

Human Resources Outsourcing and the impact it has
on small businesses

Research paper

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ABSTRACT

This research aims to analyze the impact of Human Resource Outsourcing (HRO) on small businesses, defined as firms with 50 to 150 employees. With a high failure rate among small businesses—18% in the first year and 50% within five years—cash flow, management issues, and employee retention are key challenges. Since Human Resource Management (HRM) is a major factor in these failures, this study explores how HRO influences small businesses.

Utilizing a mixed-methods approach, including qualitative grounded theory and quantitative analysis, the research examines small business owners' HRM knowledge, the relationship between Organizational Support Theory (OST) and HRO, and their effects on employee engagement, retention, corporate culture, and organizational support. The study finds that HRO can enhance employee engagement and establish stronger organizational support.

Keywords: Human Resource Outsourcing, Human Resource Management, Small Businesses, Employee Engagement, Corporate Culture, Organizational Support Theory

INTRODUCTION

Outsourcing has become popular amongst businesses of every industry, size, and type. Wallo and Kock (2018) define outsourcing as, “to employ an external party to carry out all, or parts of, the work instead of utilizing internal resources.” The main motivation behind outsourcing is maximizing the supply of resources, such as time, money, and skills, among others, though this is most often driven by a desire to reduce costs (Noe et al., 2010). Unfortunately, not enough research has explored the impact of outsourcing within a small business. Small business owners deserve assistance in making the right decision to benefit their business in the long run and not because of what their resources can afford at the time. According to a 2019 Small Business Administration (SBA) report, small businesses account for 44% of the U.S. economy. The benefits of small businesses consist of job creation, supporting the development of local communities, and providing a stimulating environment of innovation. Based on statistics from SBA’s “Small Business Job Creation” fact sheet, small businesses have created 12.9 million jobs over the past 25 years; that accounts for 62% of jobs added to the economy. Motivating business owners to forecast the subject of HR can influence the culture early, set a strong foundation, and give businesses an advantage to survive past the small business failure rate.

Why should we pay close attention to human resources? Human resources can be defined as an organization’s workforce; the main premise of the human resources department is to manage the various aspects of the workforce’s employment. The success of an organization is heavily evolved around its employees regardless of the industry, size or type. Most aspects of the organization can be traced back to and/or driven by the workforce. Performance, culture, reputation, and innovation are driven by the actions of

the employees. Where does the responsibility fall to communicate the values, procedures, policies, and processes within the organization? The Human Resources Department has the responsibility to govern the corporate environment.

Employee performance is contingent upon employee engagement, and a key factor of employee engagement is the organizational culture that the employee is submerged in. “It has been contended that organizational culture can enhance organizational performance by energizing and motivating employees, unifying people around shared goals, and shaping and guiding employee behaviours” (Cicek & Ozer, 2011, p. 136). Employee engagement can fluctuate based on a multitude of factors evolving around how an organization motivates their employees and cultivates relationships. Key measures of employee engagement include workload meaningfulness, career path within the company, sense of belonging, employee appreciation, trust in leadership, and relatability with co-workers.

In the author’s experience, the type of work environment that is established through a corporation’s standards, vision and behaviors is the driving force behind employee engagement. Where does corporate culture come from? “HR is the stimulator and steward of culture” (Forbes Expert Panel, 2020). Leadership creates the vision and sets the tone for the rest of the organization. Human resources implement policies to keep the workforce functioning with the right values and behaviors within the standards of the organization. “They work with leaders to turn culture vision into tangible actions and artifacts. They connect the dots between the beliefs and behaviors that reflect culture and how it manifests through people” (Forbes Expert Panel, 2020). The Human Resources Department also serves as the mouthpiece of the workforce to ensure that upper

management understands the concerns of employees and implements ways to keep employees engaged.

After 22 years of engaging with small business owners nationwide, it's clear that many tend to overlook human resource management during the early stages of their ventures. Instead of aligning HR strategies with long-term business plans, they often opt for quick-fix solutions. While some find success by outsourcing HR functions, others struggle to adapt to the evolving needs of their workforce. This is understandable given the limitations of small business management. According to the SBA, 81% of small businesses are operated by solopreneurs who initially manage everything alone. However, as these businesses grow, solopreneurs face increased workloads and a daunting transition into employers. This transition necessitates the development of policies, procedures, and systems for their expanding team, tasks typically beyond their expertise. Focusing primarily on business development, small business owners may find outsourcing HR functions the simplest solution. But by entrusting external entities with the tasks of managing a small business' HR functions, the small business owner has opened the door of a possibly new complication.

This prompts the question central to this research: How does human resources outsourcing impact small businesses? The researcher is not opposed to the concept of outsourcing but aims to enlighten small business owners of the comprehensive impact that decision would have on the entirety of the business.

The motivations behind this research include:

- Identifying key elements necessary for successful outsourcing practices.

- Focusing on potential problems and benefits that arise through the role of Human Resource Intermediaries (HRI).
- Analyzing how small businesses practice Human Resource management.
- Identify potential pitfalls of outsourcing.
- Assessing the effects of HR practices from a Professional Employer Organization (PEO) to a small business.

Study One

Based upon the author's interactions with workforces over twenty years, insecure employees have low engagement and when employees are disengaged, they begin to seek employment elsewhere. Prior studies have empirically demonstrated that companies' HR practices reduce the rate of turnover and absenteeism when they fit with employees' needs (Takeuchi et al., 2003). A need can be defined as some type of requirement associated with the subject's well-being. The responsibility for these practices lies within the Human Resources Department. Employees need to feel a part of the culture but more importantly that an organization's culture embodies and represents its workforce. "By developing and implementing unique systems comprised of such HR practices, SEs (small enterprises) are expected to enhance employee retention and perceived labor productivity via the effects of these systems on employee job satisfaction, commitment, and motivation" (Patel & Conklin, 2012, p. 207). Employees will remain committed when they feel a genuine connection and have a sense of involvement and engagement. Engagement between leadership and the workforce must be authentic and two-way. This authentic engagement exists through team meetings, one-on-one feedback meetings, strategy development seminars, open door policy, annual performance evaluations,

department social events, and employee appreciation recognition. Taking this course of action can lead to healthy benefits of engagement such as building trust, idea exchange, employee relations, and positive change management.

The conceptual model that can be seen in Figure 1 was developed through a comprehensive process that integrates insights from multiple sources of analysis of past research, review of relevant literature and the author's experience. The figure is grounded in a thorough review of existing research on HRO, small businesses and employee engagement. By analyzing past data, key factors that influence HRO were identified and organized into a coherent framework. Additional data was gathered by reviewing literature specifically related to HRO and small businesses. The literature review helped to refine and expand the understanding of the factors that contribute to and result from HRO practices. The model also integrates insights from the author's own professional experience with HR management and employees of small businesses. Practical knowledge and observations in these real-world scenarios were used to validate and enhance the theoretical framework.

