the effect of individual relational construct (Vieira, Winklhofer & Ennew, 2014). Similar finding is observed in an outsourcing study in which the model fit becomes worse with the second-order model (Goles & Chin, 2005). Hence, this will be taken into consideration in deciding the structural model of this construct later in Chapter 6.

It is important to note that one of the early outsourcing papers published by Lee & Kim (1999) has called to distinguish the components in partnership quality from the antecedents of partnership using inter-organisational relationship and partnership literature. They suggested that partnership quality components in the outsourcing context are made up of trust, business understanding, benefits and risk sharing, conflict and commitment. Then, Goles & Chin (2005) categorised the relationship dimensions into attribute factors (inherent characteristics or properties that contribute to the functionality and harmony of the relationship) and process factors (the means by which the attributes are developed), resonating to Lee & Kim’s (1999) quest to differentiate component in partnership quality and antecedents of partnership quality.

The dimensions in the attributes category closely resemble Lee & Kim's (1999) partnership quality components. These dimensions are trust, commitment, consensus, cultural compatibility, flexibility and interdependence. Prior to this, Mohr & Spekman (1994) have identified partnership attributes as commitment, trust, coordination and interdependence and do not consider communication and conflict constructs as part of the partnership quality components in their paper.

Chakrabarty et al. (2007) used trust, commitment, culture, interdependence and communication to represent partnership quality dimensions whereas Ee et al. (2013a) and Hasliza et al. (2014) have consistently used trust, commitment, business understanding, communication and top management support. Ee et al. (2013b) used business understanding, commitment, communication, age of relationship and top management support.

As presented above, studies in the outsourcing literature employed various sets of dimensions to examine partnership quality. Although the dimensions of trust and commitment seem consistently used across different studies, there is still a lack of consensus among outsourcing studies over the dimensions used to represent partnership quality (Swar et al., 2012). Table 3.6 provides an overview of the partnership quality dimensions used in outsourcing and inter-organisational literature. Often, there is no clear division between factors used as antecedents of partnership quality and those used as the components in partnership quality (Lee & Kim, 1999) which complicates the conceptualisation and generalisation effort while harbouring greater effort in research of this kind.

Hence, in order to determine the key dimensions of outsourcing partnership quality, this research undertakes the common dimensions consistently used in various outsourcing partnership quality related studies. Meanwhile, it aligns with Lee & Kim (1999), Goles & Chin (2005) and Mohr & Spekman's (1994) conceptualisation of partnership, that is agreeing that antecedents of partnership quality should be separated from being the components of partnership quality. In the view that the purpose of this research is to examine the impact of partnership quality on outsourcing service performance-satisfaction-loyalty link and does not aim to examine factors affecting partnership quality, communication, cooperation, conflict, top management support and culture dimensions have been excluded because these constructs are the means by which the partnership attributes are developed (Goles & Chin, 2005; Lee & Kim, 1999).

Therefore, for the purpose of this research, partnership quality is being operationalised as a working cooperative relationship characterised by trust, commitment, mutual understanding and interdependence which serves as an important condition responsible for the success or failure of an outsourcing outcome.

In short, the dimensions of partnership quality may differ but the importance of having good a working relationship cannot be denied because all successful outsourcing depends on it, especially if external resources are to be used for more sophisticated, risk-bearing and critical services (Whitley & Willcocks, 2011).

Table 3.6: An Overview of the Partnership Quality Dimensions used in Outsourcing and Inter-organisational Literature

Partnership Quality Dimensions	**Study**									
	Chakrabarty et al. (2007)	Swar et al. (2012)	Lee & Kim (1999)	Goles & Chin (2005)	Ee et al. (2013a)	Ee et al. (2013b)	Hasliza et al. (2014)	Lee (2001)	Grover et al. (1996)	Mohr & Spekman (1994)
Trust	√	√	√	√	√		√	√	√	√
Commitment	√		√	√	√	√	√	√	√	√
Interdependence	√			√						√
Communication	√			√	√	√	√			
Culture	√			√						√
Consensus				√						
Coordination				√						
Mutual understanding		√	√		√	√	√	√		
Cooperation		√		√					√	
Benefits and risks sharing			√					√		
Conflict			√	√				√		
Flexibility				√						
Integration				√						
Age of relationship						√				
Top management support					√	√	√			

3.7.1 Trust

In any business, trust is viewed as an essential ingredient for a successful relationship (Berry, 1995). Trust in outsourcing refers to the degree of confidence and willingness between parties

(Lee & Kim, 1999). That said, trust is not triggered by contractual obligations or safeguards, rather it is voluntarily in nature (Cohen, 2014).

Trust is an important aspect associated with the development and success in inter-organisational relationships such as those relationships in outsourcing (Goles & Chin, 2005). It is argued that trust allows the achievement of long-term benefits and objectives with less worry about daily issues because it suppresses opportunism and reduces conflict on one hand, while increasing cooperation and enabling risk-taking on the other hand. Trust is developed from past experiences with the provider and it potentially influences a client's reaction in the event of dissatisfaction (Homburg, Giering & Menon, 2003).

Social Exchange Theory (SET) regards trust as an important aspect of social exchange which exerts governance through social 'obligations' rather than through contract governance (Blau, 1968). According to Henderson (1990), predisposition to cooperate is indicated by trust and an existing attitude. So, in any intimate relationship, trust is one of the most desired qualities (Ganeson, 1994 and Kern & Willcocks, 2002). SET essentially uses the concept of trust to explain interaction between parties (Lee & Kim, 1999) in which the fulfilment of promises allow trust to develop (Houston & Gassenheimer, 1987).

The development of trust is the key in SET because it then moves firms from discrete transactions to relational exchange especially in the case of an outsourcing relationship. In line with Kern & Willcocks (2000), Vanneste, Puranam & Kretchmer (2014) and Rossenbaum, Massiah & Jackson (2006), it is agreeable that trust is required even before the client and provider enter the relationship and that trust will gradually be revised based on the ongoing assessment of the relationship. They argue that trust is a necessary condition to commence a relationship especially within a professional business service (such as outsourcing).

Trust in HRO occurs when a client (purchasing firm) engages an outsourcing provider with a contractual agreement detailing the expected outsourcing benefits and objectives (Ee et al., 2013a). It does not end here right after signing off the outsourcing contract but must instead be continued so that the client trusts the service provider to deliver the expected service consistently and reliably (Briggs & Grisaffe, 2010) while the service provider also trusts that the client would pay accordingly. As a result, trust should not be regarded as a decision outcome but rather the default mode of interactions (Frederiksen, 2014) throughout the outsourcing relationship.

Generally, there are two types of trust that can be associated with outsourcing: cognitive-based trust that is short term, developed from the evaluation of the provider's past records and socially-oriented trust that is long term, evolved from an enduring relationship over time (Gainey & Klaas, 2003; Blau, 1968 and Ring & Van De Ven, 1992). The cognitive-based trust is mainly relevant prior to making the outsourcing decision but the socially-oriented trust allows the achievement of long-term benefits and objectives with less worry about daily issues because it suppresses opportunism. It is the latter that is considered here, consistent with Ee et al., (2013a; 2013b), Hasliza et al. (2014) and Gainey & Klaas (2003) from HRO literature.

Trust, starting at its minimal and increasing over time is likely to lead to the gain of significant benefits (Ring & Van de Ven, 1992) and the achievement of the objectives of the exchange parties (Swar, et.al, 2012). It is argued that the persistence and continuation of social exchange in an outsourcing relationship particularly in Asia is conditioned by bonds based on trust because the practitioners adopt ‘guanxi’ (relationship) and ‘Xinrong’ (trust) in their business relationships (Lee, Mohamad & Ramayah, 2010).

In situations where there is low trust, the outsourcing relationship does not allow clients to fully utilise vendor expertise, thus, affecting the quality of the services received which in turn affect client satisfaction (Gainey & Klaas, 2003). In connecting trust and satisfaction, Spake, Beatty, Brockban & Tammy (2003) reasoned that satisfaction is likely to be the consequence of trust and not vice-versa. In addition, Lee & Kim (2011) found that initial trust-distrust and ongoing trust-distrust are important determinants of successful outsourcing.

In short, the trust element is important throughout the entire outsourcing process, because both parties need to establish trust in order to take on actions that will result in positive outcomes (Ee et al., 2013a). Especially in the context of professional services such as HRO, trust is a critical component in ensuring successful outcome given the magnitude of high costs (Rosenbaum et al., 2006) and high purchasing organisation’s involvement in producing successful outcomes (Lovelock & Wirtz, 2004).

3.7.2 Commitment

Generally, although many researches have been conducted in relationship marketing to study the commitment construct, there exists many different conceptualisations of the construct. The literature appears to converge into a three-component model (Meyer & Allen, 1991; Gundlach, Achrol & Mentzer, 1995; Homburg et al., 2003). First, commitment is about the willingness to accept temporary sacrifices to maintain a relationship (sacrifices). Second, commitment includes a temporal dimension which allows stability (stability). Third, commitment contains an attitudinal dimension which is the enduring intention by parties to extend and maintain long-term relationship (loyalty).

According to Cook & Emerson (1978), commitment is the central component that distinguishes economic and social exchange between parties in a relationship. In relationship marketing, relational commitment is the key to maintaining a successful relationship (Morgan & Hunt, 1994). The presence of commitment allows the marketer to preserve the relationship established with exchanged partners by cooperating with them while resisting attractive short-term options in favour of the expected long-term benefits (Morgan & Hunt, 1994).

In the effort to form good HRO partnership, a longer-term commitment, perhaps three to five years is required (Carrig, 1997). Commitment occurs as early as in the provider selection stage in which this commitment was then formalised in a contract, detailing the client and the provider intent (Kern & Willcocks, 2002; Cullen et al., 2014). It is an obligated feeling of developing and maintaining a stable yet mutually beneficial exchange relationship, often by honouring what was promised (Kern & Willcocks, 2002; Handley & Benton, 2009). Although contractual commitment is necessary, relationship commitment is recognised as a crucial precondition for the outsourcing partners to be proactive (Kern & Willcocks, 2002). Especially from the client's perspective, they expect more than just contractual commitment (Kern & Willcocks, 2002) because client needs are dynamic due to constant change in their environment (Cullen et al., 2014). In this respect, commitment acts as an input to ensuring positive outcomes (Gundlach et al., 1995). In the same vein, commitment is regarded as the foundation that reinforces confidence in a relationship (Ee et al., 2013a).

In particular, commitment leads to cooperative behaviours and accordingly higher levels of commitment should be associated with outsourcing success (Lee & Kim, 2005; Morgan & Hunt, 1994). Therefore, commitment is regarded as one of the dimensions in partnership quality in this research.

3.7.3 Mutual understanding

Mutual understanding is defined as the degree of understanding of outsourcing behaviours, goals, and policies between parties (Lee & Kim, 1999). It represents the understanding and agreement between parties over a course of action even though the details of it are vaguely laid out (Goles & Chin, 2005).

Often, mutual understanding is the key to reach consensus and aligning parties in the outsourcing relationship. Especially when an outsourcing contract leaves a provider with the flexibility to execute the plan, the provider's actions are indirectly guided by this mutual understanding. Mutual understanding not only helps the service provider and the purchasing firm enhance their relationship (Swar et al., 2012); it also helps achieve positive outsourcing outcomes. In fact, the true benefits of outsourcing only emerged once the service provider began to understand the client's business that is never possible in transactional arrangements (Kern & Willcocks, 2000). Therefore, mutual understanding is another important dimension of partnership quality.

3.7.4 Interdependence

The notion of interdependence comes from the exchange relationship paradigm. Both parties, the provider and the client recognise that the advantages of interdependence result in greater benefits than one could achieve alone (Mohr & Spekman, 1994). It represents the degree to which each party's behaviours, acts or goals are dependent for their occurrence on the behaviours, acts or goals of the other party (Pfeffer & Salancik, 1978). In outsourcing, dependency emerged as a by-product of outsourcing (Kern & Willcocks, 2002) simply because a power-based model is adversarial in the outsourcing relationship (Rhodes et al., 2016).

As soon as firms enter an outsourcing relationship, they have actually entered into an interdependent relationship (of varying degrees) with their providers. The purchasing organisation is dependent on the services delivered by the service provider while the service provider is dependent on the purchasing organisation for remuneration of services rendered (Kern & Willcocks, 2002). Interdependence in a relationship promotes cooperation which is important for a more favourable evaluation of the exchange partners (Gundlach & Cadotte, 1994) because cooperation helps facilitate problem solving between parties so that they work together in achieving their respective goals.

Furthermore, Goles & Chin (2005) argue that a balanced interdependence between outsourcing partners is desired for a good outsourcing relationship because if the balance shifts one party might become distinctly more dependent than the other, resulting in negative effects. The party that has a higher dependency level tends to lose control i.e. the purchasing organisation loses control over the outsourced functions (Kern & Willcocks, 2002). In support of this argument, Whitten & Leidner (2006) emphasised that over dependence on the service provider caused by a lack of experience or other factors can lead to high switching cost which makes switching providers difficult for the client at a later stage. Hence, interdependence between clients and service providers has been considered as a dimension of partnership quality.

3.8 Client Loyalty

The concept of loyalty has been examined in many contexts such as philosophy, political science and organisational behaviour with a large portion of the literature coming from the consumer goods or services context (Homburg et al., 2003). Client loyalty is recognised as of utmost importance in services marketing (Oliver, 2010; Caceres & Paparoidamis, 2007) as well as in outsourcing research (Wallenburg 2009; Goode et al., 2014; Cahill, Goldsby, Knemeyer & Wallenburg, 2010; Wallenburg, Cahill, Goldsby & Knemeyer, 2010; Wallenburg & Lukasssen, 2011; Hartmann & De Grahl, 2011; Wallenburg & Lukassen, 2010). Loyalty thrives in the belief that customers do demonstrate loyalty, and that firms with loyal customers benefit handsomely (Oliver, 2010) because loyal customers enhance profitability by reducing costs and increasing per customer revenues (Hennig-Thurau, Gwinner& Gremler, 2012) and expanding market share (Chaudhuri & Holbrook, 2001).

Client loyalty has been defined and operationalised in many different ways (Palmatier et al., 2006) but remains unclear, particularly in the B2B and outsourcing context (Caceres & Paparoidamis, 2007; Wallenburg, 2009). There is no one standard measure of client loyalty (Wallenburg & Lukassen, 2011).

One of the most comprehensive conceptualisation of customer loyalty was provided by Oliver (1999; 2010 p. 430) who defines customer loyalty as ‘a deeply held commitment to rebuy or repatronise a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour’ through which it manifests in four phases.

In the first stage, customers become loyal in a cognitive sense, then in an affective sense, later in a conative manner, and finally in a behavioural manner. Cognitive loyalty is all about brand belief that one brand is preferable than the other brand based on the information that customers have. Decisions made by customers are purely based on functionality characteristics which are primarily the costs and benefits of a brand. So, the loyalty is actually being directed to the costs and benefits such as price and features and not to the brand. This kind of loyalty is often referred to as phantom loyalty characterised by high vulnerability to competitors' inducement, especially costs-based inducement (including prices).

The second phase of loyalty – affective loyalty is about developing a liking or attitude toward the brand on the basis of cumulative satisfying usage. Consumers tend to say "I buy it because I like it". However, affective loyalty is still subject to switching even though it is of higher level than cognitive loyalty and usually deterioration of cognitive base has to take place first, causing dissatisfaction that then leads to deleterious effects on the strength of a consumer's attitude toward a brand. Consumers who did not switch express a warm emotional bond with the brand, whereas switchers express negative affects which encompasses all dissatisfaction-related emotional and behavioural response.

The third phase of loyalty is conative loyalty. Conative loyalty is about behavioural intention influenced by repeated episodes of positive affects toward the brand which implies a brand-specific commitment to repurchase. At this phase, a firm is likely to achieve enhanced liking and even established preferences for its brand as a result of quality information and continued ability to satisfy which in turn causes consumers to be committed to its purchase in the future. Although consumers can weather a small number of dissatisfactory episodes, the consumer's motivation to remain committed can be 'worn down' by barrages of competitive messages and social failing. This means consumers have not reached the state of resilience, the overcoming of obstacles and adversity necessary for ultimate loyalty to emerge.

The last phase is action loyalty. Action loyalty occurs when the behavioural intention is converted into actions. Consumers are ready to act and possess the desire to overcome obstacles that might prevent the act. This type of consumers is governed by inertial repurchasing without the marketer having to spend large sums on retaining them. They engage in an effortful search for their preferred brand, possibly even shunning the trial of competitive brands and perhaps only insurmountable unavailability would cause these consumers to try another brand. In other words, these consumers have a very deep commitment to repurchase; whereby their relationship with the brand is prohibitive and exclusive.

In fact, most of the researchers in B2B or outsourcing research conceptualised loyalty in a way that corresponds to at least one of the phases in Oliver's (1997, 2010) work. Table 3.7 illustrates various conceptualisations by researchers in the literature.

Table 3.7: Conceptualisations and Dimensions of Loyalty in B2B and Outsourcing Research

Author	Conceptualisation of Loyalty	Dimensions of Loyalty	Matching with Oliver's 4 phases of Loyalty
Huang, Lee & Chen (2017)	Degree of positive aggressiveness that a client feels	Two dimensions	Phase 2 – affective loyalty (Attitudinal) Phase 3 – conative loyalty (Behavioural)
Goode et al. (2014) Outsourcing Context	Intention to remain with the ASP and to	One dimension	Phase 3 – conative loyalty + referrals

	recommend the ASP to another firm		
Janita & Miranda (2013) Outsourcing Context	a favourable attitude of the customer toward the e-business resulting from repeated purchasing behavior	One dimension	Phase 2 – affective loyalty
Visentin & Scarpi (2012)	Is explained by Oliver's (1997) four stage model	Four dimensions but only measures three dimensions	Phase 1- Cognitive Loyalty Phase 2 – affective loyalty Phase 3 – conative loyalty
Flint, Blocker & Boutin (2011)	draws on the attitudinal and behavioral patronage logic of commitment	One dimension	Phase 2 – affective loyalty Phase 3 – conative loyalty
Wallenburg & Lukassen (2011) Outosurcing Context	Conceptualised loyalty by separating loyalty into referrals, i.e. positive word-of-mouth and two purchase-related dimensions, labelled retention and extension.	Three dimensions: *Retention (renew contract) *Expansion * Referrals	Phase 3 – conative loyalty + referrals
Cahill et al. (2010) Outsourcing Context	intention of a buyer of services to purchase the same services (retention) and additional services (expansion) from the	One dimension	Phase 3 – conative loyalty + referrals

	current provider in the future, as well as the buyer's activities in recommending this provider to others (referral)		
Briggs & Grisaffe (2010)	expressed through continued patronage, increased share/demand, and word of mouth behavior	One dimension	Phase 3 – conative loyalty + referrals
Wallenburg (2009) Outsourcing Context	positive attitude toward the provider and its product or service and that loyalty manifests itself in a variety of behaviors	Three dimensions: *Retention (renew contract) *Expansion * Referrals	Phase 3 – conative loyalty + referrals
Rauyruen & Miller (2009)	feelings of attachment, psychological bonds and regarding the service provider as a first choice or preferable over other providers	Two dimensions: *Purchase Intentions *Attitudinal Loyalty	Phase 2 – affective loyalty Phase 3 – conative loyalty
Rauyruen & Miller (2007)	composite concept combining both behavioral loyalty (purchase intentions) and attitudinal loyalty	Two dimensions: *Purchase Intentions *Attitudinal Loyalty	Phase 2 – affective loyalty Phase 3 – conative loyalty
Caceres & Paparoidamis (2007)	Intention to continue business with supplier	One dimension	Phase 3 – conative loyalty

	and recommends the supplier to a business partner		+ referrals
Bennett, Hartel & McColl-Kennedy, (2005)	business customer's belief of the brand to be appropriate and is committed to purchase (attitudinal	One dimension	Phase 2 – affective loyalty
Chumpitaz & Paparoidamis (2004)	Recommends and encourages supplier to another firm and considers supplier as premium choice	One dimension	Phase 3 – conative loyalty + referrals
Homburg et al., 2003	the intention of a buyer to continue the purchasing relationship with a supplier and to expand the quantity and volume of this relationship.	Two dimensions: *Intention to repurchase *Intention to expand	Phase 3 – conative loyalty

No doubt Oliver (1997, 1999, 2010) has provided a detail four-phase sequential framework on loyalty but in the context of outsourcing, measuring a client's actual re-purchase in the form of actual contract extension, expansion and referral is difficult – as highlighted in Caceres & Paparoidamis (2007) because almost all the outsourcing contracts are still ongoing. Therefore, the closest proxy for loyalty and the highest level would be to measure the futuristic orientation of clients' behavioural intention (conative loyalty – third phase of loyalty) by following the definition defined by Homburg et al. (2003), Briggs & Grisaffe (2010) and Wallenburg & Lukassen (2011) which is the intention of a buyer to retain or continue the outsourcing contract, to expand the quantity and volume of the contract, and to provide referrals. This is also in line with the conceptualisation of loyalty in most outsourcing studies as indicated in Table 3.7.

3.9 Theoretical Foundation and Selection

Just like any research, a research must fundamentally be grounded in theory and backed up by literature in order to produce a meaningful piece of work. Therefore, it is necessary to understand theories commonly associated with outsourcing studies. Five key theories namely, Transaction Cost Economics (TCE), Resource-based View (RBV), Core Competency Theory, Social Exchange Theory (SET) and Relational Exchange Theory (RET) are commonly associated with outsourcing studies and they will be discussed next.

3.9.1 Transaction Cost Economics Theory (TCE)

The Transaction Cost Economics Theory has been widely used to justify the cost saving rationale behind HRO, particularly in the early wave of HRO. The root of TCE can be traced back to Ronald Coase's work in 1937 who posited the 'make or buy' decision based on transaction costs in the market versus the costs inside the firm. Coase's work was the first to define transactions cost and considered cost of searching, negotiating and managing, and governing the service relationship as the costs that made up the total transaction cost if the service is to be acquired externally. Then, Oliver Williamson (1975), inspired by Coase (1937), developed his transaction cost economics (TCE) paradigm.

Williamson (1981) sets the criteria for defining efficiency boundaries, which are fundamental to the development of the economics of organisations where alignment between transaction attributes and governance structures are necessary to accomplish transaction economic results

(Williamson, 2008). Its application was extended by Rao (2003), who states that the transaction cost paradigm enlightens the general framework of examining the choices of resource management where a comparative assessment of potential and actual choices should be made. Following such an examination, the organisation would be encouraged to decide which option has the best economic maximisation. Since then, the application of TCE theory has been proliferated in outsourcing studies.

Underlying TCE approach, particularly relevant to outsourcing studies, Williamson (2008) highlighted four key components namely the lens of contract, positive transaction cost, human actors and pragmatic methodology. He argues that all contracts are incomplete and never accurately demonstrate actual working relations. Moreover, parties in the inter-firm contracting relationship make decisions bounded by rationality which in turn justifies the need to devise mechanisms for preserving continuity and realising mutual gains. According to McIvor (2009), bounded rationality means cognitive limitations of the human mind in making decisions without understanding all the complexities involved in each decision. As such, sometimes firms may choose market governance as a result of imperfect information which may even expose them to higher risks. In addition, providers' opportunistic behaviour is a key concern in TCE which refers to the provider's deviation from the spirit of agreement (Williamson, 2008). In terms of transaction costs, Williamson (2008) advocates that researchers should have positive provision for transaction costs to better describe and assess complex contracting. Lastly, emphasis is on pragmatic methodology in which he postulates that theories supported by data are much more influential together with meaningful logical explanation. From this recent work, it is clear that TCE has undermined the human factor in a business relationship such as those in outsourcing.

According to Williamson (1975; 1981; 1996; 2008) asset specificity, frequency and uncertainty are important properties affecting transaction costs. However, greater emphasis is placed on asset specificity. Asset specificity is about the extent of customisation required with the transaction, referred by Williamson (2008) as the degree of special purpose technology involved. Then, McIvor (2009) has extended the meaning of asset specificity beyond technological aspects to include physical asset specificity (degree of product or service customisation), human asset specificity (degree of specialised knowledge involved in the transaction) or site specificity (location).

Typically, an outsourcing deal that involves greater asset specificity tends to give rise to bilateral dependencies and safeguard mechanisms (Williamson, 2008). And, this 'locked-in' outsourcing relationship at times subjects clients to opportunistic cost (Williamson, 1996). In other words, asset specific investments incur risk and make clients more dependent on the suppliers, in a sense that clients are more willing to tolerate cost increases or reductions in service quality (Walker & Weber, 1984). In some cases, when asset specificity is overly high, the firms may decide not to outsource the activity because the specific assets are difficult to be re-deployed to other uses (McIvor, 2009).

In addition to this, uncertainty as a result of unforeseeable problems in the outsourcing service delivery will likely lead to incomplete contract, reducing the role of contractual mechanism in minimising the risk of opportunism by providers (Williamson, 1993). Ambiguity in measuring the service performance and frequency of activities is another aspect that potentially affects the total transaction cost.

In the event that a firm decides to outsource some part of its HR, they have invariably chosen market contracting as a form of governance as opposed to organisational governance (Klaas, 2008). This decision is largely based on the total transaction costs associated with acquiring the service. However, Williamson's (2008) paper written to particularly address TCE application in the outsourcing context has provided his stand and justifications that hybrid contracting which resides between market and hierarchy contracting mode is preferable, and to make it work, both parties need to exercise feasible foresight with credible commitment. That is, with the background understanding that a contract is incomplete and at times cooperative adaptation would be needed, potential hazards need to be uncovered so that mechanisms can be devised through the contractual design as the contract will be the ultimate appeal when relations ceased to work.

In short, reliance on market-based governance is more likely to generate costs associated with opportunistic behaviour by suppliers whereas organisational governance is more likely to generate costs associated with bureaucratic inefficiency (Williamson, 1993). Organisational governance relies on the employment relationship that is heavily based on authority within the hierarchy (Klaas et al., 1999). To date, although TCE has been widely used in outsourcing research, it produces mixed results in not only ITO but also other service applications of the theory (Lacity et al., 2010).

One of the shortcomings of TCE is that it looks at transactions as the unit of analysis and therefore does not look beyond outsourcing decisions such as how past ITO decisions affect future ITO decisions, contracts, relationships and capabilities (Lacity et al., 2010). Ring & Van de Ven (1992) pointed out three limitations using TCE to analyse interorganisational relationships. First, this theory assumes that manager decisions are motivated by efficiency considerations only; ignoring other factors. Second, TCE relies on opportunistic behaviour as a primary behavioural principle, ignoring the possibility of cooperative interorganisational relationships occurrence due to long-term cooperation (Hill, 1990). Third, TCE only focuses on two types of governance structure, ignoring other available interorganisational structure such as joint ventures, strategic alliances, partnerships and outsourcing arrangements.

Generally, TCE is not used for explaining outcomes of an outsourcing decision; rather, it is widely used to explain the firm's sourcing decisions (Levina & Ross, 2003; Gottschalk & Solli-Sæther, 2005). TCE, although acknowledges human actors in an inter-firm relationship, the focus is on the downside of human actors, highlighting the need for governance through credible foresights (Williamson, 2008). It does not take on the view of capitalising inter-firm interactions or relationships to bring about successful outsourcing results. This theory has implicitly upheld contractual governance and undermined relational influence which is deemed crucial in any outsourcing relationship. Thus, TCE, if used alone, cannot fully explain the subsequent decision to continue or discontinue an outsourcing relationship (Whitten & Leidner, 2006).

On the other hand, according to Kim et al. (2013), although TCE proposes the structural forms of governance, it does not explain how the structure forms. In addition, Williamson (1993) urges social scientists to discontinue using the word 'trust' and maintains that transactions between human beings will be best understood without reference to 'trust'. With regard to this, the theory appears to downplay one of the most important elements in outsourcing relationship, which in turn limits its suitability to explain how partnership quality affects outsourcing outcomes for the purpose of this research.

3.9.2 Resource-based View

RBV is another theory that is commonly used to understand an outsourcing decision. RBV theorists conceptualised firms as the repository of resources or capabilities which is the source of competitive advantage generation (Penrose, 1959). Capabilities are dynamic and firms use these capabilities to reconfigure their assets in order to sense, shape and seize opportunities created in a rapidly changing environment (Teece, 2009). In order for resources or capabilities to generate competitive advantages, they must meet four criteria: value, rarity, imitability and organisation (Barney, 1991).

Resources and capabilities are considered valuable if they enable an organisation to create greater demand for its products or services by exploiting opportunities in the business environment. Rarity refers to the degree of unique possession of the valuable resources, which means few competitors have such resources. Imitability relates to the ability of competitors to copy or replicate such rare resources and capabilities. Once competitors manage to replicate it, the firms whose competitive advantage relied upon it, fades significantly. Lastly, Barney (1991) argues that firms must be organised in order to exploit its resources and capabilities effectively.

McIvor (2009) points out that RBV is important to the study of outsourcing. The key emphasis in RBV is the possession of valuable, rare and hard to imitate resources, and the deployment of such resources that creates distinct capabilities of firms. Klaas (2008) suggests that because these types of resources are critical in creating a firm's competitive advantage that ultimately determines the firm's success, they should be viewed as core elements of the firm that should not be outsourced. This view is consistent with Greer et al. (1999), Quinn & Hilmer (1994), Prahalad & Hamel (1990). Subsequently, the used of RBV was extended, leading to the development of Core Competency Theory.

Quite commonly, RBV is used to justify an outsourcing decision especially when a firm lacks the necessary resources or capabilities internally. In this way, the firm gets to access complimentary capabilities from external providers (McIvor, 2009) due to internal resource constraints. Dyer & Singh (1998) also argue about the feasibility of firms combining resources by spanning their organisational boundaries to gain an advantage over their competitors. The basis behind this is that firms should channel its scarce resources into developing and sustaining its core competences, of which they normally do best, whilst outsourcing activities in which they have a weaker performance position.

3.9.3 Core Competency Theory

As explained in the previous section, Core Competency Theory is built as an extension of RBV. Prahalad & Hamel (1990) defined core competencies as the collective learning in an organisation, gained through coordinating diverse production skills and integrating multiple streams of technologies. Core competencies are important to ensure the preservation and generation of sustainable competitive advantages of a firm. This explains why focusing on core competencies is consistently observed as one of the top three main drivers of HRO (Adler, 2003; Chiang et al., 2010; Greer et al., 1999; Klaas et al., 2001; Lever, 1997; Susomrith & Brown, 2012; Woodall et al., 2009). According to Greer et. Al. (1999), most HR activities should be considered as candidates for outsourcing except HR activities that contribute to core competencies of the firm, such as employee relations or performance appraisal.

In short, firms may need to distinguish between ‘core’ and ‘non-core’ activities, in order not to jeopardise the firm’s source of competitive advantage (Cooke et. Al, 2005). Thus, the HRO decision underpinning this theory may likely explain the pattern of the type of HR activities being outsourced and the extent to which it is being outsourced. Therefore, this theory is best suited to explain an outsourcing decision framework rather than an outsourcing outcome in which this research aims to examine.

