HUMAN RESOURCE OUTSOURCING IN INDIA

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Abstract

Globalization of economies over the past years have reduced international trade barriers and have resulted in an increasingly interlinked global economy and intense global competition, putting pressure on business managers across the world to cut costs of operations. At the same time a paradigm shift in the possibilities of communication that the Internet and the telecommunications revolution has bought about has opened up a plethora of opportunities in outsourcing business processes across continents. Traditionally starting with just sub-contracting in manufacturing, now a holistic definition of outsourcing involves transferring any value contributing activities, processes and/or services to the premises of one's own or an agent primarily to save cost and/or to increasingly focus on its area of core competence. Business Process Outsourcing (BPO) is a vital sector for creation of Job opportunities in developing countries due to the growth of economy especially after the liberalization era in India. The paper analyses why outsourcing is here to stay, basing the argument on sound conceptual reasoning, disregarding the political arguments involved. However, given the political pressures under which many of the MNCs operate the likelihood of more of the value added but not very core activities outsourced while some of the real non-core not outsourced cannot be ruled out. This paper has been written in response to a comprehensive study, conducted on the "Human Resource (HR) Outsourcing in India". The research mentions and evaluate the varies aspect, after a thorough analysis of the various facts stand figures, a set of recommendations has been given at the end of the paper.

Key words: Human Resource (HR), Business Process Outsourcing (BPO), India.

Introduction

"HR outsourcing 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."

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.HR outsourcing has the potential to benefit organizations that want to transform their ability to manage human capital. Outsourcing can provide the right blend of cost, service levels, experience and economies of scale that allow companies to move away from administrative activities and focus on more strategic issues.

The Human Resource (HR) department is critical for employee satisfaction in any firm. Some businesses don't have the staff, the budgets or the inclination, to deal with the nitty-gritty of HR management, so they opt for outsourcing. Deciding which functions to offload and which firm to outsource is also a major decision.

HR outsourcing can be segregated into two broad categories: Transaction and administration outsourcing and HR consultancy. Transactional outsourcing is more of day-to-day or month-to-month requirements, and constitutes services like payroll and benefits. This

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kind of service is more prevalent in the Indian market. In the value chain, it falls at the lower-end compared to HR consultancy, although it happens to be an essential function. It is a fact that companies continue to manage the strategic and policy functions of their HR department's in-house.HR outsourcing can happen in various areas such as payroll, employee benefits administration, fixed assets administration, network management, receivables management, 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.

HR outsourcing Services are of four categories: **PEO** - A Professional Employer Organization (PEO) takes legal responsibility for employees. The PEO and business owner are partners, with the PEO handling HR aspects and the business handling all other aspects. **BPO** - BPO refers to all fields, but specifically for HR, a BPO would ensure that a company has access to latest technologies. **ASP** - Application Service Providers (ASPs) host HR software, on the web and rent it to users and **E-services** - E-services are those HR services that are web-based.

Human Resource Outsourcing: Scope for India

The 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. Rapidly changing market dynamics and global competitive pressures have caused organizations to spend more time focusing on their core business. Organizations are fast realizing that they can't be all things to all people. So companies now, be it a software company, a service provider or a manufacturing firm, decide what they are good at and outsource everything else, i.e., focus on their core competency, and let someone else do the rest in a more efficient and cost-effective manner.

As a result, human resources outsourcing is becoming increasingly prevalent. The number of companies outsourcing HR activities continues to rise, and the scope of outsourced HR activities continues to expand. HR outsourcing can happen in HR functions, like payroll administration (producing checks, handling taxes, dealing with sick-time and vacations), employee benefits (Health, Medical, Life insurance, Cafeteria, etc), human resource management (hiring and firing, background interviews, exit interviews and wage reviews), risk management, etc. Outsourcing has become a common response to manage people and technology resources strategically, enhance services, and manage costs more effectively. Outsourcing non core activities allows HR professionals to move away from routine administration to a more strategic role. The organization can focus on higher value-added activities while the outsourcing provider takes care of the day-to-day administration. Critical internal resources, such as technology and talent, can be devoted to company's core business. Outsourcing reduces the need for large capital expenditures in non core functions. Thus, outsourcing becomes a strategy for reducing the capital intensity of the business. This strategy has gained popularity as companies aim to become more nimble and gain the speed and flexibility necessary to compete in today's business environment. A growing number of executives understand the benefits it can bring in terms of not only cost savings, but also heightened strategic focus. Many recognize outsourcing relationships as long-term partnerships created to further the strategic goals of the organization.

But still here people are not very clear about what exactly is manpower outsourcing all about, and issues like quality and trust needs 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. The biggest problem - and this is why the HR outsourcing industry in India is on the back foot - 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.

