

HUMAN RESOURCE OUTSOURCING

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ABSTRACT

This paper mainly focuses on business outsourcing and related attributes. Business Outsourcing has become a new trend these days where every industry including Human Resource is involved. Whether traditional or modern, every organization has started reducing number of employees to stay cost effective and thus, Human Resource Outsourcing is becoming the new buzz. Organizations are focusing much on their core competencies by outsourcing non-core business functions. Human resource outsourcing is not only meant for Multi-national companies or big reputative firms but also is adopted by many small and medium enterprises because every organization has now become attentive to achieve an advantage over its competitors.

HR outsourcing helps in the development of value chain in the business and also support the growth of the business. This paper analyses the drivers that are encouraging organizations to outsource their Human resource functions, drawing information from study of extensive secondary literature. This study mainly focuses on Human resource outsourcing and related issues/challenges, and how organizations can get rid of all such barriers and go for a successful outsourcing of the same.

KEYWORDS:

Human resource, Human resource outsourcing, Outsourcing, Organizations, Strategic management.

INTRODUCTION

It is difficult for an organization to achieve their desired goals. Every organization needs tangible and intangible resources for its operations where Human Resource is one of the key assets in business. There is no existence of the organization without Human resource.

Outsourcing is defined as any work done for the company by third party people other than company's full time employees. India felt emergence of business outsourcing in early 90s which was first adopted by IT companies but today every industry is connecting itself with the new wave of business outsourcing. The global market for outsourcing in 2018 was worth \$85.6 billion and 59% of businesses used outsourcing just to cut down their costs. Organizations are adopting this practice to stay cost effective and to attain a competitive advantage over other competitors.

Every business needs outsourcing just to focus on core operations, ensure compliances with legal, regulatory and best practice requirements. One of these industries is the Human Resource industry which is no way lacking in terms of outsourcing its functions. Human Resource Outsourcing takes place when a company hand over its HR functions to some third party. The organization that wishes to outsource its HR functions get benefitted with reliable supply, excellent quality and rock bottom prices and then companies can spend more time focusing their business expertise and core competencies.

Organizations that outsource their HR functions are usually small to medium enterprises that comprises of approximately 25 to 1500 employees. Some of the HR functions are Recruitment and selection, payroll and compensation management, staff training, employee benefits and service, and job evaluation. There are many companies in the market which offer outsourcing entire HR functions or a single one. The international Human resource market share was worth USD 16.01 billion in 2019 and is

expected to deliver compound annual growth rate of 11.7% from 2020 till 2027. Usually companies outsource those functions which are non-critical and confidential because then there are a lot of client and customer data security risks.

Reasons for Business Outsourcing	Percentage
Cost cutting	59%
Focus on core competencies	57%
Resolves capacities	47%
Better service quality	31%
Critical to business needs	28%
Intellectual capital access	28%
Business environment management	17%
Drives transformational change	17%

Table no. 1 (<https://www.microsourcing.com/learn/blog/the-ultimate-list-of-outsourcing-statistics/>)

Functions of HR Outsourcing

HR functions outsourcing generally takes place in the areas like payroll, employee benefits, administration, network, call centres, database management, and telemarketing etc. In India usually HR functions like payroll processing, training and development and statutory compliance are outsourced. HRO is rapidly growing and it will keep on growing in future because organizations that offer outsourcing services are coming up with increased benefits by introducing new services using various strategic tools and software.

Latest trends in HRO

- Big data and analytics
- Online Payroll
- Workplace wellness programs

Prevailing market trends keep on changing with the change in technology. The best service provider always maintain all of the running trends. Online payroll management is one of the best trends, it allows an organization to handover employee payroll attributes like compliance and compensation management to some third party which enables healthy working environment for both internal and external factors.

Benefits of HRO

HRO offers a lot of benefits and satisfaction to the organization, because they try to cut down their fixed costs and convert it into variable cost which directly reduces additional processing costs and ongoing expenditure. Be it public or private organization all of these are willing to provide a healthy working environment to their employees. Also it helps in reducing risks and improving focus on strategic management and helps developing new expertise and skills which helps an organization to meet its vision and mission.

<u>Benefits of HRO</u>	<u>Satisfaction %</u>
HR tasks handled/eliminated	29%
Cost savings	21%
Breadth of products/ services	21%
Cheaper health insurance costs	10%
Retained liability	3%
Better benefits and other benefits	16%

Table no. 2(source- <https://www.extensigroup.com/blog/hr-outsourcing-statistics-and-trends>)

Drawbacks of HRO

HRO introduced many barriers along with the benefits. There were many organizations that lost their control over their HR services and functions within itself and faced many other problems like providing benefit justifications, lower and unexpected service levels, employee resistance, cultural differences, professional relationships between internal and external people also got worst, low cost at present but rising costs in future, etc. One of the biggest drawback is that it is very difficult for employees to adapt the changing culture and environment in the organization which hampers their productivity and makes them inefficient. DATA is the biggest of all these days which is again at risk through HRO also there are many political risks involved. Some of the Professional employer organizations insist that hiring and firing of employees will be performed under them once they are into the contract for HRO which is very harmful for the organization in the long run and also demotivates the employees within.

