Hr outsourcing strategy of the future management essay

The strategy of the firms to outsource the HR operations and functions to a third party is critical decision for any company. It is very important to understand why the companies are increasingly outsourcing their HR operations and whether this strategy would become the standard practice for most of the organisations in the future, or is it just a current trend arising out of competition. Hence this research is not only important from an academic point of view, but also from commercial outlook.

Human resources in outsourcing are increasing its importance in the current market. The number of companies outsourcing HR activities continues to rise, and the scope of outsourced HR activities continues to expand. HR outsourcing can occur or cause a change in HR functions like employee benefits (like Health, Life insurance, Cafeteria, Medical, etc), payroll administration (like producing checks, dealing with sick-time, handling taxes and vacations), risk management, human resource management (like background interviews, wage reviews, hiring and firing, and exit interviews), etc. Outsourcing has become a common response to manage people and technology resources strategically, enhance services, and manage costs more effectively.

Outsourcing non-core activities allows HR professionals to move away from routine administration to a more strategic role. The organization can focus on higher value-added activities while the outsourcing provider takes care of the day-to-day administration. Critical internal resources, such as technology and talent, can be devoted to company's core business. Outsourcing reduces the need for large capital expenditures in non-core functions. Thus, outsourcing becomes a strategy for reducing the capital intensity of the

business. This strategy has gained popularity as companies aim to become more nimble and gain the speed and flexibility necessary to compete in today's business environment. An increasing number of executives understand the benefits; the outsourcing strategy can obtain in terms both cost savings and heightened strategic focus. Most of the people recognize outsourcing relationships to be long-term partnerships created for the strategic goals of the organization.

Organizations outsource their human resource functions to the companies to posses the knowledge and resources to perform a part or the entire client's human resource function with some kind of expertness involved, in-order to allow the client to concentrate on generating profits for the core business and streamline the internal process of that particular company.

3. AIMS:

This research study has been undertaken to answer two primary questions,

A. What are the benefits and the risks of HR outsourcing?

B. Is this HR strategy of outsourcing the HR functions viable in long term?

4. OBJECTIVES:

To facilitate the better understanding and the methodological evaluation of the research objectives, the research paper would analyse the following topics.

Identify the factors responsible for the HR outsourcing decision.

This topic would evaluate the theoretical concept of the HR outsourcing. It would also examine the reasons why the company decide to outsource some of the HR functions like payroll, legal and pensions.

Evaluate the advantages and the disadvantages of the HR outsourcing.

This Objective would explain the advantages of HR outsourcing to a third party which is cost reduction, increased efficiency, external expertise, access to improved IT system. This objective would also evaluate the disadvantages like exposure of sensitive information, loss of complete control, fragmentation of services.

Critically evaluate the viability of HR outsourcing as a strategy for the organisations in future.

This research question aims to appraise whether the strategy of outsourcing HR functions is a passing trend arising out of competitive market because only few big organisations have adopted this strategy and the smaller organisations are following the opposite strategy, or is this strategy going to be adopted by many other organisations in the future as it has high success rate.

Recommend strategies.

Finally we would evaluate other strategies like shared service centres, off shoring and employee self service, which the organisations can consider as an alternative to completely outsource their HR functions.

Purpose of Study:

The purpose of study is to conceptualize the outsourcing of HR and to analyse the benefits and the risk of HR outsourcing and to know if outsourcing can be the strategy of the future. This research includes a primary interview with the employees of IBM PVT LTD. The interview in this study is about knowing what factors that outsource the HR in their company.

Hence in order to accomplish this aim, the study focuses on Understanding the research problems - HR OUTSOURCING: STRATEGY OF THE FUTURE?

This chapter discussed about the HR outsourcing, its work profile and also clearly explained about the HR Outsourcing, in which the research was conducted. The aims and objectives of the research were given step by step which would be dealt in the following chapters.

5. Literature review:

The literature review for this research paper would be developed completely out of secondary data. To undertake the literature review the main research question has been divided into following 5 sub topics

A. What is HR outsourcing?

According to Cook (1999) HR outsourcing refers to " Having third party service providers or vendors furnish, on an ongoing basis, the administration of an HR activity that would be normally performed in-house". HR outsourcing do not implies that the firm outsources the entire HR operations to a third party, but the firm can decide to do a selective outsourcing and

outsource the functions like payroll management, legal activities and pension functions.

HR outsourcing (HRO) is the application of different business models and techniques to new forms of activities - or processes - and radically redesigning them to create outputs of value for end users such as customers or employees. Business process outsourcing (BPO) is based on the principles of re-engineering, but also combines them with the ownership and management of processes on behalf of management by an outside vendor.

BPO has been applied to many transactional processes that can be easily defined or 'scaled' and transferred to third party ownership with deeper expertise than themselves. Until recent times, the management of IT systems has been the major element of the outsourcing market. The current debate in business area has the main focus on business processes which are considered as 'core' to the organizations, in terms of core competencies that result or drive towards competitive advantage. Any non-core - or peripheral - activities are outsourced. Typically,

- Services are improved

- Overheads are reduced

- Many processes are automated - thus reducing people

B. The trend in HR outsourcing practices

The companies tend to outsource only the administrative functions to the service providers, whilst retaining the important functions like training,

staffing and employee management. According to Rothwell (2008) pay roll management, pensions and legal management are some of the functions which the companies that prefer to outsource.

