

Impact of Human Resources Outsourcing (HRO) & Challenges in India

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ABSTRACT

In today's world, Organizations are more concerned towards simplifying core business policy as the market dynamics, being very flexible, are tending to change rapidly and as a result of this, Global competition amongst them is increasing very fast. This has enabled creating tremendous pressure on the Organizations and they are ought to focus on the strategic business policies to cope up with the competition.

As a matter of fact, Companies such as Software, Manufacturing Units, and Service Providers have to imply hard core policies for outsourcing non-core HR function, and focus on core competency, which will be very cost effective. Furthermore, HR outsourcing can be defined as "placing responsibility for various elements of the HR function with a third-party provider" (Turnbull, 2002, p.11). The concept of HR outsourcing, being very old in India, market for the same began long back. A few such examples like Recruitment Process in Nationalized Banks have been outsourced to IBPS, Railway Recruitment Board. Similarly, outsourcing is not meant only for large Multinational Organizations. It can be used or is being used successfully even in the Public Sectors, Government Undertakings Small & Medium scale Turnkey Projects and also for Heavy/Industrial Engineering facilities, Machinery Installation, also for Erection, Commissioning & Start-up purpose, the Companies are in the race of outsourcing their many HR related activities for achieving the Organizational Goal.

Though the HRO (Human Resource Outsourcing) India has emerged as a new successful tool in India and the world over, the word HR & Outsourcing with the pace of time become new mantra in the business world thus HRO has become a new buzzword. In order to utilize the optimum ability of the employees and thereby maximum productivity, Organizations have realized to focus on outsourcing the non-core activities of their company. The submission of this paper emphasizes as to how the trends of HR Outsourcing Industry are prevalent in India and its future opportunities. It also examines the reasons that are encouraging the Organizations to go for outsourcing HR.

To conclude, the paper examines the pros and cons as to how HR Outsourcing is encouraging the Organizations by way of drawing essence from extensive exploratory study of secondary literature and also presents a framework i.e. usage of technology playing vital role in understand issues challenges of HR Outsourcing.

Keywords : Human Resources Outsourcing, Organization, Core & Non-core Activities

INTRODUCTION

Complex business environment and ever increasing competition has led to a paradigm shift in the Human Resource function. The main objective is to seek better services at reduced costs. Therefore the focus of the HR function has shifted from general administrative functions to strategically decision making and policy formulation wherein cost cutting and performance management are the key areas. Outsourcing is a company's decision to use

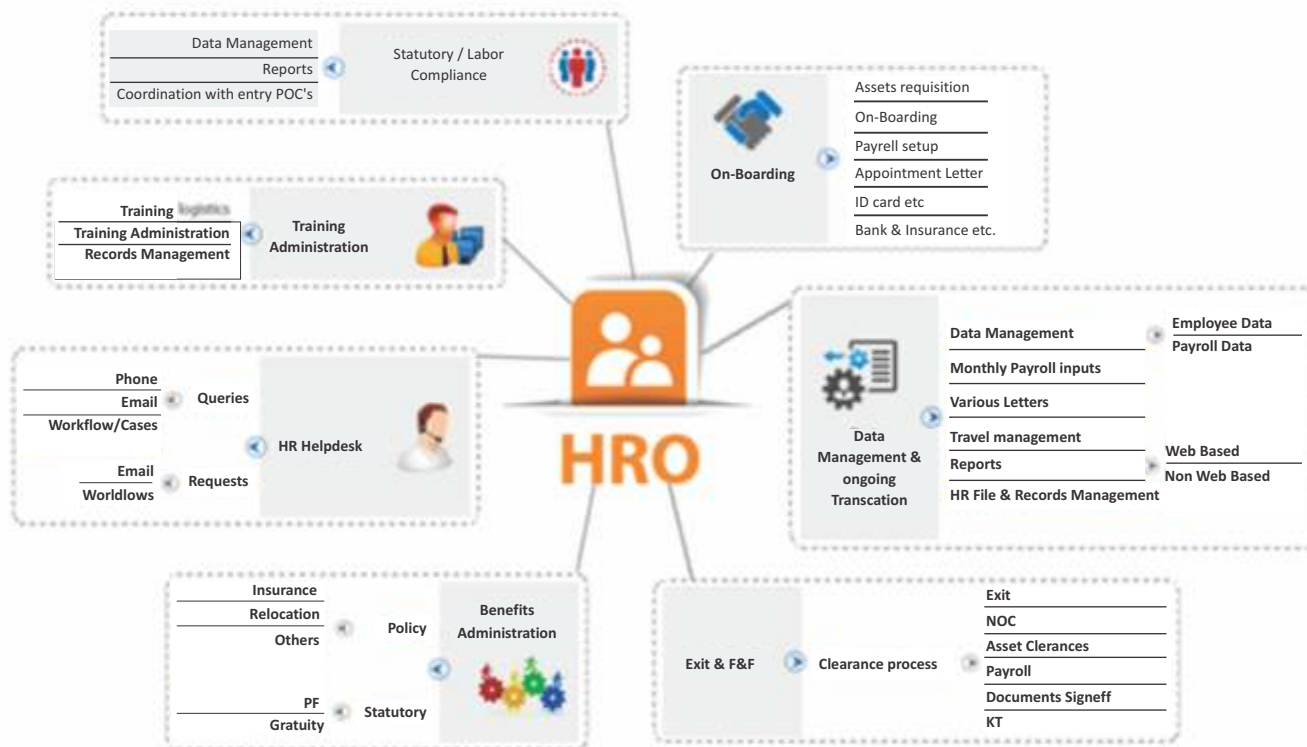
external companies to provide products or services that it used to provide itself. It is an effective strategy as it leads to cost cutting to achieve strategic focus thereby enhancing competitive advantage. HR Outsourcing (HRO) is the purchase of ongoing HR services from a third party having competence to manage the HR functions for the organizations. Human Resource Outsourcing (HRO) has developed later than other types of outsourcing such as catering, cleaning and security because HR used to be

