

Human Resource Outsourcing: Types And Motivating Drivers Of Outsourcing In An Organization

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ABSTRACT

Outsourcing is an act of obtaining products or services from outside another organization. Outsourcing can be in any field such as human resource, information technology, etc. Human resource outsourcing has emerged as one of the rapidly growing section of the business process outsourcing. Human resource outsourcing activities include recruitment and selection, training and development, etc. outsourcing leads to reduce the cost, to gain benefit from experts, to focus on core competencies by outsourcing non-core activities. Despite growing popularity, there are lots of debates on human resource outsourcing and ongoing debate the focus is on the decision to 'outsource' or 'not to outsource', what to outsource, how to outsource and how much to outsource. This descriptive research tries to explain various types of human resource outsourcing, reasons of outsourcing, activities which are being outsourced and also whether human resource outsourcing reduces cost for an organization or not based on extensive literature review. This paper also describes various types of companies which provides outsourcing services. No doubt Human Resource outsourcing leads to reduce the cost, but with this cost reduction, an organization sometimes loses its control over various activities. More dependence on outsourcing leads to dissatisfaction among the employees and an increase in the unemployment level in the country.

Keywords: *Outsourcing, Human Resource, Core-competencies, Cost.*

INTRODUCTION

Outsourcing is the act of obtaining semi-finished products, finished products or services from an outside company if these activities were traditionally performed internally. The company that outsources is called "buyer" and the company that provides the service is termed as "seller".

Outsourcing usually occurs through joint ventures, equity stakes and co-production agreements, which lead to sharing know-how and also makes the buyer more and more dependent on the vendor.

TYPES OF OUTSOURCING

- **Near-shore outsourcing** – It refers to the process of transfer the task to neighbor countries to get better quality and control over the operational expenditure. It helps in bringing the propinquity in the culture, language and also suitable location and time zones.
- **On-shore outsourcing** – It refers to obtaining the services from a different company but within the same nation. It leads to the efficient utilization of the resources of the nation. It is also termed as domestic outsourcing.
- **Off-shore outsourcing** – It refers to the outsourcing of work from a developed nation to a developing nation. A developing nation is where cheap labor or low tax is available. For example: transferring technology from the US to India. It is also termed a business process outsourcing (BPO). It simply means any country other than yours.
- **In-sourcing** – It refers to perform the work within the house in spite of sourcing it from somewhere. It simply means bringing the specialty or expertise in the house to fulfill the temporary needs of an organization.

ISSUES IN OUTSOURCING

- **Decision-related Complexities** – Outsourcing is also affected by the complexities related to the management and Strategic decisions of Human Resource Outsourcing in an organization.
- **Future scope and contribution of Human Resource-** Outsourcing is highly dependent on the future scope of human resources as what they are expected to do or how they are going to contribute in an organization or country development.
- **Position of offshoring** – It also becomes an issue for an outsourcing organization that what sort of scenario is going on. If in the outer world there are job losses or deployment etc occur then it leads to effect the outsourcing.
- **Differentiation between “core” and “non-core” activities of Human Resource** – It becomes very different for an organization to differentiate between core and non-core activities as each company has its specialization. For example: It can be possible that an activity is a core for the manufacturing industry and the same activity can be a non-core activity for a service industry. So, it is a very difficult task to differentiate between core and non-core activities.

HUMAN RESOURCE OUTSOURCING

Human Resource outsourcing is a very wide term which includes various heterogeneous services under a single heading of Personnel or Human Resource Services from single hiring of an employee to a complete Human Resource Management functions. Human Resource outsourcing refers to the act of contracting with the third party to handle all or some of the Human Resource activities of an organization.

There are various Human Resource functions which can be outsourced. Such as

- Payroll services

- Risk Management
- Recruitment of Temporary Staff
- Performance Management
- Retirement Planning
- Availing of Health Care Benefits

LITERATURE REVIEW

Al-Khachroum and Kennawi (2010) identify that previous experience of an organization related to outsourcing plays a vital role in deciding whether to outsource or not. Secondly, strategic focus to manage employees also supports the decision of outsourcing in an organization. Whereas, cost of implementation, quality and specialization do not play any significant role in deciding outsourcing decision making. Most of the organization prefer to outsource activities related to Legal aspects of Human Resources, health safety, and benefits administration.

