

HR Outsourcing - A New Trend in HRM

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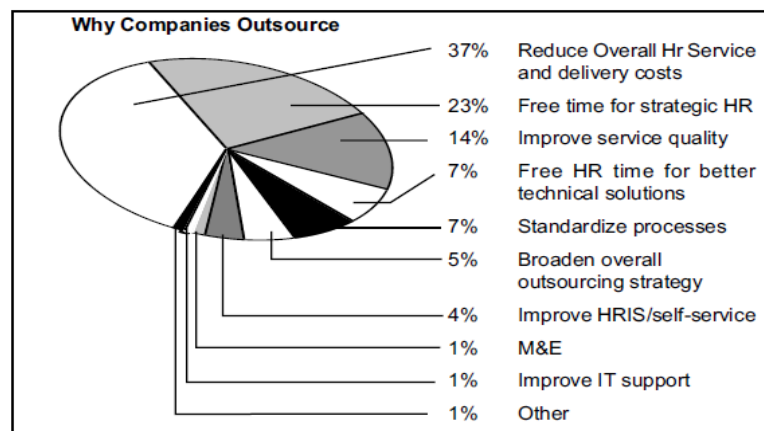
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What Is Outsourcing?

In business, outsourcing is "an agreement in which one company contracts-out a part of existing internal activity to another company". It involves the contracting out of a business process (e.g. payroll processing, claims processing) and operational, and/or non-core functions (e.g. manufacturing, facility management, call center support) to another party (see also business process outsourcing). The concept "outsourcing" came from the American Glossary 'outside resourcing' and it dates back to at least 1981. Outsourcing sometimes, though not always, involves transferring employees and assets from one firm to another. Outsourcing is also the practice of handing over control of public services to private enterprise.

Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring (relocating a business function to a distant country) or nearshoring (transferring a business process to a nearby country). Outsourcing is often confused with offshoring, however, they can be distinguished: a company can outsource (work with a service provider) and not offshore to a distant country. For example, in 2003 Procter & Gamble outsourced their facilities' management support, but it did not involve offshoring. Financial savings from lower international labor rates can provide a major motivation for outsourcing or offshoring. There can be tremendous savings from lower international labor rates when offshoring.



Source: HR Outsourcing: New Realities, New Expectations (2005 HR Outsourcing Effectiveness Survey Report) www.towersperrin.com

Types of Outsourcing

- Business Process Outsourcing
- Information Technology - 28%
- Human Resources – 16%
- Sales & Marketing – 15%
- Finance – 11%
- Administrative – 9%
- All Others – 22%

What is HR Outsourcing

HR Outsourcing is basically the allotment of specific HR activities to a more specialized third party service provider. Done in order for business owners to stay in route to their more important goal of growing their business and to cut down costs.

Arguments in Favour

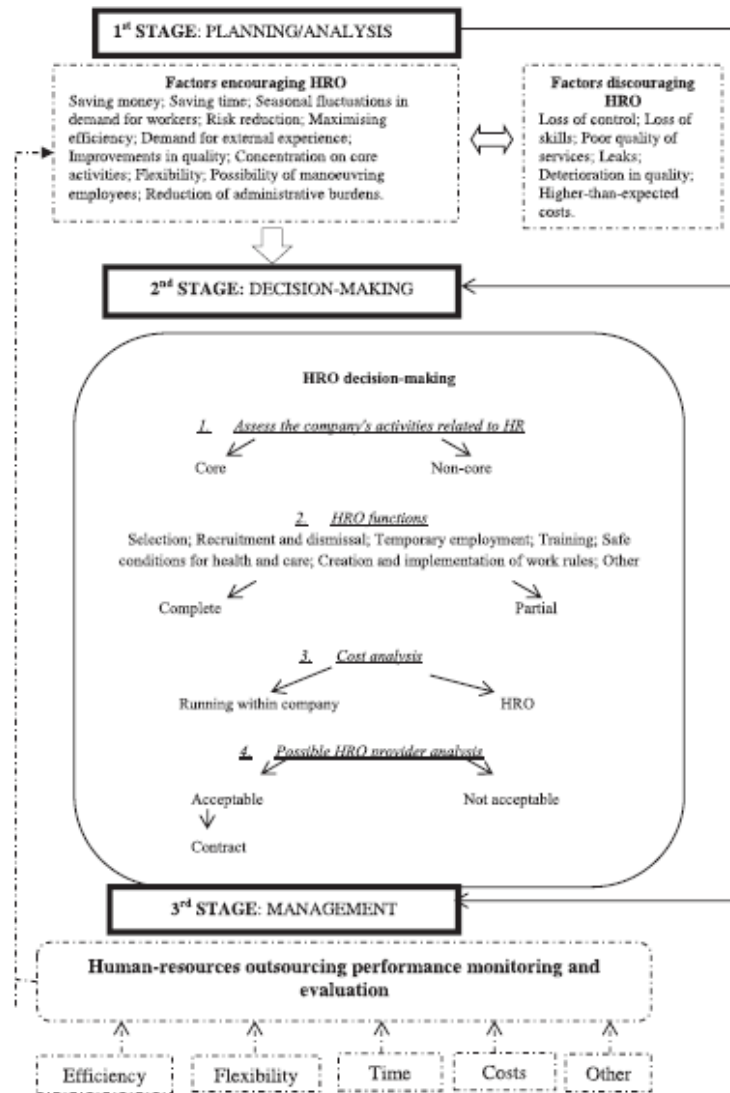
- **First**, it allows firms to concentrate resources on their "core" business activities where they have expertise and are likely to do best
- **Second**, it enables firms to profit from the rising comparative advantage of specialized service providers who may have expertise in the areas concerned.
- **Third**, it provides firms with greater flexibility and productivity by using temporary subcontractors to cover fluctuating demands for labour.
- **Fourth**, outsourcing creates opportunities for firms to shift the burden of risk and uncertainty associated with the business to someone else
- **Fifth**, outsourcing enables firms to keep future costs down by selecting the most competitive tender for renewing the contract
- **Sixth**, It has been argued that outsourcing relationships can create partnerships between contractors and clients that may facilitate learning and cross fertilization between the two firms

