

## The Review of Rationale and Challenges posed by Human Resourcing Outsourcing

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### Abstract

Outsourcing has its own importance in the current scenario. It helps institutions in many ways to get their job done. It provides a number of opportunities as well as it poses various threats too. We are living in an age of outsourcing,” clearly designates that outsourcing has now become an acknowledged, accepted and established business strategy. It may be a cost effective method of supplementing the capabilities, provide additional expertise, and allow an organization to concentrate on their core functions. The institutions may increase their efficiency by the focused activities. The limited resources present to them are effortlessly helping them to achieve their goals and which is most greatly support to get the path that lead to towards their mission. The cost saving is first reason to involve outsourcing in the institution. Surveys continue to show that nearly all organisations have outsourced parts of their HR functions (Gurchiek, 2005) as quoted by Monica Belcourt. The outsourcing refers to a contractual agreement that is made between business and the services provider. The objective of this paper is to study outsourcing. The secondary data is analysed to reach at the conclusion via review of available related literature. It was done in order to understand how today the firm offers a wide variety of services to companies that need to focus on their core business activities. Study concludes that it establishes and maintains good HR policies and relations. It explores the factors that affect human resource outsourcing decision with special emphasis on a proper cost benefit analysis of outsourcing.

**KEYWORDS:** Human Resource Outsourcing, HR functions, HR Outsourcing Process.

### Introduction

This paper examines the motives that are encouraging organizations to go for outsourcing HR, drawing the essence from extensive exploratory study of secondary literature. This paper pre-sents an architectural framework to understand issues and challenges of HR HRO and to suggest what organizations should do to taste success from HRO

This paper examines the motives that are encouraging organizations to go for outsourcing HR, drawing the essence from extensive exploratory study of secondary literature. This paper pre- sents an architectural framework to understand issues and challenges of HR HRO and to suggest what organizations should do to taste success from HRO Human Resource Outsourcing (HRO) is a sustainable and competitive method to manage costs and allow a company’s core resources to focus on strategic initiatives rather than managing transactional activities in HR operations. This has

enabled HR professionals in being more strategic people managers by outsourcing some of the administrative and operational tasks. Comprehensive Human Resource Outsourcing is achieved by offloading multiple processes and technologies such as benefits and payroll. Outsourcing may be defined as the condition in which external vendor or service provider provides services. They provide services on a recurring basis, services that would normally be performed in-house by the organization. This paper examines the rationale that are encouraging organizations to go for outsourcing HR, drawing the essence from extensive exploratory study of secondary literature. This paper presents an architectural framework to understand issues and challenges of HR, HRO and to suggest what organizations should do to taste success from HRO and satisfaction of employees. Human Resource Outsourcing market has very rapidly growth. Although HRO market has continuous up and down, but in the coming days it will regain momentum and is expected to grow very fast as compared to other functional outsourcing businesses.

### **Objectives**

1. To Study the Human Resource Outsourcing.
2. To Study the Rationale of Human Resource Outsourcing.
3. To Study the Challenges of Human Resource Outsourcing.

### **Review of Literature**

HR outsourcing is sometimes driven by the evolution of the HR function within the organizations (Greer et al., 1999). In the literature ‘cost savings’ are frequently considered as an important motivation for HR outsourcing. In their decision making to outsource whether or not executives need to reason strategically and emphasize the company’s core competencies, so that they are able to leverage the firm’s skills and resources for increased competitiveness (Quinn & Hilmer, 1994). Outsourcing is not necessarily an all-or-nothing decision. Outsourcing can best be viewed field in which moving from no outsourcing to full outsourcing The organization must decide not only outsource a function such as catering but often which specific tasks within that function to outsource. It may be viewed that outsourcing does not negate the need to manage, though it may mitigate that need to a degree. There is a general perception in higher education that many educational institutions are outsourcing management of their technology operations. We feel that this misconception arises from the fact that many institutions are outsourcing some technology services - especially student telephone services. There are number of outsourcing is presently being done at large and small institutions, both public and private. Vantage only knows of very few institutions where telecommunications and/or information technology (IT) is totally outsourced. Most of our clients believe that technology is very vital and too strategic to control to a third party. However, many of our clients do outsource some technology services. The human resource is far apart from technology. It requires strategic decision to outsource HR in their institution. This need a process that how to decide or know as many as they have to outsource. There are number of processes suggested but one of them is selected to understand it.