Review of Literature

Drucker (1997) identified is that an organization must be mindful of the fact that employee relations should remain in focus even while the organization is outsourcing their human resources function.In recent years, outsourcing has become a widely accepted and implemented method of cost control. Organizations are outsourcing their human resource (HR) functions for various reasons, but the main driver seems to be to cut costs and to offload the headache of the "growing burden of rules and regulations. **Adler (2003)** observed that outsourcing has become increasingly attractive for many organizations. In such relationships, a company contracts with a vendor that rents its skills, knowledge, technology, service and manpower for an agreed-upon price and period to perform functions the client no longer wants to do. Much attention has focused recently on the outsourcing of staffing, including temporary and contract workers, and IT professionals. **Karimi (2003)** analysed that recruiting, hiring and retaining quality employees is an important goal for companies that want to become leaders in their industry and grow faster than the competition. A company's ability to attract and retain employees is typically dependent on its human resources department, which is often busy with other day-to-day HR activities. Companies that can't afford additional HR staff, or those with ongoing hiring needs, may want to turn to an HR outsourcing firm to coordinate essential recruitment efforts. Recruitment process outsourcing offers businesses of all sizes a chance to obtain professional expertise for hiring. It also can reduce the overall costs associated with the recruitment process. **Fisher et.al (2008)** observed that as the use of outsourcing as a staffing strategy continues, it is important to understand how the landscape of human resource management shifts in response to this strategy. Much of the existing outsourcing research in human resource management and organizational behavior has examined individual-level responses. In this article, we use this research to identify the outsourcing-related challenges facing HR professionals in both the service provider and client organizations as they strive to attract, motivate, and retain high-performing employees and explore HR practices that may help achieve organizational goals. Areas in need of additional research are also identified.

Research Methodology

It is a type of Conclusive Research that has its major objective. In this type of research problem and parameters of the research are well defined. Descriptive Research Design is marked by prior formulation of specific hypothesis. Both primary and secondary data has been collected for the study. Sample size of 150 was taken for the study. Data has been collected through formal and informal discussion and Standardized Questionnaire whereas secondary Data has been collected through Internet downloads. Various journals, subject related articles in Newspaper and Magazines.

The study aims at studying the HR outsourcing phenomena and how companies in India are reacting to this phenomenon. The study will throw light on the various aspects like the trends, challenges, benefits and other issues like process and vendor selection criteria used related to HR outsourcing in the context of the Indian industry. It will also talk about the role of outsourcing outfits like India Life Hewitt, Ma Foi, Xansa, Wipro, Accenture etc in shaping the Indian HR outsourcing industry.

Objectives of the study:

o To study the various challenges faced by the Indian industry pertaining to HR outsourcing.
o To study the trends of HR outsourcing prevailing in the Indian industry.
o To ascertain the future of the HR outsourcing industry in India and the factors responsible for molding it.
o To find out the various benefits being derived out of HR outsourcing by the Indian companies.

Data analysis & interpretation:

Q1. Has your company outsourced any of the HR processes?
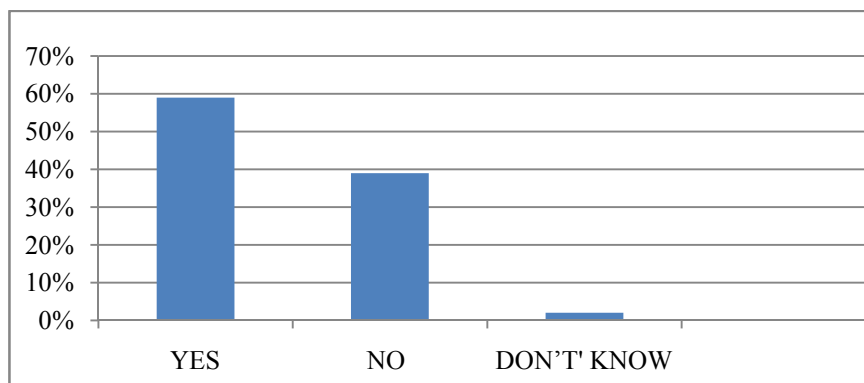
The respondents were asked whether they outsource their HR processes. 58% of the respondent's companies have outsourced their HR processes.

