

Research on the Risks and Countermeasures of Human Resource Outsourcing in Construction Enterprises: A Case Study of Company Z

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Abstract:

The article focuses on Company Z, examining its human resource management status and the risks associated with its outsourcing process through a comprehensive review of literature on human resource outsourcing. The identified risks encompass decision-making risks, functional division risks, and internal staff risks during the outsourcing decision phase; company culture and contract risks during the service provider selection phase; and supervision and management risks, cost risks, and operational risks during the outsourcing implementation phase. Additionally, there are information leakage and re-decision risks in the outsourcing exit phase. To mitigate these risks, the paper suggests a series of specific countermeasures: carefully selecting outsourcing service providers, entering into comprehensive legal contracts to define obligations, establishing an evaluation system to enhance supervision and management, and fostering corporate culture integration to improve employee acceptance. These strategies aim to optimize the effectiveness of human resource outsourcing initiatives.

Keywords:

Enterprise Human Resources, Outsourcing Risk, Countermeasure

1. Introduction

Against the backdrop of rapid economic and social development, market competition has grown increasingly fierce, compelling enterprises to pursue higher levels of specialization and operational efficiency in order to sustain a competitive edge. In this dynamic landscape, human capital has emerged as a pivotal strategic asset, serving as a primary driver of innovation, productivity, and long-term organizational resilience. Recognizing this, a growing number of companies are turning to human resource outsourcing (HRO) as a key strategic initiative. By delegating administrative, non-core functions—such as payroll processing, benefits administration, recruitment coordination, and compliance management—to specialized external providers, organizations can streamline their internal workflows. This approach enables firms to reallocate valuable managerial attention and resources toward their core business activities, significantly reducing operational overheads

while simultaneously enhancing agility and reinforcing their fundamental competitiveness.

Nevertheless, the path to successful outsourcing is rarely without obstacles, as the process involves complex coordination and mutual dependency between the client and the service provider. In the case of Company Z, the implementation of HRO encountered significant setbacks, most notably characterized by severe internal management disarray and persistent, inefficient communication with the outsourcing partner. These operational failures not only disrupted routine HR functions but also posed critical threats to data security, employee morale, and overall organizational stability—factors that could ultimately undermine the company's market position. Given these tangible risks, it is imperative to conduct a comprehensive and systematic investigation into the specific vulnerabilities inherent in the HRO process. This research must delve beyond surface-level symptoms to rigorously analyze the root causes of these risks, whether they stem from contractual ambiguities, cultural mismatches, insufficient governance frameworks, or a lack of transparent performance metrics. By taking Company Z as a focused case study, this paper aims to develop a robust set of targeted countermeasures and practical guidelines. The ultimate goal is to equip Company Z—and similar enterprises navigating the complexities of outsourcing—with actionable insights to mitigate potential hazards, ensuring that their HRO strategies are executed securely, effectively, and in alignment with their broader strategic objectives.

2. Literature Review and Theoretical Basis

Gary Hamel and C.K. Prahalad (1990) [1] coined the term “outsourcing”, which refers to the management model where enterprises entrust non-core businesses to external professional institutions to reduce costs, improve efficiency, give full play to their core competitiveness and enhance their adaptability to the environment. Khosravizadeh Omid et al. (2022) [2] believed that the impact of outsourcing on internal HR is manifested in the reduced flexibility of HR functions, slower processing time of transactional HR, and decreased satisfaction and work intensity of HR managers. Susomrith Pattanee and Brown Alan (2017) [3] argued that the most important criteria for selecting an outsourcing service provider are industry reputation, credibility, and history with the organization. Sharma S et al. (2020) [4] pointed out that although human resource outsourcing can reduce enterprise management costs, there may be a risk of business secret disclosure during the implementation stage of the outsourcing contract. Sandra AlpAr P (2020) [5] indicated that after the execution of the outsourcing contract, if the outsourcing company cannot operate normally, the enterprise will face serious employment pressure.

Here is a substantially enriched and academically refined version of the two theoretical frameworks, presented as two standalone paragraphs (as per your original structure) with expanded depth, contextualization, and practical implications for outsourcing decisions.

