

HUMAN RESOURCE OUTSOURCING IN THE SERVICE INDUSTRY

---- COMPARISON STUDY BETWEEN THE U.S. AND CHINA

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Human Resource outsourcing has accelerated over the last decade, which has become a global trend not only in the western countries such as the United States, but in the other part of the world as well such as China. HR outsourcing market has become more prevalent in China with the expanding of their HR outsourcing services to a wider scope. On the other hand, the Chinese government's industrial policy has encouraged more and more Chinese organizations to start outsourcing their HR functions to the outside providers and attracted more international HR outsourcing service providers to start new businesses in China ([People's Daily Online, 2006](#)). Despite of the fast growing HR outsourcing market in China, there still exists distance from the relatively mature market in the U.S. in terms of to what extent the HR functions have been outsourced and to what extent the HR outsourcing market has been developed. This study is particularly interested in these differences between the U.S. and China in the service industry, which has become the focus of the economy burst. ¹

The Emerging Market of HR Outsourcing in the Service Industry

To keep up with the more demanding management needs, Chinese organizations have adopted various outsourcing practices in which the HR outsourcing is the most important one. Although there appeared the HR outsourcing at the end of 1970s in China, it started spreading to a wider range only in the past decade ([Nie & Chi, 2008](#)) with the growth rate increasing to 9.6% from 2004 to 2009 ([Zhang, 2009](#)). The rapid growth of the HR outsourcing in China has been driven by both the organizational internal needs such as reducing cost, enhancing core competitiveness, reducing risks of investing in HR practices, the needs of the specialized external HR services, and the needs from the high-speed business growth or decline ([Chen & Zhao, 2005](#); [Zhao, 2007](#); [Peng, 2005](#)), and the external stimulations including the intensive competition, the trend of internationalization, the expansion of the HR outsourcing market, and the legal system change such as the enactment of the Labor and Contract Law in January 2008 ([Chen & Zhao, 2005](#); [Zhao, 2007](#); [Peng, 2005](#)).

¹ At this stage, information regarding the different perspectives of the HR outsourcing in the service industry in China has been collected from China. Detailed data and the information regarding the HR outsourcing in the U.S. will be further explored to complete the comparison study.

The Effects of Implementing HR Outsourcing

On the one hand, the HR outsourcing has enabled organizations to focus on their core business, improve the HR functions, and reduce operating cost, which has led to the mutual benefits for both sides of the HR outsourcing service (Jia, 2008; Wang, 2008); on the other hand, there exist the risks of implementing HR outsourcing for organizations. For example, Wang (2008) noted that there are six risks in the process of implementing HR outsourcing practices for commercial banks including the risk of cultural integration, choosing the right HR outsourcing agencies, monitoring the HR outsourcing agencies, high employee turnover, business information security, and the reflection of environment. In addition, the effects of implementing HR outsourcing services have also been reflected from other perspectives such as information asymmetry, the constraints of the organization's capacity, conflicts of employees' interests, the errors of estimating the outsourcing cost in the process of implementing HR outsourcing (Liu et al, 2008, Chen & Zhao, 2005; Miao & Zheng, 2005).

Challenges of HR Outsourcing

Without surprise, there are challenges associated with the fast growth of the HR outsourcing market. The main issues include the shortage of talent supply, difficulty of recruitment, high turnover, low loyalty, and lack of ownership (Zhang, 2009; Jiang, 2009). Furthermore, there are new challenges for the HR managers such that they need to acquire the ability to make the appropriate HR strategies and have strong communication skills (Zheng, 2005). In addition, there is no effective way to evaluate the quality of the HR outsourcing agencies due to the lack of related laws and regulations or supervision mechanism, which in turn has caused the low quality of the HR outsourcing services.

Future Development of HR Outsourcing

The number of employees in the service industry has risen substantially in the past years. The needs for professional HR services in the service industry have increased correspondingly. A great number of organizations have started implementing the HR information system and cooperating with the HR outsourcing agencies to meet the growing needs and to enhance the specialization of the services. All of these will further stimulate the development of the HR outsourcing services, which foresees the great potential for an even more mature HR outsourcing market in China.

The path of the HR outsourcing development in the U.S. will provide a great source for the Chinese market. The comparison study of the HR outsourcing between the U.S. and China will fulfil the needs for an enriched HR outsourcing market in China and indicate the future trends of the HR outsourcing development in China. As this research study progresses to the next stage, more insightful implications and conclusions will be added to the current study.