This model shows the antecedents to HRO on the left and the consequences on the right. The antecedents illustrate the factors or conditions that precede and contribute to the development of HRO characteristics. These antecedents are drawn from the synthesis of past research and literature, reflecting the foundational elements necessary when considering HRO. The consequences represent the outcomes or results that stem from the presence of HRO characteristics. These consequences are informed by both theoretical and practical insights, showing the effects and benefits of implementing HRO.

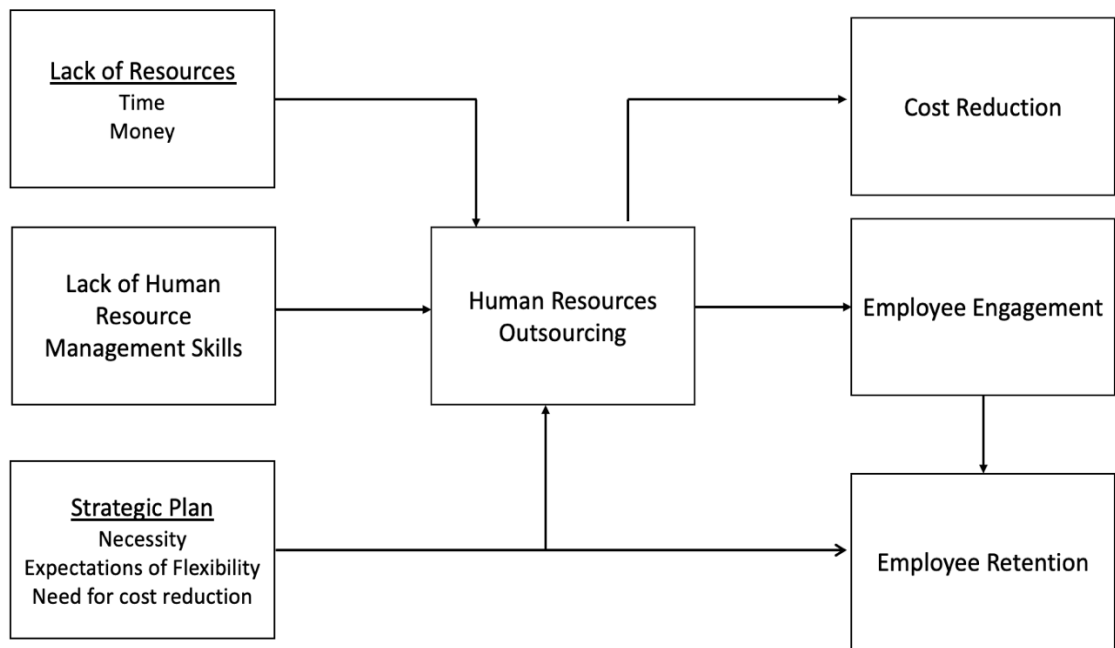


Figure 1. Conceptual Model of Human Resource Outsourcing.

Research Questions

The study intends to explore the relationship between a small business owner's HRM practices and how they directly affect employee engagement and retention. This study intends to assess which HR functions could be detrimental to corporate culture. This study is also looking to identify the challenges of HRO, and avenues small business owners can explore to minimize the impact it has on employees. The following research questions should assist in these objectives.

RQ1 How does outsourcing the HR function affect the employee retention rate in small businesses?

Human capital is an enormous aspect of the success of a small business. It is a process to acquire the right employee who will fit into the culture of a small business. Recruitment and hiring, compensation and benefits, and talent management are crucial functions of HR to obtain and retain employees.

RQ2 How does outsourcing the HR functions affect employee engagement in small businesses?

The HR department has a responsibility to convey the leadership's values and standards to the workforce. That task can be accomplished not only by placing vision and mission statements in an employee handbook but through ensuring that an employee is actively engaged within the company. HR can accomplish that with an array of functions such as training and development, performance management, etc.

Cost reduction is a consequence of HRO, but it will not be investigated as a variable in a research question in this research. This decision was made along with the decision to not test organizational performance in the interest of time.

Methodology and Research Design

This study employs a qualitative research design. Primary data were collected through semi-structured interviews. These interviews were conducted via Zoom with small business owners, HR professionals, and managerial employees of small businesses. SBA's Office of Advocacy defines a small business as a business that has fewer than 500 employees. There are also different parameters based upon industry not just specific to employees but average annual receipts. For this research, small business is defined as a business in any industry that has no less than 50 employees and no more than 150 employees. Convenience sampling was used to select the subjects for this phase of the

study. The researcher used participants within their professional network. The researcher interacted with the participants through a formal interview utilizing an interview guide (see Appendices A and B) that served as a compass for the interview. The interview guide was used to navigate the researcher through topics of interest but still allowed the autonomy to explore any relevant themes that may have arisen from the participants' answers. The open-ended questions did result in new data collected and exploring thoughts and beliefs on the factors of HR outsourcing. The study's primary focus is on employees in both small businesses who have a human resources department and small businesses that have those functions outsourced. In addition, the study will explore the relationship between a Professional Employer Organization and those small businesses that utilize their services.

Data Collection

All interviews were conducted over Zoom and audio recorded and transcribed using otter.ai software compatible with Zoom. Interviews ranged in length from 29 minutes to 45 minutes and were scheduled based on the participants' availability. Participants included small business owners, HR professionals, and managerial employees of small businesses. The researcher intended to interview more small business owners but had reached theoretical saturation and determined the remaining interviews would not produce any new information. Theoretical saturation can be defined as “the point at which gathering more data about a theoretical construct reveals no new properties nor yields any further theoretical insights about the emerging grounded theory” (Bryant & Charmaz, 2007, p. 611). The researcher was confident that while the initial sample size for this study was already small that the decision to declare theoretical

saturation was justified. The emphasis of theoretical saturation is more toward sample adequacy and less about sample size (Bowen, 2008). Table 4 displays the demographics of the participants of our study.

Table 4

Research Interview Subject Demographics

Participant	Role	Years	Industry/Model	Type
Business Owner 1	CEO	7	Early Childhood Education	LLC
Business Owner 2	COO/Co-owner	11	Health & Safety	LLC
Business Owner 3	CEO/President	20	Information Technology	S Corp
Business Owner 4	Managing Partner	25	Insurance	S Corp
Business Owner 5	Vice-President/Co-owner	3	Franchise	S Corp
HR Professional 1	Director	20	Consulting	LLC
HR Professional 2	HR Manager	30	Retail/In-house	S Corp
HR Professional 3	Vice President	33	Insurance/In-house	S Corp
HR Professional 4	HR Specialist	5	Healthcare/In-house	S Corp
Employee 1	Project Manager	10	Government Contracting	LLC
Employee 2	Team Lead	11	Procurement Management	LLC

The manuscripts of each interview were downloaded from otter.ai into Microsoft Word for accuracy review and data cleansing. The final transcribed data was then uploaded to NVivo to be analyzed. The data were analyzed using grounded theory approaches of causation and descriptive coding processes (Miles et al, 2020). This

approach was instrumental in identifying themes and concepts related to human resources impact within small business.