Since Prahalad and Hamel published their seminal article “The Core Competence of the Corporation” in the *Harvard Business Review* in 1990, the concept has become a cornerstone of strategic management discourse, prompting extensive scholarly inquiry into the sources and sustainability of firm-level competitive advantages. At its heart, core competence theory posits that an enterprise must cultivate a distinctive set of specialized proficiencies—encompassing collective organizational learning, tacit

knowledge, harmonized technical skills, and integrative process capabilities—that are deeply embedded in its operational fabric. These competencies, to qualify as truly strategic, should exhibit several defining attributes: they must be valuable in enabling the firm to exploit market opportunities or neutralize threats, rare among competitors, difficult to imitate or replicate due to historical path-dependence or causal ambiguity, and non-substitutable by alternative technologies or approaches (often referred to as the VRIO framework, later advanced by Barney). Moreover, core competencies are not merely isolated functions but rather the synergistic coordination of diverse production skills and streams of technologies that manifest as superior product performance, service quality, or operational efficiency. Once these foundational strengths are unambiguously identified and articulated, management gains a clear strategic lens for demarcating which activities are truly central to long-term value creation and which are peripheral. Consequently, non-core or auxiliary business processes—ranging from IT infrastructure maintenance, logistics, facility management, to specialized administrative services—can be judiciously outsourced to external professional firms that possess superior scale, expertise, or cost structures in those domains. This strategic divestiture enables the focal enterprise to concentrate its finite managerial attention, capital, and talent squarely on cultivating and reinforcing its proprietary core, while simultaneously reallocating resources from less productive uses toward innovation, market expansion, and customer intimacy, thereby achieving a more efficient and impactful allocation of organizational assets.

The strategic management framework, most influentially articulated by Michael E. Porter in his foundational works on competitive strategy, provides a comprehensive and systematic decision-making architecture that guides enterprises in navigating complex and turbulent business environments. Porter's paradigm emphasizes a rigorous, iterative process that begins with exhaustive external environmental scanning—including industry structure analysis via his renowned Five Forces model (examining the bargaining power of suppliers and buyers, the threat of new entrants and substitutes, and the intensity of rivalry)—coupled with internal resource and capability audits to gauge the firm's relative strengths and weaknesses. This dual assessment forms the bedrock for formulating coherent long-term objectives, selecting generic competitive strategies (cost leadership, differentiation, or focus), and specifying actionable initiatives, which are subsequently executed through aligned organizational structures, control systems, and performance metrics. Crucially, strategic management does not conclude with execution but extends into continuous performance evaluation, feedback loops, and risk mitigation, allowing for adaptive recalibration in response to dynamic market shifts. Within this holistic orchestration, outsourcing emerges as a powerful tactical instrument for strategic resource optimization. By deliberately transferring select non-strategic or subscale activities to specialized external providers, the enterprise can exploit external economies of scale, access cutting-edge technologies without heavy capital outlays, and circumvent internal bureaucratic inefficiencies. More importantly, this approach fosters a synergistic interplay between internal and external resources: internal core capabilities are amplified by external complementary assets, while external partners' innovations and best practices can be internalized to spur organizational learning. Through such judicious coupling, firms can achieve superior flexibility, shorten cycle times, reduce overall cost structures, and ultimately forge a resilient and distinctive competitive position—one that is not easily emulated—by systematically deploying the full spectrum of available resources, both inside and outside the corporate boundary, to

reinforce the very core competencies that underpin sustained profitability and market leadership.

3. Case Study: Company Z and Its Human Resource Outsourcing Status

Company Z profile: Company Z was established on July 26, 2012. Its business scope includes construction engineering design, construction, building labor subcontracting, etc. The company's departments are mainly composed of five departments: Personnel Department, Finance Department, Engineering Department, Logistics Department and Procurement Department.

Human resource status of Company Z: As of the end of October 2023, after including 80 outsourced employees, the total number of employees of Company Z reached 245. Among them, the Engineering Department, as the core business department, has 168 employees, accounting for 68%. The Personnel Department has 14 employees (5.7%), the Finance Department has 12 employees (4.9%), the Logistics Department has 37 employees (15.7%), and the Procurement Department has 14 employees (5.7%). According to the nature of employment, there are 158 regular employees (64.5%), 22 employees on probation (9%), 5 interns (2%), and 60 outsourced employees (24.5%) who all serve in the front line of the Engineering Department.

In the process of personnel management, Company Z found that outsourced employees have the following problems: significant job burnout due to repetitive work and lack of recognition; greater work pressure due to heavy and urgent tasks; lack of sense of belonging and stability due to welfare imbalance and high mobility.

