

## THE IMPACT AND PROSPECTS OF HUMAN RESOURCE OUTSOURCING ( HRO) IN INDIA

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### INTRODUCTION

A contractual agreement between the two organizations involving an exchange of services and payments. Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill or expertise in the areas where they want to outsource. Outsourcing can offer greater budget flexibility and control. Outsourcing lets organizations pay for only the services they need, when they need them. It also reduces the need to hire and train specialized staff, brings in fresh engineering expertise, and reduces capital and operating expenses One of the biggest changes in the early 21st century came from the growth of groups of people using online technologies to use outsourcing as a way to build a viable service delivery business that can be run from virtually anywhere in the world. The preferential contract rates that can be obtained by temporarily employing experts in specific areas to deliver elements of a project purely online means that there is a growing number of small businesses that operate entirely online using offshore contractors to deliver the work before repackaging it to deliver to the end user. One common area where this business model thrives is in providing website creation, analysis and marketing services. All elements can be done remotely and delivered digitally, and service providers can leverage the scale and economy of outsourcing to deliver high-value services at reduced end-customer prices.

### Definition :-

#### HUMAN RESOURCE OUTSOURCING

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

#### CLIMATE TO OUTSOURCE HUMAN RESOURCE

The current phase of Economy and of Business need to remain competitive and vigilant and to provide the services or product in a globally changing market and economic conditions of the

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

To improve the quality and enhance the performance of the organizations, most companies prefer outsourcing their HR services. The outsourcing relationship offers cost-savings, standardization of processes, increased speed and quality of service. Outsourcing of HR function has become an integrated business strategy for the organizations. However, its success depends on the senior management and HR professionals to identify the core HR processes and non-core processes that can be outsourced. After IT and the BPO industry, HR outsourcing might well be the next big thing in outsourcing. The perpetration of technology and computers into almost every aspect of our day-to-day lives is one of the main reasons for the increase in the outsourcing of human resource functions. This, coupled with the fact that global economy is slowing down and the number of layoffs are increasing, has led research firm to predict that the human resources outsourcing market will climb with an increase of nearly \$4 billion over a three-year period. A 2004 survey by the Society for Human resource Management has listed background checks, employee assistance programs, flexible spending account management, payroll, and administration of health and pension benefits as some of the most frequently outsourced functions. Nearly 300 human resource professionals surveyed were in accord when they listed reduction of costs, control of legal risks, access to vendor expertise, and the streamlining of human resources functions as major reasons for outsourcing human resources.

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

**Common Service of HR Outsourced:-**

- Background Screening
- Risk Management
- Temporary Staffing
- Employee Assistance/Counseling
- Health Care Benefits
- Retirement Planning
- Performance Management
- Drug Screening

## HUMAN RESOURCES OUTSOURCING PROVIDERS

There are three types of HR outsourcing companies viz Human Resources Organizations Professional Employer Organizations. Administrative Services Organizations.

1. **Human Resource Organization** Human Resources Organizations (HROs) provide either some or all tasks in HR. The majority of HROs allow large businesses (1000+ employees) to choose which HR services they would like outsourced. When only some functions are dealt with by the HRO, a co-management relationship or shared HR relationship is made between it and the business (this is typically the conservative approach to those first Outsourcing HR.) When all functions of HR are outsourced, the HR Outsourcing organization takes full responsibility. In large organizations, the Strategic HR role remains an internal position; however, most administrative and tactical roles are outsourced. This can also be achieved in smaller organizations (typically under 200 employees) using a PEO or Professional Employer Organization
2. **A Professional Employer Organization (PEO)** handles all HR tasks and is usually more beneficial for small- and mid-sized businesses (under 200 employees). When a business outsources HR to a Professional Employer Organization, they enter a co-employment relationship, in which the PEO becomes the employer of record. This practice is also known in the past as Employee Leasing or Staff Leasing. From a government and legal standpoint, this type of HR outsourcing involves the PEO sharing responsibility for the employees Using a PEO for your HR Outsourcing has a number of added bonuses. First, because a Professional Employer Organization is an umbrella for a much larger group of employees than a small- or mid-sized business, they may receive tax rates at a much lower rate than an individual business. Also, because the PEO is the employer of record, financial liability for the organization decreases due to the shared burden. Outside of Outsourcing HR, PEOs also will often provide worker's compensation insurance, outsourced payroll, performance management, recruiting and background screening and other various employment administrative tasks depending on the needs of the business that hires.
3. **Administrative Services Organizations (ASO)**  
The third HR Outsourcing Scenario is an ASO, or Administrative Services Organization. ASOs outsource HR differently than the first two types of organizations because they focus mostly on the administrative side of HR and there exists no co-employment relationship between an ASO and the business that hires the ASO. This flavor of outsourcing is typically viewed as in between the 200-1000 employee range of PEO and HRO. Not surprisingly the various functions that ASO provide include:-
  - Safety Management
  - Compliance
  - Payroll Services
  - Pension Administration
  - Worker's Compensation

### **Types of Human Resource Outsourcing :**

There are three main types of Human Resource outsourcing , namely Discrete Services, Multi-process Services, Total HR outsourcing.

**Discrete services:** In this instance, one element of a business process or a single set of high-volume repetitive functions is outsourced to a third-party administrator. Examples of discrete services could include the annual open enrollment process, flexible spending accounts or employee background checks.

**Multi-process services:** The complete outsourcing of one or more functional human resource processes would be an example of multi-process outsourcing (also called blended services). As such, the outsourcing of either health and welfare benefits administration or defined retirement plan and 401(k) plan administration to a third-party administrator would be an example of multi-process or blended services outsourcing.

**Total HR outsourcing:** Total HR outsourcing represents the transfer of the majority of HR services to a third party, to include recruitment, payroll, HRIS, benefits, compensation and communications, as well as the transition of HR management and staff. However, HR executive management would normally remain in place within the organization, along with strategic planning related to people management and other key HR functions at the discretion of management

### **HR OUTSOURCING PROCESS**

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

### **CONCLUSION**

The most apprehensive aspect of the Human Resource Outsourcing that despite of the sluggish economy, the trend of HRO continues to grow and is based on two principal strategies:

1. To save direct expenditure on administrative functions which do not directly contribute to the company wealth, such as payroll, reception and recruitment.
2. To focus directly employed staff on the core business, so that cash is generated through improved productivity, quality and product development. Both of these can contribute to stabilizing profits. Many firms will find that their business is a lot stronger than they were prior to outsourcing, even during this tight economy.

Companies should evaluate their human resources needs, and consider outsourcing where it is economically sound to do so. HRO costs should be considered against the money saved and

earned through improved productivity and the increased market share that comes with a well run business in the tight economy. While HRO is not the right answer in every situation, used wisely and judiciously, it can be positioned to the strategic advantage of the HR profession and the stakeholders it serves. Currently, most HR leaders can still choose whether they will respond to change or whether they will lead change. HR professionals who meet the need for strategic expertise concerning human capital management and organizational effectiveness will contribute value that far exceeds the past contributions of the HR function. In the process, they will make themselves indispensable to their organizations. The demand for the outsourcing of increasingly complex HR functions is likely to grow. On the supply side, the overarching challenge for HRO vendors will be their ability to manage multi-process; multi-client shared-service environments and the need for the outsourcing of broad-based HR functions

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