Q2. Which of these are major risks associated with outsourcing HR services?
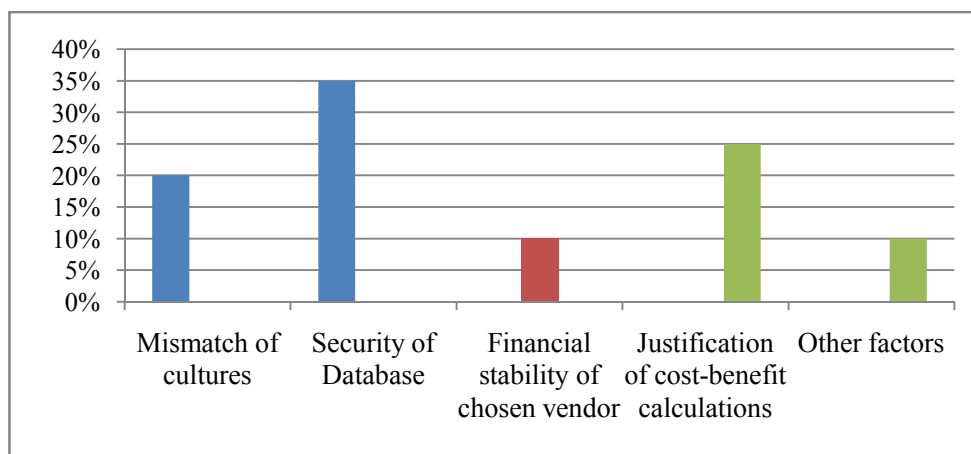
The respondents gave the above reasons and risk associated for not outsourcing their HR processes. 26% respondents gave cost as a reason for not outsourcing; security breaches were given as a reason by 34% lack of reliability on financial stability by 10%, data privacy. Hence cost, security breaches and lack of reliability were identified as the major reasons for not outsourcing by companies in the Indian market.

Q3. Which of these HR services are outsourced by your organization?
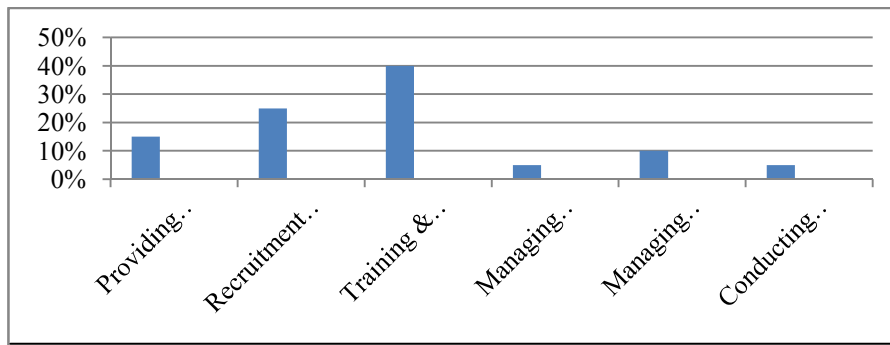

Training and development was found to be the mostly outsourced process followed by Recruitment & selection, payroll processing, compensation surveys and statutory compliance. 24% respondents replied that their company has outsourced the recruitment process, 40% replied that they have outsourced their training process, 6% replied they have outsourced compensation surveys and payroll processing
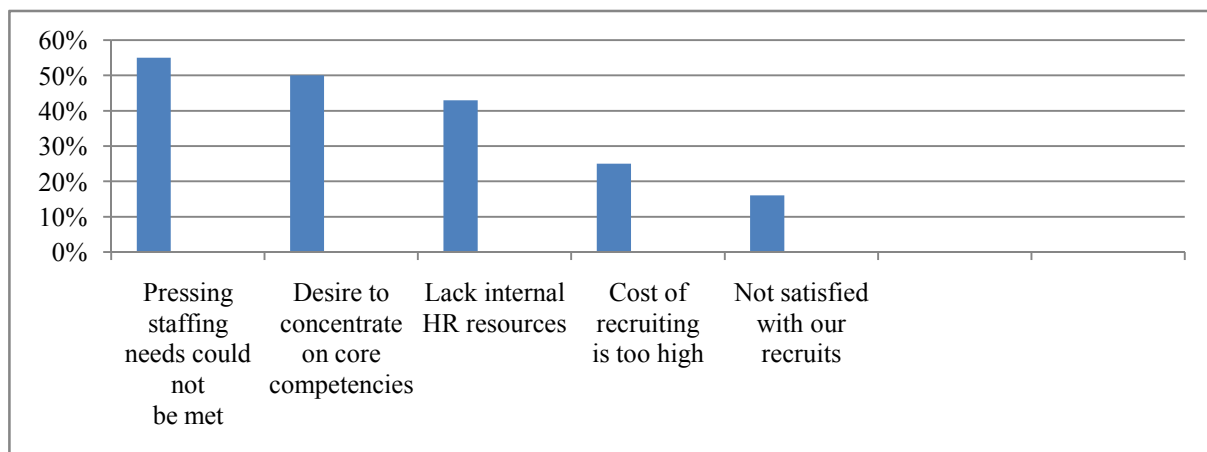
**Q4) Reasons why organizations turn to Human Resource Outsourcing.**

Facing increasing competition for talent and the current economic downturn, many organizations are focusing limited resources on core business needs. As a result, they are outsourcing many key recruiting processes fueling the growing trend for services and solutions in the market known as Recruitment Process Outsourcing (RPO).

