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## Human Resources Outsourcing: Driving Forces And Emerging Challenges

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*“With BPO outsourcing of HR, I believe we are seeing the first light  
of a new era in human capital management”.*

- Jac Fitz Enz

The ROI of Human Capital

### **Abstract:**

Outsourcing is part of the change in organizational structure of the companies that has extensive effect. In today's ever changing technological environment staying on top of the cutting edge technology and having knowledge of the latest tools are a must to successfully take advantage of them having specialized knowledge in house could be very expensive and futile, since new technologies come about very often. In these situations outsourcing make a lot of sense. Outsourcing creates strategic value by creatively examining the process and changing the way it is processed. BPO helps in innovative thinking as companies mainly focus on organizations core competencies and make equally talented outside partners to handle non-core competencies. The various area of business which could be outsourced are administration, finance and accounting, human resources, logistics and distribution, payment services, sales, marketing and customer care. There is a need for careful attention to HRM issue to achieve positive results. The human resources department is critical for employee welfare in an organization, no matter the nature and size of the unit. It is needless to mention that the motivated, innovative and satisfied employee can create wonders for a company. In the present paper an attempt is being made to study the factors attracting outsourcing and the possible challenges facing the outsourcing of activities. To make it more vibrant and acceptable some suggestions were also made at the end.

**Keywords:** outsourcings, Business, Employees, Corporate, Challenges

**Introduction:**

BPO is not at all a new concept. It is as old as the hills. Of late, it has been identified as BPO in the corporate nomenclature and gained importance in these days. The outsourcing was seen both in manufacturing and services sector. The Kings and Nawabs used to outsource the construction works to the expert architects and builders, who used to build palaces for them.

Outsourcing usually defined as the procurement via the market of an item or service that the firm is normally capable of producing or providing itself. The basic philosophy behind BPO is crystal and clear “Do what you do best and leave everything else to business process outsourcers”. It is concerned with the delegation of back end administrative functions that are necessary to run a business but are not a part of the core business.

Historically, reducing operating cost has been the main reason for outsourcing. Outsourcing, at present, has become an integral part of the business performance transformation, as this allows resources to be pooled on core competencies. The core function of the human resource department is to ensure employee satisfaction and excellent performance. Outsourcing allows HR to make a solid contribution to the development of a company. HR outsourcing may be defined as “a process of outsourcing consisting of specific tasks like recruitment, making payroll, employee benefits, administration, employee logistic management, training and development to an outside agency having professionalism in these respective areas”. Employee outsourcing is gaining momentum in foreign countries to take advantage of the outsourcing. Therefore, the question why to outsource is irrelevant but what and when to outsource is a matter to be discussed.

**DRIVING FORCES:**

Many companies both in service and manufacturing field are after the outsourcing of its human resource function. Several factors are proving to be the driving force for the outsourcing. Some of the important factors have been discussed here.

- 1. Cost Savings:** The primary and the most attracting reason for outsourcing is the cost reduction. Cost assumes the major issue in any manufacturing/service unit. In these competitive atmosphere, the manufacturing could retain the market share only by supplying goods at a reduced cost. By outsourcing to third party the cost can be reduced to 40-50 percent as compared to doing the same work at in house. BPO vendors are able to achieve this because of their economics of sales. As the BPO vendors use the improved technology and the best practices, they can achieve optimum results in cost as well as quality. Though the activity outsourced may be non-core for an outsourcing company it is core and critical to the vendor.
- 2. Focusing on core competencies:** The need of the hour is to concentrate on core and critical activities and outsource the rest to achieve desired results. The company CEO

and other top management people spend sufficient time to look after the core activities and new ways of improving the same. The companies focus on core competencies increases efficiency without having to invest in people and technology.

3. **Risk mitigation:** By outsourcing the human resource function, it is the responsibility of the service providing company to see the up gradation of technology and plan its human resource development accordingly. Therefore, the company is free from training, retraining of employees. Any risk due to technological advancement lies on vendor.
4. **Low investment:** The company can reduce the cost of ownership and up gradation as it is outsourced. They can invest on core competencies of the business.
5. **Customer satisfaction:** By supplying the quality product/service at a low cost to the customers will helps to maximize their satisfaction and they will remain loyal to the products/services resulting in retaining and even improving the market share.
6. **Revenue increase:** By outsourcing the non-core activities the cost of the production decreases which, in turn, increases the revenue of the company. The company can go for diversification of products and expansion of the area of the business and earn more revenue for the company.
7. **Improved competitiveness:** The time and energy saved due to outsourcing of the non-core and non-critical activities can be concentrated effectively on core activities which results in improved quality of products at a reasonable rate. This will help to improve the competitiveness in the market.