3.9.4 Social Exchange Theory (SET)

Social Exchange Theory (SET), is one of the ‘oldest theories of social behaviour’ which posits that any interaction between individuals is an exchange of resources (Homan, 1958, p.597). The exchange of resources can include both tangible, such as goods or money, and intangible, such as social amenities or friendship (Lambe, et. Al, 2001). The key assumption on this theory is that parties enter into a relationship and maintain it with the expectation and belief that doing so will be rewarding (Blau, 1968; Homans, 1958). There are four key contributors to the development of this theory – sociologist, Blau (1955, 1960, 1964), Emerson (1962), Homans (1958), and social psychologists, Thibaut & Kelley (1959). Homans (1958) “developed the first systematic theory that focuses on social behaviour as…. [exchange]” cited by (Blau, 1968, p. 453). However, Blau (1964) may have been the first in using the term ‘theory of social exchange’ when describing his conceptualisation of ‘social interaction as an exchange process’.

Thibaut & Kelley (1959) are often cited due to their work that explains how parties in the exchange relationship weigh the benefits of the relationship and subsequently affect their commitment towards the relationship. They introduced the concepts of comparison level (CL) to represent the standard that one feels deserved in a given relationship in comparison with the outcomes one receives from the relationship. This is rather consistent with the expectancy-disconfirmation theory in which the SERVQUAL model was based. Last but not least, Emerson (1962) contributed to the Social Exchange Theory on the effects of power and dependence on exchanged relationships. According to Emerson (1962), when power is imbalanced in a relationship, interdependence becomes crucial to continue the social exchange relationships.

Subsequently, Lambe et al. (2001) has provided useful foundational premises for the Social Exchange Theory (SET) in their effort to address critiques of this theory. According to them, SET proposes that economic and/or social outcomes/rewards are the results of exchange interactions. Over time, each party in the exchange relationship compares the economic and/or social outcomes obtained from these interactions to those that are available from exchange alternatives, which in turn determines their dependence on the exchange relationship. Positive economic and/or social outcomes over time would enhance partners' trust and commitment in maintaining the relationship, a condition which preserves the outsourcing relationship (Lee et al., 2010).

Although Lambe et al. (2001) has explicitly argued that the outcomes of the exchange relationship are economic and/or social rewards, Emerson (1976) regarded the outcomes as positive reinforcements without such distinctive categorisation. The key was about the reciprocal flow of valued behaviour between the participants. He further argued that reward, reinforcement, cost, value, utility, resource, comparison level, transaction, profit, outcome, etc. are vocabularies used in SET which appears as an unconsolidated blend of ordinary speech and represents technical vocabularies of two research disciplines, namely psychology and economics. As much diverse as these redundant vocabularies may seem, their meaning is stable in which he reckoned ‘reinforcement’ is clearly the simplest and most fundamental departure point.

SET is central to the study of B2B marketing. Starting from the research by Kotler (1972), Bagozzi (1975) and Hunt (1976), the definitions of the process of marketing have been concentrated on the act of exchange between parties. Although a B2B deal like outsourcing would normally start with a contractual governance mechanism, the non-contractual mechanisms have increasingly been the focus of researchers because of the difficulty of creating comprehensive contracts (Macneil, 1980). Such non-contractual mechanisms rely heavily on ‘relational contracts’ or norms for governance purpose (MacNeil, 1980; 2000), and is the key element in making the relational exchange successful (Lambe et al., 2001).

In a B2B service performance study, economic reward is defined as organisational buyers’ evaluation of financial benefits that result from a relationship with a service provider (Briggs & Grisaffe, 2010). A contract serves as the fundamental governance mechanism in an outsourcing relationship, thus fulfilling the contractual requirements means a service provider has to materialise a client’s intended outsourcing benefits such as cost saving, access to technology and etc. which are contract based. In the event that contractual requirements do not materialise, it would probably result in litigation (Lee & Kim, 1999), financial penalty or early termination of contract from the client. Hence, the act of fulfilling the intended outsourcing benefits such as cost reduction and the desired service quality delivery by the provider in exchange for payment can be seen as a form of economic exchange.

Social reward such as a client’s satisfaction is important too (Lamde et al., 2001). Indeed, as Blau (1968, p.455) puts it ‘most important benefits involved in social exchange do not have any material value on which an exact price can be put at all, as exemplified by social approval and respect'. This sort of relationship is not the type that is made up of a series of discrete exchange episodes but rather comprises the history of an exchange relationship which firms utilise to predict future costs and benefits of developing and continuing the exchange relationship (Kelley & Thibaut, 1978). It is different from a one-time purchase of unbranded gasoline out-of-town at an independent station with cash payment which resembles a discrete transaction (Dwyer et al., 1987).

Kelley & Thibaut (1978) also suggest that a 'transformation' occurs when exchanging parties reconcile social and economic outcomes in deciding whether to continue the relationship. Parties would weigh the economic outcomes based on 'past and future interchanges' and the social benefits of compromise. This means, if a party feels dependent over the other party while believing that this loss can be compensated in the future, the party will forego economic benefit now for benefit in the future.

In short, SET assumes that parties in the exchange relationships cooperate and exchange in a reciprocal manner. Reciprocity is the best-known exchange rule (Cropanzano & Mitchell, 2005). It stresses the importance of relationship quality in a successful exchange relationship. SET also takes on the assumption that the relationship between parties in the exchange relationship is continuous, ongoing and evolving over time (Swar et.al, 2012; Cropanzano & Mitchell, 2005) which will ultimately generate obligations (Emerson, 1976). Parties involved in an exchange relationship value relationship in behavioural contexts related to satisfaction and mutual goal fulfilment (Thibaut & Kelley 1959).

Based on the above-mentioned foundational premises of SET, with much of it emphasising on how parties remain in an exchange relationship, this theory is deemed suitable to be incorporated into explaining the role of partnership quality in the service quality-satisfaction-loyalty relationship. It potentially helps unravel the impact of the social elements on the effectiveness of HR outsourcing from a service performance perspective.

Furthermore, the shortcomings of the TCE theory as discussed in the previous section can likely be overcome by using the SET theory. SET can potentially provide a better illustration of the 'how' for an effective outsourcing relationship beyond the three factors cautioned by TCE namely, asset specificity, uncertainty and frequency in preventing opportunistic behaviour.

3.9.5 Relational Exchange Theory (RET)

Fundamentally, the purchasing organisation (the client) and the outsourcing provider are involved in an exchange relationship once an outsourcing relationship begins. RET was introduced by Macneil (1980) when he puts an exchange relationship on a discrete and relational continuum. The discreteness in an exchange relationship is usually characterised by market-based transactions embedded in a contract (Ring & Van de Ven, 1992). The conditions associated with these transactions are 'sharp in' and 'sharp out' which means there is a clear cut, complete and monetised agreement while buyer's debt of payment and seller's debt of performance are unambiguous (Ring & Van de Ven, 1992). According to them, in the situation when individuals contract on behalf of their organisations, some form of security must be present to allow the enforcement of their transactions and the law of contract can do exactly this.

Although RET recognises the importance of contractual fulfilment and governance in an exchange relationship in outsourcing, it highlights that contract is necessary but insufficient for outsourcing success (Goles & Chin, 2005). It emphasises the importance of relations in achieving successful outcomes. As Macneil (2000) puts it, although parties in a business-to-business context often start a relationship with a discrete contract yet all discrete transactions are embedded in relations. This applies to HRO as well because the potential operational hiccups that might occur during HRO implementation are difficult to predict.

RET professes that contracts are incomplete and it is impossible to encompass all possible contingencies during the contractual tenure (Macneil, 1980). This theory appreciates the interactions, interdependencies, reciprocities, informal rules and common norms as a result of exchange between parties. So, RET posits that the efficiency in contract governance lies in the relational norms between parties. Relational norms have the role of keeping relationships from being obstructed by contractual terms (Kern & Blois, 2002; Kern & Willcocks, 2002; Goles & Chin, 2005). In this essence, relationship norms assist in influencing the quality of relationships (Swar et al., 2012).

Thus, RET is considered an appropriate theory for examining the relational aspect of a relationship between an outsourcing client and the provider. Most importantly, RET recognises the very nature of contractual fulfilment in an outsourcing relationship while stressing that achieving good outsourcing outcomes is hard without relational elements. It takes on the assumption that there are shared norms and harmony interests between the client and the provider (Goles & Chin, 2005).

In summary, both SET and RET provide useful theoretical lenses on the interactions and conditions through which the exchange parties maintain an outsourcing relationship. It is also worth noting that Macneil's (1985) relational and exchange contract has been used as analogous to Blau's (1964) social and economic exchange, indicating little theoretical conflict in integrating them to explain the continuance of an outsourcing relationship. On the other hand, TCE and RBV are generally used to explain the reasons behind an outsourcing decision. However, TCE and RBV theories alone may present theoretical limitations and challenges in an attempt to explain the subsequent decision to continue or discontinue outsourcing with the same provider. Although recognition is given that TCE and RBV are important theories to understand a client's expectations, they are unable to provide explanation as to why the client might still switch providers or not renew the outsourcing contract in a satisfactory outsourcing relationship. Hence, RET and SET appears to fit this research better especially when the effects of partnership quality is examined on the entire service quality-satisfaction-loyalty link.

To sum up this chapter, HRO is indeed being delivered as a form of service and hence the conceptualisation of HRO effectiveness has been based on the service performance perspective characterised by service quality, client satisfaction and loyalty which is supported by the outsourcing and services marketing literature. The variables examined in past literature have been systematically identified, grouped and examined by using grounded coding technique to specifically demonstrate the frequency and the positioning of variables as independent and dependent variables examined together with its findings to illustrate gaps which are under researched and to be addressed in this study. Theories commonly used in outsourcing research are compared against the purpose of research and finally a justification on the selection of the the theories used in this study is provided.

CHAPTER 4

RESEARCH FRAMEWORK AND HYPHOTHESES

4.1 Introduction

This chapter presents the research framework that aims to fill the aforementioned gaps identified in the previous chapter. In the proposed framework, service quality is an independent variable with two dimensions which are made up of service process quality and service outcome quality. Client satisfaction serves as the mediating variable between service performance and client loyalty while partnership quality made up of four dimensions, namely, trust, commitment, mutual understanding and interdependence serves as a moderating variable to the service quality-satisfaction-loyalty link. Hypotheses of these relationships are developed and will be presented in this chapter as well.

4.2 Hypotheses Development

4.2.1 Service quality, client satisfaction and loyalty

As mentioned in the previous section (section 3.5.1), much of the past research using SERVQUAL and SERVPERF models involved end consumers rather than business customers or clients (Parasuraman, 1998; Ladhari, 2008).

The causal link between service quality and satisfaction used to be debated among service quality researchers because there was disagreement on whether service quality leads to satisfaction or satisfaction leads to service quality (Parasuraman et al., 1994b). Researchers such as Bahia, Paulin & Perrien (2000) initially regard the view of satisfaction leading to service quality as odd. However, in the final reconciling model, they regard satisfaction as affective predominance and of quasi-cognitive nature and reported that "when services are performed on a regular basis (like outsourcing), when they are considered important, complex and/or require high levels of involvement, the perceived quality of the service will generate client satisfaction" (Bahia et al., 2000, p.37). Such findings are in line with Oliver (2010), who posits that service quality experience accumulated over time can result in long-term satisfaction. This is also the case for HRO in which clients would have multiple encounters or experiences with the service provider for a long period of time before the contract ends. Hence, the direction of the relationship between service quality and client satisfaction is determined based on the above literature in this research.

Against the bulk of service quality work in the B2C context, there exists a body of work in the B2B and outsourcing context (e.g. Gorla & Somer, 2014; Rayruen & Miller, 2007; Woo & Ennew, 2004; Yu, Cadeaux & Song, 2017; Goode et al., 2014; Chakrabarty et al., 2007; Huang et al., 2017; Stank et al., 1999) which found a positive and significant relationship between service quality and client satisfaction. Clients need to be assured of product quality (in this case it is the HRO service quality received by client) in order to motivate them to continue the relationship (Human & Naudé, 2014). Client satisfaction is highly affected by the service provider's performance (Yoon & Im, 2008).

In recent times, Hsieh & Hiang (2004) and Choi & Kim (2013) have shown a strong influence of service outcome quality on customer satisfaction in the service business context. In fact, Powpaka (1996) has compared two models, one with, and the other without outcome quality in determining overall service quality and found that the model with outcome quality construct is statistically superior in terms of model fit and explanatory power across four different services contexts such as banks, fast-food restaurants, trains/subways, and hair salons. More commonly, HRO service providers are usually expected to deliver positive outsourcing outcomes in the forms of helping their client to materialise the benefits of outsourcing. This explains the reason why service outcome quality (refer to section 3.2 and 3.3) is an inseparable dimension in evaluating the service provider's service performance which ultimately determines HRO effectiveness.

Furthermore, high service process quality enables more of the purchasing organisation's needs to be met, leading to greater satisfaction and desire to continue the relationship (Fullerton, 2005; Goode et al., 2014). A number of studies have empirically tested this relationship. One of the early researches which attempted to test the application of SERVQUAL (to measure service process quality) in the B2B service was conducted by Durvasula et al. (1999) in ocean freight shipping service. They found that performance-only SERVQUAL is superior to the gab model and that service process quality has a positive and significant relationship with overall client's satisfaction. Another research using performance-only SERVQUAL conducted in IT outsourcing context by Chakrabarty et al. (2007) found a positive and significant relationship between service process quality and user satisfaction.

A recent finding from Goode et al. (2014) also found service process quality a significant antecedent of customer satisfaction in forming positive perceptions of IT outsourcing. In third party logistics services (B2B) within a fast food restaurant context, service process delivery constructed based on SERVPERF was found to positively and significantly affect satisfaction (Stank et al., 1999). In another study, using a sample of business clients from a large European financial services firm, Chenet, Dagger & Sullivan (2010) also found that service process quality had a significant medium impact on satisfaction. In brief, there have been extensive and consistent empirical findings on the positive relationship between service outcome and process quality and satisfaction in the literature.

Satisfaction is often regarded as a form of attitude (Goles, 2003) which is the building block for loyalty (Oliver, 1999; 2010) and thus, it is expected to directly influence behavioural intention (Fishbein & Ajzen, 1975). Satisfaction prompts firms to recognise the importance of their partners and to generate expectations about the future of those relationships (Yang et al., 2016). That is, satisfied HRO clients have a higher tendency of maintaining in the relationship with their service provider by exhibiting client loyalty through contract renewal, service expansion and providing recommendation to others.

However, there also exists a stream of literature in the B2B services marketing field which found that satisfaction having no effect on loyalty but service performance directly affects client loyalty (e.g. Visentin & Scarpi, 2012; Janita & Miranda, 2013; Kailasam & Wongsurawat, 2015). This is possible in an outsourcing context because firms especially those that involved in lower level outsourcing where the outsourced activities are less complex and transactional in nature, they are likely be reliance on service quality governed by service level agreement solely to remain loyal with their service provider.

Based on the aforementioned, it leads to the following hypotheses:

H1: There is positive relationship between perceived service outcome quality and client satisfaction.

H2: There is positive relationship between perceived service process quality and client satisfaction.

H3: There is positive relationship between perceived service outcome quality and client loyalty.

H4: There is positive relationship between service process quality and client loyalty.

H5: There is positive relationship between client satisfaction and loyalty.

4.2.3 The mediating effect of customer satisfaction on service quality-satisfaction-loyalty Link

Client satisfaction is an important predictor of client loyalty (Williams, Khan, Ashill & Naumann, 2011). Paulin et al (2000, p.454) depict the sequential chain of reactions in a successful business-to-business as "being very satisfied, rating service quality highly, intending to continue purchasing the services, desiring to purchase new services and willing to recommend the firm to others". Indeed, the service quality-satisfaction-loyalty link has been well supported in services marketing and outsourcing literature (e.g. Gotlieb et al., 1994; Caceres & Paparoidamis, 2007; Human & Naudé, 2014; Juga et al., 2010; Goode et al., 2014; Chumpitaz & Paparoidamis, 2004). For example, service quality in logistics outsourcing was found to influence customer satisfaction and, in turn, customer loyalty in the context of the fast-food distribution business (Stank, Goldsby, and Vickery 1999). Clients will not be motivated to continue the outsourcing relationship unless they receive a product (HRO service) that meets their standards, therefore service quality that drives client satisfaction can in turn promote client loyalty (Human & Naudé, 2014). Hence, it suggests that client satisfaction functions as a mediator in the service quality-satisfaction-loyalty link.

Bassed on the above, it is hypothesised that:

H6: Client satisfaction mediates the relationship between service outcome quality and loyalty.

H7: Client satisfaction mediates the relationship between service process quality and loyalty.

4.2.4 The moderating effect of partnership quality on the service quality-satisfaction-loyalty link

With reference to the literature, several past studies have examined the effect of moderators on the service quality-satisfaction-loyalty link in their respective contexts. For example, a B2C study on professional services (hairstylist, ministries, social workers and physicians) across multiple clients found that power asymmetry moderates the relative impact of social aspects and competence aspects of the service performance on client satisfaction and loyalty (Hausman, 2003). In a hospital services study, familiarity moderated the relationship between service outcome quality and satisfaction but had no effect on peer-to-peer quality and interaction quality on satisfaction (Choi & Kim, 2013).

Not only is the role of moderating effects being examined in the relationship between service performance and satisfaction, it is also being examined in the relationship between satisfaction on loyalty. For example, switching costs, customer involvement and perceived benefits have been empirically examined as moderators by Dagger & David (2012) across nine consumer service types. They found that simply enhancing satisfaction does not lead to customer loyalty and that this relationship is subject to the influence of moderators. Interestingly, they found that although switching cost has a negative effect on the relationship between satisfaction and loyalty; at a deeper level, its effect is enhanced by perceived greater relationship benefits but weakened by greater customer involvement.

In a B2B study, Homburg et al. (2003) have tested four moderators: information exchange, joint working, flexibility of the supplier and age of the relationship on the satisfaction-loyalty link. They found that all the moderating variables have direct effect on loyalty except age of relationship and that these moderators have a negative moderating effect on the satisfaction-loyalty link. In summary, the aforesaid literature evidenced the presence and impact of moderators on the service quality-satisfaction-link in different research contexts.

In fact, most service researchers suggest that satisfaction processes operate differently under different contexts and conditions (Hausman, 2003; McDougall & Leveque, 2000; Patterson, Johnson & Spreng, 1997; Hsieh & Hiang, 2004; Brady & Cronin, 2001). Likewise, findings with regards to influential factors and its directionalities on client loyalty are often not consistent due to differences in service industry (Bardauskaite, 2014). Such assertion maps well with the context of outsourcing because the nature of outsourcing is complex and highly conditional (Cullen et al., 2014; Cullen et al., 2008; Landis, Mishra & Porrello, 2005).

In a similar fashion, this research posits that there are exogenous variables acting as quasi-moderator factors in the service quality- satisfaction-loyalty link within the HRO context due to mixed results in the literature. In the following section, this research turns to outsourcing specific literature to discuss the role of partnership quality as a moderator in the service quality-satisfaction-loyalty model.

As conceptualised in section 3.2 and 3.3, outsourcing effectiveness or success is based on a client's perceived satisfactory service performance of the provider's service quality. Meanwhile, service quality has been shown to affect the success of an outsourcing relationship (McFarlan & Nolan, 1995; Grover et al., 1996; Whitten & Leidner, 2006).

Extracting from the HRO specific literature, cost benefits (Adler, 2003; Woodall et al., 2009; Hasliza and Norbani, 2010; Dickmann & Tyson, 2005; Klass et. Al., 1999; Lever, 1997; Shaw & Fairhust, 1997; Chiang et al., 2010; Susomrith & Brown, 2013; Quelin & Duhamel, 2003; Galanaki et al., 2008; Lepak, Bartol & Gardner, 2004; Woodall, et al., 2009), operational benefits, such as flexibility (Woodall et al., 2009; Galanaki et al., 2008) and access to specialised capabilities (Lepak et al., 2004 and Lever, 1997) and strategic benefits, such as focus on core business (Adler, 2003; Cooke et al., 2005) are commonly considered as the primary drivers of HR outsourcing. All these drivers are the service outcome quality which refers to clients' intended outsourcing benefits (Bharadwaj & Saxena, 2009).

Specifically, although access to specialised capabilities (as shown in Figure 3.1) has been consistently and significantly found to affect an outsourcing decision in more than half of the times it was examined, it was found not significantly loaded on the overall perceived benefits in a BPO study (Gewald, 2010). There is also a lack of studies to account for the benefit of access to specialised capabilities with an outsourcing client's satisfaction. Seddon, Cullen & Willcocks (2007) found only specialisation to concentrate on core business and better service were significant while cost benefits and flexibility were not in their study among senior IT managers from large Australian private and government sectors. In another ITO study, Kim et al. (2013) found that IT cost efficiency was not associated with overall satisfaction and only performance improvement leads to overall satisfaction when data was analysed aggregately;

but when the data was analysed by sectors, cost efficiency appears to affect overall satisfaction in the government sector in Korea. A third-party logistics outsourcing study by Stank, Goldsby, Vickery & Savistkie (2003) examined the service provider's performance in three dimensions; operational, relational and cost performance and found both cost and operational performance insignificant and only relational performance was significantly affecting client's satisfaction, highlighting the importance of relational aspect in an outsourcing relationship.

These findings are very perplexing, in particular, the service provider's performance in cost saving and operational aspects have not been consistently accounted for in explaining the variance in client satisfaction despite these factors having been generally identified as the primary benefits sought after in most outsourcing studies. In providing an explanation to these findings, Seddon, Cullen & Willcocks (2007) associate it to the exclusion of 'partnership' factor in their model while arguing that partnership is crucial for outsourcing success. This may appear to be a reasonable explanation because partnership quality has been accounted for, explaining the variance in perceived outsourcing success or performance in a number of past outsourcing studies (e.g. Grover et al., 1996; Handley & Benton, 2009; Bharadwaj & Saxena, 2009). Consistent with Grover et al. (1996), Lee & Kim (1999), Goo et al. (2009); Chakrabarty et al. (2007) and a more recent study by Hasliza et al. (2014), Ee et al. (2013a), Ee et al. (2013b). Swar et al. (2012), contended that partnership quality must be recognised as an influential factor that can affect outsourcing success. With reference to Kern & Willcocks's (2002) outsourcing relationship model, partnership quality acts as the 'atmosphere' or condition to facilitate the interaction between the outsourcing client and provider (Kern & Willcocks, 2002).

This is expected because although fundamentally, most outsourcing deals are governed by a formal contract, a pure contractual relationship in outsourcing is often an insufficient means to ensure positive HR outcomes (Klaas et al., 2001). A properly structured contract is necessary but insufficient in guaranteeing outsourcing success because formal and relational governance complement each other (Goles & Chin, 2005; Handley & Benton, 2009) as it is impossible to specify all possible expectations and contingencies in a service level agreement (Goo et al., 2009; Yang et al., 2016). Thus, a contract with exchange relations guarantees success (Macneil, 2000).

The same has been argued in the B2B setting, for example, Crosby et al. (1990) have overtly stated that the nature of long-term service exchange often requires mutual resolution of one or more complex problems and that a good partnership is necessary to make an outsourcing deal workable (Cullen et al., 2014). Moreover, according to Mohr & Spekman (1994) a partnership which generates satisfaction exists when performance expectations have been achieved. Even at the highest level of governance, holistically, a strong partnership will lead to high customer satisfaction (IAOP, 2014). Hence, it is posited that partnership quality would moderate the relationship between service quality and satisfaction.

In terms of the satisfaction-loyalty link, there are mixed findings which can be differentiated into two streams among research conducted in the B2B context. One stream found that satisfaction affects loyalty (e.g. Patterson et al.,1997; Patterson & Spreng, 1997; Goode et al., 2014; Stanks et al., 2003; Flint et al., 2011; Rauyruen & Miller, 2007; Bolton, Lemon & Verhoef, 2008) whereas the other stream found satisfaction having no effect on loyalty (e.g. Garbarino & Johnson, 1999; Visentin & Scarpi, 2012; Janita & Miranda, 2013; Kailasam & Wongsurawat, 2015). As a result, possible moderators should be considered in the system of these relationships (Briggs & Grisaffe, 2010).

Particularly, in one of the international B2B studies, Homburg, et al. (2003) found that relational elements have a positive direct effect on loyalty and that they are important moderators of the satisfaction-loyalty link. Whitten & Leidner (2006) argue that the quality of a relationship between a firm and an outsourcing provider might be of considerable importance when the firm is considering switching providers or back-sourcing. In fact, more than 60 percent of the organisations reported losing ten percent or more of the outsourcing contract value due to poor working relationships between the client and the service provider (IAOP, 2014).

Therefore, based on the past research mentioned above, it has been reinforced that partnership quality is a critical variable in an inter-organisational relationship especially in influencing a client's satisfaction and loyalty. It is believed that partnership quality may potentially account for explaining the variance in the service quality-satisfaction-loyalty link in the HRO context and be able to provide some explanation to the perplexing and inconsistent findings in the literature.

This corresponds with SET as Jap (1999) argues that 'collaborative' effort may actually increase social and economic outcomes. The more satisfactory over the social and economic rewards, the more likely the parties are to remain in relationship (Briggs & Grisaffe, 2010). Past studies have shown partnership as an important antecedent of outsourcing success, but its role is confined as a necessary though not a sufficient condition in a direct factor-based model (Lee & Kim, 1999). Lee & Kim (1999) further elaborate that if an outsourcing provider fails to achieve the outsourcing objective which is the core service outcome quality such as cost reduction, then the outsourcing initiative would be considered a failure regardless of the high partnership quality. Building on this argument, Lee & Kim (1999) have put forward the argument that achieving outsourcing service objectives and having good partnership quality are both important. In a similar tone, Hausman (2003) concludes that there is limited compensability of service process or relational quality to overshadow service outcome quality in services contexts, highlighting that both are critical to achieve successful outcomes. Consequently, this research posits that partnership quality is potentially moderating more than one path in the causal sequence. That is, partnership quality moderates the relationship between service quality and client satisfaction, and client satisfaction and loyalty. Each dimension of partnership quality and its effect on the service quality-satisfaction-loyalty link will be examined with the intention to observe the individual effect of each of the dimensions on the relationships under-examined. This is to avoid losing explanatory power (Vieira et al., 2014). In sum, partnership quality has been identified to consist of four dimensions – trust, commitment, mutual understanding and interdependence (refer to section 3.7 for further information). Each of these dimensions and its relationship with the service quality-satisfaction-loyalty link will be explained later in the subsequent sub-sections. To begin with, this research seeks to explain the linkage between the first partnership quality dimension which is trust and its impact on the service quality-satisfaction-loyalty link.

Trust

Social exchange and relational exchange theorists view trust as one of the most important variables in an exchange relationship (Lamde et al., 2001; Macneil, 1980; 2000). Particularly, trust as a dimension in partnership quality has been empirically proven to significantly affect outsourcing success (Lee & Kim, 1999; Ee et al., 2013a; Hasliza et al., 2014; Swar et al., 2012). In the absence of trust, disruption of information flow, coordination problems and conflicts may happen between provider and client (Ee et al., 2013a). As a result, the service quality of HRO can be greatly affected.

In one of the early HRO studies, trust was empirically found to be positively and significantly related to satisfaction (Gainey & Klaas, 2003). They argue that when trust is limited, the purchasing firm is unlikely to be fully benefited from the provider's expertise because it affects the quality of service provided, and ultimately in poor client satisfaction. In addition, trust also helps curb opportunistic behaviour (Gainey & Klaas, 2003) and ease any negative effects (Yan et al., 2013) which will largely help contribute to a positive outsourcing experience and ensuring outsourcing success (Babin, Bates & Sohal, 2017; Ee et al., 2013a).

The presence of trust is likely to reduce time spent by the client in monitoring a service provider actions which in turn means fewer resources are required in the process of ensuring services are delivered as expected and agreed upon in the contract (Gainey & Klaas, 2003). Therefore, it is believed that when the HR managers have trust in the providers, they are likely to interact positively with them in securing the expected outsourcing benefits (SOQ) and delivery (SPQ), thus creating a more enjoyable working relationship that will eventually lead to greater satisfaction. This leads to the development of hypothesis 8a and 9a.

On the other hand, firms that trust their providers are likely to continue the relationship as well (Morgan & Hunt, 1994; Homburg et al., 2003; Handley & Benton, 2009). This is because short-term deficiency in a relationship can be mitigated through trust (Dwyer et al., 1987) as trust helps relieve conflict, uncertainty and opportunism (Macneil, 1980; Ganesan, 1994; Anderson & Narus, 1990). In short, although trust is difficult to codify in a contract, trust is clearly a critical element for successful outsourcing (Babin, et al., 2017).

The level of cumulative trust developed based on previous experiences will likely affect the way a client reacts in the event of dissatisfaction. The client would be more open and willing to express their dissatisfaction with the provider to work out a solution rather than exiting the relationship (Babin et al., 2017; Homburg et al., 2003). It is argued that clients who trust their providers would be confident that their concerns will be addressed; thus, the satisfaction and loyalty link may be weaker when clients trust their providers. This leads to the development of hypothesis 10a.

In summary, it is hypothesised that:

H8a: The relationship between service outcome quality and client satisfaction will be stronger with higher trust.

H9a: The relationship between service process quality and client satisfaction will be stronger with higher trust.

H10a: The relationship between client satisfaction and client loyalty will be weaker with higher trust.

Commitment

Commonly, B2B research found that commitment is an important partnership attribute affecting partnership satisfaction (Mohr & Spekman, 1994) and outsourcing performance (Lee & Kim, 2005; Handley & Benton, 2009). Morgan & Hunt (1994) found strong evidence that commitment and cooperation are intertwined because commitment is critical for effective cooperation. Without commitment serving as a source of governance in an outsourcing relationship, it would be easy to regress into traditional adversarial behaviour such as opportunistic behaviour (Handley & Benton, 2009).

Swar et al. (2012) has empirically examined the relationship between cooperation and outsourcing success and the findings were positive and significant. In contrast, Ee et al. (2013a) found that commitment has no effect on HR outsourcing success. However, since outsourcing success often relies heavily on relationships and cannot be approached in too legalistic a manner (Culent et al., 2014), both parties' commitment in materialising the outsourcing benefits in an intended manner is crucial to ensure satisfactory service quality. Hence, this research argues that with greater commitment the relationship between service quality and satisfaction would be stronger.

However, this research expects that the relationship between satisfaction and loyalty becomes weaker with a higher level of commitment. Researchers such as Rauyruen & Miller (2007), Liu, Yang & Liu (2017), Gabarino & Johnson (1999), Pritchard, Havitz & Howard (1999) and Fullerton (2003) have provided empirical evidence that a relationship exists between commitment and loyalty. This research argues that when provider and client are committed to realise the outsourcing promises, the client will alert the provider in the event of dissatisfaction (if any) and is confident that the provider deserves an opportunity to resolve issues that arise. This is because both parties engaged in an outsourcing relationship understand the importance of commitment in a functioning partnership. Thus, in a quality partnership relationship characterised by high commitment, a client is likely willing to wait out periods of inconvenience and dissatisfaction and will not terminate the outsourcing relationship until it is proven that there is no hope for improvement. Therefore, the above leads to the development of hypothesis 8b, 9b and 10b below.

H8b: The relationship between service outcome quality and client satisfaction will be stronger with higher commitment.

H9b: The relationship between service process quality and client satisfaction will be stronger with higher commitment.

H10b: The relationship between client satisfaction and client loyalty will be weaker with higher commitment.

