

UNDERSTANDING THE IMPACT OF OUTSOURCING OF HUMAN RESOURCE IN INDIA

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Abstract: Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include information technology, human resources, facilities, real estate management, and accounting. Many companies also outsource customer support and call center functions like telemarketing, CAD drafting, customer service, market research, manufacturing, designing, web development, print-to-mail, ghostwriting and engineering. Outsourcing and off shoring are used interchangeably in public discourse despite important technical differences. Outsourcing involves contracting with a supplier, which may or may not involve some degree of off shoring. Off shoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation/company. With increasing globalization of outsourcing companies, the distinction between outsourcing and off shoring will become less clear over time. The present paper focuses on HR outsourcing Industry in India and its future opportunities.

Key words: outsourcing, Management, Skills, off shoring Human Resource etc.,

1 Introduction

“The productive capacity of all business depends on three factors: the capital resource, The physical resource and the human resource” **-(Peter.F.Ducker)**

The role of HR is going through the Transition phase and has changed itself from typical Traditional nonproductive area of operations to contributing and value adding core area towards strategic Business Goals. HR outsourcing can be mainly classified into two categories. Transaction and administration outsourcing services and consultancy outsourcing services. HR transaction outsourcing services include monthly requirements such as, payroll processing. HR consultancy services are some of the other services that can be outsourced to India. Though organizations outsource transaction management and HR consultancy services to India, many organizations still take care of strategic and policy functions within their organization.

HR Outsourcing is a process in which the human resource activities of an organization are outsourced so as to focus on the organization's core competencies. Often HR functions are complex and time consuming that it will create difficulty in managing other important thrust areas. HR outsourcing (also known as HRO) is the process of sub-contracting human resources functions to an external supplier.

organizations to decide that it makes business sense to sub-contract some or all non-core activities to specialist providers.

Large organizations mostly outsource their HR services to India in order to concentrate on their core processes. Such large organizations can increase the profitability of their business by outsourcing. Large organizations also stand to gain from better HR services for their employees. Small and mid-size organizations also outsource if they do not have enough of HR staff to manage their HR functions. Mid-size and small organizations can also benefit from cost-effective services when they outsource to India. Outsource HR services to India to enhance your productivity and return on investments and also to achieve the economies of scale.

HR Outsourcing is a process in which the human resource activities of an organization are outsourced so as to focus on the organization's core competencies. Often HR functions are complex and time consuming that it will create difficulty in managing other important thrust areas. By HR outsourcing, this problem can be avoided which will enhance effectiveness by focusing on what the organization is best at. It will also improve the flexibility of the organization to the rapidly changing business needs. Usually businesses that outsource HR are typically small to midsize firms with number of employees ranging from 25 to 1500.

Human resource outsourcing (HRO) occurs when a business instructs an external supplier to take

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Reviews of business processes have led many

responsibility (and risk) for HR functions and perform these tasks for the business. Payroll outsourcing is commonly outsourced for two reasons: it's a time-consuming administrative task for employers, and there are many specialist companies with the technology and knowledge to run it efficiently and compliantly. Some businesses will outsource their entire HR department while others will just outsource time-consuming administrative tasks, which allow their internal resource to focus on the strategic level.

2 LITERATURE REVIEW

There are a number of reasons, at both the strategic and operational level, why firms want to outsource HR activities. Many share similarities with the outsourcing of other organizational functions. In particular, demands for increased productivity, profitability, and growth have forced organizations to examine their internal HR processes, resulting in a move toward strategic outsourcing services and away from discrete services. 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 (Roberts, 2001). Although some elements of the HR functions may have always been performed by external service providers, Brewster observes that a new dimension "is this finance-driven idea connecting outsourcing to human resource management – the idea that you can save a lot of money by outsourcing" (quoted in Turnbull, 2002, p. 10). In addition, outsourcing is seen as a way of liberating HR professionals within the client organization to perform the more consultative and strategic role of designing and implementing programs aimed at retaining the workforce and enhancing its performance. 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

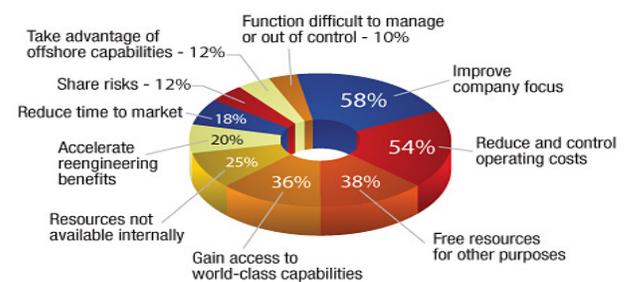
2.1 Why Use an HR Outsourcing Service?