Data Analysis

Grounded theory was the methodology for this analysis due to the “promise that it will help to develop new concepts and theories of business-related phenomena” (Myers, 2020, p. 128). The first phase of analysis involved uploading all interviews into NVivo software. Once loaded, the researcher began sifting through each participant’s words looking for references related to HR functions, employees, and business practices. A total of 381 passages were identified and through the causation coding process, 53 first-order codes were created. Causation coding was determined to be one of the ideal methods for coding because it “extracts attributions or causal beliefs from participant data about not just how but why particular outcomes came about” (Miles et al, 2020, p. 70).

During the second phase of coding, descriptive coding was used to identify categories amongst the first-order codes. “Descriptive coding assigns labels to data that summarize in a word or short phrase the basic topic of a passage of qualitative data” (Miles et al, 2020, p. 65). Several factors were considered during this phase to ensure that first-order codes were synced with and consolidated to the second-order categories. The descriptive coding process led to ten second-order categories.

The final phase of coding was based on theoretical considerations determined by the data that emerged from the second-order categories. Five themes emerged during this final phase of the analysis process. Similarities were searched among the original 53 first-order codes and themes were reviewed from the ten second-order categories and five

themes. Figure 2 provides a visual of the coding process conducted in this study. Then Figure 3 demonstrates the progression from 53 codes to the emergence of five themes.

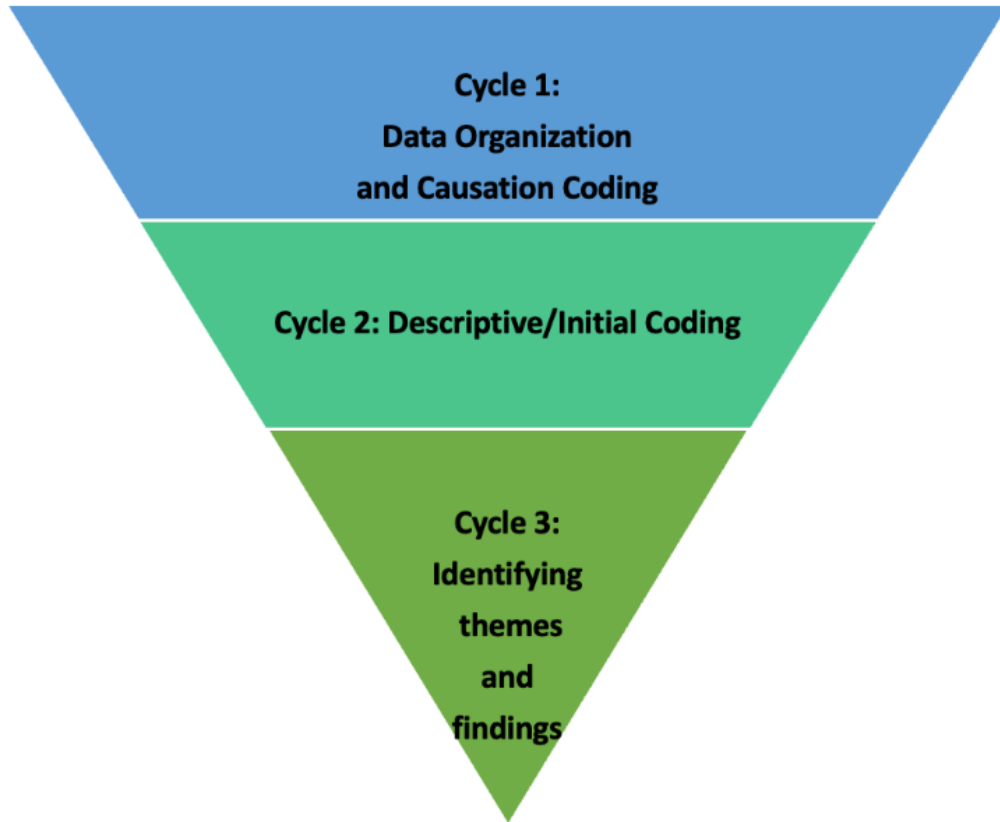


Figure 2. Process of Coding.