The reason for outsourcing is to reduce costs through suppliers volume purchasing, lower cost structure and enhanced expertise. SLA (Service Level Agreements) provides measurable cost/benefit analysis against pre defined productivity levels.

Improves the cash flow as credit obtained through costs being invoiced by provider also by which admin costs and head count can be reduced. The main reason of this practice is that companies can focus on and exploit core skills.

C. The challenges in outsourcing the HR functions

The HR outsourcing decision has various different challenges which should be considered before its implementation. Outsourcing the non required functions is a key challenge, the service providers has to be reimbursed for the services provided, hence the companies must be careful. The contract lengths are of higher period, the contracts must be signed after evaluating the requirements of the company.

D. Barriers in Outsourcing:

There are some key factors which act as a barrier for outsourcing HR operations, according to the Hewitt Associates survey (2009) the main barrier to outsourcing is lack of funds, the service provider enter into a lengthy and expensive contract due to the nature of the service which many

organisations cannot afford. The company tends to lose a degree of control over the HR function outsourced, hence they are reluctant. The employee's reaction to a third party handing the HR functions is also a key barrier.

E. Future of the HR outsourcing practice:

At present only the bigger firms and multinational corporations have adopted the practice of outsourcing their HR functions, it is yet to gain acceptance from the medium and smaller sized firms. However according to the Survey conducted by Hewitt Associates (2009), at present about 58 percent of the organisations believe that reducing the HR operating costs is the top most priority for the company and 44 percent believe that reducing the costs would be the 2nd most important function of the HR in future. Outsourcing the HR functions is the only effective way to reduce the HR operating costs; hence the outsourcing practice would be employed by more companies in future.

In this chapter, the author discussed about the different kinds of benefits/loses that an organisation can face by outsourcing the HR and the reasons outsource HR in a step by step manner and also about the importance of HR. Apart from these gave a brief description on major things involved in HR outsourcing.

3. Research Methodology:

3. 1 Research philosophy and approach:

Since the research involves working with observable reality of the effectiveness of the HR outsourcing, the research paper is influenced by the

positivism philosophy (Mark Saunders). Positivist approach would be used to evaluate the extent in which the findings of this research can be generalised for other companies. However insight into finer complexities is lost in creating law like generalisation, hence interpretive approach would also be used to understand the social factors which cannot be quantified.

'Deductive theory represents the commonest view of the nature of the relationship between theory and research'(Alan Bryman 2007), hence deductive theory would be used. However, the deductive approach has a rigid structure; hence to overcome this problem theory forming approach i. e., inductive approach would be used along with deductive approach.

3. 2 Research Method and Strategies:

The research involves the gathering and analysis of quantitative and qualitative data in a combined manner, the mixed model approach would be suitable for this type of research because it uses both qualitative and quantitative data. This approach also helps in triangulation of data which gives a more balanced and exhaustive picture of the scenario (Altrichter 2006).

3. 3 Data collection methods

A. Secondary data:

Secondary data will be sourced from newspapers, articles, and trade journals. Online academic database like e-library (Salford University) will help in data mining. The professional HR specific magazines like HR magazines from Society for Human resource management will aid in the research.

B. Interviews:

Purposive sampling method will be used to conduct direct interview with 2 HR managers of IBM as they are from highly professional background. Presently Author is in United Kingdom so couldn't conduct the face to face Interview, however got an opportunity for telephonic interviews from the IBM Managers.

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C. Questionnaires

Questionnaire helps to determine the Reasons for outsourcing and benefits of outsourcing. Questionnaires are easy to analyse. In this case questions are being sent to the employees of IBM INDIA PVT LTD, which would make the analysis faster and easier. The questions are regarding the employees work environment and reasons for outsourcing Human Resource, Potential benefits to Employees, customers and the providers, their growth opportunities, training, managers, what way the Outsourcing gets motivated in the company and can withstand in the company for a long period. Interviews are conducted only to the employees of the organisation. The questionnaire is being sent to the individual employees in the organisation via emails. Questionnaire consists of 15 questions. It takes approximately 15 minutes to complete the questionnaire and the employees were given enough time to complete and send them back.

Validity & Reliability:

The questionnaire collected and the interviews taken were genuine. There was no misuse of data in this research. The author provided the relevant data provided by the employees and had made this research more precise and accurate. Through questionnaires and interviews from many employees represents

4. Findings:

The findings of the research would be based on the primary data obtained through the semi- structured questionnaires used in the interviews and structured questionnaires distributed online. Secondary data would also be used for the analysis of the findings; usage of both the methods would help in getting unbiased perspective on the topic. SPSS statistical package would be used for analysis of the quantitative data obtained via online questionnaires, as this program has different statistical functions which aid in inferential and detailed analysis of the data. To infer the data obtained through focus group discussions and interviews, WEFT QDA would be used as the program allows free range coding and is much more convenient to use as compared to other programs which follow structured coding.

5. Conclusion:

The importance of this research paper is that it not only aims to understand the HR outsourcing strategy, but also tries to measure the future viability of this strategy. This research would provide new perspectives to the concept of the HR outsourcing; this perspective can be used by the HR managers and the management of the company to effectively use the HR outsourcing

strategy in their organisation. The research would also recommend the alternatives to the HR outsourcing strategy, wherein the companies can look at different alternatives to outsource their HR functions hence it becomes more important from the industry perspective. Apart from the commercial use, the study is also useful for academic purposes, as the research is both theory forming and theory testing forming, it will try to establish the veracity of established academic doctrine and also develop new theory for this topic.