

## Human Resource Outsourcing

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### Abstract

**Human Resource outsourcing** has become new mantra in the corporate sector business world. In this Globalised and competitive business world firms are forced to disaggregate their value chain into separate parts and reach for external forces, inputs, partners and markets. The discrete parts of value chain are handled sometimes in –house and other are outsourced to exterior vendors .Outsourcing is the conscious handing over of particular value chain activities to external sources. The outsourcing of HR functions is now a reality for many companies from small businesses to enterprises. Most of the companies like COCA-COLA, INTEL, EBAY, are using HR outsourcing. The benefit can affect owners, executives the managers of HR, and employees as well as the whole performance of the firm. However, there are challenges and disadvantages towards implementing this solution and can affect the same segments of the company. This report provides a detailed study about HR Outsourcing, reasons for outsourcing HR, what HR functions can be outsourced, advantage and disadvantage of this solution.

**Keywords:** Human Resource Outsourcing, Professional Employer Organisation, Business Processing Outsourcing, Application Service Provider.

### Objectives of Study

- To study categorised HR outsourcing
- To know reasons for adopting HR outsourcing
- To study role of HR outsourcing
- To study future trend to be considered in HR Outsourcing
- To identify the various pitfalls in HR outsourcing
- To study present status of HR outsourcing in India

### Introduction

Outsourcing is a business strategy that moves some of an organisation's function, processes, activities and decision responsibility from within organisation to outside providers. A Human Resource department is a critical component of employee well-being in any business, no matter how small Human Resources responsibilities include payroll, benefits, hiring, firing and keeping up to date with the state and federal tax loss any mix up concerning these issues can cause major legal problem for your business, as well as major employee dissatisfaction. Because of this more and more businesses are beginning to outsource their HR needs. HR

outsourcing allows an organisation to focus on their core business and can create a competitive advantage by reducing operational costs.

**Human Resource Outsourcing:** HR outsourcing is the process of sub-contracting Human Resource functions to an external supplier. It is a process in which the human resource activities of an organisation are outsourced so as to focus on the organisation's core competencies.

**Categories of HR Outsourcing Services:** HR outsourcing services generally fall into FOUR categories:

- 1) **PEO'S (Professional Employer Organisation):** PEO assumes full responsibility of company's HR administration. It becomes a co-employer of company's worker by taking full legal responsibility of employees. The PEO and business owner become partners, essentially, PEO handling all the HR aspects and the business handling all other aspects of the company.
- 2) **BPO'S (Business Process Outsourcing):** BPO is a broad term that refers to outsourcing in all fields, not just HR. Specifically in HR, a BPO would make sure a company's HR system is supported by the latest technology, such as self access and HR data warehousing.
- 3) **ASP'S (Application Service Provider):** ASP host software on the web and rent it to user – some ASPs host HR software. Some are well known packaged applications while others are customised HR software developed by a vendor. These software programs can manage pay roll, benefits and more.
- 4) **E-Services:** E-Services are those HR services that are web based. Both BPO's and ASP's are often referred to as E-SERVICES.

**HR Functions–Outsourced:** Whether partially or completely outsourcing, companies frequently outsource the following HR functions:

- Background Screening
- Pay Roll Services
- Temporary Staffing
- Employee Assistance
- Healthcare Benefits
- Retirement Planning
- Performance Management

**Reasons for Outsourcing HR Functions:** The society for Human Resources management (SHRM) conducted a survey of hundreds of companies about their outsourcing habits and here what they found are the six most common reasons that companies outsource:

1. 26% of companies outsource to save money
2. 23% of companies outsource to focus on strategy
3. 22% of companies outsource to improve compliance
4. 18% of companies outsource to improve accuracy
5. 18% of companies outsource due to lack of experience
6. 18% of outsource to take advantage of technological advances

### **Benefits of HR Outsourcing**

- **Cost Saving:** Overhead cost, associated with performing HR services, are typically very high. A fully functional HR department requires additional office space and highly trained and experienced HR staff. Many small business can't afford this expense and find it is more cost effective to outsource HR functions.
- **Pay Roll and Accounting:** The cost of outsourcing pay roll is very cheap as compared to the cost of maintaining an in-house pay roll staff. This frees up time in calculating the pay roll and dealing with different and some time difficult employee situation.
- **Global Talent:** One of the great benefits of outsourcing is expanding your perspectives. When HR functions are outsourced to PEO companies, you get your HR services performed by the best talent around the globe.
- **Risk Management:** HR outsourcing firms employ HR professional whose purpose is to stay current on federal and state employment laws. This will help you comply with this law.
- **Efficiency:** Outsourcing helps company managers spend less time on paper work and more time on improving the efficiency and effectiveness of company's work force. Advanced HR technology utilised by outsourcing providers help streamline important HR functions such as pay roll, administration and compliance management.
- **Employee Development:** HR providers implement performance management plans to ensure employees comply with company policies and procedure and successfully meet business goals.
- **Help with Compliance:** this is one area where many small businesses really struggle to keep up, especially with the changing laws pertaining to hiring, insurance claims management, etc. The greatest challenge remains that the failure

to comply can lead to serious financial consequences. Outsourcing HR functions to a trusted provider can help you understand and take action to comply with these laws and regulations.

