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Human Resource Outsourcing: A New Mantra for Business Sustenance

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Abstract

During 6000 BC, it was the 16th day of the great “kuruksheetra war. Late in the night, Radheya went to Duryodhana’s tent and said: “I am superior to Arjuna, but I have no good charioteer. If I have Salya as my charioteer, I am sure to win the war. But you have to coax Salya to offer his services. Embracing his friend Radheya, Duryodhana said: I will coax Salya to do this, go and rest in peace. Talent was in short supply even in those days. And Duryodhana had no option but to outsource it for the day.

Outsourcing itself is not a new concept as organizations have for years contracted with external suppliers to provide an array of services. A number of studies indicate outsourcing is growing with respect to both the number of companies outsourcing and the number of functions outsourced. Attracting, retaining and developing workforce, and keeping abreast of the latest technology can prove difficult and costly for many organizations. Almost all businesses can benefit from some kind of outsourcing. But, the challenge is to decide which HR function to outsource and which to retain. Further the need for employment information and expertise service at low costs extended by vendors has given rise to HR outsourcing.

While the existing studies provide some insights regarding the trend and practice of HR outsourcing, they do not explore HR outsourcing practices in depth. There is little research on HR outsourcing practices in Indian organizations and very little is known about organizations’ experience with outsourcing HR. The purpose of this paper is to contribute to the knowledge of HR outsourcing practices in large and medium sized Indian IT companies located in the state of Karnataka. This paper will focus on analyzing: Emerging trends in HRO Management in IT sector, Priorities in identifying Core and Non-Core HR activities for HRO (list of 42 HR activities), HRO decisions in IT Industry, Need for developing new competencies and skills for in-house HR professionals

It is clear that in spite of the needs expressed by several authorities and researchers, there is no empirical study covering the decision making on HRO and different issues and considerations of HR Outsourcing in IT organizations. The present paper is an effort to fill the above stated gap. The research helps in understanding the decisions related to HR outsourcing and to assess the effectiveness of HR outsourcing in Indian IT organizations. This is a descriptive research. The method used is field research. The data collection is done primarily using questionnaire. The paper is outcome of the study conducted for 114 senior professionals (primary data) from Large and Medium IT companies located in the state of Karnataka. The research gives the clear idea of what are the future directions with reference to changing in-house HR functions and the priorities for HR Outsourcing.

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1. Introduction

The role of HR is going through the Transition phase and has changed itself from typical Traditional non-productive area of operations to contributing and value adding core area towards strategic Business Goals. The study is an attempt to explore the competitive advantages of implementing such HR tool in an organization to create value and to analyze the effects on the business of the IT companies. Administering HR services is becoming an expensive and complicated activity to every company and to compensate this companies have to divert their resources from other strategic corporate initiations. Further the need for employment information and expertise service at low costs extended by vendors has given rise to HR outsourcing. The paper is outcome of the study conducted for 114 senior professionals (primary data) from Large and Medium IT companies located in the state of Karnataka. The research gives the clear idea of what are the future directions with reference to changing in-house HR functions and the priorities for HR Outsourcing.

2. Literature Review

Today, every company is looking forward to cost effective methods of operations and at the same time HRO has emerged as one of the strongest tools for the same. Many developed countries like the U.S.A and many European countries have already adopted and executed HRO successfully. Now it is time for developing countries like India to adopt these things, as companies are concentrating on their core business areas and many non-core HR activities are being outsourced. Outsourcing HR is growing all over the world, driven by the philosophy that if you do not have the ability to offer a world class service, then the best option is to partner with someone who has the ability. To in-source or outsource is a strategic decision for many organizations in the 21st century. Technology is changing the business of Human Resources. The Human Resources department that is critical to any organization is opting for outsourcing since it offers significant cost and time advantages. According to *India Life Hewitt* “for large organizations to service their mammoth payroll by themselves is a huge drain on their resources. Outsourcing this one activity alone is huge direct cost saving for large legacy companies which could be in the range of 20% to 40%”. (*Deccan Herald, "Changing facet of HR in Outsourcing" December 25,2002.*)

Organizations need to make investments in markets, competition, government regulations, financial conditions and technologies, which are not only costly, but also risky. Vendor companies make such investments on behalf of many clients, not just one, which significantly reduces risk borne by one organization. The organizations need to concentrate on their core activities and outsource all the peripheral activities. This leads to lean business structures, and ultimately leads to improvement in bottom line and good corporate performance. Outsourcing has emerged as a new economic strategy for HR. Further the changing business scenario with many mergers, acquisitions, layoffs have made the road clear for HR outsourcing (Tseng, 2011).