**Q5) Does your organization plan to outsource some of your Human resource processes in near future?**
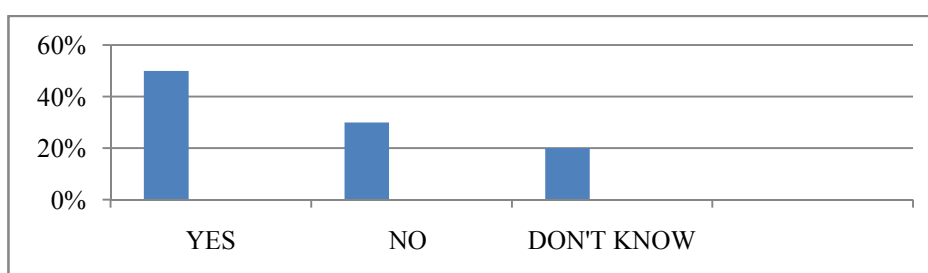
A major challenge facing RPO is the apparent uncertainty about how to use and benefit from it in the future. This uncertainty is evident in the responses we received when we asked people to tell us if their organizations would be using RPO in the next five years. As the Figure shows, 30 percent of respondents told us that their organizations will not be using RPO in the future, and another 20 percent are unsure. This last number, in particular, points to some uncertainty — as well as potential opportunity — for the future of RPO.

Q6) What payment model does your organization use when human resources are outsourced?
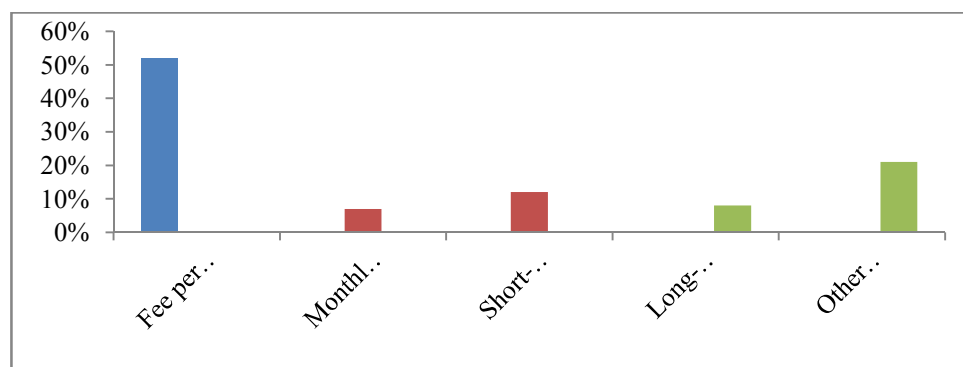

The final RPO challenge may also be the greatest opportunity — maximizing the Return on Investment (ROI). As with every other business decision, the success of RPO can be measured by its ROI. While organizations use various payment models to invest in their RPO programs, the "fee per hire" model.

Q7)How would you rank the current Return on Investment for your organization's HRO?
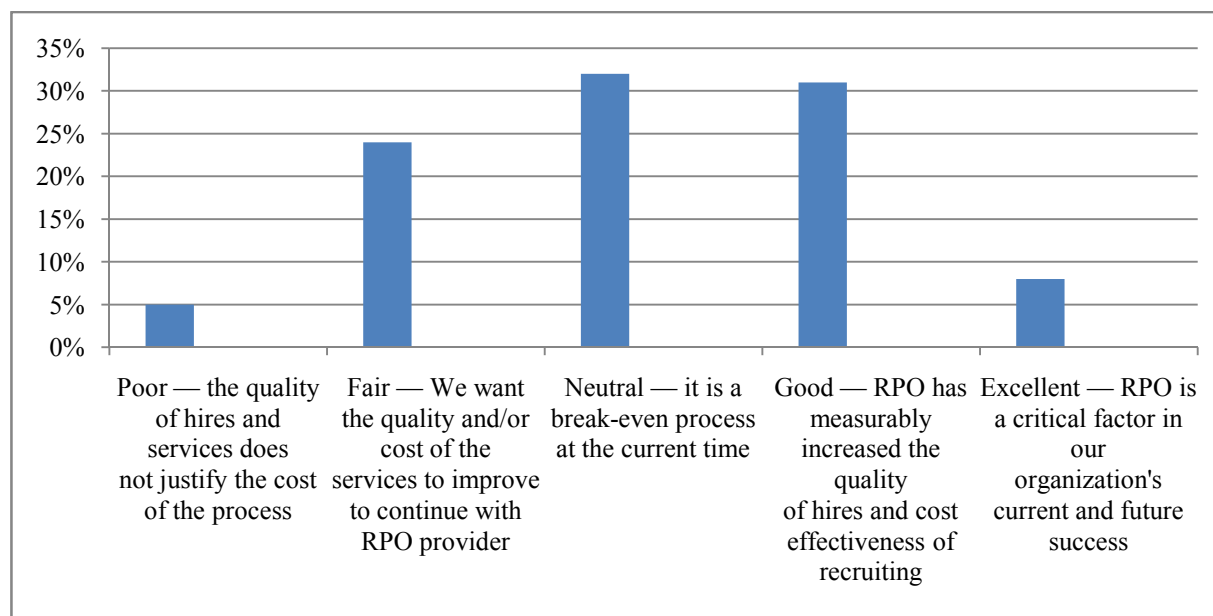

With around 6% of the respondents consider the return on investments in hr outsourcing poor, 24% consider it to be fair, 32% consider it to be good and a mere 8 percent find the returns to be excellent.