The human resource department is an essential part of any business, but when HR personnel don't have the time, space or resources to tackle every aspect of their department, your entire business can suffer. HR outsourcing services allow your business to outsource a range of tasks from benefit administration and training to recruiting, hiring and payroll administration. These HR solutions are ideal for companies of all sizes who don't

have the resources required to expand an in-house HR staff, or the current staff is buried in work and needs options for decreasing their workload.

These business process outsourcing companies provide a variety of services to assist your company's human resource department. They can tackle all of the difficult, time-consuming tasks and ensure that your company stays in line with all state and federal laws. In our review, you will find [articles about these HR outsourcing services](#) regarding how they can help retain employees and assist your business. You can also take a look at our top three HR outsourcing companies: [ADP Total Source](#), [Oasis Outsourcing](#) and [Paychex](#).

TOP 10 REASONS COMPANIES OUTSOURCE HR



Potential benefits of HR outsourcing

- Reduced cost
- Increased efficiency
- Access to improved HR IT systems
- Improved management information (including human capital metrics)
- Access to HR expertise not available internally
- Increased flexibility and speed of response
- Philosophical reasons (for example the organisation is outsourcing a number of its support functions, of which HR is just one part)
- Reduced risk
- To free HR resources to operate more strategically.

2.2 What Hr Functions Can Be Outsourced?

If a company chooses to partially outsource HR, the company shares responsibilities with the vendor, sharing information and control over the functions. If the company decides to completely outsource, the vendor takes on all HR responsibilities. The owner or HR manager in the original company takes on a new role, liaison with the vendor, focusing only on HR in order to manage the vendor-company relationship. Whether partially or completely outsourcing, companies frequently outsource the following HR functions:

- Background Screening
- Payroll Services
- Risk Management
- Temporary Staffing
- Employee Assistance/Counseling
- Health Care Benefits
- Retirement Planning
- Performance Management
- Drug Screening

3 TO WHOM CAN YOU OUTSOURCE HR?

The three types of HR outsourcing companies are Human Resources Organizations, [Professional Employer Organizations](#), and Administrative Services Organizations.

3.1 Human Resources Organization (HRO)

The majority of Human Resources Organizations (HROs) allow large businesses (1000+ employees) to choose which HR services they would like outsourced. When only some functions are dealt with by the HRO, a co-management relationship or shared HR relationship is made between the HRO and the business (this is typically the conservative approach to those first outsourcing HR). When all functions of HR are outsourced, the HRO takes full responsibility. In large organizations, the strategic HR role remains an internal position; however, most administrative and tactical roles are outsourced. This can also be achieved in smaller organizations (typically under 200 employees) using a Professional Employer Organization.

3.2 Professional Employer Organization (PEO)

A Professional Employer Organization, or PEO, handles all HR tasks and is usually more beneficial for small and mid-sized businesses (under 200 employees). When a business outsources HR to a Professional Employer Organization they enter a co-employment relationship in which the PEO becomes the employer of record and the company is the on-site employer. As the employer-of-record, the PEO will be responsible for taxes and [workers' compensation](#). Financial liability for the small business decreases due to the shared burden. Additionally, the PEO can obtain reduced rates on retirement packages and health benefits by combining employees from all of their customers. They often offer outsourced payroll, performance management, recruiting, background screening and other various employment administrative tasks that depend on the needs of the business that hires them.

3.3 Administrative Services Organization (ASO)

The third HR outsourcing scenario is hiring an ASO, or Administrative Services Organization. As the name aptly implies, an ASO provides administrative services for your company. These include processing payroll, performing direct deposits, and filing payroll taxes. Like outsourced payroll, the filing is under your federal employer ID number (FEIN). However, unlike outsourced payroll, the ASO will provide assistance with questions concerning compliance and legal concerns, access to insurance, worker's comp, and medical/dental benefits. These offerings and costs are determined by your employee base and employment risks associated with retaining them. The ASO provides the small business employer "employment related" relief for businesses with 50 or more employees.

