

HUMAN RESOURCES OUTSOURCING AND ORGANIZATIONAL CULTURE: DIFFERENCES AND SIMILARITIES BETWEEN ORGANIZATIONS THAT RECUR AND NOT RECUR TO HRO, IN PORTUGAL

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ABSTRACT: Human Resource Outsourcing (HRO) has become a strategic tool for organisations seeking to enhance operational efficiency, flexibility, and competitiveness. This study examines the context of HRO in Portugal, exploring the reasons for and against its use and investigating the role of organisational culture (OC) in shaping outsourcing decisions. Using a mixed-methods approach, data was gathered from 339 respondents across various industries. The findings reveal that HRO is primarily driven by legal compliance and access to specialised expertise, while concerns about losing control and the preference for internal knowledge development discourage its adoption. Although the study identified adaptability as a dominant organisational culture trait, no significant differences were found between organisations that use HRO and those that do not. This suggests that OC may not be as critical in outsourcing decisions as previously thought. The study provides a foundation for future research on the evolving role of HRO in organisational strategy.

KEYWORDS: Outsourcing, Human Resources Outsourcing, Organizational Culture.

1. INTRODUCTION

Human Resource Outsourcing (HRO) gained significant momentum in the 1990s, largely in response to the so-called "war for talent," which was driven by rapid economic shifts and intensified global competition (Adler, 2003). In this context, managers sought innovative solutions to streamline operations, improve productivity, and refocus on core business activities (Davidson, 2005). As organisations grappled with the need to respond swiftly to market fluctuations, scaling their workforce up or down while controlling operational costs, HRO emerged as a viable strategy. The adoption of flexible business models allowed firms to delegate non-essential HR functions to external providers, enabling them to remain competitive in a volatile business environment (Armstrong, 2020).

The strategic significance of outsourcing has grown over time, as firms increasingly rely on external partners to supply specialised services more effectively and efficiently (McIvor, 2008; Yang et al., 2007). However, while the benefits of HRO are well-documented, its implementation is often influenced by organisational culture (OC), which plays a critical role in determining how new management practices are received and executed (Espino-Rodríguez & Gil-Padilla, 2005). Outsourcing strategies must align with the organisation's values, beliefs, and practices, making it essential for external providers to adapt to their clients' cultural frameworks (Alofan, Chen & Tan, 2020). By understanding and accommodating these cultural dimensions, outsourcing firms can foster an environment that supports both cultural integration and the achievement of organisational objectives (Espino-Rodríguez & Gil-Padilla, 2005).

This study seeks to address two primary objectives: first, to provide a detailed analysis of the HRO landscape in Portugal, and second, to explore the relationship between organisational culture and the use or non-use of HRO. Despite the growing interest in HRO, limited research has examined the interplay between cultural factors and outsourcing decisions. This study contributes to filling that gap by analysing how different cultural traits influence the adoption of HRO.

2. LITERATURE REVIEW

2.1 DEFINITION OF HUMAN RESOURCE OUTSOURCING (HRO)

Human Resource Outsourcing (HRO) refers to the delegation of specific HR tasks traditionally managed in-house to external service providers. It is increasingly viewed as a strategic approach that allows organisations to focus on their core competencies by outsourcing non-core or repetitive functions. As organisations strive for greater efficiency and flexibility, the use of external providers to handle tasks such as payroll, recruitment, and training has become more prevalent (Domberger, 1998; Greer, Youngblood, & Gray, 1999).

The concept of HRO has evolved into a widespread business practice, driven by firms' efforts to reduce costs, enhance service quality, and respond to changing market demands. By leveraging the specialised skills of external providers, organisations can rationalise their operations while ensuring that critical HR functions are managed with expertise. As noted by McIvor (2008) and Yang et al. (2007), outsourcing offers a competitive edge by enabling firms to allocate resources more effectively and focus on activities that add strategic value to their business.

