

Human Resource Outsourcing (Hro): Implications and Prospects in India

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Abstract: *Human Resource Outsourcing (HRO) is the fastest growing segment of the BPO industry. Rapidly changing market dynamics and global competition have caused organizations to spend more time focusing on their core business. HRO is the outsourcing of tangential but essential administrative tasks such as payroll, benefits, education, training, recruiting personnel, administration, to realize economies of scale and achieve standardization of services. The HRO business opportunity is huge and India is likely to gain a significant share. India, with its intrinsic advantages such as low cost, equipped puddle of English speaking manpower and geographic positioning, is emerging as a feasible destination for HRO companies to set up their businesses. However, there are a lot of key issues of concern regarding HRO such as quality; security; confidentiality etc. that needs to be addressed in order to exploit the available opportunity. Against this backdrop, the present paper is an endeavour to explore the various key issues concerning HRO in the light of prospects in the Indian context.*

Keywords : *Outsourcing, Human Resource Outsourcing, BPO, Global Competition*

I. Introduction

Outsourcing is an accepted management tool for restructuring and refocusing the way an organization does business. It challenges management to build a more flexible organization centered on the core competencies of the business. In making the determination that a business has more to gain by having certain non-core aspects of the business outsourced to a third-party service provider, the organization transfers responsibility for one or more activities or functions that would normally be performed in-house to a qualified vendor, for a specified period of time and at a negotiated fee, in accordance with terms stipulated in a service level agreement (SLA). One very important trend in the recent times has been the growth of human resource outsourcing. HR outsourcing is the outsourcing of peripheral but necessary administrative tasks such as payroll, benefits, education/training, recruiting personnel, administration, to realize economies of scale and achieve standardization of services. Outsourcing has become a common response to manage people and technology resources strategically, enhance services, and manage costs more effectively. The HR outsourcing business opportunity is large and India is likely to garner a larger and larger piece of this pie in the future.

India, with its intrinsic advantages such as low cost, ready pool of English speaking manpower and geographic positioning, is emerging as a viable destination for HR outsourcing (HRO) companies to set up their businesses.

The main objective of this paper is to study about various aspects of Human Resource Outsourcing in order to study the implications in India in the light of prospects as well. The paper has been organized as follows. Section-I explains the conceptual framework of HRO. The Indian scenario of HRO and its implications along with the prospects in the light of constraints have been presented in Section-II. The conclusions and recommendations have been carried out in Section-III.

II. Section-I

HUMAN RESOURCE OUTSOURCING

The current economic climate is forcing organizations to explore tactics to remain competitive. Business process outsourcing of certain functions is an increasingly popular way to improve basic services while allowing HR professional time to play a more strategic role in their organizations. HR outsourcing comes third in the list of potentially high paybacks, after IT and the telecomm industry. Human Resource Outsourcing is no longer an alien word in the outsourcing industry. HR Outsourcing has become a trend in the world. For more than two decades now, there has been emphasis on the role of the HR function in the organizations. It is driven by the fact that HR departments in organizations are seen as the administration departments. They manage pay-roll administration, applicant tracking, training and other developmental work. Hence, HR becomes the most important part of any organization.

To improve the quality and enhance the performance of the organizations, most companies prefer outsourcing their HR services. The outsourcing relationship offers cost-savings, standardization of processes,

increased speed and quality of service. Outsourcing of HR function has become an integrated business strategy for the organizations. However, its success depends on the senior management and HR professionals to identify the core HR processes and non-core processes that can be outsourced.

After IT and the BPO industry, HR outsourcing might well be the next big thing in outsourcing. The perpetration of technology and computers into almost every aspect of our day-to-day lives is one of the main reasons for the increase in the outsourcing of human resource functions. This, coupled with the fact that global economy is slowing down and the number of layoffs are increasing, has led research firm to predict that the human resources outsourcing market will climb with an increase of nearly \$4 billion over a three-year period. A 2004 survey by the Society for Human Resource Management has listed background checks, employee assistance programs, flexible spending account management, payroll, and administration of health and pension benefits as some of the most frequently outsourced functions. Nearly 300 human resource professionals surveyed were in accord when they listed reduction of costs, control of legal risks, access to vendor expertise, and the streamlining of human resources functions as major reasons for outsourcing human resources.

Types of HR Outsourcing

HR outsourcing includes:

- **Discrete services:** In this instance, one element of a business process or a single set of high-volume repetitive functions is outsourced to a third-party administrator. Examples of discrete services could include the annual open enrollment process, flexible spending accounts or employee background checks.
- **Multi-process services:** The complete outsourcing of one or more functional human resource processes would be an example of multi-process outsourcing (also called blended services). As such, the outsourcing of either health and welfare benefits administration or defined retirement plan and 401(k) plan administration to a third-party administrator would be an example of multi-process or blended services outsourcing.
- **Total HR outsourcing:** Total HR outsourcing represents the transfer of the majority of HR services to a third party, to include recruitment, payroll, HRIS, benefits, compensation and communications, as well as the transition of HR management and staff. However, HR executive management would normally remain in place within the organization, along with strategic planning related to people management and other key HR functions at the discretion of management.

