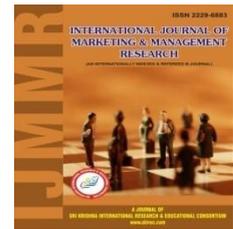




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HUMAN RESOURCE OUTSOURCING AND SME'S IN INDIA

MR. ANJANCHARY H.PINOJI*

INTRODUCTION

It is globally accepted that there are four factors of production i.e. man, machine, material and money. Man i.e. Human Resource constitutes a key input in any organization. The optimum and proper handling of people and taking care of their welfare will definitely improve organizational productivity. In the current wave of liberalization, globalization and privatization this gains greater significance in the case of small and medium business organization or small and medium enterprises, as otherwise their very survival is under threat. In today's scenario organizations are aiming at achieving productivity by enhancing return on investments and achieving the economics of scale. In this context, it makes business sense to focus only on the organization's core competencies and outsource non-critical business activities. The outsourcing i.e. human resource outsourcing industry has also emerged on the scene providing an opportunity to be exploited by small and medium enterprises to overcome the problems faced in the present changing situation or scenario.

CONCEPTS OF HRO AND SME

Outsourcing means getting non-critical work done by other companies. Outsourcing means sourcing from outside. Outsourcing refers to sub-contracting at a set of function or processes by one firm to another. The location at company to whom non-critical function/process is given could be I the same district, state, country or at any other place. As outsourcing enables a firm to focus core competency area, it is often viewed as a business strategy in the current economic scenario. It also frees the firm from resource and labor intensive function, which are now performed by trained people at much lower cost. The process or activities or functions that are outsourced can e from customer service to IT management, software development, market research, financial portfolio management and HR management. Human resource management is a process or function in which organization outsource the HR activity i.e. recruitment, selection, training and development, compensation management, welfare activities in which they do not have requirement of sufficient specialized knowledge, expertise and manpower. Human resource is becoming more popular in today's business world.

There are three reasons for which any organization prefers outsourcing:

1. Cost saving by turning a fixed cost into a variable one
2. Concentration of HR effort

3. Obtaining services of expertise
4. To avoid complexities in HRM
5. To avoid the negative implication of overstaffing.

The areas in which human resource outsourcing is done are:

- Recruitment –job design and job analysis
- Selection
- Training and development
- Payroll management
- Specialist legal advisory services
- Performance management
- Employee welfare and counseling services

The small industrial organizations include small scale, ancillary and tiny units. A small scale industry is one whose investments in fixed assets in plants and machinery whether held on ownership terms or on lease or on hire purchase does not exceed Rs. 1 crore. It is called an ancillary if it is engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediary or rendering of service and it supplies or renders not less than 5% of its production or service, to one or more industrial undertakings whose investment in fixed assets in plants and machinery does not exceed Rs. 1 crore. It is called a tiny enterprise if its investment in plants and machinery is Rs. 25 lakh. Small scale services and business enterprises are the industry related service or business enterprise with investment up to 10 lakh excluding land and building. Organized retailing may refer to retailing service covering a wide range of products and endeavors to make shopping experience comfortable and convenient to the customer. The organized retail units may vary in size ranging from about 1000 sq.ft. they are mainly in the form of supermarkets, departmental stores, hypermarkets and malls. The need for human resource outsourcing (HRO) is relevant in the case of small and medium enterprises (SMEs) including ancillary units and the retailing units in the organized sector. The units in the tiny and unorganized retail sectors are operated mostly by self-employed persons with the assistance of family members that there is no scope for human resource outsourcing in their case. The bigger departmental stores, hypermarkets and malls adopt modern techniques of management. They may take the help of HRO practices to improve operational efficiency and cut cost. The smaller departmental stores and supermarkets may need HRO for better functioning.

SMES AND HRO INDUSTRY IN INDIA

To enable the organization to primarily focus its energy and resources on its core business and competencies outsourcing is the only and major HR strategy. At present most of the organizations are outsourcing HR functions in the area of recruitment, selection payroll management, T & D and employee welfare. Before some years organizations used HRO as a process of hiring a vendor to provide services in the area of recruitment. A market research study done by a reputed BPO analyst firm forecasted that the worldwide market for 12 HR BPO will

grow at the rate of 25 per cent annually, reaching US billion by 2011. The study predicted that HRO market will grow by just 13 per cent to US \$ 40 billion worldwide by 2011. In India central and state government through various schemes and facilities and concessions has been giving special attention to SMEs because of their contribution in terms of employment, production and export. The level of competition faced by SMEs has gone up domestically and internationally because of economic reforms of central government since 1991. Because of this approach towards SMEs drastically. For survival & growth of SMEs, innovation, technology, entrepreneurial and managerial ability have become important. During the period of 1990-91 to 2010-11. The number of SSI units increased from 67.87 lakh to 140.95 lakh with average annual growth rate of 6 per cent, production from Rs. 63518 crore to Rs. 4,10,734 crore with average annual growth rate of 39.7 per cent, employment from 158.34 lakh persons to 301.26 lakh persons with average annual growth rate of 61 per cent. During 1990-91 to 2010-11 export of SSI unit have risen from RS. 9664 crore to Rs.95013 crore with an average annual growth rate of 65.8 per cent. Thus the contribution of the SSI has increased significantly in the case of exports, production and employment generated. The scope for human resource outsourcing is growing in organized retail industry because its sale has increased from 50 billion in 1999 to Rs. 450 billion in 2008. Its sale is projected to grow to Rs. 12000 billion by 2012.

While some SME are testing fruits of success, some are facing sickness problem. Because of sickness of some SME they have to be closed down. If we define sickness according to guidelines, it is

1. Delay in repayment of loan over one year
2. Decline in net worth by 50% and
3. Sickness by the decline in output in the last three years

More number of sick SSI units was found in Kerala, Maharashtra, Tamilnadu, Andhra Pradesh, and Karnataka. The reasons for sickness could be lack of demand, shortage of working capital, marketing problems, power shortage, non-availability of raw material, equipment problem, and labor problem. In the above said problem areas there is scope for human resource outsourcing to turn around the performance of the SSI units.

PROBLEMS OF SMES IN INDIA

- The demand for products marketing and customer orientation
- Finance which is the life blood for SMEs
- Technology
- Employee skills, benefits and motivation, managerial deficiencies and inability to ----- competition
- To improve efficiency and compete with the bigger firms

CONCLUSION

Some of SME started outsourcing some of the HR function like recruitment, pay and benefits administration, leave administration, training and development programs and performance

management in order to reduce cost and complexities in HRM and negative implications of overstaffing. It is widely debated that entire human resource activities can be outsourced and the HR division can be eliminated. It is equally debated that certain HR functions like motivation and leadership cannot be outsourced. However it would be difficult to decide categorically, which of the HR functions can be outsourced. The HR function is an important aspect for the retention and upkeep of employees in any organization. This is peculiar with SMEs for their survival. SMEs have limited staff and finance resources. So human resource outsourcing will benefit them immensely.