
Outsourcing of Human Resource Functions in India - Threats and Opportunities

Ms. Rajani Kumar

Asst. Professor

Green Heaven Institute of Management and Research, Nagpur

Email : rajanikumar@ghimr.edu.in

ABSTRACT

Outsourcing here is defined as the purchasing of HR Services from a third party supplier. The paper aims to provide a snapshot of the extent and nature of Human Resource Organizations based in India and to determine the overall level of involvement that HR Professionals have during the HR outsourcing process. Outsourcing is gaining considerable popularity in the field of business services and management.

The paper also illustrates the practice of outsourcing HRM functions, such as training, staffing, rewards and restructuring, in India. The analysis drawn upon both primary and secondary data. A series of in-depth interviews with HR managers and senior HRM consultants are used to support these secondary data collected through previous studies conducted by researchers.

The analysis suggests that the Indian market of HRM services is still at an initial stage of development, with limited credibility, while the customer lacks the experience of managing outsourcing relations and is reluctant to establish a partnership-type HR outsourcing agreement. Considerable differences are identified between the Indian market for HRM services and those of more developed markets. The description of the Indian market of HRM services can be useful to vendors and users of HRM services, as well as researchers dealing without sourcing in small markets.

Thus, this study attempts to offer a useful insight into the factors shaping the extent and the expected benefits from outsourcing HRM functions. The outcomes can further assist HRM professionals (managers and providers of HRM services), as well as academicians in better understanding the nature of HRM outsourcing decisions in general, and a basic HRM outsourcing practice.

KEYWORDS : Outsourcing, Human Resource Management services, India

Introduction

HRM outsourcing means "having a third-party service provider or vendor furnish, on an ongoing basis, the administration of an HRM activity that would normally be performed in-house" (Cook, 1999:4). HRM outsourcing has grown in popularity since the early 90's, particularly in the US, where up to 90% of the companies outsource some HRM activity, and Western Europe (William M. Mercer and Cranfield School of Management report, 2000, Banham 2003, Cook 1999).

A key reason for this growth is that many companies find that the use of outside service providers is more efficient and less costly than hiring staff to handle these functions in-house. Given that HRM services vendors specialize in the services they provide to their clients, they benefit from economy of scale effects and these benefits are transferred to their clients. This effect suggests that smaller companies may benefit more than larger ones from HRM outsourcing.

Another reason why some companies may turn to outsourcing is the requirement for knowhow. Either they have not the necessary knowledge, or their knowhow is so outdated that they need to make significant investments. Many vendors have already made major investments in HRM tools and techniques and can spread their costs over many clients. In this sense, outsourcing provides knowledge and competencies that do not exist in-house.

Prior research (Papalexandris et al. 2001, Mahoney and Brewster 2002) has established that the human resource services that are outsourced can fall into one of the following four categories:

- Recruitment and selection
- Training and development

- Pay and Benefits
- Merger- Outplacement-Downsizing

We are proposing the additional following categories, which may also be of interest and have also been repeatedly mentioned in the literature (Cook, 1999)

- Performance appraisal systems
- HR planning
- Organizational climate and culture.

Objectives

The paper examines the following issues:

- Which HRM services are mostly outsourced by companies
- The reasons behind outsourcing HRM services
- How much external HRM services market has been developed in India?
- Is there some particular pattern in the use of outsourced HRM services, which could be identified?
- What is the future for outsourcing of HRM services in our country?

Method of Research

Data required for the purpose of study was collected through both primary and secondary sources. Primary data was collected through Structured Questionnaire designed on Google doc. The questionnaire was canvassed online through social media like Facebook, LinkedIn Google groups, Emails, etc and the responses were collected.

Sampling:

For the purpose of data collection Non-Probability Stratified Sampling Technique was used. Stratification was based on functional area.

Sample size:

100 HR Managers from 30 companies in India were selected as respondents. The questionnaire was sent online to the targeted respondents. Companies from 6 different sectors - Manufacturing, Banking, Insurance, Aviation, Information Technology and Hospitality were selected. 8 companies from public sector were selected while the rest were from the private sector. Companies with employees more than 250 have been selected for the study.

