

Human Resource Outsourcing: Analysis Based On Literature Review

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Abstract—Purpos:The present paper focuses on different types of HR outsourcing and the factors which need to be considered before a company goes for outsourcing of Human resource Functions.

Design/methodology/approach:A review of available literature was done in order to understand how today's HR firms offer a wide variety of services to companies that need to focus on their core business activities and still establish and maintain good HR policies and to explore the factors that affect the HR outsourcing decision with special emphasis on a proper cost benefit analysis of HR outsourcing.

Findings:The findings of the paper implicitly point out that the decision of HR outsourcing is contingent upon factors like flexibility, availability of adequate resources, affordability, and acceptability (openness to information-sharing) etc. The paper also suggests a systematic process and certain pre-requisites to successfully execute HR outsourcing.

Originality/value:Based on literature review, the paper makes specific recommendations with regard to the process of HR outsourcing and its pre-requisites; and is an attempt to highlight the fact that HR outsourcing is a double-edged sword; and should be viewed in totality keeping in mind the pros and cons it has.

Index Terms—Cost-benefit, HR Outsourcing, Need, Strategic

I. INTRODUCTION

Outsourcing has been defined as work done for a company by people other than the company's full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons. According to analysts, companies usually cite cost reduction as the most crucial reason for HR outsourcing. As companies were discussing how to cut costs in the face of an economic downturn, many look at outsourcing for some of their HR processes. As the Managing Director of Capita HR Solutions, Wayne Story, rightly puts it, "HR outsourcing is on every HR director's list of things to do. It has to be driven by the business case though – the right partner at the right time, for the right reasons." However, some analysts argue that by outsourcing major HR activities, the number of HR jobs is decreasing, others feel that on the contrary by outsourcing these kinds of repetitive

and administrative jobs, higher-level HR professionals get the time they need to tackle strategic workforce challenges. 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.

HR services are among the key elements in the enlarging outsourcing game. Recognizing the fact that senior management needs to get out of mundane day-to-day processing work and focus instead on strategic planning, core competencies, customer satisfaction and decision making, a number of large companies, across globe have begun opting for outsourcing of their HR services. Some of the functions most commonly handed over to outside providers include payroll, benefits administration, background checks, drug testing, recruiting and training. Even small companies that might not get noticed much in big studies of outsourcing trends, turn to outside services to help with such chores.

There are a number of issues related to HR Outsourcing. Some of these issues include:

- The future purpose and contribution of HR because of possibilities of functions being transformed, or partially outsourced, through HRO deals.
- The strategic and management complexities of HRO deals.
- Deciding what is "core" and "non-core" in HR.
- The difficulty that HR has in assuming more strategic or value-adding roles after implementing HRO.
- The position of off shoring, including job losses and redeployment.

The challenges of trying to manage HR process affect on a global scale and across different cultures. Some organizations believe the HR function is an integral business success factor, but others view HR as over-resourced, inefficient and thus vulnerable to the cost reduction possibilities of HRO.

II. 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,

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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. In a similar vein, Greer et al. (1999) argue that HR outsourcing is consistent with the business partner role that the in-house HR department is attempting to assume. These roles arguably are where HR can add the greatest value to the organization, but they are difficult to measure quantitatively. Outsourcing HR is also seen as an effective way to bypass organizational politics and improve efficiency. For example, according to the sales and training manager of United Kitchen, a company that has outsourced all personnel and training, the company’s aim was to buy an expert who could maintain an objective view, would not get embroiled in office politics, and yet could call on the support of a wide range of other experts in their own organization (Pickard, 1998). In short, the main reasons for outsourcing HR appear to be fairly consistent (Sisson & Storey, 2000). Typical reasons include seeking specialist services and expertise, cost reduction, and enabling HR specialists to take on a more strategic role. In general, most commentators are convinced that outsourcing is seen not only as a cost-cutting exercise but also as a strategic tool. As Oates (1998) suggests, the outsourcing decision is a strategic one and is generally taken at a senior level.