4. Risk Analysis of Human Resource Outsourcing in Company Z

Risks in the outsourcing decision stage: This stage includes three specific risks. First, decision-making risk: whether the company's senior managers can comprehensively analyze the overall situation of the company and accurately assess the conditions required for outsourcing. Second, function division risk: if mistakes occur in the function division stage, the company will face serious risks such as information leakage. Third, internal staff risk: the adjustment of internal personnel and distribution of interests may easily cause resistance from internal employees, hindering the smooth implementation of outsourcing.

Risks in the service provider selection stage: First, corporate culture conflict: when Company Z cooperates with outsourcing companies, lack of full communication may lead to corporate culture conflict, resulting in management confusion. Second, contract risk: the commonly used simple text may not cover the specific needs of the specific outsourcing project, resulting in the lack of detailed terms to define the rights and obligations of both parties.

Risks in the outsourcing implementation stage: First, supervision and management risk: due to various factors, Company Z may find it difficult to achieve comprehensive and timely supervision, leading to supervision blind spots. Second, cost risk: in addition to direct financial costs, outsourcing may also bring some additional hidden costs, including selection costs and sunk costs caused by improper selection of service providers. Third, operational chaos risk: Company Z has not yet carried out scientific planning for internal human resource management, and the

recovery of outsourced business after the contract expires may lead to management confusion.

Risks in the outsourcing exit stage: First, information leakage risk: during the business cooperation period, the outsourcing service provider inevitably comes into contact with a large amount of internal company information, including core secrets. If the contract is not renewed, there is a risk of information leakage. Second, re-decision risk: after the contract ends, the company faces the risk of whether to continue outsourcing, renew the contract or reselect the outsourcing service provider.

5. Causes of Risks in Human Resource Outsourcing of Company Z

Here is a substantially enriched English rendition of the three identified issues, presented in three dedicated paragraphs for clarity. Each point has been expanded with contextual reasoning, underlying causes, and consequential implications, while strictly preserving the original meaning and factual statements.

Insufficient Attention of Company Management to Human Resource Outsourcing Risks: Management at Company Z tends to regard human resource outsourcing as a peripheral operational activity, since it primarily addresses non-core business functions such as recruitment, payroll administration, or temporary staffing. This perception often leads to a notable lack of strategic oversight, resource allocation, and senior-level engagement in the outsourcing decision-making process. However, precisely because of its inherent particularities—especially the handling of sensitive employee personal data, employment contracts, and performance records—human resource outsourcing entails multifaceted risks that can materially affect organizational stability and legal compliance. Among these, security risks are paramount, including potential data breaches, unauthorized access to confidential information, and misuse of employee records. Concurrently, legal risks loom large, as the statutory and regulatory landscape governing human resource outsourcing in China remains underdeveloped and fragmented. Current laws and administrative rules do not provide sufficiently clear, detailed, or enforceable standards regarding service provider qualifications, liability allocation, or dispute resolution pathways. This regulatory ambiguity amplifies the exposure of companies like Company Z to unforeseen litigation, administrative penalties, and reputational harm, yet management's complacency continues to hinder the formulation of proactive risk-mitigation measures.

Unscientific Outsourcing Management System: The work assigned to outsourced employees exhibits a distinctive cluster of characteristics—namely, high repetitiveness, frequent urgency, temporariness, short-term durations, and elevated mobility—which collectively impose substantial challenges on conventional management practices. These attributes make it difficult to apply standard performance evaluation criteria, training modules, or career development frameworks that are typically reserved for permanent staff. The instability inherent in such arrangements not only complicates workforce planning and scheduling but also exacerbates the psychological and physiological toll on the outsourced workforce. Prolonged exposure to monotonous, recurring tasks gradually erodes intrinsic motivation, leading to mental fatigue, diminished alertness, and, in many cases, physical strain from continuous on-site or manual duties. Over time, this erosion of well-being translates into a marked loss of work enthusiasm, reduced productivity, and deteriorating service quality. Moreover, the constant turnover and irregular work

patterns prevent the formation of cohesive team dynamics and impede the transfer of tacit knowledge, thereby further undermining the overall efficiency of project execution and heightening the managerial burden on the Engineering Department and supervisory personnel.