Q8) Who was responsible or involved in making the decision to outsource HR processes?
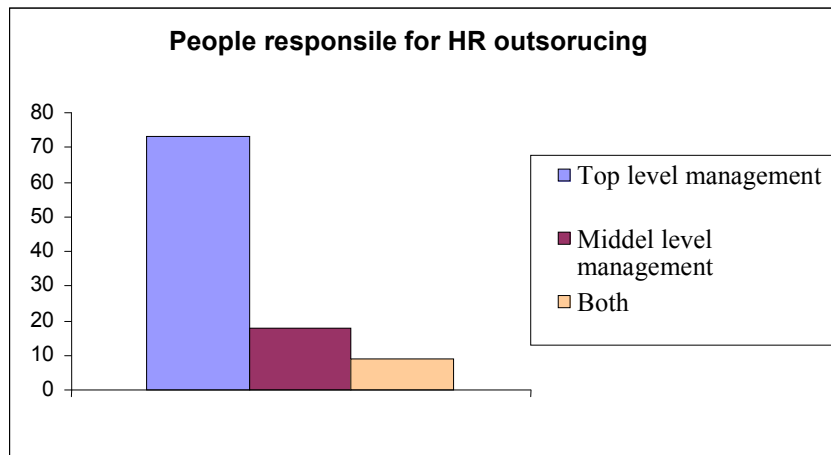

72% respondents replied that the top management was responsible in taking decision related to HR outsourcing, 18% said that the middle management was involved in the whole process of HR outsourcing and 10% respondent said that both the middle and top management were involved. Hence the study throws light on the fact that HR outsourcing is an important decision for the company and mostly involves top management.

**Q9) What were the criteria in selecting the HR process to be outsourced?**
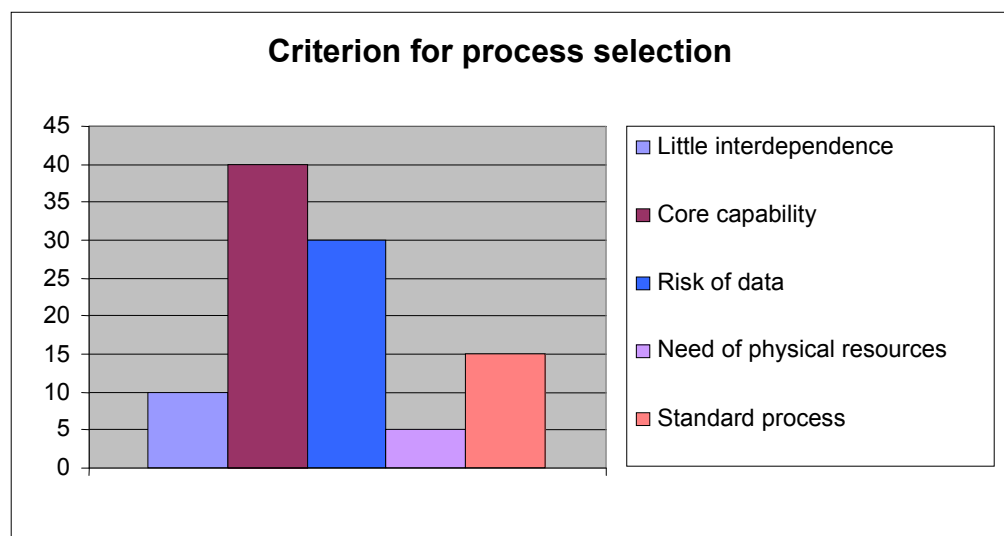
40% respondents stated checking core capability as a criterion for selection of the HR process to be outsourced i.e. checking whether the process is a core capability or not before outsourcing. 30% respondents responded that the processes which if outsourced pose a risk of data exposure were not outsourced. 14% respondents stated that the processes that are standard across industries are outsourced and 10%said that process which are less interdependent on other processes are outsourced. 6% respondent said that those processes that require physical presence of the HR personnel are not outsourced. Hence core capability and risk of data exposure were identified as a criterion for selection of process to be outsourced by maximum respondents.