Mutual understanding

Mutual understanding has been argued as an important factor associated with outsourcing success (Lee & Kim, 1999; Goles & Chin, 2005; Swar et al., 2012). Mutual understanding allows parties in the exchange relationship to have enough knowledge of each other's expectations, capabilities, objectives and behaviour for positive outcomes. As outsourcing involves shared responsibility, benefits and risks between parties, a good understanding between partners is necessary to avoid disastrous and irreparable outcomes. From the clients' perspective, irrespective of the number of years into the contract, many adjustments will still have to be made between them because the organisational cultures remain distinct from the service providers and service providers need to adjust to it by understanding their client's business (Kern & Willcocks, 2002).

Two studies by Swar et al. (2012) and Ee et al. (2013b) found that mutual understanding has a significant impact on outsourcing success. With a high degree of mutual understanding, the client's expectations on receiving a high degree of service quality can be better fulfilled, conflicts can be reduced and client satisfaction is likely achieved. This gives rise to hypothesis 8c and 9c. In the event of dissatisfaction, clients with mutual understanding are unlikely to resort to terminating their providers abruptly. Particularly among clients who have mature ability in managing outsourcing, they understand that an effective outsourcing cannot work on a master-slave relationship and that relying on contract is a last-ditch measure (Cullen et al., 2014), simply because a client can be managing contracts up to 10,000 pages in length which makes the execution of contract based on adherence nearly impossible (Deloitte, 2014). In addition, no long-term business contract can be operated as a transactional contract because its incompleteness and inflexibility make it prone to failure (Kern & Willcocks, 2000).

Therefore, a positive partnership quality characterised by a high degree of mutual understanding is likely to mitigate the negative impact of dissatisfaction on loyalty. Often, clients are willing to allow time and in fact sometimes work out a solution together with their providers because they proactively engage in mutually understanding challenges faced by both sides, especially in the face of dynamic business market conditions. This leads to the development of hypothesis 10c.

Hence, it is hypothesised that:

H8c: The relationship between service outcome quality and client satisfaction will be stronger with higher mutual understanding.
H9c: The relationship between service process quality and client satisfaction will be stronger with higher mutual understanding.
H10c: The relationship between client satisfaction and client loyalty will be weaker with higher mutual understanding.

Interdependence

Interdependence between client and service provider refers to both parties possessing complimentary assets and skills for each other (Goles & Chin, 2005). The literature has emphasised the importance of a balanced dependency between parties in an outsourcing relationship (Goles & Chin, 2005). Although interdependence was found to have no effect on satisfaction in the study conducted by Mohr & Spekman (1994), they largely attributed it to measurement error while suggesting that a relationship exists theoretically. Typically, the nature of outsourcing practices itself already demonstrates an inherent dependency and it is for this reason that a quality partnership is required to mitigate potential risk (Schwarz, 2014). Providers are dependent on purchasing organisations to obtain information, support, reach consensus, accept new ideas and implement changes in the execution of an outsourcing contract which in turn meet their SLAs in exchange for client's prompt payment (for services performed). At the same time, the clients are also dependent on their providers to receive services as promised to avoid jeopardising their operations. Such interdependencies are closely associated with risk (Tsai, Lai, Llovd & Lin, 2012; Chu, Wang, Lai & Collins, 2017). Therefore, a balanced interdependence is required to share risk (Lee & Kim, 1999).

While it is important that HR managers must hold control over the HR service provider (Yan et al., 2013), it is cautioned that a lopsided relationship may not be favourable in outsourcing. It appears that a balanced interdependency is desirable (Goles & Chin, 2005). Gundlach & Cadotte (1994) found that increased degrees of interdependence results in a more favourable evaluation of the exchange partners which can be reflected in the service quality received and satisfaction over the outsourcing experience.

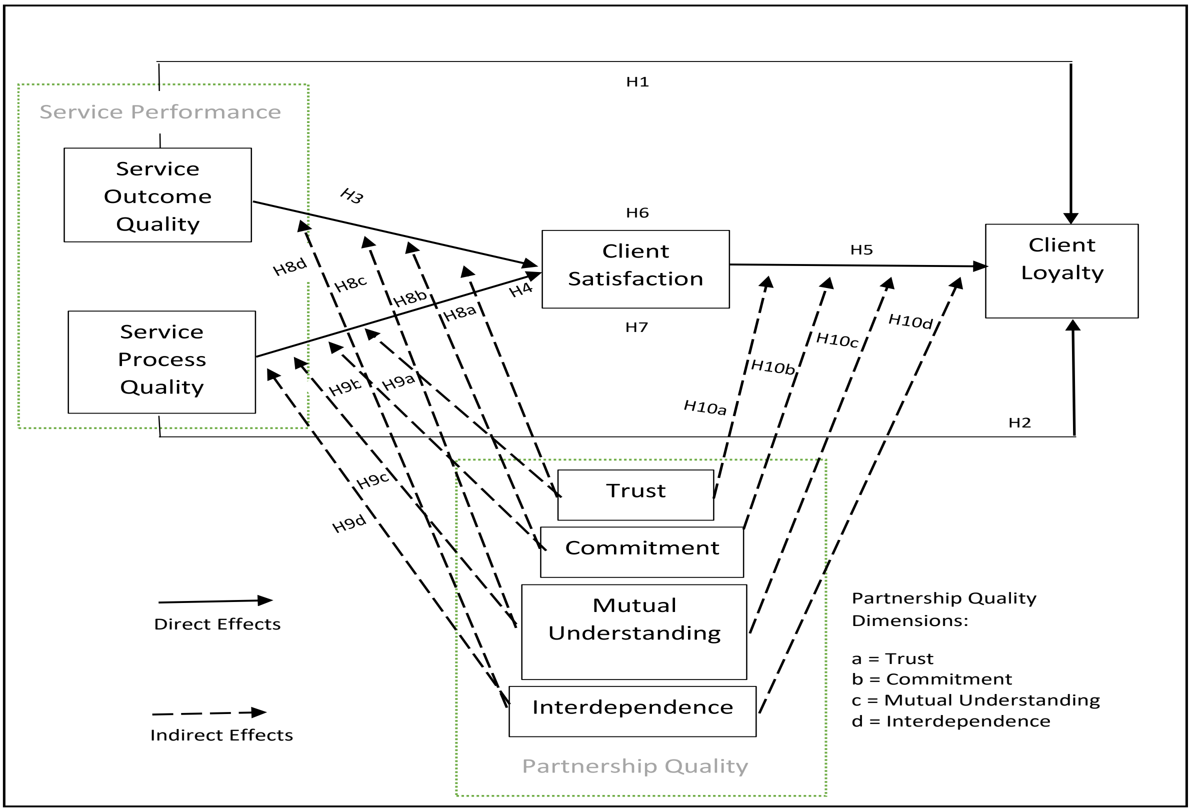
Building on this literature, this research posits that high interdependence between the client and the service provider will likely create an ambiance in favour of the service provider even in the event of dissatisfaction. This means that clients understand the symbiotic relationship in which they are dependent on their service provider and vice versa and will be more willing to work out a solution with service providers to repair unfavourable encounters in order to continue the outsourcing relationship.

Thus, it is hypothesised that:

H8d: The relationship between service outcome quality and client satisfaction will be stronger with high degree of interdependence.
H9d: The relationship between service process quality and client satisfaction will be stronger with high degree of interdependence.
H10d: The relationship between client satisfaction and client loyalty will be weaker with high degree of interdependence.

In summary, with reference to Figure 4.1, the independent variables in this research are service outcome quality and service process quality. The mediating variable is client satisfaction and the dependent variable is client loyalty. Partnership quality consists of four dimensions namely trust, commitment, mutual understanding and interdependence which are denoted as a, b, c and d respectively with each serving as a moderating variable to the entire service quality-satisfaction-loyalty link. The hypotheses developed for this research are depicted in Figure 4.1 as well.

Figure 4.1: The Hypothesised Research Model



Overall, Table 4.1 below summarises the research questions and hypotheses in this research.

Table 4.1: Summary of Research Questions and Hypotheses

Research Questions	Hypothesis
1. Does service outcome quality of the main service provider affect client loyalty towards them?	H1: There is positive relationship between perceived service outcome quality and client loyalty.
2. Does service process outcome quality of the main service provider affect client loyalty towards them?	H2: There is positive relationship between service process quality and client loyalty.
3. Does service outcome quality of the main service provider affect client satisfaction towards them?	H3: There is positive relationship between perceived service outcome quality and client satisfaction.
4. Does service process quality of the main service provider affect client satisfaction towards them?	H4: There is positive relationship between service process quality and client satisfaction.
5. Does client satisfaction affect their loyalty towards the main service provider?	H5: There is positive relationship between client satisfaction and loyalty.

6. Does client satisfaction mediate the effect of service outcome quality and loyalty towards the main service provider?	H6: Client satisfaction mediates the relationship between service outcome quality and loyalty.
7. Does client satisfaction mediate the effect of service process quality and their loyalty towards the main service provider?	H7: Client satisfaction mediates the relationship between service process quality and loyalty.
8a. Does trust moderate the effect of service outcome quality on client satisfaction towards the main service provider?	H8a: The relationship between service outcome quality and client satisfaction will be stronger with higher trust.
8b. Does commitment moderate the effect of service outcome quality on client satisfaction towards the main service provider?	H8b: The relationship between service outcome quality and client satisfaction will be stronger with higher commitment.
8c. Does mutual understanding moderate the effect of service outcome quality on client satisfaction towards the main service provider?	H8c: The relationship between service outcome quality and client satisfaction will be stronger with higher mutual understanding.
8d. Does interdependence moderate the effect of service outcome quality on client satisfaction towards the main service provider?	H8d: The relationship between service outcome quality and client satisfaction will be stronger with higher degree of interdependence.
9a. Does trust moderate the effect of service process quality on client satisfaction towards the main service provider?	H9a: The relationship between service process quality and client satisfaction will be stronger with higher trust.
9b. Does commitment moderate the effect of service process quality on client satisfaction towards the main service provider?	H9b: The relationship between service process quality and client satisfaction will be stronger with higher commitment.
9c. Does mutual understanding moderate the effect of service process quality on client satisfaction towards the main service provider?	H9c: The relationship between service process quality and client satisfaction will be stronger with higher mutual understanding.
9d. Does interdependence moderate the effect of service process quality on client satisfaction towards the main service provider?	H9d: The relationship between service process quality and client satisfaction will be stronger with higher degree of interdependence.
10a. Does trust moderate the effect of client satisfaction on their loyalty towards the main service provider?	H10a: The relationship between client satisfaction and loyalty will be weaker with higher trust.

10b. Does commitment moderate the effect of client satisfaction on their loyalty towards the main service provider?	H10b: The relationship between client satisfaction and loyalty will be weaker with higher commitment.
10c. Does mutual understanding moderate the effect of client satisfaction on their loyalty towards the main service provider?	H10c: The relationship between client satisfaction and loyalty will be weaker with higher mutual understanding.
10d. Does interdependence moderate the effect of client satisfaction on their loyalty towards the main service provider?	H10d: The relationship between client satisfaction and loyalty will be weaker with higher degree of interdependence.

CHAPTER 5

RESEARCH DESIGN AND METHODOLOGY

5.1 Introduction

This chapter covers the research design and methodology to be used in conducting the research and analysing the data. It starts with the philosophical worldview which is the broad approach to research, involving the intersections of philosophy, research design and specific method. It ends with method of data analysis with justifications provided to set the stage for data analysis in the next chapter.

5.2 Philosophical Worldviews/ Paradigms

Although philosophical ideas remain largely hidden, they need to be identified and made explicit as this will help explain why a study is approached using quantitative, qualitative or mixed methods (Creswell, 2014). Creswell (2014) called it 'worldview' because it is referred to as "a basic set of beliefs that guide action" (Guba, 1990, p.17). Some referred to it as paradigms (Lincoln, Lynham & Guba, 2011; Mertens, 2010); epistemologies and ontologies (Crotty, 1998), or is regarded as part of a broadly conceived research methodology (Neuman, 2009). In general, there are four worldviews or paradigms namely constructivist, transformative, pragmatic and postpositivist.

5.2.1 Constructivist

Construtivism is sometimes known as social constructivism and is often combined with interpretivism (Creswell, 2014). Typically, it is seen as an approach to qualitative research. This worldview posits that individuals develop meanings as they engage with the world they are interpreting, trying to make sense out of it based on their historical and social perspectives (Crotty, 1998).

The goal of the research is to elicit as much as possible participants' views on the situation being studied through open ended questioning so that the researcher listens carefully to what people say or do in their life settings (Creswell, 2014). Hence, instead of starting a research with theory, researchers inductively develop a theory. Accordingly, interpretivists are inclined to use methods such as case studies, ethnographic studies, phenomenographic studies, and ethnomethological studies (Weber, 2004).

5.2.2 Transformative

Transformative worldview aims to address issues faced by marginalised individuals such as power and social injustice, inequality, empowerment, domination, suppression, alienation, discrimination and oppression (Creswell, 2014). In other words, research inquiry needs to be intertwined with politics and political agenda (Mertens, 2010) which may result in reformation that changes the lives of the participants, the institutions in which individuals work or live, and the researcher's life.

As summarised by Mertens (2010), this worldview concentrates on the study of lives and experience of diverse groups that have been traditionally marginalised. Specifically, it is to study how these groups of people are constrained by oppressors and the strategies they use to resist, challenge and subvert these constraints. The research uses a programme theory of beliefs about how a programme works and why the problem exists.

5.2.3 Pragmatic

Pragmatism concerns applications within the realm of what works and solutions to problems (Patton, 1990). Researchers focus on the problem and use all possible approaches available to understand the problem (Rossman & Wilson, 1985). Thus, the pragmatic worldview can be considered as the philosophical foundation for mixed methods studies (Creswell, 2014).

In short, according to Creswell (2014), pragmatism is not committed to any one system of philosophy but rather uses pluralistic approaches to derive knowledge about the problem. Researchers are free to choose the methods, techniques, and procedures of research that best meet their needs and purposes as they do not see the world as an absolute unity. This worldview opens the door to multiple methods, different assumptions and allows different forms of data collection and analysis (Creswell, 2014).

5.2.4 Postpositivist

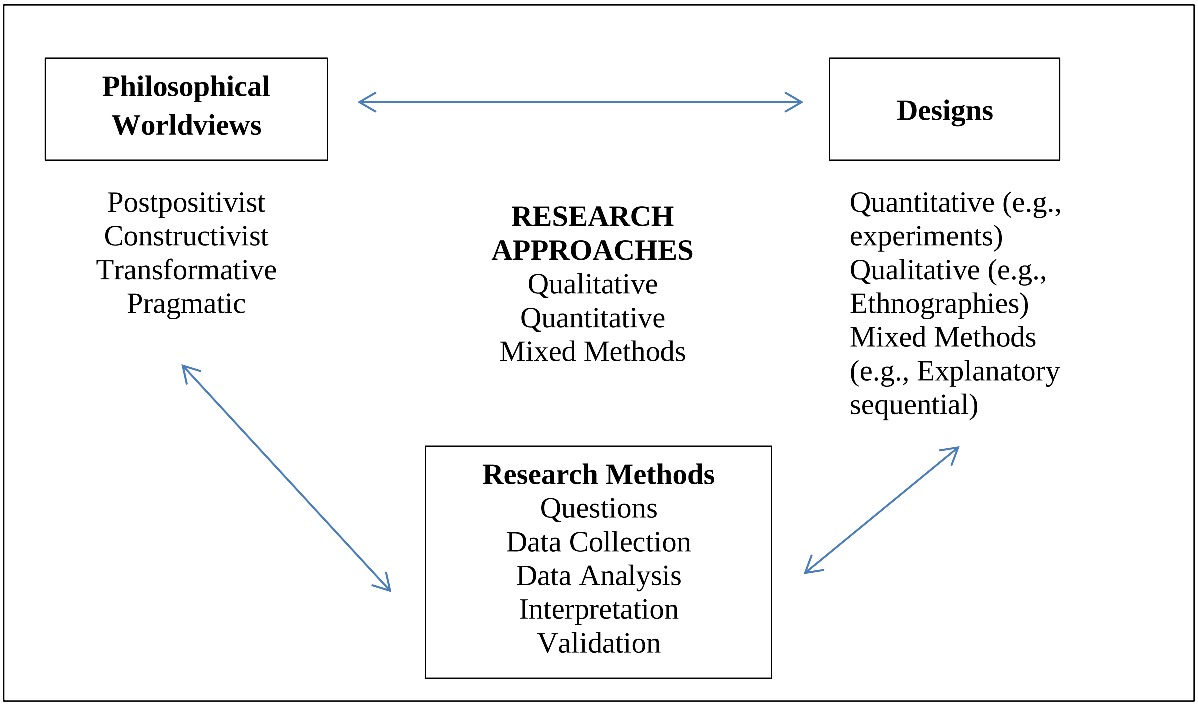
Postpositivist worldview holds true for quantitative research more than qualitative research of which it is sometimes known as scientific method, science research, empirical science and positivist or postpositivist research (Creswell, 2014). Postpositivist departs from positivist, challenges the traditional notion of the absolute truth of knowledge (Phillips & Burbules, 2000) while recognising that we cannot be positive about our claims of knowledge when studying the behaviour and action of humans (Creswell, 2014). This paradigm holds a deterministic philosophy that is to identify and assess the causes that influence outcomes. Hence, it has reductionist intent to reduce ideas into a small, discrete set to test, such as the variables that comprise hypotheses and research questions.

Table 5.1: Summary of Research Worldviews

Postpositivism	Constructivism
• Determination • Reductionism • Empirical observation and measurement • Theory verification	• Understanding • Multiple participant meanings • Social and historical construction • Theory generation
Transformative	Pragmatism
• Political • Power and justice oriented • Collaborative • Change-oriented	• Consequences of actions • Problem-oriented • Pluralistics • Real-world practice oriented

Table 5.1 summarises four research worldviews. In comparison, this research subscribes to the postpostivist worldview because the main aim of this research is to uncover the effect of partnership quality acting as the conditioning factor on the service quality-satisfation-loyalty link in which the degree or association between two or more variables or sets of scores will be measured. Hence, the measures used in this research are measures that would produce numerical observations to examine the change in the strength and direction of the relationships being examined, which is deterministic in nature. This leads to the choice of embracing nonexperimental correlational quantitative research design and methods by following the principle of research framework indicated in Figure 5 .1 below.

Figure 5.1: A Framework for Research



Source: Creswell, J. W. (2014).

5.3 Research Design

Research design requires the researcher to not only select a qualitative, quantitative, or mixed methods study to conduct the research, but also requires him to decide on the types of inquiry within qualitative, quantitative, and mixed methods approaches which would then set the direction and procedures of the research (Creswell, 2014).

Driven by its philosophical worldview, the research design for this research is fundamentally quantitative. Surveys are used to obtain numeric description of trends, attitudes, or opinions of a population by studying a sample of the population aimed to serve the purpose of this research. Prior to mass survey distribution, a pilot study was carried out first to ensure reliability and validity of the survey instrument. After the preliminary round of survey instrument testing, the survey instrument was revised and ready for data collection. A cross-sectional sample survey field study is employed in this research as data were collected at a single point in time.

5.4 Construct's Development

This research adapts validated measures from the literature with minor modifications to accommodate the purpose of this research. This is a common approach and it brings two major advantages: the existing instruments have already been assessed for validity and reliability, and it allows comparison in findings with the previous results from other studies (Kitchenham & Pfleeger, 2002). Adhering to Hair, Hult, Ringle & Sarstedt (2017), multi-item scales were used for all the variables to improve accuracy of measuring abstract concepts and to reduce measurement error.

Table 5.2 presents the number and sources of the items used to measure constructs in this research. In total, 66 scale items were used to measure the constructs in this research. The choice of measures for each of the constructs was made based on careful consideration of its suitability. All the measures were used and already verified in the B2B and outsourcing context.

Table 5.2: Measures Adapted from Literature

Constructs	**Number of items**	**Measures adapted from**
Service outcome quality	12 items	(Hasliza and Norbani, 2010; Susomrith & Brown, 2013; Sim, Avvari & Kaliannan, 2016)
Service process quality	22 items	(Chakrabarty et al., 2007; Hasliza et al., 2014)

Satisfaction	5 items	(Homburg et al., 2003)
Loyalty	10 items	(Homburg et al., 2003; Wallenburg et al., 2011; Wallenburg, 2009)
Trust	4 items	(Chakrabarty et al., 2007; Wallenburg et al., 2011)
Commitment	6 items	(Chakrabarty et al.,2007; Schmoltzi & Wollenburg, 2012)
Mutual understanding	3 items	(Lee & Kim, 1999; Swar et al., 2012)
Interdependence	4 items	(Chakrabarty et al., 2007; Goles & Chin, 2005)

5.5 Instrument Design

Instrument design is an important step in quantitative research because poorly worded questions on a survey and misunderstanding of the scaling approach can contribute to measurement error (Hair et al., 2017). Therefore, careful attention was given in designing the instrument, especially in the wording used and order of the questions. Several guidelines were adhered to, such as keeping the questionnaires simple, straight to the point and easy to read (Frazer & Lawley, 2000), maintaining no more than 20 words used in the questions (Oppenheim, 1986) and keeping the overall length of the questionnaire to less than 12 pages (Frazer & Lawley 2000; Hoinville & Jowell 1978).

In this research, the questionnaire starts with a front cover page inviting participants to participate in the survey with a summarised information about the research at a glance. Participants are ensured of anonymity and informed that there is no right or wrong answer. This is part of the strategies in handling common method variance (CMV) bias using procedural design approach (Reio, 2010).

The questionnaire has nine sections in total. The first section, Section A captures basic demographic information such as firm size, type of organisational ownership and type and degree of HRO activity. This section also poses filter questions related to organisational industry, participant's position, outsourced duration and contract duration to ensure that the right participants are targeted.

Other sections probe into service quality (Section B and C), client satisfaction (Section D), client loyalty (Section E) and partnership quality (Section F, G, H and I). 5-point Likert scales with the categories (1) very unsuccessful, (2) unsuccessful, (3) neutral, (4) successful and (5) very successful are used to measure service outcome quality construct in Section B while (1) strongly disagree, (2) disagree, (3) neutral, (4) agree and (5) strongly agree are used to measure the constructs from Section C to Section H.

A 10-point semantic scale was used for both global questions asked in Section B and Section C, designed to verify the formative measurement model for service quality construct. The choice of using a combination of different types of scale as well as scales with different endpoints was to minimise common method bias because the data are to be collected from a single source via self-reported questionnaires (MacKenzie & Podsakoff, 2012; Podsakoff, MacKenzie, Lee & Podsakoff, 2003). In addition, the choice of scale was guided and backed up by the literature (refer to Table 5.2). In essence, the choice of scale must suit the research goal (DeVellis, 2012). Anonymity of data, purpose of the research and the academic background of the research were highlighted on the front cover page of the questionnaire. This is to ensure that respondents are clear of the research objectives and understand the importance of their participation right from the beginning. These steps are often discussed as among ways that are able to reduce common method bias (Chang, Van Mitteloostuijn & Eden, 2010; MacKenzie & Podsakoff, 2012).

Meanwhile, to avoid limiting respondents' answer options to a pre-defined list, respondents are allowed to choose 'other' and being given a space in the questionnaire to input answers applicable to them in answering questions two, four and seven in Section A. In short, this research has resorted to employing procedural technique as much as possible in dealing with common method bias at the instrument designing stage.

Prior to distributing the preliminary questionnaire, internal research ethics approval was obtained (refer Appendix C). An 'Information for Research Participants' sheet (refer to Appendix D) was provided to each respondent so that respondents are clear about the purpose of the research and are able to have access to information about the research. The information sheet would likely address most frequently asked questions by respondents. It also provides details such as the researcher's and the research ethics committee's contact together with the name of the supervisors, in case the respondent needs further clarification. Next, the research proceeded with a pilot study.

5.6 Instrument Pre-Testing/ Pilot Study

Instrument pre-testing or a pilot study is essential because it is important to identify consistency of the questions and an understanding of the respondents to the questionnaire. According to Cooper & Schindler (2008, p.91) “pilot study has saved countless survey studies from disaster by using suggestions of the respondents to identify and change confusing, awkward, or offensive questions and techniques”. The instrument was pre-tested with two senior academics, five senior HR managers and two outsourcing experts on face-to-face interview format. Feedback was collected and the questionnaire was revised accordingly.

From the face-to-face interview, it was commented that the purpose of the survey on the cover page of the questionnaire needs to be clearer and should be easy for participants to relate themselves to. It was suggested to change from “How effective is the HR service provider in delivering the outsourced HR activity(ies)?” to “How effective is your HR vendor/service provider in delivering their service to your organisation?”.

It was advised that the word ‘outsourcing’ may potentially create confusion because there might be different interpretations to it and to some extend, this word would turn some respondents off because outsourcing can be negatively perceived among HR practitioners. Especially in the Asian context, outsourcing can sometimes be perceived as a threat to in-house HR existence and implied weaknesses. Moreover, in the context of HR, outsourcing matters are generally considered sensitive and highly confidential. So, to resolve such confusion and to neutralise the sensitivity, the researcher has re-phrased sentences that contain the word ‘outsourcing’ throughout the questionnaire as much as possible where deemed appropriate. For example, question 7 in Section A was rephrased from “what are the type and degree of HR activity(ies) being outsourced to your HR service provider?” to “what are the type and degree of HR activity(ies) that are currently being tasked to your HR vendor/ service provider?”. Another example is the instruction in Section B from “This section aims to explore the outcomes of the outsourced HR activity(ies) delivered by your service provider” to “This section aims to explore the outcomes of the HR activity(ies) that are being tasked to your main HR service provider”.

In addition, it was commented that the term HR vendor is often used by HR practitioners other than the term HR service provider, thus the term HR vendor/ service provider was used throughout the questionnaire instead of just using the term HR service provider. This is with the intention of making the questionnaire easy to relate to for the respondents.

Since this questionnaire focuses the evaluation on the main HR vendor/ service provider, it was recommended to highlight the instruction in each relevant section that contains these words so that the respondents are reminded on this specific requirement. Hence, the instructions to evaluate the main HR vendor/ service provider from Section B to Section I were underlined to make it obvious to the respondents to prevent potential misinterpretation.

Upon consultation with the five senior HR managers and two outsourcing experts during the face-to-face interview, three items from the service process quality scale required some modifications. Two of these items were from the tangibles dimension whereas the other item was from the responsiveness dimension. The first item was revised from “the outsourcing vendor’s physical facilities were visually appealing” to “the HR vendor/ service provider’s physical facilities were able to support their business operation” and the second item was revised from “the outsourcing vendor’s employee were well dressed and neat in appearance” to “the HR vendor/ service provider’s employees carried themselves professionally” and the last item from “the outsourcing vendor insisted on error-free records” to “the HR vendor/ service provider attempted to minimise error”.

According to the experts, this version of the items can better reflect the scenario in HRO because firstly, if the HR vendor/ service provider has appealing physical facilities but fail to support their operation then it would be less meaningful. Secondly, how the HR vendor/ service provider’s employees dressed was of no more importance than that they behave and interact in a professional manner, as most of them would already be dressed in decent office wear by default. Thirdly, the expectation on being error free at the beginning of the outsourcing relationship is an over expectation against the reality because the early phase of outsourcing requires adaptation from both parties and some degree of trial and error would be anticipated. So, attempting to minimise error rather than insisting on error free would be a more reasonable expectation. All the above modifications to the questionnaire are important as they help to address the complex, abstract or ambiguous items which are likely to cause method bias (Podsakoff, MacKenzie & Podsakoff, 2012).

Another feedback was on the length of the questionnaire, even though it was less than 12 pages. It was commented that the participants would likely be exhausted. In response to this, further modifications to the questionnaire were done. For example, question one which initially required respondents to select from a long list of industries was changed to just choosing from manufacturing and non-manufacturing industries. Question seven which initially asked respondents to indicate their percentage of HRO by writing them was changed to just having to select one from five categories of HRO percentage provided. Once the instrument was properly revised (refer to Appendix D), it was distributed to 30 HR respondents sampled through convenient sampling to verify its reliability and to collect more feedback (if any) for all the variables.

According to Pallant (2013), it is important to find scales that are reliable and one of the main concerns is the scale's internal consistency, that is, to what extent do the items that make up the scale 'hang together'. Thus, reliability tests should be carried out first in assessing the quality of the instrument (Churchill, 1979). One of the commonly used indicators of internal consistency is Cronbach's alpha coefficient (Pallant, 2013). Ideally, Cronbach's alpha coefficient of a scale should be above 0.7 (DeVellis, 2012). However, it is reminded that Cronbach's alpha should not be used as a measure of uni-dimentionality especially when the questionnaire has subscales; it should be applied separately to these subscales (Field, 2013). Table 5.3 indicates the results from a reliability test for each of the variables from the pilot test of 30 respondents.

Table 5.3: Pilot Study Reliability Test Results

Variable	**Measures adapted from**	**Cronbach's Alpha (from literature)**	**Cronbach's Alpha (from pilot study)**
Service Outcome Quality	(Hasliza and Norbani, 2010; Susomrith & Brown, 2013; Sim et al., 2016)	Not reported	0.72 0.93
Service Process Quality • Tangibles • Reliability • Responsiveness • Assurance • Empathy	(Chakrabarty et al., 2007; Hasliza et al., 2014)	0.83 0.82 0.88 0.86 0.91	0.76 0.80 0.77 0.90 0.91
Client Satisfaction	(Homburg et al., 2003)	0.89	0.95
Client Loyalty • Intention to Repurchase • Intention to Expand • Referrals	(Homburg et al., 2003; Wallenburg, 2009) (Wallenburg et al., 2011)	0.93 0.85 0.94	0.94 0.89 0.92

Partnership Quality			
• Trust	(Chakrabarty et al., 2007; Wallenburg et al., 2011)	0.92; 0.92	0.85
• Commitment	(Chakrabarty et al., 2007; Schmoltzi & Wollenburg, 2012)	0.90; 0.82	0.90
• Mutual Understanding	(Lee & Kim, 1999; Swar et al., 2012)	0.87; 0.84	0.90
• Interdependence	(Chakrabarty et al., 2007; Goles & Chin, 2005)	0.72; Not Reported	0.82

Referring to the reliability test results in Table 5.3, it shows that all the variables in this research have high reliabilities. The Cronbach's alpha coefficient for each of the variables is above 0.7 which suggests good internal consistency and reliability of the scale. Hence, the questionnaire is now ready for mass data collection. The final version of the items used in the questionnaire for each construct is shown in Table 5.4 below.

Table 5.4: Items Used in Questionnaire

Construct	Items
Service Outcome Quality	Lower Investment in software/ maintenance Convert fixed costs to variable costs Reduce HR staff/ downsize HR department Standardise HR services Improve discipline/ accountability Acquire specialized HR capabilities Align resource supply to demand/ minimize capacity gap Obtain better/ more HR-rekated technology Minimise HR workload Keeping up with changes (i.e. regulations) Refocus internal HR staff on core business activities Access best practice, new developments
Service Process Quality	<u>Tangibles</u> The service provider has up-to-date hardware and software. The service provider's physical facilities were able to support their business operations. The service provider's employees carried themselves professionally. The appearance of the physical facilities of the outsourcing provider was in keeping with the kind of services provided. <u>Reliability</u> When the service provider promised to do something by a certain time, they did. When client had a problem, the service provider showed a sincere interest in solving it. The service provider was dependable. The service provider provided their service at times they promised to do so.

