



## Organisational learning as a Mediator of the Relationship between HR Outsourcing and Organisational Performance

Amer Ahmad AlAnazi<sup>1</sup>

### ABSTRACT

*While a considerable amount of research has contributed to our understanding of the influencing of HR outsourcing on organisational performance, literature suggests that there is a paucity of research examining the fundamental mechanisms behind this relationship. Drawing upon strategic human resource management model as well as organisational learning theory, this study examined the mediating role of organisational learning in the relationship between HR outsourcing on organisational performance among 171 manufacturing firms in the Kingdom of Saudi Arabia. Using SPSS Macro for Simple Mediation, we found a significant positive relationship between HR outsourcing on organisational performance. As expected, organisational learning theory was found to mediate the relationship between HR outsourcing and organisational performance. Implications of the study in the Saudi Arabian context have been discussed.*

**Keywords:** HR outsourcing, organisational learning, organisational performance

### 1. INTRODUCTION

Strategic outsourcing refers to “organizing arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm’s value chain” (Holcomb & Hitt, 2007, p. 466). Research indicates that organizations outsource their human resource (HR) functions to achieve some key benefits, including reduced costs, increased flexibility, higher quality of services, access to new technology, as well as to enable personnel to focus their efforts on higher value work thus improving employee output (Antonucci & Tucker, 1998; Herath & Kishore, 2009; McFarlan & Nolan, 1995; Miller, 2008). Most importantly, extant empirical studies have demonstrated a significant and positive relationship between outsourcing of human resource functions and organisational performance (Gadde & Jonsson, 2007; Gómez-Conde, 2015; Hui, Davis-Blake, & Broschak, 2008; Jiang, Belohlav, & Young, 2007; McIvor, 2009; Mohiuddin & Su, 2013).

---

<sup>1</sup> Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, Sintok, Malaysia

While a considerable amount of HR outsourcing research has provided potential insight into the organizational benefits derived from implementation of HR outsourcing strategies, as well as theoretical linkage between HR outsourcing and organisational performance, it has failed to answer questions raised about why HR outsourcing strategies influence organisational performance. In other words, the transaction economic cost theory and research provides little insight into possible mechanisms behind HR outsourcing- organisational performance relationship. Given this, the purpose of this study is to contribute to the body of knowledge by proposing a study on the mediating role of organisational learning in the relationship between HR outsourcing and organisational performance.

Towards this end, the remainder of this study is organized as follows. Next section reviews the literature linking technical competence and HR outsourcing, as well as the mediating role of commitment HR strategies behind this relationship towards hypotheses development. Next, on the basis of theory and empirical evidence, the methodology of this study has been described. Following this, the results of the study were reported. The final section concludes by discussion of findings in terms of theoretical and practical implications of the study, as well as making recommendations for future research.

## **2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **2.1 HR outsourcing and Organisational Performance**

Transaction cost theory (Williamson, 1979, 1981) posited that HR outsourcing is an important consideration in influencing organisational performance. As indicated earlier, several studies have examined the possibility that HR outsourcing have an impact on organisational performance. Gilley, Greer, and Rasheed (2004) suggested that strategic outsourcing will have an influence on organisational performance. Specifically, they noted that firms which outsource the HR functions to specialist organizations may better focus on their most value-creating activities, thereby maximizing the potential effectiveness of those activities towards achieving sustainable competitive advantage. Jiang et al. (2007) found that core business-related outsourcing was positively related with firms' market value. Bustinza, Arias-Aranda, and Gutierrez-Gutierrez (2010) found that outsourcing decisions was positively related with the company performance. The aforementioned empirical research provides a theoretical rationale for linking HR outsourcing and organisational performance. The available research and rationale discussed above suggest the proposition that there is positive relationship between HR outsourcing and organisational performance. Hence, the following hypothesis is advanced.