2.2 REASONS FOR USING HRO

A range of theoretical frameworks supports the use of HRO, with cost reduction being a primary motivation. According to the Transaction Cost Theory, outsourcing allows organisations to achieve economies of scale by shifting repetitive tasks to external providers, thereby improving flexibility and operational efficiency. This theory posits that outsourcing helps organisations focus on their core competencies, ultimately enhancing their competitiveness in the marketplace (Abraham & Taylor, 1996).

Another widely accepted theory, the Resource-Based View (RBV), advocates that organisations should concentrate internal resources on activities that contribute directly to their competitive advantage while outsourcing non-core functions that do not generate unique value (Barney, 1991). HRO fits within this framework by enabling firms to access specialised knowledge and expertise without overextending internal resources.

In addition to cost savings and access to specialised expertise, risk mitigation is another key reason for using HRO. Outsourcing certain HR functions shifts operational risks, such as compliance with changing regulations, to the service provider, which can be particularly valuable in highly regulated industries. Studies by Harkins, Brown, and Sullivan (1995) further suggest that organisations opt for HRO to improve administrative efficiency, save time, and allow internal HR teams to focus on more strategic objectives.

2.3 REASONS AGAINST USING HRO

Despite its advantages, several factors deter organisations from adopting HRO. A significant concern is the potential loss of control over HR functions, which could hinder the development of in-house skills and capabilities (Ulrich, 1996). When HR functions are outsourced, organisations may find it challenging to maintain the close alignment between their internal processes and organisational culture, potentially weakening the firm's overall competitive positioning.

One of the primary fears associated with HRO is the possibility of a culture mismatch between the outsourcing provider and the client organisation. As highlighted by Pandey (2020), misalignment between the two entities can lead to poor service quality and employee dissatisfaction. Furthermore, the introduction of external actors into key HR processes can create internal resistance, particularly from employees who may perceive outsourcing as a threat to job security. This resistance is often compounded by concerns over whether external providers fully understand the nuances of the company's culture and operations.

2.4 OBSTACLES TO IMPLEMENTING HRO

Implementing HRO is not without its challenges. One of the most commonly cited obstacles is the difficulty in finding qualified and reliable service providers. As noted by Pickard (2000) and Galanaki and Papalexandris (2005), firms are often hesitant to outsource HR functions due to concerns over the quality of service provided by

external actors. The lack of experienced providers, particularly in niche HR functions, can present a significant barrier to the successful implementation of HRO.

Another notable obstacle is the fear of losing control over critical HR activities, a concern that is often amplified by uncertainty over the costs associated with outsourcing. In their study, Smith, Vozikis, and Varaksina (2006) found that firms contemplating HRO frequently express concerns about the potential loss of internal HR roles and the long-term sustainability of outsourcing arrangements. These obstacles underscore the importance of trust and expertise when selecting outsourcing providers.

2.5 MOST AND LEAST OUTSOURCED HR ACTIVITIES

The scope of HR activities outsourced by organisations has expanded significantly over the past few decades. Initially, routine and transactional tasks, such as payroll processing, training, and temporary staffing, were the most commonly outsourced functions. Delmotte and Sels (2008) found that payroll (71.8%) and training (60.5%) were frequently outsourced, as these activities were perceived as non-strategic and could be efficiently handled by external providers.

Conversely, more strategic HR functions, such as wage arrangement and career management, tend to be retained in-house. Recruitment, selection, and training continue to be the most outsourced activities, as external providers are often better positioned to handle large-scale or specialised hiring processes (Armstrong, 2020). By contrast, core strategic activities such as policy development and business planning are less likely to be outsourced, as organisations prefer to retain control over these high-value functions to ensure they align with the company's long-term goals.

2.6 ORGANISATIONAL CULTURE AND HRO

Organisational culture (OC) plays a pivotal role in shaping a company's approach to outsourcing decisions, including Human Resource Outsourcing. Defined by Schein (2010) as the shared values, beliefs, and practices that develop within an organisation, OC significantly influences how firms perceive and implement strategic changes. Pettigrew (1979) underscores the importance of culture in shaping organisational dynamics, particularly concerning power structures, decision-making processes, and shared meanings.

