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# HUMAN RESOURCE OUTSOURCING IN CHINA

Case company: WISCO

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## TIIVISTELMÄ

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Viime vuosina Kiinassa talousjärjestelmä on muuttunut ja markkinoiden kysyntä on kasvanut, minkä vuoksi monet yritykset ovat alkaneet etsiä laadukkaita ulkoistamispalveluja. Työssä käsitellään henkilöstöhallinnon haasteita kilpailluilla HR -markkinoilla. Kiinalaisten yritysten henkilöstön ulkoistamista koskeva kysyntä oli nousussa, ja yhteensä henkilöstöpalveluiden ulkoistamisen liikevaihto oli noin 17,89 miljardia dollaria vuonna 2012. Tämän määrän odotetaan nousevan 42,36 miljardiin vuonna 2017. Kuitenkin kokemusten ja taitojen puutteiden vuoksi, käytännössä henkilöstön ulkoistamista kohti kysymyksiä ei ole vielä ratkaistu, kiinalaisilla yrityksillä on edessään paljon haasteita, jotka koskevat niiden henkilöstön ulkoistamista.

Tässä työssä pääavoitteena oli se, että selvitetään henkilöstön ulkoistamisen nykytilannetta Kiinassa ja annetaan yleisiä ohjeita Kiinan yrityksille, miten hallita henkilöstön ulkoistamisen riskejä. Tässä tutkimuksessa kohdeyrityksen WISCO henkilöstön ulkoistamista analysoidaan, pyrkien antamaan vastauksen kuinka kehittää sitä.

Teoreettinen osa selittää ulkoistamisen ja henkilöstön ulkoistamisen käsitteitä. Ja tarjotaan lukijoille parempaa ymmärrystä aiheesta. Tutkimusmenetelmänä käytetään monia menetelmiä. Työssä yhdistetään kvalitatiivista (haastattelua) ja kvantitatiivista menetelmää (kyselylomake).

Tutkimuksen tulokset osoittivat, että henkilöstön ulkoistamista on sovellettu eriasteisesti sekä kohdeyrityksessä että muissa yrityksissä Kiinassa. Lopuksi tässä työssä tarjotaan ehdotuksia kiinalaisille yrityksille, miten hallita henkilöstön ulkoistamisen riskejä. Lisäksi tehdään myös ehdotuksia jatkotutkimuksille.

## ABSTRACT

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In recent years, due to the changes of economic system and market demand, many companies in China began to seek high quality outsourcing services. For the purpose of dealing with the challenges of human resource management in a competitive market, the demand of Chinese companies concerning HR outsourcing was rising. The total HR outsourcing revenue in the Chinese market was about 17,89 billion dollars in 2012 and this number is expected to reach 42,36 billion in 2017, however due to lack of experience and skills, issues towards HR outsourcing in practice has not yet been solved, Chinese companies still faced a lot of challenges concerning their practices in HR outsourcing.

The main objective of this thesis was to investigate the current situation of HR outsourcing in China and provide general guidelines to Chinese companies on how to manage HR outsourcing risks, more specifically, a case company WISCO was analyzed as empirical support for this study.

The theoretical part of the thesis explained the notion of outsourcing and HR outsourcing and provided a better understanding for the topic. The research method used was mixed method, which combines qualitative method (an interview) and quantitative method (a questionnaire).

The results of the research showed that HR outsourcing has been applied to varying extent to case company as well as other companies in China. However, they still need pay attention to HR outsourcing risks. At last, the thesis provided suggestions for Chinese companies about how to manage HR outsourcing risks, moreover, suggestions for future study have also been made.

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## **1 INTRODUCTION**

This chapter will introduce the background of the research; make an explicit explanation of the problems, objectives and limitations of the related study work. The scope will be listed in the end of this chapter as an overview of the whole work.

### **1.1 Background of the study**

In the face of the changes of the operating environment due to globalization, companies are more focusing on new strategies to maintain competitive advantages. Human resource outsourcing is one type of outsourcing that can be of assistance to reduce the operating costs and focus on companies' core competency.

Outsourcing of Human Resource functions has grown in popularity and been widely employed in the world, the top five outsourced HR functions are illustrated in Figure 1. The future trend of HR Outsourcing, according to the survey conducted by SHRM (2004-2005), the new initiatives and development of technology might have active impact on use of HR outsourcing. The global industry analyst states (2011) that the HR Outsourcing market will continuous grow and reach \$162 billion by 2015 (Moscow Times, 2014). The current trend, based on the findings published by Everest Research Institute, the cumulative total contract value of HR outsourcing transactions was US \$21.2 billion in 2006 and reached US \$25.4 billion by the end of 2007 and 70% of North American companies are willing to outsource their human resource services to the third party (HRM Guide, 2014). Similarly to the North American, the HR Outsourcing in Europe showed significantly growing trend, Global sourcing advisor TPI addresses that HR outsourcing market contained €3.5 billion contract value in 2007, and the rate of growth was stable at 27% (FSN, 2007).

FUNCTION	OUTSOURCE COMPLETELY	OUTSOURCE PARTIALLY	DO NOT OUTSOURCE	AVERAGE YEARS OUTSOURCED
Background/criminal background checks	49%	24%	27%	5
Employee assistance/counseling	47%	19%	35%	7
Flexible spending account administration	43%	24%	33%	6
Consolidated Omnibus Budget Reconciliation Act (COBRA)	38%	17%	45%	5
Health care benefits administration	24%	36%	40%	8

Source: SHRM® Human Resource Outsourcing Survey Report

**Figure 1.** Top Five Outsourced HR Activities (SHRM , 2004).

The HR Outsourcing in China is just emerging, it can trace its history back to the 1990s, with approximately 20 years development, the notion of HR Outsourcing became conceptualized and proved to have a tremendous potential. This trend strengthened the professionally technical talent' s flow within small scale and continuously stimulated Chinese companies to start looking at high technology to improve their Human Resource Management system. For instance, Several Chinese corporations enhanced their awareness of developing HR-related software to deal with the internal issues. Whereas due to the consideration of reality and a lack of knowledge, the HR outsourcing services and development in China has formed its own characteristics and performed differently when comparing the usage of approaches with many developed countries.

## 1.2 Research problems and objectives

The research problem of this thesis is to reveal the current situation of Human Resource (HR) Outsourcing in China and more importantly, taking WISCO as case company to find out how the Chinese company apply HR outsourcing in practice.

The objective of the research is to provide general guidelines to Chinese companies on how to manage and reduce HR outsourcing risks, accordingly, the empirical part of the thesis concentrates on HR outsourcing functions, features as well as strengths and weaknesses of case company (WISCO).

**Research questions:**

1. What is the current status of HR outsourcing in China?
2. What are the challenges concerning HR Outsourcing application to companies in China?
3. What are the strengths and weaknesses of HR outsourcing practices in WISCO?
4. What are the recommendations for better HR outsourcing?

**1.3 Research methodology**

Research is a systematic method that helps researchers generate better knowledge of problem solving (Phophalia, 2010). Research methodology, however is more limited and concentrated on data. Generally, researchers are able to gather two types of data, namely primary data and secondary data.

Primary data is collected by researchers through interviews, observations or other direct approaches. On the other hand, the secondary data are gathered from existing resources, including books, electronic databases and so on.

The qualitative research and quantitative research are employed in data collection, which provides accurate and reliable information to analysis. Qualitative research mostly bases on analysis of human behavior and views and answer questions to gain insight, it features as unstructured, which means qualitative research is possibly conducted almost every day at any place.

Quantitative research is structured with requirements on preliminary questionnaire given to respondents in order to attain valuable information.

The combination of both qualitative and quantitative method allows multiple accesses to the research problem, and this thesis adopts the form of questionnaire and face-to-face interview from both qualitative and quantitative perspective.

#### **1.4 Limitation of the thesis**

This thesis will emphasize the application of Human Resource (HR) outsourcing in a Chinese company in order to provide solutions and suggestions to potential issues.

As mentioned above, the differences that exist between China and other countries have led to different modes of HR Outsourcing management. As a matter of fact, even though there is strong support of theoretical models associated with HR Outsourcing, only few of those are suitable to be employed in this study.

In addition, limited by time and resources, it is impossible to collect more quantitative data.

#### **1.5 Structure of study**

This thesis is structured in six chapters. The first chapter background information of the thesis is provided, and also research objectives, problems and limitations are described, additionally, the thesis structure is presented at the end of the chapter.

Chapter 2 provides the theoretical framework of thesis, describes the definitions, models and advantages of outsourcing, and related theories of HR outsourcing.

Chapter 3 provides a general overview of the current situation of HR Outsourcing in China, consisting of introduction of HR outsourcing markets, drivers and challenges in China.

Then in Chapter 4, research methodology will be presented in detail, including data sources, data collection method, the validity and reliability of the thesis and research limitation.

In chapter 5, the case company is introduced and the findings of interview and questionnaire are presented.

The last chapter summarizes the whole study on the basis of theoretical study and empirical findings, moreover some suggestions will be given to Chinese companies.

## **2. LITERATURE REVIEW**

The literature review is based on key elements of outsourcing and HR outsourcing, for the purpose of gaining an insight into the theoretical framework for this study.

### **2.1 Outsourcing in General**

The following parts will illustrate general knowledge about outsourcing.

#### **2.1.1 Definitions of outsourcing**

With the expanding globalization and increasingly fierce competitions in today's market, business firms are seeking new approaches to meet the needs of its internal functions and improve quality of service and products. Outsourcing is widely recognized as a strategic choice for firms, particularly used in improving efficiency and reducing costs.

Quinn and Hilmer (1994) states that Outsourcing is an abbreviation for “outside resource using” which allows firms subcontracting its non-core activities to the third party under the circumstances of downsizing and limited internal resources, as well as providing possibilities with focus on their core competences and capabilities. In essence, outsourcing can be understood as an integrated management mode, which employs the outside resources in order to gain advantages in business implementation.