	The service provider attempted to minimize error. <u>Responsiveness</u> The service provider told client exactly when services would be performed. The service provider's employees gave prompt service to client. The service provider's employees were always willing to help client. The service provider' s employees were never too busy to respond to client's requests. <u>Assurance</u> The behaviour of the service provider's employees instiiled confidence in client. Client felt safe in their trnsactions with the service provider's employees. The service provider's employees were consistently courteous. The service provider's employees had the knowledge to do their job well. <u>Empathy</u> The service provider gave client individual attention. The service provider had operation hours convenient to all their clients. The service provider had employees who gave client personal attention. The service provider had the client's best interest at heart. The employees of the service provider understood the specific needs of their client.
Client Satisfaction	Overall, our company is very satisfied with this service provider. Our company is completely happy with this service provider. If we had to do it all over again, we would still choose this provider for this sevice. We are very pleased with our relationship with this service provider. Our experience with this service provider has been good.
Client Loyalty	<u>Contract Continuation</u> We intend to extend existing contract with this service provider when they expire. It is probable that our relationship with this service provider will continue. We will continue using this service provider in the future. We intend to stay loyal to this service provider. We expect this service provider to be working with us for a long time. <u>Contract Expansion</u> In the future, this service provider will receive larger share of our business. We expect to expand our business with this service provider. Over the next few years, this service provider will be used more than it is now. <u>Referrals</u> I often mention this service provider to my co-worker in a positive way. I often recommend this service provider to persons outside my company. We often recommend this service provider.
Trust	In our relationship, the service provider made decisions beneficial to us. In our relationship, the service provider was always willing to provide assistance to us. In our relationship, the service provider was always sincere. In our relationship, the service provider was always trustworthy.
Commitment	In our relationship, the service provider performed prespecified agreements very well. In our relationship, our firm faithfully provided support prespecified in the contract. In our relationship, the service provider and my firm always tried to keep promises.

	Our company is willing to dedicate whatever people and resources necessary to maintain this cooperation. Our company is willing to make long-term investment in this cooperation. Our company is willing to sacrifise to help our cooperation partner.
Mutual Understanding	In our relationship, we understand the business process of our service provider very well. In our relationship, we and our service provider perfectly understand our business objectives. In our relationship, we clearly comprehend our roles and service provider's roles.
Interdependence	Both the service provider and the company effectively supported activities that required mutual participation. In our relationship, the service provider supported and managed HR services the company needed. Both parties in the relationship effectively carry out activities that the other is dependent on. Both parties in the relationship successfully complete tasks that the other relies on.

5.7 Sampling and Procedure

The population of this research are the manufacturing firms in Malaysia that have outsourced their HR activity(ies). A single industry is chosen so that possible different benefit perceptions between diverse research contexts can be properly accounted for (Chiasson & Davidson, 2005). These manufacturing firms are selected from the Federation of Malaysia Manufacturer (FMM) 2017 Directory. The population in the directory is 1304 contactable companies and the estimated population for firms that are outsourcing HR is 49% (Hasliza and Norbani, 2010) which is equivalent to 639 firms. This is regarded as the estimated sampling frame for this research.

The selection of having respondents from manufacturing organisations in Malaysia is not without reasons. Firstly, the employment in the manufacturing sector in Malaysia has increased from 97,000 to 100,533 between 2010 and 2011 as a result of high growth and high investment (Outsourcing Malaysia, 2013). Such growth has led manufacturers in Malaysia to be inclined to outsourcing HR (Outsourcing Malaysia, 2013) and thus, it has since met the background requirement for this research in which firms must have embraced HRO in order to qualify for participation in this research.

Secondly, the nature of this research requires respondents to evaluate HRO service providers' service performance, hence these respondents from the manufacturing firms would likely have accumulated sufficient HRO experience to warrant a valid response. It is a requirement that a respondent must have at least two years of HRO experience in order to qualify for participation. This is in line with the operationalisation of HRO in this research. Furthermore, it will also directly address the concern raised by Wright, Gardner, Monihan & Allen (2005) in which they argue that HR practice requires some time to take effect.

Purposive sampling with simple random selection is used in this reserach because only firms that outsource their HR are qualified to participate. Following Nguyen & Chang (2017), only HR managers or executives who are dealing with HRO matters are invited as the target respondents in this survey. They are deemed suitable because they are in the positions to accurately report on the strategy of the organisation regarding HRO and also the HRO outcomes. They are the ones who are aware of the HRO interactions and experiences encountered which in turn determine the continuation of the outsourcing relationship. Therefore, they are the best choice in seeking insights into HRO (Susomrith & Brown, 2013; Hasliza et al., 2014; Sim et al., 2016).

On the other hand, this means that the responses for the independent and dependent variables are obtained from the same respondent. It is acknowledged that this may risk common method bias (Chang et al., 2010). However, it must also be noted that it is not always possible to use different sources of respondents under all situations as it involves more effort, time and higher cost (Tahseen, Ramayah & Sajilan, 2017) especially in organisational research of this nature. Given that obtaining sufficient organisational respondents was already a challenge and the respondents unwillingness to ‘trouble’ their colleagues to pair up with them to answer the dependent variable measure, the researcher has no choice but to stick with the same respondent. Moreover, requesting a firm to stand down its employees so that they can participate in self-report surveys on several occasions may simply not be feasible and understandably, the firm may not be willing to absorb the cost for multiple sessions of data collection (Reio, 2010). As a result, although procedural remedies for common method bias are attempted right from the instrument design stage, statistical remedies will be carried out in Section 6.6 later.

The sample size of this research has been calculated based on the recommendation by Hair et al. (2017) using the G Power analysis. The G power analysis shows that a minimum sample size of 230 respondents is required to have a model with an R^2 of 0.15 significant at 95% of the time in predicting the dependent variable. The number of predictors is based on the maximum number of arrowheads pointing a latent variable anywhere in the PLS path model (Hair et al., 2017).

Also, considering that a firm can possibly outsource to multiple HRO service providers, only the main service provider whom the firm outsourced most of its HR activity(ies) to will be evaluated by the respondents for the purpose of this research. This is to avoid confusion among respondents as to which HRO service provider they should evaluate in the event that they outsource to more than one service provider.

The targeted respondents are approached through email, phone calls, and face-to-face meetings to invite their participation. Both online and paper-based questionnaires are made available to the respondents to suit their preference and time convenience to encourage participation. As participants are approached by referring to the FMM directory, the use of online and paper-based are merely as a means of accessibility after participants agreed to take part in the survey hence leaving little contribution to sampling bias concern.

5.8 Method of Data Analysis

Second generation multivariate analysis using partial least squares structural equation modelling (PLS-SEM) version 3.2.8 is used to analyse the data. The reasons behind choosing PLS-SEM are plenty. According to Hair et al. (2017), PLS-SEM is a suitable choice especially if the primary objective of applying structural modelling is prediction and explanation of target constructs. On this basis, PLS-SEM primarily fits the purpose of this research. In particular, this research seeks to examine and explain the effect of service outcome quality and service process quality on client satisfaction and loyalty in the context of HRO. It also aims to predict the effect of partnership quality as a moderating variable on the service quality-satisfaction-loyalty link so that any changes to the paths in the model can be observed and proper explanation can be developed to enhance scholarly understanding.

PLS-SEM can easily handle a complex model with a combination of reflective and formative measurement models (Hair, Hult, Ringle & Sardstedt, 2014) which directly resembles the research model in this research. This is crucial because recent development in literature has regarded perceived service performance as a measure of service quality and that the service attributes cause a service quality dimension, not vice versa (Ahrholdt et al., 2017; Akdere, Top and Tekingündüz. 2018; Dragger, Sweeney & Johnson, 2007). This means the indicators of service quality causes the service quality construct, hence forminga formative measurement model. Consequently, both service outcome quality and service process quality dimensions are made up of formative indicators in this research while the rest of the constructs are made up of reflective indicators, demonstrating a complex model with a combination of reflective and formative measurement models. This has predominantly justified the use of PLS-SEM because PLS-SEM is considered as the primary approach when the hypothesised model incorporates formative measures (Hair et al., 2014) especially when it was proven that covariance-based SEM (CB-SEM) suffers from identification and convergence issues when formative measures are involved (Diamantopoulos, 2011). Furthermore, some of the constructs in this research are quite complex, involving higher-order models or hierarchical component models (HCM). These constructs include service outcome quality, service process quality and client loyalty in which each has 2 dimensions, 5 dimensions and 3 dimensions respectively. As a result, it increases the complexity of the research model.

According to Reinartz, Haenlein & Henseler (2009), PLS-SEM is a good choice when the sample size is small. This is mainly because the overall complexity of a structural model has little influence on the sample size requirements for PLS-SEM as the algorithm does not compute all relationships in the structural model at the same time (Hair et al., 2017). Instead, it uses ordinary least square regressions to estimate the model's partial regression relationships. Chin & Newsted (1999) have systematically evaluated the performance of PLS-SEM with small sample sizes and concluded that it performed well. Consistent findings were found by Reinartz et al. (2009). In short, compared with CB-SEM, PLS-SEM has higher levels of statistical power in situations with smaller sample size (Hair et al., 2014). This is another key consideration for choosing PLS-SEM in this research because the sample size could be small, as not all manufacturing firms in the directory are contactable and can qualify as a respondent.

Only firms with HRO engagement of no less than two years qualify to be the target responding firms.

In addition, the result of CB-SEM and PLS-SEM typically do not differ much and can be good proxies of CB-SEM results (Hair et al., 2014). In fact, PLS-SEM's statistical properties provide very robust model estimation with both normally and extremely non-normally distributed data (Reinartz et al., 2009). Therefore, in situations where it is difficult or impossible to meet the traditional multivariate technique which requires normal data distribution, PLS-SEM is the preferred method (Hair et al., 2014). Given that it is rather an uncommon occurrence in social science research to obtain a perfectly normal data distribution (Pallant, 2013), this again provides another ground to choose PLS-SEM in this research.

Last but not least, PLS-SEM also works fine with data obtained using ordinal scales such as Likert scales as long as it fulfils the requirement of equidistance (Hair et al., 2014). 5-point Likert scales with the categories (1) strongly disagree, (2) disagree, (3) neither agree nor disagree/ neutral, (4) agree and (5) strongly agree (of which the scales in this research adhere to) infers that the distance between catergories 1 and 2 is the same as between categories 3 and 4. So, this Likert scale is perceived as symmetric and equidistant which will behave more like an interval scale, having the ability to approximate an interval-level measurement, and the corresponding variables can be used in SEM (Hair et al., 2014). Overall, Table 5.5 summarises the justifications for using PLS-SEM in this research.

Table 5.5: Justifications to Use PLS-SEM

Reasons to use PLS -SEM	**Applicable to this research?**
• Objective of the research is to predict key target constructs	√
• Structural model involves formative measured constructs	√
• The structural model is complex with many constructs and many indicators	√
• Small sample size and data are not normally distributed	√
• Latent variable scores are to be used in subsequent analyses	√

Source: Adapted from Hair et al. (2014; 2017), and Chin & Newsted (1999).

CHAPTER 6

PATH MODEL AND DATA ANALYSIS

6.1 Introduction

This chapter covers data examination, statistical remedies for common method bias, analysis and findings of the measurement models (outer models) and path model, namely, the structural model (inner model). In particular, the concept of hierarchical component models (HCM) is discussed and justification for the approach used in this research is provided. Confirmatory tetrad analysis is performed to ascertain the formative or reflective nature of a construct prior to examining the measurement model of a particular construct.

6.2 Data Collection and Examination

Upon collecting data, data examination is a very important stage in the application of SEM (Hair et al., 2014; 2017). PLS SEM requires quantitative data and that data collected through questionnaires need to be examined in terms of missing data, outliers, suspicious response patterns and data distribution (Pallant, 2013).

6.2.1 Missing Data

Missing data occur when a respondent deliberately or unintentionally fails to answer one or more question(s) (Hair et al., 2014; 2017). Generally, the amount of missing data on a questionnaire should not exceed 15% and in the event that it does, the observation is typically removed (Hair et al., 2014; 2017). In this research, missing data for each of the variable was checked using SPSS descriptive analysis and observation with more than 15% missing data was deleted. This resulted in 260 complete observations from 275 observations (from the questionnaires returned).

6.2.2 Suspicious Response Patterns

Prior to analysing data, suspicious response patterns have to be examined specially to identify the presence of straight lining, that is when the respondent marks the same response for a high proportion of the questions (Hair et al., 2014; 2017). According to Hair et al. (2017), the respondent who consistently chooses middle response or focusing the answers around a specific scale-point should in most cases be removed. In this research, the response patterns were examined and two observations were removed resulting in 258 observations.

6.2.3 Outliers

An outlier is a score very dissimilar from the rest of the data (Field, 2013). It can be an extreme response to a specific question, or extreme responses to all questions (Hair et al., 2017). The outliers are identified using boxplot, in which a little circle appeared with a number attached and in case of extreme point, it is indicated with an asterisk (Pallant, 2013). According to Hair et al. (2014; 2017), the most frequent approach to deal with outliers when there are only a few of them is to simply remove them from the data set. In this research, this procedure was adhered to by removing one observation from the data set, hence resulting in 257 observations.

6.2.4 Data Distribution/ Normality

Although PLS-SEM is a nonparametric statistical method which does not require data to be normally distributed, it is still important to verify that the data are not too far from normal because extremely non-normal data prove problematic in the assessment of the parameter's significances (Hair et al., 2017). Instead of relying on Kolmogorov-Smirnov test and Shapiro-Wilks test which are designed to test normality, researchers should examine two measures of distributions namely skewness and kurtosis (Hair et al., 2014; 2017).

Skewness value indicates the symmetry of the distribution whereas kurtosis provides information as to whether the distribution is too peaked (Pallant, 2013; Hair et al., 2017). A general guideline is that if the skewness value is greater than +1 and lower than -1, it is an indication of a substantially skewed distribution whereas for kurtosis, if the kurtosis value is greater than +1 then the distribution is too peaked (Hair et al., 2017). If both the skewness and kurtosis values are 0, it indicates a perfect normal distribution which is rare in social sciences research (Pallant, 2013).

In this research, multivariate skewness and kurtosis are examined using an online software available at:

https://webpower.psychstat.org/models/kurtosis/results.php?url=64ad5d395713373f566fe6bd757b2ac2 as recommended by Hair et al. (2017) and Cain, Zhang & Yuan (2016). The results show that the data was not multivariate normal with Mardia's multivariate skewness ($\beta = 2.555$, $p< 0.01$) and Mardia's multivariate kurtosis ($\beta = 31.491$, $p< 0.01$) as the skewness value is greater than +1, and the kurtosis value is greater than +20. Thus, it justifies the use of SmartPLS which is a non-parametric analysis software for this research.

As a result of the data examination procedure, it has resulted in 40.22% response rate with 257 useable observations which is considered sufficient for PLS-SEM analysis in this research.

6.2.5 Analysis of Respondents

Table 6.1 provides the breakdown detail of organisational background which the respondents are from.

Table 6.1: Respondents' Organisational Profile

Ownership		
	Frequency	Percent
Local Owned	100	38.9
Foreign Owned	119	46.3
A Mixture of Local and Foreign Owned	38	14.8
Total	257	100.0
Size		
	Frequency	Percent
Small-5 to less than 75 employees	39	15.2
Medium-75 to less than 200 employees	54	21.0
Large-200 to less than 500 employees	46	17.9
Larger-Above 500 employees	118	45.9
Total	257	100.0
Position		
	Frequency	Percent
HR Director/ HR Manager	118	45.9
HR Executive/ HR Officer	126	49.0
Group/ Regional HR	13	5.1
Total	257	100.0
Contract Duration		
	Frequency	Percent
2-3 years	44	17.1
4-5 years	168	65.4
6-10 years	18	7.0
More than 10 years	27	10.5
Total	257	100.0
Contracted Duration		
	Frequency	Percent
2-3 years	42	16.3
4-5 years	89	34.6
6-10 years	56	21.8

More than 10 years	70	27.2
Total	257	100.0
Types and Degree of HR activity Outsourced		
	Frequency	Percent
Recruitment	24	9.3
Selection	31	12.1
Training/ Learning & Development	26	10.1
Foreign Workers Management	25	9.7
HR Policy & Strategy	13	5.1
Employee Welfare	6	2.3
Payroll	7	2.7
Performance Management	5	1.9
Expatriate Management	1	0.4
Employee Relations	2	0.8
Workforce Outplacement & Reduction	0	0.0
Employee Data/ Record Management	5	1.9
Travel & Expenses	0	0.0
Benefits Management	1	0.4
Relocation	0	0.0
Exit Interview	0	0.0
Management Reporting	9	3.5
Vendor/3rd Party Management (management of external service providers)	102	39.7
Total	257	100.0

6.3 Hierarchical Component Models (HCMs)

Hierarchical component models are commonly used when constructs examined by researchers are complex (Hair et al., 2014; 2017). This is doable by summarising the lower-order components (LOCs) into a single multidimensional higher-order construct (HOC). This means HCM represents a more general construct, measured at a higher level of abstraction. According to Polites, Roberts & Tatcher (2012), HCMs can overcome the bandwidth-fidelity tradeoff and jangle fallacy issues. In addition, HCMs allow the presentation of path model in a more parsimonious and easier to apprehend manner through path coefficient reduction (Hair et al., 2014; 2017).

In this research, the service process quality (SPQ) construct was operationalised as a construct made up of five components while the client loyalty (LY) construct was operationalised as a construct made up of three components. Therefore, only these two constructs are modelled as HCMs. The two-stage approach is used to develop the model. First, the repeated indicators approach was used to obtain the LOCs' scores followed by using these scores as additional variables for further analysis in the second stage. This approach was chosen because it allows confirmatory tetrad analysis (CTA-PLS) to be performed to evaluate the relationships between HOCs and LOCs at the later stage of analysis (Hair, Sarstedt, Ringle & Gudergan, 2018).

6.4 Confirmatory Tetrad Analysis

Confirmatory tetrad analysis (CTA-PLS) has been introduced in recent years to empirically assess whether data supports a formative measurement model specification or a reflective specification (Hair et al., 2018). More specifically, when the method disconfirms the appropriateness of a reflective measurement model, it provides support for a formative measurement model (Hair et al., 2018). It was highlighted that none of the HRM studies made use of confirmatory tetrad analysis to test the mode of measurement (Ringle, Sarstedt, Mitchell & Guderson, 2018).

CTA-PLS helps to avoid measurement model misspecification in general (Bollen and Diamantopoulos, 2017) and PLS-SEM in particular, (Hair, Sarstedt, Ringle and Mena, 2012) which is important because failure to specify the measurement models correctly can result in inaccurate estimates of the parameters (Hair et al., 2018). However, it must be mindful that CTA-PLS results should not be mechanically applied (Hair et al., 2018) and that a pure data-driven perspective needs to be supplemented with theoretical consideration (Ramayah, Cheah, Chuah, Ting & Memon, 2018).

Often, the decision to specify a measurement model as reflective or formative is not a clear-cut practice because conceptual variables do not inherently follow reflective or formative measurement logic. Hence, researchers have the flexibility to define how the proxies are to be derived in a measurement model based on the construct definition in the context of their research (Hair et al., 2018). Besides, not all constructs can qualify to run CTA-PLS because CTA-PLS in SmartPLS includes only latent variables that have four or more indicators (Hair et al., 2018). Therefore, only service process quality (SPQ), service outcome quality (SOQ), client satisfaction (SAT), trust (T), commitment (C), interdependence (I) constructs are qualified to run CTA-PLS. Client loyalty (LY) and mutual understanding (MU) are not qualified.

Prior to running CTA-PLS, the indicator correlations of qualified constructs mentioned above were inspected in order to determine whether the constructs are sufficiently different from zero. Table 6.2 indicates that all the values are different from zero which means all the said constructs are qualified for further analysis.

Table 6.3 indicates SPQ CTA-PLS results where the CI Low adj. and CI Up adj. show the upper and lower bounds of the 90% bias-corrected and Bonferroni-adjusted confidence intervals. The confidence interval of SPQ’s tetrad 1 has a lower boundary of 0.019 and an upper boundary 0.153 and therefore, does not include zero. This result suggests that SPQ’s measurement model is formative, providing empirical support which fits the operationalisation of SPQ. More importantly, the indicators are not mutually interchangeable as they do not have the same or similar theme, and the causality is from the indicators to construct. Based on these justifications, the SPQ’s measurement mode is considered formative in this research.

CTA-PLS results in Table 6.4 for SOQ construct also show the bias-corrected and Bonferroni-adjusted confidence intervals for tetrads 6, 67, 175, 385 and 389 do not have zero straddle in between them. This means that the tetrads are significantly different from zero given that the first three tetrads are both negative and the remaining two tetrads are both positive. Hence, the results suggest SOQ's measurement mode as formative.

The CTA-PLS results for SOQ and SPQ are consistent with recent development in literature which regards perceived service performance as a measure of service quality and that service attributes cause a service quality dimension, not vice versa (Ahrholdt et al., 2017; Dragger et al., 2007). This means the indicators of service quality causes the service quality construct, hence forming a formative measurement model.

Table 6.2: Results of Indicator Correlations

	SOQ_1	SOQ_10	SOQ_11	SOQ_12	SOQ_2	SOQ_3	SOQ_4	SOQ_5	SOQ_6	SOQ_7	SOQ_8	SOQ_9
SOQ_1	1.000											
SOQ_10	0.410	1.000										
SOQ_11	0.323	0.564	1.000									
SOQ_12	0.446	0.615	0.664	1.000								
SOQ_2	0.565	0.302	0.354	0.326	1.000							
SOQ_3	0.428	0.417	0.432	0.387	0.405	1.000						
SOQ_4	0.449	0.359	0.457	0.442	0.385	0.531	1.000					
SOQ_5	0.521	0.458	0.343	0.462	0.396	0.447	0.578	1.000				
SOQ_6	0.414	0.401	0.425	0.520	0.332	0.282	0.487	0.521	1.000			
SOQ_7	0.337	0.309	0.322	0.400	0.427	0.415	0.446	0.502	0.511	1.000		
SOQ_8	0.410	0.495	0.417	0.566	0.319	0.312	0.429	0.506	0.504	0.487	1.000	
SOQ_9	0.390	0.474	0.563	0.453	0.351	0.447	0.451	0.496	0.419	0.430	0.483	1.000
	SPQ_A	SPQ_E	SPQ_R	SPQ_RES	SPQ_T							
SPQ_A	1.000											
SPQ_E	0.833	1.000										
SPQ_R	0.791	0.792	1.000									
SPQ_RES	0.823	0.779	0.842	1.000								
SPQ_T	0.619	0.618	0.677	0.639	1.000							
	Sat_1	Sat_2	Sat_3	Sat_4	Sat_5							
Sat_1	1.000											
Sat_2	0.520	1.000										
Sat_3	0.607	0.508	1.000									
Sat_4	0.559	0.497	0.526	1.000								
Sat_5	0.610	0.539	0.514	0.592	1.000							
	T_1	T_2	T_3	T_4								
T_1	1.000											
T_2	0.512	1.000										
T_3	0.604	0.686	1.000									
T_4	0.536	0.698	0.792	1.000								
	C_1	C_2	C_3	C_4	C_5	C_6						
C_1	1.000											
C_2	0.682	1.000										
C_3	0.648	0.691	1.000									
C_4	0.508	0.471	0.587	1.000								
C_5	0.545	0.486	0.484	0.644	1.000	0.697						
	ID_1	ID_2	ID_3	ID_4								
ID_1	1.000											
ID_2	0.513	1.000										
ID_3	0.651	0.677	1.000									
ID_4	0.674	0.562	0.714	1.000								

Table 6.3: SPQ CTA-PLS Results

SPQ	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: SPQ_A,SPQ_E,SPQ_R,SPQ_Res	0.085	0.084	0.029	2.942	0.003	-0.001	0.038	0.133	0.020	2.327	0.019	0.153
2: SPQ_A,SPQ_E,SPQ_Res,SPQ_R	0.049	0.049	0.031	1.578	0.115	0.000	-0.002	0.101	0.020	2.327	-0.023	0.122
4: SPQ_A,SPQ_E,SPQ_R,SPQ_T	0.075	0.075	0.041	1.848	0.065	0.000	0.009	0.143	0.020	2.327	-0.019	0.171
6: SPQ_A,SPQ_R,SPQ_T,SPQ_E	-0.001	-0.002	0.024	0.059	0.953	0.000	-0.041	0.039	0.020	2.327	-0.057	0.055
10: SPQ_A,SPQ_R,SPQ_Res,SPQ_T	-0.052	-0.052	0.024	2.179	0.029	0.000	-0.092	-0.013	0.020	2.327	-0.109	0.003

Table 6.4: SOQ CTA-PLS Results

SOQ	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: SOQ_1,SOQ_10,SOQ_11,SOQ_12	0.016	0.016	0.009	1.903	0.057	0.000	0.003	0.031	0.002	3.115	-0.010	0.043
2: SOQ_1,SOQ_10,SOQ_12,SOQ_11	0.005	0.004	0.010	0.445	0.657	0.000	-0.012	0.022	0.002	3.115	-0.027	0.037
4: SOQ_1,SOQ_10,SOQ_11,SOQ_2	0.011	0.010	0.005	1.998	0.046	0.000	0.002	0.019	0.002	3.115	-0.006	0.027
6: SOQ_1,SOQ_11,SOQ_2,SOQ_10	-0.049	-0.049	0.012	4.014	0.000	0.001	-0.070	-0.030	0.002	3.115	-0.088	-0.012
10: SOQ_1,SOQ_10,SOQ_11,SOQ_4	0.016	0.016	0.006	2.781	0.005	0.000	0.007	0.026	0.002	3.115	-0.002	0.035
13: SOQ_1,SOQ_10,SOQ_11,SOQ_5	-0.002	-0.002	0.006	0.285	0.776	0.000	-0.011	0.008	0.002	3.115	-0.019	0.016
17: SOQ_1,SOQ_10,SOQ_6,SOQ_11	-0.012	-0.012	0.011	1.163	0.245	0.000	-0.030	0.005	0.002	3.115	-0.046	0.021
20: SOQ_1,SOQ_10,SOQ_7,SOQ_11	-0.013	-0.013	0.011	1.208	0.227	0.000	-0.031	0.005	0.002	3.115	-0.047	0.021
24: SOQ_1,SOQ_11,SOQ_8,SOQ_10	-0.016	-0.016	0.011	1.494	0.135	0.000	-0.035	0.001	0.002	3.115	-0.051	0.017
27: SOQ_1,SOQ_11,SOQ_9,SOQ_10	-0.016	-0.016	0.010	1.566	0.117	0.000	-0.033	0.001	0.002	3.115	-0.048	0.016
31: SOQ_1,SOQ_10,SOQ_12,SOQ_3	-0.006	-0.006	0.007	0.842	0.400	0.000	-0.018	0.006	0.002	3.115	-0.029	0.017
33: SOQ_1,SOQ_12,SOQ_3,SOQ_10	-0.018	-0.017	0.010	1.740	0.082	0.000	-0.034	-0.001	0.002	3.115	-0.049	0.014
40: SOQ_1,SOQ_10,SOQ_12,SOQ_6	0.007	0.007	0.007	1.036	0.300	0.000	-0.004	0.018	0.002	3.115	-0.014	0.029
43: SOQ_1,SOQ_10,SOQ_12,SOQ_7	0.006	0.006	0.006	0.929	0.353	0.000	-0.004	0.016	0.002	3.115	-0.014	0.026
47: SOQ_1,SOQ_10,SOQ_8,SOQ_12	-0.004	-0.005	0.010	0.464	0.642	0.000	-0.020	0.011	0.002	3.115	-0.035	0.026
55: SOQ_1,SOQ_10,SOQ_2,SOQ_4	-0.010	-0.010	0.008	1.319	0.187	0.000	-0.023	0.003	0.002	3.115	-0.034	0.014
59: SOQ_1,SOQ_10,SOQ_5,SOQ_2	0.001	0.001	0.005	0.216	0.829	0.000	-0.008	0.010	0.002	3.115	-0.015	0.018
61: SOQ_1,SOQ_10,SOQ_2,SOQ_6	-0.019	-0.019	0.010	1.956	0.050	0.000	-0.035	-0.003	0.002	3.115	-0.049	0.011
67: SOQ_1,SOQ_10,SOQ_2,SOQ_8	-0.034	-0.033	0.009	3.558	0.000	0.000	-0.050	-0.018	0.002	3.115	-0.064	-0.005
78: SOQ_1,SOQ_3,SOQ_5,SOQ_10	-0.005	-0.005	0.010	0.493	0.622	0.000	-0.021	0.011	0.002	3.115	-0.035	0.026
82: SOQ_1,SOQ_10,SOQ_3,SOQ_7	0.009	0.009	0.008	1.113	0.266	0.000	-0.004	0.022	0.002	3.115	-0.016	0.034
97: SOQ_1,SOQ_10,SOQ_4,SOQ_7	0.010	0.010	0.008	1.345	0.179	0.000	-0.002	0.023	0.002	3.115	-0.013	0.034
99: SOQ_1,SOQ_4,SOQ_7,SOQ_10	0.004	0.004	0.006	0.698	0.485	0.000	-0.006	0.014	0.002	3.115	-0.014	0.023
105: SOQ_1,SOQ_4,SOQ_9,SOQ_10	0.018	0.018	0.008	2.324	0.020	0.000	0.005	0.031	0.002	3.115	-0.006	0.042
145: SOQ_1,SOQ_11,SOQ_12,SOQ_5	-0.001	-0.001	0.005	0.178	0.859	0.000	-0.009	0.007	0.002	3.115	-0.016	0.014
175: SOQ_1,SOQ_11,SOQ_2,SOQ_8	-0.030	-0.029	0.009	3.398	0.001	0.000	-0.044	-0.016	0.002	3.115	-0.057	-0.003
179: SOQ_1,SOQ_11,SOQ_9,SOQ_2	-0.006	-0.006	0.005	1.078	0.281	0.000	-0.015	0.003	0.002	3.115	-0.022	0.011
186: SOQ_1,SOQ_3,SOQ_5,SOQ_11	-0.018	-0.018	0.009	1.943	0.052	0.000	-0.033	-0.003	0.002	3.115	-0.046	0.011
194: SOQ_1,SOQ_11,SOQ_8,SOQ_3	-0.018	-0.018	0.008	2.121	0.034	0.000	-0.032	-0.004	0.002	3.115	-0.044	0.008
196: SOQ_1,SOQ_11,SOQ_3,SOQ_9	-0.024	-0.023	0.011	2.089	0.037	0.001	-0.043	-0.006	0.002	3.115	-0.060	0.011
200: SOQ_1,SOQ_11,SOQ_5,SOQ_4	-0.011	-0.011	0.008	1.401	0.161	0.000	-0.025	0.002	0.002	3.115	-0.037	0.014
243: SOQ_1,SOQ_8,SOQ_9,SOQ_11	0.016	0.016	0.011	1.547	0.122	0.000	-0.001	0.034	0.002	3.115	-0.016	0.050
268: SOQ_1,SOQ_12,SOQ_3,SOQ_5	0.000	0.000	0.008	0.058	0.953	0.000	-0.013	0.014	0.002	3.115	-0.024	0.026
294: SOQ_1,SOQ_4,SOQ_8,SOQ_12	0.016	0.016	0.009	1.930	0.054	0.000	0.003	0.031	0.002	3.115	-0.010	0.043
313: SOQ_1,SOQ_12,SOQ_6,SOQ_8	-0.002	-0.002	0.008	0.253	0.801	0.000	-0.015	0.011	0.002	3.115	-0.026	0.022
327: SOQ_1,SOQ_8,SOQ_9,SOQ_12	-0.008	-0.008	0.010	0.877	0.380	0.000	-0.024	0.007	0.002	3.115	-0.038	0.021
342: SOQ_1,SOQ_3,SOQ_8,SOQ_2	-0.007	-0.007	0.007	0.974	0.330	0.000	-0.018	0.005	0.002	3.115	-0.029	0.015
354: SOQ_1,SOQ_4,SOQ_7,SOQ_2	0.014	0.014	0.007	1.936	0.053	0.000	0.002	0.026	0.002	3.115	-0.008	0.037
385: SOQ_1,SOQ_2,SOQ_7,SOQ_9	0.030	0.029	0.008	3.595	0.000	0.000	0.016	0.044	0.002	3.115	0.004	0.056
389: SOQ_1,SOQ_2,SOQ_9,SOQ_8	0.035	0.035	0.011	3.357	0.001	-0.001	0.019	0.053	0.002	3.115	0.003	0.069
408: SOQ_1,SOQ_5,SOQ_6,SOQ_3	-0.008	-0.008	0.007	1.144	0.253	0.000	-0.020	0.004	0.002	3.115	-0.030	0.014
413: SOQ_1,SOQ_3,SOQ_8,SOQ_5	0.008	0.008	0.009	0.842	0.400	0.000	-0.007	0.023	0.002	3.115	-0.021	0.036
452: SOQ_1,SOQ_4,SOQ_8,SOQ_6	0.006	0.006	0.008	0.717	0.474	0.000	-0.007	0.019	0.002	3.115	-0.019	0.031
458: SOQ_1,SOQ_4,SOQ_8,SOQ_7	0.008	0.008	0.009	0.914	0.361	0.000	-0.007	0.023	0.002	3.115	-0.020	0.037
542: SOQ_10,SOQ_11,SOQ_4,SOQ_3	0.033	0.033	0.011	3.025	0.002	0.000	0.015	0.051	0.002	3.115	-0.001	0.068
574: SOQ_10,SOQ_11,SOQ_5,SOQ_6	0.020	0.020	0.011	1.890	0.059	0.000	0.003	0.037	0.002	3.115	-0.013	0.053
586: SOQ_10,SOQ_11,SOQ_6,SOQ_7	0.033	0.032	0.012	2.640	0.008	0.000	0.013	0.054	0.002	3.115	-0.006	0.072
589: SOQ_10,SOQ_11,SOQ_6,SOQ_8	0.024	0.024	0.011	2.281	0.023	0.000	0.007	0.042	0.002	3.115	-0.009	0.058
739: SOQ_10,SOQ_2,SOQ_6,SOQ_9	-0.003	-0.003	0.006	0.526	0.599	0.000	-0.013	0.007	0.002	3.115	-0.022	0.015
761: SOQ_10,SOQ_3,SOQ_8,SOQ_4	-0.020	-0.020	0.012	1.603	0.109	0.000	-0.040	0.000	0.002	3.115	-0.058	0.018
1075: SOQ_11,SOQ_4,SOQ_8,SOQ_9	0.008	0.008	0.010	0.784	0.433	0.000	-0.008	0.024	0.002	3.115	-0.023	0.039
1092: SOQ_11,SOQ_7,SOQ_9,SOQ_5	-0.028	-0.028	0.010	2.895	0.004	0.001	-0.045	-0.013	0.002	3.115	-0.059	0.002
1151: SOQ_12,SOQ_2,SOQ_9,SOQ_5	-0.004	-0.004	0.009	0.420	0.674	0.000	-0.019	0.011	0.002	3.115	-0.032	0.024
1153: SOQ_12,SOQ_2,SOQ_6,SOQ_7	-0.011	-0.011	0.008	1.376	0.169	0.000	-0.024	0.002	0.002	3.115	-0.036	0.014

