HUMAN RESOURCE OUTSOURCING - COST EFFECTIVE COMPETENCE BUILDING CONCEPT

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Abstract: Complexities of human resource functions because of emerging technologies, workforce changes, stiff competition and dynamic demographic nature of the globalized world are making a strong case for HR human resource outsourcing. The cost of the labor and provision of various value-added services on day to day basis are creating a requirement for having specialized and expertise services at low cost which are extended by different vendors of HR services on outsourcing basis. Emerging HR technologies, HR processes and challenges, added to the organizational functions, are creating demand to outsource certain HR functions to take benefits of latest technology, efficiency and low costs.

There are some core and non-core activities in any organization to develop new competencies and skills for HR professionals working within the organization. This need has been expressed by various authorities and researchers to take decisions in favor of human resource outsourcing keeping in view various issues and considerations, particularly, in IT industry as well as in other related industries.

This paper aims to provide insights on the concept and process of human resource outsourcing with regard to Indian industries and focus on various benefits as well as challenges involved. The paper will try to investigate the literature available on the subject and will describe about the research done by different people over a period of time, developing the concept of human resource outsourcing. The research paper will also investigate the changing trends, regarding the future of recruitments in human resource management. It is believed that the business solutions in terms of certain human resource activities are being outsourced because of the cost advantage involved and non-availability of technical knowledge and competence with certain organizations.

The research paper has arrived at the conclusion that human resource outsourcing results in reducing HR operating expenses. It optimizes the cost of the workforce in certain key processes and ultimately improves the productivity of the business as well as the competence and compatibility of the employees by enabling them to have an access to the emerging technologies and various benefits arising out of using the new web portals, HR processes and practices. The outsourcing has benefitted the organizations in terms of recruitment, compensation and various procedural compliances. It has helped in various transactional processes like pay-roll and employee database management.

Key words: HR Outsourcing, Models of HR Outsourcing, Challenges of HR Outsourcing and Future Roadmap.

INTRODUCTION: THE CONCEPT

The role of human resource is going through a transition phase but the role of HR Department is moving from providing support functions to strategic functions to the organization by providing the value-added services to enable the organization to achieve its objectives and goals. Human resource outsourcing can be defined as a process of assigning human resource functions to a third party vendor. By this process, the main organization delegates some of its non-core HR operations to the service provider. HR outsourcing enable organizations to focus on core activities of the business and outsource peripheral but necessary administrative jobs such as payroll, training and development, recruitment and administration at lower

costs and with greater efficiency. The organization can focus on core business activities that add higher value to the business while the outsourcing provider handles day to day HR functions which are routine and repetitive. The ultimate responsibility and the ownership of the decision remains with the parent company which is delegating the work.

In a situation, where there is stiff competition and regular changes in the workforce with employees having different priorities and coming from different demographic backgrounds, the organization has no choice but to adopt to outsourcing various non -core activities. This changing global market situation also makes a case for cutting the costs and opting for Business process outsourcing companies (BPOs) for availing the various services including HR services. These BPOs are able to provide the services which are faster, cheaper and effective and they are also flexible in their nature. The benefits of the specialization through this service industry comes at a less cost and with so many other benefits. Many companies which are working as multinationals are depending on BPO Units which are working from countries like Malaysia, China or other Asian countries apart from India.

Various services such as pay-rolls, Calculation of wages, contract programs, and project management services are regularly outsourced. Companies can focus on the development of core competencies; time so saved can be utilized in taking the initiatives for the growth of the organization. Such organizational alliances will get them the benefit of technological shifts and they will be able to make use of emerging technologies and will be able to use current technologies like cloud based HR platforms.

Experts say that the future of the HR activities will be through outsourcing only and the professionals of higher level will be integrating the various resources for the effective functioning and running of the organizations. The major arguments which have been given in favor of human resource outsourcing are cost and core competencies. The compliance by other organizations has resulted in accelerating the pace of technological adoption and embracing the change. These services provide access to the organizations for adopting and using current technologies and take its benefits which the organizations would not have been able to get because of huge investment required in them. Human resource outsourcing has been able to provide greater expertise and specialized vendor services that have helped in achieving the various economies resulting and in reducing the cost to the organizations.

OBJECTIVE OF THE RESEARCH

The study in particular attempts to explore:

1. The various advantages of using human resource outsourcing as a tool to create value to the organization and analyze its effects on the success of the business.