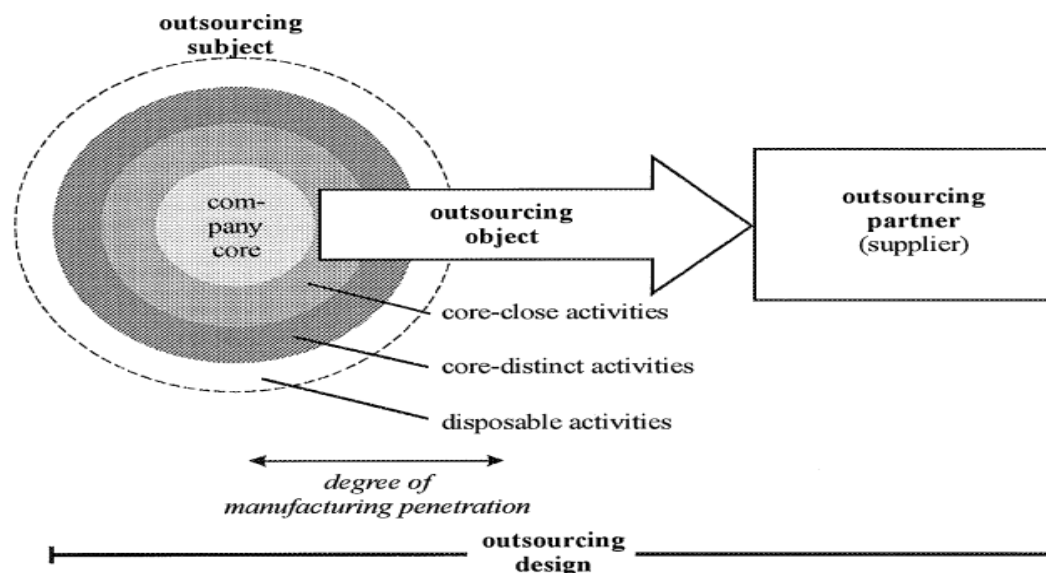
According to Gene M. Gorssman & Elhanan Helpmna (2005) observations, outsourcing is considered “more than just the purchase of raw materials and standardized intermediate goods. It means finding a partner with which a firm can establish a bilateral relationship and having the partner undertake relationship-specific investments so that it becomes able to produce goods or services that fit the firm's particular needs”.

Although Outsourcing brings many benefits to firms, potential risks still exist. Eltschinger (2008) describes that “Outsourcing can be a considerable undertaking for a company because it involves changing the company's business or value

chain model”. Firms have problems to make any changes once the internal functions have been outsourced, it might relate to more inputs. Marsh (2001) mentions some of the pitfalls in outsourcing such as excessively depending on the performances of third party, firms might lose the initiatives.

### 2.2.2 Outsourcing model

Previous outsourcing studies have identified classifications of the outsourcing process. Arnold recognized the need for research on examining the structural characteristics of outsourcing. A general outsourcing model (Figure2) based on combinations of Core Competency Approach and Transaction Cost Theory was proposed by Arnold with four major elements involved, namely Outsourcing subject, outsourcing object, outsourcing partner, and outsourcing design. “Outsourcing subject is the economic institution which plans to outsource (or not). Outsourcing objects are processes or process results which might be outsourced. Outsourcing partners are all possible suppliers for the activities considered for outsourcing” (Arnold, 2000).



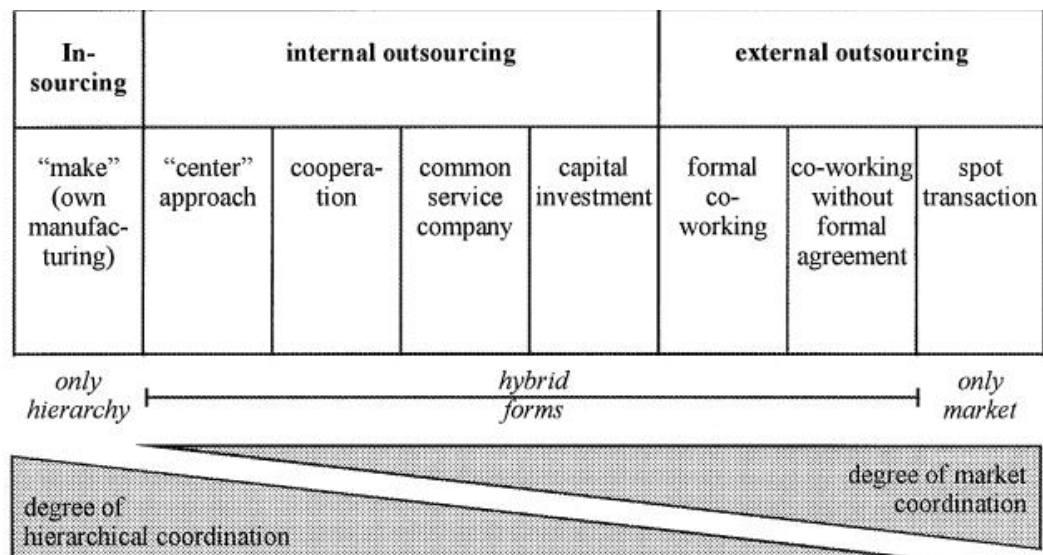
**Figure 2.** Outsourcing model (Arnold, 2000).



Furthermore, company activities are classified

- 1) Core activities
- 2) Core-close activities
- 3) Core-distinct activities(supporting activities)
- 4) Disposable activities

Rather, Structural alternatives of outsourcing (see Figure 3) including insourcing, internal outsourcing and external outsourcing are distinguished according to the degree of hierarchical coordination and market coordination. Insourcing refers to own-manufacturing, merely related to hierarchy, while external outsourcing, compared to internal outsourcing has higher requirements on building long-term relationships with suppliers, internal outsourcing activities, instead are closely linked to cooperation with independent business units, which are generally in the form of center approach, joint venture and capital investment.



**Figure 3.** Structural alternatives of outsourcing (Arnold, 2010).

Additionally, authors like Nellore and Soderquist summarized three models from the previous studies (Table 1) and attempted to evaluate the decision-making uncertainty by emphasis on the potential for competitive edge and the degree of strategic vulnerability.

**Table 1.** A comparison of the different outsourcing model (Nellore & Soderquist, 2000)

Make or buy	Outsourcing model		
	Venkatesan	Quinn and Hilmer	Olsen and Ellram
Vertical integration	Core	Strategic control	–
Collaboration	–	Moderate control	Strategic; bottleneck leverage
Arm's-length supplier relations	Non-core	Low control	Non-critical

### 2.2.3 Reasons of Outsourcing

Outsourcing is beneficial to firms when it is highly associated to the choice of appropriate strategies and application plan. An abundance of literature was discussed that the advantages of Outsourcing are focused on saving costs, improvement of core competencies and acquisition of resources (see Figure 4). Besides, a desire to improve internal indicators motives firms concerning their costs and quality. Outsourcing allows firms to gain benefits from reengineering via streamlining their organizations (USA National Research, 2000).

Main outsourcing advantages identified	
1.	Reduced overheads and operational costs
2.	Possibility of converting fixed costs into variable costs
3.	Price competitiveness
4.	Lower involvement (freezing) of capital
5.	Improved cost control
6.	Higher flexibility – the ability to meet fluctuations in demand
7.	Easier and more economic access to the latest technologies
8.	Improved quality
9.	Possibility of concentrating on firm's core business
10.	Improvement of measurability of costs
11.	Better control of internal departments
12.	Availability of new service options, and reduced capital commitment
13.	Access to external competencies
14.	Acquisition of specialist expertise
15.	The ability to spread commercial risk

**Figure 4.** Main benefits of outsourcing as highlighted in literature (Koszewska, 2004).

## 2.2 Definitions of HR outsourcing

Greer, Youngblood & Gray (1999) defines “Outsourcing as the performance, by outside parties on a recurring basis, of HR tasks that would otherwise be performed in-house”.

As one kind of outsourcing, HR outsourcing is currently used by firms at both an organizational and strategic level. Numerous studies explain the concept by concentrating on the linkage between firms and human resource outsourcing providers. Lever (1997) defines Human Resource (HR) outsourcing as “substituting vendor services for current internal capabilities”. Davy (1998)

argues that internal human resource functions are executed by an external provider through a contractual relationship.

For the consideration of cost saving and increased competition, HR outsourcing strategically employed in business process in an attempt to gain large-scale economy. Indeed, outsourcing HR functions has transferred into quality-service advantages to many firms, however, notably absent from decision-making process might cause unexpected consequences such as HR anorexia (Greer, Youngblood & Gray (1999), or in other words, managers must evaluate the entire firm based on factors such as potential transactional costs and potential vulnerability (Quinn and Hilmer, 1994).

Additionally, Lilly, Gray & Virick (2005) note that “HR outsourcing acts as a mediator between supplier competition and HR performance”, therefore as a result, firms reexamine their decision-making process in an attempt to gain benefits from highly competitive and differentiated price and services.

HR outsourcing is also seen as a business process where process help firms clear a path and focus on overwhelming demand and performance (Davidson, 2005).

### **2.3 Trend towards HR outsourcing**

Outsourcing has been originally performed in Information Technology (IT) sector in the late 1980s. Due to the increasing complexity of globalization and fierce competition, demands on outsourcing gradually evolved in the field of human resource management. HR functions currently become the most common part of operations to be outsourced.

A survey 2004 carried out by SHRM points out that the entirely outsourced area, listed in order, criminal background checks (49%), employee assistance (47%) and flexible spending account administration (43%), some partially outsourced functions comprise pension and health care benefits administration (36%), temporary staff (33%). Similarly, A 2009 CIPD survey found that most organizations were increasing their use of HR outsourcing, and 20% of the corresponding firms significantly increased their HRO activity. Besides, HR

outsourcing was used dominantly by the private service industry about 50%. Furthermore, the focus on culture fit during vendor selection becomes more and more essential in HR outsourcing practices. ,

## **2.4 Theoretical perspective on HR outsourcing**

This part will concentrate on three basic theories on HR outsourcing which provide theoretical bases for HR outsourcing.

### **2.4.1 Transaction cost theory**

Transaction cost theory (TCT) had its origin in the institutional economics, and firstly formulated by Coase (1937). He explains the transaction costs is “the cost of using the price mechanism” “the cost of discovering what the relevant prices are” as well as “the costs of negotiating and concluding a separate for each exchange transaction which takes place on market”. The fundamental argument of Coase’s findings revealed the nature of the firm, the difference between transaction costs within and outside a firm caused by price mechanism results in different appearances of the firm, in the case that the firm enables to exit the market when the internal transaction costs is lower than the costs in the market.