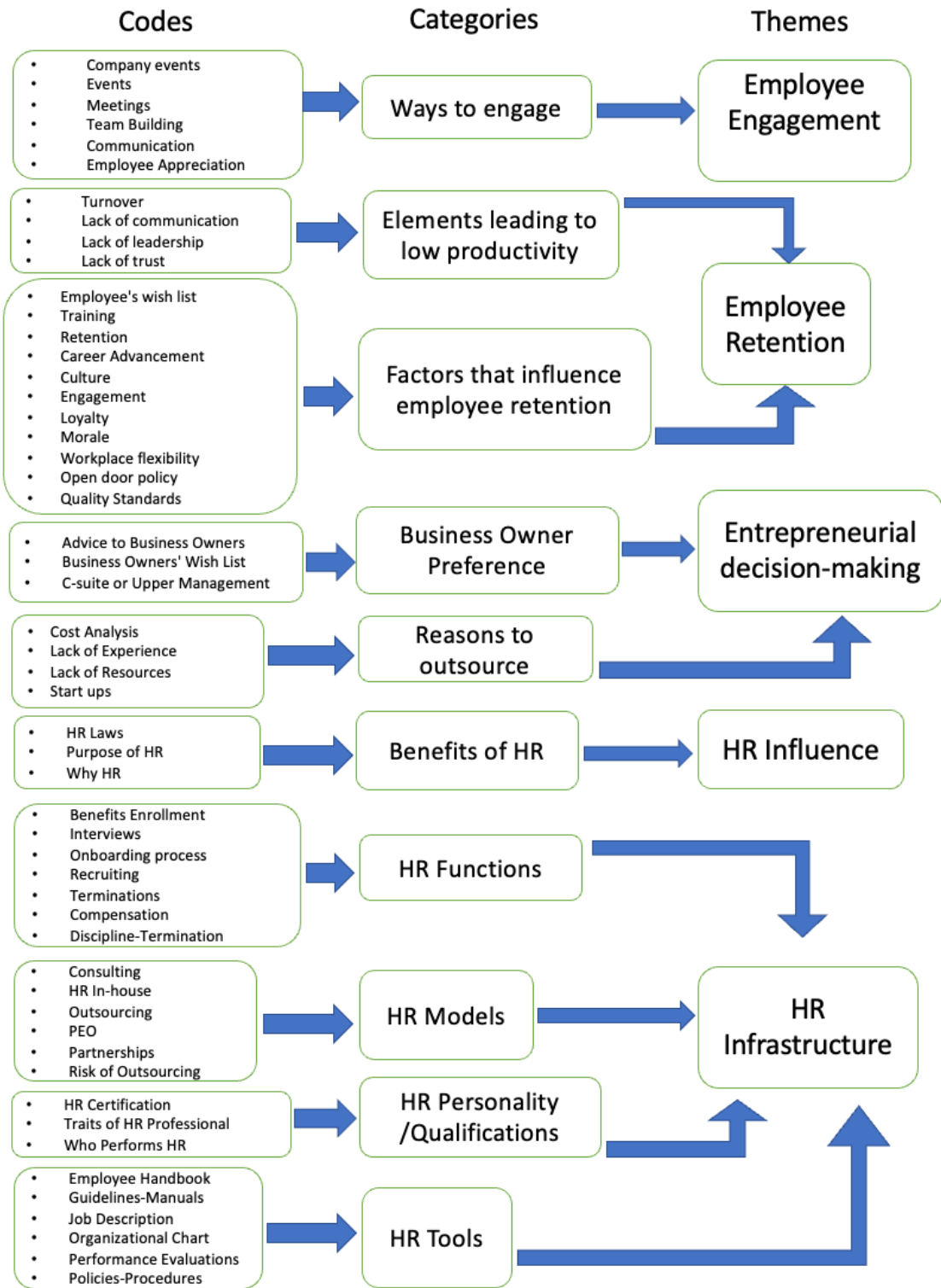


Figure 3. Progression of Codes to Themes.

BRIDGING THE GAP

A second study is necessary to conclude the desired objectives of this research. With the primary focus of study one centering around a business owner's motivation behind their decisions, it was impossible to fully comprehend how a decision will affect all aspects of the business. What was discovered from these conversations with business owners was that employee engagement and retention were a concern, the decisions were made based on the "real time" need, and that HR infrastructure and influence were deemed important later.

In study one, business owners were very transparent around the topic of entrepreneurial decision making. All said that decisions were made regarding what the landscape looked like in that moment. When considering their situation, business owners considered their knowledge, the issue they were facing, and the resources available to them. A few admitted that was not the best method to operate but felt like a positive solution at the time. In study one, one piece that was not analyzed was the business owners' comprehension of essential and non-essential HR functions.

Another topic of discovery was employee engagement. There appeared to be an understanding that an engaged employee meant a retained employee. The conundrum for the business owners became, who was ultimately responsible for facilitating an engaging culture if the business owner was focused on business development and they didn't have the resources to devote to a full-time HR representative? Many business owners admitted to not knowing the appropriate phase of the business to introduce a full-time HR representative (which will be covered with HR infrastructure). According to Oshima et al. (2005), the traditional ratios of HR to employees are 1:100. It is understood that small

businesses would abide by different guidelines than multinational corporations. Table 5 shows SHRM’s suggestions of staffing levels for a small business HR department.

Table 5

HR Professional to Employees Ratio

Number of Employees	Number of full-time HR professionals
1-25	1 HR professional
26-50	2 HR professionals
51-200	1 HR professional for every 50 employees

Most of the business owners agreed that for start-ups or growing businesses, keeping talented employees can be challenging, especially when some HR functions are missing. Some admitted that they were operating without employee handbooks or had faulty policies and procedures. In study one, due to time constraints in the research there was not an opportunity to explore the relationship between human capital competitive advantage and outsourcing specific HR functions.

HR infrastructure was a consistent insight throughout the conversations with each business owner. It appears that the business owners had neglected to incorporate HR into their forecasting procedures, due to uncertainty regarding the proper course of action and timing of implementing a department. This is where the lack of HRM knowledge was magnified and exposed. One business owner admitted that during their growth phase they were unsure of the industry standard ratio of HR personnel to employees. Another business faced multiple challenges while attempting to find a suitable HRI match through trial and error. One business owner knew that HRO was not a permanent answer but a

temporary solution but had difficulty with the timing of switching to in-house HR to ensure a seamless transition. Examining the correlation between the performance of the outsourcing firm and the contracting firm would have been beneficial for businesses looking to establish a successful HRO relationship. Given more time, this analysis could have been conducted.

As previously indicated, the first study yielded multiple themes and perspectives that require further examination and clarification. To more thoroughly answer the research question of how HRO impacts small businesses, the research should be focused on the impact it has on the employees of these small businesses. Study one did not cover the following topics, but they could have a significant impact on the research:

- What the HR department means to an employee.
- How HR influences the culture.
- Where does organizational support come from?

Focusing on these topics in study two can improve the understanding of employee engagement and turnover intention variables.

Understanding how employees utilize the HR department will assist in the breakdown of identifying essential vs non-essential functions and the risk rate of outsourcing. Understanding the potential influence of HR on company culture and the consequences of HRO is crucial for informed decision-making. Comprehending the impact of organizational support on employee engagement and its consequent effect on the overall employee experience is a crucial component of managing human resources effectively. Study two aimed to provide an in-depth exploration of these topics to answer those questions. This will equip researchers and small business owners with a

comprehensive understanding of the profound influence that outsourcing HR can exert on a small business.

Study Two

The following hypotheses set up a framework for exploring the relationships between HR outsourcing, employee engagement, turnover intention, organizational support, and corporate culture.

Hypothesis One: Employee engagement is lower in small businesses that outsource HR versus those that have an in-house HR department.

Hypothesis Two: Turnover intention is higher in small businesses that outsource HR versus those that have an in-house HR department.

Hypothesis Three: Organizational support is lower in small businesses that outsource HR versus those that have an in-house HR department.

Hypothesis Four: Companies that outsource HR have a weaker corporate culture as compared to those that have an in-house HR department.

Hypothesis Five: The correlations of organizational support, corporate culture, and employee engagement to employee turnover intention for outsourced HR Departments will be significantly more negative than the same correlations for in-house HR Departments.

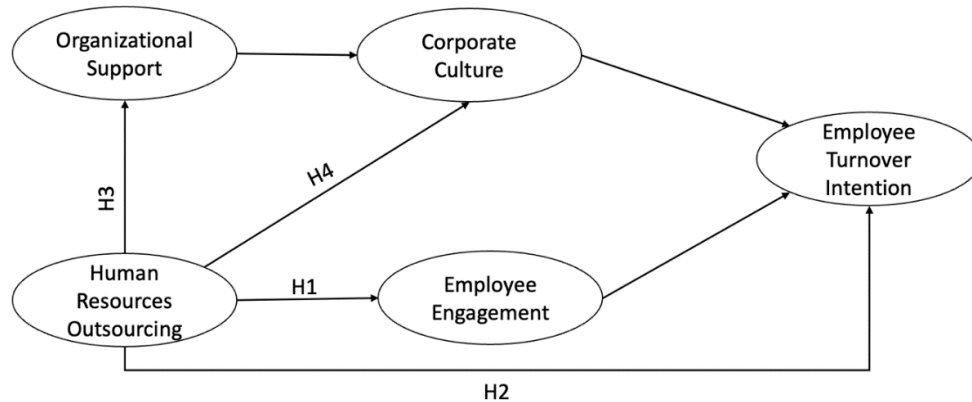


Figure 4. Theoretical Framework.