<u>Drawbacks or problems of HRO</u>	<u>Percentage</u>
Recruiting	51%
Getting quality Insurance facilities at a lower rate	48%
Better competitive benefits	38%
Retirement plan offers at an lower rate	32%
Compliance maintenance at local, state and federal levels	29%
Ensuring consistent management of health benefits	27%
Tax administration	25%
Retaining employees	24%
Managing business insurance/legal regulatory risk	23%
Managing worker’s compensation	22%

Table no. 3 (source- <https://www.extensigroup.com/blog/hr-outsourcing-statistics-and-trends>)

RESEARCH OBJECTIVES

- To understand Human Resource Outsourcing and related attributes.
- To analyse and study shift of organizations from traditional towards modern practices like outsourcing.
- To study need, trends, benefits and drawbacks of HRO.
- To study the future scope of HR and outsourcing industry.

- To study future scope HRO.
- To analyse company's consciousness about outsourcing HR functions.
- To revise and throw light upon the statistics of outsourcing services.

LITERATURE REVIEW

There are a lot of reasons at strategic and operational levels for which firms are willing to outsource their HR functions. Productive in terms of profitability and growth have compelled organizations to examine their internal HR practice which has subsequently resulted in promoting the wave of strategic outsourcing. It was observed that outsourcing HR functions will reduce the costs of HR services. Tougher competition signifies that such functions are under pressure to deliver value in terms of being effective and efficient (*Greer, Youngblood, and Gray in, 1999*).

Human resource professionals have ability to turn capital strategies into competitive advantages for long run. Here competencies sustain as much as vision. Competent HR individuals recognize the need of the profession and investing in upskilling themselves with the changing technology. It is said that HR competencies lies in intelligence, ethics, education, experience and interests (*Michael R. Losey, 28 May 1999*).

What should be outsourced is not very obvious manager might need to think twice before they outsource their business. Outsourcing is dependent on many aspects and it is not easy to overcome barriers in between. When outsourcing business functions organizations must keep record of previous experiences and must study related aspects in detail to avoid any challenges. (*Linda K. Stroh, Deborah Treehuboff, February 1, 2003*).

Market dynamics keep on changing rapidly and competition over the globe creates pressures on organizations to extensively focus on their core competencies and with this firms decided that they will do what is their core function and will outsource other ones. Human resource outsourcing is one of the key areas that deals with payroll and administration management, recruitment, benefits and training and development. Other than cost reduction HRO offers many other benefits like accessibility to better practices, advanced technology and a faster turnaround and this is how an organization can achieve global competitiveness(*Dogra B., Khara N. and Verma R., January 2007*).

There are a lot of arguments that exists in umbrella of outsourcing and still there is no fair justifications on any one side. Some people are in favour of outsourcing whether others call it a threat. There are some facts that prove outsourcing is tool which creates time for HR professional to become strategic planning partners of the organization. But some individuals say that outsourcing is a cost cutting tool and it also reduces number of employees in a business firm (*Jeroen Delmotte, LucSels (1 August 2008)*). Every organization must focus on the challenges and factors like affordability, flexibility and availability that influence their outsourcing decisions and must emphasize on the cost effectiveness in the business which is one of the biggest benefits of HRO (*Dr. Manisha Seth and Dr. Deepa Sethi (April 2011)*).

To deliver best in terms of performance is very difficult these days especially with changing conditions of competition. Every professional is fascinated by HR functions and the culture within the organization. Outsourcing is one of the techniques to increase focus on core competencies by proper resource allocation but now the question arises that up to what extent business function must be outsourced that it will never affect culture within. Also outsourcing helps building strategies within favour of the organization. Views of employees about human resource management within organization

also help in improving favourable strategies. There are many HR practices that improve and add value in culture within the firm (*Isik Cicek & Bilal Ozer (2011)*).

Modern management has brought a dynamic change in processes where HR is one of them. Organizations that practiced Welfare management felt emergence of HR functions. After liberalization policies and scenarios have changed where we can easily justify that Human resource is the driver of development in any organization. Organizations tried focusing more on their vision, mission statement after they felt change in employee roles. After 2000, when technology sector was booming, many trends came along which were completely revolutionary and helped in uplifting business outsourcing processes. (*January- April (2012)*).

Strategic position of the HR department is affected and influenced by outsourcing. Some of the previous researches showcase conflicting statements about outsourcing and its impact from positive HR actions to strong and competing strategic roles to negative actions because their tasks are overtaken by external sources. Conclusion and results suggest that strategic roles of HR departments are negatively affected by the delegation of management and positively affected by outsourcing of non-core HR practices (*Astrid Reichel, Mila Lazarova(19 November 2013)*).