Furthermore, Williamson (1975, 1985) expands the original framework proposed by Coase and simplifies categories of transaction costs as direct costs and secondary costs. Direct costs refers to the spending generates from management relations, secondary costs is related to the expenditures arisen from government regulations and decisions. According to Williamson (1975), there are five transaction costs, namely search costs, negotiation costs, contracting costs, monitoring cost and enforcement costs. In the following study, Williamson works on the key factors that lead to market failures, he argues that market failures may result from transaction characteristics (complexity, asset specificity and frequency of transaction) and behavioral assumptions (bounded rationality, opportunism and information asymmetric).

Another study investigates the contracting process of transaction costs. Dahlman (1979) claims that trade-related information exchange between both sides of a

deal requires significant time and resources, thus transaction costs consists of search and information costs, bargaining and decision costs, policing and enforcement costs.

To sum up, Transaction cost theory provides an analytical framework for companies to understand circumstances where HR outsourcing can bring benefits.

#### **2.4.2 Resource-Based View**

The resource-based view (RBV) is an economic tool that is used to analysis strategic usage and allocation of resources within the firm. Penrose (1959) provides theoretical basis of RBV, she describes the firm as “an administrative organization and a collection of productive resources the disposal of which between different users and over time is best gauged by some measure of the productive resources it employs not merely a management unit”. More importantly, she believes that the internal resources of a firm have a significant impact on firm’s strategy, which is also the main focus of RBV.

The RBV was formally proposed by Wernerfelt in 1984, in this study, Wernerfelt emphasizes the resources rather than products, and the resource is ”anything which could be thought of as a strength or weakness of a given firm”, firms in the way to engage in its strategies either from the perspective of dynamic resource management or alternatives. More broadly, Barney (1991) argues that “firm resources include all assets, capabilities, organizational process, firm attributes, information, knowledge, etc.”. The competitive advantage is seen as a consequence of implementation of corporate strategy. Therefore, firms enable to gain competitive advantages “when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors”, and a competitive advantage can be sustained when it is unable to duplicate. Obviously, Barney (1991) holds the view that competitive advantage of firms derives from its heterogeneity. The heterogeneity here can be understood as resources or strategies of firms. Supposing that there is no difference on resources employed by firms in a certain industry, firms might gain the same effect regarding to implementation of strategies, thus it is heterogeneity and immobility

of resources that determines adaptation of different strategies, allowing some firms to gain a competitive advantage.

A competitive advantage transforms into assets in condition that firms are capable of applying resources in the competitive environment. The importance of finding these resources is that firms must examine internally and provide answers to the question of value, rarity, imitability and organization (Barney, 1991):

- The Question of Value: Does resource valuable that enables a firm exploits opportunities and neutralized threats in an environment.
- The Question of Rarity: Is the resource controlled by existing and potential competitors.
- The Question of Imitability: If a firm possesses few resources and capabilities is likely to lose cost advantages compared to other competitors.
- The Question of Organization: Is the firm well-organized to exploit resources?

### **2.4.3 Core competence theory**

Core competence theory was officially described by Prahalad and Cary Hamel (1990) in their article “The Core Competence of the Corporation”. According to Prahalad and Cary Hamel, the core competence is defined as “the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies”, firms, to some extent should focus on improvements of their core competencies rather than competitive strategies. For the purpose of distinguishing it from other existing notions, three standards are further proposed to identify core competencies:

- It must be recognized by the markets, as well as enables provide opportunities approach the potential market.
- A core competency has to be valuable and contributes customer with carrying special benefits, which means that core competencies should be able to improve efficiency and help firms create value and expand customer’s benefits through

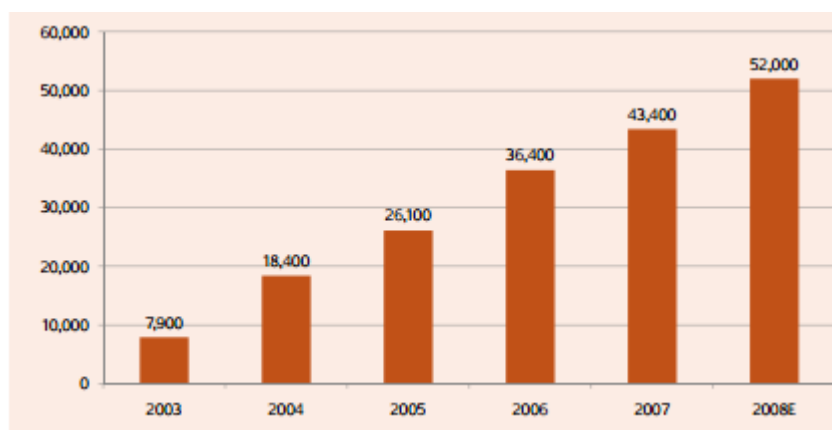
reducing costs.

- A core competency must be difficult for competitors to imitate, which is the only way to ensure competitive advantages sustained on the basis of core competency



### 3 HUMAN RESOURCE OUTSOURCING IN CHINA

It is well known that China takes advantage of its large pool of labor force. Cheap labor is not only a symbol of resources, but also seen as one of essential criteria of assessment when it comes to the international competitiveness of one country. The history of China's human resources management can trace back to the early 1950s when Chinese realized the labor force was no longer consumption but a resource. Hence the demand for human resources was rising, a number of practices carried out by some companies in China indeed functioned but only for a very short time, therefore how to improve the efficiency and hire skilled employees soon became serious issues to be solved within the company. Just under such background, the concept of Human Resource (HR) outsourcing became gradually familiar to Chinese companies. Moreover, with the changes of the economic system and market demand, companies in China started to manage HR-related activities in new ways, which directly facilitates the development of HR outsourcing services. The figure below shows the changes of market size from 2003 to 2008.

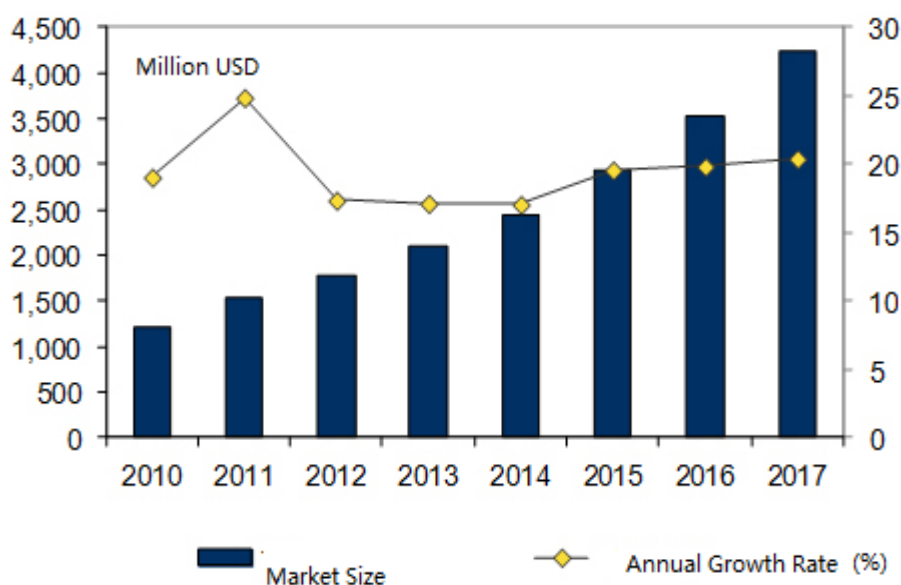


**Figure 5.** Market size of HR outsourcing services in China, RMB millions (Ranjan, 2008).

It can be seen that the market size of HR outsourcing services has increased significantly, simultaneously it is also worth to mention that the market size of HR outsourcing has raised dramatically, averaging at almost 10,000 million RMB

annually, in spite of that, the amount has reached approximately 52000 million RMB in 2008.

By the end of 2012, HR outsourcing in China made substantial progress, particularly reflected in the aspect of employment. Based on the statistics, services outsourcing industry created many positions for university graduates in ways to relieve the pressure of employment. Besides the total HR outsourcing revenue in Chinese market was about to 17, 89 billion dollars, increased by 17.4% compared with the same period of last year. In 2013, over 10 million of new employees was accommodated in the service industry, besides, an increasing number of Chinese companies own capabilities of undertaking the offshore contract, the total contract value is \$62.34 billion consequent to 42.2% growth than before. Based on the predications by IDC (see Figure 6), the total HR outsourcing revenue in Chinese market is expected to 42.36 billion dollars in 2017 (IDC China).



**Figure 6.** Estimated HR outsourcing Market Size 2010-2017 (IDC China).

### 3.1 Chinese government and HR outsourcing

As mentioned above, HR outsourcing in China origin from 1950s when the new regime was created, it is not until initial stages of Reform and Opening that HR outsourcing market in China achieved genuine development. For a long time since

then, the development of HR outsourcing market is closely linked to acts of government, facts also proved that the involvements of government with the transition of policies in favorable to build brilliant prospect for this emerging industry in China.

In 1980, the government of China realized the necessity of mandatory provisions to representatives of foreign enterprises, it thus facilitate the phenomenon that the government was the only intermediary related to employment formalities in the international exchange. In the next decades, HR outsourcing started gets rid of the mandatory policy ushered in the advent of labor dispatch. Labor dispatching is seen as product of the times which especially in relation to features of HR outsourcing development in infancy. As one of new employment methods, labor dispatching perceived nature of mediation project. However, it might completely wrong to equate labor dispatching with ordinary labor intermediary. One major difference is that labor dispatching organization must sign labor contract with labor dispatching personnel in order to establish labor relations. However, labor intermediary is only concerned to commission, they provide information to the worker, and usually there is no contractual relationship involved in it.

The contents and services of labor dispatching in China include three types, the temporary workers ( lower than 6 months), the short and medium term workers (7-12 months) and the long term workers (over 1 year), no matter what position they will be in, basic orders referring to the hiring process conducted firmly in accordance with the regulation.