The Competing Values Framework (CVF), developed by Quinn and Rohrbaugh (1981), identifies four primary cultural types – clan, adhocracy, hierarchy, and market – that help organisations navigate their strategic challenges. Denison, Haaland, and Goelzer (2004) expanded on the CVF by categorising the four cultural types into broader traits – adaptability, mission, involvement, and consistency. These traits provide a better understanding of how organisational culture can impact strategic decisions, including HRO.

Culture of Involvement (Clan Culture): This type emphasises collaboration, employee empowerment, and a strong sense of belonging. Organisations with a clan culture may resist outsourcing due to concerns that it could disrupt internal relationships and diminish employee morale.

Culture of Adaptability (Adhocracy Culture): Focused on innovation, flexibility, and responsiveness to change, organisations with an adhocracy culture are more likely to embrace outsourcing as a strategic opportunity. They view external partnerships as a means to enhance agility and access specialised expertise.

Culture of Consistency (Hierarchy Culture): Characterised by stability, order, and adherence to established procedures, hierarchical cultures may exhibit significant resistance to outsourcing. Companies in this category often prioritise control and may perceive outsourcing as a threat to their structured processes.

Culture of Mission (Market Culture): This culture prioritises results, goal achievement, and competitive advantage. Organisations with a market culture typically see outsourcing as a way to rationalize operations and enhance their focus on core business objectives.

Understanding these cultural dimensions is crucial for firms considering HRO, as they can influence both the willingness to outsource and the potential success of such initiatives.

3. RESEARCH HYPOTHESES

Building on the insights from the literature review, this study aims to explore the relationship between organisational culture and the adoption of Human Resource Outsourcing (HRO). The following hypotheses are proposed, linking the cultural types identified in the Competing Values Framework (CVF) to HRO decisions.

The culture of involvement prioritises employee participation, teamwork, and internal development. Organizations with this culture may resist HRO, fearing that outsourcing could disrupt the close-knit environment and erode internal social capital (Domberger, 1998; Belcourt, 2006; Lamminmaki, 2011).

H1a: The average perception attributed to a culture of involvement (Clan Culture) is lower for organisations that use HRO than for those that do not use HRO.

In cultures of consistency, organisations focus on stability, control, and established procedures. The delegation of HR functions to external providers may be viewed as a loss of control and a challenge to established processes, leading to resistance against HRO (Gebriel Taha and Espino-Rodríguez, 2020).

H1b: The average perception attributed to a culture of consistency (Hierarchy Culture) is lower for organisations that use HRO than for those that do not use HRO.

Organisations with an adaptability culture embrace innovation and change, viewing HRO as a strategic tool to enhance responsiveness and agility. They are more inclined to outsource HR functions to leverage external expertise (Holcomb & Hitt, 2007).

H1c: The average perception attributed to a culture of adaptability (Adhocracy Culture) is higher for organisations that use HRO than for those that do not use HRO.

Cultures of mission emphasise achieving results and maintaining competitive advantage. In these organisations, HRO is seen as a strategic facilitator that allows firms to concentrate on their core business activities while outsourcing non-core HR functions to specialised providers (Denison & Spreitzer, 1991; Wong and Boon-Itt, 2008).

H1d: The average perception attributed to a culture of mission (Market Culture) is higher for organisations that use HRO than for those that do not use HRO.

4. METHODOLOGY

This research employed a quantitative approach, primarily utilising a survey methodology to collect data regarding the perceptions and experiences of organisations concerning HRO in Portugal. A self-administered online questionnaire was designed to capture comprehensive information about the factors influencing HRO adoption, the perceived organisational culture, and the reasons for and against outsourcing HR functions.

4.1 QUESTIONNAIRE DESIGN

The questionnaire was structured into three main sections:

HRO Context: This section included questions aimed at understanding the reasons for using or not using HRO, the obstacles encountered in the outsourcing process, the most and least outsourced HR activities, the perceived negative impacts of HRO, and expectations for the future of HRO.