2. The paper will try to find out the nature of changing HR functions and the priorities of the organization for outsourcing different HR functions.

3. This paper will share brief history of literature on outsourcing and views of various academicians and researchers on that.

4. How HR functions can be better performed by third party vendors because of their specialization and competence.

5. The paper will try to understand how the value can be created which is beneficial for the business as well as the employee at different stages of employee life cycle by adopting human resource outsourcing.

METHODOLOGY

The methodology adopted with regard to this paper is descriptive and use of data is from the secondary sources. It is seen that there is limited research concerning the HR outsourcing practices in Indian organizations and the experiences of various organizations on outsourcing HR activities is not very well known nor recorded with subjective, objective or empirical evidence.

There is immense scope of doing research in this field in India. Non-availability of material on independent investigations and data reflects the potential for the research in the field. The paper has focused on knowing about

various information as well as findings on the basis of research done globally regarding HR outsourcing practices.

Conceptual discussion with the support of the extensive literature review will help us to study the cost implications of human resource outsourcing and this will also help us to validate that if human resource outsourcing is followed , it will not only lead to savings in the cost but also it will increase the margins of the profit and in the long run it can make the organizations linear in size , and the number of people working can be less and the benefits of expertise and specialization can be obtained.

WHY HR OUTSOURCING? - LITERATURE REVIEW

The major reason and motive for outsourcing has been reduction in cost (Hoek, 1999). Cost and core competencies are the major drivers for human resource outsourcing as said by Jeffrey Lanzet of Aon Consulting. Specialized vendors have helped the organizations to achieve the economies of scale which has resulted in bringing down the cost to the lower level. From the strategic point of view, human resource outsourcing has helped organization to focus on core competencies thereby shifting from engaging themselves in peripheral activities. It has also given them advantage of reduction in risk. This risk has been passed on to the vendors who are able to manage it in a better way because of their expertise and capacity and competence to handle such services. The literature review highlights the major motivators for human resource outsourcing and these motivators are reduction in overall HR services costs, availability of free time for strategic HR services and better quality of services (Nicon, 2005). Expected saving out of outsourcing decision is 50 percent and sometime it has ranged from 20 to 25 Percent (Jennings, 2002; Bounfuur, 1999). Miller (2006) through surveys has found that HR outsourcing has resulted in free time for better technical solutions; standardized processes and better human resource information services. He further stressed that the core business activities can be focused in a better way and the organizations can focus on product innovation and market changes. Mouhammed (2008) opined that the cost of assets is increasing and is having its impact on financial aspects. Organizations are not able

to buy those assets and need to search for strategies to lower the asset costs. Outsourcing is considered as a cost saving strategy and organizations by outsourcing non-core competencies can improve their customers' services and can gain a competitive advantage. Jeffay, Bohannon, and Laspisa (1997) suggested that by outsourcing, the HR activities have better quality and are available at cheaper price and this strategy allows the organizations to focus as well as invest in core competencies. Hewitt HR outsourcing Report, 2009 says that the demand of outsourcing is because of reduction in the cost, getting access to outside expertise, improvement in service qualities, and focusing on strategic HR priorities in the organization. By this way, we are able to focus on core competences and develop in-house core activities. (Cooper, 2007; Potkany, 2008). Hanson (2009) emphasizes that BPO helps and facilitates the organizations to focus on strategic decision-making and development of core competences. The complexities and difficulty of seeking information and maintaining it in HR Information System is to be managed by external experts. Such HR Software plays an important role to manage people (Stone, 2006). Stone argues that HRIS system helps organizations to improve productivity and have competitive advantage and can integrate vital HR Information with organizational strategy. However, purchasing, maintaining and developing of HRIS System is expensive and constant and continuous specialized skills are needed to handle the challenges to update. So certain activities can be outsourced which will result in cost saving as well as value addition. From the strategic HR point of view, organizations need various skills to manage operations and administration of the HR. HR goals are aligned with organizational goals so it is suggested by Beardwell and Claydon (2007) to specifically isolate HRM functions so that organizations can gain on Human resources over the competitors. Certain activities like training can be outsourced. This will help suppliers, customers as well as our present staff to improve their performance and this will not only result in spending less cost, it will help in achieving organizational developmental goals. The common outsourcing activities are recruitment, legal compliance, training and development, pay-roll and administrative processes (Elmuti, 2003).