The quantitative data were further supported by qualitative analysis. In-depth, semi-structured interviews were conducted with prominent HRM consultants and professionals in companies that provide HRM services and another five interviews with top HR managers who are involved in the decision and management of outsourcing of their companies. Companies of all sectors and sizes were represented in the interviews.

The interviews aimed at collecting information and the personal insights of the respondents on the following issues:

- The HRM services commonly outsourced by companies
- The reasons why companies outsource HRM
- Level of satisfaction by outsourcing HRM
- The profile of companies that outsource part or all their HRM services
- An insight to the development of the HRM services outsourcing market

Analysis and Interpretation

The data collected were analyzed through statistical techniques and the findings are put forth as follows:

Table I: HR processes being outsourced and Level of Satisfaction

	Outsourcing Importance		% Actually Outsourced	% Satisfied with Outsourcing
	Mean	Std Deviation		
Training	2.07	1.39	56.70	76.50

Compensation	2.13	1.22	26.70	62.50
Organizational Development	2.13	1.33	40.00	75.00
Recruitment	2.20	1.56	46.70	85.70
HR Strategy	2.20	1.40	43.30	58.30
Labour Relations	2.30	1.40	0	NA
Employee Relations	2.40	1.42	0	NA
Performance Management	2.70	1.39	23.30	71.40
Employee Records	2.97	1.69	10.00	100
Payroll	3.10	1.56	6.70	100

The Table above shows that the highest level of importance was given to outsourcing of the processes of training, compensation, organizational development, recruitment, and HR strategy; moderate importance was given to labour relations, employee relations, expatriate relocation, benefits, performance management, domestic repatriation, and employee records; while the processes of severance and payroll were given a relatively lower level of importance.

Table II Reasons for outsourcing HR functions

	Cost Saving	Sharing Risk	Accommodating Peak loads	Developing Internal Staff	Increasing Productivity	Time/Speed	Getting Specialized services
Training	29.4	41.18%	35.29%	29.41%	41.18%	23.53%	41.18%
Compensation	62.50	62.50%	25.00%	25.00	12.50%	37.50%	25.00%
Organizational Development	41.67%	50.00%	33.33%	50.00%	41.67%	16.67%	33.33%
Recruitment	50.00%	28.57%	42.86%	21.43%	35.71%	28.57%	57.14%
HR Strategy	38.46%	38.46%	46.15%	23.08%	46.15%	23.08%	46.15%
Labour Relations	NA	NA	NA	NA	NA	NA	NA
Employee Relations	NA	NA	NA	NA	NA	NA	NA
Performance Management	28.57%	42.86%	57.14%	28.57%	28.57%	28.57%	42.86%
Employee Records	0.00%	66.66%	33.33%	100.00%	33.33%	0.00%	66.66%
Pay roll	100.00%	50.00%	50.00%	50.00%	0.00%	0.00%	50.00%
overall	40.25%	40.25%	39.03%	32.93%	39.03%	26.83%	45.11%

Conclusion

As the market grows, however, the need for higher specialization, better quality, correct certification and recognition of the segment by the State appears necessary. The respondents expressed the conviction that the market will develop considerably in the very near future, which is also the belief of the researcher, given the rapid rate of growth of the market up to now, the overall development of the HRM function within the Indian companies and the pattern followed in countries like the United States or the UK (Banham, 2003, Cook, 1999, Mahoney and Brewster, 2002), the pattern of which is usually followed in India. The study revealed that the practice of HRM outsourcing in our country differs greatly from other developed countries. The reason being- small size of the market, the vendors as well as the clients needs to have different set of motivation and strategies.

In a country like Greece, with less developed HRM, one of the major objectives is to improve HR practices in order to increase competitiveness through people. Given the above, and in view of the small size of companies, companies may benefit from services, which they could not be able to create internally. Through appropriate use of customization and sophistication of their service, the HR services vendors can become key players in the development of the HRM function.

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