HR OUTSOURCING

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ABSTRACT

Outsourcing is the process of getting services or products from an outside service provider with a view to cut the costs, to avail capabilities which are not available in house, and cutting down time period for project completion. It is delegating some or all functions of management or some operations of organization to another firm. Companies providing outsourcing services for Human resource management can bring human resource sophistication in small companies and buying power of large employers. Small employers can avail better employee benefits at relatively lower costs, better recruitment and retention capabilities, curb labor costs and adherence to government regulations. Large companies on the other hand; can get need based HR support and make its HR staff concentrate on more strategically important functions. HRM outsourcing helps big companies to curbing HR staff requirements and the department can more effectively respond to employees’ needs. However it should be ensured that the HR outsourcing service provider has got excellent knowledge, expertise and required resources to meet strategic requirements of the organization. Choosing the right functions for the outsourcing can make significant difference for the organizations’ survival and success and can give organizations competitive advantage.

Key words: outside service provider, delegating, and strategic requirements

INTRODUCTION

Today’s competitive and dynamic market conditions have kept one of the prime considerations in front of organizations i.e. to reduce its expenses and improve profitability. Organizations are exploring various options like laying off employees, reducing employee pay, new raw material composition, downsizing to a smaller office, lowering monthly bills, changing hours of service and restructuring debt. The company of the future will contain combination of core business activity performed in house which would be supported for non-
core activities from an outside provider. Outsourcing makes large companies flexible to respond quickly to market changes and other business needs. Outsourcing can be defined as “the delegation of one or more business processes to an external provider, who then owns, manages and administers the selected processes based on defined and measurable performance metric”.

A company should start by assessing the contribution of each function or activity performed by its employees. The activities that do not contribute to the core competencies of the organization should be eliminated entirely, automated or performed by someone external to the organization, freeing employees to perform activities that directly support the organization’s core competency.

**STEPS IN OUTSOURCING**

1. The first step in the outsourcing decision is to decide what the organization's core competency is, the activities which are crucial for competitive advantage. The other activities can be considered for outsourcing.
2. Organization should carry on cost-benefit analysis for in house capabilities and costs against that of outside provider and should go ahead only in case benefits outnumber the costs part.
3. A company should have proper outsourcing policies in place for vendor selection, contract development and managing overall relationship with the vendor. Whenever possible company should get into performance based contracts and monitor performance of the vendor from time to time.

**HR OUTSOURCING**

One of the popular ways of improving services is business process outsourcing of certain functions. In case of HR, it allows professionals time to focus on more strategic HR related functions which can contribute to overall organizational objectives.

The processes those are included in HR outsourcing can change from organization to organization. Some organizations may outsource almost all of their HR processes where others select specific services like such as recruitment. Processes that can be outsourced include recruitment and selection, training and development, performance and compensation management, change management, organizational development, industrial/employee relations, occupational health and safety/Work cover administration, outplacement services and employee assistance programs. Virtually every function of HR can be outsourced.

Organizations are found to be focusing on recruitment and related processes like assessment i.e. psychological assessment, skills testing, reference checking, for outsourcing. Very few organizations have outsourced their entire HR functions.

**Potential benefits**

Human resource outsourcing is one of the strategies to improve the efficiency and flexibility of workforce. It helps organizations in being proactive in adapting to changes and stay ahead of market forces. The benefits affect top management, HR managers and employees and can include curbing costs, access to highly skilled professionals and
FOR TOP MANAGEMENT

Reduce Liability: Even one shoddily handled employee incident can affect entire organization adversely. The problem is that many organizations do not realize how an issue who they are considering frivolous can have serious repercussions. The outsourcing service provider takes responsibility of some or most functions of HR and can comply with duties in more professional and complete manner, liability for top management can be reduced to certain extent.

Improved Productivity: Some of HR outsources service providers implement strategic performance management plans for every employee in the organization which are aligned with organizational goals. They put systems in place to monitor report and review the performance of each member of team. Employees benefit knowing exactly what is expected of them, and can rise to exacting standards when they know their performance is being measured and reviewed.

Decrease in Total Cost of Labor: HR outsource service provider can analyze entire cost of labor from benefits, workers' compensation, compliance management, payroll administration, low productivity and more, and find the places where organization can be more efficient. Depending on the size of the organization, that could mean hundreds of thousands of rupees per year in savings.

Increase Profits: Strategic human resources solutions offered by the HR outsource service provider lowers overall cost of labor and entire organization can operate at higher levels of output.

Strategic Decision Making: Making good decisions requires good information. HR outsource service provider can also assist the organization in strategic planning and efficient allocation of scarce resources.

Reduce Turnover: One of the biggest problems to the productivity and profitability of the organization is employee turnover. Keeping high performing employees satisfied doesn’t happen by accident. It has to be planned. The organizations can benefit from thoroughly planned and proven HR administration that dramatically reduces turnover. From recruiting the best people, to designing effective compensation plans, to regular performance reviews to training and development programs, HR outsource service provider, can help.

