

Impact on Human Resource Functions Outsourcing

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ABSTRACT

Outsourcing, contracting-out and the use of labour hire all have potentially dramatic consequences for HRM and human resource development in particular. Outsourcing is promoted as one of the most powerful trends in human resources management. The rationale for outsourcing HR functions includes financial savings, an increased ability to focus on strategic issues, access to technology and specialized expertise, and an ability to demand measurable and improved service levels. Advocates of outsourcing have traditionally warned that outsourcing and related strategies should not be seen as simply cost-cutting exercises. Nevertheless, cost reduction continues to be a major motivation for many employers. While there may be short-run cost benefits associated with outsourcing, there appear to be longer term costs associated with declining employer-funded training, skills losses, and reduced employer commitment to human resource development generally, and declining employee loyalty, trust and commitment. The paper reviews previous research and presents new evidence drawn from a series of case-studies that have utilized a variety of outsourcing and labour hire strategies

Keywords: Outsourcing, Labour hire, Contracting, Human resource development, Training.

1. 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. The human resource management function has long been scrutinised and criticised for being too administrative and for contributing very little to organisational strategy. It is increasingly being judged on its ability to contribute to an organisation's 'bottom line', and the value it adds to the organisation. It is against this canvas that an expanding use of outsourcing is being implemented. Firms continue to buy-in HR expertise, and replace that which was once developed and operationalised internally. Whilst the procurement of expertise yields mixed results, the focus of this paper is to explore the decision-making involvement of HR professionals during HR outsourcing (HRO) ventures. It seeks to examine their skill sets and how they are perceived in the organisation and elaborates on the use of alternative professions during the HRO process.

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.

2. 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, resulting in a move toward strategic outsourcing services and away from discrete services.

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.”

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.” As Prahalad and Hamel 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.”

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. Writers on organizational learning have argued that learning processes are collective accomplishments that reside in networks that do not respect formal organizational boundaries. “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.”

A BRIEF OUTLINE OF THE RESEARCH METHODOLOGY

The secondary information has been used for the study. Data is collected from magazines, journals, textbooks and various websites. By using secondary data efforts have been made to highlight the human resource outsourcing concept.

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.

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.

3. CONCLUSION

This study indicates that HR outsourcing represents a very strong opportunity for the HR function that is still yet to be recognised by the majority of HR outsourcers. However, those not engaged in HRO predominantly cite a well-resourced and effective HR team as their prime reason for not outsourcing. The assumption that HR outsourcers consist of teams that are not well-resourced and not effective is contentious. However, if combined with the sheer lack of involvement throughout the individual stages of the HRO lifecycle, HRO poses a serious threat to those HR functions currently engaged in outsourcing. A narrowing of the HR remit throughout HRO prevents these professionals from deploying the skills they believe they have and from effectively developing new skills that are pertinent to the organisation as a whole.

The exclusion of HR professionals from HRO serves not only to weaken the reputation and credibility of the HR function, but potentially precludes the ability of the organisation to maximise their relationships with external providers. HR professionals are, after all, clear as to what they can and should bring to an outsourcing venture. The challenge that remains is to create awareness of these competencies amongst other business stakeholders

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