Thus, ASOs outsource HR differently than the first two types of organizations because they focus mostly on the administrative side of HR and there exists no co-employment relationship between an ASO and the business that hires them. While PEOs primarily serve small businesses with under 200 employees and HROs focus on large companies with over 1000 employees, ASOs offer a popular solution for those mid-size businesses in between. Not surprisingly, the various functions that ASOs provide include:

- Safety Management
- Compliance
- Pay roll Services
- Pension Administration
- Worker's Compensation

Traditionally, the PEO contract states that all services are accomplished and performed by the PEO using their FEIN, a key difference from the ASO. Additionally, PEOs are generally employed by companies having 1 - 50 employees or for those groups that have many small pockets of employees across the United States. That being said, there are still many companies that have much larger employee counts that enjoy the benefits from a PEO (and small businesses who may seek out an ASO).

4 CHOOSING A HUMAN RESOURCES OUTSOURCING COMPANY

As stated above, there are three main types of organizations to which HR can be outsourced. The most prevalent option for small companies is the Professional Employer Organization, mostly because of the added bonuses of completely outsourcing HR and sharing the burden of risk. While this is important for some businesses, others might find it more advantageous (simply due to the

number of employees) to outsource only certain HR functions (ASO or HRO), and some might find it better to outsource only the administrative side of HR (ASO).

Significant factors to consider when outsourcing HR to an individual vendor (according to the SHRM study) include the following: a proven track record of the organization, the cost of services, the guarantee of service levels, and flexible contracting options. These all need to be taken into consideration and each vendor should be happy to answer questions on these individual topics

5 FIVE BENEFITS OF HUMAN RESOURCE OUTSOURCING

There are many reasons that you might decide human resource outsourcing is worth your time. Whether you're noticing that your HR employees are having to work ten hour days to stay ahead or if you're experiencing a drop in productivity that you think human resource outsourcing could help, there's no question that human resource outsourcing can provide real benefits to your company. Unicorn HRO offers human resource outsourcing for any business of any size and can give your company real advantages that actually impact your bottom line. Here are five great benefits that come from human resource outsourcing.

- Saving Money
- Business As Usual
- Avoiding Turnover Troubles
- Avoiding Turnover Troubles
- New Skills

6 HR OUTSOURCING COMPANIES IN INDIA

HR outsourcing refers to the practice of employing a part or a whole of an HR process to a third-party. From a construct perspective, this segment has two predominant types of service arrangements— project based or single contract deals and large scale multi-year arrangements.

Human capital management has evolved as a crucial component of organizational strategy. With the HR function shifting to a strategic focus, the need for process-level partnerships is increasingly gaining importance.

HR outsourcing services typically cover the complete breadth of the employment lifecycle and include services such as candidate assessments, payroll and benefits, training process outsourcing (TPO), engagement, performance management, and exit and outplacement services. The market comprises global players that are apt in multi-functional process outsourcing services, pure play

global HR process experts, and domestic home-grown players.

Recently, HR outsourcing used to simply denote payroll & benefits administration and HR professionals would search for the best and cheapest payroll management service providers. The spectrum of payroll & benefits administration services have expanded to include payroll management systems, benefits outsourcing, and compensation and benefits services. Several niche services have also emerged in the last five years, including assessments and training process outsourcing (TPO). Some of the emerging HR outsourcing services include the following.

6.1 Recruitment process outsourcing

Recruitment process outsourcing providers manage whole or part of recruitment operations of an organisation. The last 2-3 years have seen the emergence of a large number of home-grown RPO players in the Indian HR industry. Recruitment process outsourcing companies provide not just process-level assistance to an organisation but also consultative guidance on how to manage and administer recruitment processes. RPO service providers also offer vendor management services helping organisations to identify and manage, placement services, recruitment companies, and job placement services. An RPO provider acts as an advisor of staffing services systems and employment services policy of an organisation.

6.2 HR shared services

Shared services have become an integral part of HR operations in most organisations. HR delivery models are continuously evolving to include new HR service capabilities. HR shared service providers manage the complete HR outsourcing spectrum including, HR shared service, outsourced HR services, and HR business process outsourcing.

HR shared service companies are present in many cities in India, including Delhi NCR, Gurgaon, Mumbai, Chennai, Hyderabad, and Bangalore.

6.3 Legal & Compliance outsourcing

Legal & compliance outsourcing is rapidly evolving as the demand for such services continue to evolve. Legal & compliance outsourcing includes HR legal compliance, HR legal services, HR legal advice, and HR compliance software. Along with legal consultation, the best service providers offer HR compliance checklists and HR compliance software.