HR OUTSOURCING PROCESS

Any organization making a significant commitment to HRO is making a decision with far-reaching implications—not just for HR, but for the entire organization. For this reason, it is crucial that all stakeholders involved in the HRO process be involved from the outset and that there is clarity in relation to the goals and objectives that the organization expects to achieve. As a starting point, a multi-departmental steering team, consisting of representatives of all potential users of the service provider, should be formed and convened. Ideally, HR will either lead the decision-making process or be crucial to it. Other key members of the steering team should include high-level managers and executives with a vested interest in all aspects of human capital asset management and its return on investment, including operations, information systems technology, finance, accounting and logistics. The goals and expectations of the outsourcing process should be developed and defined in a detailed project plan.

III. Section-II

IMPLICATIONS AND PROSPECTS OF HRO IN INDIA

The HRO market is in transition. Until recently, the market followed a relatively predictable path, with the majority of HR outsourcing engagements conforming to conventional transaction-focused, single-process business arrangements with individual third-party providers. However, it is now clear that the HRO market has achieved a degree of maturity on the business life-cycle continuum. A second-generation market has emerged, the HRO multi-process market. As the HRO vendors have begun to partner with and acquire other firms, they are broadening their service capabilities to include organizational and people development, employee data management, workforce planning and deployment, and human capital services. In fact, a 2004 market research study by a well-known business process outsourcing (BPO) analyst firm forecasts that the worldwide market for multi-process HR BPO will grow at the rate of 21% annually. This forecast is highly significant because this same study forecasts that the total HR outsourcing market will grow by just 11% worldwide.

In other words, in terms of projected growth, the multi-process component of the HRO market is expected to be appreciably more robust in terms of projected growth than the market for those organizations selecting to outsource the HR function in its entirety. HRO is the fastest growing segment of the BPO industry. Some experts argue that within the next five years, HRO companies will employ half of all HR

professionals. In the broader context, BPO is the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administers and manages a selected process or set of related processes, based on defined and measurable performance metrics. Currently, the most frequently outsourced processes in order of priority are: IT development, customer service, HR/payroll processes, IT support, transaction management, travel expense reimbursement, tax consulting, financial reporting and general accounting. It is projected that HR/payroll processes, general accounting and travel expense reimbursement will see the fastest increase in growth going forward.

The HR outsourcing business opportunity is large and India is likely to garner a larger and larger piece of this pie in the future. India, with its intrinsic advantages such as low cost, ready pool of English speaking manpower and geographic positioning, is emerging as a viable destination for HR outsourcing companies to set up their businesses. But still here people are not very clear about what exactly is manpower outsourcing all about, and issues like equality and trust need to be addressed properly. Experts say the basic reasons hampering the growth of HR outsourcing in India are confidentiality and cost factors. Moreover, 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. This is the biggest problem and that's why the HR outsourcing industry in India is on the backfoot - is the government and the industry's failure to tackle issues like data security and data privacy. This is where Indian HR outsourcing companies face a major handicap. The Indian government is still grappling with drafting a data protection law designed to quell growing privacy concerns from their offshore clients.

However, the future seems to be very promising. It's set to become a \$51 billion market worldwide representing 39 per cent of the total business process outsourcing revenue. 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 an alarming rate of about 50 per cent. 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.

India is barely skimming the surface of the HR outsourcing market potential. 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, Satyam Group, Infosys, Enron, Haldia Petrochemicals and HSBC, to name a few, but many more needs to be added to that list.

IV. Section-III

SUMMARY AND CONCLUSIONS

Outsourcing can be used to achieve cost-effective solutions that leverage technology and knowledge to transform the business of human resource management. In today's competitive business environment, HRO is an accepted management practice and an opportunity that should be embraced, not ignored. With the proper research and analysis, it is a tool that can be applied strategically to reap value for the organization. While HRO is not the right answer in every situation, used wisely and judiciously, it can be positioned to the strategic advantage of the HR profession and the stakeholders it serves. Currently, most HR leaders can still choose whether they will respond to change or whether they will lead change. HR executives still have the opportunity to shape how they and the HR function respond to the demands that their function is experiencing. HR executives who stick with the status quo and maintain a focus on transactional work will soon become obsolete. At the same time, HR professionals who meet the need for strategic expertise concerning human capital management and organizational effectiveness will contribute value that far exceeds the past contributions of the HR function. In the process, they will make themselves indispensable to their organizations. The demand for the outsourcing of increasingly complex HR functions is likely to grow. On the supply side, the overarching challenge for HRO vendors will be their ability to manage multi-process; multi-client shared-service environments and the need for the outsourcing of broad-based HR functions.

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