



## A STUDY OF IMPACT OF HUMAN RESOURCE OUTSOURCING ON ORGANISATIONAL PERFORMANCE

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### 1.0 ABSTRACT

*Human Resource Outsourcing (HRO) has been defined as work done for an organisation by people other than organisation's full-time employees. The purpose of this research paper is to focus on different types of Human Resource Outsourcing and the factors which have to be considered by the organisation before outsourcing of Human Resource. In general, outsourcing can be defined as an organisation delegating their non-core functions to an external organization that provides a particular service, functions or product. Some authors observe that outsourcing is no longer confined to information technology (IT) services, but has expanded to financial services, banking services, engineering services, creative services, data management services, hospitality and clinical laboratories or laboratory medicine, and human resource management. Outsourcing the Human Resource (HR) function is one of the many ways to improve an organisation's efficiency. This paper attempts to identify the factors which impact the decision to outsource HR and to identify the impact of HR outsourcing on organisational performance and its efficiency.*

**KEYWORDS:** Human Resource Outsourcing, HR outsourcing activities.

### 2.0 INTRODUCTION

According to Oxford Dictionary, "outsource" means obtain by contract form an outside supplier. According to Wikipedia, "outsourcing" is subcontracting a process, such as product design or manufacturing, to a third-party company. There is different opinion in the academic community that outsourcing is an important management practice and that the level of outsourcing has increased dramatically in the last decade. Business Week noted that HRO has been the fastest growing area of business process outsourcing. Organisations need careful planning and strategy implementation to increase productivity levels and to change the beliefs, attitudes and values of employees. Most industries have transformed completely from manual processes to complicated, automated and computerised technologies. Some researchers observe that manufacturing industries have come up with sophisticated products that require operators with special skills. The organisations are delegating their non-core functions to an external organisation that provides a particular service, function or product.

Outsourcing the Human Resource (HR) function is one of the many ways to improve an organisation's efficiency. Outsourcing is becoming more difficult. Customers demand excellent business services, better satisfaction and better products. The organisations are benchmarking the world-class standards to improve the quality of products and services. So, to achieve the benchmarks the organisations are making various strategic off shoring decisions that improve. On their part, suppliers understand that they must compete globally and that outsourcing will play a more transformational and strategic role for the client.

Many organisations make a decision to outsource some organisational activities. This is because they want to focus on their core competencies, and see low value in developing in-house activities outside of this core. Specifically, outsourcing HR activities can reduce the work load of existing HR staff, thereby allowing the organisation to primarily focus on strategic decision making and developing core competencies supports the view that outsourcing HR activities can allow managers to pay attention to their core business rather than spend valuable time on HR activities that are becoming increasingly more complex and advanced. Some internal activities of the HR function are not core business and could be either permanently or temporarily outsourced. For example, recruitment is the most popular HR process to be outsourced. Recruitment specialists have more advanced techniques, including multiple sourcing channels, websites, and recruitment software that can easily found thousands of applicants, thereby increasing the probability that the best person for the job will be found.

### 3.0 PURPOSE OF THE STUDY

- To identify the factors which impact the decision to outsource HR
- To identify the impact of HR outsourcing on organisational performance and its efficiency
- To determine the ways of outsourced services those help the organisation in minimising time and money

### 4.0 REASONS OF HUMAN RESOURCE OUTSOURCING

According to KPMG International (2006), 78 percent of their respondents in Asia see cost saving as the primary reason for outsourcing the HR function. It could be said that cost saving is the first reason for many organisations to outsource their internal HR function. There is also evidence that shows organisations can avoid a huge investment because they can deal with cost-effective HR providers. Shelgren (2004) argues that outsourcing the HR function may help organisations forecast their HR activities budget because providers are paid on a monthly or yearly basis. HR outsourcing is explored as a tool to reduce the costs in every sector of organisation. There are number of advantage of HR outsourcing that reduces project timelines and saves labor costs. The organisations have to face new challenges that are associated with HR. The HR outsourcing is to find a vendor that will be able to provide up to marked services. Additional costs on vendor selection, legal costs and transition costs are sure that will be incurred. Therefore, the savings that could be realized by the outsourcing vendors that have ability to provide positive returns to their clients, especially in complex projects which include various kind of jobs. Every business must have to conduct a thorough analysis of its vision, strategy and goals before deciding to outsource any part of their activities.

There are many cases where organisations that are lagged in competence so it becomes difficult to achieve the success of the organisation. Complex process oriented projects demand expertise and the technical specialised services that might not be present in an organisation. At the same time, the requirement may not be full-time and certain things that are required for specific duration. Hence a via media solution is to get the job outsourced. The Outsourcing Institute has rightly said: "Outsourcing is a clever alternative to hiring". Company always have large projects that comprise many smaller projects that need specialist intervention. But this need is intermittent and the organisation doesn't see value in hiring full-time experts and specialists. It is wiser to outsource that part of the project to an offshore vendor and accrue gains to the organisation by saving the permanent cost of employees.