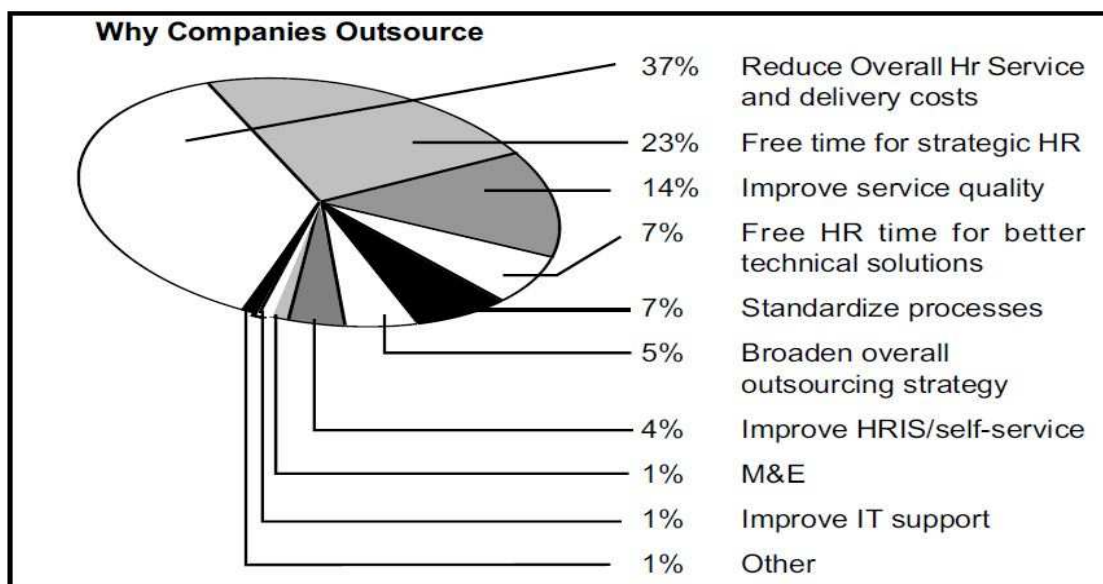
The Human Resource Outsourcing process comprises of the following steps:

1. Need gap analysis in the existing HR process

2. Market survey for existing Human Resource outsourcing partners
3. Understanding the capabilities of the prospective partners and matching them with the needs of the organisations
4. Analysing the financial advantages of the outsourcing activity
5. Partnering with the external partner for the Human Resource Outsourcing process.

### Rational of Outsourcing Human Resource

Outsourcing has number of rational. Some of the most common factors due to which companies outsource their HR are studied by Kodwani (2007) and can be listed as below. The companies outsource because they get a number of benefits. Outsourcing in such organizations is confined to administering compensation and benefits, record keeping, and applicant screening. (NICOM, 2005) Further literature review highlights that there are three main motivators for HR outsourcing, they are reduce overall HR service delivery costs (37%, free time for strategic HR (23%), and improve service quality (14%). Other reasons are highlighted in exhibit is given below.



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

This study reveals that HR outsourcing is able to reduce the number of employees in an organisation. It is able to reduce an overall HR Services and delivery cost. It shows huge impact on the human resource.

### Challenges of Human Resource Outsourcing

Human Resource Outsourcing market is growing very rapidly. HR outsourcing is gaining popularity among organizations today. However, organizations often face HR outsourcing issues while finalizing the deal with their outsourcing partner.

HR processes like payroll processing, recruitment, benefits administration and training are some of the HR outsourcing services organizations are opting for today. HR outsourcing, though a highly outsourced service often comes with its own set challenges for organizations that opt for it. Hence, it is important for an organization

to analyze and balance the issues vs. the benefits before signing up with an Outsourcing partner.

**Some of the HR outsourcing issues is being discussed below in brief:**

**Issues related to costs:** The first question arise in the mind. Can you reduce your overall costs by outsourcing? Financial modelling might provide the answer.