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thought too sensitive to be outsourced (Shen et al. 2003)[1].HRO has been widely practiced since 1990 but its growth is modest as it is still evolving .However, the HRO market is the fastest growing segment of the broader business process outsourcing industry (Harrison 2004)[1]. Technological advancement has helped building a seamless relationship between the providers and client

companies which have further helped HRO take hold .In order to clarify the concept of HRO, this study systematically reviews the existing literature with regard to the process and cost considerations by outsourcing the HR function.HR outsourcing is a powerful tool that helps organisation to grow.

Figure 1 Human Resource Outsourcing



Source:<http://www.acculogix.com>

HR outsourcing Services that are outsourced varies from payroll, training, recruitment and dismissal function like conducting the exit interview etc. HR outsourcing service are bought under the four categories

- Professional Employer Organization (PEO):PEOs: A Professional Employer Organization (PEO) handles all the HR aspects of the business such as primary aspects of HR like payroll and benefits and organisation will handle all other aspects of the company.The PEO and business owner become partner
- Application Service Provider (ASP): Application service providers host software on the Web and rent it to users-some ASPs host HR software. Some are well-

known packaged applications (People Soft) while others are customized HR software developed by the vendor. These software programs can manage payroll, benefits, and more.

- Business Process Outsourcing (BPO):Business Process Outsourcing is a broad term referring to outsourcing in all fields, not just HR. A BPO differentiates itself by either putting in new technology or applying existing technology in a new way to improve a process.Specifically in HR, a BPO would make sure a company's HR system is supported by the latest technologies, such as self-access and HR data warehousing
- E-services are those HR services that are web-based:E-

services are those HR services that are Web-based. Both BPOs and ASPs are often referred to as e-services

LITERATURE REVIEW

Adler (2003) observed that outsourcing has become increasingly attractive for many organizations. In such relationships, a company contracts with a vendor that rents its skills, knowledge, technology, service and manpower for an agreed-upon price and period to perform functions the client no longer wants to do. Much attention has focused recently on the outsourcing of staffing, including temporary and contract workers, and IT professional. 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 function is under increasing pressure to demonstrate value, both in terms of efficiency and effectiveness. This rationale is in line with Ulrich's (1998) influential thesis of the four roles of HR, in which he proposed that HR should be a strategic partner, an administrative expert, an employee champion, and a change agent. 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). Hall and Torrington (1998) found that training and management development, recruitment and selection, outplacement, health and safety, quality initiatives, job evaluation, and reward strategies and systems were the likely HR activities to be outsourced, either because they were considered noncore or because the organization lacked the expertise to handle them internally. Hall and Torrington's findings are supported by Shaw and Fairhurst (1997), who found that training and development along with facilities management were the most likely areas to be outsourced, while industrial relations expertise was the least likely area. A survey by Hewitt Associates (2005) found that 94% of 129 companies polled outsource at least one HR activity and respondents expect to expand outsourcing beyond its traditional limits of payroll and health and welfare benefits. New areas are expected to include global mobility, headhunting, and recruiting. Other areas that employers would like to consider outsourcing include HR