Another survey, by IDC (www.idc.com), reports that worldwide HR business process outsourcing (BPO) will be the fastest-growing segment of the HR service spending market. Worldwide and U.S. HR Management Services 2005-2009 forecast predicted that BPO will grow at a compound annual growth rate of 16.1% to more than \$16 billion. Gartner, Inc. (Stanford, Conn.; www.gartner.com) predicts that worldwide BPO this year alone will generate \$133.7 billion, up 8% over last year.

The growing choice to outsource, especially HR services, means that you may soon be in the position of choosing a vendor, or helping to do so. This choice requires great care, as the vendor must be held accountable. If you outsource HR correctly, it can improve service quality, save money and time, and free HR time for core functions, noted Geoffrey Dubiski, director of operations at Yoh HR Solutions

(Philadelphia), an HR outsource vendor. Poor outsourcing, however, could bring lower service quality and the employee complaints that lower quality can spawn. “Most HR outsourcers provide satisfactory levels of service, but none of them provide exceptional service,” claims Michael Cornetto, a senior consultant at Watson Wyatt Worldwide (Washington, D.C.).

Service quality is also something you must consider and explore, notes Patrick Wright, professor of HR studies at Cornell University (Ithaca, N.Y.). “The expectation is that the quality of service gets better, [but] there’s no quantitative data out there to support the actual decision saying that outsourcing is always cheaper and better.” While a lack of clarity in expectations is partly to blame, HR professionals who are setting up the transfer of services to an outsourcer may also be at fault, Wright says. How? They may not have the skills in vendor management to make sure the process – from contract to implementation to monitoring results – is properly handled. The top reason that many employers outsource HR is the desire for more services at a lower cost. Perceived savings stem from having fewer in-house HR staff. In SHRM’s 2004 survey about HR outsourcing, 56% of the 169 surveyed HR professionals said that their companies outsourced HR functions to save money or reduce operating costs, and 41% to reduce the number of HR staff and related expenses.

Outsourcing is never a fix for poor internal systems, Wright stressed. “You have to fix your own processes within the company first, before outsourcing, or you will have a bigger headache on your hands than when you started.” Dissatisfaction with surprise additional costs was a powerful negative in an outsourcing review of 25 large companies by Deloitte Consulting’s (www.deloitte.com) “Calling a Change in the Outsourcing Market Report, 2005”. The study looked at both business process and information technology outsourcing: 70% of the companies said they have had significant negative experiences with outsourcing projects – and were dissatisfied with its costs and complexity. Also reported was the need for more senior management attention and skills than anticipated. Additional costs came from unexpected complexity of the outsourcing process and lack of transparency in vendor pricing or cost structures. 57% said they absorbed costs for services they believed were included in contracts with vendors or outsource providers. Many indicated there were “hidden” costs in managing outsourcing projects, as well.

One reason for the results, according to Ken Landis, a senior strategy principal at Deloitte, may be that vendors and the companies that hire them have “conflicting Objectives.” Another observation: “The structural advantages envisioned do not always translate into cheaper, better, or faster services.” As a result of the findings, he observed, “outsourcing will become less appealing for large companies because it is not delivering the value as promised.”

As with the outsourcing of other organizational functions, one major issue in outsourcing HR is to decide what types of HR activities should be outsourced. In making this decision, organizations need to consider the likely impact of outsourcing these activities on the organization’s performance. To do so, they may need to distinguish between