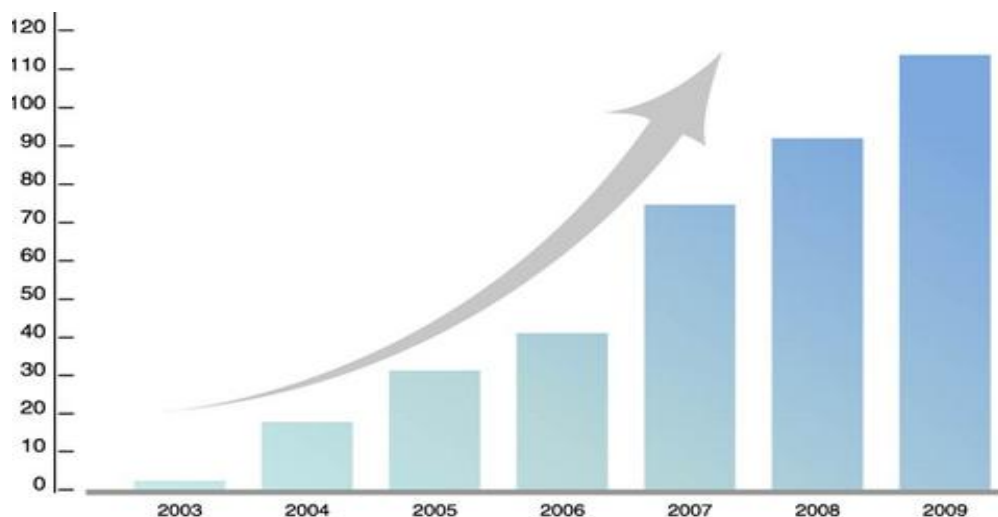
When it comes to the reasons why labor dispatching was widely accepted and employed, there do appear to be some advantages:

- It is benefit for reducing labor costs in order to relief financial pressure of companies
- Relatively simple personnel management to companies, because they don not need to deploy specialized department manage human-resource related

activities.

- Prevention of labor disputes. The labor law made it clear that the accepting entities only maintain paid-use relationship with the dispatched workers.
- Lowering the costs of leave through the rational selection
- Labor dispatching provide possibilities to achieve flexible complement of human resource.

Although labor dispatching is not regarded as an advanced type of HR outsourcing, it still can not deny that the significance of labor dispatching far beyond itself, during this period, many famous HR outsourcing companies were established, such as FESCO and CIIC, which became the leading companies in China's HR outsourcing industry afterwards. So it can be viewed that labor dispatching has a profound effect on the future. This figure below generates the information about business performance of CIIC from 2003 to 2009.



**Figure 7.** Operating revenue of CIIC, RMB billion (CICC website).

Recently, the government of China concentrated on service outsourcing in

adaptation to transition to the foreign trade growth mode, details were highlighted, such as adjusting share of export in domestic output, enhancing the quality of foreign direct investments, based on these considerations, MOFCOM enacted “1,000-100-10” project in 2006, primarily aim is to establish 10 service outsourcing industry with a certain international competitiveness in different cities in China during the 11th Five Year Plan, the national bank would provide financial support at least 5 billion RMB in total to service outsourcing companies for expanding international markets (China Business Review, 2009).

### **3.2 HR outsourcing in transition**

When service outsourcing in China has formed a certain scale, a growing number of Chinese companies deemed that they the focus on various aspects of business process no longer contributes to the efficiency of the implementation, instead of that, the diversity of service outsourcing attracted great attention. The diversity here can be understood as types of more comprehensive and non-core service outsourcing, such as outsourcing of IT services, telecommunication services and financial services, common features designed to create high value-added services, which indicates the overall tendency of HR outsourcing in China towards specialization and elaboration.

IT resources outsourcing is one of crucial components of HR outsourcing, which are gaining more and more concern from Chinese government, because of its distinctiveness.

- Some companies are not able to retain the IT talents due to poor construction of facilities.
- Quick update on IT. For example, the appearance of new operating system might lead a reshuffle, a number of IT professionals may confront dismissal or a round of relearning, this kind of situation will occur when they can not master the new operating system in a very short period, likewise, the company itself will face difficulties as well, staff movements must drive so called chain reaction, which undoubtedly brings pressure on human resource

management.

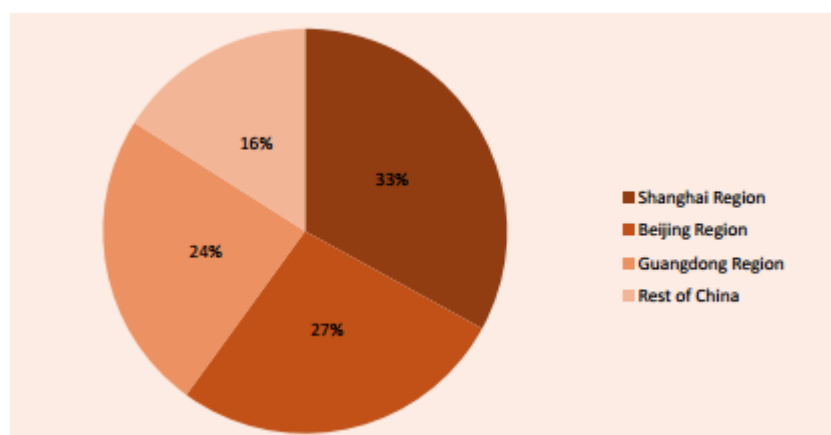
- Professional IT companies inherently possess advantages, such as preciseness of technology, intelligence of the management system, which are difficult possessed by ordinary company

Moreover, financial service outsourcing in China developed less than 10 years, but still made impressive achievements. The background of the global economic integration objectively contributes to the development of it, other factors like globalization and international industrial shift may also affect.

At present, Chinese financial service outsourcing is mainly concentrated on the two aspects: banking and insurance. Some small and medium companies started provide customized services to their customers, such as net bank services and so on.

### 3.3 HR outsourcing markets in China

HR outsourcing markets in China has evident regional characteristics. Cities such as Beijing, Shanghai and Guangzhou, which has long history of foreign trade along with favorable geographical location and national policy support, become the pioneers in China's outsourcing activities. This pie chart below (see Figure 8) illustrates that the proportion of rest cities is merely 16%, less than Guangdong region which accounts for 24% is the least among these three regions.



**Figure 8.** Market distribution (geographical) (Ranjan, 2008).

Nowadays, emphasis on HR outsourcing is not merely the structure but the contents, in other words, market participants must understand how to exploit the talents and how to strategic arrange entire resources related to HR outsourcing. 20 cities in China (see Figure 9) from the coast to the mainland are taken as the leader where different HR outsourcing companies are located, these companies face the international market directly so that they will provide more convenient, qualified services to customers.



**Figure 9.** China's 20 HR outsourcing pilot cities (China Business Review, 2009).

### 3.4 Drivers of HR outsourcing in China

HR outsourcing burgeons in needs of organizational function transformation, which epitomizes the choice of strategic management in the era of knowledge-driven economy. For each company, there must be some reasons for choice of HR

outsourcing; these can be classified as proactive and passive aspects.

Quite a few multinational companies in developed countries take downsizing or restructuring as the primary reasons attributed to the booming of HR outsourcing industry, which was regarded as proactive actions, because the company itself intends to pursue a new strategy for the sake of remaining competitive. On the contrary, passive reasons probably are the top priority to most companies in China in adaptation to the changes of business landscape, similarly, the passive reasons motivate to a set of actions which come from proactive aspects, market-oriented competitions free from guidance of government, will definitely prompt companies in pursuit of other approaches such as HR outsourcing to enhance core competences.

Main drivers of HR outsourcing in China generalized as below (Ranjan, 2008):

1. Drivers caused by reform in the economic structure
  - Fierce competition on the battle of talents. Intensive competitions among companies in China, which leads to the fact that talents in short supply
  - Pressure on cost saving. Companies confront severe test, once they extricate from the government monopoly.
  - A lack of expertise and resources in HR outsourcing. Short transition time to China's company raise to shortage in skills.
2. Other drivers
  - Follow the trends of globalization
  - Needs of repositioning on the functions of Human Resource Management
  - “Guanxi of HRO service providers”
  - A type of strategies aimed to control the risks of business



### 3.5 Challenges to HR outsourcing in China

China's HR outsourcing market has been witnessing a spectacular growth, but behind the magnificent achievements, many questions are yet to be answered, for example, how the company behaves when it comes to the ongoing transition in the economy, other questions also concern to utilization of innovation, what types of innovative tools tied to governance of HR-related actions should be used and will those tools eventually benefit to the quality and efficiency enhancements? Therefore, it is necessary for companies to analyze the challenges and convert it as opportunities later on.

Key challenges are listed as below:

- Excessive dependence on HR Outsourcing service providers. This point may refer to the topic on how to choose the HR outsourcing service providers, a great many of companies choose the service providers without a throughout evaluation on its financial capacity, so the direct consequence will force the company lose initiatives especially in case of emergency.
- The breakthrough innovation was widely used. The breakthrough innovations (radical innovation) and incremental innovations can be distinguished according to the degree of innovations and the categories of technology. More specifically, incremental innovation emphasizes on partial improvements of product or service in order to provide new features or functions of innovation. In contrast, Radical innovation can be regarded as a destroyed change in a company, the new model and competencies are created to find out the needs not yet identified by customers (Khanh, 2011). To Chinese company, incremental innovation could be the best choice, because HR outsourcing market is growing but not come to the phase of maturity, an array of new innovative technology such as Cloud computing is used even in replace of traditional recruitment methods, company made huge investigation in the new technology without considering actual situation if they are able to maintain a professional team, or are there any follow-up funds need to be investigated in the project.

- Integrative service of HR outsourcing. Most companies they are willing to cooperate with service providers who enables to offer chain services, also can be called as integrative services, this type of service significantly contributes to cost savings and improvements ability of collaboration within the company. Service provides might due to the motives on profiting, overvalued own capability, likewise, companies in needs of such cost-saving services, might overlooked the key factor like if the service provider are capable of undertake the task, thus the challenge is same to the company and service provider, for both of them, they must weigh with discretion.