Awe et al. (2018) study that outsourcing of various activities viz. Human Resource, Manufacturing, Information Technology, Research, and development in organizations leads to improve its performances. Performance includes operational, financial, innovation and technology. Information Technology outsourcing is the most cost-effective outsourcing as it there is no or very small investment such as investment in machinery, factories, land, etc. and it does not incur any switching cost or no cost of changing a partner.

Cicek and Ozer (2011) identify that an organization has two types of activities i.e. core and noncore. Core activities include business strategies, Human Resource policies, and responsibilities related to the line management whereas noncore involves specific activities, routine work, and Human Resource advice. The decision of an organization to outsource or not is based on these activities. The performance of an organization is also affected by outsourcing activities. In this process, organizational culture plays a prominent role in shaping the attitude of employees towards the outsourcing activities of the organizations.

Delmotte and Sels (2008) identify that Human Resource outsourcing is directly affected by the delegation of people management authority to line managers. They also found that employee salary and wages, training and temporary works related to the agency are more frequently outsourced by the organizations as compared to other activities like job determination and classification of wages, outplacement, appraisal, and career planning. By outsourcing transactional and operational activities HR can fully concentrate on its strategic activities.

Gandotra (2011) found that Human Resource outsourcing is a strategic tool that can be used to acquire high value in an organization. Before using Human Resource outsourcing an organization should consider all the factors which will be affected by it such as stakeholders. Human Resource outsourcing is a cost-effective method which leads to providing support to technology and knowledge in transforming human resource management business.

Kodwani (2007) identifies that the decision of outsourcing brings various problems such as employees resistant to change, employers fear of losing control, giving confidential information to the vendors, legal issue, loss of direct touch with the employees, etc. As outsourcing is an evolving concept so, no organization can ignore it. Only the organizations can do is of taking care of various factors while going for outsourcing such as

organization should outsource according to its size, more attention on design and details of the process, should not involve itself in a very long-term contracts due to rapid change in technologies and most importantly an organization should remain in touch with its employees.

Kumar (2016) studies about the various outsourced companies, reasons behind outsourcing, and various sources available for outsourcing in India. It was founded that the outsourcing is based upon the factors such as whether the company is developed or not, size of the market of a country, and most importantly on the needs and expectations of the vendors and clients related to the motivation and strategy level. There is the large scope of the outsourcing in India as it not only covers recruitment but also includes the training and development of the staff, helps in the determination of the wage rates of the employees, and also helps a company to decide on the merger, outplacement, and downsizing

Lalitha and Bhavani (2016) found that outsourcing is of two types: Transaction and administration outsourcing and consultancy outsourcing services. Mostly outsourcing is done by those businesses whose employee strength is between 24 to 1499. Human resource, professional employer, administrative services are three main organizations which provide outsourcing facilities. In India, outsourcing is done either on a project basis (single contract deals) or large scale multi-year arrangements.

Malik (2014) identifies that the main reason behind outsourcing Human Resource is cost reduction and to acquire core endowment. With the help of outsourcing an organization tries to lessen its cost, mitigate risks, and enhance strategic analysis. While going for outsourcing an organization should establish good relations with the vendor's and it needs to check the vendor's creditworthiness and level of their service quality. There should be a timely examination of representative before their selection.

Oshri, Kotlarsky, and Gerbasi (2015) found that rational and contractual governance acts as a complement for strategic outsourcing as it helps in taking strategic outsourcing decisions. Strategic innovation outsourcing is an important part of outsourcing performance which leads to bringing new techniques and methods of improving performance. As this relationship is affected by the nature of the contract which includes a combination of the joint venture, fixed price, material, and time.

Savino (2016) studies that the effectiveness of outsourcing depends upon the ability of the providers i.e. how quickly they adopt the changes and react towards these changes. If providers are efficient then only the organization can able to focus on its core competencies and able to make more strategic decision. It is the responsibility of the provider to meet the needs of the organization as there are many cases that there is a huge difference between requirement and delivery which leads to an increase in the ineffectiveness of outsourcing services.

Seth and Sethi (2011) identify that the decision of whether a firm should outsource or not depends upon three factors. These are: Does the company wants someone to deal with its Human Resource? Do company own adequate resources to meet its Human Resource needs? Does a company is efficient enough to afford an outsourcing firm? There are various types of outsourcing available such as Professional Employee Organization (PEO), Business Process Outsourcing (BPO), Application Service Provider (ASP), E-Services, Hybrid Outsourcing firms. It depends upon a firm's needs which type of outsourcing it should use.