Focus On Business: HR outsource service provider handles some or most of HR functions, freeing the organizations to focus on growing their businesses.

FOR HR MANAGERS

Focus on People: Human resources department is for giving dedicated services to the organizations. But over time it has been observed that more and more of HR department goes for paperwork. It should be that way. HR outsource service provider reduce this paperwork of HR department dramatically either by taking its charge or by offering some system solutions and HR department can concentrate on what matters – the employees.

Reduce Workload: By eliminating or dramatically reduce the paperwork HR department can have more time to focus strategically. IT or web based systems solutions provided by
outside service provider includes full employee self-service functionality. Employees can access payroll records, benefits plans, performance reviews, company policies any time. It can result in reducing major time of work for employees.

**Data Driven Management:** HR outsource service provider can generate reliable reports specifically designed to keep organizations informed of all information critical for performing job. Good information is important for making good decisions.

**Eliminate Administrative Burden:** Certain regulatory compliance can be handled by the HR outsource service provider. They handle these things which organizations most of the time find too much time consuming and involving lot of paper work.

**Keeping within Budget:** Organizations have budgetary responsibilities, and keeping within budget is critical to organizational success. HR outsource service provider can provide budget tracking reports that helps organizations staying informed. Furthermore, their solutions can help cut costs. It improves organization’s productivity, which means organizations’ need will have to hire fewer people in the future to get the same output.

**FOR EMPLOYEES**

**Benefit Plans:** An HR outsourcing service provider can offer enhanced benefits plan which the organization can offer to its employees without significantly increasing costs. An attractive benefit and compensation plan is crucial to attracting the best people.

**Clear Expectations:** Employees work better knowing what the organization expects from them. Clear communication between management and staff is clear, benefits everyone.

**24x7 Availability of Records:** Employees like to access important data online securely any time of the day or night. They can see their own payroll records, personal profiles, learning and development resources and more.

**A Better Workplace Atmosphere:** The primary objective of any HR Department is to create a conducive and rewarding workplace for all employees. Employees who love their job and their company not only become loyal but also become more efficient.

**SELECTING A PROVIDER AND MANAGING THE TRANSITION**

A number of considerations must be made when selecting a suitable outsource provider –

For example:

- Reviewing the existing HR set up, like the costs involved, responsibilities, level of service. This information is very important while making cost-benefit analysis with outsource provider.
- Assessment of future requirements, for example in terms of level and type of service. Outsourcing should be less expensive, higher quality, more flexible, more technologically current or provide some other measurable benefit.
- Short listing preferred suppliers.
- Getting feedback from other organizations that the outsource providers are currently working with to know whether they are satisfied.
- Finding out match with provider organization which might include cultural as well as geographical factors.
- Identification of the ‘key’ person who will be the relationship manager.
Determining terms and conditions of the contract. In most cases, the benefits of outsourcing any human resource management activity should be clear and measurable.

Keeping contractual flexibility where possible.

In some larger organizations there might be a procurement function which takes care of all contracts. It is necessary HR stays involved in the contracting process as people looking after procurement function may not have required expertise in HR matters.

Identification benchmarks of what unacceptable and acceptable levels are; to be included as part of contract.

**BENEFITS BOTH LARGE & SMALL COMPANIES**

United States and the developed economies of Europe and Asia are seeing the change from industrial product manufacturing oriented to technology. Large organizations have found to be outsourcing the operational elements of delivering HR services while maintaining control over HR strategy and decision-making. There are a number of well-known examples of large, mainly multinational organizations that have outsourced large parts of their HR operational activities, often for between five and ten years, for example Procter & Gamble and Unilever. Interestingly, small organizations often do the opposite, outsourcing strategic part of HR; to HR consultants and professional advisers and keeping the delivery of HR activities internal.

Today most of the organizations are facing the shortage of and competition for the knowledgeable workers who produce intellectual property. The nature of product development and product life cycles are dramatically getting shortened, resulting in a total change for the kind of workers who are sought by the organizations. Companies are finding dire need of managing them proactively, placing huge amount of importance on the human resource side of their businesses.

Unfortunately, at the time that when companies are realizing that only creative and innovative workforce can give them competitive advantage, many organizations, both large and small, are having their existing internal human resource functions inadequately staffed, with inefficient skills who are unable to obtain the organization's growth or even ensure basic survival. Consequence is many companies are opting for outsourcing all or part of their human resource management activities to control costs, bring improvement in the quality, increasing efficiency of their human resource functions and to obtain expertise that they do not currently possess.

HR outsource providers can give small companies the human resource sophistication with the state-of-the-art knowledge, expertise and resources and buying power of large organizations. Small organizations can enjoy better employee benefits at lower costs, better qualified new employees and reduced employee turnover capabilities, curb on labor expenses and regulatory compliance. Large companies can obtain specific human resource management support as and when they need, reducing the full costs of maintaining this expertise in-house in meeting tactical and strategic human resource management challenges.