Things to factor into the modelling process include salaries, benefits (including holidays, vacation days and sick days), training, test equipment, tools, computers, telephones, furniture, space -- everything that relates to having an employee on the payroll as opposed to being on a contract and off-site. Don't pay for more than you need. Define what you need, and continually monitor. Understanding the costs for processes that are to be transferred to the outsourcing partner and agreeing upon an appropriate costing model for the same.

**Vendor performance:** Identification of past performed activities that would help to capture key business drivers and performance as well as user satisfaction.

**Transition of responsibilities:** Identifying the key risk factors for the organization and transferring them over to the vendor; developing a plan that highlights the responsibilities and dependencies; ensuring that the outsourcing vendor provides the organization with sufficient training and change management.

**Data and information rights:** Having inspection rights and obtaining audits on the vendor's systems, premises, personnel and information; ensuring that the vendor's data protection and privacy laws are in compliance with the existing laws; ensuring that the vendor's systems are protected against internal or external misuse and attacks.

**Expansion/Downsizing:** Does outsourcing make sense in terms of the institution's stability, size and culture?

**Flexibility:** Can the outsourcing company provide equal or better flexibility in terms of types and levels of service, hours of operation, etc.

**Service/Staffing:** Does it make sense to outsource all of the services that you presently provide, or just some of them? How will you decide which ones to keep - the easiest ones, the most interesting ones, the ones with the highest profile, the most expensive ones to outsource, the ones which have a limited life span? What would be the impact on staffing levels in each case? Will the outsource company hire away some of your staff?

**Space:** Is space allocation, together with all associated furniture and equipment, an issue in your organization? Would it be a factor in this decision? If the outsourcer is off-site, how far away are they located?

**Control:** How much control would you lose (or perhaps gain) by outsourcing? How is security of information and university property maintained with outsourced employees? **Contract and recourse:** How can you escape the contract? What is your recourse if the outsource company is not working out? Are performance penalties and/or performance bonuses addressed in the contract?

**Reliability:** Which arrangement would allow you and upper management to sleep easier at night? What has been the experience of other organizations who have used an outsourcing company, especially this particular outsourcing company? How does the outsourcer address disaster prevention and recovery?

**Company profile:** Is the outsourcer independent, or are they affiliated with a vendor? If the latter, how does this influence any decisions regarding selection of products and

services for you? Is the outsourcer stable? Likely to merge? What would a merger do to your relationship?

**Company employees:** What are their qualifications and experience? How is performance assessment and monitoring handled? What is your recourse if an outsourcer's employee is not working out?

Would it be an advantage or disadvantage to have different staff (the outsourcer's) working on your account? How about staff from several different outsourcing companies?

One attraction of outsourcing is that many of the outsourcing companies "aggregate" services from many different customers to achieve bigger discounts, and can negotiate bulk purchasing arrangements with suppliers. There may also be other economies of scale achieved by the outsourcer. If you are going to monitor the outsourcer, why not just monitor the asset?

The biggest caveat is to make sure that you keep people on your staff who are knowledgeable and experienced enough to properly interact with and supervise the outsourcer, question major decisions as appropriate, and be a liaison between the outsourcer and upper management levels in your own organization.

## **Methodology**

The data and material has been collected from various journals and websites relating to HR Outsourcing and it has reviewed in various contexts. The secondary data have been used in this study which is used by researchers in their research and their experiences regarding the Human Resource Outsourcing. The analysis has been made on the basis of the studies undertaken in the past on different aspects of human resource outsourcing. The various mechanisms developed and applied by the various organizations have been analyzed on the basis of these researches to understand the topic very properly. The rationale and challenges have been analyzed on the basis of available research material. No specific statistical tools have been used for the analysis. However the data has been compiled and analyzed in a manner to provide significant results.

## **Discussion and Conclusions**

Human Resource Outsourcing has its own strengths and shortcomings. Outsourcing can work successfully for an institution in certain circumstances and for certain functions, but cannot be viewed permanent solution for all types of the activities for every institution. Outsourcing must be carefully evaluated and weighed against need, as per requirement and the issues such as control, the strategic value of technology that are related to the institution. There might be staffing, responsiveness, and, of course the costs that are cared by the outsourcer. So properly analyse opportunities and threats that outsourcing offers some benefits it offers even the risks.

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