

HR Outsourcing : A Quick Way To Expertise

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INTRODUCTION

Wikipedia defines Outsourcing as subcontracting a process, such as product design or manufacturing, to a third-party. Alternatively, it may be understood as purchasing of service from an outside vendor rather than using internal resources. Human Resources (HR) outsourcing sector is on the rise and India is expected to be one of the major players in this sector. In today's competitive & global market, main focus of any company is to find out the ways to reduce cost without compromising with the quality. HR outsourcing is the process in which a company uses the services of a third party to take care of its HR functions.^[1] A company may outsource a few or all of its related activities to a single or combinations of service providers located in offshore destinations like India, China, Philippines.^[2] Human Resource Outsourcing is beneficial for an organization in terms of cost-savings, increasing speed, service quality and process standardization. To identify the core and non-core processes that can be outsourced is the key for outsourcing. It frees the company from the burden of recruiting, training, development, and employee orientation programs. Therefore, companies feel more convenient to outsource their HR functions and thus concentrate more on their core business. According to the needs of an organization, there's specialized HR outsourcing firm in that domain. Businesses which outsource their HR functions are generally small-to-midsize firms having employees between 25 to 1500.^[3] HR Outsourcing seems to be a strategic tool for businesses which relieves them from their HR responsibilities and enables them to focus on their core competencies. Companies can save 30-40% of their cost by outsourcing their HR processes. In a business like HR outsourcing, where information is sensitive & cash flows are high, credibility and reliability are the foundations on which a relationship can be established.^[4] There is a continuous increase in the number of companies which outsource their HR activities.

Human Resource Outsourcing has become a common strategy among the companies in order to cut the cost and to gain speed & flexibility to compete among today's competitive business environment. In the upcoming future, companies expand their business outsourcing areas like leave management, learning and development, health & welfare and also global mobility. According to Watson Wyatt's study (2005), 36% of the companies expect to outsource more in the next two years, while 51% expect their approach to remain about the same and 6% of the respondents cutback their outsourcing activities.^[5] Secova was the first Indian company to do HR Outsourcing from India. The three most common matrices that companies oftenly use to monitor the success of their outsourcing relationships are hard-dollar cost savings measurements, service-level-improvement and employee-satisfaction surveys, used by 77%, 59% and 56% companies respectively. Though now-a-days, corporates are outsourcing practically all HR functions, the commonly used HR functions include:

- Recruiting, training and development
- Employee and manager training
- Overseeing organizational structure and staffing requirements
- Benefits administration
- Employee orientation programs
- Payroll
- Rewards
- Performance effectiveness

Today, the question for corporates is not about to outsource or not; rather the focus is on the question "How to get better at it?" Now-a- days, companies have to focus on their core businesses due to intense global competition and rapidly changing market dynamics. Companies are now realizing that they can't be the masters of all things. Therefore, companies ,whether it a manufacturing company, software company or a service provider do only that what they are good at and outsource everything else and let someone do what they are best at with a more efficient and cost effective manner. HR outsourcing is expected to be the fastest growing segment in the outsourcing market. Foreign professionals are also increasingly finding India an attractive place to work, thereby helping to augment her pool of professional manpower.^[6] The reason why HR Outsourcing is so popular is that companies are finding that external service providers through their best technology and economies of scale can provide more efficient & cost effective HR services than in-house departments.

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In nutshell, HR Outsourcing can:

- Help in reduction of human resource cost by identifying non-value activities and eliminate human resource hidden cost.
- Help in identifying HR administration processes and HR practices.
- Focus on HR performance.
- Help the organization to focus on its core competencies.
- Helps in availing latest technology at lower rates.
- Helps in fostering innovation and increased productivity.
- Helps in availing skilled manpower at affordable prices.
- Helps organizations to serve their customers better.

One of the major decisions concerning outsourcing is the time. Since it includes offshore opportunities also, hence, the decision becomes even more complicated. Experts have recommended some areas where use of outsourcing can provide competitive advantage:

- 1) When a company is too busy in handling operations and doesn't concentrate on core business.
- 2) When a company is facing money, time and human resource crunch.
- 3) When a company wants to gain a competitive advantage.
- 4) When a company has a critical project that needs specialized skills plus energy and time which aren't readily available.

THE INDIAN SCENARIO

Today, in India, the most popular management decision is Outsourcing. Many companies do outsourcing with a view to gain quality rather than cost reduction. Therefore, several companies are attracted by the vast talent pool in India. India offers technological agility, flexibility and competitive advantage. After medical transcriptions and customer care services, Human Resource Outsourcing as services is emerging as the next big opportunity for Indian business outsourcing industry.^[7] Even countries like China and Russia are outsourcing their contracts to India and are offering better rates for the services. Only RPO (Recruitment Process Outsourcing) accounted for \$30 million in 2008. In the Indian market, the total annual money spend on recruitment is Rs. 700-800 crore.^[8] The companies doing HR Outsourcing can focus on higher value added services because outsourcing service providers take care of their day-to-day administration. Due to various intrinsic advantages such as low cost, easily available pool of English speaking manpower and geographical positioning, India emerged as a viable destination for various companies to move up their business to India.