In short, the various causes of outsourcing can be attributed to cost-saving, competency building, lack of experience of people working in the organization, strong desire to improve the quality and competence and intention of saving money and time. Limitations of experience, cost and expertise are the strong and outstanding motivators for outsourcing various HR functions in the organization:

WHY DO COMPANIES DO NOT OUTSOURCE

1. However, in certain organizations, various HR activities are not outsourced as the management thinks that the present HR setup can handle HR functions efficiently and is self-sufficient .
2. The activities which can be outsourced are not much relevant to the organization.
3. There is a conflict at the internal level about the decision to outsource and the management is divided on this matter.
4. Non-clarity and dissatisfaction regarding HR outsourcing companies and their service providing capacity.
5. Cost involved in outsourcing.

   It is generally seen that in India and even at the global level, the outsourcing sought for activities like pay-roll, assets administration, logistics management, hardware and software management and database management. Certain organizations outsource for training and development and legal compliances in a limited way. Sometimes some surveys are also outsourced. Moving further, two key reasons for outsourcing being the cost and the core activities. We may classify the activities based on core or non-core principles. The core activities which the HR professionals would not like to outsource are: talent acquisition and management, knowledge management, empowerment of the employees, mapping of competences, cultural enhancement activities, performance management, performance appraisal, leadership development programmes, and multiple skilling of the staff.

   The activities which are generally outsourced are routine and of repetitive in nature. They are surveys

with regard to compensation, salary, distribution and calculation of various testing, surveys regarding attitudes, training and development outside the organization and its evaluation, e-learning and HR accountability. 360° appraisal also falls under this category which can be outsourced. The issues pertaining to transformation are not involved. So it may be said that the cost factor as per the literature and outstanding competence level needed to perform these activities are important reasons for outsourcing the HR activities. The quality of services has emerged as a major factor for outsourcing decisions. The HR industry in India is fast gaining the ground and emerging as a leader in the international arena. Oza and Hill (2007) have also stated that it is the reduction in the cost which is a key reason for the organization to outsource HR services in countries like India and China. Thailand is also a lower cost location where HR activities are commonly outsourced as said by Beaman and Eastman (2004).

MODELS OF OUTSOURCING OR OUTSOURCING OPTIONS

Outsourcing has become a specialized business and the service providers have lot of competency to offer different services to be performed by them on behalf of their Client. These are done on contractual basis and the Fees are fixed after concluding the negotiations. Rothery and Robertson (1995) have described the various options of outsourcing which are full outsourcing, transaction outsourcing, selective outsourcing and transformational outsourcing.

Full outsourcing includes expertise in more or less all services and functions. However, as per them, it might create considerable complexities to both the parties. Rothery and Robertson (1995) suggested and advocated for selective outsourcing which provides comparatively more benefits. Since organizations have limited skills, budget and capital, so they have been advised for development of certain activities internally and rest of the activities may be outsourced. In a way, the differences of core and non-core activities are reflected through the discussions.

Transactional outsourcing is a situation where organizations are outsourcing anticipated activities,

whereas the transformational outsourcing focuses on giving the contract to improve the employees' skills and capabilities thereby transforming the whole organization to a better level of functioning.

Which type of outsourcing is the most appropriate to which organization depends on the nature of the organization, HR functions being performed, their own capacity and competence and the amount of resources at their disposal. However, the industry opts frequently transactional outsourcing to give the sub-contract to the service providers for such activities which are done on day today basis and are of repetitive in nature.

OUTSOURCING DECISION-MAKING

Arnold (2000) illustrates about 4 components which need to be considered when you involve yourself in the process of outsourcing decision. They are concerning subjects, object, partner, design which are being outsourced. There are different degrees of focus. It has been advocated by Arnold (2000) that the enterprise should focus on outsourcing the subject.

After concentrating on which internal activity should be outsourced, he further described the organizational activities into various categories on the basis of importance. Core activities, core closed, core distinctive activities and disposable activities have been described by him. He emphasizes important organizational specific activity dealing with the competency level of the organization should not be outsourced whereas organization can outsource internal activities. Organization should formulate the appropriate design of outsourcing.