## 4 RESEARCH METHODOLOGY

Naresh Malhotra (2008) states that “research is the systematic and objective identification, collection, analysis and dissemination of information for improving decision making related to the identification and solution of problems and opportunities in marketing”. This definition sources emphasis on two aspects, firstly it answers the question how to do the marketing research, fundamentals of research consist of systematic planning, accurate identification of the research problem, appropriate method of data collection, data analysis and interpretation, and the presentation of final results. More specifically, the constituents related to research process was concluded by Rajasekar (2006):

1. Choice of a research topic
2. Definition of a research problem: this phase get involved a collection of literature and reference, and a evaluation of the topic chosen
3. Research design
4. Actual investigation. Including validity and reliability in measurements, data collection method as well as selection of sampling techniques.
5. Data analysis
6. Interpretation of findings

Secondly, the definition points out why we do research. A good research improves the opportunities to make wise decisions, likewise, a good research paper must be applicable, which means the results of the paper can be tested and offer insights for following study. Besides, it also worth to note that information is an indispensable part during the whole process, so as the researchers, it is essential to have the ability to select the useful information for supporting the problem-solving on the particular aspect.

The research topic, the problem involving relevant activities has been identified on chapter 1, the critical topics focused in this chapter are the research design, the

type of data source, disparities of different research methods, validity and reliability of the research predicted and practical limitations also will be illustrated at the end.

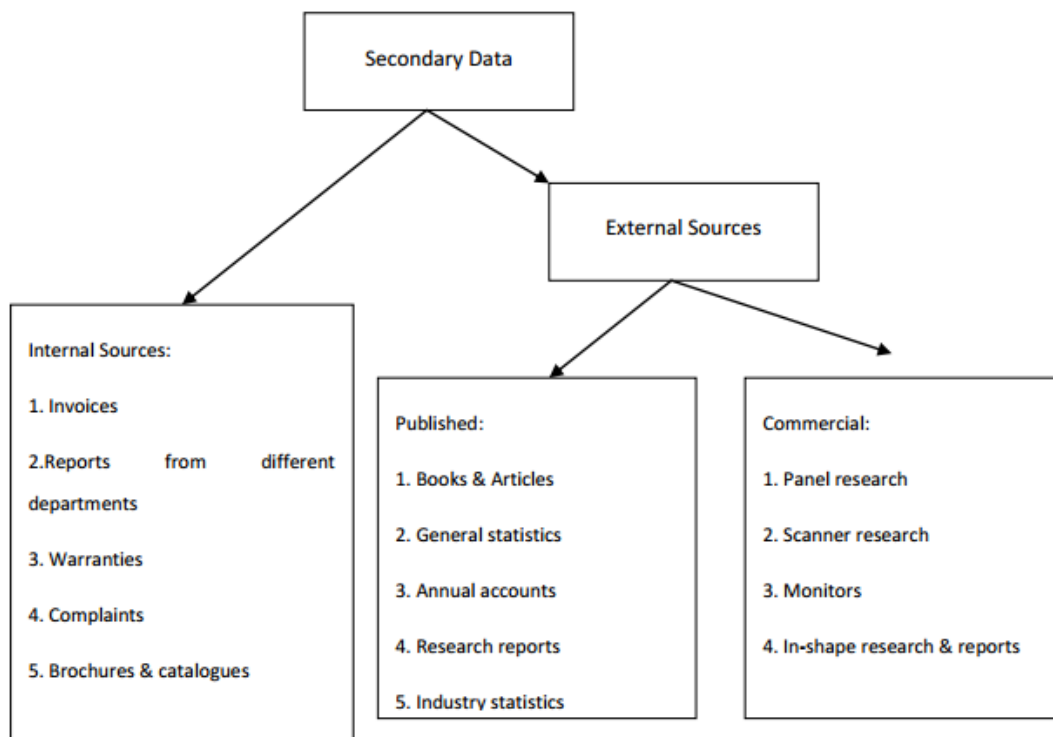
#### **4.1 Data sources**

The data source is where the data derives from, when it comes to the research data, data sources are more like the platform that allows the transit of research information. There are two types of data included in the data source: secondary data and primary data, the following part will distinguish these two types of data in detail.

##### **4.1.1 Secondary data**

The definition of secondary data can be understood based on its literal meaning, what is meant by this is that we must be aware of the implications in the word “second”. For example, a company wants statistical information, which concentrates on working conditions in worldwide scope, the suitable and quick approach seems to be analysis of secondary data. More specifically, these companies possibly obtain data from those professional research organizations, such as International Social Survey Program (ISSP), Society for Human Resource Management (SHRM). It remains therefore, that secondary data can be defined as the researcher indirectly collect data from someone else who has been collected data for different purposes (Ghauri & Gronhaug, 2010).

Sources of secondary data are substantial and various, for the researchers, it is necessary to identify what types of data are needed. According to Ghauri & Gronhaug (2005), the secondary data can be collected internally or externally (see Figure 10), the internal sources contain key information can be found out within the company, and external sources are divided into published source (published books, articles, reports etc.) and those source for commercial use (buyers must pay to get information).

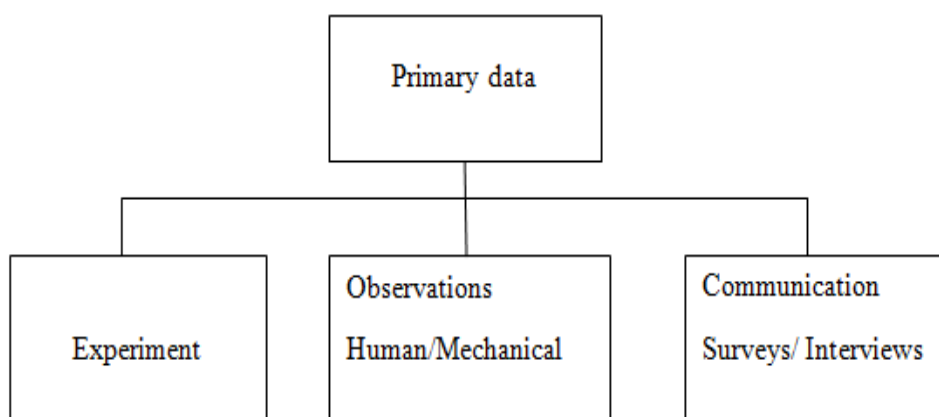


**Figure 10.** Sources of secondary data (Ghauri & Gronhaug, 2005).

The method of secondary data analysis is widely used in academic writing; the most typical example is the literature review, which usually provides theoretical basis for entire study. The reason why some researchers are in favor of using secondary data is that not only it does save money and time, but it also helps tackle limitations of practical manipulation. Obviously, the researchers are unnecessary to consider on experimental level, the only thing they need to do is to find correct sources. What is worth to notice that not all information is useful, some information is only valid under certain circumstance, even a tiny factor (variables, test bias etc) might threat the validity of result, therefore the researchers who are not able to participate in the process of collecting data, should be more cautious on source analysis.

### 4.1.2 Primary data

Primary data are data that are collected by the researchers themselves, normally researchers have clear aims on what types of data they need, thus more focusing on the research problem, more relevant to particular research objectives (Hox & Boeije, 2005). The approaches of collecting primary data completely depends on the researcher's subjective behavior, those behaviors include experiments, observations and communication (Ghauri & Gronhaug, 2010), as showed in Figure 11. The communication of which is normally carried out via surveys and interviews, one main advantage of this method is feasible and easy -to-handle, and that might be the reason why many people firstly consider this method when they conduct the overall plan for the research.



**Figure 11.** Sources of primary data (Ghauri& Gronhaug, 2010).

Needless to say, sources of primary data are indeed very helpful to enhance the validity and reliability of study on account of its consistency with research question. Nonetheless, it is generally accepted that, collecting primary data is time-consuming and always with substantial expenses, moreover, researchers should pay attention to the all procedures concerning the efficiency of data collection, deviations of result caused by factors which are not able to control, such as the willingness of respondents.

## **4.2 Research methods**

Research methods refer to the techniques that used to collect and analyze data. There are two typical approaches available for researchers to collect primary data, which are qualitative and quantitative methods. The type of research method used is based on the intent of the researchers, "whether the intent is to specify the type of information to be collected in advance of the study or to allow it to emerge from participants in the project" (Creswell, 2003).

### **4.2.1 Qualitative methods**

Qualitative method concentrates on different forms of representations and descriptions, meaning that this method has no relations to numerical analysis, the purpose of this method is to define "characteristics of events, people, interactions, settings/cultures and experience" (Tewksbury, 2009).

Qualitative research possesses the nature of flexibility, thus it is more suitable for less structured studies. Normally, questions are open-ended, in some cases, the form of questions even can be adjusted, enables to completely match the purpose of study.

The researchers are encouraged to employ different techniques in order to enrich in-depth understandings on a certain problem and cover areas unknown, often-used techniques include in-depth interviews, observations and focus groups.

Observations emphasize the relations between observers and participants, observers use all approaches to learn the behavior of participants in naturally occurring situations, this type of data collection method is most useful when the findings illustrate what and how things are. It is worth mentioning that researchers should be cautious on selection of this method, because they must have details in better control, and they also need to take into account that factors might influence accuracy of research results.

A focus group is where people are free to share opinions in a group setting, a given topic is selected for discussion, participants involved in this activity are

expected to provide valuable information and a unique insight into the topic. The main problem in using this method is the uncertainties, which means that the researchers have to formulate an explicit plan to cope with unexpected situations.

Interviews refer to “a real interaction between the researcher and the respondent” (Ghauri & Gronhaug, 2010). The type of interview can be structured or unstructured. Structured interviews are focused on the order and format of questions, those questions are normally prepared, following logical procedures. Unstructured interviews, where the respondents have no restrictions in answering the questions. In business studies, interviews are particularly useful when it is conducted in deeper level, the advantages of in-depth interviews can be summarized as follows:

- In-depth interviews are relatively cheaper than other techniques, interview can be conducted by mail, phone without concerning the problem of distance
- In-depth interviews are flexible, allowing faster changes on questions based on different circumstances
- In in-depth interviews, especially face-to-face interviews, respondents are given sufficient time to express their opinions, which helps the researcher acquire deeper insights

#### **4.2.2 Quantitative methods**

Quantitative research can be defined as “entailing the collection of numerical data and exhibiting the view of relationship between theory and research as deductive, a predilection for natural science approach, and as having an objectivist conception of social reality” (Bryman & Bell, 2007).

The key feature of quantitative research is the use of statistical analysis. Except that, quantitative research is result-oriented, which do not reflect researcher’s perspectives, assuring subjective factors have the least influence on study.