The study is an attempt to explore the competitive advantages of implementing such HR tool in an organization to create value and to analyze the effects on the business of the IT companies and the HR executives. Strategic and Technological innovations in HRO will influence Organizations’ functions in future. The ability to analyze and anticipate strategic business plans and the role of HR department is critical in today’s customer driven market place. This research study focuses on critical issues in design and management of HRO, and what organizations should do to lead in future. The study will provide Indian IT industries with an essential update on future of HRO.

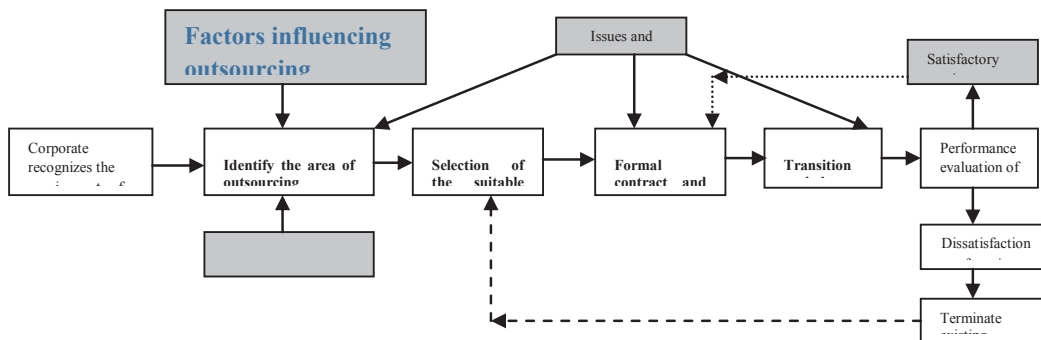


Figure 1: Conceptual Model for Human Resource Outsourcing (Uttam and Murugaiah 2007)

3. Research Findings of the study “Human Resource Outsourcing in IT Sector”

3.1 Scope of the study: Industry Scope

The scope of the study is limited to large and Medium scale IT companies (Software Companies) located in Karnataka State. The capital city, Bangaluru known as IT capital of India, represents all the major companies in IT sector. The IT sector being one of the fastest growing service industries in Karnataka, the study can be compared with other states as well.

The IT Organizations and the respondents were chosen based on the following criteria:

1. Large and Medium scale IT (Software development) companies (excluding ITES Companies)
2. Decision making key HR Professionals in the IT Companies
3. IT Companies located in the state of Karnataka

3.2 Sample size

The population for this study included 114 senior-level HR professionals representing large and medium sized IT companies located in the state of Karnataka. These executives were deemed the most suitable group to survey as they are assumed to be in the best position to have a holistic view of all HR functions and their ability to decide about outsourcing.

3.3 Demographics

All the respondents were Professionals in Human Resource Department of IT companies and hold key positions. The respondents are the decision makers in their organizations on strategic issues relating to the department of HR. Demographic and job related information like age, years of experience, designation etc., were collected for analysis.

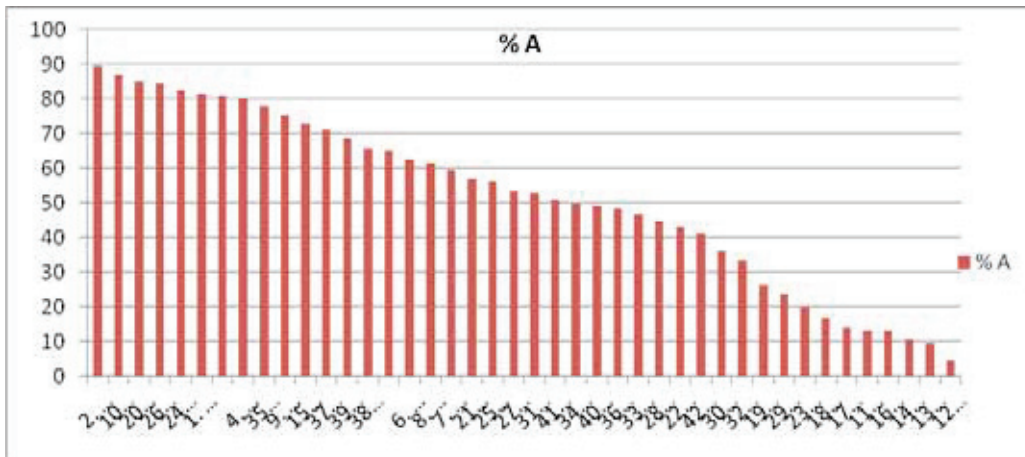
3.4 Discussions

A significant difference between this study and the other studies which have been conducted in different parts of the world is its scope and content. Firstly most studies available in the literature have focused on IS outsourcing. Very few studies have been conducted on HR outsourcing despite evidence suggesting that there is growing trend in this area. Secondly most outsourcing research has been done with US companies while this study examines HR outsourcing in Indian IT companies in the state of Karnataka.