Shen (2005) identifies that an organization should outsource core activities and need to keep the peripheral activities in the house. But the actual decision to outsource depends upon repetition of a job, the requirement of specific skills and certainty regarding the performance. The main objective of organizations to outsource is to reduce cost, improve performance, concern related to strategies and to reduce risks and troubles related to the adoption of Human Resource Outsourcing

Westphal and Sohal (2016) identify that experience plays a vital role in outsourcing decision making. An organization should search for various sources of outsourcing so that the best one can be chosen. To bring transparency and efficiency in outsourcing decision an organization should hire some experts from outside as they are more experienced and have more efficiency in making decisions related to outsourcing which is their area of expertise.

RESEARCH METHODOLOGY

The study is about outsourcing, various types of outsourcing benefits of human resource outsourcing and reasons for human resource outsourcing. Descriptive research design has been used to identify the factors which lead to affect the decision of outsourcing and answers the questions related to the 'what to outsource'. Secondary data has been used which has been collected from the research papers, websites, magazines, etc.

OBJECTIVES OF THE STUDY

- To study the reasons behind outsourcing Human Resource functions by an organization.
- To define the Human Resource activities outsourced by the organizations.
- To find out whether human resource outsourcing is a cost-cutting activity or not.

TYPES OF HUMAN RESOURCE OUTSOURCING

Transaction outsourcing – It involves the day to day activities which an organization has to perform to maintain its business operations. Such as payroll, maintaining human resource information system and employee services.

Transformational outsourcing – These types of outsourcing creates long term capability and adaptability for the firm. They include knowledge management, management development, cultural change, and strategic redirection and renewal.

Human Resource outsourcing service can be:

Discrete services – In it, a single process of business services has been outsourced. Such as a business outsource only annual open enrollment process.

Multi-process services – It includes the complete outsourcing of a functional human resource process. For example, health benefits – it includes all the processes that need to be taken to complete by an organization before providing benefits to the employee.

Total HR outsourcing services – It leads to the transfer of most of the Human Resource function to the third party. It is done to reduce the workload, so that organization staff can focus on its core activities. It includes payroll administration, recruitment, etc.

HUMAN RESOURCE OUTSOURCING COMPANIES

There are various types of human resource services which are being outsourced by the companies. To provide these services there are three types of organizations. These are as follows:

- **Human Resource Organization (HRO)** – HRO provides the opportunity of outsourcing fully or partially to the organizations. When an organization outsources all the activities from outside then HRO takes full responsibilities. Mostly, the large organization prefers to outsource administrative and tactical roles. They perform the strategic HR role internally.
- **Professional Employer Organization (PEO)** – It is good for small and medium-scale organizations. PEO acts as an employer-of-record and being an employer-of-record it becomes responsible for the taxes and workers' compensation. By mixing all the employees whose data PEO handle, it leads to reduce the rates of retirement packages and health benefits. They generally offer the outsourcing of payroll, performance management, recruitment, etc.
- **Administrative Service Organization (ASO)** – They handle the issues of payroll performance, performing direct taxes, and filing payroll taxes. ASO provides relief from questions like access to insurance, workmen compensation, medical/dental benefits. ASO are good for small scale organizations as they provide them relief related to employment.

REASONS FOR USING OUTSOURCING

- **To focus on core-activities** - By acquiring non-strategic services through outsourcing, an organization can focus on what it can do or on the areas in which it is expert. It leads to provide more time to the management to focus on core competencies.
- **To improve quality and quantity of service** – By outsourcing non-strategic services an organization can focus more on improving the quality and quantity of the services, which further leads to increase customer satisfaction and contribute towards organizational growth.
- **Reduce cost** – An organization by outsourcing the activities which are very expensive and need expertise an organization can reduce its cost which it has to incur on training or hiring the people to meet these expertise needs.
- **Increase in demand** – As the demand has been increasing with the time, to meet this demand an organization has to increase its productivity which leads to analyze its internal capability, which further leads an organization to use outsourcing as a means to meet these increased demands.
- **To Shifts the business-related risks and uncertainty on others**- By outsourcing an organization tries to shift its risks on outsiders. Risk can be in the form of the low quality of the material.
- **For Facilitating learning & cross-fertilization between the firms** – Human Resource outsourcing helps two organizations to learn and share their capability and resources, which leads to increase profits of both companies.