Data Collection

The survey consists of approximately 38 questions that measured organizational support, culture, engagement and turnover intention. Employee engagement is measured using a shortened version of the Utrecht Work Engagement Scale (UWES-9). Organizational Support is measured using an 8-item shortened version of the 1986 Survey of Perceived Organizational Support created by Eisenberger et al. Organizational Culture is measured using a shortened version of the Denison Organizational Culture Survey (DOCS). Turnover Intention is measured using a 3-item survey utilized by Cave et al. (2022). Questions were designed on a 7-point Likert-scale to answer statements with a range of 1 = strongly disagree thru 7 = strongly agree. A pilot survey (N=7) was conducted using convenience sampling to test the validity of the survey and confirm constructs and relationships. To gain access to participants the researcher utilized the services of Cint, a third party company that specializes in digital survey distribution.

Quota sampling was adopted during the distribution of the survey and collection of data. Researcher provided a link to the survey in Qualtrics which was then distributed to participants based on specific requirements. For this research, small business will be defined as a business in any industry that has no less than 50 employees and no more than 150 employees. Participants were required to work for a small business with between 50-150 employees and have been employed with that business for at least 12 months. The researcher was looking to obtain 100 complete responses from employees whose organization outsourced HR and 100 complete responses from employees whose organization keeps the HR function in-house.

Responses were collected over the first two weeks of November 2023. A total of 268 responses were recorded in the database to achieve the 200 responses desired. Three participants opted out and did not consent to the survey, 11 participants consented but did not complete the survey and 54 participants did not meet the requirement of being with their current employer for at least 12 months. Figure 9 shows the demographics of the respondents.

Data Analysis

The data was exported from Qualtrics into Statistical Package for the Social Sciences (SPSS) software. Any information that could potentially identify a participant was immediately deleted; identifying items were the IP address column. Researcher first ran a reliability analysis for each scale. Table 9 displays the scale reliabilities in comparison to the reliability statistics in previous research. Satisfactory scale reliabilities have been documented for all four scales, even though there were some slight changes in sample sizes. For this study, the employee engagement section of the survey using the

UWES-9 scale Cronbach's alpha was $\alpha = 0.923$. The organizational support section of the survey using the eight-item version of the POS scale Cronbach's alpha was $\alpha = 0.855$. The organizational culture section of the survey using DOCS nine-item scale Cronbach's alpha was $\alpha = 0.955$. The turnover intention section of the survey using three-items measuring turnover intent from an employee engagement survey used by Cave et al. Cronbach's alpha was $\alpha = 0.765$.

Demographics of respondents



Size of company	Frequency
50-59 employees	12
60-69 employees	9
70-79 employees	12
80-89 employees	14
90-99 employees	21
100-109 employees	38
110-119 employees	17
120-129 employees	11
130-139 employees	4
140-149 employees	10
150 employees	52

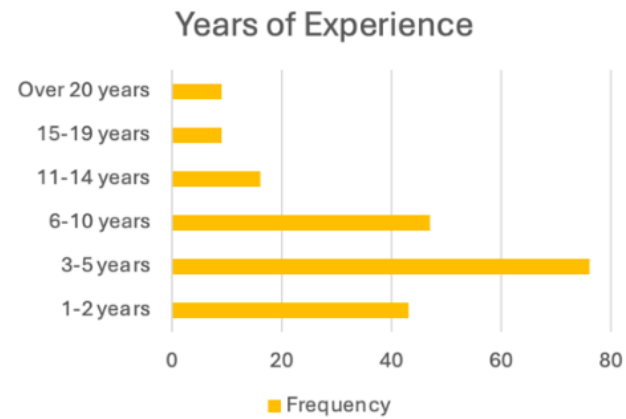
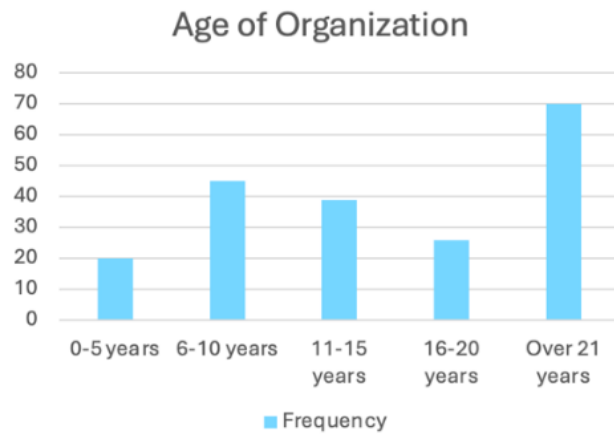


Figure 5. Study Two Demographics of Respondents.

Table 9

Reliability Analyses

Scale	N of items	Current Cronbach's Alpha	Past Research Cronbach's Alpha
Employee Engagement	9	.923	.93
Organizational Support	8	.855	.93
Organization Culture	9	.955	.849
Turnover Intent	3	.765	.90

Prior to hypotheses testing, multi-item variable means and standard deviations tests were conducted for the combined, HRO and HR in-house samples. Figure 6 shows the descriptive statistics and correlations between scales for the combined sample.

Descriptive Statistics

	Mean	Std. Deviation	N
Employment Engagement	5.0080	1.25975	194
Organizational Culture	5.1601	1.39783	195
Turnover Intent	4.3450	1.10901	200
Organizational Support	4.8520	1.18367	196

Correlations

		Employment Engagement	Organizational Culture	Turnover Intent	Organizational Support
Employment Engagement	Pearson Correlation	1	.765**	.031	.713**
	Sig. (2-tailed)		<.001	.670	<.001
	N	194	190	194	190
Organizational Culture	Pearson Correlation	.765**	1	.002	.830**
	Sig. (2-tailed)	<.001		.975	<.001
	N	190	195	195	193
Turnover Intent	Pearson Correlation	.031	.002	1	-.192**
	Sig. (2-tailed)	.670	.975		.007
	N	194	195	200	196
Organizational Support	Pearson Correlation	.713**	.830**	-.192**	1
	Sig. (2-tailed)	<.001	<.001	.007	
	N	190	193	196	196

** . Correlation is significant at the 0.01 level (2-tailed).

Figure 6. Combined Descriptive Statistics.

The descriptive statistics for the combined sample show the mean values for the variables are above average, indicating that the sample tends to score higher than the midpoint on the measures. The SD of the variables is at least 1, suggesting good variability within the sample. There are strong positive correlations between employee engagement, organizational culture and organizational support. This indicates that higher levels of engagement tend to be associated with higher levels of culture and support. There is a significant negative relationship between organizational support and turnover intentions. This suggests that higher levels of support are associated with lower turnover intentions.

Prior to any testing several items had to be reverse coded in SPSS. Those items that had to be reverse coded were:

- Turnover Intention- “I would be happy to work at my organization as long as possible.”
- Organizational Support- “If given the opportunity the organization would take advantage of me.”
- Organizational Support- “HR shows very little concern for me.”

Reverse coding was implemented for items characterized by negative wording, necessitating an additional step to ensure that a high value corresponds consistently with the same type of response across all items within the organizational support scale. Conversely, for turnover intention, the positively worded item underwent reverse coding, thereby ensuring that a low value signifies uniformity in response type across all items within the turnover intention scale.