#### There could be many reasons for outsourcing such as:

1. Achieving economies of production
2. Developing the technological advances and manufacturing processes
3. Improving the customer service delivery processes
4. Focusing on and improving core competency areas
5. Outsourcing due to lack of trained, qualified manpower

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## 5.0 ARGUMENTS FOR OUTSOURCING

Generally, organisations use HR outsourcing as strategic solution to the problems that slow down success rate. There are many reasons to outsource in organisation: cost cutting, strategic focus, access to advanced technology, improved service level, access to specialised expertise, and organisational politics. Small firms may outsource all HR functions. Because in certain number of activities, these firms have not expertise and they don't want to invest in training so they outsource.

HR outsourcing helps the organisations to concentrate on their core function and improve their expertise area where they may perform better. It helps to provide competitive advantage to the organisation by developing specialised skill in certain number of areas. It provides flexibility to management in the organisation by making relations with other organisations which are having different types of expertise in various areas. It minimizes the risk factor of uncertainty to the vendor. Outsourcing provides opportunities to firms to choose most competitive tender to keep the future costs down.

## 6.0 ARGUMENTS AGAINST OUTSOURCING

There is neither any practice which does not have any drawbacks. One of the most important problems that is faced by the organisation is to maintain the continuous delivery of expertise. The retention of knowledge and skill developed for an organisation for specific purpose are not secured internally. Most of the organisations adopt outsourcing to save the training costs. 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".

## 7.0 HUMAN RESOURCE OUTSOURCING DECISION

HR outsourcing has become trend these days in the organisation as it curtails cost in many ways like recruitment and training. In an organisation, the top management view towards outsourcing HR functions play a vital role. At the time of decision about purchase decision, firms are required to consider the future impact of these outsourcing these activities on the firm's performance and efficiency. For better results, organisations must have to classify the "core" and "noncore" activities. Finn suggests that "a basic distinction can be made between HR "core" and "noncore" activities. The core functions of the firm include top-level strategy, HR policies, and line management responsibilities (e.g., appraisal and discipline), while the noncore functions 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)". The functions necessary in the organisation are analysed by the top management to get which type of services required to them to enhance their performance and efficiency. Hall and Torrington 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 functions to be outsourced, as they were considered noncore or because the organisation lacked the expertise to perform these activities internally". The services like training, payroll, healthcare benefits to employees and pension benefits are outsourced completely which has been proofed by various sources of literature.

In current scenario, the organisations find number of advantages to save their time and minimise the cost are being priority. So now-a-days, human resource outsourcing has become trouble shooter in all ways. Human Resource Outsourcing has become important practice to achieve competitive advantages in the present time. Now, the organisations have to select the best service that means the selection of vendor which would be able to fulfil their requirements. The researches and literature related to HR outsourcing emphasis on the fact that the organisations are using HR outsourcing are achieving the heights in this competitive era. Organisations who have adopted these services are showing great difference regarding expertise and efficiency.

At the time of selection of services, the other most important thing to be considered by the organisations is cost incurred during the process. Minimizing costs is also the reason of Human Resource Outsourcing has been identified in literature. "Outsourcing as considerably lowering the costs and risk, increasing the organisational flexibility, innovative capabilities, and opportunities for creating value-added stakeholder returns". In fact, many organisations preferred to outsource due to lesser cost of production. However, there are number of challenges in the context of HR Outsourcing. Some of the challenges have been listed as quality of HR services from vendors, insufficient employee preparation for the jobs, and lack of proficiency to manage HR outsourcing and replacement change.

The technology advancement plays a vital role to push forward HR outsourcing in high tech period. Everyday, new technology is being discovered. Due to technology advancement, organisations need to have the latest equipment and procedures. So, they prefer to purchase the outsourcing services. HR outsourcing provides them the latest and accurate services according to their requirements and demands. Most of these modern equipment and systems require specialised skills and experts to perform the functions. HR outsourcing is being in its early stages of growth and development. Many organisations prefer to outsource these activities of HR.

## 8.0 RESEARCH METHODOLOGY

The research approach used during research is purely deductive in nature as the inferences have been drawn from the established researches. The research method is entirely based on qualitative data from various sources of secondary data taken from research papers, theses, journals having research material on topics related to human resources outsourcing, human resource outsource activities and related topics. The secondary data are supported by material available websites, online data that are made available by the department managers and employees of the organisation.

## 9.0 CONCLUSION

Human Resource Outsourcing is found as panacea for the organisations which are not able to recruit, train and develop their own human resource. These services are providing opportunities to get highly well-trained employees and these employees are found better in performance and effective. The organisations are getting benefits of competitive advantages due to technologically advanced HR. This is also effective in cost saving via saving the cost incurred in training and development. Due to all these, the organisation focuses on development of her core competency. Human Resource Outsourcing has enhanced the expertise of employees, managers and the organisation in those areas where they lack. The expertise in specific areas increase the profit and improve the way of working of the employees, the expertise, experience and reputation of the employees create better background for individuals and their outcomes career opportunity, workforce flexibility, rewards. All these clear the pathway towards enhancing the performance and finally making it effective.

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