Organisational Culture Scale: This part assessed the organisational culture within the participating organisations, utilising established scales to evaluate the dimensions of culture as defined by Denison et al. (2004) and the CVF by Quinn and Rohrbaugh (1981). The questions aimed to identify the predominant cultural traits and their potential influence on outsourcing decisions.

Demographic Information: The final section gathered personal information about respondents, including age, gender, tenure, industry, and organisational size, to contextualise the findings.

4.2 SAMPLE

The survey targeted HR professionals and decision-makers across various industries in Portugal. A total of 339 responses were collected, yielding a response rate of 10.3%. The average age of participants was 46 years (SD = 12.3), with 62.5% identifying as female. The mean tenure within the current organisation was 14 years (SD = 3.9), indicating a stable workforce. The sample included a diverse range of sectors, with 30% of respondents from Industry/Manufacturing, 27% from Services/Consultancy, and 18.6% from Trade.

Most respondents were based in the Lisboa and Vale do Tejo regions (66.4%) and the majority (83%) worked in Small and Medium Enterprises (SMEs). The key roles represented in the sample included Human Resources Directors (90), Administrators/Directors (67), and HR Managers (50).

4.3 DATA ANALYSIS

Data analysis was performed using descriptive statistics to identify potential similarities and differences between organisations that use HRO and those that do not. The analysis aimed to elucidate the motivations for outsourcing, the perceived barriers, and the cultural traits associated with HRO adoption.

To test the research hypotheses related to the influence of organisational culture on HRO decisions, independent t-tests were conducted. These tests compared the means of the cultural traits between organisations that utilise HRO and those that do not, allowing for the identification of significant differences in perceptions associated with each cultural type.

4.4 QUALITATIVE INSIGHTS

In addition to quantitative data, a qualitative section of the survey invited respondents to provide open-ended feedback on their perspectives regarding the future of HRO and its impact on the HR profession. This qualitative input was analysed thematically to identify common themes and sentiments that emerged from the respondents, offering deeper insights into their experiences and expectations related to HRO.

5. FINDINGS

This section presents the key findings from the quantitative and qualitative analyses conducted in this study.

5.1 DESCRIPTIVE ANALYSIS

The analysis focused on identifying similarities and differences between organisations that use HRO and those that do not. A total of 339 respondents provided insights into their organisations' HR outsourcing practices, revealing that 89 organisations (representing 26%) currently utilise HRO, primarily among companies with 50 to 249 employees.

Among the organisations that do not use HRO, the most cited reasons for reluctance included:

- Prioritising internal knowledge development: 46.6%

- Ensuring full control of HR functions: 33.3%
- High service costs: 18.3%

Conversely, the organisations that adopted HRO reported the following as their main motivations for outsourcing (see Graph 1):

- Compliance with legal obligations: 56 votes
- Accessing expertise: 49 votes
- Allowing HR teams to focus on strategic business: 39 votes
- Reducing HR-related costs: 38 votes
- Minimising time spent on bureaucratic issues: 36 votes

Graph 1. Main HRO reasons (view of the organizations that do recur to HRO).