Table 6.5: SAT CTA-PLS Results

SAT	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: Sat_1,Sat_2,Sat_3,Sat_4	-0.005	-0.005	0.007	0.820	0.412	0.000	-0.017	0.005	0.020	2.327	-0.021	0.010
2: Sat_1,Sat_2,Sat_4,Sat_3	-0.002	-0.002	0.006	0.328	0.743	0.000	-0.012	0.008	0.020	2.327	-0.017	0.012
4: Sat_1,Sat_2,Sat_3,Sat_5	-0.012	-0.012	0.006	1.888	0.059	0.000	-0.023	-0.002	0.020	2.327	-0.027	0.003
6: Sat_1,Sat_3,Sat_5,Sat_2	0.003	0.003	0.007	0.495	0.621	0.000	-0.008	0.015	0.020	2.327	-0.013	0.020
10: Sat_1,Sat_3,Sat_4,Sat_5	0.015	0.015	0.007	2.159	0.031	0.000	0.004	0.027	0.020	2.327	-0.001	0.032

Table 6.5, 6.6 and 6.8 exhibit that all the respective variables' (SAT, T, and ID) tetrads are not significantly different from zero because there is zero straddle between CI Low adj. and CI Up adj. values. These results suggest that all the constructs should be a reflective construct. With reference to Table 6.7, there are mixed results. Turning to the literature, it was found that commitment was used as a reflective measure most and upon going through the measure again, commitment appears to be a reflective variable as the items in the measure are not mutually exclusive and they can be interchangeable (Jarvis, Mackenzie & Podsakoff, 2003). Thus, commitment will be treated as a reflective variable.

Table 6.6: T CTA-PLS Results

T	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDE	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: T_1,T_2,T_3,T_4	-0.003	-0.002	0.008	0.321	0.748	0.000	-0.018	0.013	0.025	2.242	-0.021	0.015
2: T_1,T_2,T_4,T_3	0.006	0.006	0.006	0.970	0.332	0.000	-0.006	0.018	0.025	2.242	-0.008	0.020

Table 6.7: C CTA-PLS Results

C	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDE	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: C_1,C_2,C_3,C_4	0.015	0.015	0.007	2.253	0.024	0.000	0.002	0.028	0.006	2.774	-0.003	0.033
2: C_1,C_2,C_4,C_3	0.008	0.008	0.009	0.903	0.366	0.000	-0.009	0.025	0.006	2.774	-0.016	0.032
4: C_1,C_2,C_3,C_5	0.003	0.003	0.005	0.494	0.622	0.000	-0.008	0.012	0.006	2.774	-0.012	0.017
6: C_1,C_3,C_5,C_2	-0.010	-0.010	0.007	1.452	0.147	0.000	-0.024	0.003	0.006	2.774	-0.029	0.009
7: C_1,C_2,C_3,C_6	0.009	0.009	0.008	1.153	0.249	0.000	-0.006	0.024	0.006	2.774	-0.012	0.030
10: C_1,C_2,C_4,C_5	0.034	0.033	0.010	3.227	0.001	0.000	0.014	0.055	0.006	2.774	0.005	0.063
16: C_1,C_2,C_5,C_6	0.040	0.039	0.009	4.553	0.000	-0.001	0.023	0.058	0.006	2.774	0.016	0.065
22: C_1,C_3,C_4,C_6	0.025	0.025	0.007	3.494	0.000	0.000	0.011	0.040	0.006	2.774	0.006	0.045
26: C_1,C_3,C_6,C_5	0.033	0.033	0.009	3.537	0.000	0.000	0.015	0.052	0.006	2.774	0.008	0.060

Table 6.8: ID CTA-PLS Results

ID	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDE	P Values	Bias	CI Low	CI Up	Alpha adj.	z(1-alpha)	CI Low adj.	CI Up adj.
1: ID_1,ID_2,ID_3,ID_4	0.000	0.000	0.006	0.011	0.991	0.000	-0.011	0.011	0.025	2.242	-0.013	0.013
2: ID_1,ID_2,ID_4,ID_3	-0.014	-0.014	0.007	2.014	0.044	0.000	-0.028	0.000	0.025	2.242	-0.030	0.001

As for the LY and MU constructs, Jarvis et al. (2003) and Hair et al. (2017) qualitative decision rules were applied since these constructs do not qualify for CTA-PLS. It was found that the indicators actually represent the manifestations of the construct conceptually rather than define or make up the construct. Hence, the causality is from the construct to the indicators and not the other way around. Based on these justifications, LY and MU are both regarded as reflective constructs in this research in line with the literature.

6.5 Measurement Models

Measurement models or outer models represent the relationships between constructs and their corresponding indicator variables. A sound measurement theory is a pre-condition to determine the relationships between the constructs and their indicators so that useful results from PLS-SEM are obtained (Hair et al., 2014; 2017; 2018). This is to ensure reliability and validity of the constructs under study. Often, researchers in social science research today use established measurement approaches published in prior research studies or scale handbooks that performed well (Bearden, Netemeyer & Haws, 2011) to avoid errors or mistakes associated with measures. This is the case for this research because the measures used are pre-established with a priori factor structure which makes the choice to run confirmatory factor analysis (CFA) instead of exploratory factor analaysis (EFA) measurement model appropriate (Bandalos & Boehm-Kaufman, 2009).

With reference to the previous section, there are two types of measurement models in PLS-SEM; reflective and formative measurement model. As evident, other than relying on CTA analysis, the choice of measurement mode for each of the construct is complimented using the guidelines outlined in Table 6.9.

Table 6.9: Guidelines for Choosing Measurement Model Mode

Criterion	Decision	Reference
Causal priority between the indicator and the construct	• From the construct to the indicators: reflective • From the indicators to the construct: formative	Diamantopoulos & Winklhofer (2001)
Is the construct a trait, explaining the indicators or rather a combination of the indicators?	• If trait: reflective • If combination: formative	Fornell & Bookstein (1982)
Do the indicators represent consequences or causes of the construct?	• If consequence: reflective • If causes: formative	Rossiter (2002)
Is it necessarily true that if the assessment of the trait changes, all items will change in a similar manner (assuming they are equally coded)?	• If yes: reflective • If no: formative	Chin (1998)
Are the items mutually interchangeable?	• If yes: reflective • If no: formative	Jarvis et al. (2003)

Source: Hair et al. (2017)

6.5.1 Formative Measurement Model

In formative measurement model, the direction of the arrows is pointing from the indicator variables to the construct, indicating a causal or predictive relationship in that direction (Hair et al., 2014; 2017). As discussed in the previous section, both service process quality and service outcome quality are formative constructs.

There are three steps in the assessment of formative measurement model. The first step is to assess convergent validity of formative measurement models, followed by collinearity assessment. The last step is to assess the significance and relevance of the formative indicators. To assess the convergent validity for the two formative constructs namely SPQ and SOQ, redundancy analysis is performed. This is carried out by creating a new path model with the exogenous construct drawn as formative mode to predict the global indicator (single item measurement which was designed and included in the questionnaire before data collection) (Ramayah et al., 2018; Hair et al., 2017).

Table 6.10 provides the measurement properties for SOQ formative construct. The redundancy analysis shows that the path coefficients (0.936) are found to be larger than 0.80 (Hair et al., 2017). Thus, the SOQ formative construct has sufficient degrees of convergent validity. VIF values are below the threshold value of 5 (Hair et al., 2017) which means collinearity does not reach critical level in the formative construct and can therefore proceed with the PLS path model. Turning to the t-value weights, only SOQ_1, SOQ_7, SOQ_9 and SOQ_12 are significant. So, to further test on retaining the indicators, the absolute contribution method (Hair et al., 2017; Ramayah et al., 2018) is used to examine outer loadings results. It was found that all indicators' loadings are above 0.5, and have t-value results of more than 1.96. This provides further support in which prior research (Hasliza, Norbani, Geare & Ramayah, 2016; Sim et al., 2016; Hasliza and Norbani, 2010) support the relevance of these indicators in capturing the SOQ construct based on the intended outcome benefits of HRO. As a result, all the indicators are retained including those indicators with insignificant outer weights to avoid poor content validity (Ramayah et al., 2018).

Table 6.10: Measurement Properties for SOQ Formative Construct

	PLS Algorithm		Bootstrapping				
Items	Convergent Validity	VIF	Weights	t-value Weights	Sig	Loadings	t-value Loadings
SOQ_1	0.936	1.946	0.382	2.635	0.009	0.717	8.751
SOQ_2		1.694	-0.033	0.241	0.810	0.526	4.951
SOQ_3		1.753	-0.029	0.237	0.812	0.523	5.324
SOQ_4		1.988	0.021	0.151	0.880	0.588	6.206
SOQ_5		2.164	-0.111	0.739	0.460	0.572	5.732
SOQ_6		1.871	0.078	0.621	0.535	0.648	7.897
SOQ_7		1.811	0.293	2.523	0.012	0.664	7.941
SOQ_8		1.916	-0.091	0.687	0.493	0.586	6.032
SOQ_9		1.897	0.286	2.090	0.037	0.719	8.181
SOQ_10		1.977	-0.072	0.627	0.531	0.576	7.232
SOQ_11		2.447	0.134	0.907	0.365	0.705	8.415
SOQ_12		2.585	0.436	2.751	0.006	0.824	13.032

Based on the redundancy results in Table 6.11, the path coefficients (0.950) are found to be larger than 0.70. Thus, SPQ formative construct has sufficient degrees of convergent validity. VIF values are below the threshold value of 5 (Hair et al., 2017) which means collinearity does not reach critical level in the formative construct and therefore, it is not an issue for the estimation of the PLS path model. Looking at the significance levels, only SPQ_E formative indicators are found to be significant. Next, the outer loadings for SPQ_A, SPQ_R, SPQ_Res and SPQ_T indicators were examined using the absolute contribution method to avoid simply dropping a formative indicator which may result in poor content validity (Hair et al., 2017; Ramayah et al., 2018). It was found that all the loadings are above 0.50 with t-value of more than 1.96. Past research i.e Hasliza et al. (2014) supports the relevance of these indicators in capturing the SPQ construct. Thus, all the indicators are retained even though their outer weights are not significant.

Table 6.11: Measurement Properties for SPQ Formative Construct

		PLS Algorithm		Bootstrapping				
Construct	Items	Convergent Validity	VIF	Weights	t-value Weights	Sig	Loadings	t-value Loadings
SPQ	SPQ_A	0.950	4.458	0.028	0.179	0.858	0.883	21.356
	SPQ_E		3.933	0.546	4.374	0.000	0.960	48.320
	SPQ_R		4.466	0.245	1.697	0.090	0.912	30.178
	SPQ_Res		4.537	0.233	1.734	0.084	0.904	27.772
	SPQ_T		1.945	0.024	0.279	0.780	0.694	11.760

Based on the results, it has prompted the revisitation of the SERVQUAL criticisms and its use in B2B service research. Although this research did not use the deeply criticised SERVQUAL gap model, the use of the non-gap SERVPERF model made up of the five dimensions in a form of formative second order model appeared to have no apparent measurement problems. Through this approach, it addresses the criticism of having overlapping dimensions (Gounaris, 2005; Peter et al., 1993; Asubonteng et al., 1996) because the hierarchical component model expands the nomological network of a construct, leading to solving the discriminant validity issue while creating a more parsimonious path model.

Moreover, the operationalisation of service quality in this research has also eased the concerns of having non-equal importance or insignificant predictors of client satisfaction because the five dimensions are just measuring one aspect of service performance and not regarded as the representation of overall service performance. This is consistent with outsourcing literature. Consequently, it has provided ground for its use in B2B research and overcomes the controversies of its application by moving away from the gap approach, embraces the SERVPERF performance-only alternative measures, incorporates outcome quality aspect, and acknowledges the multi-level dimensions and formative nature of service quality construct.

6.5.2 Reflective Measurement Model

In the reflective measurement model, the direction of the arrows is pointing from the construct to the indicator variables, indicating that all indicator items are caused by the same construct, highly correlated with each other and should be interchangeable (Hair et al., 2014; 2017). In this research, client satisfaction (SAT), client loyalty (LY), trust (T), commitment (C), mutual understanding (MU) and interdependence (ID) are regarded as reflective constructs as discussed in the previous section.

Table 6.12 shows that all the latent variables' outer loadings meet the minimum threshold value of 0.708 as suggested by Hair et al. (2014; 2017) for indicator reliability. All constructs meet the criteria of convergent validity with AVE value of 0.638 (SAT), 0.759 (LY), 0.731 (T), 0.643 (C), 0.832 (MU) and 0.725 (I) which are above the threshold value of 0.5 (Hair et al., 2018; Ramayah et al., 2018). The CR values are well above 0.7 (Hair et al., 2017) which indicate satisfactory internal consistency.

Table 6.12: Reflective Measurement Model

Items	Loadings	AVE	CR	Cronbach's Alpha	rho_A
SAT_1	0.840	0.638	0.898	0.858	0.865
SAT_2	0.749				
SAT_3	0.803				
SAT_4	0.787				
SAT_5	0.812				
LY_E	0.864	0.759	0.904	0.841	0.844
LY_R	0.852				
LY_RF	0.897				
T_1	0.774	0.731	0.916	0.876	0.879
T_2	0.844				
T_3	0.909				
T_4	0.887				
C_1	0.836	0.643	0.915	0.889	0.897
C_2	0.789				
C_3	0.810				

C_4	0.787				
C_5	0.795				
C_6	0.794				
MU_1	0.818	0.832	0.936	0.896	0.903
MU_2	0.961				
MU_3	0.950				
ID_1	0.845	0.725	0.913	0.873	0.879
ID_2	0.796				
ID_3	0.898				
ID_4	0.863				

Next, discriminant validity for all the reflective latent variables is assessed using several different assessment approaches such as Fornell-Larcker's criterion (Fornell & Lacker, 1981) and Heterotrait-Monotrait (HTMT) technique. The results in Table 6.13 indicate that the square root of AVE of a construct is larger than the correlations between the construct and other constructs in the model, which support discriminant validity. Table 6.14 further supports the latent variables' discriminant validity as almost all of the HTMT values are below 0.90 as recommended by Henserler, Ringle and Sarstedt (2015). Only one of them (Sat, LY) has slightly exceeded the confidence interval's upper limit of 0.90 by 0.001 but does not contain the value 1.0 between the lower and upper limit which ultimately indicates no violation of discriminant validity (Henseler, Ringle & Sarstedt, 2015). Thus, discriminant validity is established.

Table 6.13: Fornell-Larcker Criterion Result

Latent Variable	C	ID	LY	MU	SAT	T
C	**0.802**					
ID	0.619	**0.851**				
LY	0.702	0.535	**0.871**			
MU	0.540	0.659	0.486	**0.912**		
SAT	0.627	0.487	0.775	0.430	**0.799**	
T	0.717	0.575	0.700	0.458	0.705	**0.855**

Table 6.14: HTMT Results

	C	ID	LY	MU	SAT	T
C						
ID	0.703 CI.90 (0.625, 0.771)					
LY	0.804 CI.90 (0.710, 0.870)	0.620 CI.90 (0.514, 0.707)				
MU	0.605 CI.90 (0.506, 0.698)	0.745 CI.90 (0.647, 0.826)	0.556 CI.90 (0.455, 0.645)			
SAT	0.705 CI.90 (0.602, 0.777)	0.533 CI.90 (0.457, 0.633)	0.901 CI.90 (0.838, 0.946)	0.485 CI.90 (0.381, 0.582)		
T	0.811 CI.90 (0.740, 0.870)	0.657 CI.90 (0.562, 0.740)	0.813 CI.90 (0.748, 0.867)	0.516 CI.90 (0.405, 0.618)	0.812 CI.90 (0.751, 0.859)	

6.6 Common Method Variance/Bias Test

Generally, common method bias exists when using only one rater, item characteristics, item context and measurement context (Podsakoff et al., 2003). In addition to the procedural approach used in addressing common method variance (CMV) in Section 5.5 and 5.6, this research proceeds to employ statistical CMV tests. It is advisable that researchers use a combination of different statistical remedies before analysing the data (Tehseen et al., 2017). Therefore, two statistical tests, namely, the correlation matrix procedure recommended by Bagozzi, Yi & Phillips (1991) and factor-level VIF test recommended by Kock (2015) are conducted to detect the presence of CMV. Although more than 50% of marketing research used Harman's single factor test, it is necessary to note that the use of Harman's single factor test has been under question and was recently called to put to rest (Hulland, Baumgartner & Smith, 2018). Hence, this test is not included here.

As mentioned earlier, CMV can be assessed through latent variables' correlations (Bagozzi, Yi & Phillip, 1991; Tahseen et al., 2017). According to them, CMV is deemed present when a substantially large correlation is found among principal constructs (r > 0.9). However, CMV is not an issue if the correlation among constructs is less than 0.90. First, the research model was drawn using Smart PLS software and then the latent variable's correlation was observed through PLS algorithm (Tahseen et al., 2017). Table 6.15 shows that the correlation among all variables are less than 0.9. Thus, CMV is not present in this research.

Next, according to Kock (2015) the occurrence of VIF greater than 3.3 at factor level is an indication of pathological collinearity. Therefore, VIFs resulting from a full collinearity test that are equal to or lower than 3.3 indicate that the model can be free of common method bias. Table 6.16 shows that none of the latent variables in the model has VIF value of more than 3.3 that in turn statistically confirms that the model is free from common method bias.

Table 6.15: Correlations Among Latent Variables

Latent Variables	ID	Loyalty	MU	SAT	SOQ	SPQ	Trust	Commitment
ID	1							
Loyalty	0.535	1						
MU	0.659	0.486	1					
SAT	0.487	0.775	0.430	1				
SOQ	0.341	0.475	0.322	0.499	1			
SPQ	0.522	0.641	0.475	0.712	0.458	1		
Trust	0.575	0.700	0.458	0.705	0.395	0.664	1	
Commitment	0.619	0.702	0.540	0.627	0.444	0.672	0.717	1

Table 6.16: Factor-level VIF Results

Latent Variables	C	ID	LY	MU	SAT	SOQ	SPQ	T
C		2.927	2.764	2.998	2.975	2.886	2.918	2.798
ID	2.198		2.237	1.784	2.259	2.218	2.283	2.239
LY	3.019	3.269		3.245	2.553	3.154	3.211	3.100
MU	1.892	1.492	1.894		1.904	1.879	1.909	1.883
SAT	3.299	3.290	2.678	3.229		3.185	2.951	3.075
SOQ	1.328	1.332	1.406	1.334	1.363		1.386	1.342
SPQ	2.466	2.465	2.527	2.404	2.297	2.174		2.449
T	2.657	2.905	2.790	2.826	2.713	2.845	2.849	

Given these results, the analysis is advanced to structural model assessment in the next section.

6.7 Structural Model

After all the above assessments, the structural path model (Figure 6.1) is now ready to be assessed. Mediation and moderation assessment will be done in a separate section later. Each set of the predictor constructs in Figure 6.1 needs to be examined separately for each subpart of the structural model (Hair et al., 2017). Specifically, the lateral collinearity of the following sets of predictor constructs are being examined (1) SOQ and SPQ as predictor constructs of SAT (2) SOQ, SPQ and SAT as predictor constructs of LY.

PLS algorithm was run to obtain the inner VIF values. With reference to Table 6.17, all the inner VIF values are less than the threshold value of 3.3 (Diamantopoulos & Sigouw, 2006), thus indicating that collinearity is not a concern.

Figure 6.1: Structural Model

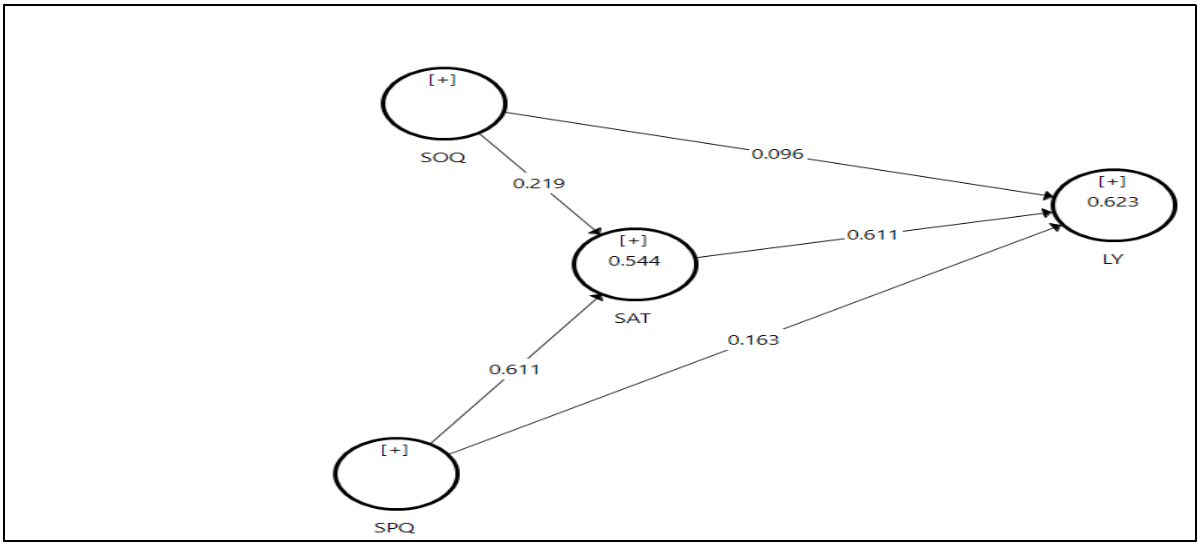


Table 6.17: Lateral Collinearity Assessment

	LY	SAT
LY		
SOQ	1.370	1.265
SPQ	2.085	1.265
SAT	2.193	

In the structural model, there are five direct paths to be examined by using SmartPLS 3.2.7 bootstrapping function. Based on the assessment of the path coefficient as shown in Table 6.18, all five relationships are found to have t-value ≥ 1.645 thus significant at 0.05 level. Specifically, predictors SOQ ($\beta = 0.096$, $p<0.05$), SPQ ($\beta = 0.163$, $p<0.01$) and SAT ($\beta = 0.611$, $p<0.01$) are positively and significantly related to client loyalty (LY), explaining 62.3% variances in client loyalty (LY). These have provided support to H1 and H2. The predictors SOQ ($\beta = 0.219$, $p<0.01$) and SPQ ($\beta = 0.611$, $p<0.01$) are positively related to client satisfaction (SAT). As a result, H3 and H4 are supported. Client satisfaction (SAT) ($\beta = 0.611$, $p<0.01$) has a positive and significant effect on client loyalty (LY), thus, H5 is also supported.

The R^2 values of 0.544 for SAT and 0.623 for LY indicate that the explanatory power of the model is at satisfactory level (Hair et al, 2017). With reference to the confidence intervals results, there is no zero straddle in between the intervals which indicates significant results.

Next, effect sizes (f^2) are assessed because *p*-value can only inform readers whether an effect exists but cannot reveal the size of the effect (Sullivan & Feinn, 2012). To measure effect size to R^2, Cohen (1988) guideline is used in which f^2 values of 0.02, 0.15 and 0.35 represent small, medium and large effect size. From Table 6.18, it is observed that SPQ (0.647) has a large effect size in producing the R^2 for SAT and SAT (0.450) has large effect size in producing LY. SOQ (0.083) has small to medium effect size in producing SAT while SPQ (0.034) has a relatively smaller effect size in producing LY. Interestingly, SOQ (0.018) has very little to no effect in producing LY.

Table 6.18: Hypothesis Testing

H	Relationship	Std Beta	Std Error	p-value	t-value	95% Confidence Intervals	Hypothesis	R^2	f^2	Q^2	q^2
H1	SOQ -> LY	0.096	0.056	0.042	1.728*	[0.009, 0.193]	Supported	0.623	0.018	0.442	0.005
H2	SPQ -> LY	0.163	0.054	0.001	2.996**	[0.080, 0.258]	Supported		0.034		0.011
H3	SOQ -> SAT	0.219	0.056	0.000	3.907**	[0.144, 0.330]	Supported	0.544	0.083	0.318	0.031
H4	SPQ -> SAT	0.611	0.049	0.000	12.602**	[0.522, 0.682]	Supported		0.647		0.257
H5	SAT -> LY	0.611	0.065	0.000	9.392**	[0.492, 0.703]	Supported		0.450		0.233

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

In addition, the predictive relevance of the model is examined using the blindfolding procedure. In this procedure, if the Q^2 value is considerably larger than 0, the model is regarded as having predictive relevance for a certain endogenous construct (Hair et al., 2017). Referring to Table 6.19, Q^2 for SAT (0.318) and LY (0.442) are considerably above 0, confirming that the model has sufficient predictive relevance.

Although not a compulsory analysis, q^2 value is obtained by using the formula:

$$q^2 = \frac{Q^2 \text{ included} - Q^2 \text{ excluded}}{1 - Q^2 \text{ included}}$$

With reference to Hair et al’s (2017) guideline, q^2 value of 0.02, 0.15 and 0.35 indicate that an exogenous variable has a small, medium and large predictive relevance for a certain endogenous construct. The results show medium to large q^2 effect size for SPQ (0.257) on SAT compared to SOQ (0.031) which has small effect size. SAT (0.233) has medium to large effect size on LY. SOQ (0.005) and SPQ (0.011) have no effect on LY as the q^2 value is below 0.02.

6.7.1 Mediation

The presence of a mediating effect is created when a third variable or construct intervenes between two other related constructs (Hair et al., 2014; 2017). Specifically, the intervening mechanism occurs between the antecedent and the consequent variables. It explains how, or the mechanism by which, a given effect occurs (Ramayah et al., 2018). However, to explore a meaningful mediation effect, it requires strong priori theoretical or conceptual support from the literature (Hair et al., 2017). Therefore, when possible mediation is taken into account, then a phenomenon can be fully understood (Baron & Kenny, 1986).

Acknowledging the current development and debates in mediation analysis (eg. Hayes, 2009; Zhao, Lynch & Chen, 2010), Baron & Kenny's (1986) mediation approach was not used in this analysis. Instead, Preacher & Hayes's (2004, 2008) bootstrapping the indirect effect method was used.

In this research, client satisfaction (SAT) is the mediating variable predicted to mediate the relationships between service process quality (SPQ) and service outcome quality (SOQ), and client loyalty (LY). To analyse the mediation effect, bootstrapping analysis was performed.

The bootstrapping results in Table 6.19 show that all two indirect effects, $\beta = 0.134$ and $\beta = 0.373$ are significant with t-value of 3.533 and 7.913 respectively. The indirect effects 95% Boot CI Bias Corrected: [LL = 0.060, UL = 0.201] and [LL = 0.292, UL = 0.479], all of which did not include 0 in between, indicating that there is mediation (Preacher & Hayes, 2008).

