



# HR OUTSOURCING IN INDIA

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## **ABSTRACT**

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. With more and more companies looking to rationalize employees on their payroll, Human Resource outsourcing is slowly becoming the new buzz in India. Companies to whom organizations outsource their Human Resources function possess the knowledge and resources to expertly perform part or all of a clients' human resources function, allowing the client to streamline their internal processes and concentrate on generating profit in their core business. Companies who haven't joined the HR outsourcing bandwagon are either unfamiliar with the process and procedures of HR outsourcing, or are unaware of the players operating in the area or are unaware of the probable value obtained from doing so. HR Outsourcing market is increasing worldwide (\$51 billion) representing approximately 39 percent of the total business process outsourcing revenue.

## **INTRODUCTION**

Outsourcing is contracting with another company or person to do a particular function. Almost every organization outsources in some way. Typically, the function being outsourced is considered non-core to the business. The outside firms that are providing the outsourcing services are third-party providers, or as they are more commonly called, service providers. Although outsourcing has been around as long as work specialization has existed, in recent history, companies began employing the outsourcing model to carry out narrow functions, such as payroll, billing and data entry. Those processes could be done more efficiently and therefore more cost-effectively, by other companies with specialized tools and facilities and specially trained personnel. Currently, outsourcing takes many forms. Organizations still hire service providers to handle distinct business processes,

such as benefits management. But some organizations outsource whole operations. The most common forms are:

Business process outsourcing encompasses call center outsourcing, human resources outsourcing (HRO), finance and accounting outsourcing, and claims processing outsourcing. These outsourcing deals involve multi-year contracts that can run into hundreds of millions of dollars. Frequently, the people performing the work internally for the client firm are transferred and become employees for the service provider. HRO refers to the establishment of a broad-based, multi-process outsourcing relationship between an organization and a service provider, particularly for HR processes. There are a number of large and distinct market segments under the broad term HRO, including: actuarial and consulting services, payroll administration, benefits administration, recruitment process outsourcing, learning administration, domestic and international relocation, and multi-process outsourcing. These markets, each at various stages of maturity, have one thing in common: they are all bubbling with innovation and opportunity for today's employers. Each of these markets is dynamic in its own way, with many innovative products and services. The actuarial and consulting services market is on the verge of seeing price emerge as a competitive factor among the HR consulting firms, as well as tremendous innovation in the integration of the global capabilities of these firms. In payroll administration the biggest innovations are occurring in the area of global payroll. In benefits administration, prices are continually fall across the board, and lately companies with 3,000 to 8,000 participants are finding the providers more interested in supporting their needs. The emergence of broader RPO contracts and services, including process engineering, in combination with recruiting at all levels and improved technology and vendor management capabilities has had a huge impact in efficiencies and cost reduction as well as helping companies improve the quality of talent acquired. In learning administration, two different solutions sets are emerging: integrated learning solutions as part of multi-process outsourcing arrangements, as well as stand-alone learning solutions which include technological and service center support for a variety of elearning and traditional learning programs. The global mobility marketplace has seen many new integrated solutions also have integrated solutions for expatriate administration. And finally, the world of multi-process outsourcing, usually including some combination of workforce administration along with the other functions described above, continues to pick up momentum globally. There are now nearly a hundred organizations around the world that outsource core employee records management, HR systems infrastructure, and the bulk of contacts with employees and managers around HR transactions and simple inquiries. This growth has resulted in some signs of stress, with service providers exhibiting a growing impatience in achieving profitability. Buyers should be prepared for rising prices, less flexible contractual terms, and reluctance to make new investments as the providers try to leverage the investments they have already made. All in all, HRO represents a diverse, vibrant marketplace, providing a plethora of options to solve the needs of any employer, and a continuation of this innovation trend is expected as the competition among providers heats up. Companies that decide to outsource do so for a number of reasons, all of which are based on realizing gains in business profitability and efficiency. Principal merits of outsourcing include: cost savings, staffing levels, focus, morale, flexibility, knowledge, and accountability. Many businesses

embrace outsourcing as a way to realize cost savings or better cost control over the outsourced function. Companies usually outsource to a vendor that specializes in a given function and performs that function more efficiently than the company could, simply by virtue of transaction volume. The three basic financial drivers behind HRO are: to save money (ongoing expenditures), to avoid capital outlay (often a more important consideration than direct cost savings), and to turn a fixed cost into a variable one (i.e., if the workforce shrinks, HR costs can be reduced accordingly). Another common reason for outsourcing is to achieve headcount reductions or minimize the fluctuations in staffing that may occur due to changes in demand for a product or service. Companies also outsource in order to reduce the workload on their employees (freeing them to take on additional moneymaking projects for the business), or to provide more development opportunities for their employees by freeing them from tedious tasks. Some companies outsource in order to eliminate distractions and force themselves to concentrate on their core competencies. This can be a particularly attractive benefit for start-up firms. Outsourcing can free the entrepreneur from tedious and time-consuming tasks, such as payroll, so that he or she can concentrate on the marketing and sales activities that are most essential to the firm's long-term growth and prosperity. "What an outsourcing partner really sells is focus," wrote Adam Katz-Stone in Baltimore Business Journal. "In accounting for instance, that is something that typically is seen as necessary but not essential, not the core of the business.