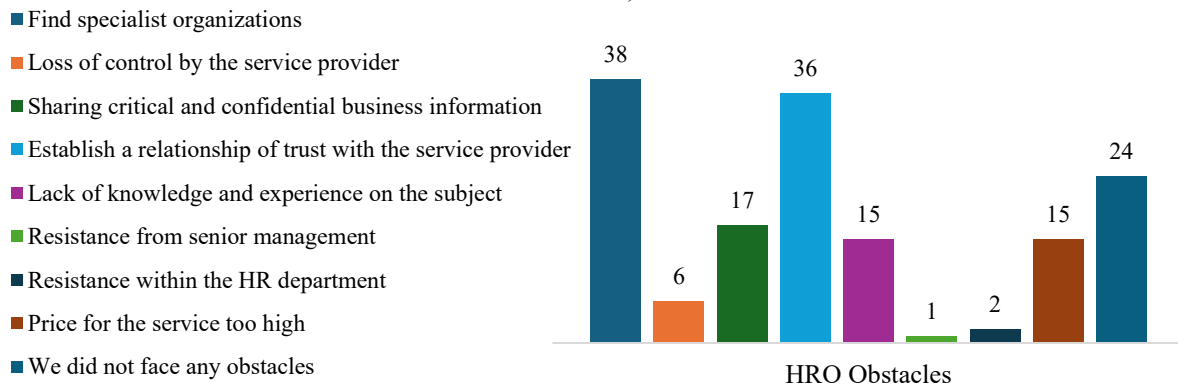


Most organisations that opted for HRO indicated they had outsourced health and safety at work (74 out of 89), followed by recruitment and selection (63 organisations) and administrative HR management (56 organisations).

Among organisations that currently utilise HRO, the major obstacles reported were (see Graph 2):

- Finding specialist providers: 38 votes
- Establishing a trust relationship with service providers: 36 votes

Graph 2. Main obstacles to look for a HRO activity (view of organizations that do recur to HRO).



These findings underscore the challenges organisations face when considering outsourcing HR functions.

5.2 QUALITATIVE INSIGHTS PROVIDED BY RESPONDENTS

The responses to the open-ended question, “Do you think that HRO will change the HR professions?” highlighted two distinct perspectives among respondents.

Scepticism About Change: Some respondents expressed concerns that HRO could undermine internal organisational development, emphasising the need for HR functions to remain in-house for strategic tasks.

Optimism About Flexibility: Others viewed HRO as a means to enhance organisational flexibility and overall performance, suggesting that outsourcing could transform the HR management paradigm. Many respondents agreed that internal HR and HRO are complementary, each providing value to the other.

The positive outlook included comments on how HRO could reduce costs and internal HR responsibilities, allowing teams more time to focus on strategic initiatives and innovative practices. Additionally, respondents noted the potential for cross-organisational learning, whereby outsourcing organisations can enhance their capabilities by serving multiple clients and sharing best practices.

Conversely, sceptical respondents highlighted that HR processes are inherently sensitive and should remain internal, arguing that outsourcers might lack the same commitment to the organisation’s culture and people as in-house employees. This perspective suggests a fear that HRO could lead to greater employee disconnection and, in some cases, job loss.

5.3 THE DOMINANT ORGANIZATIONAL CULTURE TRAITS BETWEEN ORGANIZATIONS THAT RECUR AND NOT RECUR TO HRO

Analysis of the data revealed that the dominant organisational culture trait across both groups (HRO users and non-users) was the culture of adaptability (see Graph 3).

Furthermore, statistical analysis showed no significant differences in the perceptions attributed to the four organisational culture traits – Involvement, Mission, Consistency, and Adaptability – between organisations that use HRO and those that do not. Thus, there was no support to H1a, H1b, H1c and H1d. Table 1 presents the results of independent t-tests comparing the means of these cultural traits.

These findings suggest that organisational culture, contrary to initial expectations, does not significantly impact the decision to adopt HRO in the Portuguese context.

Graph 3. Organizational culture profiles of the regarding organizations that recur to HRO and that do not recur.

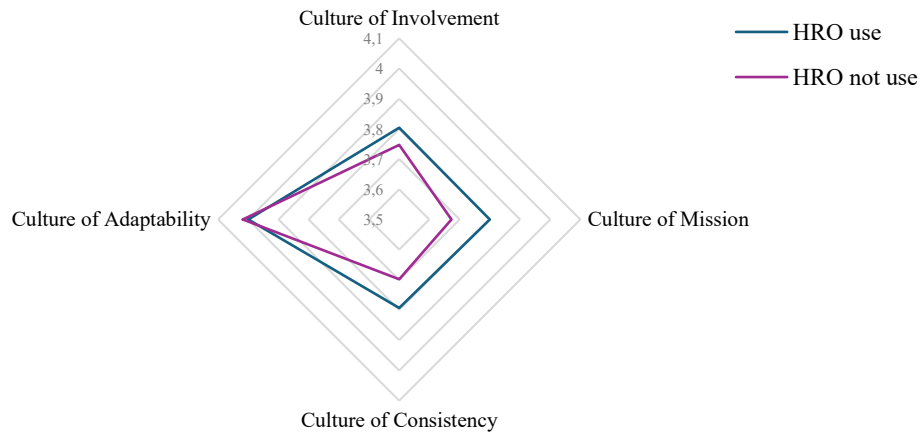


Table 1. T-test of each organizational trait for organizations that use HRO vs those that do not use HRO.