Additionally, quantitative research is essentially about testing hypotheses, and it is more scientific on measurements.

There are several types of quantitative research, such as structured questionnaires, experimental research, and correlation methods. The questionnaire is most typical methods from this category, the researchers using this method require selecting a sample of population, and techniques commonly used include non-probability sampling and probability sampling.

The detailed difference and comparison between qualitative research and quantitative research is illustrated in Table 2 below

**Table 2.** Qualitative versus quantitative methods (Johnson, B 2008, p34 & Lichtman, M 2006, p7-8).

	<b>Qualitative methods</b>	<b>Quantitative methods</b>
<b>Purpose</b>	To understand & interpret social interactions	To test hypotheses, look at cause & effect & make predictions
<b>Group Studied</b>	Smaller & not randomly selected	Larger & randomly selected
<b>Variables</b>	Study of the whole, not variables	Specific variables studied
<b>Type of data collected</b>	Words, images, or objects	Numbers and statistics
<b>Type of data analysis</b>	Identify patterns, features and themes	Identify statistical relationships
<b>Results</b>	Particular or specialized findings that is less generalizable	Generalizable findings that can be applied to other populations

### 4.2.3 Mixed methods research

Mixed methods refers to combined use of qualitative and quantitative methods in one study. As mentioned earlier, qualitative methods relies on researchers' own judgments, it is thus be questioned that if results are subjective and trustworthy? Accordingly, quantitative methods focuses on numerical treatment or procedures of quantification, many criticisms arise from a argument that there are lacks of interpretations, descriptions and interactions of quantitative studies, it is hard to certain that results is well suited to reality.

Mixed methods in ways that “compensate for inherent method weaknesses, capitalize on inherent method strengths, and offset inevitable method biases” (Greene 2007, p13).

This thesis use the in-depth interview method to collect qualitative data, this interview was conducted in an unstructured way with Mr. Wang, manager of the human resource department in Wuhan Iron and Steel Corp (WISCO). The form of interview was online interview and it was carried out on 4/02/2015, as far as the efficiency and distance problem are concerned, this is highly suitable type of interviews to be chosen.

The interview is designed not only to gather essential information about WISCO, more importantly, the interview should help us find out how things work as well as factors that may impact the operation of HR outsourcing in practice. Moreover, problems and weaknesses are evaluated from employer's perspective of view, this understanding provides WISCO with right solution, and this is where the practice can be improve.

In this thesis, a structured questionnaire will be created as a method to collect quantitative data, this questionnaire targeting WISCO employees was send via email, questions involved in this questionnaire was arranged in logical order with proper context, which attempts to overcome unwillingness to answer. Besides, this questionnaire intends to look more deeply based on employee's perspective of

view, numerical data will be analyzed systematically in order to explain relationships between variables.

It is noticeable that both interview and questionnaire questions were originally in Chinese (see Appendix III), allowing participants to understand the content, the English version of questions were translated correspondingly (see Appendix I, Appendix II)

### **4.3 Reliability and Validity**

Drost (2011) defined reliability as “the extent to which measurements are repeatable – when different persons perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing.”

Reliability in research is concerned with consistency of the results and stability of measurements (Saunders et al. 2009). Possible source of errors listed below may threaten the reliability of research: (Saunders et al. 2009)

- Subject error: not all participants are interested to answer questions, different time period will influence their willingness to answer.
- Subject bias: participants may not be given liberty of expression, they may have been suffering pressure of fear.
- Observer error: in this case, the researcher is mainly responsible for their mistakes, many details are easily ignored in the process of collecting data, such as controlling time, the construction of questions.
- Observer bias: the method used to interpret findings of research completely depends on researchers own preferences

Joppe (2000) defined validity as ”whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit ‘the bull’s eye’ of your research object? Researchers generally determine validity by asking a series of questions,

and will often look for the answers in the research of others.” There are three types of validity: internal validity, content validity, and criterion-related validity. Internal validity aims to “measure what you intend it to measure” (Saunders et al. 2009), content validity reveals the relationship between measurement device and coverage of questions. Criterion-related validity focus on the ability of predictions, whether the research is valuable in the future.

Reliability and validity of this thesis enhanced through several approaches:

- First and foremost, an array of references associated with different types were used to support the theoretical part of this thesis, which provides an ability to obtain systematic insights into empirical study
- In terms of questionnaire design, there are only 11 questions included in the questionnaire, it benefits to improve respondents’ willingness to answer, moreover, questions are almost structured with easy-to-understand words, the number of unstructured questions were strictly controlled in order to prevent the problem that respondents are unable to express themselves. In addition, there was a pilot-testing on a small group (consists of three Chinese people), these people were chosen with different ages ( from age 20-age 50) and educational backgrounds, the main purpose of this test is to identify problems before the actual study.
- Efficiency factor was taken into account when it comes to what types of interviewing methods should be used
- Mixed methods where qualitative and quantitative methods are combined collected in the study, as supplement to each other, makes this thesis more valid and reliable.

#### **4.4 Limitation**

This research has certain limitations. Firstly, the sampling size is not sufficient, only 25 responses of questionnaire were received during three weeks.

Secondly, some specific figures and the latest data are unable to gather from WISCO because of company's policy about confidentiality.

Finally, the cultural issues are mainly concerned to different knowledge of concept. In china, state-own companies, like WISCO, employees are more familiar with the concept as A, B and C class employees rather than HR outsourcing.

## 5 EMPIRICAL FINDINGS

This chapter will concentrate on the empirical study, dealing with the research problems proposed in chapter 1. The empirical findings will be presented based on analysis of the interview and the questionnaire.

### 5.1 Profile of WISCO

Wuhan Iron and Steel (Group) Corporation (WISCO) was founded in 1959, was the first state-owned iron and steel enterprise in China. In recent years, an appreciation for merging and reorganization, the total operating income and total assets of WISCO saw a significant increase, reaching 190.7 billion Yuan and 203.8 billion Yuan respectively. From year 2011 to 2012, WISCO entered the list of Fortune 500 for two consecutive years. The development of WISCO can be divided into three major period as the following:

In the first period (1958-1974), WISCO started to limit their core business to steel manufacturing, the output of product was the most important issue at that time. In order to improve the output of steel, WISCO expanded the business by establishing Qingshan Plant Area, signifying its first business pioneering and declaring the foundation of China's first steel-making capital.

In the developing period (1975-2005), the focus of this period changed from production to quality. WISCO learned skills and know-how to enhance the quality of the products, while importing high-tech equipment from Germany and Japan, carving out a way of "gaining profit through quality control".

In the innovation period (2005- until now), the capabilities of independent innovation was emphasized the "moving abroad" strategy is aimed to promote the international image of WISCO, besides, group-based inner reform places focus on principles of coordinated development, natural ecology and green management.

Since 2005, based on the guideline of scientific development, WISCO has achieved a brilliant success in operations, for example, the main product was

optimized and emerging industries was cultivated by taking advantages of internal resources.

The figure below shows the key figures of WISCO in operation in three separate years: 2011, 2012 and 2013

**Table 3.** Key figures of WISCO in operation from 2011-2013 (CSR Report, 2013).

Unit:	2011	2012	2013
Million RMB			
Operating Income	22,148,880	21,377,324	22,704,781
Total Assets	22,224,918	23,303,793	23,994,208
Before Tax Profit	640,284	170,819	149,826
Shareholder's Equity	7,883,515	7,812,918	7,929,930

### 5.1.1 Corporate business

This section includes contents of mission, vision, business concept and value of WISCO.

#### Corporate Mission

The mission of WISCO is “grow to be China’ s industrial vanguard, promote Chinese economy via iron and steel industry, expedite modern civilization, and follow the guidelines of harmonious society” (WISCO website).

#### Strategic Vision

The strategic vision of WISCO is to “establish the base of knock-out iron and steel products, create well-known international brand, become an outstanding and competitive enterprise among the Fortune 500” (WISCO website).

## **Business Concept**

The business concept of WISCO is to “carry out the scientific outlook on development, and follow the route of development focused on quality and efficiency” (WISCO website).

## **Value Outlook**

The value of WISCO is “human-oriented, credibility foremost, and promotion of both corporate profit and social benefit“(WISCO website).

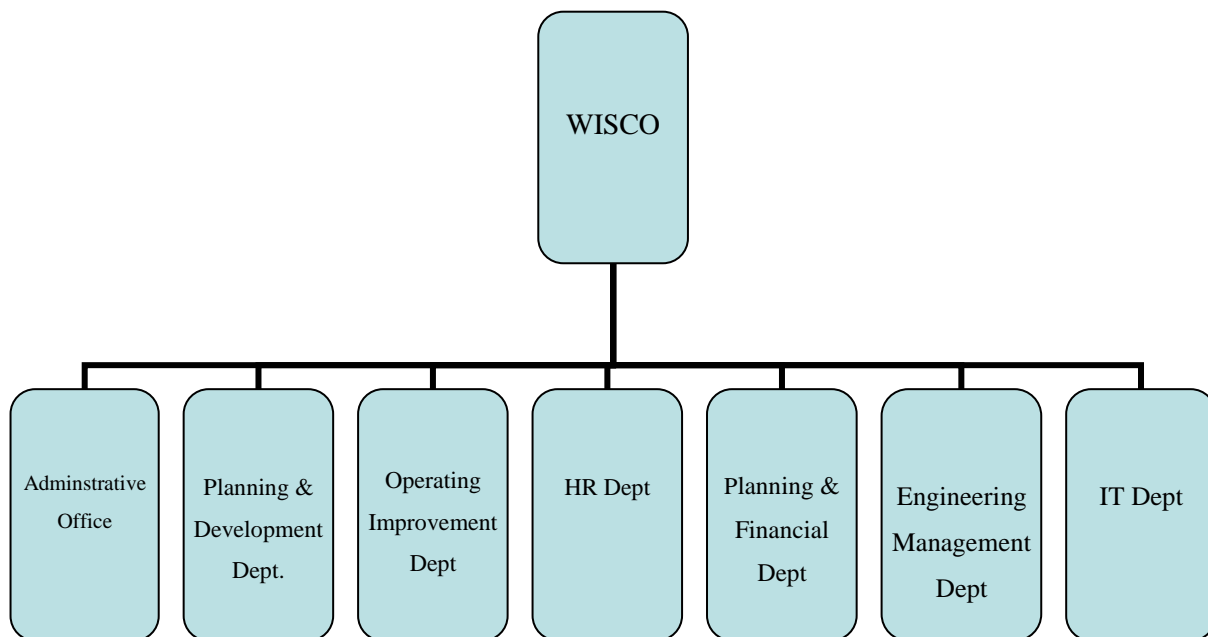
### **5.1.2 Organizational structure**

The organizational structure of WISCO has changed from simple production-oriented management to the new pattern that combines production and administrative management. There were seven main departments showed in Figure 12, in addition, other departments such as Safety & Environmental protection Dept, Audit Dept, CPC Committee Work Dept, Discipline Inspection Committee and Labor Union Committee also considered as important parts of WISCO

Characteristics of the new structure can be generalized as following:

- WISCO integrated the Operation and Financial department to the Planning and financial department, this new department worked in an independent building.
- The Operating Improvement Dept refers to Legal Affair Dept, despite dealing with general legal affairs, WISCO put their efforts on protection of intellectual property.
- Safety & Environmental Protection Dept was established in order to promote coordinated development of economy and the environment





**Figure 12.** Organizational structure of WISCO (WISCO website).

## 5.2 HR outsourcing features and functions in WISCO

This section mainly follows findings from the interview and a part of the questionnaire, which will explain features and functions of HR outsourcing in WISCO.