### **The process of outsourcing generally encompasses four stages:**

- 1) Strategic thinking, to develop the organization's philosophy about the role of outsourcing in its activities;
- 2) Evaluation and selection, to decide on the appropriate outsourcing projects and potential locations for the work to be done and service providers to do it;
- 3) Contract development, to work out the legal, pricing and service level agreement (SLA) terms;
- 4) Outsourcing management or governance, to refine the ongoing working relationship between the client and outsourcing service providers

### **Purpose of the Study**

To enhance the grip of Human Resource Outsourcing. The purpose of the undergone research is to study the Human Resource Outsourcing and to evaluate the importance, organization's perception with the kind of outsourcing being followed in the organization.

This research is aimed at analyzing the current state of the HR Outsourcing market in India and the trends that are prevalent in the same.

## Objectives of the Study

The objective of this research is to study the HR outsourcing practices followed by the companies in order to understand its relevance in current scenario and its scope in future. Also try & find out the advantages & disadvantages of outsourcing.

This research is accomplished to know the perception of organizations about outsourcing

## HR Outsourcing

Human resources are the most critical assets of any organization as the organization's success lies in their hands. It is the process in which a company uses the services of a third party to take care of its HR functions. A company may outsource a few or all of its HR related activities to a single or combination of service providers located in offshore destinations.

The debate on human resource (HR) outsourcing is polarized. HR outsourcing is seen as an opportunity for the HR function by some and as a threat by others. The first school of thought suggests that HR outsourcing is an instrument creating time for HR to become a **strategic partner**. The second view considers HR outsourcing as a **cost-cutting instrument** gradually reducing HR staff. The purpose of this study is to examine whether HR outsourcing is a manifestation of a strategic HR focus, a cost-cutting HR focus or both.

### 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.

HR service provider can not be effective if clients assume the provider can serve without their input. Although the provider does relieve the administrative burden, there still must be a working relationship based on communication and cooperation

## Services offered by Human Resource Outsourcing firms

### The basic services offered may include:

- ❖ Overseeing organizational structure and staffing requirements.
- ❖ Recruiting, training and development.
- ❖ Tracking department objectives, goals and strategies.
- ❖ Benefits administration.
- ❖ Employee orientation programs (Businesses who outsource HR are typically small to midsize firms with between 25 and 1,500 employees).
- ❖ Providing with skilled professionals who are focused specifically on HR.
- ❖ Helps to reduce and manage operating costs.
- ❖ Improving employee relations

### The specific services of these firms include:

- ❖ Training,
- ❖ Payroll administration,
- ❖ Employee database management,
- ❖ Employee retention,
- ❖ Employee benefits and a lot more
- ❖ Implementing a human resource information system.
- ❖ Creating or updating employee handbooks and policy manuals.
- ❖ Developing and implementing a compensation program.
- ❖ Creating or reviewing a Performance Appraisal System.
- ❖ Writing and updating affirmative action plans.
- ❖ Providing sexual harassment training REFERRALS, the YELLOW PAGES and the WEB are the best resources for finding an HR outsourcing provide

### Future scope of HR outsourcing:

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.

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.

However, the future seems to be very promising. It's set to become a \$ 51 billion market worldwide in 2005, 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. Right now, 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 etc.

### **HR BPO companies**

HR BPO vendors add value to the company by either putting in new technology or applying existing technology in a new way to improve a process. <sup>7</sup> This is to make sure that a company's HR system is supported by the latest technologies, such as self access and HR data warehousing. Some HR BPOs offer all related services in the HR domain, i.e. they offer an end-to-end system to meet all the company's HR needs. Other HR BPO firms allow companies to choose from various offerings (a la carte); companies can pick and choose from the various services on offer. Typical services include: Payroll administration: Producing cheques, handling taxes, and dealing with sick time. Employee benefits: Health, medical, life, 401(k) plans, cafeteria plans, etc. HR management: Workers' compensation, dispute resolution, safety inspection, office policies and handbooks. As mentioned above, HR outsourcing is the fastest growing outsourcing domain. Several major joint ventures have been inked between large corporations and service providers for end-to-end HR outsourcing. According to Hewitt Associates, over the past 20 years, the HR outsourcing marketplace has evolved beyond benefits administration. Companies are outsourcing more HR activities to achieve a fundamental shift from an administrative, tactical and compliance-driven function to a focus on the strategic acquisition, motivation and retention of talent. The transactional functions must be done right and can be handled with greater quality and efficiency by a provider who has the process and technology expertise. The market is growing at an amazing pace. Estimates of industry growth vary from a compound annual growth rate (CAGR) of 8.6 percent (Gartner Dataquest) to 12 percent (Yankee Group) from 2001 through 2007. Which means that the worldwide HR outsourcing market is set to grow from \$21.7 billion in 2000 to about \$58.5 billion in 2005, representing 39 per cent of the total business process outsourcing revenue.

### **CONCLUSION**

The outsourcing market is beginning to see HR as a preferred choice. 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. 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.

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.

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. 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. Experts believe that in present times HR outsourcing is undergoing a transition phase, it would still be sometime before we see increased levels of HR activities being outsourced to India as lack of domain knowledge and quality are some of the critical issues. Till that time, HR outsourcing in India remains to be a gold mine waiting to be unearthed

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