It is an important point to be kept in mind that the employees attitude and behavior towards the outsourcing decision is very important. We need to ensure their participation for the success of outsourcing process. If not done so, there will be challenges of acceptability and the conflicts will arise due to change of process and functioning. It is necessary to work on motivational aspects of the employees at different level by taking them into confidence and sharing with them the benefits and the improvement in the efficiency resulting out of that. They need to be taken into confidence that outsourcing

will not result in unemployment and the culture of the organization will not be affected. Atmosphere of empathy and sympathy along with the development of the organization need to be prevalent, the role of effective communication and coordinating efforts is very important in this regard.

CHALLENGES OF HUMAN RESOURCE OUTSOURCING

As described above, there is resistance to change, there are conflicts of interest. System in the organization suffers from a sense of insecurity and instability. Dependence on various vendors may result in non-functional atmosphere in our own organization. We may describe various challenges emanating from human resource outsourcing as under:

The most important problem faced by an organization while opting for human resource outsourcing is the acceptance of change by the employees of the organization. There is always an anxiety in the minds of the workers that either they may lose control over the functioning and management or this process of outsourcing may create unemployment and their services may be terminated. It results in resistance. Resistance can be detrimental to the interest of the organization. To avoid that it is necessary to develop suitable change management programmes following the principles of effective communication and coordination. Involvement of staff at various levels is necessary to implement the changeover. It is necessary that the employees should be helped to adapt to the new system in which they should be feeling more important and relevant than before. The benefit of the outsourcing in terms of capacity and competence building as well as the benefit to the organization and to the employees should be made understood to them and they should be taken into confidence.

There are other risks which are associated with the human resource outsourcing.

We have the risk of sharing information with the competitors. Much important information when given to the vendors and suppliers, threat of passing on the information to the competitors is always there. It can

affect the organization's profitability, success and one has to be very careful with regard to unsystematic outsourcing. There may be problems of losing personal touch with the employees because daily activities if not performed with the help of same employees may make them indifferent towards the organization. This can result in loss of talent which has been supporting internally and may lead to potential redundancy. There are dangers of abrupt termination of the agreement by the service provider due to closure of operations by him. He may not be able to provide the services to the staff as would have been provided by the organization and its HR team. There are issues of using e-services and online systems with regard to security and failure of the technology which can be detrimental to the organization's interests. There are common complaints of mix-up of the payrolls, complaints having not been addressed regarding facilities to the employees and the services being offered. Keeping that in view, Marquez has opined that outsourcing of HR activities may not result in saving in terms of costs to the organization. He has further advocated that the organizations should develop their own HR activities. The same has been supported by Thomas D. (2005) that investment in internal activity will bring cost saving to the organization.

According to another research which was conducted by Kessler *et al.* (1999) points out that there can be serious obstacles if the employees part, in the organization is not taken into consideration. Negative feelings may develop in the employees who are working in the organization while outsourcing is being done.

Kakabadse and Kakabadse (2000) have talked about the impact of such feelings which result out of outsourcing on the organizational culture. There can be a feeling of job insecurity, decreased employee morale, which will lead to decrease in the productivity and there is a possibility of increase in absenteeism and turnover because of non-participation or development of negative feelings in the minds of the employees.

If these things are not taken into account, the resultant effects can lead to not only increase in employee turnover rate but also can lead to decrease in the performance levels of the present employees in the organization. When we do not realize what we are going to lose and are not able to focus on the hidden costs of outsourcing and further if the services provided by the service provider are poor and the responsiveness is not appropriate, this may result in conflict in relationship between the service provider and the employer. Ultimately, it may lead to ineffective execution of the various HR activities which is going to affect functionality, performance as well as the continuity of the organization affecting the profitability in the long run. We need to understand these challenges in depth and manage them with prudence and follow the policies which are effective, productive and acceptable to all concerned.

ROADMAP FOR SUCCESSFUL HUMAN RESOURCE OUTSOURCING

Human resource outsourcing can be made successful by the organizations that are practicing it by following certain precautions with regard to various important issues concerning concept, implementation, follow up, adoption, implication, evaluation and transformation of human resource outsourcing with regard to organization. Organizations need to work on the designs and details and various strategic parts of the human resource planning which is an in-house activity as it is a critical activity which will provide sustainable lead in the long run. We may give our views point-wise as below.

1.   At the concept level

As discussed in the previous sections, we get competitive advantage in terms of cost and efficiency by following human resource outsourcing. It is necessary to understand at the concept level the difference between core and non-core activities in any organization and it is necessary to create a balance between the external service providers and the in house managers of the organization engaged in taking the decisions of the outsourcing activities.