### 5.2.1 Type of employees

In state-owned companies in China, such as WISCO, the employees were classified into three categories, namely, A, B and C class. A class employees are regular employees who signed labor contract with WISCO, as for B class and C class employees, they are outsourced by HR outsourcing providers (companies) and have contracts with them, the main differences between B class and C class employees is that a B class employee can become a regular employee after three years at a job, unless otherwise specifics or performance of work is substandard, besides, a B class employee is entitled yearly (for a full year worked) to three insurances (Endowment Insurance, Medical Insurance, and Unemployment Insurance) and one fund (Housing Provident Fund) paid by WISCO. A C class

employee is temporarily outsourced, their working period usually less than 6 months so that they cannot receive the employee's benefits.



**Figure 13.** Relationship between working experiences & type of employees.

Based on Figure 13, there are no answers from B and C class employees (outsourced employees) who has over than 5-year's working experiences. However, the majority of regular employees have worked in WISCO more than 5 years. It can be understood that the working period for outsourced employees in WISCO is always shorter than regular employees.

### 5.2.2 Types of HR functions outsourced

WISCO has outsourced part of HR functions, according to Mr. Wang, HR outsourcing are currently focus on recruitment and training.

#### a. Recruitment

B class and C class employees are recruited and selected through two main channels: labor dispatching and campus recruiting

Labor dispatching was already introduced in Chapter 3 with emphasis on how the labor dispatching operates and what main advantages are, in addition to this, Mr.

Wang added extra point about the responsibility of labor dispatching organizations.

The responsibility of labor dispatching organizations shall include:

- An assistant to employees recruiting, includes release recruitment information and signing a labor contract with the employees
- An assistance to performance assessment, carrying out the rewards and punishments scheme
- Responsibilities of paying wages and implementation of dispatched employee's benefits
- Dealing with occupational accidents which have happened to dispatched employees and helping WISCO with employee protection measures
- Responsible for termination of labor contract matters with dispatched employees

Campus recruiting focuses on talents in university, a company usually outsource their recruitment functions to specialized company who runs HR website. One reason for this initiative is that the process of campus recruiting can be quite complex. For example, companies may receive thousands of resume within a day, it thus requires specialized analysis on each resume, besides, it is also important for companies to release recruitment information in the HR website regularly so that they can attract more candidates. It appears that campus recruiting may help companies reduce their expenditures on recruitment.

Campus recruiting in WISCO consists of several phases:

Phase 1 Planning the recruitment

Phase 2 Selecting outsourcing service provider

Phase 3 Clarifying assignment of responsibility

Phase 4 The outsourcing service provider releases recruitment information in its website and launches publicity campaigns in campus.

Phase 5 The outsourcing service provider receives and select resumes by using professional software

Phase 6 WISCO arranges written tests and interviews for candidates

Phase 7 Signing contract with eligible candidates

### **b. Training**

Training outsourcing refers to a management model according to which companies outsource their training functions partly or entirely to professional training organizations. This management model benefits from the a win-win situation, as regard to the company itself, training outsourcing reduces expenditures related to maintenance of training system, more importantly, it contributes to enhance competitive advantages of a company.

As Mr. Wang stated, training outsourcing saved about 35% of labor costs for WISCO, and this type of training is more aligned with training objectives, especially in favor of lowering the employee turnover rate.

In general, there are three forms of training services provided by training organizations. The first is the open course, open courses set is suited to general training requirements. The second is advisory training, this type of training features as a participation of training organizations, normally training organizations work with training problems faced by a company, developing training systems based on characteristics and requirement of company. Thirdly, training organizations provide online courses, making employees study independently.

### **5.3 Analysis of HR outsourcing in WISCO**

In the previous section, a general overview about HR outsourcing in WISCO was presented, and the purpose of this section is to evaluate strengths and weaknesses of its HR outsourcing practices, the findings were analyzed and summarized based on responses of questionnaire and interview

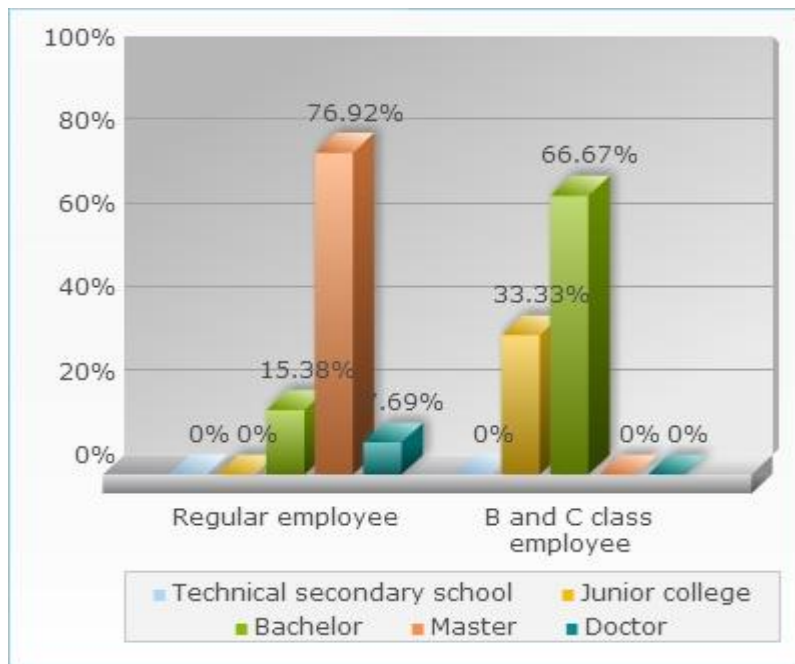
#### **5.3.1 Supports**

Supports can be considered as the prerequisite and foundation for WISCO to implement HR outsourcing.

##### **a. Quality of workforce has been improved**

In recent years, with the development of market economy, WISCO adjusted their operating policy, with a close link between the market and client, it thus get involved in a higher demand on quality of employees. Many employees have learned basics about human resource management and had experience in HR outsourcing practices; therefore they are able to help WISCO work with problems, facilitating function innovation of HR outsourcing.

In addition, what noticeable is that educational level of employees in WISCO was significantly improved (see Figure 14), in the questionnaire; question 6 was aimed at investigating the general educational level of respondents. Among the total of 25 respondents (13 regular employees and 12 B and C class employees), almost 80% of the regular employees had a Master' s or higher academic degree, most of B and C class employees (66.67%) had a Bachelor' s degree, while the rest of them (33.33% ) have been educated in junior college.



**Figure 14.** Educational level of employees.

When it comes to the question “did you receive training before your starting the work” ? 96% of respondents chose “Yes” , there is the closer relationship between the workforce’ s quality and the degree of attention paid to employee training and development.



**Figure 15.** Training before starting the work.

**b. Technical supports**

WISCO has E-HR system as a technical support; this system is comprised by WISCO's intranet, Performance Appraisal (PA) system and job evaluation system. This platform achieved efficient integration of HR related information would adequately meet the technical requirements of HR outsourcing.

**b. Support of HR outsourcing providers**

According to statistics, Wuhan has more than 70 companies which was worked as outsourcing service providers, the industrial clusters plays an important role in the development of the local economy, besides Mr. Wang stated that Wuhan is recognized as "the Chinese Service Outsourcing Base city", the trading volume created by outsourcing services would reach 45 million within 5 years.

In addition, WISCO strengthens the management of HR outsourcing relations through following measures:

- Developing a long relationship with service providers, which complements in superiority for both of WISCO and service provider
- Establishing effective communication channels with service provider in order to assure free flow of information
- Establishing integrated feedback systems, evaluating service providers performance with scientific methods

### **5.3.2 Weaknesses**

The main weakness of HR outsourcing practices in WISCO can be characterized as a lack of risk management, the focus is on the analysis of HR outsourcing risks from three aspects: government policies, employees, and corporate culture

#### **a. Policy risks**

In China, there is no corresponding laws and regulations to regulate the specific operation of outsourcing services, similarly, the responsibilities of both parties (company and service provider) has yet been confirmed.

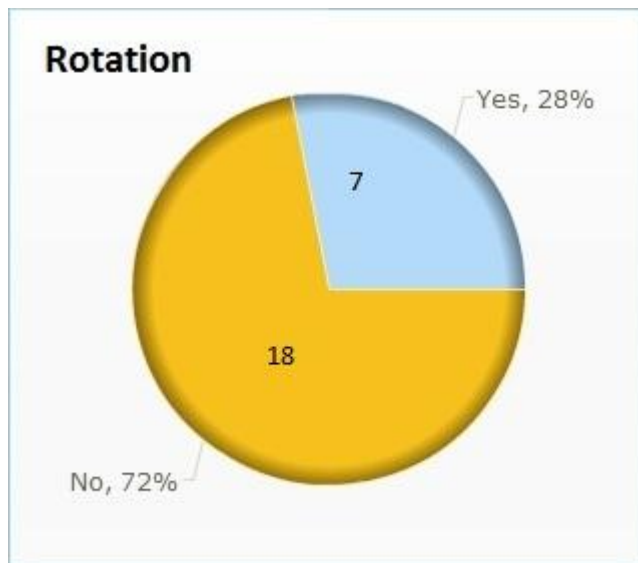
#### **b. Employee risks**

Employee risks caused by systematic defects in human resource management. The enthusiasm of employees about the work was influenced by many factors, such as rotation and rewards.