Estimates show that latent size of HR Outsourcing in India is about \$2 billion, with a current market of \$27 million^[9] and by 2012, it should reach \$6 billion (Rs 28,800 crore). That is a growth rate of 35 per cent.^[10] Often, concern has been raised about possible US government action on Indian BPO, but a poll conducted by the Washington, D. C. based Gallup Organisation shows that in the eyes of the American people, India ranks fifth, with a positive rating of 64 per cent, in the list of countries favourable to the US.^[11]

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, Euron, Haldia Petrochemicals, HSBC and many more. Training, Benchmark studies, surveys, payroll processing are the most common processes outsourced. Confidentiality and cost factors are the basic reasons for the growth of HR Outsourcing in India. India has been ranked as the most preferred sourcing destination by AT Kearney, Mc Kinsey Global Institute (MGI), & Forrester and Gartner Inc.^[12] Factors on which selection of outsourcing countries is based are Cost, People and Environment. India is on the first rank among host of desirable nations in terms of Cost (employee cost, infrastructure cost, management cost & tax structure). India leads among all its competitors on the people front (job market, employee's education level, employee retention, past outsourcing experience and language) also. But when India is evaluated on the environment factor (cultural compatibility, country risk, infrastructure etc.), India lags behind countries like Australia, Ireland & Canada.^[13] Due to the India's strengths, India is the first choice of approximately 82% companies of US for outsourcing. According to JP Morgan 2006 Report, between 2005 and 2010, India will contribute nearly a quarter of the increase of 314 million in global working-age population, while China would contribute 14% and Europe will experience no increase in working age population.^[14] To invest in new innovative technologies and services that will not be marginalized by the inevitable narrowing of the country's cost advantage is the key to survival of the Indian firms in the outsourcing business. Today, India can be called as the world's outsourcing hub. Many competing countries like China & Ireland wish to catch India in the upcoming future but

they have their own limitations like they don't have an English speaking population who can fulfill the expectations of an English client. India beats all its competitors in terms of lowest cost as well as service quality.

But still, people are not very much aware about what actually HR Outsourcing is all about. Losing control over confidential data, fear of losing jobs, ethics and service quality of outsource vendor prevents many organizations to outsource their HR activities. The issues like data privacy and data security are the main reasons why HR outsourcing industry in India is on the back foot. The Indian government is still struggling with making a data protection law designed to protect privacy concerns from their offshore clients. The major challenges faced by the outsourcing industry in India are the scarcity of talented managers for the middle and senior management, high attrition rates and the opposition from the US politicians and the UK labor unions against shifting of the outsourcing operations by local companies to India. The basic reasons why many companies preferred to outsource to India are:

- Cost effective services
- High quality services
- 24 X7 X365 zone advantage
- High-end technology and best-of-bred infrastructure
- Skilled, talented and experienced professionals
- Wide range of experience in providing outsourcing solutions and services
- COPC, the de-facto standard for BPOs and Customer Contact Centers worldwide has gained immense popularity in India.

Service Line in India	Market potential (in billion)
Human Resources	3.5-4.0
Customer Relationship	7.0
Payment Services	3.0-3.5
Content Development	2.5-3.0
Administration	1.5
Health Care	1.5-2.0

(Source: Businessworldindia.com)

Major Indian companies that provide HR Outsourcing functions are listed below:

➤ EXL Services.com (I) Pvt. Ltd. ➤ Daksh eServices Pvt. Ltd. ➤ GTL Ltd. ➤ Spectra mind ➤ Datamatics Technologies Ltd. ➤ Tracmail India Pvt. Ltd. ➤ Brigade Corporation ➤ Epicenter Technologies Pvt.Ltd. ➤ Firstring ➤ 24X7 Customer

CLASSIFICATION OF A HR OUTSOURCING COMPANY

A HR Outsourcing company can be classified in four categories i.e. PEOs, BPOs, ASPs or E-services on the basis of type of services it offers.

PROFESSIONAL EMPLOYER ORGANIZATION (PEOs)

A professional employer organization takes complete responsibility of a company HR administration. A professional employer organization takes complete legal responsibility of employees - taking final decision on attracting, selecting, terminating employees etc.