Table 6.19: Hypothesis Testing on Mediation

H	Relationship	Std. Beta	Std Error	t-value	Confidence Interval (BC)		Decision
					LL	UL	
H6	SOQ -> SAT -> LY	0.134	0.038	3.533**	0.060	0.201	Supported
H7	SPQ -> SAT-> LY	0.373	0.047	7.913**	0.292	0.479	Supported

*Note: **p<0.01, BC = Bias Corrected, UL = Upper Level, LL = Lower Level*

There have been inconsistent debates on whether the types of mediation should be reported (Ramayah et al., 2018) in recent years. The key argument is that by claiming variable M completely mediates the effect of X on Y, it does not say anything about the existence, or absence, of other possible mediators of X’s effect (Rucker, Preacher, Tormala & Petty, 2011). There is nothing worthy of celebration much less even hypothesising in the first place (Hayes, 2013). On the other hand, PLS-SEM literature (Hair et al., 2017; Nitzl, Roldan & Cepeda, 2016) suggests otherwise. So, in consistence with Ramayah et al’s (2018) advice, the decision lies in the research purpose, that is, whether the research is interested in determining the extent to which the variance of the dependent variable is directly explained by the independent variable, and how much of the target constructs’ variance is explained by the indirect relationship via the mediator variable.

In order to answer research questions 6 and 7 “Does client satisfaction mediate the effect of service process/ outcome quality and loyalty towards the main service provider?”, variance accounted for (VAF), for each of the relationship is calculated. The VAF approach is adopted to conclude the mediation type by calculating the ratio of the indirect-to-total effect (Ramayah et al., 2018). VAF determines the extent to which the mediation process explains the dependent variable’s variance (Ramayah et al., 2018) using the following formula:

$$VAF = \frac{a * b}{(a*b)+c`}$$

Note:

a*b = Indirect effect

c` = direct effect

According to Hair et al. (2018), VAF less than 20 percent indicates no mediation whereas VAF larger than 20 percent but less than 80 percent indicates a typical partial mediation, and VAF above 80 percent indicates full mediation. So, using the scores in Figure 6, VAF for the mediation between SOQ and LY is calculated as follows:

$$\frac{0.219*0.611}{(0.219*0.611) +0.096} = \frac{0.314}{0.34+0.096} = 0.766$$

The value 0.766 or 76.6% indicate VAF being larger than 20% and less than 80%, hence it is concluded that the mediation is a typical partial mediation. Meanwhile, the VAF for the mediation between SPQ and LY is calculated as follows:

$$\frac{0.611*0.611}{(0.611*0.611) +0.163} = \frac{0.373}{0.536} = 0.696$$

This result again shows a typical partial mediation. Since indirect effect a*b and direct effect c` point in the same direction, it indicates that a portion of the effect of SPQ and SOQ on LY is mediated through SAT, this means that SPQ and SOQ still explain a portion of LY that is independent of SAT. This mediation is called complementary partial mediation (Zhao et al., 2010; Nitzl & Hirsch, 2016).

6.7.2 Moderation

The moderating variable is also known as the contingent variable (Ramayah et al., 2018) in which its presence changes the strength or even the direction of a relationship between two variables in the model (Hair et al., 2014; 2017). According to Holmbeck (1997), a moderator is one that affects the relationship between two variables, where it alters the nature impact of the predictor according to the level or value of the moderator. In other words, a moderator specifies the condition to which a given effect occurs and changes the direction or strength of the relationship (Ramayah et al., 2018). In the context of this research, the moderating construct is the partnership quality made up of four dimensions namely trust, commitment, interdependence and mutual understanding. All of them are continuous variables and are to be tested independently as moderating variables.

In PLS-SEM, there are three approaches to examine interaction terms (moderator analysis) namely product-indicator approach, two-stage approach and orthogonalising approach (Ramayah et al., 2018). In this research, it was hypothesised that partnership quality (trust, commitment, mutual understanding and interdependence) moderates the relationship between service quality and client satisfaction, and client satisfaction and loyalty. Each of the partnership quality dimensions was tested one by one.

From the previous section, it is known that both SOQ and SPQ are formative constructs. As formative measures involved in the model and the moderators are continuous measures, it makes the two-stage approach applicable (Fassot, Henseler & Coelho, 2016; Henseler & Chin, 2010) in testing H8a, H8b, H8c, H8d, H9a, H9b, H9c and H9d. In particular, when the objective is to determine whether the moderator exerts a significant effect on the relationship, this approach yields the most accurate estimates of the single effects and has higher statistical power than the product-indicator approach and the orthoganalising approach (Ramayah et al., 2018). In addition, according to Henseler & Chin (2010) and Rigdon, Ringle & Sarstedt (2010), the two-stage approach is best employed when dealing with continuous moderating variables. Therefore, the two-stage approach is adopted in this research.

Comparatively, the product indicator approach is the conventional approach which involves multiplying each indicator of the exogenous construct with each indicator of the moderator (Chin, Marcolin & Newsted,1996) and hence becoming the indicators of the interaction term (Ramayah et al., 2018). This takes on the assumption that the indicators of the exogenous construct and the moderator stem from a certain construct domain and they are interchangeable, which in turn means that the product indicator approach is best fused or modelled with all reflective constructs (Ramayah, et al., 2018). Therefore, this approach is not applicable when the exogenous construct and/or moderator are measured formatively in this research.

On the same trail, the orthogonalising approach is actually an extension of the product indicator approach and requires creating all product indicators of the interaction term followed by regressing each product indicator on all indicators of the exogenous construct and the moderator variable. The primary aims of the orthogonalising approach are to minimise estimation bias and to maximise prediction of the endogenous construct but it works best in the case of small sample size of no more than 200 samples with fewer than 4 indicators per construct (Henselar & Chin, 2010). Although this approach is useful for researchers who are interested to quantify or interpret the strength of the moderating effect, it has a significantly weak statistical power when compared to the two-stage approach (Henselar & Chin, 2010). As a result, this approach was not preferred in this research.

6.7.3 Assessment of Moderation Analysis

Next, the R^2 of the main effect models are examined prior to adding interaction terms to form the interaction effect models. The R^2 changes are recorded to identify its effect sizes across moderation models. The results are presented in Table 6.20 which show all the R^2 changes which are significant. The effect sizes appeared to be large (above 0.025), following the guidelines given by Kenny (2016).

Table 6.20: Summary of R^2 Change and Effect Size Results

Hyphothesis	Relationship	R^2 Main Effect Model	R^2 Interaction Effect Model	% of R^2 Change	Effect Size (f^2)	Remark on Effect Size
H10a	*SAT*T1 -> LY*	0.622	0.632	1.000	0.0272	Large
H10b	*SAT*C1 -> LY*	0.624	0.690	6.600	0.2129	Large
H10c	*SAT*MU1 -> LY*	0.623	0.657	3.400	0.0991	Large
H10d	*SAT*ID1 -> LY*	0.642	0.658	1.600	0.0468	Large

This is followed by a statistical moderation assessment with 5000 subsamples using one-tailed test. All the moderation results are presented in Table 6.21. These results also demonstrate the outcome of hypothesis H8a, H8b, H8c, H8d, H9a, H9b, H9c, H9d, H10a, H10b, H10c and H10d.

Of all the hypotheses, the results on Table 6.21 demonstrate that only hypotheses H10a, H10b, H10c and H10d are found to be significant with negative beta values which is consistent with the results of R^2 changed in Table 6.20 earlier. These indicate that when the conditioning factors are high (moderating variables), the strength of the relationships between client satisfaction (SAT) and client loyalty (LY) are weaken as hypothesised.

Table 6.21: Results of the Moderation Analysis

Hypothesis	Relationship	Std Beta	Std. Error	t-value	P -value
H8a	SOQ*T -> SAT	0.063	0.053	1.182	0.119
H8b	SOQ*C -> SAT	-0.016	0.055	0.291	0.385
H8c	SOQ*MU -> SAT	0.061	0.055	1.125	0.130
H8d	SOQ*ID -> SAT	0.038	0.051	0.738	0.230
H9a	SPQ*T -> SAT	-0.042	0.035	1.220	0.111
H9b	SPQ*C -> SAT	-0.010	0.046	0.216	0.415
H9c	SPQ*MU -> SAT	-0.072	0.048	1.496	0.067
H9d	SPQ*ID -> SAT	-0.073	0.049	1.500	0.067
H10a	*SAT*T1 -> LY*	-0.097	0.037	*2.600***	*0.005*
H10b	*SAT*C1 -> LY*	-0.081	0.046	*1.746**	*0.040*
H10c	*SAT*MU1 -> LY*	-0.108	0.038	*2.861***	*0.002*
H10d	*SAT*ID1 -> LY*	-0.105	0.036	*2.924***	*0.002*

Note: **p < 0.01; *p < 0.05

Next, following Dawson's (2014) suggestion, interaction plots are drawn. From Figure 6.2 to Figure 6.5, the interaction plots showed a consistent result with significant change at the gradient of the slopes. The gradient of the slopes decreased when partnership quality (trust, commitment, mutual understanding and interdependence) values are high. These suggest that the relationships between SAT and LY are indeed weaken when moderating conditions are high, hence, the reduction in gradient slopes. These translate into supporting the hypotheses below:

H10a: The relationship between client satisfaction and client loyalty will be weaker with higher trust.

H10b: The relationship between client satisfaction and client loyalty will be weaker with higher commitment.

H10c: The relationship between client satisfaction and client loyalty will be weaker with higher mutual understanding.

H10d: The relationship between client satisfaction and client loyalty will be weaker with higher degree of interdependence.

From the results, it is rather interesting to find that none of the partnership quality factors affects the relationships between SOQ and SAT, and SPQ and SAT positively and significantly as hypothesised. The explanation to it may possibly unlock some of the missing links in the 'black box', potentially contributing to a renewed theoretical understanding.

Figure 6.2: SAT*T1 and Loyalty Interaction Plot

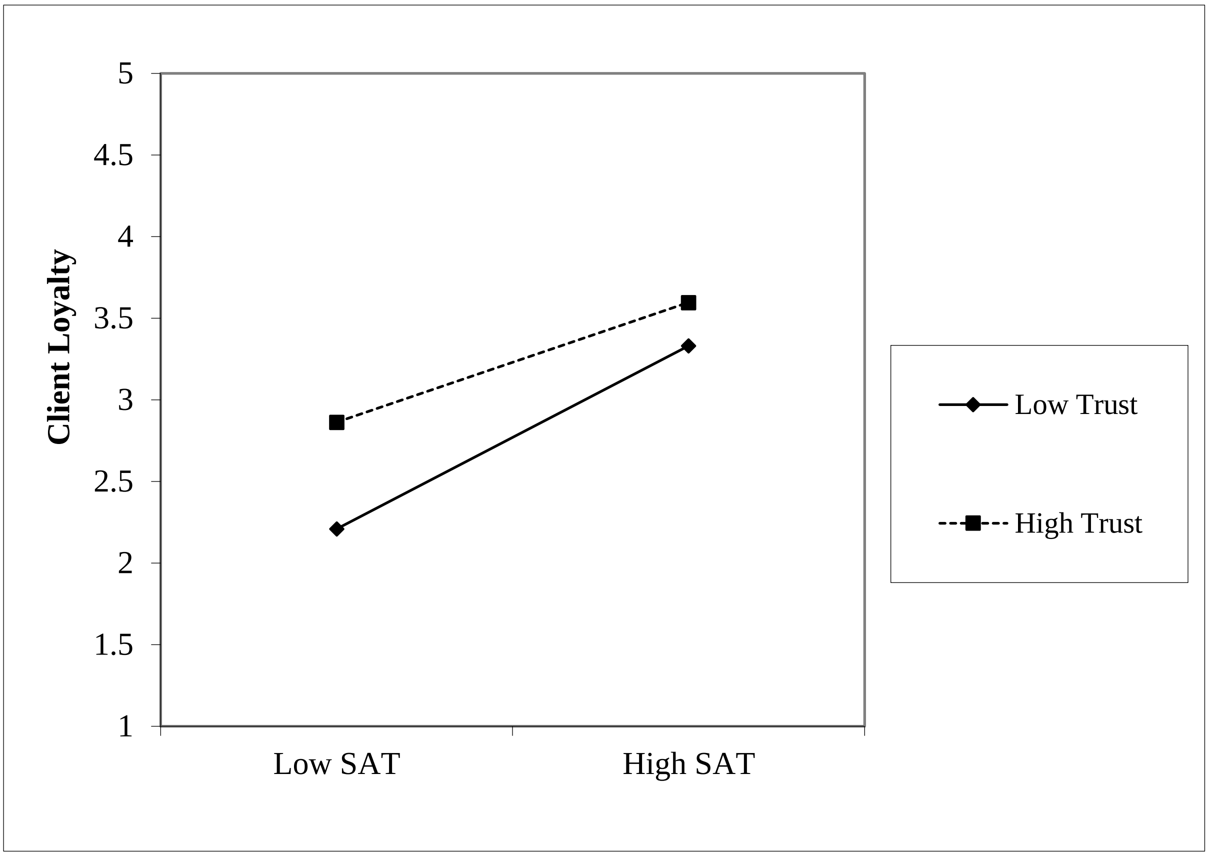


Figure 6.3: SAT*C1 and Loyalty Interaction Plot

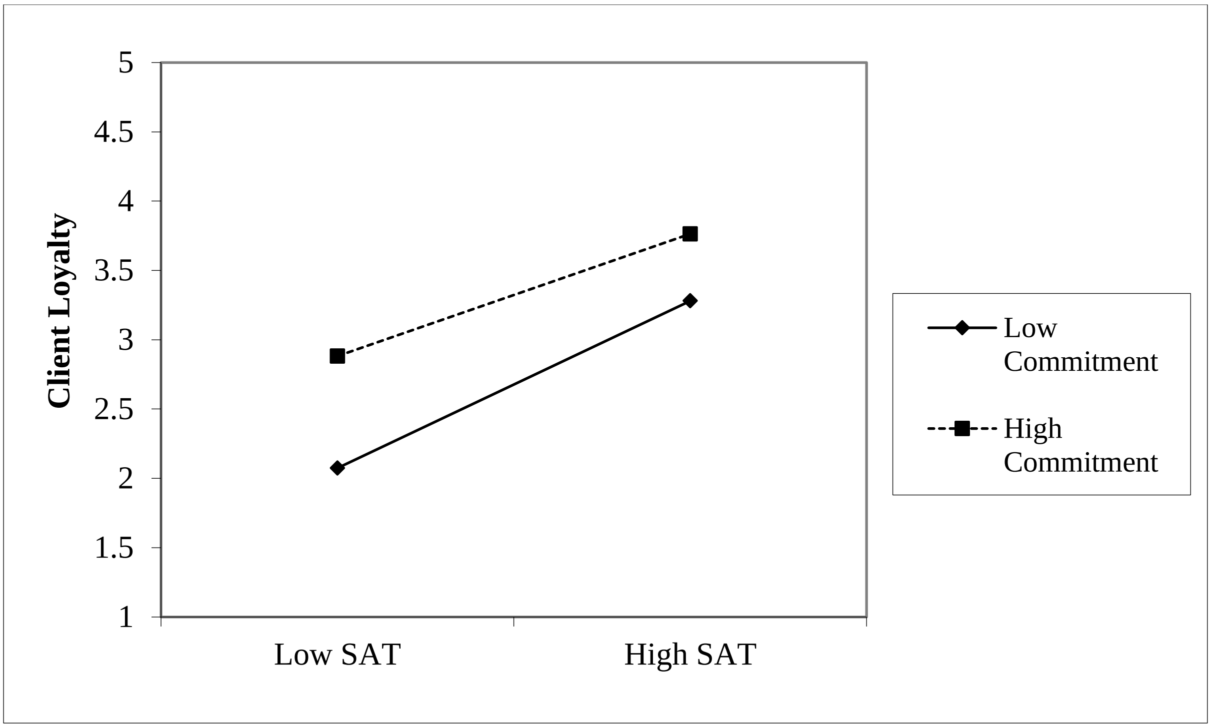


Figure 6.4: SAT*MU1 and Loyalty Interaction Plot

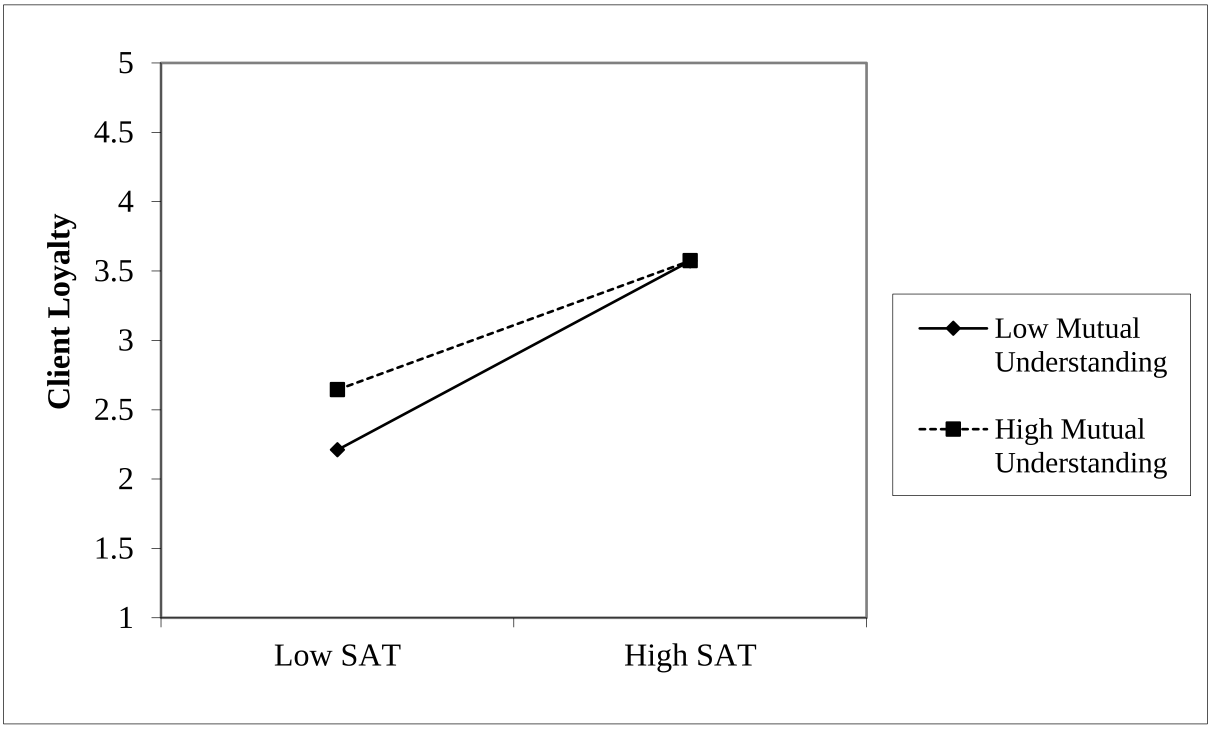
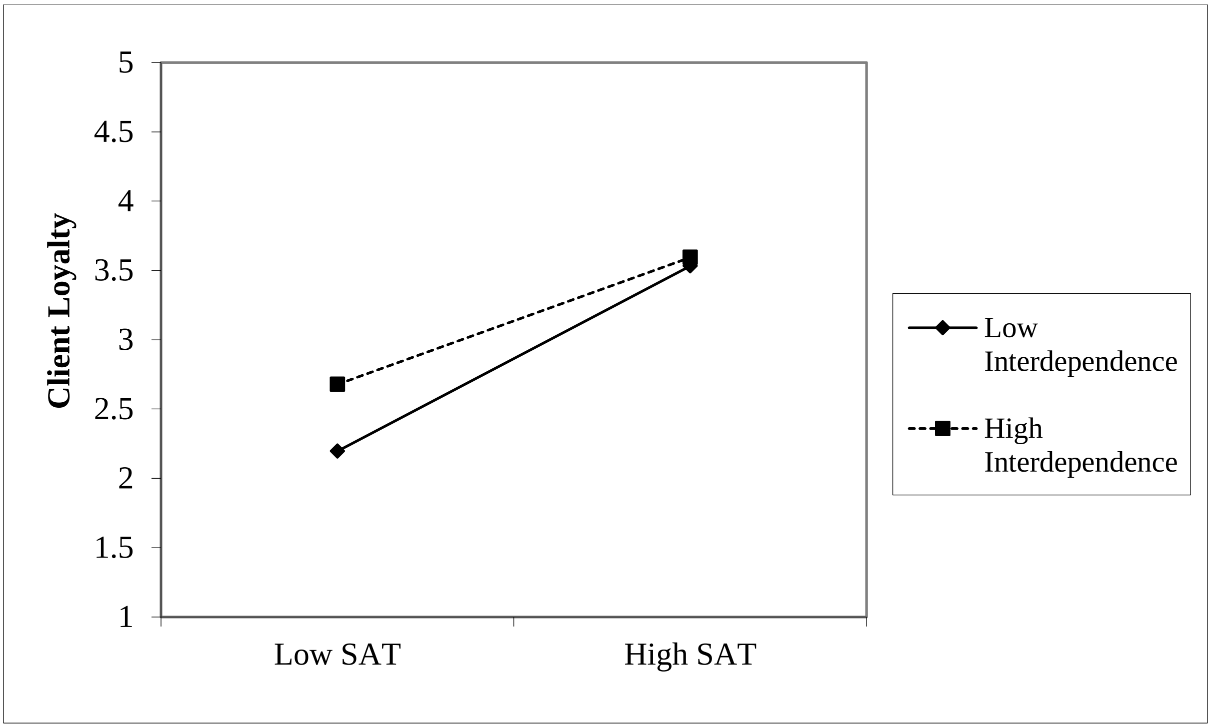


Figure 6.5: SAT*ID1 and Loyalty Interaction Plot



CHAPTER 7

DISCUSSION, RECOMMENDATIONS AND CONCLUSION

7.1 Introduction

This chapter starts with a discussion of the findings in accordance to research objectives and research questions outlined in Chapter 1. This is then followed by a discussion on practical and theoretical contributions. The limitations of this research and recommendations for future research are also provided.

7.2 Achievement of Research Objectives

The main motivation to embark on this research stemmed from the aim to examine the effectiveness of HRO among manufacturing firms in Malaysia from the perspective of service quality by incorporating the moderating effect of partnership quality into the entire service quality-satisfaction-loyalty link. Thus, it attempts to answer the key research question: “What is the impact of partnership quality on the entire service quality-satisfaction-loyalty link among manufacturing firms who have embarked on HRO in Malaysia?”. Specifically, and correspondingly, it provides answers to 10 research questions and 10 main hypotheses. The subsequent section will discuss the findings by following the sequence of the research questions and hypotheses.

7.2.1 Research Question 1 to 5

Research question 1 to 5 which resonate hypothesis 1 (H1) to hypothesis 5 (H5) aimed to examine the service quality-satisfaction-loyalty link in the main model. It answers the following five questions:

1. Does the service outcome quality of the main service provider affect the client loyalty towards them?
2. Does the service process quality of the main service provider affect the client loyalty towards them?
3. Does the service outcome quality of the main service provider affect the client satisfaction towards them?
4. Does the service process quality of the main service provider affect the client satisfaction towards them?
5. Does the client satisfaction affect their loyalty towards the main service provider?

Next, a discussion of the findings from the previous section is provided. The discussion will follow the sequence of the hypothesis examined, that is, it starts from H1 to H5 in an orderly manner.

<u>Service Outcome Quality >>> Client Loyalty</u>

Achieving HRO service outcome quality such as successfully lowered investments and reduced costs, access to best practices, acquiring specialised HR capabilities, improving accountability, keeping up with changes, obtaining better HR technologies, aligning resource supply to demand and minimising HR workload are considered crucial in determining HRO effectiveness (Hasliza et al., 2014; Glaister, 2014; Sim et al., 2016; Lee & Choi, 2011). This is because almost in all BPO including HRO, service providers are expected to deliver clients' intended outsourcing benefits (Bharadwaj & Saxena, 2009; Cullen et al., 2008) as clients need to be assured of product quality in order to motivate them to continue the relationship (Human & Naudé, 2014). As clients decide to continue the outsourcing relationship, they are likely to continue the outsourcing contract, expand the quantity and volume of the contract, and provide referrals (Homburg et al., 2003; Wallenburg et al., 2011; Wallenburg, 2009). Therefore, it is not surprising that achieving service outcome quality (SOQ) can lead to client loyalty.

Service Process Quality >>> Client Loyalty

The result shows that increased SPQ, which is reflected in the service provider's high reliability, responsiveness, tangibility, assurance and empathy (Hasliza et al., 2014), results in significant increase in client loyalty. This finding is consistent with Janita & Miranda's (2013) finding which confirmed that SPQ has a direct, positive and significant relationship on client loyalty.

Interestingly, when the effects of SPQ and SOQ on client loyalty are compared, SPQ has a relatively higher effect on client loyalty. This further supports Janita & Miranda's (2013) and Williams et al. (2011) claims that SPQ is the most important factor in gaining client loyalty as SPQ evidently has greater path co-efficient and effect size values compared to SOQ (service outcome quality) on client loyalty. This is not difficult to understand because the interactions between the service provider and client are not discrete exchange episodes (Kelley & Thibaut, 1978) but are continuous and cumulative in the process of HRO service delivery. This in turn means that the two parties have likely spent substantially greater amount of time, effort, resources, coordination and communication during the outsourcing service delivery process compared to SOQ which only focuses on the end results involving a short period of assessment.

Service Outcome Quality >>> Client Satisfaction

Next, the relationship between service outcome quality (SOQ) and client satisfaction concurs with the findings by Williams et al. (2011), Choi & Kim (2013) and Hsieh & Hiang (2004). It indicates that the greater the service outcome quality is achieved, the higher the client satisfaction would be. Service outcome quality refers to clients' intended outsourcing benefits (Bharadwaj & Saxena, 2009) such as cost benefits, operational benefits and strategic benefits. So, when these benefits are achieved, it leads to client satisfaction because an HRO outsourcing deal is typically sealed with a contract accompanied by service level agreement (Goo & Huang, 2008a) – both of which are outcome focused. Clients must be clear of what benefits they want to achieve in determining the desired service outcome quality (Glaister, 2014). Hence, by spelling out the expected service outcome at the beginning of the outsourcing relationship and achieving it eventually would logically lead to client satisfaction.

Service Process Quality >>> Client Satisfaction

Consistent with the findings in recent outsourcing literature (i.e. Yu et al., 2017; Huang, et al., 2017), the result of this research indicates a positive and significant relationship between service process quality (SPQ) and client satisfaction (SAT). This is expected because as much as clients wish their outsourcing provider to deliver the desired outcome quality, they too do not want to endure an unsatisfactory outsourcing process (Schwarz, 2014).

Client Satisfaction >>> Client Loyalty

As discussed in length in the literature section, the inconsistent findings in the relationship between client satisfaction (SAT) and client loyalty (LY) are known especially when the study was carried out in different contexts and settings. Therefore, in the context of this research, the positive and significant results for the relationship between client satisfaction (SAT) and client loyalty (LY) are consistent with past studies conducted in outsourcing contexts such as Juga et al. (2012), Huang et al. (2017) and Goode et al. (2014). This further supports that client satisfaction can be regarded as a form of attitude (Goles, 2003) and that it is indeed the building block for loyalty (Oliver, 2010;1999) in the B2B outsourcing setting.

Overall, up till this point, the findings from the structural model provide further support to ascertain the causal effect of the service quality-satisfaction-loyalty link in the service performance and outsourcing literature. This is largely in line with the well documented literature backing service quality as an important antecedent of client satisfaction and loyalty (Human & Naudé, 2014; Williams et al., 2011).

7.2.2 Research Question 6 and 7 (Mediation)

Research question 6 and 7 resonate with hypothesis 6 and 7, and aim to examine indirect effect of client satisfaction on the relationships between service outcome quality (SOQ) and client loyalty (LY), and service process quality (SPQ) and client loyalty (LY). The two research questions examined are:

6: Does client satisfaction mediate the effect of service outcome quality and loyalty towards the main service provider?

7: Does client satisfaction mediate the effect of service process quality and loyalty towards the main service provider?

The significant mediation effects in the results demonstrate that when a client perceives high levels of SOQ and SPQ, it results in higher client satisfaction which in turn translates into client loyalty. In other words, client satisfaction is an intervening variable which helps to explain why the relationship between service quality and client loyalty exists. This means client satisfaction receives input from service quality achieved and translates it into client loyalty. From the perspective of SET, achieving client satisfaction means meeting the expectations of the exchange partner including product and non-product attributes (Wilson, 1995). Satisfactory service quality delivered by the service provider is likely to result in client retention. This result is not unconventional as client satisfaction has always been regarded as a measure of outsourcing effectiveness (Shih & Chiang, 2011; Yu et al., 2017; Huang et al., 2017 and Swar et al., 2012) especially when outsourcing service providers deliver the promised benefits and service quality to their clients.

7.2.3 Research Question 8a to 10d (Moderation)

Research objectives 8a to 10d resonate with hypothesis 8a to hypothesis 10d. It aims to assess interaction terms in order to ascertain the moderating effect of each of the partnership quality dimensions on the relationship between service outcome quality (SOQ) and client satisfaction (SAT), service process quality (SPQ), and client satisfaction (SAT) and client loyalty (LY). It sets out to answer the following main research questions:

8. Does partnership quality moderate the effect of service outcome quality on client satisfaction towards the main service provider?
9. Does partnership quality moderate the effect of service process quality on client satisfaction towards the main service provider?
10. Does partnership quality moderate the effect of client satisfaction on loyalty towards the main service provider?

In this research, partnership quality such as trust, commitment, mutual understanding and interdependence are consistently found to negatively and significantly moderate the relationship between client satisfaction and loyalty when tested one by one. This means, partnership quality has impacted the relationships underexamined by weakening the strength and direction of the relationships. Nevertheless, it is interesting to note that partnership quality has no significant effect on the relationship between service quality and client satisfaction. This may again ascertain that client satisfaction is a necessary but not a sufficient condition for relationship maintenance and development (Human & Naudé, 2014; Aurier & N'Goala, 2010) in an HRO B2B relationship. At this point, it is possible that the client has entered into a development stage as claimed by Bardauskaite (2014) which takes place after the client feels satisfied with the overall outsourcing experience. This is the stage where informal agreements are priorised and greater interdependence between parties occurs. (Bardauskaite, 2014). The subsequence section provides further discussion on the findings.

Trust

Trust, the first moderator to start with, is about believing others to be reliable (Swan, Trawick & Silva, 1985). Ironically, it also implies being vulnerable (Holst & Henseler, 2018) to an external party especially in an outsourcing relationship. This could possibly explain the reason trust did not have a sufficient effect on the relationship between service quality and client satisfaction because clients may not be willing to take significant risk of being vulnerable at the start of an outsourcing relationship. However, a client's trust toward the service provider may increasingly develop after having concluded a satisfactory relationship with the service provider.

Furthermore, trust is developed from past experiences with the service provider (Homburg et al., 2003) through the fulfilment of promises which is foundational to trust development (Houston & Gassenheimer, 1987). Therefore, it is not surprising that through repeated interactions, trust is then formed (Babin et al., 2017) and has substantial effect in determining the continuation of an outsourcing relationship. This finding is supported by the literature which indicates that firms that trust their providers are likely to continue the relationship (Morgan & Hunt, 1994; Babin, et al., 2017; Homburg et al., 2003; Handley & Benton, 2009). This is because short-term deficiency in a relationship is likely to be mitigated through trust (Dwyer et al., 1987) as trust helps relieve conflict, uncertainty and opportunism (Macneil, 1980; Ganesan, 1994; Anderson & Narus, 1990) in an outsourcing relationship.