HR outsource providers can help large companies keep internal human resources staffing levels down while maintaining the high service levels expected by employees and line management.
According to several recent surveys, more than 50 percent of companies have already outsourced some part of their human resource functions, and most of these organizations plan to outsource additional functions in the future. Today, human resource management outsourcing has varied from simple third-party relationships like hiring an attorney to assist with a discrimination charge, to hiring an outside firm to establish a human resources department, to more comprehensive relationships like employee leasing and virtual corporations.

Good candidates for outsourcing human resources include: rapidly growing companies whose core business is demanding more resources and focus and companies whose core business has declined and that need to reduce the costs of support services. Companies changing top management or corporate philosophy, and companies whose internal human resource function or infrastructure is obsolete, also are good outsourcing candidates.

A recent study conducted by Buck Consultants Inc., employee benefits consulting firm, majority companies surveyed have said that they outsource human resource management activities to gain technical and regulatory expertise and more value from their human resource management budgets. The other most cited reason was improved quality of services.

This picture is some complicated as far as the extent of outsourcing is concerned. According to the CIPD survey “The changing HR function” in which only 4% of respondents with an HR shared services operation said that they wholly outsourced it. The vast majority of organizations maintain their shared services operation in-house. Looking ahead, 11% of the survey participants expected HR shared services to be outsourced in three years, and half expect to partly outsource some of their shared services.

**PRECAUTIONS FOR HR OUTSOURCING**

From a rational point, there are also a number of precautions that should be kept in mind when considering outsourcing.

- Outsourcing arrangements often involve long period; may be five to ten years. The outsourcing provider should understand organization’s current and future business strategy and potential changing business profile before entering into any contract. This helps both the partied being tied into unfavorable contractual arrangements.
- Outsourcing is not a substitute for good people management practices nor should it replace overall responsibility for the provision of HR services.
- Not to outsource when companies themselves are not sure about the solution. Solution offered by outsource provider may be just be partly satisfying or at times completely unsuitable which would be unnecessary cost for the company.
- Separation of services between day to day operations and strategically important operations. It is advisable that companies should outsource only day to day non core activities and keep the strategically important or core activities in house.
- In a dynamic business environment, the need for outsourcing services may change, and there are instances of services being brought back in-house. Constant review of outcomes of the outsourcing arrangement against benchmark.
HR FUNCTIONS NOT CONSIDERED FOR OUTSOURCING

- Policy and Management Responsibilities
- Selection of candidates and specialized recruitment
- Labor Relations
- Grievances
- Disciplinary Actions
- Collective Bargaining Agreements
- Efficiency, Productivity and Incentive Sharing Programs
- Career Pathing
- Mentoring Program
- Agency Unique, Program Specific, and/or Specialized Training
- Employee Relations and Communications
- Management of Employee Separations

HR FUNCTIONS CONSIDERED FOR OUTSOURCING

- Applicant Management – Assist supervisors with Recruitment, Screening
- Payroll Administration
- Collection and Reporting of Time/Attendance/Leave
- Retirement Benefits Enrollment
- Employee Information, Files and Records Maintenance
- Training & Orientation
- Generation of Standardized Reports

ALTERNATIVES TO HR OUTSOURCING

HR outsourcing is not the only option that organizations should consider if they want to change the way their HR function operates. There are other options to consider either as replacement or supportive, to outsourcing.

1. **Shared Service Centers**

   It is creation of an internal ‘hub’ for the delivery of HR services. Characteristics of it are:
   - They are common service provider of routine administration and sometimes additional HR services
   - They are therefore flexible to the needs of the business and are service oriented. They provide shared services of specific level and nature to their customers.
   - This is the most common trend among organization rather than outsourcing of HR services.

2. **Off-shoring**

   Most of the time it is used interchanging with outsourcing; which may not be always true. Off-shoring can be defined as the process of outsourcing business activities or services to a third party overseas and/or moving business activities or services to another country as a direct or indirect employer. In other words, off-shoring does not always involve the services of an external provider.
3. In-sourcing

The services of external consultants might be used to advise on specific HR issues or on the implementation of HR processes. Typically, consultants do not then manage or deliver these services once implemented – this is taken on by the internal HR team.

CONCLUSION

HR outsourcing can bring down staffing levels of the organization and frees its HR staff to concentrate on some of the strategically important functions which directly contribute to organizational objectives. Companies should go ahead with outsource provider when they are sure that cost-benefit analysis is giving upper hand to outsource provider compared versus in house competencies. Both large and small organizations can benefit from HR outsourcing, however the pattern of services outsourced has found to be opposite. Companies should constantly review the outcomes of outsourcing and some of the HR functions which companies find important due to changing market conditions can also be brought back in-house.

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