technology support, performance management, and staff learning and development, noted Bryan Doyle, president of Hewitt's HR Outsourcing Business. It is equally unclear as to whether and how the effectiveness of these outsourcing activities is evaluated and how outsourcing provider and client firms coordinate their in-house and outsourced HR activities to create a coherent HR function. One way to understand these relationships are to examine the recent trends in HR outsourcing. A number of firms outsource routine administrative HR activities to release their in-house HR team for a more strategic role. However, a minority of others have opted to outsource the entire package, including the design of HR systems that are likely to have a fundamental impact on organizational culture and performance. A study on HR Department Benchmarks and Analysis 2007 available from The Bureau of National Affairs, (BNA), and U.S.A. reports that 72% of surveyed employers outsource at least one HR activity. The five most commonly outsourced HR activities, according to this study are:

Employee assistance/counseling,

Pension/retirement plans,

Other employee benefits (Health, Medical, Life insurance, cafeteria, etc),

Training

Payroll

A 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. Worldwide and U.S. HR Management Services 2005-2009 forecast predicted that BPO will grow at a compound annual growth rate of 16.1% to more than \$16 billion. Gartner, Inc. (Stanford, Conn.; www.gartner.com) predicts that worldwide BPO this year alone will generate \$133.7 billion, up 8% over last year. In SHRM's 2004 survey about HR outsourcing, 56% of the 169 surveyed HR professionals said that their companies outsourced HR functions to save money or reduce operating costs, and 41% to reduce the number of HR staff and related expenses

As Prahalad and Hamel (1990, p. 84) point out, "outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are needed to sustain product leadership. According to Powell et al. (1996, p. 120), a

network “serves as a locus of innovation because it provides timely access to knowledge and resources that are otherwise unavailable, while also testing internal expertise and learning capabilities.” Advocates of their source-based view (RBV) of the firm

Reasons for Outsourcing by companies are taken into consideration as follows

1. Cost cutting
2. Cost Stabilization
3. Better compliance to rules and regulations
4. Save office space
5. Improve accuracy
6. Experts service from HRO
7. Helps companies focus on core competencies

With above stated reason, HRO which allows HR professionals to take more strategic role in the business. Outsourcing company takes care of non-core business. With growing trend of outsourcing business opportunity is high in India, which can become opportunity in the future. In India, labor cost is low, high pool of English speaking manpower and geographic positioning, hence it is emerging as a viable destination for HR outsourcing companies to set up their businesses. Many Organizations Many recognize outsourcing relationships as long-term partnerships created to further the strategic goals of the organization

The growth of HRO in India is basically hampered because of confidentiality and cost factors one of the reasons is also the fear of job loss, losing control over confidential data, ethics and quality of outsourcing service providers etc. Government need to tackle the issues which are faced by HR outsourcing such as data security and data privacy by bring the stringent data protection law to handle the challenges faced for the privacy concern from the offshore client opinion of the expert.

After success stories of the BPO industry in India played a key role for the movement of HR outsourcing business to India The future seems to be very promising as India has immense potential as more than 80% of fortune 1,000 companies are discussing HR outsourcing as a way to cut costs and increase productivity and in 2005 it became a \$ 51 billion market worldwide , representing 39 per cent of the total business process outsourcing revenue which had

shown 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 an alarming rate of about 50 per cent. Indian life Hewitt (ILH), FIDELITY, EXULT and MAFOI are some of the prominent HR outsourcing services providers in India and the clients include giants of manufacturing, software and service industries like GE Capital, Ford Motors, Hyundai Motors, Mahindra Satyam Group, Infosys, Haldia Petrochemicals and HSBC.

India has emerged with changing need as a service industry and especially for outsourcing. NASSCOM, (National Association of Software & Service Companies) the apex body of India's premier IT software and service (IT & BPO) companies, reported that India's share in the global outsourcing market rose from 51% in 2009 to 55% in 2010 .The growth rate of Indian outsourcing industry has been tremendously increased. India has been preferred geographic location in worldwide market which has emerged as knowledge-intensive, hence become as most preferred destination for knowledge services.