- **Health Insurance Benefits:** as an economy improves, employers start looking for ways to incentivise and motivate their staff. PEO firms provide small employers the unique opportunity to offer their staff robust and comprehensive array of employee benefits that are typically available to only the largest corporations.
- **Improved Quality:** Improved quality can be achieved by using vendors with more expertise and more specialised processes; an example of this would be contracting out a cleaning service. An outside service has the resources for hiring, proper training, etc. that may be not available if the functions are kept in-house.

### **Disadvantages of HR Outsourcing**

- **Loss Of Human Factor:** the loss of face to face interaction is the biggest disadvantage of outsourcing .employ wants a familiar face when they have HR issues; replacing a human with an 800 no. To call is not a positive exchange.
- **Climbing Costs:** Cost saving has considered an advantage of outsourcing, however, the august 2008 SHRM study found that 28% of the companies reported their cost has increased due to outsourcing, It can also take more time, especially during start-ups.
- **Discourage In-house Expertise:** Outsourcing important HR functions such as employee training and development can prohibit your HR employees from accomplishing their career goals. For example, hiring a third party to conduct safety or compliance training could prevent an HR professional from learning something new and challenging.
- **Change Company Culture:** It can drive a wedge between HR and the employees, which leads to trust issues. Outsourcing personal functions such as employee training, new employee orientation or retirement processing, can change the company's vision drastically.
- **Organisational Knowledge:** an outsourced employee may not have the same understanding and passion for an organisation as the regular employee. There is always a possibility that an outsourced employee might not have the same degree of sincerity and accountability as a regular employee and can end up handling customers irresponsibly resulting in a negative customer experience.

### **Future Trends in HR Outsourcing that require Attention**

- **Switch to the Cloud:** With outsourcing being so widespread, Switching to cloud seems like the only clever option, since the majority of your work is not between your colleagues anymore. The people you outsourced your jobs to need quick access to the data that is relevant to them, while you can be sure that the cloud security will protect the information that is stored.
- **Selective Outsourcing:** The HR community is unsure whether outsourcing or In-house jobs are better. This is something in between. Selective Outsourcing means that you will access the skill available in house and then outsource tasks for the skills you find lacking in your workforce.
- **Use of Social Media as a Recruiting and Driving Tool:** Social Media is everywhere and it doesn't mean only Facebook and Instagram. In recent years, we have seen an increase in the platform focused on business – platforms like LinkedIn – where the sole purpose of member profiles is to show their professional skills and talents. This makes it easier for HR personnel to seek potential new employees, as their CVs are already there alongwith their past experiences.

### **Outsourcing in India**

India has one of the fastest growing markets worth \$660-700 million and is expected to grow at a cumulative annual growth rate (CAGR) of 24-26% from 2015 to 2020. In India, the demand for HR Outsourcing is being driven mainly by banking and financial services, Technology, Pharma, Health care and telecom sector.

Recently, automaker TATA MOTORS outsourced its talent acquisition, barring CXO and top management hiring, to a leading HR outsourcing company. Others also like MAHINDRA, WIPRO, HONEY WELL HDFC LIFE are among increasing number of companies in India that are embracing HR Outsourcing to get an edge in securing top talent.

HR Outsourcing Companies - PEOPLE STRONG, RANDSTAD, TEAMLEASE SERVICES FLEXABILITY have gained 40-50 % increase in business in the last 12 -18 months.

### **Conclusion**

HR managers around the world often found themselves confused when it comes to deciding whether outsourcing shall be done at all cost or is it better to keep all their job In –house. However global trends towards outsourcing seem to be gravitated towards outsourcing. If a company has fewer than 100 employees, then it should go for outsourcing as at this size company does not have resources for In-house HR staff so outsourcing is right. For employer benefits are manifold , including a 20 -25 % reduction in total cost of ownership through

significant reduction in costs like sourcing costs, salary hikes and cost per hire; 15 -20 % improvement in time taken to fill position, and improvement in selection ratio by almost 40%.

So in today's globalised and highly competitive world HR Outsourcing has become a popular solution for organisations to remain competitive and cut costs. It also provides skilled professionals who are focused specifically on HR.

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