Arguments against Outsourcing

- the service provider may have a vested interest in standardizing all parts of its service in order to achieve economies of scale across clients.
- When the quality of services provided by an HR outsourcing service is deemed unsatisfactory, the cost of an alternative solution may increase considerably, and any immediate improvements may be difficult to materialize.
- Impact on In-house HR Professionals-
- Impact on line managers
- Impact on Employees Receiving HR Services

- As a result, it may actually be more costly for the organization to acquire the HR services from the external provider when all the indirect costs (both financial and emotional) that may incur in-house are calculated. This is especially true for large organizations in which employees are highly professional and highly paid

Theoretical Model of HRO Management



Source: R. Žitkienė, U. Blusytė/*Intellectual Economics* 9 (2015) 80–89

Case Study

Bank of America

- Leading financial service organization
- Approximately 1, 85, 000 employees.
- 4200 banking centers

HR - Department

- 1300 employees in HR
- Have outsourced many of their HR activities to Exult like,
 - International relocation
 - administration, regional staffing, "life event coordination" (Leave and Retirement) policy and general benefits etc.

Motives for outsourcing

- Reduce Costs
- Focus resources on core activities and core competencies
- Expand and improve services.
- Benefits from Vendor's investments and innovation
- Improve career opportunities for staff.
- Increases Flexibility

Results from outsourcing

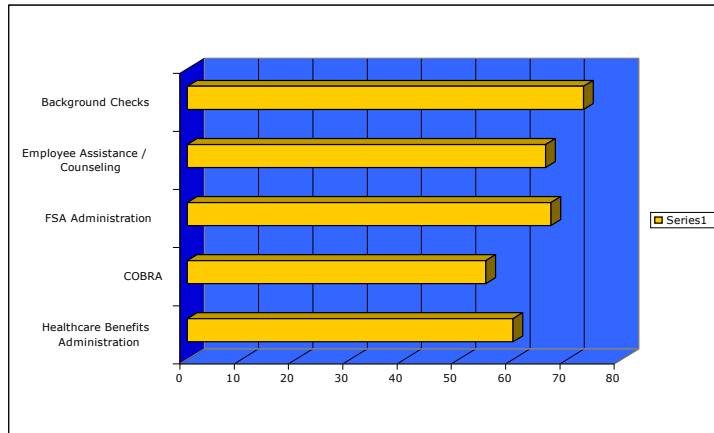
- Activities like Payroll, benefits, administration were completed within 7 months.
- Cost reduction goal of 12 per-cent annually was achieved.
- Could focus on more strategic tasks like process design and development.
- Increase in Percentage of internal recruitment from 16% to 35%.

Benefits of HR Outsourcing

	Satisfaction level	% of respondents
1.	Fully Satisfied	89%
2.	Achieved hope for benefits	85%
3.	Unexpected benefits	20%
4.	Achieving Cost Savings	45%
5.	Outsourcing transaction smoothly	81%
6.	Outsourcing function brought back in-house	23%
7.	Continue with the same vendor	70%

Source (www.aon.com, www.towersperin.com and www.hewitt.com)

Activities Involved In HR BPO



Employee Assistance

- An **Employee Assistance Program (EAP)** is a voluntary, work-based **program** that offers free and confidential assessments, short-term counselling, referrals, and follow-up services to **employees** who have personal and/or work-related problems.