To present a comprehensive interpretation of the findings, multiple methodological approaches were employed to include correlations analyses, regression analyses and independent

t-test samples. Within the hypotheses testing where direction is hypothesized a priori, a one-tailed test for significance can be used, with $p < .05$ as the threshold needed for statistical support.

Findings

H1:

Mean (EE) for businesses with outsourced HR	5.29
Mean (EE) for businesses with in-house HR	4.72
T-value	-3.23
Degrees of freedom (df)	192
p-value	< 0.001

Given the low p-value (< 0.001), we reject the null hypothesis, suggesting that there is a significant difference in employee engagement between businesses with outsourced HR and those with in-house HR. Since the t-value is negative, it indicates that the mean employee engagement is higher in businesses with outsourced HR compared to those with in-house HR.

H2:

Mean (TOI) for businesses with outsourced HR	4.42
Mean (TOI) for businesses with in-house HR	4.27
T-value	-0.956
Degrees of freedom (df)	198
p-value	0.17

With a p-value of 0.17, we fail to reject the null hypothesis. This suggests that there is no significant difference in turnover intention between businesses with outsourced HR and those with in-house HR. The t-value being close to zero further supports this conclusion.

H3:

Mean (OS) for businesses with outsourced HR	4.92
Mean (OS) for businesses with in-house HR	4.78
T-value	-0.824
Degrees of freedom (df)	194
p-value	0.206

With a p-value of 0.206, we fail to reject the null hypothesis. This suggests that there is no significant difference in organizational support between businesses with outsourced HR and those with in-house HR. The t-value being close to zero further supports this conclusion.

H4:

Mean (OC) for businesses with outsourced HR	5.32
Mean (OC) for businesses with in-house HR	5.00
T-value	-1.626
Degrees of freedom (df)	193
p-value	0.05

With a p-value of 0.05, which is typically considered the threshold for statistical significance, we have evidence to reject the null hypothesis. This suggests that there is a significant difference in corporate culture between businesses with outsourced HR and those with in-house HR. Since the

t-value is negative, it indicates that the mean corporate culture is higher in businesses with outsourced HR compared to those with in-house HR.

H5:

Correlation	HRO	In-house HR	Z-score	p-value
Between EE and TOI	r= 0.21	r= -0.21	2.99	<0.01
Between OS and TOI	r= -0.11	r=-0.30	-1.34	0.18
Between OC and TOI	r=0.14	r=-0.19	-2.29	0.01

Based on these results:

- There is a significant positive correlation between EE and TOI in both HRO and in-house HR scenarios.
- There is no significant correlation between OS and TOI for either HRO or in-house HR.
- There is a significant negative correlation between OC and TOI for both HRO and in-house HR, but it's stronger in the in-house HR scenario.

Review of Both Studies

The role of HRO in small businesses has been a subject of considerable interest due to the lack of research on the topic and its potential impact on organizational success, particularly in the early stages of business development. This research was looking to compare and investigate the different HRM strategies small businesses employ and provide valuable insights into the dynamics of employee engagement, organizational support, organizational culture and employee retention within these distinct operational frameworks. Organizational success can be measured in a variety of methods and this research was exploring variables to measure success other than revenue. This research was divided into two studies to appropriately cater to the interests of the target audience. Each study was designed to address distinct aspects of the research topic and

allocate sufficient time and focus to ensure that the participants' point of views were adequately noted, thoroughly investigated and analyzed.

Study one examines the relationship between HRM practices, business owner expertise and their impact on employee retention in small businesses. Through semi-structured interviews, the researcher delved deep into the mindset of business owners, exploring their motivation to outsource, the imperative of retaining high quality employees, alongside the pursuit of new business opportunities and the overarching goal of maintaining profitability. The two research questions posed in study one sought to investigate how HRO impacted both employee retention and employee engagement in small businesses. The initial findings from these interviews suggest a significant association between a business owner's expertise and knowledge of HRM, employee engagement, employee retention rates and the desire to transition from outsourcing to in-house HR. While the results align with the conceptual model presented in Figure 1, the study also identifies a need for additional data, particularly regarding the impact HRO has on employee retention. Sufficient evidence was found to support the notion that, from the perspective of the business owner, HRO indeed had a detrimental effect on employee engagement. While the study highlights the emergence of key themes such as employee engagement, retention and HR infrastructure through the words of the business owners themselves, it concludes with inconclusive evidence regarding the specific impact HRO has on employee retention.

The results of Study One produced five overarching themes that highlighted the significance of those factors in shaping organizational dynamics within small businesses, including the influence the HR department has based on its composition. Drawing from these themes, Study Two was designed to investigate the interplay between employee engagement, turnover intention, organizational culture, and organizational support with the context of the

influence of the infrastructure of HR of a small business. The themes identified in Study One were used as foundational pillars upon which the variables of interest were built and tested in Study Two. Through integrating the qualitative insights gathered from small business owners paired with the quantitative measures in Study Two, a comprehensive understanding of the complex relationships between the variables was achieved, providing valuable insights. Study Two focuses on testing five hypotheses related to HRM practices and their effects on employee engagement, turnover intention, organizational support and culture in small businesses. Using a 7-point Likert scale survey administered to employees of small businesses, the researcher aimed to compare the employee engagement, turnover intention, organizational support and culture of HRO small businesses and those with an in-house HR department. Contrary to there being a significant finding in hypothesis one, the results lean in the opposite direction and do not support the notion that employee engagement is lower in small businesses that outsourcing HR compared to those with in-house HR departments. Similarly, hypotheses two and three, concerning turnover intention and organizational support, respectively, yielded non-significant findings. In analyzing the results of hypothesis four, it's essential to pay close attention to the significance level obtained $p = .053$. This suggests that there is some evidence to suggest a difference in organizational culture in HRO employees and in-house HR employees. While it falls just short of reaching conventional levels of statistical significance, researchers may want to explore this finding further, as it indicates a trend or potential relationship worth investigating in the future with larger sample sizes. Contrasting organizational support with other variables such as turnover intention and organizational support, where the probability levels were not close to significance should highlight the importance of contextualizing the findings. While hypothesis four regarding organizational culture yields a marginally significant difference between HRO and in-house HR

departments, the evidence contradicts the hypothesis and is not sufficient to confidently reject the null hypothesis. For hypothesis five, the correlations between employee engagement and turnover intention, as well as organizational culture and turnover intention, show significant differences between HRO and in-house HR small businesses. However, no significant difference is found in the correlation between organizational support and turnover intention.

A comparative analysis of the two studies reveals complimentary findings and areas of divergence. While both studies shed light on the importance of HRM practices in small businesses, they also highlight the complexity of factors influencing employee retention, engagement, organizational support and culture. Study one emphasizes the role of business owner expertise and motivation behind HRM practices and decision-making, whereas study two delves into the specific impact of HRO on various organizational variables.

