HUMAN RESOURCE OUTSOURCING

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ABSTRACT:
Outsourcing means work done for a company by people other than the company’s full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons. The recent competitive challenges of the global marketplace are creating demand for expert Human Resource Outsourcing (HRO) providers in order to manage non-value adding administrative business function of their businesses thereby facilitating the businesses can concentrate on their core competencies. The challenges of trying to manage HR process effect on a global scale and across different cultures. Some organizations believe the HR function is an integral business success factor, but others view HR as over-resourced, inefficient and thus vulnerable to the cost reduction possibilities of HRO. Human Resources Outsourcing helps in boosting organizational performance with many strategic benefits like eliminating the redundant non-core HR functions, increasing cost competitiveness, effectiveness and helps in maintaining strategic HR focus. Businesses view HR outsourcing as a strategic tool that relieves them of HR responsibilities and enables them to focus on what they do best. This paper emphasized on human resource outsourcing in India, human resource functions outsourcing, and advantages of HR Outsourcing.

KEYWORDS: Human Resource Outsourcing (HRO), HR Outsourcing in India, Challenges, Process, Functions Outsourcing and Advantages.
INTRODUCTION:

Organizations today are challenging the Human Resource (HR) Function to better leverage the talent and resources available internally. HR is an essential partner in developing and executing organizational strategy as is evident HR is something that is really critical to some organizations functioning. Human Resources responsibilities includes all the related functions that work towards employee well-being in the organization including payroll, benefits, hiring, firing, and keeping up to date with state and laws. As the HR Function looks beyond ‘reducing cost per employee’ and focusing more on improving employee experience and productivity to build a stronger support system for the organization’s growth, Human Resource Outsourcing has become a sustainable, in fact necessary, option to control costs and meet the expanding HR objectives. The recent competitive challenges of the global marketplace are creating demand for Expert human resource outsourcing HRO providers in order to manage non-value adding administrative business function of their businesses thereby facilitating the businesses can concentrate on their core competencies.

Human Resource Outsourcing (HRO) occurs when a business instructs an external supplier to take responsibility (and risk) for HR functions and perform these tasks for the business. Payroll outsourcing is commonly outsourced for two reasons: it’s a time-consuming administrative task for employers, and there are many specialist companies with the technology and knowledge to run it efficiently and compliantly. Some businesses will outsource their entire HR department while others will just outsource time-consuming administrative tasks, which allow their internal resource to focus on the strategic level.

CONCEPT OF HUMAN RESOURCE OUTSOURCING:

HR Outsourcing is a process in which the human resource activities of an organization are outsourced so as to focus on the organization’s core competencies. Often HR functions are complex and time consuming that it will create difficulty in managing other important thrust areas. By HR outsourcing, this problem can be avoided which will enhance effectiveness by focusing on what the organization is best at. It will also improve the flexibility of the organization to the rapidly changing business needs. Usually businesses that outsource HR are typically small to midsize firms with number of employees ranging from 25 to 1500.

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Human Resource Outsourcing is a momentous strategic HR initiative. It helps organization to focus on internal resources towards doing what they do best and simultaneously helps to control the bottom lines.
Human Resource Outsourcing helps an organization to gain cost and time efficiencies and provides cutting edge over their human resource strategies and improves service to their employees.

HR outsourcing can:

- Help in structural reduction of the Human Resource Management (HRM) cost base, by identifying the non-value adding activities and eliminate the hidden HR operations costs.
- Help in identifying the inefficient Human Resources (HR) Administration processes and HR practices.
- Helps organization to focus on human resource performance.
- Help organizations to serve their employees better.

There are HR outsourcing firms present so as to meet an organization’s HR requirements. Some HR outsourcing firms are generalists, offering a wide variety of services, while others are specialists, focusing on specific areas such as recruitment, payroll etc. Depending on the degree of outsourcing required, we can either outsource the entire HR functions or contract for specific HR functions. Some of the services provided by HR outsourcing firms are:

- Recruiting, training, and development
- Overseeing organizational structure and staffing requirements
- Tracking department objectives, goals, and strategies
- Employee orientation programs

**LITERATURE REVIEW:**

Trend of Outsourcing gained greater progress in the 1970s, as many large and diverse companies were underperforming at that point of time. This trend gained rapid growth in the early 1980s as the global recession was on its inception stage. In 1980s, there was a great change of direction in business approach and organizations have started thinking of outsourcing, but the main focus was on fewer activities. The activities that frequently outsourced are Cleaning, IT, catering and security. Adler (2003); Galanaki and Papalexandris, (2005)

As Greer, Youngblood, and Gray (1999) observe, HR outsourcing decisions are frequently a response to an overwhelming demand for reduced costs for HR services. Downsizing and tougher competition mean that the HR functions is under increasing pressure to demonstrate value, both in terms of efficiency and effectiveness (Roberts, 2001). Although some elements of the HR functions may have always been performed by external service providers, Brewster observes that a new dimension “is this finance-driven idea connecting outsourcing to human resource management – the idea that you can save a lot of money by outsourcing” (Turnbull, 2002). In addition, outsourcing is seen as a way of
Liberating HR professionals within the client organization to perform the more consultative and strategic role of designing and implementing programs aimed at retaining the workforce and enhancing its performance.