Organizational Culture	T-test	sig (2-tailed)
Culture of Involvement	0,639	0,524
Culture of Mission	1,445	0,149
Culture of Consistency	1,039	0,300
Culture of Adaptability	0,167	0,867

Source: Compiled from the field survey data.

6. DISCUSSION

This study aimed to explore the use of HRO in Portugal, examining the reasons for and against its adoption and the role of organisational culture in shaping outsourcing decisions. This section discusses the key findings and their alignment with previous research.

6.1 LOW ADOPTION OF HRO IN PORTUGUESE ORGANISATIONS

The first key finding is that only 26% of surveyed firms reported using HRO. This is consistent with previous studies that highlight the relatively low uptake of HRO in smaller firms (Pickard, 2000). According to the Transaction Cost Theory, smaller organisations face higher per-unit costs when outsourcing due to their limited ability to achieve economies of scale (Abraham & Taylor, 1996). This was particularly evident in Portuguese firms with fewer than 50 employees, which tend to prioritise internal HR functions.

However, mid-sized firms (with 50 to 249 employees) are more likely to adopt HRO, as they can spread the costs of outsourcing across a larger volume of HR transactions, making the service more cost-effective. Interestingly, larger firms (with over 250 employees) were less likely to outsource HR, which contradicts Delmotte and Sels' (2008) findings that larger firms tend to outsource more. This discrepancy may be explained by the fact that large firms in Portugal often have well-established HR departments capable of handling these functions in-house.

6.2 REASONS FOR USING AND NOT USING HRO

The results indicate that the primary drivers for adopting HRO are compliance with legal obligations, access to expertise, and allowing internal HR teams to focus on strategic functions. These findings are consistent with the studies by Hewitt Associates (2005) and Barthelemy (2003), which suggest that outsourcing is particularly attractive in regulated environments where firms need to ensure legal compliance. In Portugal, the legal requirement for Health and Safety at Work has made this the most commonly outsourced HR function.

However, cost reduction, a major driver in other contexts (Davidson, 2005; Karthikeyan et al., 2013), was less frequently cited as the primary reason for outsourcing in Portugal. This suggests that while economies of scale are a recognised benefit of HRO, Portuguese organisations may place greater emphasis on the need for specialised knowledge and compliance, particularly given the legal requirements surrounding certain HR activities.

In contrast, firms that do not use HRO cited concerns about losing control over HR functions and a preference for internal knowledge development. These concerns align with the work of Stroh and Treehuboff (2003) and Ulrich (1996), who warn that outsourcing critical HR functions could hinder the development of in-house skills and reduce the organisation's ability to maintain strategic control over HR processes.

6.3 OBSTACLES TO IMPLEMENTING HRO

The study also identified significant barriers to adopting HRO. For organisations that use HRO, the major challenges include finding specialist providers and establishing trust relationships with these providers. These findings reflect similar concerns in the literature (Galanaki & Papalexandris, 2005; Pickard, 2000), particularly the difficulty of finding qualified providers in a relatively immature market for HR outsourcing. The paradox of trust is especially noteworthy: while trust in external providers is cited as a reason for adopting HRO, the difficulty of establishing such trust acts as a barrier to its implementation.

6.4 ORGANISATIONAL CULTURE AND HRO

Contrary to expectations, the study found no significant differences in the perceptions attributed to the four organisational culture traits – Involvement, Consistency, Mission, and Adaptability –between organisations that use HRO and those that do not. These findings suggest that organisational culture may not play as decisive a role in HRO adoption as previously thought. This challenges earlier research by Denison et al. (2004) and Quinn and Rohrbaugh (1981), which posited that cultural traits significantly influence strategic decisions, including outsourcing.

