



Human Resource Outsourcing: Issues and Challenges

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Abstract:

Business Process Outsourcing has become new hymn in the corporate business world. Modern as well as traditional organizations are now reducing their employees from their payroll, and thus Human Resource Outsourcing (HRO) is slowly becoming the new talk of town. In order to utilize the true value of the employees to its fullest, one must outsource the non-core activities of the organization. The awareness of this has already been realised by the organizations. With today's emphasis on company culture and loyalty, the role of human resources management and the benefits a company offers has become increasingly important for a business's future.

Outsourcing has no longer the privilege of only huge multinational organizations. Even the public sector and government undertakings as well medium size or start-up companies are also in the race of outsourcing their many HR related activities. This paper examines the motives that are encouraging organizations to go for outsourcing HR, drawing the essence from extensive exploratory study of secondary literature. This paper presents an architectural framework to understand issues and challenges of HR HRO and to suggest what organizations should do to taste success from HRO.

Key Words: Human Resources, Outsourcing, Challenges.

Introduction

The productive capacity of all business depends on three factors: the capital resource, the physical resource and the human resource" - (Peter.F. Ducker)

This statement holds a lot of significance because of the fact that of all the three resources, only the human resources possess the productive capacity for which the upper limits are not defined. So, in order to utilize the true worth of the employees to its fullest, one need to outsource the non-core activities of the organization. Thus, outsourcing can be defined as an 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". 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

Outsourcing can be categorized in these different ways:

- Near-shore outsourcing – It refers to the process of transfer the task to neighbour 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. HR outsourcing offers many benefits – namely, the opportunity to save money, time, and resources so you can focus on your long-term goals and business growth. But there are also plenty of drawbacks to shutting down (or forgoing) an in-house HR department and relying on an outside vendor to handle your company's HR duties.

Need and Importance of Human Resource outsourcing

1. Save Money with Lower Administration Costs

When HR functions are outsourced, companies lower prices while still focusing on their core business and customer-facing duties. Studies have shown companies tend to save over 20 percent of regular expenses compared to keeping all human resources functions in-house. Furthermore, having the right service provider gives the confidence of knowing a seasoned expert is handling HR functions

2. Minimizing And Effectively Managing Risk

One central area where organizations can mitigate risk through outsourcing is employment and labor law. Employment and labor laws change frequently, and remaining up-to-date on laws and regulations that significantly impact the workplace can be a daunting task. Outsourced HR professionals have the duty to stay aware of various federal and state employment laws and further help businesses comply with these laws to avoid costly lawsuits brought on by employees. Also, they maintain and audit company policies and practices for the organization and its employees.

3. Efficient Performance Management

With employee performance and development being more crucial than ever to maintain a competitive edge in your marketplace, outsourcing this HR function can ensure you facilitate, utilize, and measure performance with the top tools and metrics. HR experts can implement performance management plans to ensure employees act per company policies and procedures, resulting in successfully meeting business goals.

4. Simpler Risk Management

The next benefit of outsourcing HR functions is that it minimizes risk. Keeping up with the ever-changing state and federal regulations is a challenging task. Especially, for small businesses, it becomes quite complicated to adhere to the many guidelines for operating as a business. As a result, the inability to cope with the changes may consequently lead up to non-compliance.

5. Less Compliance: A major benefit of HR outsourcing is that it simplifies being compliant with laws and regulations. One can easily check on compliances like auditing, hiring, insurance, employee benefits, and numerous other aspects.

6. Recruitment & Hiring

When discussing the costs, one cannot forget recruitment and hiring. Companies want to ignore this Human Resource activity as it is very time consuming and expensive one. If company outsource its function, they will significantly reduce HR costs.

Issues and Challenges in Human Resource Outsourcing

1. Disconnection with staff

The word “human” isn’t part of “human resources” for nothing. HR representatives are critical to help employees feel like they have a voice and value in the company. Transferring these duties to computer software or to an offsite third party can lead to staff feeling disconnected from their employers – and employers not fully understanding their teams’ needs.

2. Less flexibility

In small businesses especially, HR reps and managers can help employees out in a pinch – paying out unused vacation days in an emergency or letting them dip into next year’s leave early, for example. When HR is automated and/or outsourced, these types of accommodations for loyal workers are difficult if not impossible.

3. Culture changes

Outsourcing your HR functions can change the culture of your organization as well. No one knows your company culture better than you and your staff, and it can be hard for a third party to identify and perpetuate that culture. When you outsource HR, team members may become insecure, less engaged and even less productive. An internal HR representative who works on the floor with your employees can be key to keeping your company culture alive and well.

4. Problems taking longer to get solve

In situations where an error has been made – say with payroll or with the number of vacation days an employee has – going through a third-party HR service can mean a long wait before the error is fixed, leaving the employee angry or frustrated. In addition, when an employee quits and the business is using an outside recruiter, the hiring and training process might take longer than it would with an in-house HR department, which can be more proactive about hiring and training employees before positions even open up.

5. Limited choices

Companies using a professional employer organization (PEO) to handle everything from hiring and firing to payroll and insurance might have fewer choices for employee benefits. By handing off control of certain functions to a third party, you’re limiting your company to whatever packages that PEO has to offer.

6. Lack of control

Giving another organization control over some of your internal processes could leave you somewhat uninformed about your workforce. Although you can work closely with the HR outsourcing organization to ensure you are on the same page, you likely won’t be informed on day-to-day processes. If you lose sight of your workplace dynamics, you might be left with unhappy employees without even knowing. This reduction in knowledge can transform into a lack of control.

7. Privacy and security issues

HR outsourcing can leave your employee data vulnerable to security threats if the company’s software isn’t secure. Many service providers use web-hosted software to handle HR functions, leaving sensitive employee information potentially vulnerable to security threats and crashes. The last thing you want is to have your employees’ personal banking or medical information released to the public .

8. Costly Affair

Outsourcing may turn out to be cheaper in the present context, but there is a risk involved because outsourcing costs may go up in the future.

Conclusion:

This article tried to highlight the overall concept of HRO and identify the main issues and challenges relating to outsourcing HR. The reviews of literature, as well as of recent surveys by various organizations, show that HRO market is growing and will grow faster than the current rate.

Though there are many benefits of HRO, which cannot be denied but at the same time we need to address various challenges of HRO. One has to take lot of precaution while planning for outsourcing their HR activities. It was also observed that in the recent times outsourcing has undergone lot of advancement due to increased data security because of new technology and changing perception of what can and cannot be outsourced but security issue still demands attention i.e. how comfortable are buyers with having their proprietary data being transmitted offshore.

HR Outsourcing must also be carefully evaluated and weighed against issues such as control, the strategic value of technology to the organization, staffing, recruitment, accountability, and, of course, overall costs. If organizations have a broader perspective and are taking corrective measures before going for HRO then outsourcing will certainly help in coping with the peaks and troughs of the business. Properly applied, including concerns, outsourcing offers many benefits; otherwise, it offers even greater risks. Like most everything in life, HRO has come a long way. But there's still a long way to go.

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