Q10. What were the criteria in evaluating the potential vendor for the HR outsourcing?
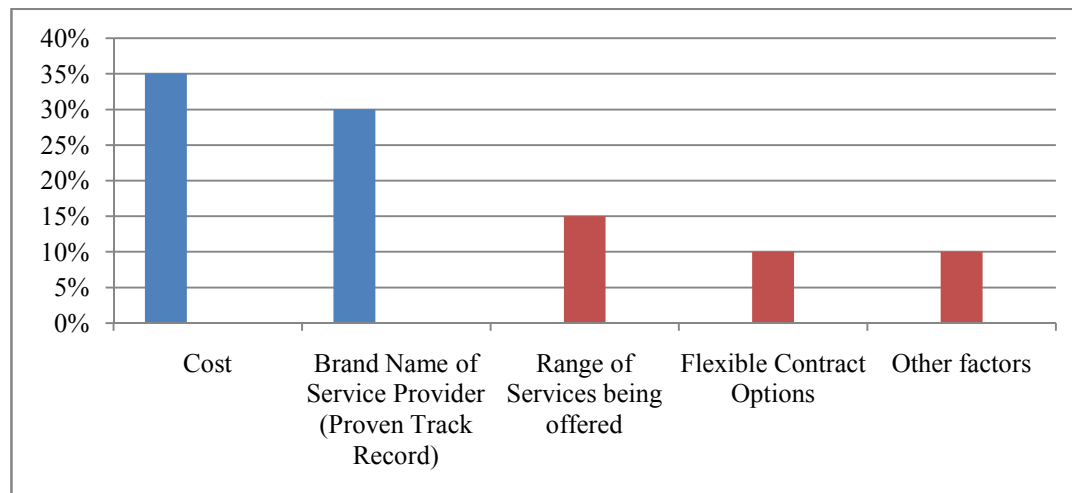

According to respondents, competence is considered as a criterion for selection of vendor for HR outsourcing. 34% respondents stated cost as a criterion, 30% stated Brand name and stated past records and 16%the kind of services the vendor offers. Hence competence and technological capability, relevant industry experience and cost of services were identified as a criterion for evaluation and selection of potential vendor by the company for HR outsourcing.

Q11.What are the various benefits derived by the company from HR outsourcing?
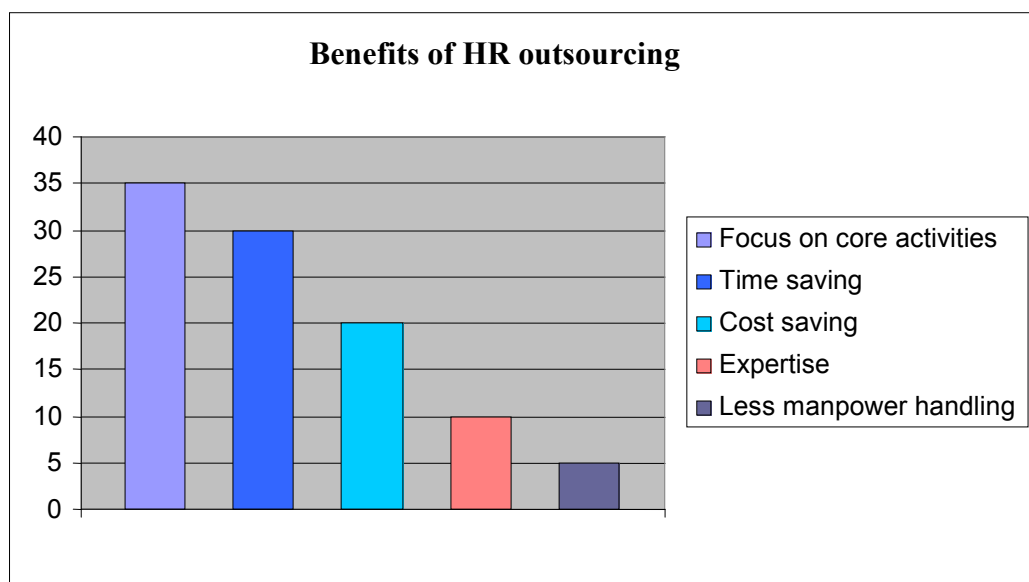
Among all the respondents 34% responded that HR outsourcing makes them focus more on their core activities, 30% said that it saves their time, 10% said that HR outsourcing provides expertise to the company, 20%said that it saves cost and 6% said that it requires less manpower to be employed in the company. Hence focus on the core processes and saving of time was identified as major benefits of HR outsourcing.