BUSINESS PROCESS OUTSOURCING (BPOs)

Business Process Outsourcing refers to outsourcing in all fields, not only HR. HR Outsourcing company of this type differentiates itself either by adopting a new technology or by applying existing technology in some new way to improve the process. In HR, a BPO should check whether a company HR system is being supported by latest technologies like self-access & HR data warehousing or not.

APPLICATION SERVICE PROVIDERS (ASPs)

Application Service Providers host software on the web and rent it to some other users. Generally, these are customized HR software developed by outsourcing service providers. These software programs manage HR functions like payroll, benefits etc.

E-SERVICES

E-Services are the HR Outsourcing companies that are web based. BPO and ASP can be referred to as e-services companies.^[15]

A company that wishes to outsource its human resources firstly has to decide which type of outsource service provider to go for and secondly, has to decide the offshore destination for outsourcing its HR functions.

AREAS OF OUTSOURCING

- 1. Customer Care:** Includes telemarketing, inbound call centers, database marketing, customer analytics, web sales & marketing and administration. Domestic BPO market size is expected to reach \$ 6 billion by 2012.^[16]
- 2. Finance:** Includes financial reporting, financial analysis, billing service, risk management, tax consulting, accounting transactions etc. Its market size is expected to reach \$ 10 billion by 2010.^[17]
- 3. Human Resource:** Includes recruiting, staffing, payroll services, hiring administration, education & training benefits, administration and legal process outsourcing. Legal process outsourcing market alone is expected to reach \$ 3-5 billion by 2012.^[18]
- 4. Payment Services:** Includes credits/debit card processing, transaction processing and cheque processing.
- 5. Administration:** Includes asset management, document management, transcription, tax processing and claim.
- 6. Content Development:** Includes design, engineering, biotech research, network consultancy and animation.

HOW OUTSOURCING WORKS?

- 1. Initiation:** The very first step of outsourcing is to initiate. In this stage, the company has to identify the need for outsourcing HR activities, special areas of HR that need to be outsourced, develop a proper plan and time duration for its completion.
- 2. Strategic Consideration:** After successfully completing the first stage, the next stage is to do a detailed cost-benefit analysis in order to assess the risk associated with the activities that are to be considered for outsourcing.
- 3. Vendor Evaluation:** In this stage, the proposal given by external service provider is to be analyzed in order to identify the deviations between the requirements of a company that wishes to outsource and the services provided by the external vendor.
- 4. Corporate Communication:** Here, the right message is delivered to the right audience, at the right time, across the entire organization and through sharing so that the employees' fear is reduced.
- 5. Contract Management:** In the last stage, decision is made regarding a contract based on the business principles of flexibility and cooperation that makes a way for feasible expectations of achieving cost service benefits. Another thing that has to be done is to make a plan in order to review the relationship with the on-going outsourcing plans.

CHALLENGES AHEAD

There are always two facets of a coin. One side is the benefits/advantages from HR Outsourcing and the other side is that despite of achieving a number of advantages, there are some challenges hampering the growth of HR Outsourcing Industry. Some key challenges that companies might face while outsourcing their HR functions:

➤ Selection of Ideal Outsourcing Vendor

- Price • Expertise • Company Information privacy • Knowledge of latest technology

➤ Dynamic Challenges

- Language/cultural challenges • Security risks • Legal concerns
- Losing control over key processes ➤ Lack of incentives from government ➤ Fear of losing jobs among employees ➤ Poor perception by the job seekers ➤ Reduce organization learning capability

There are some challenges that companies face from the view points of their employees :

- Monotonous nature of job ➤ Loss of identity ➤ Lack of comfort on the personal front and change in lifestyle
- Employee reactions towards external service provider ➤ High stress levels ➤ Lack of future career potential on the professional front.

Another challenge that companies face is that there are no set benchmarks for pricing. Therefore, pricing varies a lot from one service provider to another. This raises the doubt of not getting the best value for their money. One another challenge imperiling companies' growth is issues related to its employees. Employees want an in-house HR training that interacts with them, handles their problems and maintains a healthy and motivated environment in the company.

CONCLUSION

Business Process Outsourcing services helps companies around the world to improve their customer service management. Importantly, these services enable companies to concentrate on their core areas, while outsourcing

their non-core areas, which in turn translate into increased productivity. It becomes essential for the companies to outsource their HR functions due to the intense competition and internal limitations of the companies. In the upcoming future, there has been a huge increase in the number of companies that outsource their HR functions. However, there are certain aspects which companies should know before selecting an outsourcing service provider such as the market image of the vendor, clear vision of what outsourcing achieves, scope of the HR functions (which is to be outsourced). HR outsourcing is not a panacea. It can just add impetus in their growth journey. The companies must focus on their core competency.

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should offer in-country support networks, mentor programs, and company policies supporting women on overseas assignments. Corporates must also support the entire family, including the spouse/partner as well as the children and teens, during the entire assignment.

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