**H1: *HR outsourcing will be positively related to organisational performance.***

## 2.2 Organisational learning as a mediator of the HR Outsourcing - organisational Performance relationship

In line with strategic human resource management model (Delery & Doty, 1996; Wright & McMahan, 1992), as well as organisational learning theory (Levinthal & March, 1993; March, 1991), it is proposed that organisational learning will be positively and significantly related to organisational performance. Research has also shown that organisational learning, positively relate to firm performance (Alegre, Pla-Barber, Chiva, & Villar, 2012; Hung, Lien, Yang, Wu, & Kuo, 2011). In a more recent study, Jain and Moreno (2015) found that organizations that learning strategies tend to outsource traditional HR functions. By integrating strategic human resource management model (Delery & Doty, 1996; Wright & McMahan, 1992), organisational learning theory (Levinthal & March, 1993; March, 1991), as well as empirical evidences, we contend that the extent that organisational learning is a demonstration of transaction cost economics underpins the fundamental mechanism behind the influence of HR outsourcing on organisational performance. Accordingly, we expect organisational learning to mediate the relationship between HR outsourcing on organisational performance. Hence, the following hypothesis is advanced.

***H2: The direct relationships between HR outsourcing and organisational performance will be mediated by organisational learning.***

Building on the foregoing empirical evidence and theoretical perspectives, a conceptual model for this study was developed (see Figure 1). In particular, the conceptual model proposed that direct the direct relationship between HR outsourcing and organisational performance will be mediated by organisational learning.

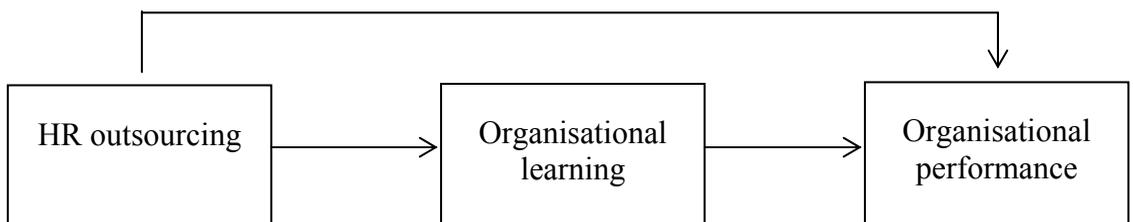


Figure 1: Conceptual model

### 3. METHODOLOGY

#### 3.1 Participants and procedure

The target population for the study was manufacturing companies in the Kingdom of Saudi Arabia. A total of 217 manufacturing companies were identified through the Saudi Arabia Trade and Business Directory, a directory of firms that provides company profiles and contact information. The manufacturing sector was chosen in this study because it is one of the eight sectors that generates growth and jobs, and expected to contribute significant percentage of the growth needed to double Saudi's GDP by 2030 (Al-Kibsi et al., 2015). Additionally, in this study, included only firms with at least fifty full-time employees, because prior research has shown that firm with smaller number of employees are less likely to have HR unit or department (Othman & Ismail, 1996). Of the 217 firms contacted, 126 agreed to participate in the study. Usable responses were collected from 171 companies, thereby representing a response 79%.

#### 3.2 Measures

**HR outsourcing:** We adapted seven items from Smith, Vozikis, and Varaksina's (2006) HR outsourcing Scale to measure HR outsourcing. We asked participants to indicate their responses on a four-point scale, ranging from '1' "partially outsource" to '7' "completely outsource" on items such as "To what extent does your firm outsource its payroll/compensation administration?" "To what extent does your firm outsource its training and development?"

**Organisational learning:** We used García-Morales, Llorens-Montes, and Verdú-Jover's (2006) four items from Organisational learning Scale (OLS) to measure organisational learning. Responses were given on a seven-point scale, ranging from '1' "strongly disagree" to '7' "strongly agree". Sample of items were "The organization's performance has been influenced by new learning it has acquired over the last three years". "The organization is a learning organization"

**Organisational performance:** We measured organisational performance with six items from García-Sánchez, García-Morales, and Bolívar-Ramos (2015) measure of organisational performance. In all cases, we asked participants about their organisation's performance as compared with that of its most direct competitors using a seven-point scale, ranging from '1' "Much worse than my competitors" to '7' "Much better than my competitors". Sample items were "How would you compare your organisational performance measured by return on equity to your competitors?" "How would you compare your organisational performance measured by return on sales to your competitors?"