“core” and “noncore” activities. Finn (1999) suggests that a basic distinction can be made between HR “core” and “noncore” activities. The former include top-level strategy, HR policies, and line management responsibilities (e.g., appraisal and discipline), while the latter include specialist activities (e.g., recruitment and outplacement), routine personnel administration (e.g., payroll and pension), and professional HR advice (e.g., legal advice related to employment regulations). Ulrich (1998) goes one step further by suggesting that core activities are transformational work that creates unique value for employees, customers, and investors. Noncore activities would be transactional work that is routine and standard and can be easily duplicated and replicated. Hall and Torrington (1998) found that training and management development, recruitment and selection, outplacement, health and safety, quality initiatives, job evaluation, and reward strategies and systems were the likely HR activities to be outsourced, either because they were considered noncore or because the organization lacked the expertise to handle them internally. Hall and Torrington’s findings are supported by Shaw and Fairhurst (1997), who found that training and development along with facilities management were the most likely areas to be outsourced, while industrial relations expertise was the least likely area. A large-scale survey (Vernon, Philips, Brewster, & Ommeren, 2000), provides further evidence to support the earlier findings. The survey was carried out in 1999 on 3,964 organizations, each with more than 200 employees in European countries. It focused on four different areas of HR outsourcing: training and development, recruitment and selection, pay and benefits, and workplace outplacement/reduction. The survey found that some 97% of the organizations in the survey used external providers in HR to cover at least one of the main service areas. The results showed that training and development activities were the most common “bought-in service.” One-third of organizations surveyed used external providers in at least three of the areas identified. While 50% of the surveyed organizations remained constant in the use of external providers, 40% reported an increase in their use. In particular, 32% of U.K. organizations made use of external providers for pay and benefits. While this empirical evidence provides some useful insights into the types of HR activities that firms are sourcing from external providers, it provides only a partial and superficial picture due to the quantitative nature and the scale of the studies. What remains unclear is how firms reach the decision on why these particular HR activities are to be outsourced and whether they truly constitute the noncore activities of the firm. A survey by Hewitt Associates (2005) found that 94% of 129 companies polled outsource at least one HR activity and respondents expect to expand outsourcing beyond its traditional limits of payroll and health and welfare benefits. New areas are expected to include global mobility, headhunting, and recruiting. Other areas that employers would like to consider outsourcing include HR technology support, performance management, and staff learning and development, noted Bryan Doyle, president of Hewitt’s HR Outsourcing Business. It is equally unclear as to whether and how the effectiveness of these outsourcing activities is evaluated and how outsourcing provider and

client firms coordinate their in-house and outsourced HR activities to create a coherent HR function. One way to understand these relationships is to examine the recent trends in HR outsourcing.

A number of firms outsource routine administrative HR activities to release their in-house HR team for a more strategic role. However, a minority of others have opted to outsource the entire package, including the design of HR systems that are likely to have a fundamental impact on organizational culture and performance (Klaas, McClendon, & Gainey, 2001). This emerging trend raises a number of questions. For example, what HR activities should be outsourced? How does HR outsourcing affect the role of the in-house HR function and the rest of the workforce? What are the pitfalls for the HR function? Evidence from professional and practitioner publications indicates that HR outsourcing has increased substantially over the last decade (Woodall, Gourlay, & Short, 2000). However, few academic researchers have investigated empirically how decisions of outsourcing are made, the manner in which these decisions are implemented, how the effectiveness of the outsourcing is measured, and, most important, the implications of these outsourcing decisions for the role of the HR function and for different groups in the workforce. This dearth of research is in sharp contrast to the burgeoning prescriptive literature on the financial and strategic reasons why firms should outsource (Rubery, Earnshaw, Marchington, Cooke, & Vincent, 2002) and how to go about it (e.g., Cook, 1999; Rippin, 2001). As Purcell (1996, p. 22) noted, “We lack the research to make definite statements on the effect of outsourcing on employees.” What has been conspicuously missing in much of the research “is the ‘insiders’ perspective – the employees’ voice” on the impact of outsourcing on employment relations (Kessler, Coyle-Shapiro, & Purcell, 1999, p. 6).

More likely in the short-term is an effort to renegotiate the outsourcing contract now that companies are understanding the limitations of their early efforts and have a clearer sense of what to “fix” in the vendor relationship. For instance, there is a trend toward outsourcing contract renegotiation in Western European companies, according to research by Gartner. Pressure from clients is forcing vendors into more flexible outsourcing relationships. In fact, 15% of all contracts were renegotiated within the first 12 months.