“Human Resource Outsourcing (HRO) is the process of transferring elements of a company’s HRM functions or activities to a provider outside of the company itself” (Reed, 2001).

Lieven and De Corte (2008) published the first study on the commitment of Human Resource managers to make the decision to continue an outsourcing partnership with the present supplier of the services. They formed a model of HR manager commitment, testing affective commitment and continuance commitment in outsourcing partnerships. This study found that affective commitment and the continuance of the outsourcing partnership was linked to frequency of HR outsourcing.

Another survey, by IDC (www.idc.com), reports that worldwide HR business process outsourcing (BPO) will be the fastest-growing segment of the HR service spending market. As with the outsourcing of other organizational functions, one major issue in outsourcing HR is to decide what types of HR activities should be outsourced. In making this decision, organizations need to consider the likely impact of outsourcing these activities on the organization’s performance. To do so, they may need to distinguish between “core” and “noncore” activities. Finn (1999) suggests that a basic distinction can be made between HR “core” and “noncore” activities. The former include top-level strategy, HR policies, and line management responsibilities (e.g., appraisal and discipline), while the latter include specialist activities (e.g., recruitment and outplacement), routine personnel administration (e.g., payroll and pension), and professional HR advice (e.g., legal advice related to employment regulations).

**HUMAN RESOURCE OUTSOURCING TRENDS IN INDIA:**

HRO is an evolving industry in India. With more and more companies looking to rationalize employees on their payroll, manpower outsourcing is slowly becoming the new buzz in India. And the trend seems to have hit not just big multinational companies but the public sector and government undertakings as well, though on a very low key yet in the latter. It has turned out, furthermore, that HR departments especially rely significantly on outsourcing, even though they might not, at first, realize that only a few standard practices are, in fact, out-sourced. Estimates show that the latent size of HR outsourcing in India is about $2 billion with a current market of $27 million and it is growing at a rate of about 50 per cent. A recent survey ‘Outsourcing in the Asia-Pacific’, conducted by Hewitt Associates, a global HR outsourcing and consulting firm, confirms the situation. The survey showed that many companies in the region are either unfamiliar with the process and procedures of HR outsourcing, or are unaware of the players operating in the area.
“Even though across the globe companies are realizing that headcount is directly related to the revenue and are outsourcing most of their transaction and administration related work, the general opinion among the Indian companies is that it is still economical to manage all their HR process internally,” Mahajan says, adding: “Here people are also not very clear about what exactly is manpower outsourcing all about.” Explaining about the concept of HR outsourcing, Kris Lakshmikanth, founder CEO & managing director of the Head Hunter, a recruiting firm in Bangalore, says, "It is a process of outsourcing involving particular tasks like recruitment, making payroll, training and development to a third party who have expertise in these respective fields." "HR outsourcing can happen in areas such as payroll, employee benefits administration, fixed assets administration, network, receivable and logistics management, hardware maintenance, telemarketing, call can ters and database management. Today, every organization is aiming at achieving productivity by enhancing return on investments and achieving the economies of scale. In this context, it makes sense to focus only on the organization’s core competencies and outsource non-critical business activities. Therefore, routine administrative work, although important, can be outsourced to third party vendors.

Experts also believe that in present times HR outsourcing is undergoing a transition phase. “There has also been a transition on its user acceptance, where it is moving from a corporate domain to public sector undertakings and the government sector. All this reflects on the growth of this sector. However, it would still be sometime before we see increased levels of HR activities being outsourced,” they say. Employee loans, medical insurance, health check-ups, selection based on competencies, 360 feedbacks have been outsourced. VP-HR, Bharti Cellular Services – North Central, says that time must be invested in building trust and confidence level with vendor. Employees’ opinion is must. Core functions will be internally driven. Number of people in HR will reduce but their value will go up considerably. Benefits management, PF, Superannuation, gratuity, entry level recruitment, training, welfare, transportation, cafeteria, housekeeping, security, nursing assistance, basic health services have been outsourced. VP-HR, Spectramind, says that outsourcing initiative is training for pre-hiring skills. Success rate of selection defines the success rate of trainer and his fees. Director-HR and Administration, Glaxo Smithkline Consumer Healthcare, says that mechanization of HR is better choice. What works in one organization does not work in another. Outsourcing is not the panacea for all the troubles, only routine administrative function should be outsourced. Core OD interventions must be managed internally.
HR OUTSOURCING MARKET IN INDIA:

Even amidst a tough economic scenario, the reliance on HR outsourcing has been significant. Increasing complexities in HR-functions, changing laws and regulations and an inherent pressure to cut costs will continue to drive the market this year. In addition there are new trends shaping up and consequent transformations happening within the HRO horizon. The next 12 months will see a return of very tough economic scenario in the Eurozone and the US. As a result, investors are increasingly looking towards emerging economies with less exposure to Western currencies and banks / lower government debt.

Emerging economies such as India have strong business environments coupled with highly skilled pool of human capital which empowers them to attract global companies and spur foreign direct investment.

Another good omen for the growing HRO services in India are that they are more centered around the transactional part of services being Payroll, Benefits, H R Compliance, Time and Attendance etc. and most of such demand is from domestic market unlike other BPO segments such as F&A/CRM where most of the work comes from global clients.

GROWTH OF THE HRO INDUSTRY:

The Global HR outsourcing market has grown at a tremendous rate since then and was worth US$ 110 billion in 2012 and is expected to grow to US$ 200 billion by 2017, says Knowledge Faber research. The Indian HRO industry has grown significantly emulating the global scenario. This can be largely attributed to the change in mindset of large Indian firms as they are increasingly engaging experts to meet their HR requirements on account of the growing complexity.

CHALLENGES TO HRO INDUSTRY:

HR Teams in any organization are generally involved in a lot of administrative work than focusing on core HR areas enabling strategic alignment of HR with business and in ensuring employee engagement. While this approach can take care of day to day needs of the organization, it eventually leads to uncertain predictability of people performance and inability in retaining good talent.

Furthermore, the ever-increasing people sensitivity and growing reliance on people assets as key differentiator in every organization makes the delivery of all the HR promises of the organization more complex and needs specialized skills to fulfill the obligation accurately, timely and transparently. As the economies grew at rapid pace, organizations had to scale up their workforce at the matching pace while maintaining / observing its core H R polices and ensuring measurement of all key metrics associated with people practice covering broadly talent acquisition, goal definition /
alignment, productivity/talent management, learning & development, employee engagement, right rewards and attrition.

While the initial phase of the growth saw, organizations hiring skilled talent team in managing this internally, HRO services firms offered to fill in the vacuum and hired domain experts, updated their knowledge base regularly to help their clientele.

**HUMAN RESOURCE OUTSOURCING PROCESS:**

The following seven steps have been identified in order to achieve success in HR Outsourcing:

1) **Planning Initiatives:** The first step is to announce initiative after the assessment of risks. Project team is to be formed, and advisers are to be engaged to train the team. Other resources are to be acquired and issues like resource management, information management and project management need to be addressed. Accordingly, objectives then are set.

2) **Exploring Strategic Implications:** The second step is to understand the organization’s vision, core competencies, structure, transformation tools, value chain and strategies. Thereafter decision rights, contract length and termination date need to be determined. Aligning initiative should follow.

3) **Analyzing Costs and Performance:** The next step in the process is to measure activity and project failure costs. Existing and future performance is then to be measured along with the estimation of the cost of poor performance. It is also very important to benchmark costs and performance. Specific risks, asset values, make total costs, pricing models and final targets need to be determined.

4) **Selecting Providers:** The next crucial step is to select providers. For this purpose, the organizations need to first set qualifications and evaluation criteria. Providers are then identified and screened. An RFP is drafted. Proposals are then evaluated based on the qualifications and costs and the provider is finalized.

5) **Negotiating Terms: Negotiations** are then to be planned after addressing high level issues and deal breakers. Accordingly, term sheets are to be prepared. The contract then need to be negotiated based on the scope, performance standards, pricing schedules, and terms and conditions; and the relationship be announced.

6) **Transitioning Resources:** The next important step is to adjust team roles and to compare/merge transition plans. The transition issues like communication, human resources, and other production factors are to be addressed. The employees need to be taken into confidence. The organization and the provider are to meet them, make offers/termination, and provide counseling.

7) **Managing Relationships:** The last but the most vital step is to adjust management styles, set up oversight council, and communicate. Meeting agendas, meeting schedule and performance reports
need to be defined and designed. Poor performance is to be confronted and problems, if any, are to be solved. The ultimate effort is to build the relationship.