ACTIVITIES OUTSOURCED IN HUMAN RESOURCE OUTSOURCING

- **Recruitment process** – In the recruitment process outsourced a large pool of candidates can be attracted to the job. With the availability of a large pool of candidates an organization can have the

option to select the best one suitable for the job. Organization need not compromise with the skills of new employees.

- **Training and Development** – In it more experts can be invited from all over the world, by the help of which an organization can able to provide standardized training to its manpower, which further helps it in acquiring the competitive advantage. Training and Development also give a positive response to the social exchange theory.
- **Compensation and Salary survey** – with the help of it, an organization can compare its prices to other organization. It leads to improve the morale of employees as they stop comparing their wages with others, which is a positive signal for an organization.
- **Organization Design and Development** – It provides the information about the various designs used by organizations and how they developed over time, which provides an organization a direction to work for its' development and key areas on which it needs to focus.

HUMAN RESOURCE OUTSOURCING IS COST CUTTING OR COST INCURRING ACTIVITY?

Based on the literature review, it was found that it is not important that outsourcing always reduces costs. Sometimes it leads to an increase in the cost of an organization. In various ways, it leads to an increase in the cost of operations in an organization such as:

- **Quality** – If the quality of activity is not satisfactory, then it leads to an increase in the cost for the organization. For example: Training is being outsourced. If the training does not lead to an increase in the performance of the employees then, the overall cost incurred on the training program will be termed as a loss for an organization. And quality is a very important factor when services are outsourced for highly skilled or educated employees who are in great demand.
- **Vendor Switching Cost** – If an organization continuously changes its vendors then it leads to an increase in the cost of outsourcing for the organization.
- **Long Term Vendor Contract Blog** – If a company enters in a very long term contract with a vendor such as for 4 to 5 years then in case of the company got some good offers from other vendors then it has to reject them due to contract it has already entered in. This leads to increases in the cost of an organization which it can save by entering into a new contract.

CHANGING SCENARIO OF HUMAN RESOURCE OUTSOURCING IN INDIA

With the advancement in technology and the introduction of globalization, outsourcing scenario has been increased over time. As previously it has been mostly used in Business Processing Outsourcing (BPO), but now it has been used in every sector. A new concept Human Resource outsourcing also come in trend which leads to ease the functions of Human Resource department. It provides various services such as recruitment, selection, compensation management, payroll services, etc. with the help of Human Resource outsourcing an organization can avail all the services from outside which earlier it was unable to use due to high cost or skill requirement. It helps organizations to cut down their costs by using Human Resource outsourcing services. By outsourcing non-core activities an organization can focus on its core activities. By focusing on core activities an organization can increase its core competencies which helps an organization to gain competitive advantage in the field of its expertise.

CONCLUSION

Outsourcing helps an organization to reduce its cost but to avail the complete benefits of the outsourcing, an organization has to consider various factors such as a company should outsource its most of Human Resource activities except core competencies which include labor relations, employee relations or performance management functions, reference check of the vendors. The organization should also consider the switching cost of vendors. To estimate the conflict with vendors and a plan for resolving them in advance. Focus on the high-quality performance of the vendors so that quality standards can be maintained. To perform a timely internal customer survey to evaluate the vendor's performance. Outsourcing leads to change in the organization so, an organization should be ready for it. Changes can be in any form such as employees' sense of job security, loyalty, organization commitment, employees resistance towards change which can reduce the productivity of the organization. Human Resource outsourcing helps an organization to concentrate more on its core competencies by outsourcing non-core competencies or day to day functions such as payrolls, recruitment, and selection, etc. This study suffer from some limitations such as lack of empirical evidence as the whole study is based on secondary data, biasness.

SCOPE FOR FUTURE RESEARCH

In this study, secondary data is being used. In the future, data can be collected from the primary sources for more insight on the topic. There is a lack of empirical study, in the future empirical study can be done to identify the actual effect of Human Resource outsourcing in the organization. In the future, the longitudinal study can be done to know the actual impact of HR activities before and after outsourcing Human Resource activities.

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