A small or medium size organization to avail the benefits of economies of scale can outsource day to day activities of pay rolls that benefits processing and may follow the principles of good governance and change management while introducing the concept of HR outsourcing in the organization. It is necessary to identify the conflicts at an early stage and put in place dispute resolution mechanism and structure which should be

acceptable to all concerned. All the parties involved should work together following the principle of cohesiveness, working for the long term benefit of the organization and the employees.

There are dangers of distortion of information whenever more than two parties are involved and as outsourcing involves vendors, employees and the organization, the chances of gaps in communication is possible. It is necessary to follow the principles of effective communication and commitment to achieve the organizational goals and objectives. Mutual trust and contribution are key for the smooth and successful implementation of changes particularly for introducing HR outsourcing in the organization as this move directly affects the employees who are a key resource of an organization.

2. Implementation

Adopting the HR outsourcing creates a function for the HR executive to evolve the strategies to focus on core business activities instead of engaging in routine and maintenance activities. Prioritization of quality work with regard to cost benefits analysis needs to be done. HR executives should focus on core activities and the development of soft skills of the people involved in the organization. The importance of knowledge management, skill enhancement, and building of organizational culture cannot be undermined. They need to be adopted for empowering the employees for future development of the competency for the benefit of the organization as well as the employees. The implementation of HR outsourcing is to ensure that the changes brought in the environment are in line with the expectations of the employees and all are motivated and working towards the organizational objectives.

3. Follow up

There is a possibility of multiple suppliers situation for handling the various HR activities. It is necessary to evaluate the effectiveness of various vendors by evaluating their past performance records. The long term service contracts should be avoided. The periodical evaluation of their services, timeliness, professionalism, behavior, attitude towards the customers, employees and the organization should be observed and documented. Services provided by different suppliers should be analyzed, evaluated and accordingly the decision for the renewal of the service contracts should be considered taking into confidence different people, managers, departments, employees who are going to be affected directly or indirectly due to human resource outsourcing.

4. Precautions

As discussed earlier, there is a possibility of sharing of data by the vendors and suppliers with the competitors or others who can take the benefit and can be detrimental to the organization's interests. Such situations can be handled by entering into strong agreements and implementation of various checks and balances and monitoring mechanisms. No leniency should be allowed in the matter of leaking of information to anyone not authorized. The technological challenges like servers crashing and loss of data should be managed by implementing standard IT procedures and protocols. Periodic technological upgradations are imperative for robust e – HR solutions.

5. Adoption

It is necessary that HR executives understand the importance of transformation of HR environment and development of HR functions in house. The services so outsourced should have full control over its functioning. Adoption of changing technology by doing the talent acquisition should be developed. Knowledge management and the performance management should be the elements of transformation in the organization.

Organization should work on building the culture which is beneficial to the organization and the employees in the long run. Improvement of perception, attitude, behavior, participation and commitment are necessary for the development of any organization. HR outsourcing should be evaluated from time to time on the principles of responsiveness, accountability, cost, etc. It should always be assessed whether the outsourcing will be helping and taking the organization to a higher level in terms of business and benefit or not.

CONCLUSION

This research paper has found that HR functions are very important and they need to be aligned with the goals of the business. A proper business strategy needs to be evolved with the support of scalable infrastructure. It is necessary to collect required data to support the decision making of HR outsourcing with the objective of cost saving and improvement in the efficiency.

Customized HR services could be developed as per the specific needs of an organization, enabling the business to achieve accelerated growth. So many organizations such as manufacturing, IT, banking, BPOs and retail have adopted human resource outsourcing which has provided an effective and problem-solving solutions and has met the challenges of human resource management by providing them expertise as well as the benefits of technology.

Going through the discussions, we found that there is no clear evidence about the different patterns of outsourcing policy of HR activities. The effective management of human resource outsourcing will result if we are able to select the right vendor and ensure that proper service is provided to the organization. We need to focus on managing the changes by focusing on conflict and change management to ensure that we are able to build strategic relations with all concerned for the benefit of the organization, vendors, employees, society and the world at large. The present paper finds that there is a lot of scope for future research in this area and need of the hour is to adopt the expertise and specialization of human resource outsourcing as a separate independent system of management.

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