Even in the event of client dissatisfaction, the client would be more open and willing to express their dissatisfaction with the provider to work out a solution rather than exit the relationship (Babin, et al., 2017; Homburg et al., 2003). Thus, as reflected in the findings, trust appears to be of greater influence than client satisfaction in reinforcing client loyalty because its presence has weakened the effect from client satisfaction to client loyalty. This goes to show that the development of trust is key in any exchange relationship because it allows firms to move from discrete transactions to relational exchange (Lambe et al., 2001) and enter into a state of relational prioritisation (Bardauskaite, 2014).

Commitment

Although commitment is found to be an important partnership attribute affecting partnership satisfaction in Mohr and Spekman's, 1994 study, it was found to have no significant effect on the relationship between service quality and client satisfaction in this research. It is possible that the presence of commitment between client and service provider exists as early as the provider selection stage before outsourcing contract formalisation (Kern & Willcocks, 2002; Cullen et al., 2014). So, it is probable that the role of commitment was transformed from a relational form to contractual form in the formalisation process in order to ensure satisfactory service performance. This may indicate a shift of focus from relational orientation to contractual reliance in governing the service delivery. As a result, commitment was found not to have significant effect on the relationship between service quality and client satisfaction.

Next, concurring with Liu et al. (2017), a client's commitment is critical toward promoting the client's loyalty in the B2B setting because commitment provides an important relational norm of mutual responsibility that evolves from repeated interactions over time (Schmoltzi & Wallenburg, 2012). Positive economic and/or social outcomes over time such as achieving service outcome and process quality while ensuring client satisfaction would enhance partners' commitment in maintaining the relationship, a condition which preserves the outsourcing relationship (Lee et al., 2010) through contract renewal, expansion and providing referrals (Holst & Henseler, 2018; Wallenburg et al., 2011; Homburg et al., 2003; Wallenburg, 2009). In particular, when complexity grows, commitment counteracts detrimental individual behavior and enables partners to demonstrate explicit solidarity (Schmoltzi & Wallenburg, 2012). This is because commitment is the highest order relational construct which is the outcome of high satisfaction (Bardauskaite, 2014). Therefore, this may explain the significant and negative moderating effect of commitment on the relationship between client satisfaction and loyalty.

Mutual Understanding

Mutual understanding has been argued as an important factor contributing to outsourcing effectiveness (Lee & Kim, 1999; Goles & Chin, 2005; Swar et al., 2012). As business understanding between service provider and client concerns mutual expectations and organisational capability which are non-contractual and informal in nature, (Babin et al., 2017; Hasliza et al., 2014), its presence is likely important during or prior to the provider selection stage. After the service provider is selected, such mutual understanding may serve as the backdrop for SLA to prevent delay in the completion of formal outsourcing agreement to satisfaction (Child, 2001).

As a result, delivering promised service quality to client's satisfaction appears to be the key priority which may explain the insignificant effect of mutual understanding on the relationship between service quality and client satisfaction. However, the role of mutual understanding eventually becomes significant and even changes the direction of the relationship between client satisfaction and loyalty. This finding is supported by Babin et al. (2017) who argued that informal relational pieces such as mutual understanding is required in contract sustainability and future contract expansion (Babin et al., 2017). This directly explains the influential role of mutual understanding in overriding the effect of client satisfaction on client loyalty.

<u>Interdependence</u>

The last dimension of partnership quality which is interdependence was found to have no significant effect on the relationship between service quality and client satisfaction. Similarly, but not identically, Mohr & Spekman (1994) found interdependence having no effect on client satisfaction but maintained their belief otherwise. By comparing these two findings, a more logical explanation could be the effect of interdependence may be present right from the beginning because the nature of outsourcing practices itself already demonstrates an inherent dependency (Schwarz, 2014). This may mean that interdependence loses its effect to sufficiently influence the relationship between service quality and client satisfaction due to clients' tendencies of having high reliance on contractual governance for control and coordination purpose (Lumineau, 2017). So, the effect of interdependence may be downplayed after signing the outsourcing contract.

On the contrary, interdependence was found to have a negative and significant effect in moderating the relationship between client satisfaction and loyalty. This is rather understandable because in any B2B relationship such as HRO, it always reflects interdependence rather than independence between clients and service providers (Holst & Henseler, 2018). The service provider is often regarded as a strategic business partner (Shen, 2005; Yan et al., 2013), hence likely leading to client retention as a result of satisfactory service performance. It also conforms to Kelley & Thibaut's (1978) suggestion that a 'transformation' occurs when exchanging parties reconcile social and economic outcomes in deciding whether to continue the outsourcing relationship. This perhaps explains the possibility of having a greater interdependence effect in the relationship between client satisfaction and loyalty after having had active interactions between parties for a period of time. In particular, increased degrees of interdependence results in a more favourable evaluation of the exchange partners (Gundlach & Cadotte, 1994) and balance of power yields the sustainability of a cooperative relationship (Chen, Chen & Wu, 2017; Kähkönen, 2014) which leads to client loyalty.

7.3 Theoretical Contribution

In this research, SET has provided an expanded view in delineating the complex embedded economic and social-psychological exchange in an effective outsourcing relationship which in turn enhances a greater understanding in predicting the continuation of outsourcing relationships. This research contributes to the SET theory by extending one of the SET facets operationalised by Lambe (2001) that is "positive outcomes over time increase trust and commitment" (Lambe, 2001, p.21) which is central to the widely adopted trust-commitment Morgan & Hunt's (1994) framework, to include other non-economic outcomes. The results demonstrate that positive outcomes over time have not only resulted in trust and commitment between parties, but also in greater mutual understanding and interdependence. Thus, it has directly shifted the overly focused trust-commitment paradigm overshadowed by B2B relationship studies (Jeong & Oh, 2017).

This research reveals that recipricocity which is the key tenet in SET may not always appear in a direct linear and unconditional basis. It challenges the inherent assumptions of SET pointed out by Cropanzano, Anthony, Daniels and Hall (2017, p.3) that is, SET "assumes the absence of something hedonically positive is effectively the same as the presence of something that is hedonically negative". So, deducing from this assumption in the context of this study, service providers' commendable service quality in servicing their clients should ideally be reciprocated with client satisfaction and once client satisfaction is achieved it should then be logically reciprocated with client loyalty through contract renewal or expansion or referrals provided in the principle of SET's reciprocality. However, the findings showed that this did not happen; instead it showed that even though client satisfaction may have been achieved, client loyalty is not automatic as it is subject to the partnership quality characterised by high trust, commitment, mutual understanding and interdependence.

Although Kelley and Thibaut (1978) have suggested the occurence of 'transformation' when exchanging parties reconcile social and economic outcomes in deciding whether to remain in a business relationship, further details are unknown. This research has divulged greater insights into the consideration likely undertaken by clients in deciding the continuation of a B2B outsourcing relationship. Not only does this research endorse the importance of social outcome in the form of partnership quality transformed from a contractual economic exchange relationship, it specifically shows the likelihood of ‘when’ the outcome of social bonding (trust, commitment, mutual understanding and interdependence) likely becomes significantly influential, that is, when the so called ‘transformation’ has or will likely take place – post client satisfaction. This is likely because client satisfaction is an emotive post-consumption evaluation of the service performance (Caruana & Malta, 2002).

Meanwhile, concurring with Jeong & Oh (2017), this research has moved beyond the direct factor-based and the ubiquitous trust-commitment models in B2B research where the role of client satisfaction is repositioned without denying or undermining the role of trust and commitment in an effective outsourcing relationship. This is because client satisfaction is often or by default being kept track by service providers intermittently to detect early deviation in almost all outsourcing relationships. By modelling client satisfaction as the mediator in this study, its role is recognised and properly accounted for within SET because satisfaction has been regarded as playing an important role in building relationships over time (Blau, 1964; Homans, 1958; Thibaut & Kelley, 1959). This has enabled a more meaningful explanation to the complex yet highly conditional outsourcing relationship in the HRO context.

In addition, this research provides support for the relational exchange (RET) theoretical argument put forward by a relationalist, Kimel (2007) with regards to the need to accept the existence of relationalism in all contracted relationship such as HRO, without denying the value of formal contractual governance. The findings for this research recognise the underlying and theoretically entwined relationships between contractual-relational elements and their interplay in influencing client’s loyalty in an effective HRO relationship. In particular, this research shows that achieving outsourcing service quality translated from contractual requirements and expectations are proven to be of foundational importance as it provides the essential background “in order for the potential encapsulated in potentially relational contracts to be realised” Kimel (2007, p.254) and eventually determines the continuation of an outsourcing relationship. Therefore, it provides an explanation on the rational behind contractual prioritisation or dependence before becoming susceptible to relational influence because each party always seeks to maximise their own worth from the relationship first (Jeong & Oh, 2017).

Besides, this research reaffirms that SET and RET are better theories compared to others commonly used in the HRO literature such as RBV, TCE and Core Competence theory in examining the exchanges between parties involved in the outsourcing relationship. SET and RET enable the explanation of ‘how’ (refer Section 3.9.5) parties in the outsourcing relationship exchange economic benefits and relational responses while determining the significant touch point which must be observed by service provider to retain client loyalty. These theories also allowed the flexibility of incorporating partnership quality into the service quality-satisfactio-loyalty link to accommodate greater complexity of conditioning factors in an outsourcing relationship which is representative of the outsourcing scenario compared to the other three theories.

This research complements the scarcity in HRO literature by providing a nuanced and contextualised understanding of HRO effectiveness from the service quality perspective. In particular, both service outcome quality and service process quality were examined using the service quality-satisfaction-loyalty framework to push beyond a factor-based model in the literature. The role of the non-economic element such as partnership quality acting as a conditioning factor in an exchange relationship was identified. Partnership quality appears to become incredibly significant post-client satisfaction, potentially explaining the transformation from contractual focused to relational focused in an outsourcing relationship. This contributes to a greater understanding as to why certain clients stay loyal with their service providers while others terminated the outsourcing contract. It also sheds lights as to why satisfied clients do not necessarily result in a continued relationship.

In short, this research has utilised the combinations of RET and SET theories, service quality-satisfaction-loyalty framework together with relational constructs (partnership quality) to provide an integrative theoretical insight which is valuable for the advancement of outsourcing research.

7.4 Practical Contribution

Generally, almost all global analyst reports meant for practitioners have either excluded Malaysia or lumped Malaysia into a regional analysis with little representation (Sim, et al., 2016). Hence, the findings from this research offer important insights with regards to HRO effectiveness specific to the Malaysian context which is much needed but under researched. As outsourcing trends are emerging in Malaysia, this information is crucial for HR managers, executives as well as service providers especially among those who are tasked to oversee business operations in Malaysia or within this region, to gain a deeper understanding on effective outsourcing relationships.

Specifically, this research highlights that although achieving service outcome quality (SOQ) is important, service process quality (SPQ) has greater impact on client satisfaction and loyalty. This gives a wakeup call to all the outsourcing service providers to focus more on service process quality in exchange for contract renewal, expansion or referrals from clients. Service providers are advised to not be overly fixated by outcome-based achievements such as cost reduction because the outcome may be achieved in the expense of relational damage in which the clients are not willing to endure (Schwarz, 2014).

This research has provided evidence on the importance of partnership quality characterised by trust, commitment, mutual understanding and interdependence in an effective outsourcing relationship. This goes to suggest that service providers who are prepared to build or are consciously building partnership quality with their clients will likely experience greater client retention. Failure to retain a client means losing clients and it in turn translates into lost revenue and replacement costs (Briggs & Grisaffe, 2010) for service providers. Hence, this is an important revelation because failed outsourcing cases are abundant and the management of the outsourcing relationship continues to be the key challenge (Kaipia & Turkulainen, 2017). Furthermore, reliance of third-party enforcement (i.e arbitration, litigation, etc.) is costly and imperfect in the event of outsourcing disappointment and failure (Lumineau, Eckerd & Handley, 2015). This means managers should ideally avoid going down this road and understand the salient issues on outsourcing relationship management.

Moreover, this research also re-emphasises that achieving client satisfaction is a necessary but insufficient condition to retain a client as cautioned by past research (Human & Naudé, 2014, William et al., 2011, Aurier & N'Goala, 2010). Therefore, outsourcing service providers need to be fully aware that merely achieving client satisfaction will not guarantee client retention. As a result, service providers have to re-strategise themselves by utilising the insights provided in this research to craft an effective and long term HRO relationship with their clients. It is hoped that the above managerial insights could aid better and informed decision making among the HR managers, executives, outsourcing organisations and outsourcing service providers.

7.5 Methodological Contribution

This research makes several methodological contributions to the field of HRO research. To begin with, the formative measurement model assessments suggest that SOQ and SPQ constructs fulfilled the criterion of being a formative construct, which is in line with the current development in the literature. The findings confirm the manifold structure of the service process quality constructs and this provides a new understanding on the use of SERVPERF developed by Cronin & Taylor (1992) in the B2B context which has largely been tested as reflective constructs over two decades. The findings extend support for the recent development in literature which regards perceived service performance as a measure of service quality and that the service attributes cause a service quality dimension, not vice versa (Ahrholdt et al., 2017; Dragger et al., 2007). This is crucial given the vast differences between the reflective and formative measurement models' evaluation (Ringle et al., 2018).

In addition, this research is one of the few HRO studies that has embarked on a more updated PLS- modelling which involves reflective, formative and hierarchical component models (HCMs). It has advanced the use of PLS-SEM, results reporting and the assessment of formative measurement models that were once criticised by Ringle et al. (2018) as lacking in HRM research upon reviewing 77 HRM studies published in a 30-year period in leading journals.

Specifically, this research has addressed the urge to report the assessment of formative measurement models beyond potential collinearity issues and the significance of weights by using more recently developed practices, such as establishing convergent validity (using global indicators) and having the formative indicators' loadings analysed using absolute and relative contribution for justification. This research has adopted the concept of HCMs to allow service process quality (SPQ) and client loyalty (LY) constructs to be measured at a higher level of abstraction and thus allowing the presentation of path model in a more parsimonious manner.

Other areas suggested for improvement in HRM research using PLS-SEM by Ringle et al. (2018) that have been addressed in this research include the use of HTMT criterion (Henseler et al., 2015) to assess discriminant validity, confirmatory tetrad analysis (Gudergan, Ringle, Wende, & Will, 2008) to test the mode of measurement, f^2 effect size and Q^2 predictive relevance for predictive quality. While the PLS-SEM methodology and techniques keep advancing, this research may not have addressed all the "wish list" highlighted by Ringle et al. (2018) but it has no doubt advanced the use and reporting of PLS-SEM substantially in this field of research which in turn can be foundational for HRM researchers to improve their attempt in developing a more nuanced modeling of theoretical concepts and examine their complex relationships.

Finally, there is a note of caution for future researchers, that is, to regard service quality or service performance construct as formative construct, as a new way forward if PLS-SEM is used in their analysis.

7.6 Limitations and Future Research

Like any other research, there are limitations in this research. This research was conducted using manufacturing organisations in Malaysia who have embarked on HRO as sample; therefore, it may be premature to generalise the findings to other industries based on the results of the present research. It is recommended that future research investigate the relationships in different service contexts with cross-cultural aspects included in their research. While dyadic data collection (from both the providers and purchasing organisations) was desirable, both time and expense considerations necessitated focusing on one side of the dyad (Mohr & Spekman, 1994) and this is also the case for this research. Therefore, future studies may consider to include both clients' (buyers'), service providers' and other stakeholders' perspectives.

Another limitation is that purposive sampling was used albeit with a random selection of respondents, as there was no pre-established list of companies using HRO. So, respondents in this research were filtered carefully, for instance by limiting them to HR managers and executives, to maximise the reliability and validity of the responses. Additionally, the use of HR managers and executives as the key respondents, could potentially result in a general response bias. However, this approach was consistent with HRO literature (Sim et al., 2016; Susomrith & Brown, 2013; Hasliza et al., 2014).

While HR managers or executives may not be the final decision-makers, they are inevitably the decision executors with whom the top management shares decisions about outsourcing and future plans. Thus, HR managers and executives do hold much valid information about HRO practices – information which falls within the scope of this research. That said, it would be ideal if future studies could also include respondents representing the top management or having different respondents for measuring the independent and dependent variables (Khalid & Ali, 2017) to further increase the accuracy and validity of data collected while minimising common method bias. Alternatively, researchers can consider using the time lag technique to overcome common method bias due to collecting data for other variables in the questionnaire from the same pool of respondents.

It is noteworthy that by having respondents rate their achievement of the intended outsourcing benefits on a five-point Likert scale, it was inevitably subject to a degree of subjectivity. For example, two respondents from different organisations who received a similar level of outsourcing service might rate them differently because of their differing points of reference or expectations. Moreover, the scale in this research only measured the perceived level of achievement in outsourcing, rather than actual achievement (where firms might have their own matrices or scales to measure). This limitation also applies to clients' loyalty examined in this research, in which the reflection of a consumer's attitude to re-purchase may be anticipated but unrealised in actual action (Oliver, 2010).

Another limitation is the modelling of heterogeneity. Heterogeneity refers to heterogeneous data structures that are often present as a result of respondents' differences in their perceptions and evaluations of latent variables (Hair et al., 2018). Unfortunately, the multigroup analysis in conjunction with the assessment of measurement invariance by means of using measurement of invariance of composite models (MICOM) procedure as recommended by (Hair et al., 2018) cannot be performed due to the number of observations in each group not meeting the minimum sample size requirements which is 230 observations per group. Similarly, Finite Mixture Partial Least Square (FIMIX-PLS) and Prediction-Oriented-Segmentation Partial Least Square (POS-PLS) that are used to detect unobserved heterogeneity (Hair et al., 2018) cannot be performed due to the same issue. Hence, either a larger sample size or using measures with fewer numbers of formative indicators is suggested in future work to enable a more rigorous heterogeneity analysis on the data structures.

Future researchers may consider including interaction quality and compare the findings because Rhodes et al (2016) claimed that interaction quality is more important than relationship quality in outsourcing. Another factor worth considering is the compatibility between clients and service providers because partners' compatibility is found to be one of the major reasons why a buyer-supplier relationship declines (Marcos & Prior, 2017). It will also be interesting if neuroscientific perspectives can be incorporated in future research as it is believed to potentially enrich and broaden the existing industrial marketing and B2B literature (Holst & Henseler, 2018). It may provide new insights and shift theoretical understanding in discerning the dynamics process of partnership quality development in the outsourcing relationship.

7.7 Conclusion

In conclusion, this research has attempted to evaluate HRO effectiveness from the service quality perspective by taking into consideration the role of partnership quality. It contributes to the existing body of knowledge with regards to achieving effective HRO relationship through partnership quality. This contribution is substantial because existing HRO literature regards HRO effectiveness from the lens of outsourcing benefits achieved (i.e Hasliza et al., 2014; Nguyen & Chang, 2017) which is outcome based, ignoring the importance of service process quality and partnership quality in predicting the client's intention to continue outsourcing. In short, this research has moved beyond factor-based models to offer a better understanding of partnership quality dynamics in an effective HRO relationship. The findings have explicitly and specifically considered the influence of non-economic aspects like trust, commitment, mutual understanding and interdependence dimensions of partnership quality on the entire service quality-satisfaction-loyalty link. It enables a holistic understanding of the relationships among constructs in the model and closes the literature gaps in understanding HRO effectiveness. It has attempted to extend the SET theory and provided organisational insights in lending support to the RET theory and its application in HRO relationships. All in all, this research has undeniably provided theoretical, methodological and practical contributions which are useful and meaningful to all the stakeholders in the HRO space.

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Appendix A

Master Codes

1. Outsourcing Decision – Make or Buy: The client's basic decision to retain the activity in-house or to outsource it to service providers (e.g. Shaw and Fairhurst, 1997; Chiang, Chow and Birtch, 2010; Galanaki and Papalexandris, 2007; Butler and Callahan, 2014; Mansor, Abu, Abashah, and Mohd Kassim, 2018).
2. Outsourcing Decision – Employee Welfare: The client's decision to outsource activities related to employee welfare such as occupational safety and health (Nunez, 2009). Also, considered as one of the activities in the group "human capital activities" classified by Klaas, McClendon, and Gainey (2001).
3. Outsourcing Decision – Training: The client's decision to outsource training activities (e.g. Lepak, Bartol, and Gardner, 2004; Sheehan, 2009; Lever, 1997; Gilley, Greer, and Rasheed, 2004; Shih and Chiang, 2011). Also, grouped under "human capital activities" classified by Klaas, McClendon, and Gainey (2001) as well as under "traditional functions" under Abdul-Halim, Che-Ha, and Geare (2009). Considered a core HR activity based on Reichel and Lazarova's (2013) factor loadings. Encompasses both generic and job specific training models studied by Galanaki, Bourantas, and Papalexandris (2008).
4. Outsourcing Decision – Recruitment/Selection: The client's decision to outsource activities related to recruitment or selection (e.g. Lepak, Bartol, and Gardner, 2004; Ordanini and Silvestri, 2008; Sheehan, 2009; Klaas, McClendon, and Gainey, 2001; Lever, 1997; Shih and Chiang, 2011; Wehner, Giardini, and Kabst, 2012). Also one of the activities classified under traditional functions (Abdul-Halim, Che-Ha, and Geare, 2009) and core HR functions (Reichel and Lazarova, 2013).
5. Outsourcing Decision – Payroll: The client's decision to outsource payroll and pay administration activities (e.g. Lepak, Bartol, and Gardner, 2004; Sheehan, 2009; Lever, 1997; Gilley, Greer, and Rasheed, 2004). One of the activities classified under transactional functions (e.g. Abdul-Halim, Che-Ha, and Geare, 2009; Klaas, McClendon, and Gainey, 2001) and noncore HR activities (Reichel and Lazarova, 2013).
6. Outsourcing Decision – Benefits: The client's decision to outsource benefits related activities (e.g. Lepak, Bartol, and Gardner, 2004; Lever, 1997). Classified as a transactional function (Abdul-Halim, Che-Ha, and Geare, 2009; Klaas, McClendon, and Gainey, 2001) and noncore HR activity (Reichel and Lazarova, 2013).
7. Outsourcing Decision – Legal: The client's decision to outsource activities related to legal affairs (e.g. Lepak, Bartol, and Gardner, 2004)
8. Outsourcing Decision – HRIS: The client's decision to outsource Human Resource Information Services activities (e.g. Lepak, Bartol, and Gardner, 2004; Sheehan, 2009;

Lever, 1997). One of the activities classified under transactional functions (e.g. Abdul-Halim, Che-Ha, and Geare, 2009; Klaas, McClendon, and Gainey, 2001).

9. Length of Outsourcing: The client's decision on the duration of the outsourcing contract (Lievens and Corte, 2008).
10. Frequency of Outsourcing: The number of times the client outsourced the HR activity to the same service provider (Lievens and Corte, 2008; Zhao, Li, and Li, 2013).
11. Outsourcing Decision – Change Management: The client's decision to outsource activities related to change management to service providers (Sheehan, 2009).
12. Outsourcing Decision – Performance: The client's decision to outsource performance related activities such as performance appraisal and performance related pay to service providers (Sheehan, 2009). These activities are classified by Klaas, McClendon, and Gainey (2001) under HR Generalist activities.
13. Outsourcing Decision – Employee Relations: The client's decision to outsource employee relations activities to an external service provider (Sheehan, 2009). Also classified under HR Generalist activities in Klaas, McClendon, and Gainey (2001).
14. Outsourcing Decision – Compensation: The client's decision to outsource compensation-based activities to external service providers (Lever, 1997). Also grouped under traditional HR functions (Abdul-Halim, Che-Ha, and Geare, 2009).
15. Degree of Outsourcing: The client's extent of outsourcing measured by the number of activities outsourced by the client (e.g. Delmotte and Sels, 2008; Sheehan and Cooper, 2011; Tremblay, Patry and Lanoie, 2008; Abdul-Halim and Che-Ha, 2011a; Halim and Che-Ha, 2011b; Ordanini and Silvestri, 2008; Mahmud, Billah, and Chowdhury, 2012).
16. Outsourcing Knowledge, Skills, Abilities: The client's knowledge, skills, and abilities in dealing with external outsourcing service providers (Gainey and Klaas, 2003; 2005).
17. Outsourcing Success: The client's HR department and organizational performance and effectiveness after engaging in outsourcing activities (e.g. Ee, Halim, and Ramayah, 2013a; Shih and Chiang, 2011; Abdul-Halim, Che-Ha, and Geare, 2009; Sheehan and Cooper, 2011).
18. Satisfaction: The client's satisfaction with the outsourcing activity and HR outcomes (Gainey and Klaas, 2003; Klaas et al., 2005). This variable also measures the satisfaction with the recruitment process in Wehner, Giardini, and Kabst's (2012) study.
19. Firm Size: The organizational size of the client's firm, measured by the number of workers in the organization (e.g. Mahmud, Billah, and Chowdhury, 2012; Klaas, McClendon, and Gainey, 2001; Galanaki, Bourantas, and Papalexandris, 2008; Chiang, Chow, and Birtch, 2010; Delmotte and Sels, 2008; Shih and Chiang, 2011; Halim and Che-Ha, 2011a; Lever, 1997; Ordanini and Silvestri, 2008).
20. Size of HR Department: The organizational size of the client firm's HR department, measured by the number of workers in the organisation's HR department (Abdul-Halim and Che-Ha, 2011b; Mahmud, Billah, and Chowdhury, 2012; Lepak, Bartol, and Gardner, 2004).
21. Outsourcing Outcome – Financial Performance: The client firm's financial performance, usually measured by the rate of return on assets (Gilley, Greer, and Rasheed, 2004; Sheehan and Cooper, 2011).

22. Outsourcing Outcome – Innovation Performance: The client firm's innovation performance, measured by process innovations, product innovations and research and development outlays (Giller, Greer, and Rasheed, 2004).
23. Outsourcing Outcome – Stakeholder Performance: The client firm's performance in relation with the other stakeholders, measured by employee morale, employment stability, supplier relations, and customer relations (Gilley, Greer, and Rasheed, 2004).
24. Firm Attractiveness: The attractiveness of the firm from the perspective of new applicants in the recruitment process (Wehner, Giardini, and Kabst, 2012).
25. Job Acceptance Intention: The intention of new applicants in a recruitment process to accept the job offer (Wehner, Giardini, and Kabst, 2012).
26. Outsourcing Outcome – Operating Performance: The client's operating performance, generally measured by the operating return on assets (Butler, Carolyn, and Smith, 2010; Butler and Callahan, 2014).
27. Outsourcing Outcome – Capital Market Performance: The capital market returns of the client firm's stocks, calculated with event study analysis (Butler and Callahan, 2014).
28. Strategic HR Involvement: The extent to which HR managers are involved in making strategic decisions within the firm (e.g. Reichel and Lazarova, 2013; Delmotte and Sels, 2008; Ordanini and Silvestri, 2008; Sheehan and Cooper, 2011; Tremblay, Patry, and Lanoie, 2008; Zhao, Li, and Li, 2013; Klaas, McClendon, and Gainey, 2001; Nguyen and Chang, 2017).
29. Commitment: Encompasses continuance commitment, which is the client's commitment to continue outsourcing to the service provider; and affective commitment, the client's emotional commitment to the service provider (e.g. Ee, Halim, and Ramayah, 2013a; Lievens and Corte, 2008). The variable also covers the client firm's commitment to occupational safety and health as studied by Nunez (2009).
30. Cost Benefits: Cost-related benefits that the clients of service providers receive from outsourcing their activity (e.g. Galanaki, Bourantas, and Papalexandris, 2008; Shaw and Fairhurst, 1997; Lepak, Bartol, and Gardner, 2004; Lever, 1997; Mansor, Abu, Abashah and Mohd Kassim, 2018; Nguyen and Chang, 2017).
31. Quality Benefits: Improvements in quality that client firms receive by outsourcing their HR activity to external service providers (Galanaki, Bourantas, and Papalexandris, 2008).
32. Flexibility Benefits: The increase in the client's flexibility and ability to adjust to the demand variability of the HR activity by outsourcing their HR activity (Galanaki, Bourantas, and Papalexandris, 2008; Nguyen and Chang, 2017).
33. Contractual Specificity: The level of details specified in the contracts between a client and outsourcing service provider (Gainey and Klaas, 2003; Gainey and Klaas, 2005; Klaas et al., 2005).
34. Access to Specialised Capabilities: The client's motivation to gain access to a service provider's expertise and specialised skills and abilities (e.g. Shaw and Fairhurst, 1997; Lepak, Bartol, and Gardner, 2004; Lever, 1997).
35. Downsizing: The outplacement activities of human resources that lead to a reduction in the number of staff in the organization (Ordanini and Silvestri, 2008; Lever, 1997).

36. Risk: The risk that an organization faces when conducting business transactions (Lever, 1997). Encompasses Tremblay, Patry, and Lanoie's (2008) human resource risk, service provider risk, and business risk. Also covers occupational risk, as studied by Nunez (2009).
37. Change in Headcount: Covers employment evolution and the evolution of the HR headcount from Delmotte and Sels (2008). Both capture the changes in the number of jobs in the organisation.
38. HRM Intensity: The intensity of the firm's human resource management practices, measured by an index constructed in Delmotte and Sels (2008).
39. HR Scorecard: A dummy variable that captures whether a balanced HR scorecard is utilized by the organization (Delmotte and Sels, 2008).
40. HR Devolution: A variable that captures the degree to which HR responsibilities are delegated down to line managers (Delmotte and Sels, 2008; Reichel and Lazarova, 2013; Gottardello and Valverde, 2018).
41. Proportion of HR Employees: The HR ratio, or percentage of employees in the HR department, measured against the total number of employees in the organisation (Delmotte and Sels, 2008).
42. Quality-based Strategy: A firm's strategy to prioritise the quality of their products (Abdul-Halim, Che-Ha, and Geare, 2009).
43. Proactive Strategy: A firm's strategy to prioritise flexibility and swift reactions in order to maximise the number of innovations and facilitate change in the industry (Abdul-Halim, Che-Ha, and Geare, 2009).
44. Breadth Strategy: A firm's strategy to produce a large variety of products, hence requiring fewer specialised skills from HR employees (Abdul-Halim, Che-Ha, and Geare, 2009).
45. Reactive Strategy: The firm makes cost reduction a priority and gains from production efficiency and effectiveness (Abdul-Halim, Che-Ha, and Geare, 2009).
46. Facilitation Strategy: Firms utilize a strategy to facilitate new skills, abilities and knowledge by providing employees with opportunities for free-flowing communication (Abdul-Halim and Che-Ha, 2011b).
47. Accumulation Strategy: A firm's attempt to attract good candidates and retain employees by practising lifetime employment, promotional opportunities, and seniority-based reward systems, in order to minimize the need for recruitment activities (Abdul-Halim and Che-Ha, 2011b).
48. Utilisation Strategy: A strategy employed to minimize the cost of HR functions and encourage the use of part-time employment when needed (Abdul-Halim and Che-Ha, 2011b).
49. Investment: The amount the firm has invested into the specific activity (Lievens and Corte, 2008; Galanaki, Bourantas, and Papalexandris, 2008).
50. Availability of Alternatives – Service Providers: The number of alternative service providers available or the ease to access alternatives for the outsourcing activity (Lievens and Corte, 2008; Galanaki, Bourantas, and Papalexandris, 2008).
51. Shared Values: The principles, beliefs, and ideas that are shared by the client and service provider (Lievens and Corte, 2008).