Imperfect Risk Control Mechanism for Human Resource Outsourcing at Company Z: Company Z currently lacks a comprehensive, structured risk control framework to govern its human resource outsourcing activities, leaving the organization vulnerable to operational disruptions and compliance failures. First, the company has not established clear, documented criteria or standardized procedures for the selection and vetting of outsourcing service providers. Without formal benchmarks—such as financial stability, industry experience, data protection certifications, or past performance records—the procurement process becomes ad-hoc and subjective, increasing the probability of partnering with unqualified or unreliable vendors. Second, during the ongoing cooperation phase, Company Z does not operate effective supervision and performance management mechanisms over its outsourcing partners. There is an absence of regular service level reviews, key performance indicator tracking, on-site audits, or feedback channels, which means that deviations in service quality, timeline delays, or compliance infractions often go unnoticed until they escalate into major issues. Third, and equally critical, the company has failed to devise and implement contingency plans or emergency response protocols tailored to human resource outsourcing risks. In the event of sudden partner bankruptcy, mass employee resignations, data security incidents, or labor disputes, Company Z would have no pre-established action plan to swiftly restore operations, reassign tasks, or mitigate legal and financial repercussions. This triad of deficiencies—in selection standards, ongoing oversight, and crisis preparedness—collectively undermines the resilience and reliability of the entire outsourcing arrangement, posing a latent yet significant threat to business continuity and strategic agility.

6. Countermeasures to Solve the Problems of Human Resource Outsourcing in Company Z

Consolidated into a single paragraph without omissions: Company Z must precisely define its outsourcing objectives by strategically aligning them with its immediate operational realities and long-term developmental ambitions. Rather than adopting a blanket approach, the organization should conduct a granular assessment of its internal capabilities to pinpoint specific operational bottlenecks and resource gaps where external expertise can deliver the greatest impact. The primary goal is to fully leverage the specialized technical proficiencies, innovative methodologies, and scalable infrastructure of outsourcing partners to effectively resolve complex challenges encountered during business expansion. Concurrently, Company Z must execute a rigorous and ongoing cost-benefit analysis, complemented by a comprehensive return on investment (ROI) evaluation for each proposed outsourced function. This financial scrutiny ensures that anticipated economic benefits—such as reduced capital expenditures, lower overheads, and accelerated time-to-market—tangibly outweigh the associated transactional, managerial, and transition costs. To ensure seamless organizational adoption and minimize internal friction, Company Z should develop a scientific, meticulously structured, and phased outsourcing road map. This process must begin with extensive employee engagement, utilizing surveys, focus groups, and town-hall meetings to solicit candid feedback, acknowledge workplace anxieties, and safeguard employee morale. By prioritizing workforce

welfare and transparent, two-way communication, the company can design a comprehensive and viable transition plan that protects the interests of its existing talent pool. Furthermore, management must actively cultivate a positive and collaborative outsourcing culture that reframes external partnerships as strategic enhancements rather than competitive threats. This can be achieved through regular internal branding campaigns, educational workshops that elucidate the strategic benefits of outsourcing for overall company growth, and targeted, empathetic one-on-one or group counseling sessions for teams most significantly impacted by operational shifts. These initiatives are vital for building trust, promoting harmonious inter-departmental relations, and ensuring a smooth cultural and psychological transition. A robust, multi-layered risk mitigation framework is paramount to safeguarding the success and integrity of the outsourcing initiative. Firstly, the selection of appropriate service providers must be exhaustive and data-driven. Company Z should leverage multi-channel intelligence—including industry bench marking reports, client testimonials, financial audits, and on-site operational inspections—to rigorously vet potential partners. Special emphasis should be placed on evaluating the competence and track record of their executive leadership, their financial solvency and stability, data security certifications, and their sustainable competitive advantages within the market. Secondly, the contractual agreement must be drafted with extreme precision. It should explicitly delineate the rights, obligations, and liabilities of both parties, including clearly defined Service Level Agreements with measurable key performance indicators, stringent data privacy and confidentiality protocols, clear ownership of intellectual property, and well-articulated dispute resolution mechanisms. This legal rigor is essential to preempt future ambiguities and reduce the likelihood of costly liability disputes. Thirdly, Company Z must establish a dedicated governance framework to enforce strict, continuous oversight. This involves implementing real-time operational dashboards for tracking performance metrics, conducting periodic business reviews, and performing random quality assurance audits. By maintaining proactive surveillance, the company can detect early warning signs of operational deviations, service degradation, or compliance lapses, enabling management to swiftly implement corrective action plans and contingency measures to ensure business continuity and protect corporate reputation.