#### CHALLENGES:

Although several factors have contributed to the growth of outsourcing activity but there are many issues of concern the BPO is facing at present. The following are the important challenges to be addressed earnestly.

1. **Lack control:** Company can lose control over the processes and quality of the output of the outsourced activities.
2. **Process level lock in:** There is a risk of process level lock in i.e., the employees of the owner company if get used to the routine work and some one supports him/her from back for other works, they cannot work independently the whole process work after some time.
3. **Economic and Geo-political stability:** Since BPO vendors are located in low cost developing countries which are many a times geographically far placed from its customers, the anxiety of possible instability in the service providers country of location on economic and political front is a point to be noted. The disaster recovery and business continuity plans and procedure of the service provider will be an important aspect to be evaluated before outsourcing.

4. **Dependency:** As many of the non-core activities have been outsourced and the company gets the results at the end, the company loses the capacity to learn the aspects by itself. So, regarding the activities outsourced they have to be dependant on the vendors.
5. **Reputation risk:** Any mistake by the service provider may lead to bad reputation in the market for the company and its clients.
6. **Selection of service provider:** Failure to choose a qualified and compatible service provider and to structure an appropriate outsourcing agreement may lead to on going operational problems or even a severe business disruption.
7. **Disputes:** There is every possibility of the agreement disputes between the companies. As the changes are taking place rapidly, the company asks for the changes instantly to the vendor and sometime the vendor may delay or refuse, which leads to disputes over the agreement.
8. **Vendor management:** Establishing control mechanisms to effectively communicate and track the vendors servicing is a major challenge.
9. **People specific:** Outsourcing of human resource function may create some specific problems like attrition, poaching of experienced people by competitors, level of absence, stress, long training period and the big investments associated with the training etc.

#### **SOME SUGGESTIONS:**

The shareholder value can be increased by long term contracting out of non-core business processes to an outside agency. However, there are various growth inhibitors affected the outsourcing arrangement resulting in slow pace of growth. The following suggestions are being made to facilitate the HR outsourcing as a part of organizations success.

1. If the labour force is decreased in the company due to outsourcing they are to be fairly treated. An effective HRM plan should include appropriate support strategies like financial and career counseling service, retraining, assistance with interview techniques, sub-contracting etc.
2. Establish measurable standard for BPO vendors' performance and conduct performance review from time to time. The client should visit vendors site to check security procedures.
3. The ultimate objective of production and distribution is customer satisfaction. An outsourcing arrangement should facilitate to achieve this objective. Therefore, there is a need for continuous monitoring customer feed back and measuring their satisfaction levels.
4. Create a harmonious industrial environment and to minimize the potential for industrial disputation prior to and during change over to the new service provider.

5. The outsourcing contract needs to clearly articulate expectations of both the sides and compensation in case of dispute or breach of contract.
6. Outsourcing is not a panacea for all problems. Therefore, firms need to be careful while choosing an outsourcing partner. If third party distributors procedures and performance are not carefully monitored the firm risk permanently alienating the customers.

**CONCLUSIONS:**

Indian companies are already at the forefront and India is taking long strides to become the hub of the BPO activity of the world. It is a big opportunity with an abundant human capital of high talent at a reasonable rate. The outsourcing problems specific to human resource are to be properly dealt with to keep their employees happy and appreciated. Low morale has an adverse effect on productivity and the overall success of the organization. Once the employees starts to suspect that their jobs are in real danger of being replaced that result in productivity losses, resentment and rebellion. Employees who worry about their stability would not be able to direct all their attention to their work load. It may be concluded that the outsourcing is not a bad business but the problems which crop up due to outsourcing are taken care of. A careful selection of vendor and continuous feedback from customers will go a long way in the success of outsourcing arrangement.

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