52. Reputation – Service Provider: The perceived positive reputation and status of the outsourcing service provider (Lievens and Corte, 2008).
53. Approachability: The service provider's ease of accessibility and friendliness as perceived by the client (Lievens and Corte, 2008).
54. Supplementing workload: The firm's motive to outsource in order to access additional capacity to fulfill a large workload that exceeds the firm's own capacity (Shaw and Fairhurst, 1997).
55. Project Independence: The degree to which the project is free from other influences (Shaw and Fairhurst, 1997).
56. Frequency of Training: The frequency of transactions for the training activity outsourced (Galanaki, Bourantas, and Papalexandris, 2008).
57. Competitive Advantage: The extent to which the outsourced activity provides an organization a competitive advantage (Galanaki, Bourantas, and Papalexandris, 2008; Mansor, Abu, Abashah and Mohd Kassim, 2018).
58. HR Resource Adequacy: The HR manager's perception of the sufficiency of their department to fulfill the activities needed (Ordanini and Silvestri, 2008).
59. Technology/Knowledge Intensive Context: Technology intensity as in the STI classification of the OECD (Ordanini and Silvestri, 2008).
60. Percentage of Graduated Workforce: The proportion of employees within an organization who are graduates (or above) – used as a proxy for the organisation's education level (Ordanini and Silvestri, 2008).
61. Outsourcing Experience: The client organisation's prior experience with external outsourcing service providers, regardless of function (Tremblay, Patry, and Lanoie, 2008; Zhao, Li, and Li, 2013; Lever, 1997).
62. Top Management Support: The commitment and intention of the client's top management to opt for outsourcing, as well as their support for the decision (e.g. Tremblay, Patry, and Lanoie, 2008; Ee, Halim, and Ramayah, 2013a; Zhao, Li, and Li, 2013; Lever, 1997).
63. Benchmarking: The client firm's involvement in benchmarking activities, captured as a dummy variable (Tremblay, Patry, and Lanoie, 2008).
64. Pay Strategy: The client firm's propensity to pay efficiency wages or wages higher than the industry average (Klaas, McClendon, and Gainey, 2001; Tremblay, Patry, and Lanoie, 2008).
65. Task Complexity: The difficulty of the problems encountered when performing a specific activity (Tremblay, Patry, and Lanoie, 2008).
66. Measurability of Activity: The ease of measuring the performance or quality of a specific activity (Tremblay, Patry, and Lanoie, 2008).
67. Business Understanding: The extent to which both parties understand the dealings, behaviours, and policies of each other (Ee, Halim, and Ramayah, 2013a).
68. Human Capital Enhancing Services: The degree to which the client firm utilizes service providers in activities that affect employee motivation, skill level, level and workforce quality (Klaas et al., 2005).
69. Communication: The degree and frequency of communication between the client and the service provider, also taking into account accuracy and information sharing (e.g.

Klaas et al., 2005; Ee, Halim, and Ramayah, 2013a; Gainey and Klaas, 2005; Gainey and Klaas, 2003; Lievens and Corte, 2008).

70. Client Receptivity: The extent to which the client is willing to accept comments, criticisms, and advice from the service provider to manage their human resources and activities (Klaas et al., 2005).
71. Information Asymmetry: The extent to which information is difficult to control and observe, leading to an imbalanced distribution of information between the client and service provider. Nunez (2009) used the 'Audit' variable to capture this variable.
72. SHR Index: The human resources index utilized by Nunez (2009) in order to determine how valuable employees are strategically.
73. Integration: The extent to which occupational safety and health is incorporated into the primary activities of the firm (Nunez, 2009).
74. Relationship Tenure: The means firms use when contracting with service providers; either through long-term service relationships or one-off encounters (Gainey and Klaas, 2003).
75. Vendor Dependency: The extent that vendors or service providers are dependent upon the clients for business (Gainey and Klaas, 2003; Gainey and Klaas, 2005).
76. Asset Specificity: The extent to which the asset or service is specialised or specific to the client firm (Galanaki, Bourantas, and Papalexandris, 2008; Zhao, Li, and Li, 2013).
77. Outsourcing Decision – Pension: The client's decision to outsource pension related activities. Classified under Reichel and Lazarova's (2013) noncore HR functions.
78. HR Outsourcing Contract Announcement: The announcement of an HR outsourcing contract that is publicly released (Butler and Callahan, 2014; Butler, Carolyn, and Smith, 2010).
79. Industry: The client organisations' industry classifications, from private against public, services against manufacturing, financial against non-financial, to a list of separate industry classifications presented by authors (e.g. Chiang, Chow, and Birtch, 2010; Delmotte and Sels, 2008; Shih and Chiang, 2011; Nunez, 2009; Klaas et al., 2005; Klaas, McClendon, and Gainey, 2001; Tremblay, Patry, and Lanoie, 2008).
80. Idiosyncratic HR Practices: The extent to which an HR activity or practice is specialised or customised to the client organisation's specific needs (Klaas, McClendon, and Gainey, 2001; Tremblay, Patry, and Lanoie, 2008; Gainey and Klaas, 2003; Gainey and Klaas, 2005).
81. Positive HR Outcomes: The degree to which firms are able to achieve desirable outcomes in their human resources, such as teamwork, motivation, and performance (Klaas, McClendon, and Gainey, 2001).
82. Promotional Opportunities: The degree to which employees perceive they have been given the opportunity for promotion. It captures both internal candidate preference and availability of opportunity for higher positions (Klaas, McClendon, and Gainey, 2001).
83. Uncertainty: Ambiguity in the environment that manifests in the demand for outsourced activity performance evaluations, and so on (e.g. Klaas, McClendon, and Gainey, 2001; Zhao, Li, and Li, 2013; Lepak, Bartol, and Gardner, 2004; Gainey and Klaas, 2003; Gainey and Klaas, 2005).

84. Competitor's HR Outsourcing: The level of outsourcing employed by competitors (Klaas, McClendon, and Gainey, 2001).
85. Union: A dummy variable to capture worker representation in firms, either by official union status or the establishment of a committee to represent workers (e.g. Shih and Chiang, 2011; Tremblay, Patry, and Lanoie, 2008; Nunez, 2009).
86. Business Group Affiliation: A dummy variable to signify the firm's association with a business group or runs a separate independent variable (Ordanini and Silvestri, 2008).
87. Enterprise scale: A measure used in Zhao, Li, and Li (2013) to illustrate a firm's characteristics.
88. Foreign Ownership: A variable to indicate whether a firm is owned by foreign multi-national corporations or local domestic corporations (Chiang, Chow, and Birtch, 2010; Sheehan and Cooper, 2011).
89. Organisational Age: The firm's number of years in operation since its establishment; also termed the firm's maturity (e.g. Delmotte and Sels, 2008; Giller, Greer, and Rasheed, 2004; Abdul-Halim and Che-Ha, 2011a).
90. Prospector Strategy: The firm's strategy to diversify more from their existing products and customer base with greater focus on innovation and creating new market awareness. Shih and Chiang (2011) measured firms' emphasis on this strategy through a composite index incorporating their range of products and customer base.
91. Sector (Profit/Non-profit): A variable to indicate if a firm is classified into the profit sector or non-profit sector (Sheehan and Cooper, 2011).
92. Service Quality – Tangibles: Assesses service through tangible dimensions such as the physical appearance of staff and facilities, cleanliness, etc. (Abdul-Halim et al., 2014).
93. Service Quality – Reliability: Assesses the service provider's dependability when providing the service, such as whether performance is always delivered within the intended time frame or the possibility and number of errors (Abdul-Halim et al., 2014).
94. Service Quality – Responsiveness: Assesses the service provider's reactions and sensitivity, such as providing prompt feedback and assistance whenever requested (Abdul-Halim et al., 2014).
95. Service Quality – Assurance: Assesses the degree of perceived confidence the client has towards the service provider; i.e. whether the clients believe the providers are competent (Abdul-Halim et al., 2014).
96. Service Quality – Empathy: Assesses the client's impression of how much the service provider cares for the client's needs, e.g. whether the client believes the service provider acts based on the client's best interests (Abdul-Halim et al., 2014).
97. Transactional Activities: The degree to which clients depend on service providers to perform or assist their transactional activities (Klaas et al., 2005).
98. Gender: A demographic variable to capture the respondents' genders (e.g. Chaudhuri and Bartlett, 2014).
99. Education: A variable to identify the education level of the respondents (e.g. Chaudhuri and Bartlett, 2014).
100. Relevance of Outsourced Activity: The respondent's perception on the level of relevance and usefulness of the outsourced activity (Chaudhuri and Bartlett, 2014).

101. Outsourcing Emphasis: Items measuring how much weight the organization puts on outsourcing (e.g. Klaas, McClendon and Gainey, 1999).
102. HRM Strategies: strategies that are concerned with managing people through recruitment, development, appraisal, compensations and work systems to achieve the overall organisational objectives (e.g. Abdul-Halim et al., 2016).
103. Labour Cost: total salary for all the HR employees (e.g. Abdul-Halim et al., 2016).

Appendix B

Relationships between Independent Variables and HRO Decisions and HRO Outcomes

This section presents the relationships between each independent variable studied and the two categories of dependent variables, HRO Decisions and HRO Outcomes. ‘1’ represents a significant positive relationship between the variables, ‘0’ represents no significant relationship, ‘-1’ represents a significant negative relationship and ‘M’ represents a significant non-directional relationship. Relationships examined at least three times in total are bordered by a box; and of these, those that have half or more consistent results are marked with an ‘*’ next to the total.

	Category	Outsourcing Decision					Outsourcing Outcome					Total frequency
		1	**0**	**-1**	**M**	**Total**	**1**	**0**	**-1**	**M**	**Total**	
	Motivation to outsource											
1	Cost benefits	8	8			16	1				1	17
2	Access to specialised capabilities	7	5			12*					0	12
3	Downsizing	1	6			7					0	7
4	Competitive advantage	1				1	1	3	2		6	7
5	Flexibility benefits	2	2			4					0	4
6	Quality benefits	2				2		2			2	4
7	Supplementing workload	1				1					0	1
8	Project independence	1				1					0	1
	Total	22	21	0	0	43	2	5	2	0	9	**53**
	Outsourcing Decision											
1	Outsourcing Decision - Make or buy					0			1		1	1
2	**Outsourcing Decision - Transactional Functions**						1				1	
3	Outsourcing Decision - Payroll					0	3	2	1		6*	6
4	Outsourcing Decision - Benefits					0	2		1		3	3
5	Outsourcing Decision - HRIS					0	1		1		2	2
6	Outsourcing Decision - Pension					0	1				1	1
7	Outsourcing Decision - Performance					0	1				1	1
8	Outsourcing Decision - Employee Welfare					0	1				1	1
9	**Outsourcing Decision - Traditional Functions**						1				1	
10	Outsourcing Decision - Training					0	4	3			7*	7

11	Outsourcing Decision - Recruitment/Selection					0	2	2	3		7	7
12	Outsourcing Decision – Compensation					0	1				1	1
13	Outsourcing Decision - Employee Relations					0	1				1	1
14	Outsourcing frequency		1			1					0	1
15	Outsourcing Knowledge, Skills and Abilities					0	1	2			3	3
16	HR Outsourcing contract announcement					0	4			1	5*	5
17	Degree of outsourcing	1				1	1	4			5	6
	Total	1	1	0	0	2	25	13	7	1	46	**48**
	HR Characteristics											
1	Idiosyncratic HR practices		4	5		9*	3	5			8	17
2	Frequency of training					0		7	1		8	8
3	HR devolution	4				4*			1		1	5
4	HRM intensity	1				1					0	1
5	HR scorecard (Y/N)	1				1					0	1
6	Proportion of HR employees	1				1					0	1
7	HR resource adequacy			1		1					0	1
8	SHR index		1			1					0	1
9	Measurability of activity		1			1					0	1
10	Human capital enhancing services					0	1				1	1
11	Gender					0	1	1			2	2
12	Education					0		2			2	2
13	Relevance of Outsourced Activity					0	2				2	2
	Total	7	6	6	0	19	7	15	2	0	24	**43**
	HRM Strategies											
1	Innovative HRM Strategy		2			2						
2	Quality-conscious HRM Strategy		1	1		2						
3	Cost Efficiency HRM Strategy		1	1		2						
4	Commitment HRM Strategy			2		2						
5	Conventional HRM Strategy		1	1		2						
6	Employee Development HRM Strategy		2			2						**12**
	Firm Characteristics											
1	Firm Size	5	24	4	1	34	2	8	6		16	50
2	Industry				12	12*		1		1	2	14
3	Sector (Profit/non-profit)		4		5	9*		1			1	10
4	Promotional opportunities		5	3		8					0	8
5	Outsourcing experience	6	1			7*					0	7
6	HR departmental size		5	1		6					0	6
7	Foreign ownership		1		1	2		2			2	4

8	Organisational age		2			2		3			3	5
9	Union		2			2		1			1	3
10	Change in headcount		2			2					0	2
11	Reputation - Service Provider					0		1			1	1
12	Percentage of graduated workforce			1		1					0	1
13	Business group affiliation		1			1					0	1
14	Enterprise scale		1			1					0	1
15	Firm attractiveness					0	1				1	1
16	Client receptivity					0			1		1	1
17	Transactional services					0		1			1	1
18	Outsourcing emphasis					0	1				1	1
	Total	11	48	9	19	87	4	18	7	1	30	**117**
	Firm Strategies											
1	Pay strategy	3	5	1		9		1			1	10
2	Quality based strategy		6			6					0	6
3	Proactive strategy	6				6*					0	6
4	Breadth strategy		3	3		6*					0	6
5	Reactive strategy		6			6					0	6
6	Facilitation strategy	1				1					0	1
7	Accumulation strategy		1			1					0	1
8	Utilisation strategy	1				1					0	1
9	Prospector Strategy					0		1			1	1
	Total	11	21	4	0	36	0	2	0	0	2	**38**
	Environment											
1	Uncertainty	5	9	1		15	4				4*	19
2	Risk	1	5	3		9					0	9
3	Competitor's HR Outsourcing		8			8					0	8
4	Availability of Alternatives - Service Providers					0	6	1			7*	7
5	Technology/knowledge intensive context			1		1					0	1
6	information asymmetry	1				1					0	1
	Total	7	22	5	0	34	10	1	0	0	11	**45**
	Decision Characteristics											
1	Strategic HR involvement	8	6			14*	1	2			3	17
2	Investment			2		2	1	5	1		7	9
3	Top Management support	7				7*	2	2			4	11
4	Asset specificity	1				1		5	1		6	7
5	Benchmarking	1				1					0	1
6	Task Complexity	1				1					0	1
7	Integration		1			1					0	1
	Total	18	7	2	0	28	4	14	2	0	20	**47**

	Outsourcing Outcomes											
1	Positive HR Outcomes		5	3		8					0	8
2	Satisfaction					0	1				1	1
	Total	0	5	3	0	8	1	0	0	0	1	**9**
	Relationship Characteristics											
1	Communication					0	8	1			9*	9
2	Commitment	3	2			5*		2			2	7
3	Trust					0	3	1			4*	4
4	Vendor dependency					0	1	2			3	3
5	Shared values					0	1				1	1
6	Approachability					0	1				1	1
7	Business understanding					0	2				2	2
8	Relationship tenure					0	1				1	1
	Total	3	2	0	0	5	17	6	0	0	23	**28**
	Contractual Governance											
1	Contract specificity					0	4				4*	4
	Total	0	0	0	0	0	4	0	0	0	4	**4**
	Service Quality Variables											
1	Service Quality – Tangibles					0	1				1	1
2	Service Quality – Reliability					0		1			1	1
3	Service Quality - Responsiveness					0	1				1	1
4	Service Quality – Assurance					0	1				1	1
5	Service Quality – Empathy					0		1			1	1
	Total	0	0	0	0	0	3	2	0	0	5	**5**
	Grand Total					254					173	**449**

Appendix C

Research Ethics Approval

Nottingham University
Business School

NOTTINGHAM UNIVERSITY BUSINESS SCHOOL

RESEARCH ETHICS COMMITTEE REVIEW FORM – STAFF AND DOCTORAL RESEARCH

Please complete and return this form electronically from your university email account to Nottingham University Business School's Research Ethics Committee (NUBS REC) (nubs-rec@nottingham.edu.my).

Project title: Developing a Model for HRO Effectiveness: A Study in Malaysia	
PI: Sim Siew Chen (Mandy)	***Date:*** 18 January 2016

1. In your professional judgement, is the proposed research project of minimal risk or more than minimal risk as defined by the ESRC Framework for Research Ethics? Please enter (X) in the appropriate box.

Minimal Risk	X	More than minimal risk		More info needed	

A project is regarded as "minimal risk" if:
- the applicant has answered 'no' to all of the questions on the checklist; and
- that you are satisfied that these answers are correct; and
- that you are satisfied that the proposal is complete and raises no other ethical issues

Projects judged to be minimal risk require independent review by two members of the committee. Many projects judged to be more than minimal risk will still be approved, but they will require greater scrutiny and may be reviewed by more than two members of the committee at the REC chair's discretion.

2. Regardless of the risk status of the project, please indicate your view (X) below:

Approve (unconditional)		Revise and Resubmit	
Approve (unconditional, non-binding suggestions)		Further information required	
Approve (conditional on minor changes)	X	Reject	

- Conditional approval is for minor amendments (e.g., changes to participant information sheets) which are straightforward enough not to require a full resubmission.
- Recommendations for minor amendments/revise and resubmit will be shared with the second reviewer so that a consensus may be reached where possible.
- If you request further information, this will be requested from the applicant and then forwarded to both/all the project reviewers.
- The REC chair may invite other committee members to review an application in the event of disagreement

3. Please complete below full details of the changes you recommend, details of the further information you require, or your reasons for rejecting the application.

Under the section, "Questions about confidentiality: Will research involve the sharing of data or confidential information beyond the initial consent given? Will data collected be (or potentially be) used for any other purpose?" Besides the explanation that the data will be used for a PhD, there is a need to highlight again that confidential information will not be disclosed anywhere.

Application No: NUBS-REC-2016-001

Nottingham University Business School

Information for Research Participants

Thank you for agreeing to participate in the research project. Your participation in this research is voluntary, and you may change your mind about being involved in the research at any time, and without giving a reason.

This information sheet is designed to give you full details of the research project, its goals, the research team, the research funder, and what you will be asked to do as part of the research. If you have any questions that are not answered through this information sheet, please ask.

What is the research project called?

Developing a Model for HRO Effectiveness: A Study in Malaysia

Who is carrying out the research?

Ms Mandy Sim Siew Chen, University of Nottingham Malaysia Campus

What is the research about?

This research aims to provide a collective and comprehensive understanding of HRO phenomenon and its effectiveness specific to the Malaysian context.

What groups of people have been asked to take part, and why?

Firms with HR outsourcing experience represented by the head of HR department or the person who oversees the HR outsourcing processes to take part in this research. They are deemed suitable because they are in the positions to accurately report on the strategy of the organisation regarding HR outsourcing and also the HR outsourcing outcomes. Therefore, they are the best choice in seeking insights into HR outsourcing. Potential participants can be from any state in Malaysia.

What will research participants be asked to do?

In this application, there will be no interview involved. Participants will only need to take part in answering the questionnaire.

What will happen to the information I provide?

Data will be stored securely on computers of the principal researcher which belongs to the University of Nottingham through a password access. No individual organisational information will be shared and data will be analysed in aggregate forms only, thus remaining anonymous.

What will be the outputs of the research?

Papers or findings to be presented or shared at academic and practitioner conferences/forums.

Contact details

Researcher: Mandy Sim Siew Chen, University Teaching Fellow, 603-89248294, Mandy.sim@nottingham.edu.my, Nottingham University Business School Malaysia, The University of Nottingham Malaysia Campus, Jalan Broga, 43500 Semenyih.

Complaint procedure

If you wish to complain about the way in which the research is being conducted or have any concerns about the research, in the first instance please contact the Researcher above, Ms Mandy Sim Siew Chen.

Or contact the NUBS REC:

Research Ethics Committee
Nottingham University Business School
The University of Notttingham Malaysia Campus
Jalan Broga 43500 Semenyih
Selangor Darul Ehsan, Malaysia
Email: nubs-rec@nottingham.edu.my

Notes: (Please delete before using):
This document is intended as a guide for producing a research participant information sheet. The exact format used here is not compulsory.

Appendix D

Survey Questionnaire

Dear All,

I am a PhD candidate from the University of Nottingham, Malaysia Campus and I would like to take this opportunity to invite your participation in the Human Resource Vendor/ Service Provider Evaluation Survey. The purpose of this survey is to establish a collective evaluation on the HR vendor/ service provider's performance and their working relationship with your organisation. The data collected will be used for academic research purposes and no individual organization's information will be shared. Your responses to the questionnaire will be analysed in aggregate forms only, thus will remain anonymous. Ultimately, the purpose of this survey is to answer the key question:-

How effective is your HR vendor/service provider in delivering their service to your organisation?

Target respondents: HR Managers or HR Executives

Depending on the HR department's structure, some of the services provided by the HR vendor/ service provider can include: outsourcing part or the entire foreign worker management, payroll, medical claims, training, candidate sourcing, job posting, hostel management, transportation, reference check, management reporting, expatriate management, human resource information system, etc.

This survey will take approximately 15 minutes. Your kind participation in this survey is highly valued and appreciated.

If you have any questions about this survey, you may contact Ms. Mandy Sim by email: mandy.sim@nottingham.edu.my or call 03-8924 8294.

Section A

This section will supply us with information about you and your organisation to help us interpret this questionnaire.

1. Under which industry does your organisation belong?

Please choose **only one** of the following:

☐ Manufacturing ☐ Non-manufacturing

2. What is the type of ownership of your organisation?

☐ Local owned ☐ Foreign owned

☐ A mixture of local and foreign owned ☐ Other (please specify): ____________________

3. What is the firm size of your organisation?

Please choose **only one** of the following:

☐ Less than 5 employees (Micro firm)

☐ 5 to less than 75 employees (Small firm)

☐ 75 to less than 200 employees (Medium-sized firm)

☐ 200 to less than 500 employees (Large firm)

☐ Above 500 employees (Larger firm)

4. What is your position?

Please choose **only one** of the following:

☐ HR Director/HR Manager ☐ HR Executive/HR Officer

☐ Group/Regional HR ☐ Other (please specify): ____________________

5. How long has your company been engaging your main HR vendor/ service provider?

☐ Less than 1 year

☐ 1 – 2 years

☐ 3 – 5 years

☐ 6 – 10 years

☐ More than 10 years

6. What is the duration of the contract between your company and your main HR vendor/ service provider?

Please choose **only one** of the following:

☐ Less than 2 years

☐ 2 – 3 years

☐ 4 – 5 years

☐ 6 – 10 years

☐ More than 10 years

7. What are the type and degree of HR activity(ies) that are currently being tasked to your main HR vendor(s)/ service provider(s)?

Please tick **all** that apply (you may choose more than one answer) and indicate each of its percentage by circling your answer(s).

Tick	HR Activity Outsourced	% of outsourcing				
	Recruitment	<25%	25-45%	46-65%	66-85%	86-100%
	Selection	<25%	25-45%	46-65%	66-85%	86-100%
	Training/Learning & Development	<25%	25-45%	46-65%	66-85%	86-100%
	Foreign Workers Management	<25%	25-45%	46-65%	66-85%	86-100%
	HR Policy and Strategy	<25%	25-45%	46-65%	66-85%	86-100%
	Employee Welfare	<25%	25-45%	46-65%	66-85%	86-100%
	Payroll	<25%	25-45%	46-65%	66-85%	86-100%
	Performance Management	<25%	25-45%	46-65%	66-85%	86-100%
	Expatriate Management	<25%	25-45%	46-65%	66-85%	86-100%
	Employee Relations	<25%	25-45%	46-65%	66-85%	86-100%
	Workforce Outplacement & Reduction	<25%	25-45%	46-65%	66-85%	86-100%
	Employee Data/Record Management	<25%	25-45%	46-65%	66-85%	86-100%
	Travel and Expenses	<25%	25-45%	46-65%	66-85%	86-100%
	Benefits (i.e. medical claims, etc.)	<25%	25-45%	46-65%	66-85%	86-100%
	Relocation	<25%	25-45%	46-65%	66-85%	86-100%
	Exit Interview	<25%	25-45%	46-65%	66-85%	86-100%
	Management Reporting	<25%	25-45%	46-65%	66-85%	86-100%
	Vendor/3rd Party Management	<25%	25-45%	46-65%	66-85%	86-100%
	Other: ______________________	<25%	25-45%	46-65%	66-85%	86-100%

Section B

This section aims to explore the outcomes of the HR activity(ies) that are being tasked to your main HR vendor/ service provider.

For each statement, please show the extent to which the outcomes have been achieved.

To what extent has your main HR vendor/ service provider successfully achieved the objectives below?

1 = Very Unsuccessful 2 = Unsuccessful 3 = No Change 4 = Successful 5 = Very Successful

	1	2	3	4	5
Lower investments in software/maintenance	☐	☐	☐	☐	☐
Convert fixed costs to variable costs	☐	☐	☐	☐	☐
Reduce HR staff/downsize HR department	☐	☐	☐	☐	☐
Standardise HR services	☐	☐	☐	☐	☐
Improve discipline/accountability	☐	☐	☐	☐	☐
Acquire specialised HR capabilities	☐	☐	☐	☐	☐
Align resource supply to demand/minimise capacity gap	☐	☐	☐	☐	☐
Obtain better/more HR-related technology	☐	☐	☐	☐	☐
Minimise HR workload	☐	☐	☐	☐	☐
Keeping up with changes (i.e. regulations)	☐	☐	☐	☐	☐
Refocus internal HR staff on core business activities	☐	☐	☐	☐	☐
Access to best practices, new developments	☐	☐	☐	☐	☐

Overall, please assess based on a 10-point scale to what extent the main HR vendor/ service provider has successfully delivered outcomes listed above? Please tick the score in the box provided below.

Not at all ← → Definitely

1	2	3	4	5	6	7	8	9	10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Section C

This section aims to explore the service delivery quality of <u>your main HR vendor/ service provider.</u>
1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
The service provider had up-to-date hardware and software.	☐	☐	☐	☐	☐
The service provider's physical facilities were able to support their business operations.	☐	☐	☐	☐	☐
The service provider's employees carried themselves professionally.	☐	☐	☐	☐	☐
The appearance of the physical facilities of the outsourcing provider was in keeping with the kind of services provided.	☐	☐	☐	☐	☐
When the service provider promised to do something by a certain time, they did.	☐	☐	☐	☐	☐
When client had a problem, the service provider showed a sincere interest in solving it.	☐	☐	☐	☐	☐
The service provider was dependable.	☐	☐	☐	☐	☐
The service provider provided their services at the times they promised to do so.	☐	☐	☐	☐	☐
The service provider attempted to minimise error.	☐	☐	☐	☐	☐
The service provider told client exactly when services would be performed.	☐	☐	☐	☐	☐
The service provider's employees gave prompt service to client.	☐	☐	☐	☐	☐
The service provider's employees were always willing to help client.	☐	☐	☐	☐	☐
The service provider's employees were never too busy to respond to client's requests.	☐	☐	☐	☐	☐
The behaviour of the service provider's employees instilled confidence in client.	☐	☐	☐	☐	☐
Client felt safe in their transactions with the service provider's employees.	☐	☐	☐	☐	☐
The service provider's employees were consistently courteous.	☐	☐	☐	☐	☐
The service provider's employees had the knowledge to do their job well.	☐	☐	☐	☐	☐
The service provider gave client individual attention.	☐	☐	☐	☐	☐
The service provider had operation hours convenient to all their clients.	☐	☐	☐	☐	☐
The service provider had employees who gave client personal attention.	☐	☐	☐	☐	☐
The service provider had the client's best interest at heart.	☐	☐	☐	☐	☐
The employees of the service provider understood the specific needs of their client.	☐	☐	☐	☐	☐

Overall, please assess based on a 10-point scale to indicate the service delivery quality of your main HR vendor/ service provider. Please tick the score in the box provided below.

Very poor ← → Excellent

1	2	3	4	5	6	7	8	9	10
☐	☐	☐	☐	☐	☐	☐	☐	☐	☐

Section D

This section aims to explore your satisfaction with the service quality provided by your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
Overall, our company is very satisfied with this service provider.	☐	☐	☐	☐	☐
Our company is completely happy with this service provider.	☐	☐	☐	☐	☐
If we had to do it all over again, we would still choose this provider for this service.	☐	☐	☐	☐	☐
We are very pleased with our relationship with this service provider.	☐	☐	☐	☐	☐
Our experience with this service provider has been good.	☐	☐	☐	☐	☐

Section E

This section aims to explore your loyalty towards your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
We intend to extend existing contract with this service provider when they expire.	☐	☐	☐	☐	☐
It is probable that our relationship with this service provider will continue.	☐	☐	☐	☐	☐
We will continue using this service provider in the future.	☐	☐	☐	☐	☐
We intend to stay loyal to this service provider.	☐	☐	☐	☐	☐
We expect this service provider to be working with us for a long time.	☐	☐	☐	☐	☐
In the future, this service provider will receive a larger share of our business.	☐	☐	☐	☐	☐
We expect to expand our business with this service provider.	☐	☐	☐	☐	☐
Over the next few years, this service provider will be used more than it is now.	☐	☐	☐	☐	☐
I often mention this service provider to my co-workers in a positive way.	☐	☐	☐	☐	☐

I often recommend this service provider to persons outside my company.	☐	☐	☐	☐	☐
We often recommend this service provider.	☐	☐	☐	☐	☐

Section F

This section aims to explore your perceptions of the level of trust with your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
In our relationship, the service provider made decisions beneficial to us.	☐	☐	☐	☐	☐
In our relationship, the service provider was always willing to provide assistance to us.	☐	☐	☐	☐	☐
In our relationship, the service provider was always sincere.	☐	☐	☐	☐	☐
In our relationship, the service provider was always trustworthy	☐	☐	☐	☐	☐

Section G

This section aims to explore your perceptions of the level of commitment with your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
In our relationship, the service provider performed prespecified agreements very well.	☐	☐	☐	☐	☐
In our relationship, our firm faithfully provided support prespecified in the contract.	☐	☐	☐	☐	☐
In our relationship, the service provider and my firm always tried to keep promises.	☐	☐	☐	☐	☐
Our company is willing to dedicate whatever people and resources are necessary to maintain this cooperation.	☐	☐	☐	☐	☐
Our company is willing to make long-term investment in this cooperation.	☐	☐	☐	☐	☐
Our company is willing to make sacrifices to help our cooperation partner.	☐	☐	☐	☐	☐

Section H

This section aims to explore your perceptions of the level of mutual understanding with your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
In our relationship, we understand the business process of our service provider very well.	☐	☐	☐	☐	☐
In our relationship, we and our service provider perfectly understand our business objectives.	☐	☐	☐	☐	☐
In our relationship, we clearly comprehend our roles and service provider's roles.	☐	☐	☐	☐	☐

Section I

This section aims to explore your perceptions of the level of interdependence with your main HR vendor/ service provider.

1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

	1	2	3	4	5
Both the service provider and the company effectively supported activities that required mutual participation.	☐	☐	☐	☐	☐
In our relationship, the service provider supported and managed HR services the company needed.	☐	☐	☐	☐	☐
Both parties in the relationship effectively carry out activities that the other is dependent on.	☐	☐	☐	☐	☐
Both parties in the relationship successfully complete tasks that the other relies on.	☐	☐	☐	☐	☐

-End-

THANK YOU!