Discussion

The results of how HRO impacts employee engagement were contradictory in both studies. During the interview process in study one, business owners admitted that they believed the utilization of HRO negatively affected employee engagement within their company. A few even admitted that it wasn't until after hiring an in-house HR professional that they see employee engagement increase within the company. See Figure 13 for quotes from the interviews in study one.

The results from the survey in study two are in direct contrast to the business owners' beliefs in study one. Figure 14 presents several thought-provoking direct quotes of HRO employees from the last question on the survey, which inquired if participants had additional information, they wished to share on HRO.

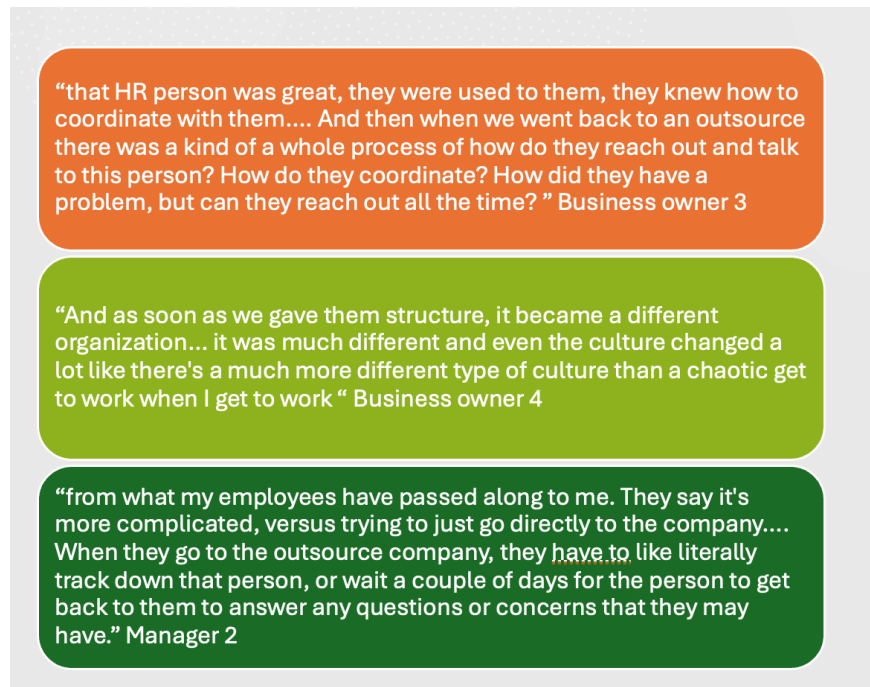


Figure 7. Business Owners Responses on HRO.



Figure 8. Open-Ended Responses on HRO.

These thoughts can give insight into the employees’ perspectives and can lead to an explanation of how the results in study two concluded that employee engagement was higher in small businesses that outsource HR vs in-house HR. The employees in this survey appeared

more confident in outside leadership having the expertise but more importantly being unbiased. Could it be that employee engagement is higher with HRO because employees feel more comfortable confiding in someone outside of the company regarding issues and situations? Based on the responses from this survey, the HRO employees were sympathetic to the business owner's decision to outsource and took into consideration the time restrictions and lack of HRM knowledge a business owner may have.

The results of how HRO impacts organizational support were non-significant in both studies. Business owners regardless of their HR infrastructure perceived organizational support as extending beyond the HR function. They expressed pride in maintaining an open-door policy and fostering a familial environment amongst the employees of their small business. There were extreme similarities in the levels of organizational support offered by both HRO and in-house HR. The second to last question of the survey asked the participants to describe their current type of POS based on the PCMT model. Figure 15 shows a side-by-side comparison. Organizational support is a perception. Each employee has in their own mind an acceptable level of support they are seeking from the organization altogether. When responding to these questions, individuals rely on their personal experiences, if any, with the HR representative.

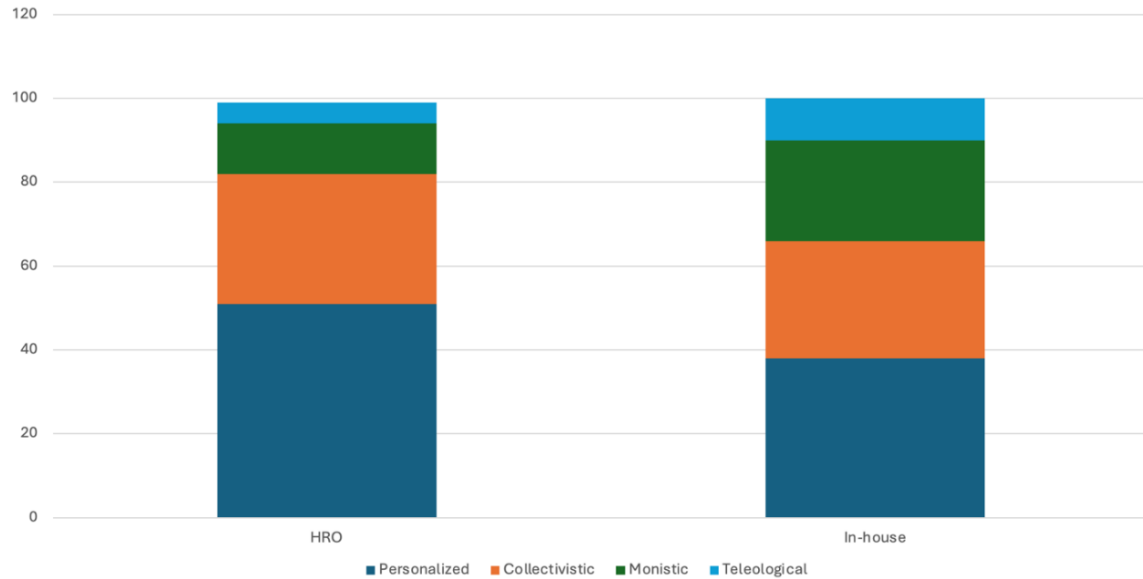


Figure 9. PCMT model for perceived organizational support (POS).

The results of how HRO impacts organizational cultures shed light on the prevailing cultures within businesses employing different HRM strategies. Although the differences were modest, variations in organizational culture were discernable between companies with in-house HR departments and those utilizing HRO. This new revelation of companies that outsource HR can have an influential culture underscores the potential influence of HRM approaches on shaping organizational values, norms and practices, thereby contributing to the overall organizational culture. Figure 16 shows a comparison of employees believing that HR resolves their issues in a timely manner. The chart compares not only the HR infrastructure but the work environments as well.