Figure 16 below demonstrates the information regarding to job rotation, only 28% of the total respondents who thought their position was often rotated, the majority of respondents (78%) answered no to this question.

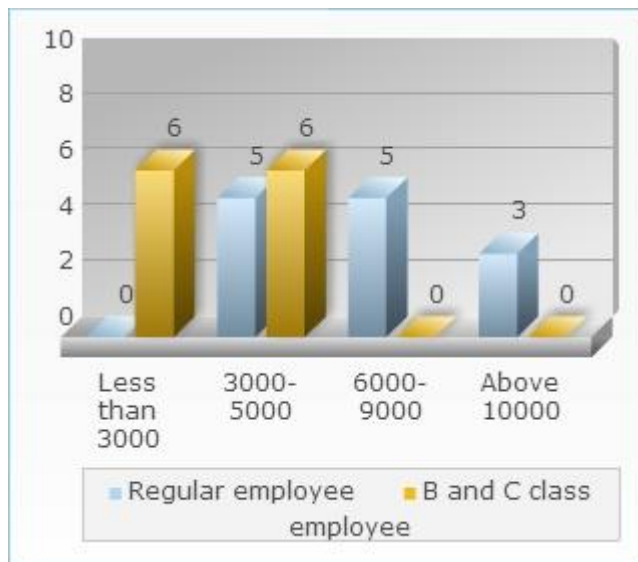
Job rotation refers to make employees work in different positions, “The objective is to expose the employees to different experiences and wider variety of skills to enhance job satisfaction” (Business Dictionary). In WISCO, most of employees worked in a position for several years, normally there are few opportunities for field employees worked as office workers; this phenomenon must have impact on employees’ motivation.





**Figure 16.** WISCO's job rotation.

Another risk is the gap in salaries between the regular employees and B, C class employees were enlarged. Regular employees, whose average monthly income is over than 3,000 RMB, 3 of them who even earned above 10,000RMB in a month, whereas, for B and C class employees, half of them were with monthly income less than 3,000RMB, none of them earned monthly salary over than 6,000RMB.



**Figure 17.** Comparison of employee's income level.

Apart from the gap in salaries, in the questionnaire question 9 investigated in employees satisfaction toward other benefits, the results illustrated that there are only 2 B and C class employees satisfied with other employee benefits offered by WISCO, with a percentage of 16, 67%, 6 of them choose “Neutral”, the rest 4 of them feel unsatisfied, in contrast, most of regular employees (about 70%) are satisfied even completely satisfied with their benefits.



**Figure 18.** Satisfaction about other employee benefits.

### c. Differences and conflicts of corporate culture

“Corporate culture refers to the shared values, attitudes, standards, and beliefs that characterize members of an organization and define its nature” (Encyclopedia), and the meaning that corporate culture is unique to each company and hard to change. According to Mr. Wang, the greatest challenge regarding to cooperation with outsourcing service provider is that WISCO must deal with the conflicts aroused by different corporate culture, if the service provider fails to identify WISCO’s core value will result in a decline in quality of service that they can offer.

## **6. CONCLUSIONS**

The last chapter will provide conclusions based on the previous theoretical study and empirical analysis, including some suggestions to WISCO.

### **6.1 Advices for Chinese companies**

#### **a. HR outsourcing decision-making**

Outsourcing decisions have to be made in accordance with the conditions of the company, factors should consider include a thorough analysis about status and problems of the company's human resource management, a wider overview on company's internal resources. What is important is that decision-making process regarding outsourcing should take into account the characteristics of the company; moreover companies need to be fully aware of the advantages of outsourcing meanwhile speculating on what their real needs are.

Another issue is what should be outsourced in HR. There are many HR functions could be outsourced, such as recruitment, training, performance assessment, payroll and pension and so on, but the fact is that not all of HR functions is suitable for outsourcing, according to the findings on the basis of empirical study, the Chinese companies had experience in outsourcing their recruitment and training functions, but few of them follow a path of outsourcing to managing payroll and pension, the main reason for this phenomenon is that this type of HR outsourcing requires a company have strong capacity for implementation, so it remains true that the focus of Chinese companies should on how to improve their capabilities.

#### **b. Managing HR outsourcing risks**

How to manage HR outsourcing risks was the main consideration to Chinese companies. Understanding the importance of risk management enables to companies improve their success rate in outsourcing activities, in addition, company's responses to different risks should be different.

## 1. Planning and management risks

Companies enable to manage planning and management risks by following a model. Outsourcing goals and objectives are the foundation of whole procedures, outsourcing risks can be identified based on the objectives, then the strategies should be carried out with a support by risks control system, this control system also need to be monitored in order to improve risk management process. (See Figure 19)



**Figure 19.** Model of assessing and managing project risks (APICS).

Additionally, it is essential to build a reasonable organization structure where the risk management process should be applied. More specifically, the outsourcing team should be assembled, so that it contains members with skills to analyze the potential risks.

## 2. Outsourcing the service provider's selection risks

Supplier selection risks is a major consideration to many companies, criteria regarding to choose right HR outsourcing service providers are:

HR outsourcing service providers shall “have the right cultural fit with your own business, it is critical that both client and provider understand each other values, visions, processes and capabilities, and that they match sufficiently to make the relationship more workable.”(Hindle, 2005)

- Financial capability of HR outsourcing service providers
- Reputation and Performance

### 3. Risks specific to employee resistance

HR outsourcing activities Employee resistance may result from many reasons, such as lack of motivations as well as a fear of change.

Based on the empirical study, we found that the gap of salaries between regular employees and outsourced employees is large, and rate of job rotation is relatively low, all these factors have impact on employee’s enthusiasm in working, therefore, Chinese companies should pay more attention to compensation and incentive for outsourced employees. In the meanwhile, considerable effort can go into communication, regular employees who are afraid of change need to be comforted through communications.

## **6.2 Suggestions for future study**

There are a lot of limitations in the study, so some suggestions should be given for further research.

As mentioned in Chapter 1 and Chapter 4, limited by time and resources, the sampling size in the questionnaire is relatively small, and for the further research, both probability and non-probability techniques should be used to get larger sampling size.

Despite the fact that this study cope with important issues regarding to HR outsourcing in China, there are still a lot of scope for further research on this topic, such as other dimensions related to HR outsourcing strategies or the focus

on differences between SMEs and multinational companies in HR outsourcing practices.

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## **APENDICES**

### **APENDIX I. INTERVIEW QUESTIONS:**

Interviewee: Mr. Wang\_ Manager of Human Resource Management Department

#### 1. Interviewee's personal information:

Name / Gender / Age

#### 2. Interviewee's educational background, position and working experience

#### 3. Questions related to WISCO

- Could you explain organizational structure of WISCO?
- What are the changes and features of this structure?

#### 4. Questions related to HR outsourcing in WISCO

- How does WISCO manage recruiting and assessment of outsourcing employees?
- What are the methods of training outsourcing employees?
- What are the most difficult in managing HR outsourcing?
- What are the most important criterion in choosing HR outsourcing provider?
- What types of HR activities are outsourced?
- How is organization's plan for the next five years?

**APENDIX III: QUESTIONNAIRE IN ENGLISH**

## HR outsourcing Research of WISCO

Dear respondents, this questionnaire serves my thesis, aimed at investigating current status of HR outsourcing in WISCO and finding out the potential problems related to its HR outsourcing activities. All personal information will be strictly confidential.

## Basic information

1. What is your gender?

Male

Female

2. What is your age?

Under 30

30-40

40-50

Above 50

3. Type of employee

Regular employee

B and C class employee

4. Department that you are working at? \_\_\_\_\_

5. Your working experience in WISCO

Under 1 year

1 - 5 years

5 - 10 years

Over 10 years

## 6. Your educational background

Technical secondary school

Junior college

Bachelor

Master

Others (please make clear)

## 7. What is your income level? ( RMB/ per month)

Less than 3000

3000-5000

6000-9000

Above 10000

## 8. Did you receive training before your starting the work?

Yes

No

## 9. Your position is often rotated?

Yes

No

## 10. To what extent you are satisfied with following factors

	Completely unsatisfied	Unsatisfied	Neutral	Satisfied	Completely satisfied
<b>Salary</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Allowance</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Working environment</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
<b>Other employee benefits(medical, health)</b>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

## 11. Do you have any suggestions for WISCO? Please write it down.

---

Thank you for your great contribution!

## APPENDIX III: QUESTIONNAIRE IN CHINESE

## 武钢人力资源外包调查问卷[复制]

尊敬的女士/先生，这份关于武钢人力资源外包的调查问卷，目的在于分析武钢人力资源外包的现状，发现武钢在进行人力资源外包活动中存在的问题，调查问卷中涉及的个人信息将被严格保密

## 基本信息

## 1. 性别 \*

- 男  
 女

## 2. 年龄 \*

- 20岁以下  
 20-30岁  
 30-40岁  
 40岁以上

## 3. 工人类型 \*

- 正式职工  
 外包职工 (B类或C类职工)

## 4. 在武钢的工龄 \*

- 少于1年  
 1-5年  
 5-10年  
 10年以上

## 5. 就职部门 \*

---

**6. 学历状况 \***

- 中专
- 大专
- 本科
- 研究生
- 博士

---

**7. 月收入情况 (元) \***

- 低于3000
- 3000-5000
- 5000-10000
- 高于10000

---

**8. 您的岗位是否经常轮换 \***

- 是
- 否

---

**9. 在入职前是否经历专业的培训 \***

- 是
- 否

---

**10. 请选择对以下因素的满意程度 \***

	很不满意	不满意	一般	满意	很满意
工资	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
福利	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
工作环境	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
其他员工福利 (医疗, 健康等)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

---

**11. 您对武钢今后的发展有什么建议吗? \***

---

感谢您的参与