Q12. Are your competitors and business partners outsourcing any of their HR services?
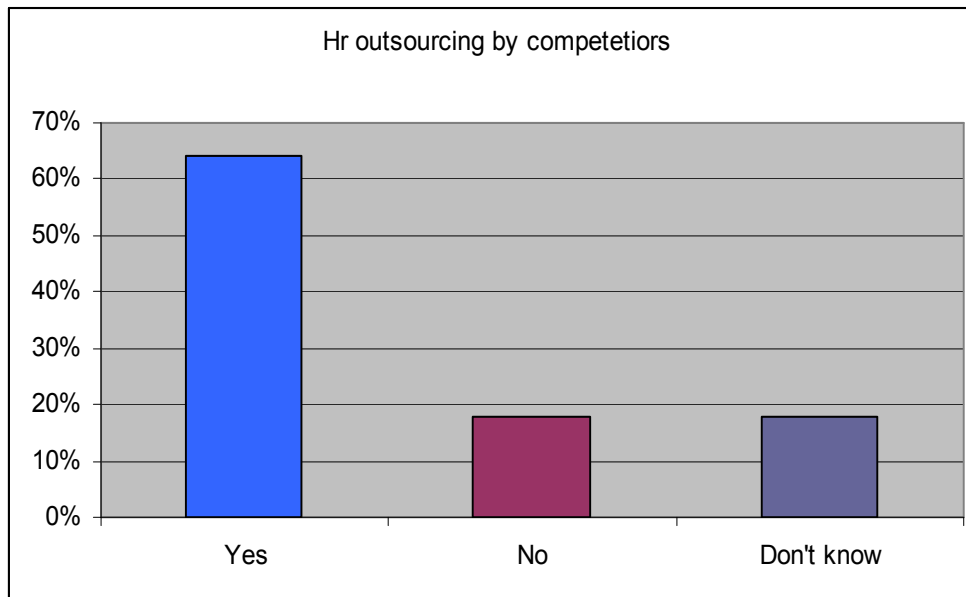
This question was regarding the awareness about outsourcing done by competetiors, 64% respondents replied that their competitors also outsource their HR processes. 18% replied that their competitors don't outsource any HR process and 18%replied that they don't know.

Q.13 Has the company taken the feedback of the internal customers on the HR outsourcing done?
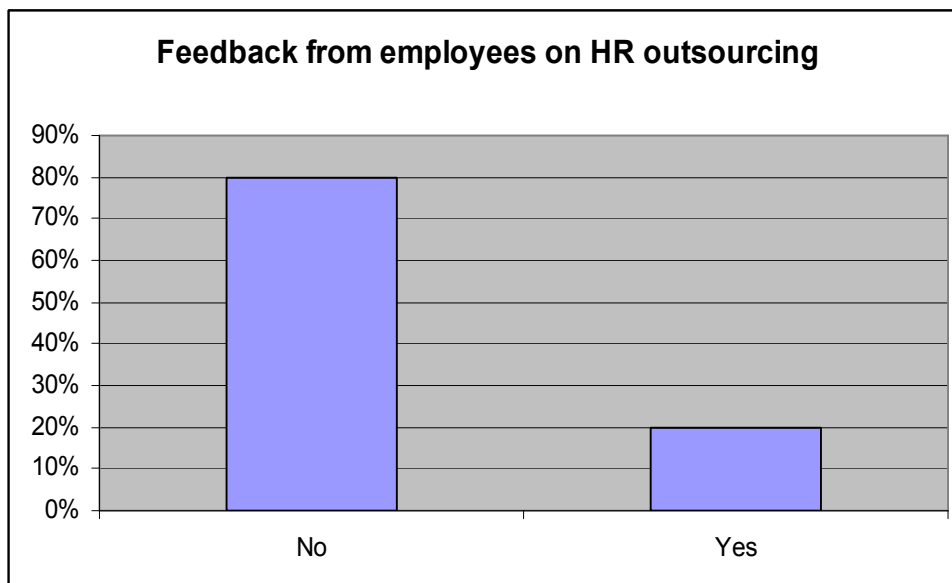
80%respondents replied that they have not taken feedback from the employees of the company on the HR outsourcing done by them. 20%respondents replied that feedback has been taken in their organizations from the employees on the HR outsourcing done.

Q14) How does your internal customers feel about the HR outsourcing done by the company?
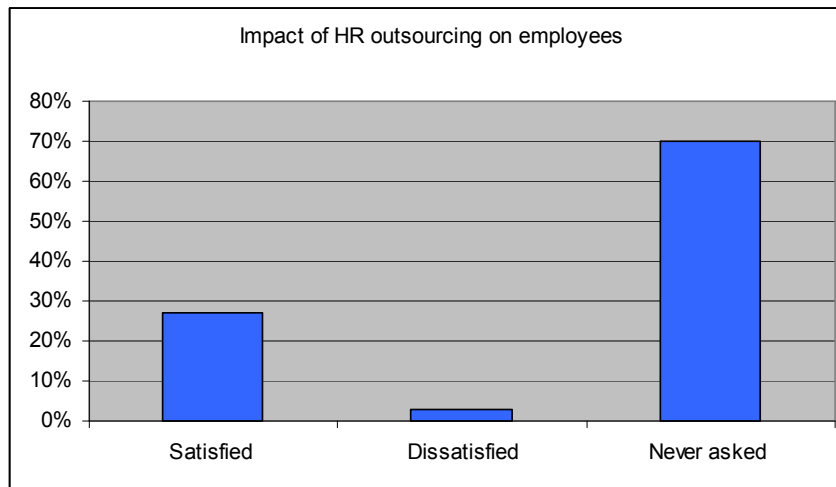
70% respondents said that they have not taken any feedback from the company's employees on the HR outsourcing done. 27%said that the employees of the company were satisfied with the HR outsourcing done by the company and only 2-3 respondents replied that their employees were dissatisfied with it.