#### 4. RESULTS

Table 1 reports the means, standard deviations, and correlations among all study variables. We used Preacher and Hayes (2004) procedures for estimating indirect effects in simple mediation models to test the hypotheses. This procedure is employed in the present study because it has high statistical power compared to Baron and Kenny's (1986) classic approach for testing mediation effect. Table 2 reports regression analysis results using Preacher and Hayes (2004) procedures.

Table 1: Descriptive Statistics and Correlations among Study Variables (n = 171)

	<b>Variables</b>	<b>Means</b>	<b>SD</b>	<b>1</b>	<b>2</b>	<b>3</b>
1	Organisational performance	5.469	0.720	(0.848)		
2	HR outsourcing	5.834	0.681	.631**	(0.891)	
3	Organisational learning	5.450	0.862	.491**	.552**	(0.804)

Notes. \*p<0.05; \*\*p<0.01

Figures in Parentheses are Alpha Reliabilities

It could be recalled that Hypothesis 1 predicted that HR outsourcing would be positively related to performance. As shown in Table 2, HR outsourcing was significantly and positively related with organisational performance ( $\beta = 0.668$ ,  $p < .001$ ). As such Hypothesis 1 was strongly supported. On the other hand, Hypothesis 2 predicted that the direct relationships between HR outsourcing and organisational performance will be mediated by organisational learning. As shown in Table 2, organisational learning mediated the relationship between HR Outsourcing and organisational performance, because the beta value was not significantly different from zero ( $\beta = 0.120$ ,  $CI = [0.368; 0.2410]$ ). Hence, we found strong support for Hypothesis 2 that HR Outsourcing appears to affect organisational performance through organisational learning.

Table 2: Bootstrap Results for Direct and Indirect Effect

	<b>Beta</b>	<b>SE</b>	<b>t-value</b>	<b>p-value/CI</b>
Direct effect	0.668	0.063	10.587	0.000
Indirect effect	0.120	0.440	2.766	[0.368; 0.2410]
R Square		0.399		
F		112.087		
F-Sign		0.000		
Number of Bootstrap Resamples		5000		

Note. \*p<0.05; \*\*p<0.01

## **5. DISCUSSIONS**

The primary goal of this study was to examine whether organisational learning mediates the relationship between HR outsourcing and organisational performance. Firstly, consistent with Hypothesis 1, results revealed a significant positive relationship between HR outsourcing and organisational performance, suggesting that organisations that outsource the HR function would be able to achieve superior organisational performance. This result is consistent with Gilley et al. (2004) who suggested that strategic outsourcing will have an influence on organisational performance. Similar result was also reported by Jiang et al. (2007) that core business-related outsourcing was positively related with firms' market value. Secondly, we hypothesized that the direct relationships between HR outsourcing and organisational performance will be mediated by organisational learning (Hypothesis 2). As expected, the finding revealed that the direct relationship between HR outsourcing and organisational performance is mediated by organisational learning. This finding is not surprising because the strategic human resource management model (Delery & Doty, 1996; Wright & McMahan, 1992), organisational learning theory (Levinthal & March, 1993; March, 1991), as well as empirical evidences, suggest that the extent that organisational learning is a fundamental mechanism behind the influence of HR outsourcing on organisational performance.

## **6. IMPLICATIONS FOR THEORY AND PRACTICE**

Taken together, the results of the current study have several important practical implications in terms of Human Resource practices. For example, the significant positive relationship between HR outsourcing and organisational performance reported in the past studies has underlined the importance of management interventions, which specifically focus on HR outsourcing decisions. In other words, this study suggests that organizations that want to achieve sustained competitive advantage should outsource its HR functions. Furthermore, the findings that organisational learning mediated relationship between HR outsourcing and organisational performance also has practical implication. For example, research has shown that organizational learning can be improved through HR outsourcing. In other words, a specialized HR outsource-firm models high-level expertise and experience that can be a source of individual learning for the host firm" (Schlosser, Templer, & Ghanam, p. 294).