**CHOOSING AN HR FIRM:**

A successful HR outsourcing arrangement starts with a careful examination of following aspects:

- Taking stock of the HR department's internal processes,
- Setting realistic goals and
- Seeking a vendor that fits the culture.

For some businesses, cost is the deciding factor in vendor selection. Other companies look for a cultural fit or a commitment to quality. Some of the considerations when evaluating a firm include:

- The range of outsourcing services it offers;
- The expertise it has in the industry;
- Its general HR experience;
- Its understanding of the priorities;
- Its available resources;
- The flexibility of its contracts.

**HUMAN RESOURCE FUNCTIONS OUTSOURCING:**

Outsourcing various functions of the Human Resources department may be a viable management strategy. Human resources cover a variety of personnel management issues, with some that can easily be performed by current staff and others that might be better performed by human resources professional. Hiring outside entities to perform the work is sometimes done for cost reasons or if internal staffing is minimal. Third party consultants exist with the expertise to perform nearly every aspect of the duties typically delegated to a traditional in-house human resources department.

- **Employee Assistance Program**

  Counseling employees and their families on a personal level is the most likely service to be outsourced. These third-party Employee Assistance Programs, or EAPs, provide employee’s access to qualified counselors. All conversations are privileged and confidential. Workers seek advice on legal, financial and personal problems and family issues, to help them deal with, and work through, life’s challenges.

- **Wellness**

  Healthy employees cost you less in health care expenses, can reduce insurance premiums and boost your productivity through reduced tardiness, absenteeism and on-the-job injuries. Talk to health insurance provider about wellness programs it offers or meet with a medical or HR consultant who offers comprehensive wellness initiatives for businesses
Drug Testing
A typical outsourced function is drug testing. In fact, some states such as California actually restrict such testing from being performed in the workplace. Pre-employment drug screenings are extremely common. Employers send job applicants to collection sites run by an authorized lab where samples are collected and analyzed.

Background Checks
Third parties may perform background checks for an in-house HR department. Their investigations may include identity verification, criminal searches, employment and confirmation of education claims. For specific positions, some employers may also request a credit report.

Payroll
Many small businesses include human resources in handling payroll, particularly if the company offers benefits requiring payroll deductions. Contact a payroll company to learn whether or not save money and provide better service for workers by outsourcing payroll needs. The payroll function may be assigned to a company’s accounting department; however, in some firms the duty falls to HR. Payroll management companies offer clients flexible methods of data submission. In addition to cutting checks, add-on services may include dealing with garnishments, tracking employee time off, submitting tax data and preparing customized reports.

Policy Guide
A policy guide not only helps to run company more efficiently, it helps to avoid legal problems that can result in fines, penalties or lawsuits. Hiring a human resources expert with expertise in labor law can help to meet your state and federal obligations. This might include practices such as posting required labor signs and creating a paid time off policy or more complex issues such as grievance procedures, harassment policies and expense reimbursement procedures.

Benefits Administration
Bringing on new staff, especially management can be a significant investment in time, training and compensation. The process involves creating and placing job ads correctly to attract the best candidates, sorting through the applications, thoroughly interviewing finalists and making the right offer. Consider temporary staffing agencies or an executive search firm to help with important job searches. Human Resource departments may hire third parties to administer company benefit plans such as medical, life insurance, dental, and vision and disability programs. 401(k) and other retirement plan administration duties are also viable outsourcing options.
Recruitment
The recruitment process is a fairly straightforward function to outsource. A variety of firms exist offering services that range from providing a temporary workforce to consultants who are capable of sourcing candidates for both domestic and international positions. According to Libby Pannwitt of The Work Life Design Group, a career management firm in San Carlos, California, "Some executive recruitment firms can also be retained to scout for experienced high level executives to fill Board of Director openings."

Compensation Consulting
Often times in-house human resources personnel do not have the expertise to design sales and executive compensation programs. Outside consultants with an expertise in total compensation can create customized plans that serve to motivate and drive optimum performance.

Employee Relocation
Move management firms offer a number of ways to assist HR personnel with transferring an employee from one location to another. Specific services can be contracted for, such as shipping an employee's vehicle, or vendors can provide turnkey services that range from packing the family belongings to providing domestic and international arrangements.

ADVANTAGES OF OUTSOURCING HR FUNCTIONS:
An organization's human resources department is responsible for a variety of functions. Human resource departments oversee employee payroll and tax filing as well as employee benefit and health administration. Human resources also manage legal compliance, maintain files and records, and oversee training and development. For many businesses, the various functions of the HR department are too comprehensive and complex to maintain in-house. Businesses that outsource HR functions receive several advantages that support the company's bottom line.