A study on HR Department Benchmarks and Analysis 2007 available from The Bureau of National Affairs, (BNA), U.S.A. reports that 72% of surveyed employers outsource at least one HR activity. The five most commonly outsourced HR activities, according to this study are:

- Employee assistance/counseling,
- Pension/retirement plans,
- Other employee benefits (Health, Medical, Life insurance, cafeteria, etc),
- Training
- Payroll.

In general, employers consider using outsourcing for a number of (overlapping) perceived benefits (Shen, Cooke, & McBride, 2004). First, it allows them to concentrate resources on their “core” business activities where they have expertise and are likely to do best. Second, it enables firms to

profit from the rising comparative advantage of specialized service providers who may have expertise in the areas concerned. Third, it provides firms with greater flexibility and productivity by using temporary subcontractors to cover fluctuating demands for labor (Cooke, 2001). This “just-in-time” deployment of human resources also brings other advantages of saving direct costs (e.g., reducing headcount and overtime working) and indirect costs (e.g., cutting administration and backup costs, saving recruitment and training costs, saving absenteeism costs, and reduced industrial relations problems). Fourth, outsourcing creates opportunities for firms to shift the burden of risk and uncertainty associated with the business to someone else (National Economic Development Office [NEDO], 1986; Williamson, 1985). In addition, outsourcing enables firms to keep future costs down by selecting the most competitive tender for renewing the contract (Domberger, 1998).

If the above reasons for outsourcing are predominantly concerned with cost reduction, then the final reason listed here is focused more on capacity building associated with organizational learning. It has been argued that outsourcing relationships can create partnerships between contractors and clients that may facilitate learning and cross-fertilization between the two firms (Child Faulkner, 1998; Powell, Koput, & Smith-Doerr, 1996). Writers on organizational learning (e.g., Araujo, 1998; Boland & Tenkasi, 1995; Brown & Duguid, 1991; Pentland, 1995) have argued that learning processes are collective accomplishments that reside in networks that do not respect formal organizational boundaries. The importance of networks and inter-organizational relationships (e.g., alliances, partnerships) is also recognized by writers from the strategic perspective. According to Powell et al. (1996, p. 120), a network “serves as a locus of innovation because it provides timely access to knowledge and resources that are otherwise unavailable, while also testing internal expertise and learning capabilities.” Advocates of the resource-based view (RBV) of the firm (e.g., Barney, 1991; Ulrich, 1996) also believe that outsourcing can be productive to the development of the core competence of the organization – especially in relation to HR practices. The notion of the RBV was “rediscovered” by Wernerfelt (1984) and developed into a more robust theory by Barney (1991, p. 99), who argued that organizations “obtain sustained competitive advantage by implementing strategies that exploit their internal strengths, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses.”

As Prahalad and Hamel (1990, p. 84) point out, “outsourcing can provide a shortcut to a more competitive product, but it typically contributes little to building the people-embodied skills that are needed to sustain product leadership.”

III. 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 in 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. 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.

But as 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.

Experts, however, say though foreign companies are outsourcing jobs to India, putting the country in the middle of outsourcing boom, the Indian companies do not seem to be enamored by the opportunity till now and are not adopting HR outsourcing practices in a big way. “HR outsourcing in India has not seen the required momentum and is limited to a trickle effect, with companies outsourcing a few selected low-end HR processes,” says Anil Mahajan, executive director, Talent Hunt Pvt. Ltd, a leading HR firm in New Delhi.

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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. Success rate of selection defines the success rate of trainer and his fees.

Director-HR and Administration, Glaxo Smithkline Consumer Healthcare, says that mechanization of HR is better choice. What works in one organization does not work in another. Outsourcing is not the panacea for all the troubles, only routine administrative function should be outsourced. Core OD interventions must be managed internally.

IV. HR OUTSOURCING BASICS

While deciding whether HR outsourcing is right for the company three questions should be answered.

- Is the company comfortable letting someone else handle its HR functions?
- Do the company have dedicated HR representatives or adequate resources to manage its HR needs?
- Can the business afford an HR outsourcing firm?

If the company is not comfortable with an outsider handling their HR functions, outsourcing probably isn’t the best option.