7. Conclusions

In the broader context of accelerating economic globalization, Chinese enterprises are increasingly compelled to rethink their competitive strategies and organizational capabilities. As markets become more interconnected and volatile, the role of human resource management (HRM) has transcended its traditional administrative boundaries to become a pivotal driver of strategic adaptability, talent retention, and long-term value creation. Recognizing this transformation, a growing number of firms have turned to human resource outsourcing (HRO) as an innovative and flexible management model. By delegating routine, non-core HR functions—such as payroll administration, benefits management, recruitment screening, and compliance tracking—to specialized external providers, companies can not only enhance operational efficiency and service quality but also liberate internal resources to focus on innovation, core business growth, and strategic decision-making. In this sense, HRO is no longer viewed merely as a cost-reduction tactic, but rather as a core strategic tool that enables enterprises to build agile, resilient, and high-performance work forces in an increasingly uncertain environment.

Nevertheless, it must be acknowledged that the HRO industry in China is still in a relatively formative stage. Market norms, service standards, legal frameworks, and data protection regulations are evolving, yet they remain unevenly developed across regions and sectors. This nascent state introduces a host of uncertainties—both exogenous and endogenous—that enterprises must navigate with care. Externally, firms may encounter macroeconomic shifts, frequent changes in labor legislation, fluctuations in the supply of qualified service providers, and inherent information asymmetries that obscure true provider capabilities. Internally, organizations often struggle with misaligned expectations, insufficient top-management commitment, cultural friction between internal staff and external vendors, and a lack of mature governance structures to oversee outsourcing relationships. These multifaceted challenges frequently manifest during collaboration with HRO service providers, giving rise to communication breakdowns, inconsistent service delivery, data security breaches, and even reputational damage—all of which can undermine the very benefits that outsourcing was intended to deliver.

Against this complex backdrop, this paper embarks on a systematic investigation by extensively reviewing both domestic and international literature on HRO theory, risk management frameworks, and best-practice case studies. Building on this theoretical foundation, the study takes Company Z as a concrete case for in-depth empirical analysis. Through a thorough examination of the company's outsourcing rationale, historical background, current operational model, and internal control environment, the research maps out the full spectrum of risks encountered throughout the entire HRO lifecycle. Specifically, it identifies and categorizes risks across four critical stages: (1) the decision-making phase, where inadequate strategic alignment, over-optimistic cost projections, and vague performance expectations can set the stage for future failures; (2) the vendor selection phase, where superficial due diligence, overreliance on price criteria, and insufficient assessment of vendor track records can lead to mismatched partnerships; (3) the implementation phase, where weak transition planning, poor knowledge transfer, and dysfunctional communication channels often trigger operational disruptions and employee dissatisfaction; and (4) the exit or transition phase, where unclear termination clauses, data retrieval issues, and dependency on proprietary vendor systems can pose serious legal and operational risks.

To uncover the root causes of these risks, the paper conducts a multi-dimensional causal analysis from three interrelated perspectives: management attention—examining whether senior leaders allocate sufficient strategic focus, resources, and oversight to the outsourcing initiative; management systems—evaluating the completeness and clarity of internal policies, process documentation, performance metrics, and escalation procedures; and control mechanisms—assessing the robustness of monitoring tools, audit trails, service-level agreement (SLA) enforcement, and contingency planning. This analytical lens reveals that many risks stem not from external factors alone, but from internal governance deficiencies that amplify external vulnerabilities.

In response to these identified risks and their underlying causes, the paper proposes a set of targeted, actionable countermeasures. These include: (a) clearly defining outsourcing objectives that are directly linked to the corporate strategy and communicated transparently across all stakeholder groups; (b) formulating scientifically grounded implementation plans with realistic timelines, resource allocations, and milestone checkpoints; (c) strengthening process controls through

regular performance reviews, risk reassessments, and adaptive adjustments; (d) carefully selecting service providers using multi-criteria evaluation frameworks that consider technical capability, industry experience, financial stability, cultural fit, and data security certifications; (e) signing detailed, legally robust contracts that explicitly define service scopes, performance indicators, confidentiality obligations, dispute resolution mechanisms, and exit arrangements; and (f) reinforcing ongoing supervision via independent audits, employee feedback channels, and periodic benchmarking against industry standards.

Collectively, these findings offer a systematic and practical reference framework for peer enterprises that are either contemplating or already engaged in HRO arrangements. By adopting a proactive, structured approach to risk identification, causal analysis, and countermeasure implementation, firms can significantly enhance their ability to anticipate, mitigate, and manage the complexities inherent in human resource outsourcing—thereby transforming potential vulnerabilities into sustainable competitive advantages in the globalized economy.

Conflicts of Interest

The author declares that there is no conflict of interest regarding the publication of this article.

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