## **7. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS**

Although the study has provided some insight into the HR outsourcing in improving organisational performance, however, it is not without some limitations. Firstly, because the present study adopted a cross-sectional design,

causal inferences could not be made to the population. Therefore, a longitudinal design is needed in future studies to detect changes over time. It could be recalled that the results of this study show that the research model explained 40% of the total variance in organisational performance. Although 40% of the variance in organisational performance is acceptable based on Falk and Miller (1992), yet, the remaining 60% remains unexplained indicating, that there are other variables not incorporated in our research model. Thus, it is imperative to replicate this study by including more variables in the model. Specifically, future studies could examine the possibility of testing technical competence of service provider as a moderator between HR outsourcing and organisational performance.

## 8. CONCLUSION

Despite its limitations, the present study is able to show the mediating effect of organisational learning in the relationship between HR outsourcing and organisational performance. Findings of the study underscore the importance of HR outsourcing and organisational performance in improving organisational performance. While organisational performance is influenced by HR outsourcing, organisational learning is a fundamental reason that explains why HR outsourcing influences organisational performance. Taken together, the findings suggest that HR outsourcing and organisational learning are effective in helping firms to achieve sustained competitive advantage, including achieving superior performance.

## REFERENCES

- Al-Kibsi, G., Woetzel, J., Isherwood, T., Khan, J., Mischke, J., & Noura, H. (2015). Saudi Arabia beyond oil: The investment and productivity transformation. Riyadh Desert Publisher.
- Alegre, J., Pla-Barber, J., Chiva, R., & Villar, C. (2012). Organisational learning capability, product innovation performance and export intensity. *Technology Analysis & Strategic Management*, 24, 511-526.
- Antonucci, Y. L., & Tucker, J. J. (1998). IT Outsourcing: Current Trends, Benefits and Risks. *Information Strategy: The Executive's Journal*, 14(2), 16-26. doi: 10.1080/07438613.1998.10744580
- Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. [doi:10.1037/0022-3514.51.6.1173]. *Journal of Personality and Social Psychology*, 51, 1173-1182. doi: 10.1037/0022-3514.51.6.1173
- Bustinza, O., Arias-Aranda, D., & Gutierrez-Gutierrez, L. (2010). Outsourcing, competitive capabilities and performance: an empirical study in service firms. *International Journal of Production Economics*, 126(2), 276-288.

- Delery, J. E., & Doty, D. H. (1996). Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency and Configurational Performance Predictions. *The Academy of Management Journal*, 39(4), 802-835.
- Falk, R. F., & Miller, N. B. (1992). A primer for soft modeling. Ohio: The University of Akron Press.
- Gadde, L.-E., & Jonsson, P. (2007). Outsourcing and Supply Network Performance-consequences of sourcing and producing in low cost countries. Paper presented at the 23rd Industrial Marketing and Purchasing Group Conference. Exploiting the B2B Knowledge Network: New Perspectives and Core Concepts, Manchester.
- García-Sánchez, E., García-Morales, V. J., & Bolívar-Ramos, M. T. (2015). The influence of top management support for ICTs on organisational performance through knowledge acquisition, transfer and utilisation. [journal article]. *Review of Managerial Science*, 1-33. doi: 10.1007/s11846-015-0179-3
- García-Morales, V. J., Llorens-Montes, F. J., & Verdú-Jover, A. J. (2006). Antecedents and consequences of organizational innovation and organizational learning in entrepreneurship. *Industrial Management & Data Systems*, 106(1), 21-42. doi: doi:10.1108/02635570610642940
- Gilley, K. M., Greer, C. R., & Rasheed, A. A. (2004). Human resource outsourcing and organizational performance in manufacturing firms. *Journal of business research*, 57(3), 232-240.
- Gómez-Conde, J. (2015). Examining the link between outsourcing and performance: the leverage effect of the interactive use of management accounting and control systems. *Spanish Journal of Finance and Accounting / Revista Española de Financiación y Contabilidad*, 44(3), 298-325. doi: 10.1080/02102412.2015.1045261
- Herath, T., & Kishore, R. (2009). Offshore Outsourcing: Risks, Challenges and Potential Solutions. *Information Systems Management*, 26(4), 312-326. doi: 10.1080/10580530903245549
- Holcomb, T. R., & Hitt, M. A. (2007). Toward a model of strategic outsourcing. *Journal of operations management*, 25(2), 464-481.
- Hui, P. P., Davis-Blake, A., & Broschak, J. P. (2008). Managing Interdependence: The Effects of Outsourcing Structure on the Performance of Complex Projects\*. *Decision Sciences*, 39(1), 5-31. doi: 10.1111/j.1540-5915.2008.00180.x
- Hung, R. Y. Y., Lien, B. Y.-H., Yang, B., Wu, C.-M., & Kuo, Y.-M. (2011). Impact of TQM and organizational learning on innovation performance in the high-tech industry. *International Business Review*, 20, 213-225. doi: <http://dx.doi.org/10.1016/j.ibusrev.2010.07.001>
- Jain, A. K., & Moreno, A. (2015). Organizational learning, knowledge management practices and firm's performance: An empirical study of a heavy engineering firm in India. *The Learning Organization*, 22(1), 14-39. doi: doi:10.1108/TLO-05-2013-0024