V. PROCESS

Whether your organization is anticipating its first outsourcing, or if you already have outsourcing arrangements that your organization would like to improve, preparation is a key – as with all HR initiatives. “You should choose functions that are definable, with measurable goals, because you will need accountability once you’ve chosen a vendor,” Dubiski said. His recommendations are as follows:

Examine all functions being considered for outsourcing

Ensure they are being done in-house as efficiently as possible. “You can’t collect enough data about how you now handle payroll, benefits, etc.” Dubiski noted. This will also give you a baseline for comparing previous results to those from outsourcing.

Create a business case for outsourcing

Do this just as you would for any other initiative. If the employer wants cost savings, explore ways to obtain those results in-house.

Seek a vendor that will work very closely with your company

“It’s time-consuming to change vendors if you make a mistake and choose the wrong one,” Dubiski warned.

Make sure your contract with the vendor includes penalty clauses and incentives to increase accountability

Ask the important questions up front: Does the vendor have a help desk? How late in the day is it available? How fast will help desk staff answer questions for employees and resolve problems? Also include a clause specifying that if the outsource vendor makes more than a certain number of mistakes, the employer is entitled to a partial refund, Dubiski said.

Consider at the outset how you will measure vendor performance

“If there are mismatched expectations about service levels, the outsourcer may not be as accountable as the buyer of the services would like,” Doyle said. Regular reports from the vendor can help to avoid problems or catch them early, Dubisky suggested.

Learn about security protections the vendor provides

You need a vendor who has “lots and lots of control over who has access to employee data,” Doyle said. “As concerns about privacy and identity theft increase, we see more and more of our clients ‘kicking the tires’ on the confidentiality services we can provide when managing their employees’ data.”

Based on the recommendations of Dubisky, the following seven steps have been identified in order to achieve success in HR Outsourcing:

- 1) **Planning Initiatives:** The first step is to announce initiative after the assessment of risks. Project team is to be formed, and advisers are to be engaged to train the team. Other resources are to be acquired and issues like resource management, information management and project management need to be addressed. Accordingly, objectives then be set.
- 2) **Exploring Strategic Implications:** The second step is to understand the organization’s vision, core competencies, structure, transformation tools, value chain and strategies. Thereafter decision rights, contract length and termination date need to be determined. Aligning initiative should follow.
- 3) **Analyzing Costs and Performance:** The next step in the process is to measure activity and project failure costs. Existing and future performance is then to be measured along with the estimation of the cost of poor performance. It is also very important to benchmark costs and performance. Specific risks, asset values, make

total costs, pricing models and final targets need to be determined.

- 4) **Selecting Providers:** The next crucial step is to select providers. For this purpose, the organizations need to first set qualifications and evaluation criteria. Providers are then identified and screened. An RFP is drafted. Proposals are then evaluated based on the qualifications and costs and the provider is finalized.
- 5) **Negotiating Terms:** Negotiations are then to be planned after addressing high level issues and deal breakers. Accordingly, term sheets are to be prepared. The contract then need to be negotiated based on the scope, performance standards, pricing schedules, and terms and conditions; and the relationship be announced.
- 6) **Transitioning Resources:** The next important step is to adjust team roles and to compare/merge transition plans. The transition issues like communication, human resources, and other production factors are to be addressed. The employees need to be taken into confidence. The organization and the provider are to meet them, make offers/termination, and provide counseling.
- 7) **zManaging Relationships:** The last but the most vital step is to adjust management styles, set up oversight council, and communicate. Meeting agendas, meeting schedule and performance reports need to be defined and designed. Poor performance is to be confronted and problems, if any, are to be solved. The ultimate effort is to build the relationship.

VI. CHOOSING AN HR FIRM

A successful HR outsourcing arrangement starts with a careful examination of following aspects:

- Taking stock of the HR department's internal processes,
- Setting realistic goals and
- Seeking a vendor that fits the culture.

For some businesses, cost is the deciding factor in vendor selection. Other companies look for a cultural fit or a commitment to quality. Some of the considerations when evaluating a firm include:

- The range of outsourcing services it offers;
- The expertise it has in the industry;
- Its general HR experience;
- Its understanding of the priorities;
- Its available resources;
- The flexibility of its contracts.