Findings

HR outsourcing in India is gaining momentum but still the number of companies outsourcing their HR processes in India are few as compared to the global scenario. 150 respondents were surveyed, out of which only 60% replied that their companies have outsourced their HR processes. Hence it proved that despite of the rapid growth of HR outsourcing worldwide, not many companies in India outsource their HR processes .Recruitment was found to be outsourced by maximum number of companies surveyed. Other HR processes that are outsourced by Indian companies are training delivery, payroll processing, statutory compliance and compensation surveys.

Seventy three (73) % of the respondents responded that top management was responsible for taking decisions related to HR outsourcing which further proves that HR outsourcing is an important decision for the company. 18% of the respondents said that the middle management was involved and responsible and 9% said that both the top and middle level management were involved. 64% of the respondents replied that HR outsourcing is done by their competitors, 18% said that their competitors don't outsource their HR processes and 18% said that they don't know whether their competitors outsource their HR processes or not. Most of the companies surveyed do not take feedback from their internal customers on the HR outsourcing done by them. 80% respondents said that their companies do not take feedback on HR outsourcing from their employees and 20% respondents said that their companies take feedback from their employees.

The employees of the companies which outsource their HR processes are usually satisfied by the outsourcing done. All the 27% respondents whose company takes feedback on HR outsourcing from their employees said that their employees were satisfied from the HR outsourcing. Competence & technical capability and relevant industry experience were identified as major

criteria for selection of vendors for outsourcing HR processes. Other criterions used by Indian companies for evaluating potential vendors for outsourcing were past track records of the vendor, cost and recommendations from other companies.

More focus on core activities and time saving were identified as main benefits of HR outsourcing to Indian companies. Other benefits that were identified were cost saving, availability of vendor expertise and need for lesser manpower in the organization. Cost and security breaches were identified as the major reasons for not outsourcing HR processes by Indian companies. Lack of quality, data privacy issues, inability of the vendor to understand company culture, immaturity of the HR outsourcing market were other reasons for not outsourcing.

Recommendations:
1. Increasing outsourcing of higher value HR processes such as recruitment
2. Increasing use of shared services models
3. Continuing evolution of E- HR services
4. The emergence of new HR   and competencies.
5. There should be involvement of both top and middle level management in Human resource outsourcing decision
6. Vendor selection should be based on the expertise and not on the basis of brand name.
7. Criterion for the selection Human resources services to outsource should be based on cost reduction and time saving

Conclusion
The study gave the following conclusions: The study proved that HR outsourcing is still as a nascent stage in India. About 60% of the respondents replied that their company has outsourced some of their HR processes. Though HR outsourcing is not widely followed by Indian companies due to various reasons like lack of quality, security breaches, cost, lack of data privacy, lack of reliability, lack of understanding of the company culture by the vendor and immature HR outsourcing market etc. HR outsourcing is expected to grow at a rapid pace in the Indian industry. India has immense potential as more than 80% of fortune 1,000 companies are discussing off shoring as a way to cut costs and increase productivity. Sensing the potential, global BPO players including Fidelity, Exult and Hewitt have begun setting up operations in India. Various factors that make India a potential option are its education system, English speaking advantage, government policies, infrastructure improvements etc. India would be a destination for HR outsourcing by foreign companies. But growth in HR outsourcing by Indian companies would be slow viz a viz the global scenario. Indian companies derive lot of benefits out of HR outsourcing. Various benefits are derived by Indian companies from HR outsourcing like more focus on core activities, time saving, cost saving, expertise and removal of unnecessary manpower. Focus on core activities, time saving and expertise of the vendor were the major benefits found out the survey as maximum respondents listed these benefits. Internal customers of the company are satisfied with the decision of the company to outsource their HR processes.70% respondents out of 150 employees replied that they have not taken feedback from the employees of the company on the HR outsourcing

done by them. Also the ones that had taken feedback were satisfied with the outsourcing done. Cost is the not the main criteria for vendor selection for HR outsourcing by Indian companies. Competence and experience of the vendor were identified as the criterion used by maximum companies for vendor selection. 35% of the respondents replied cost as a criterion, and brand name of the vendor (reliability based on the past records) that is 30% is the second most important criterion. So cost is a criterion for selecting vendors for HR outsourcing by Indian companies but it is considered after competence and experience.

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