Risk Management
Human resources outsourcing firms help businesses minimize risk. Employment and labor laws change regularly, and it can be difficult for employers to remain up-to-date on regulations that affect the workplace. Outsourcing firms employ HR professionals whose purpose is to stay abreast on a variety of federal and state employment laws. HR staff helps businesses comply with these laws to avoid costly lawsuits brought on by employees. HR firms also maintain and audit company policies and practices to ensure the organization and its employee's best interests remain protected.

Cost Savings
Outsourcing helps reduce the cost of maintaining nonrevenue-generating back-office expenses. A fully functional human resources department requires additional office space and highly trained and
experienced HR staff. Many small businesses find it more cost-effective to outsource HR functions rather than expand to a larger location to meet the space needs of another department. Furthermore, outsourcing costs are variable and can be reduced when business needs warrant.

- **Efficiency**

Maintaining an efficient and productive workplace is critical. Outsourcing HR functions create greater efficiency within human resources systems. Advanced human resources technology utilized by outsourcing providers help streamline important HR functions, such as payroll, benefit administration and compliance management. Outsourcing helps employers and managers spend less time doing paperwork and more time dedicated to improving the efficiency and effectiveness of the workforce.

- **Employee Development**

Outsourcing HR functions help businesses manage employee performance and development. Providers implement performance management plans to ensure employees comply with company policies and procedures and successfully meet business goals. Outsourcing firms periodically monitor employee performance and report findings to management. This reduces the workload of managers by minimizing the amount of administrative responsibilities they must focus on.

There are many reasons that might decide human resource outsourcing is worth time. Whether noticing that HR employees are having to work ten hour days to stay ahead or if experiencing a drop in productivity that think human resource outsourcing could help, there’s no question that human resource outsourcing can provide real benefits to company. Unicorn HRO offers human resource outsourcing for any business of any size and can give your company real advantages that actually impact your bottom line. Here are five great benefits that come from human resource outsourcing.

1. **Saving Money**: Human resource outsourcing can save company big bucks by letting avoid hiring multiple people to fill various tasks. In most cases, using human resource outsourcing to handle different aspects of business will be much cheaper than adding new employees to the HR department would be. The larger that company grows the more cash human resource outsourcing can actually save.

2. **Business as Usual**: One of the key reasons that human resource outsourcing is used is to keep an HR department running smoothly. If business suddenly faces an influx of information that needs to be processed, for example, you can use human resource outsourcing to deal with these sudden needs and allow HR workers to keep focusing on the efforts that have made your company what it is today. This ability to keep your company working as it always has is one key benefit of human resource outsourcing that cannot
afford to overlook, and is a benefit of human resource outsourcing that cannot be overstated.

3. **Avoiding Turnover Troubles:** Human resource outsourcing can reduce the risks run involving turnover. Some functions of the HR department simply cannot stop because of a recent turnover. Imagine the effects on business if payroll suddenly halted for a week, or benefits administration. Human resource outsourcing is great ways to ensure that even if lose an employee company's core functions don not suffer. Instead of scrambling to replace an employee and trying to manage without them, human resource outsourcing allows filling the position properly without worrying about other issues.

4. **Overhead:** Human resource outsourcing can help avoid high overhead costs as well. Adding more equipment, renovations, and more can send your overhead rocketing upwards. Human resource outsourcing lets avoid these sudden costs by sending tasks that require added expenses to the human resource outsourcing firm for less.

5. **New Skills:** If adding new functions to company, human resource outsourcing can help as well. By placing trained pros in workplace, human resource outsourcing companies can help you adjust to new functions by training current employees while handling basic tasks until they come up to speed. In this way human resource outsourcing can help entire business evolve.

**CONCLUSION:**

In today's world of globalization, a new concept of Human resource outsourcing is coined so as to reduce the complexities of handling day to day human resource issues in more accurate and other hand it helps an organization can focus on its core business. Large organizations mostly outsource their HR services to India in order to concentrate on their core processes. Such large organizations can increase the profitability of their business by outsourcing. Large organizations also stand to gain from better HR services for their employees. Mid-size and small organizations can also benefit from cost-effective services when they outsource to India. Outsource HR services to India to enhance productivity and return on investments and also to achieve the economies of scale.

Businesses view HR outsourcing as a strategic tool that relieves them of HR responsibilities and enables them to focus on what they do best. In addition to allowing concentrating on core business activities, outsourcing provides skilled professionals who are focused specifically on HR, reduce and manage operating costs and improve employee relations. HRO would be effective only if the companies manage the relationship and contract with the provider on a consistent basis.
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