

## **Human Resource Outsourcing–An Emerging Cost Effective Recruitment Concept**

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### **Abstract**

Global recession coupled with downsizing economies resulting in leaner organizations has provided impetus to business managers across the globe to introduce the concept of HRO. With focus on cost cutting and increasing profitability (by reducing current operating cost and controlling long term costs), HRO has gained importance by becoming a new economic strategy for organizations. Moreover with different organizational setups like mergers, acquisitions etc the role of HRO has become more prevalent. The purpose of this paper is to provide insights regarding the concept and process of HRO available in literature. The methodology adopted for this paper is descriptive and approach is conceptual where in extensive literature review has been done to study the cost implications involved in implementing HRO. Findings would enable author to validate the assumption that HRO would lead to cost savings, increasing profit margins. Moreover it will be helpful in making organizations leaner whilst reducing the headcount. With global economy taking shape, HRO shall become a key trend shaping the future of recruitment in Human Resources. It will be popularly regarded as the business solution of the decade. There have been number of studies over the years which have examined different arenas regarding HRO. However the scope for future research is immense in India as there is paucity of academic data, empirical and independent investigations. Hence this provides us with potential research gaps on which dedicated research can be conducted to further develop this field of knowledge.

**Keywords:** Human Resource Outsourcing, Cost saving, Profitability.

## 1. Introduction

Complex business environment and ever increasing competition has led to a paradigm shift in the Human Resource function. The main objective is to seek better services at reduced costs. Therefore the focus of the HR function has shifted from general administrative functions to strategically decision making and policy formulation wherein cost cutting and performance management are the key areas.

Outsourcing is a company's decision to use external companies to provide products or services that it used to provide itself. It is an effective strategy as it leads to cost cutting to achieve strategic focus thereby enhancing competitive advantage. HR Outsourcing (HRO) is the purchase of ongoing HR services from a third party having competence to manage the HR functions for the organizations.

HR Outsourcing(HRO) has developed later than other types of outsourcing such as catering, cleaning and security because HR used to be thought too sensitive to be outsourced (Shen et al. 2003)[1]. HRO has been widely practiced since 1990 but its growth is modest as it is still evolving. However, the HRO market is the fastest growing segment of the broader business process outsourcing industry (Harrison 2004) [1]. Technological advancement has helped building a seamless relationship between the providers and client companies which have further helped HRO take hold.

In order to clarify the concept of HRO, this study systematically reviews the existing literature with regard to the process and cost considerations by outsourcing the HR function.

## 2. Reasons for HRO

The major driver for HRO is "cost" and "core competence". Jeffrey Lanzet [2] of Aon consulting believes that the growth of outsourcing is, in part, a response to rising costs of regulatory compliance and the accelerating pace of technological change. Outsourcing offers the organization access to the cutting edge technology that many companies do not have the resources to invest in or continually update. HR outsourcing companies also provide greater expertise on compliance issues.

**Saving costs:** cost cutting may not be the only reason to outsource, but it's certainly a major factor. The services entrusted to specialized vendors helps in achieving economies of scale thereby reducing costs. **Strategic Concerns:** HRO helps in focusing on core competence, functions that are of strategic importance thereby shifting its focus from peripheral activities.

**Reduced risk:** As there are risks involved in compliance, finance, technology HRO leads in reducing risk as they are passed onto the vendor, who assume and manage the risks as they are much better at deciding how to avoid risks in their area of expertise.

## 3. Process of HRO

The decision for outsourcing the Human resources function requires an overall analysis. To implement HRO successfully thoughtful preparation and monitoring by the decision makers is vital. The advantages against the risks should be carefully investigated as it affects the overall change in the company's strategy. Moreover it is imperative to focus on the process of outsourcing and timing of the change.

After an overall analysis of the functions to be outsourced is done, a careful selection of vendor is the key requirement to a successful HRO. It is important to ensure the service provider's quality of work & financial stability. This should be followed by signing contracts by a careful investigation on terms and conditions by both the parties.

HRO would be effective only if the companies manage the relationship and contract with the provider on a consistent basis.

#### **4. Conclusion**

Improved service levels and cost reductions would be the likely outcome while outsourcing any function to qualified suppliers. It shall lead to a competitive edge for companies, but it should be used in a judicious manner in order to get the maximum benefits as short term cost objectives would limit the benefits outsourcing can bring to the organization.

Also it is becoming an acceptable management practice and an opportunity that should be embraced, not ignored in this globalized competitive environment. However a careful analysis should be done before opting for it as there exists some potential risks during deal negotiation, vendor selection, relationship and contract management etc. which are critical to the organization.

#### **5. Further Research Directions"**

There is paucity of academics' empirical and independent investigations into the topic of HRO. Despite the growing nature of HRO concept there are very few studies that indicate the consequences of HRO on individual employee, what is employee perspective on HRO. While the existing studies provide some insights that cost cutting and improved performance levels triggers the need for outsourcing but there is little research to prove the fact that HRO actually leads to cost cutting and efficiency.

Also the current literature in this field is mainly US based; therefore it becomes imperative to study HRO in other national contexts as well.

#### **References**

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