HRO: Human Resource Outsourcing Services

HRO Services include full service HR as following the activities that come under

- Onboarding – From Joining Formalities to Document Check to Payroll Set-up
- Data Management & Ongoing Transactions-Employee Letters Leave Management, Employee File & Record management
- Payroll Management
- Benefits Administration
- Statutory Compliance Management & Coordination-Online Tools
- Employee Benefits Management (PF/ESCI/Leave Benefits/ Insurances... etc...)
- Various Labor laws compliances as per applicable acts
- Getting different labor licenses
- Facilitation of Compliance Audits
- HR Helpdesk Set-up- Email/Phone/Web as per the fitment
- Training Administration and Management
- PMS- Performance Management System- Administration and Coordination
- Exit & FFS Activities

Advantages and Disadvantages of HR Outsourcing

Advantages to outsourcing HR include:	Disadvantages
<ul style="list-style-type: none"> • Reduces costs • Allows HR focused on the strategic expertise and services • Less burden on leaner staff • Limits risks borne by HR • flexibility for HR 	<ul style="list-style-type: none"> • Unexpected cost impact • Reduced service levels • The Human Resources Outsourcing (HRO) vendor's failure to deliver • Changes in the HRO vendor's business • Vendor management issues • Organizational culture may not be understood by Vendor

HRO In India Current Scenario

1985: Initiation	<ul style="list-style-type: none"> • Texas Instruments establishes the first captive center in India, heralding the era of offshoring.
1990-98: Early adoption	<ul style="list-style-type: none"> • Many companies established and ramped up captives in India. Most of these were from Hi-tech, Telecom, and IT. • Business process captives were still in very less numbers
1998-2006—Explosive growth	<ul style="list-style-type: none"> • The global financial services sector rapidly adopts the captive model. • BPO captives appear more regularly. Many global technology firms add IT captives as well. • Captives deliver \$8 B worth of services in 2006
2006-2009—Introspection	<ul style="list-style-type: none"> • Many captives face the dilemma of their relevance and cost. Some of them are monetised. • However, the growth continues and new captives are added. • Captives deliver \$ 10.6 B worth of services in 2009
After 2009—Coming of age	<ul style="list-style-type: none"> • Many captives reorient their business model. Increasingly seen as business partners than back office. • Experiencing increased end-to-end product ownership and offer flexibility in global operating platforms. • Healthy growth in scale and numbers continue for captives.

Sources DraftCaptives in India—timeline and key statistics | 12India—A destination for sourcing of services PwC perspective

Today economic scenario and market condition worldwide is challenging hence HR outsourcing has been significant. As focus on cost cut continues in the market hence new trends shaping up and consequent transformations happening within the HRO horizon. Economic scenario in the Euro zone and the US market is tougher as a result the investor are investing in the emerging economies hence India has an added advantage of business environment as it has human capital which empowers to attract the global Organisation to invest in 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, HR 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. 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 and also opting for temps.

According to a study done by Booz and Company, India will become a dominant player in the Engineering R&D market which is expected to expand to \$1.4 trillion by 2020. India's domestic market is expected to contribute 10-15% of the global ER&D services market. The industry is undergoing an evolution, and will continue to be driven by changes in demand. A survey done by Pricewaterhouse Coopers and Duke University's Offshoring Research Network found that the outsourcing industry is transforming as new providers are emerging while existing providers are expanding into new markets. India has made remarkable achievements and has built a strong reputation in the outsourcing industry

CHALLENGES FACED BY INDIA

Looking into the growth of the industry which is growing, required the infrastructure but major challenge faced is about the infrastructure which need to be taken care by the government.

Number of the companies which are shifting toward the Tier II cities as the increase in the labor cost in metro cities of the India

India continues to be the world leader in the outsourcing business, but has face competition from South-east Asian

countries like Indonesia, Malaysia, the Philippines, Singapore, Vietnam and Thailand, which are improving their positioning as alternative offshore locations. For instance countries like Indonesia, which offer cheaper labor in IT and business process skills, whereas Organisation in India is experiencing increased labor costs and high attrition, which are of concern issue to be addressed.

CONCLUSION

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 Knowledgefaber research. There are more than 2000 HR consultancies in India those are providing Outsourcing to many companies. Few HR professionals, are today in organization are ready for outsourcing few of the HR function to HR consultants in upcoming years there will be a great opportunities for consultancies to outsource much more firms in India. At present 25 % of HR outsourcing is on-going in the country. Many Indian organizations are merging with International consultants to upgrade and provide a quality of HR functions to their clients. To conclude HRO is growing place in India, it is creating a business growth with qualitative and competitive standards to their clients.

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