In particular, the finding that adaptability was the dominant cultural trait in both groups suggests that Portuguese organisations, regardless of their HRO status, value flexibility and innovation to some extent. This aligns with research on the importance of agility in modern business environments (McIvor, 2008).

7. CONCLUSIONS, PRACTICAL IMPLICATIONS, LIMITATIONS, AND FUTURE RESEARCH

7.1 CONCLUSIONS

This study set out to examine the role of Human Resource Outsourcing in Portugal, exploring both the factors driving its adoption and the potential barriers to its implementation. Additionally, the study investigated whether organisational culture plays a significant role in shaping HRO decisions. The findings reveal that while HRO is used by a minority of Portuguese organisations, it remains a strategic tool primarily driven by legal compliance, access to specialised expertise, and the desire to focus internal HR efforts on more strategic tasks.

Contrary to initial expectations, organisational culture, measured through the traits of involvement, consistency, adaptability, and mission, did not have a statistically significant influence on whether organisations chose to outsource their HR functions. The dominant cultural trait among both HRO users and non-users was adaptability, reflecting a shared focus on flexibility and innovation, regardless of outsourcing status.

7.2 PRACTICAL IMPLICATIONS

This study provides valuable insights for both practitioners and HR consultancy organisations. For HR consultancies, understanding the motivations behind HRO adoption in Portugal is crucial. Organisations tend to outsource HR functions to comply with legal obligations and to access specialised skills, particularly in areas like health and safety, recruitment, and administrative HR management. Consultancies can use these insights to tailor their services and develop specialised offerings that align with the specific needs of Portuguese firms.

Moreover, the findings suggest that internal resistance and concerns about losing control over HR functions remain significant barriers to HRO adoption. HR consultancies and service providers should focus on building trust and addressing these concerns by demonstrating how outsourcing can support, rather than undermine, an organisation's strategic goals.

For organisations, the findings reinforce the importance of carefully evaluating which HR functions to outsource, particularly those that are non-core or heavily regulated. Outsourcing can provide an opportunity to reduce operational burdens while allowing internal HR teams to concentrate on more value-adding activities.

7.3 LIMITATIONS

Despite its contributions, this study has several limitations that should be considered when interpreting the findings. First, the use of a convenience sample limits the generalisability of the results to the broader population of Portuguese organisations. While the sample includes a diverse range of industries, the findings may not fully represent the entire Portuguese market.

Second, the self-administered online questionnaire posed challenges in controlling the quality of responses. Some respondents may not have been fully engaged with the topic, and there was also a risk of multiple responses from the same individuals, which could have introduced biases into the data.

Third, the study relied predominantly on data from HR professionals and senior managers, potentially overlooking the perspectives of lower-level employees. A broader range of respondent roles would have provided a more comprehensive understanding of how HRO affects various stakeholders within the organisation.

7.4 FUTURE RESEARCH

This study opens several avenues for future research. First, longitudinal studies could provide deeper insights into the long-term effects of HRO on organisational performance and employee satisfaction. Understanding how organisations evolve in their use of outsourcing over time could offer valuable information on the sustainability of HRO strategies.

Second, future research could explore the cultural dimensions of HRO adoption in more depth, particularly in different national contexts. While organisational culture did not significantly impact HRO decisions in this study, it is possible that cultural factors play a more prominent role in other countries or industries.

Third, a comparative study between organisations that provide HR services and those that use them could shed light on the dynamics of the outsourcing relationship. Understanding the positions and expectations of both parties would contribute to a more holistic view of HRO and its implications.

Lastly, future research should consider a more qualitative approach to explore in-depth perceptions of HRO among employees and managers at different organisational levels. This would provide richer insights into the impact of outsourcing on organisational culture, employee engagement, and the development of internal HR capabilities.

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