- Jiang, B., Belohlav, J. A., & Young, S. T. (2007). Outsourcing impact on manufacturing firms' value: Evidence from Japan. *Journal of Operations Management*, 25(4), 885-900.
- Levinthal, D. A., & March, J. G. (1993). The myopia of learning. *Strategic Management Journal*, 14(S2), 95-112. doi: 10.1002/smj.4250141009
- March, J. G. (1991). Exploration and Exploitation in Organizational Learning. *Organization Science*, 2(1), 71-87. doi: doi:10.1287/orsc.2.1.71
- McFarlan, F. W., & Nolan, R. L. (1995). How to manage an IT outsourcing alliance. *Sloan management review*, 36(2), 9-23.
- McIvor, R. (2009). How the transaction cost and resource-based theories of the firm inform outsourcing evaluation. *Journal of operations management*, 27(1), 45-63.
- Miller, J. (2008). A total benefits strategy is a valuable approach in HR outsourcing. *Employment Relations Today*, 34(4), 55-61. doi: 10.1002/ert.20176
- Mohiuddin, M., & Su, Z. (2013). Offshore Outsourcing of Core and Non-Core Activities and Integrated Firm-Level Performance: An Empirical Analysis of Québec Manufacturing SMEs. *M@ n@ gement*, 16(4), 454-478.
- Othman, R., & Ismail, Z. (1996). Strategic HRM: a comparison between selected manufacturing and service firms. *Research and Practice in Human Resource Management*, 4(1), 43-65.
- Preacher, K. J., & Hayes, A. F. (2004). SPSS and SAS procedures for estimating indirect effects in simple mediation models. [journal article]. *Behavior Research Methods, Instruments, & Computers*, 36(4), 717-731. doi: 10.3758/bf03206553
- Schlosser, F., Templer, A., & Ghanam, D. How human resource outsourcing affects organizational learning in the knowledge economy. [journal article]. *Journal of Labor Research*, 27(3), 291-303. doi: 10.1007/s12122-006-1024-x
- Smith, P. C., Vozikis, G. S., & Varaksina, L. (2006). Outsourcing human resource management: A comparison of Russian and U.S. practices. [journal article]. *Journal of Labour Research*, 27, 305-321. doi: 10.1007/s12122-006-1025-9
- Williamson, O. E. (1979). Transaction-Cost Economics: The Governance of Contractual Relations. *The Journal of Law & Economics*, 22(2), 233-261.
- Williamson, O. E. (1981). The Economics of Organization: The Transaction Cost Approach. *American Journal of Sociology*, 87(3), 548-577.
- Wright, P. M., & McMahan, G. C. (1992). Theoretical Perspectives for Strategic Human Resource Management. *Journal of Management*, 18(2), 295-320. doi: 10.1177/014920639201800205