VII. CATEGORIES OF HR OUTSOURCING SERVICES

HR functions include 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 (workers’ compensation, dispute resolution, safety inspection, office policies and handbooks) and others.

An HR firm is an extension of the company culture, so the

companies should try to find one that fits its image. Depending on the types of things the company need to outsource, it will choose a professional employer organization (PEO) or a hybrid-outsourcing firm etc. HR outsourcing Services could fall into one of the five categories:

8) Professional Employer Organization (PEO)

If the company prefers to focus solely on their core business, or if they have no HR capabilities, then a PEO may be right for them. A PEO recruits, hires, and employs on company's behalf. It becomes the employer of record for their employees, whom they essentially lease back from the PEO. It also manages all HR functions for these employees, from employee relations and staffing to benefits administration and payroll.

9) Business Process Outsourcing (BPO)

BPO refer to all fields, but specifically for HR, a BPO would ensure that a company has access to latest technologies.

10) Application Service Provider (ASP)

ASPs host HR software, on web and rent it to users. ASPs can provide a range of support; the "continuum" offered by ASPs includes:

- **Disaster recovery and business continuity:** In this scenario, the customer retains all service delivery infrastructure (SDI, also known as the IT stuff) and full responsibility for the application. The ASP provides the ability to relocate to a hosted environment to resume business processes in the event of a contingency event. This is typically a one-off solution.
- **Remote systems management:** Here the customer retains ownership of IT assets in-house, but the ASP remotely monitors and manages the SDI. This is typically a short-term solution, while the customer is retiring its IT assets and determining how to reallocate personnel.
- **Hosting:** The customer retains the application maintenance, operations and support, while the ASP provides, maintains, operates and supports facilities, technology and database SDI. This usually happens when a business solution desired by the IT staff runs on a different platform than currently in place.
- **Remote applications management:** The customer retains ownership of the SDI technology. ASP remotely monitors and manages it all, including application layer. It is a steppingstone toward complete handover of customer's IT infrastructure.
- **Managed applications services:** Customer may own the software license or subscribe to monthly usage rights, but relies on ASP to provide entire SDI stack and continuous life cycle management to every element.

11) E-services are those HR services that are web-based.

12) Hybrid Outsourcing Firms

If the company is not entirely comfortable in handing off all their HR responsibilities to a PEO, or they don't need a full suite of services, then they should consider outsourcing a few time-consuming or labor-intensive HR tasks. For example, many companies use recruiters to find suitable candidates,

but opt to retain control of staffing activities such as hiring and firing employees. Executive recruiters contract for approximately 25 to 35 percent of an executive's first-year salary.

Company can also outsource HR services by project. HR firms provide all kinds of specialized services, and develop employee handbook, set up compensation program, or establish a performance management system to evaluate employees. Rates for such services vary by project complexity and duration.

When a company goes with a comprehensive solution or outsources specific components of their HR functions, it's important to develop a solid working relationship with vendor. They need to have good chemistry with outsourcing firm, and should feel confident that it will be responsive to the company's needs.

VIII. WHEN TO OUTSOURCE AND WHEN NOT

The outsourcing of HR functions has several potential benefits:

- It frees the internal HR staff to focus on strategic activities that add more values than transactional, administrative tasks
- It enables decentralized structures that support higher rates of innovation and flexibility
- It alleviates the bureaucratic burden of centralized HR administration
- It enables the HR department to play its part in overall corporate downsizing efforts
- It facilitates access to new ideas and approaches outside the organization.

But there are risks and hurdles like that of higher cost and low quality and fear of losing control. Other most common problems of HR outsourcing were poor services, costs higher than promised, contractors with insufficient knowledge about the client and unanticipated resources required to manage the relationship. These pros and cons play out differently for firms of various sizes with respect to different HR processes. In general, large corporations are the main customers for integrated HR services, whereas smaller firms tend to outsource only the payroll functions.