Outsourcing has drastically evolved in last two decades but still some questions remain unanswered. Does outsourcing genuinely help in improving performance of the organization? Also this question needs to be answered because many multi-national and small and medium enterprises have adopted outsourcing to become cost effective. Everyone amongst research scholars and professional are eager to understand that how actually outsourcing benefits and organization? But outsourcing suggests that it creates both positive and negative or mixed impacts on the business organizations and their respective performances (*Somnath Lahiri (21 July 2015)*).

RESEARCH METHODOLOGY

This is a secondary research method that involves already existing data. After the information gathered it is summarized to prepare a report of the research study performed. This research study was conducted for 1 week where the information was collected from various sources like publishes articles, research papers and websites. This method is very effective in trimming down time and cost whereas primary research method which involves use of questionnaires and surveys for authentic data. Secondary method allows researchers to use readily data available on internet which is easily accessible by all. Also this helps a research scholar to conclude the research report in less time as compared to time taken for primary research. Secondary data is also reliable and trustworthy because it is previously analysed and filtered.

Sources of data: This research study is purely based on secondary data.

RESULT & DISCUSSIONS

HRO is a well-defined strategic tool to become effective but still there is need to take essential precautions like re-designing the outsourcing models and practices to improve strategic management which boosts core capabilities of the business and benefits the organization in long run. A balance has to be maintained between internal and external factors to perform efficiently. Small and medium enterprises lack economies of scale for which they should outsource HR functions like payroll management and training and development which aren't the focus areas of the business. Also there is need for skill development which is very essential for a Human resource.

HRO provides both opportunity and the need to re-define future roles required because HR managers are the individuals who own and manage client vendor relationship. It is very clear that world of retained HR staff is far more challenging post HRO and that's why it becomes necessary to maintain the balance between what to outsource and what not? Technical compatibilities, data confidentiality and cost effectiveness are some of the aspects of HRO that both parties must focus on. Compatibility in values and culture along with flexible approach will benefit in long run ensuring a successful outsourcing venture without any barriers.

FUTURE SCOPE

To remain cost effective in the era of globalisation where market forces like demand and supply drastically change an organization needs to stay alert and efficient in every aspect which can be accomplished by outsourcing business to third parties. Time has come when organizations will not devalue their services when they cut down their costs instead they will become more effective in terms and will achieve economies of scale. Business outsourcing proves to be the best solution to maximum problems within an organization. Employment rates will be positively affected as BPO's are trying their level best to provide long term growth opportunities and handsome compensations to their employees. Salary level for senior levels will increase at triple rates and can go to 5.6-5.9 lakh per annum.

Artificial Intelligence is another most critical aspect which is evolving at a faster rate. It will also impact future aspects of business outsourcing in many positive and negative ways. AI will automate regular working schedules and practices. Time effectiveness will be another aspect in the race as manual working practices will be replaced by advanced software which will also avoid human errors. Organizations will be able to work more efficiently and will be able to satisfy client needs and to deliver customized solution as per their needs. Businesses will be backed by increased revenues and improving sales rates. Market research will become much easier through developed databases with changes and developments in AI.

Outsourcing has a very wide future scope, every sector will get benefitted by the services and organizations will be able to explore more of Business outsourcing aspects.

CONCLUSION

This research report is prepared to understand overall concepts related to Human Resource, all of its functions and outsourcing. We discussed about the issues and challenges in HRO. This article signifies the importance of HRO for small and medium enterprises and also throws light upon how effectively HRO can turn a strategic management tool to become successful. Reviews, articles and surveys show that HRO industry is growing very rapidly and will grow more than the current rate in future. 78% of the businesses all over the globe find positive and healthy relations with outsourcing companies.

HRO has many benefits along with some of barriers which industry people need to look upon. HRO involves legal and statutory compliances of employees which is very necessary for every business, and any mistake can lead the organization to a lot conflicts between the organization and the employees. Also, HRO deals with many security risks related to data confidentiality. With change in technology perceptions, processes and practices are also changing. Offshore HRO is booming which is a positive sign for country like India but still suppliers need to confront issues and challenges to maintain the balance in between. HRO is becoming more self-centred because of the technological advancements over the web where employees are asked to be more proactive. HR is one of the functions which plays a significant role in day to day life and helps in development of the business in an organization.

HRO must be carefully crosschecked and weighted against Issues such loss of control and authority over HR functions, strategic value, staffing and overall costs which can increase efficiency of the company and get higher profits. If organizations have broader perspective and are taking precautions and corrective measures before opting HRO then it will definitely help them in coping up with weaknesses within the business. If applied properly including concerns, outsourcing has many benefits but still it offers risks. Unlike everything, HRO has come a long way but still there's a long way to go.

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