7 HUMAN RESOURCE OUTSOURCING TRENDS IN INDIA

HRO is an evolving industry in India. With more and more companies looking to rationalize employees on their payroll, manpower outsourcing is slowly becoming the new buzz in India. And the trend seems to have hit not just big multinational companies but the public sector and government undertakings as well, though on a very low key yet in the latter.

It has turned out, furthermore, that HR departments especially rely significantly on outsourcing, even though they might not, at first, realize that only a few standard practices are, in fact, out-sourced. Estimates show 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 a rate of about 50 per cent.

A recent survey 'Outsourcing in the Asia-Pacific', conducted by Hewitt Associates, a global HR outsourcing and consulting firm, confirms the situation. The survey showed that many companies in the region are either unfamiliar with the process and procedures of HR outsourcing, or are unaware of the players operating in the area. "Even though across the globe companies are realizing that headcount is directly related to the revenue and are outsourcing most of their transaction and administration related work, the general opinion among the Indian companies is that it is still economical to manage all their HR process internally," Mahajan says, adding: "Here people are also not very clear about what exactly is manpower outsourcing all about." Explaining about the concept of HR outsourcing, Kris Lakshmikanth, founder CEO & managing director of The Head Hunter, a recruiting firm Bangalore, says, "It is a process of outsourcing involving particular tasks like recruitment, making payroll, training and development to a third party who have expertise in these respective fields."

HR outsourcing can happen in areas such as payroll, employee benefits administration, fixed assets administration, network, receivable and logistics management, hardware maintenance, telemarketing, call centers and database management. In India, the most common processes outsourced are related to training, payroll processing, surveys, benchmark studies and statutory compliance," Mahajan adds. Elaborating about the benefits of manpower outsourcing, Lakshmikanth says, Today, every organization is aiming at achieving productivity by enhancing return on investments and achieving the economies of scale. In this context, it makes sense to focus only on the organization's core competencies and outsource non-critical business activities. Therefore, routine administrative work, although important, can be outsourced to third party vendors." Experts say the basic reasons hampering the growth of HR outsourcing in India are confidentiality and cost factors. Besides the fear of

losing jobs, losing control over confidential data, ethics and quality of outsourcing vendors, security breaches and overall confidence in the vendors deters many organizations.

Quality at times forms another roadblock. Besides the fear of losing jobs, losing control over confidential data, ethics and quality of outsourcing vendors, security breaches and overall confidence in the vendors deters many organizations. Quality at times forms another roadblock. According to Mahajan, most companies are not sure about the end result, which they will receive from the vendor. "Also currently there are no standard benchmarks available so pricing varies a lot from vendor to vendor for similar services. This gives the customer the feeling that they are not getting best value for their money," he adds. Buas the Hewitt survey puts it, "with economic slump showing signs of improvement, many HR outsourcing vendors are optimistic that things will look up in the near future." Experts also believe that in present times HR outsourcing is undergoing a transition phase. "There has also been a transition on its user acceptance, where it is moving from a corporate domain to public sector undertakings and the government sector. All this reflects on the growth of this sector. However, it would still be sometime before we see increased levels of HR activities being outsourced," they say.

Employee loans, medical insurance, health checkups, selection based on competencies, 360 feedback has been outsourced. VP-HR, Bharti Cellular Services – North Central, says that time must be invested in building trust and confidence level with vendor. Employees' opinion is must. Core functions will be internally driven. Number of people in HR will reduce but their value will go up considerably. Benefits management, PF, Superannuation, gratuity, entry level recruitment, training, welfare, transportation, cafeteria, housekeeping, security, nursing assistance, basic health services have been outsourced. VP-HR, Spectramind, says that outsourcing initiative is training for pre-hiring skills

8 CONCLUSION

Human resources outsourcing can enable smaller companies to grow without making it necessary to hire additional personnel, and by assisting with compliance issues, can help minimize the threat of financial consequences due to a failure to comply with state and federal employment regulations.

Outsourcing human resources (HR) responsibilities is not something new, though it has become grown into a major component of many HR departments. The focus on outsources is a result of organizations trying to focus manpower and financial resources. With global

talent able to fulfill many of the requirements of an HR department, employee costs and management are reduced often with an increase in performance. Recent trends continue to have more outsourcing in more HR are

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