The findings are consistent with other studies conducted in the USA which suggest that almost all of the different HR functions have been outsourced in one or the other company (Ancel, 1994: Benimadhu, 1995: Harkins et al, 1995 Hewitt Associates LLC, 1997: The outsourcing Institute, 1997;)

79% of the companies have already outsourced one or the other HR function and of the remaining 75% of the companies would like to outsource and consider HR Outsourcing in future. And rest 25% of the companies are not clear with the decision on HR outsourcing. The literature suggests that outsourcing of HR functions is one of the most popular service and fast growing service industry. It has made an impact on Indian IT companies (Uttam Kinange & Murugaiah V. 2010). The results of the study identifies the factors which influence the decisions of the HR executives in IT company to determine HR outsourcing. The companies respond not to outsource strategic and core HR functions which determines that the IT companies have given priority for partial outsourcing and not for total outsourcing (Tseng, 2011).

Table 1: The HR activities in terms of core Activities for HR professionals which can not be outsourced



The Top Ten activities in terms of core Activities for HR professionals which can not be outsourced:

1. Talent Acquisition.
2. Knowledge management
3. Competency mapping
4. Culture building activities
5. Employee empowerment
6. Performance management system
7. Measuring HR performance
8. Leadership development
9. OD interventions
10. Multi skilling

The Top Ten activities which can be outsourced as per HR professionals:

1. Compensation surveys
2. Salary administration
3. Psychometric testing
4. Attitude surveys
5. Outbound training
6. Assessment centers
7. E-learning
8. Evaluation of training effectiveness
9. 360 degree appraisal
10. Human Resource accounting

The core HR functions Performance management, Compensation Surveys, Salary Administration, Psychometric Testing, Outbound Training and Attitude Surveys have been identified as the core and strategic HR functions which are not on the priority of the IT companies to outsource in future and would be retained by the in-house HR department (Uttam Kinange & Murugaiah V. 2010). The cost factors as per literature was the major influencing factory in determining the decisions of outsourcing HR, where as the findings in this study do not support the cost factor as the first and the most influencing determinant. Quality of service has emerged as a major influencing factor for outsourcing decisions.

Respondents in this study reported that they felt the need to acquire specialized HR capabilities and change their roles after HR Outsourcing has arrived. Major findings are recorded concerned to the changing activities and structure of the HR Departments of IT companies in last 5 years. 95.6% of respondents reported that the role of the line managers in the HR activity has increased, 81.6% reported overall budget for HR has increased, 91.2% reported that pay package and compensation for HR has increased. The above facts and findings show the changing nature of HR departments in IT companies which have given rise to new challenges for HR executives to develop new competencies and skills related to HR (Uttam Kinange & Murugaiah V. 2010).

The focus and strategies are concentrated on aligning the HR competencies and skills to the core business strategies.

4. Managerial Implications

The study leads to many managerial implications which are reflected in the results.

- The most important result revealed in this study is significant number of HR executives of IT companies have adopted the HR Outsourcing. Outsourcing of HR functions allows the in-house HR executives to focus on core business strategies by releasing them from routine administrative and maintenance activities.
- Another major outcome of the study prioritize quality of service and cost benefit, two most important factors influencing the HR executives to outsource the HR activities. These determining factors will play a major role in HR Outsourcing.
- Apart from the above, another set of HR skills have emerged as core activity which the HR executives prefer to retain in-house are soft skills.

Although HRO provides more advantages than the limitations, the HR executives opined not to replace in-house HR with total HR Outsourcing. The need for new set of skills and competencies to handle functions like Knowledge Management, Culture Building, Competency Mapping, and Employee Empowerment are the major concerns in future for HR executives (Uttam Kinange & Murugaiah V. 2010).

5. Concluding Remarks

This research has addressed the issue of HR outsourcing practices in Karnataka based large and medium sized Information Technology companies. Evidence from this study and other studies in the outsourcing literature suggests that HR functions suitable for outsourcing are those in which quality and expertise knowledge is required. The HR environment is changing rapidly and expectations are increasing. These changes taken together imply that HR executives understand the business they support and recognize that HR departments must be managed in a business-like manner. For example, Talent Acquisition, Knowledge Management, Competency Mapping, Culture Building Activities, Employee Empowerment and Performance Management in this area become key elements in the transformation of the HR environment and the companies would like to retain these HR functions in-house. They appear to be concerned with reliable and consistent service delivery of HR functions that will lead to increased satisfaction at all levels of the organization (Uttam Kinange & Murugaiah V. 2010). Taken together these results suggest that the role of the HR vendors appears to be very important in the HR outsourcing decision within this sector. Findings of this research indicate that vendors with good reputation (i.e., quality of service delivery, experience with HR outsourcing) and reliability will be able to meet companies' HR needs. Thus, the likelihood of HR outsourcing may increase.

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