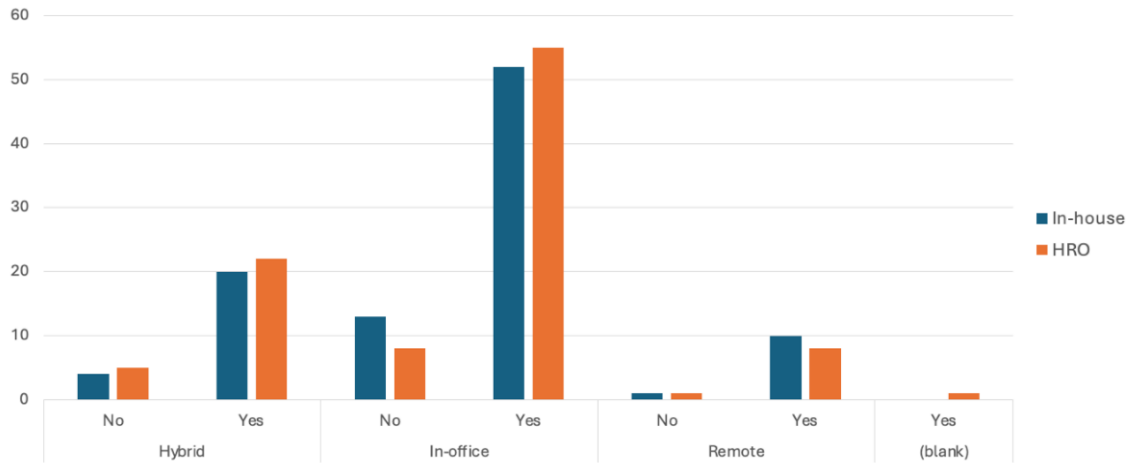


Figure 10. HR Timeliness Based on Work Environment.

Exploring this question was crucial for understanding any phenomena within the organizational culture construct, as the speed at which HR resolves issues can profoundly influence organizational culture. When HR promptly addresses a concern within a timely manner according to the employees, it fosters trust and respect for the employees' well-being. On the contrary, delays or ineffective resolution can lead to frustration, erode trust in leadership and contribute to a negative work environment. HR's responsiveness shapes the perception of fairness, communication effectiveness, and the overall health of organizational culture.

The results of HRO impacts turnover intention is two-fold in this research. This research specifically examined turnover intention and investigated the correlations between this variable and the others. There was no substantial variance observing the turnover intention between HRO and in-house HR small businesses. While the results were in the correct direction of the hypothesis, the findings were non-significant. When conducting a correlation test involving turnover intention and the other variables an interesting pattern emerged regarding the relationship between employee engagement and turnover intention within each group, as well as

organizational culture and turnover intention. Specifically, small businesses with an in-house HR department had higher levels of employee engagement associated with reduced turnover intention, a correlation indicative of a more positive organizational climate and employee retention. While businesses that outsourced their HR functions had heightened employee engagement contributing to increased turnover intention; a correlation highlighting potential disconnect between employee engagement efforts and retention strategies. When it comes to organizational culture, small businesses with an in-house HR department indicated that a more positive organizational culture is linked to lower turnover intention. While businesses that outsourced their HR functions had a higher turnover intention rate when it correlated to organizational culture. The research concludes that there is a meaningful distinction in how employee engagement and organizational culture influence turnover intention depending upon whether a small business employs HRO services or manages the HR functions in-house.

Conclusion

This research contributes valuable insights into the role of HRM in small business success, particularly in terms of employee retention, engagement, organizational support, and organizational culture. This research also points to the complexity of these relationships and the need for additional research to fully understand the impact of HRM practices, specifically outsourcing, on small businesses. The findings in this research underscore the significance of strategic HR management in small businesses, which include further exploring the experience and knowledge of the small business owner and leadership. Implications for enhancing employee engagement, optimizing retention strategies fostering supportive work environments, and cultivating a cohesive organizational culture should serve as key components of a small business' HR strategy.

Understanding the nuances associated with different HR management strategies and carefully considering the impact and how it relates to the employees' overall experience, small businesses can customize their approaches to effectively address the needs and preferences of their workforce. This tailored approach facilitates the promotion of sustained organizational success, as it ensures alignment between HR practices and the unique context of the business. Retaining quality employees is the goal.

Limitations

Although these two studies focused on small businesses that employ between 50 and 150 individuals, it is uncertain whether findings from this subset of companies can be generalized to the entire small business demographic. One demographic that could serve as a limitation was not obtaining the industry of the small businesses in study two. This information was included in study one but was not included in the survey distributed to the employees. Industry can significantly influence HRM needs and strategies. Various industries have unique regulatory demands, workforce structures and HR challenges. The size and scope of operations within an industry can also impact the complexity and extent of HR outsourcing. Therefore, understanding the industry context is essential in understanding the industry standard HRM practices that may lean towards outsourcing.

Another limitation was obtaining the age demographics of the participants in study two. While we gathered information about their years of work experience, it can be argued that while trying to understand employees identifying age groups is important as well. Different age groups have distinct communication styles, technological proficiency and attitudes towards work-life balance. An age analysis can assist in understanding generational differences, career development and training needs, succession management, workplace adaptations and

accommodations. Understanding an employee's age can help researchers and small business owners navigate management approach and relate to individual priorities when implementing HR strategies. While gender was obtained from the participants, not much analysis was conducted with that data. Gender analysis can shed light on disparities, challenges and opportunities faced within the business. Investigating the impact HRO has on small businesses through the gender lens can reveal disparities in areas such as hiring, career development, compensation and benefits. Gender analysis can also shed light on how HR contributes to work-life balance challenges faced by employees, specifically women who often bear disproportionate caregiving responsibilities. Examining gender dynamics in small business leadership roles can uncover barriers to women being hired, promoted and represented in senior management roles. Including gender analysis into HRM practices of small businesses can examine the relationship between gender-inclusive HR initiatives. By examining HR practices through these lenses, researchers can identify opportunities for improving employee engagement and organizational culture while addressing the needs and challenges faced by employees of different genders and age groups.

Work modality, which refers to the manner or arrangement in which work is conducted, was analyzed but not tested. Testing work modality in future research is crucial for understanding the evolving nature of work and its implications for small business practices. Constructs such as HR policy development and implementation, communication and collaboration, training and development, employee inclusion and satisfaction would be ideal to test the relationship on work modality and HR infrastructure. Conducting work modality analysis in future research is essential for HRM to meet the evolving needs and preferences of employees in a rapidly evolving work landscape.

A major limitation in this research was the inability to obtain information about the type of HRO utilized whether it was a consultant, PEO or HRI. The researcher did not consider this classification in the data until study two and only the business owner could provide this data. Some did specify in the interviews if they used a consultant but there was no line of questioning to ensure that every interview obtained that piece of information. In study two it was nearly impossible to question the employees about an area of the business they would not have access to. Different types of HRO offer various levels of specialization and support. Gathering and comprehending the type of HRO, level and frequency of support offered would have added another dimension of data to ensure accurate analysis.

Finally, increasing the population sample could have ensured more conclusive results when testing the hypotheses. Expanding the sample size increases the representation of the target population, reduces the margin of error and increases statistical power. Moreover, a larger sample size diminishes the impact of random variability and boosts the likelihood of identifying genuine effects or relationships within the data.

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