IX. HR OUTSOURCING REASONS AND BENEFITS

Organizationally-driven Reasons

- Enhance effectiveness by focusing on what you do best
- Increase flexibility to meet changing business conditions, demand for products and services and technologies
- Transform the organization
- Increase product and service value, customer satisfaction, and share-holder value

Improvement-driven Reasons

- Improve operating performance
- Obtain expertise, skills, and technologies that would not otherwise be available
- Improve management and control

- Improve risk management
- Acquire innovative ideas
- Improve credibility and image by associating with superior providers

Financially-driven Reasons

- Reduce investments in assets and free up these resources for other purposes
- Generate cash by transferring assets to the provider

Revenue-driven Reasons

- Gain market access and business opportunities through the provider's network
- Accelerate expansion by tapping into the provider's developed capacity, processes, and systems
- Expand sales and production capacity during periods when such expansion could not be financed
- Commercially exploit the existing skills

Cost-driven Reasons

- Reduce costs through superior provider performance and the provider's lower cost structure
- Turn fixed costs into variable costs

Employee-driven Reasons

- Give employees a stronger career path
- Increase commitment and energy in non core areas

DISADVANTAGES

HR Outsourcing can

- Reduce corporate robustness by changing support functions
- Require considerable care in coordinating information flow with the agency
- Reduce the organization's learning capability by depleting its skill base
- Impair the Organization's ability to integrate processes
- Compromise the organization's control over the functions that are outsourced
- Damage morale and motivation as jobs appear to be lost
- Increase employees' insecurity, whether staff remain in the Organization or are hired by the Agency

X. PROBLEMS WITH HR OUTSOURCING

Despite the rising popularity of outsourcing organizational activities, the practice is not without pitfalls. One of the most serious is maintaining the continuity of skill supply and the retention of in-house knowledge and expertise. In many cases, firms seek outsourcing to save training costs, assuming that someone else will carry out the training to ensure the delivery of key skills. Skill loss can have damaging effects on competitiveness. Another major concern with outsourcing, particularly for those firms that operate in the upper end of the product market, is the loss of quality. Employees often judge service quality by comparing their expectation of the resulting service under the proposed change with their view of what the services should be or with the services that they used to have. Switching the HR services from in-house to an external provider inevitably causes disruption to the continuity of the services, often for a prolonged period of

time and with unpredicted problems. Indeed, there have been reports in the media and in practitioner journals on the failures of outsourcing resulting from unfulfilled promises and/or expectations. These perceived benefits and disadvantages must be considered when firms make strategic decisions on whether or not to outsource functional HR activities.

Do's for HR Outsourcing

- Have a clear vision of what outsourcing should achieve
- Understand the scope of the services to be outsourced
- Outsource the performance of a function, not the responsibility for it

Don'ts for HR Outsourcing

- Don't outsource strategic, customer, or financial management
- Don't let the goal of cost savings dominate everything else
- Don't think that outsourcing is the answer to every problem

XI. IMPLICATIONS AND CONCLUSION

Outsourcing for HR function must be viewed as a business imperative, not a luxury. The approaches and applications must be tailored to fit perfectly. The partnership must be nurtured and closely monitored. Also there is a critical HR issue of potential loss of expertise in certain areas, which may be difficult to recover—a danger of hollowing out of organization. Outsourcing is not a complete bed of roses. The stakes are high but so are the payoffs. But then you win some, you lose some.

However Human Resources Outsourcing should be done because:

- Large organizational size is no longer a competitive standard.
- Small, agile niche competitors can now change industries and cost structures overnight.
- Competitive pressures are more severe in a global economy.
- Product and service cycle times have reduced dramatically, and time based competition demands quicker response.
- Investors and analysts demand a focused management that delivers.
- Bottom line performance, growth and size are no longer predictors of future profits.
- Significant operating and financial performance improvements are critical to success, and long term survival.
- Supplies of technical specialists are reasonably plentiful, thus employing them internally is unnecessary to their availability.
- Cutting edge technology and knowledge are now recognized as competitive weapons but are expensive to acquire and successful results are often elusive when implemented internally.

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