Flexible Spending Account

- A flexible spending account (FSA), also known as a flexible spending arrangement, is one of a number of tax-advantaged financial accounts that can be set up through a cafeteria plan of an employer in the United States. An FSA allows an employee to set aside a portion of earnings to pay for qualified expenses as established in the cafeteria plan, most commonly for medical expenses but often for dependent care or other expenses. Money deducted from an employee's pay into an FSA is not subject to payroll taxes, resulting in substantial payroll tax savings. Before the Patient Protection and Affordable Care Act, one significant disadvantage to using an FSA was that funds not used by the end of the plan year were forfeited to the employer, known as the "use it or lose it" rule. Under the terms of the Affordable Care Act, a plan may permit an employee to carry over up to \$500 into the following year without losing the funds.^[2]

- The most common type of flexible spending account, the medical expense FSA (also medical FSA or health FSA), is similar to a health savings account (HSA) or a health reimbursement account (HRA). However, while HSAs and HRAs are almost exclusively used as components of a consumer-driven health care plan, medical FSAs are commonly offered with more traditional health plans as well. In addition, funds in an HSA are not lost when the plan year is over, unlike funds in an FSA. Paper forms or an FSA debit card, also known as a Flexcard, may be used to access the account funds.

Cobra

- The Consolidated Omnibus Budget Reconciliation Act of 1985 or, as most of us know it – COBRA – is a little law with a huge name that grants most employees and their dependents the right to continue health insurance coverage under an employer-sponsored plan in the event that coverage is terminated involuntarily.
- The COBRA legislation applies to all employers that had 20 or more employees (full time and part time) on at least half of its regular working days in the previous calendar year
- It offers certain employees, as well as their covered spouse and dependents, the right to pay premiums and continue group health insurance coverage under certain circumstances

Health Benefits Administration

- The benefits administrator position is responsible for directing and planning the day-to-day operations of group benefits programs (group health, dental, vision, short-term and long-term disability, worker's compensation, life insurance, travel and accident plan, flexible spending plan, 401(k) plan and retirement plan).
- The benefits administrator also provides excellent customer service and quality benefits plans, investigates new benefits programs, improves existing programs, and supervises a monitors benefits administration, as well as designs employee benefits plans and provides analytical and technical support in the delivery of the benefit programs.
- Professional Employer Organizations (PEO's) – offer “coemployment” services where employees are paid under a PEO's FEIN and are placed under the PEO's benefits and worker's compensation packages

- Administrative Service Organizations (ASO's) – similar to PEO's but do not include coemployment relationship

Trends in HR Outsourcing Market

- Specialization – HRO buyers want a provider that considers them “special” and every provider has a “specialty”
- Globalization – global is the new trend, with even small firms having global HRO needs; global HRO providers will find a thriving market
- Standardization – Not all processes are unique and not all jobs are custom jobs. Standardized process and performance metrics are becoming more common and will consequently lead to better service, lower costs, and buyers that are free to focus on core competencies
- Regionalization – aka “Hubbing Up”; creation of corporate hubs which are the center of all activity (ex: FedEx hubs is Nashville and all packages travel through Nashville on their way to final destination)
- Consortia Buying – buying groups are banding together to buy BPO services; as high volume groups, they receive highly standardized services which drives continuous cost reductions
- Mid-market Mania – The 500-1500 employee market will continue to grow more rapidly than the Fortune 500 (20%+ annually in North America and around world)
- Utility model Evolution – BPO provider use will become as common as utility (gas, water, electric) use. Just as most individuals do not drill own gas or water wells, so will companies look to BPO providers to manage their utilities.
- Consolidation and Partnering – Extremely large trend toward provider partnering (Ex: Aon HRO's deal with CSC for IT and Ultimate Software for mid-market payroll)

Career in HR BPO

- Payroll Administrator (Producing Checks, Handling Taxes, Dealing With Sick-Time And Vacations),
- Employee Benefits Manager (Health, Medical, Life Insurance, Cafeteria, Etc),
- Work Force Manager (Hiring And Firing, Background Interviews, Exit Interviews And Wage Reviews),
- Compensation Manager
- Learning and Performance Manager

- **HR ANALYTICS:** There is a growing demand for HR analytics as organizations focus on informed decision-making to improve their ability to hire and retain talent, forecast future workforce needs and create customized training programs. In today's competitive market, coupled with a massive talent crunch for key positions, HR is seen more as a strategic partner than a support function, and with a critical role to play in the company's success.

Conclusion

Human-resource outsourcing is becoming more and more popular among organisations. This activity is particularly relevant for service companies because of the vital human factor in such organisations. According to researchers, given the importance of quality for service companies and their need to concentrate on their core activities, HRO enables non-core activities to be referred to service providers, thereby improving operational efficiency. HRO can be applied at several levels – namely the tactical, strategic and transformational levels. But no matter what level HRO is used at, the process must be carefully planned and continuously managed. Many outsourcing models have been formed.

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