

CHALLENGES IN OUTSOURCING HUMAN RESOURCE -LITERATURE BASED STUDY

Dr. Suman Pahal

Associate Professor
Faculty of Management & Commerce
Baba Mastnath University, Rohtak

Nitu Yadav

Research Scholar
Faculty of Management & Commerce
Baba Mastnath University, Rohtak

ABSTRACT:

In recent years, outsourcing by businesses has received more attention. The strategic use of external resources to carry out tasks typically handled by internal people and resources is known as outsourcing. A well-managed outsourcing arrangement enables businesses to succeed in markets where they would not otherwise be profitable. This study's goal is to investigate how outsourcing human resources has an impact on organisational performance and what are the various challenges faced by the organizations during HRO. The influence of outsourcing human resources on an organization's overall effectiveness across all industries is covered in this research. Consequently, this paper investigates the connections between organisational performance and human resource outsourcing. The literature on outsourcing and organisational performance in various industries in India and overseas is included in this study. The study's findings support the idea that outsourcing improves organisational performance.

Keywords: *Human Resource Outsourcing, Human Resource Management, Organizational Performance.*

Introduction

Outsourcing is defined as work done for a company by the people other than the company's full-time employees. It entails asking the outside vendor to perform contractually or for a specific length of time for the organisation. In the past, businesses outsourced to reduce costs. However, today's strategic outsourcing offers benefits beyond cost savings, such as increased efficiency, reduced overhead, flexible staffing, and access to skilled specialists, all of which cut down on response times and ultimately increases profit. While discussing outsourcing decisions, it is important to keep in mind that the majority of research has been conducted from the perspective of transactional costs theory, which has received strong empirical support, (Monteverde & Teece, 1982; Walker & Weber, 1984, 1987; Murray, Kotabe, & Wildt, 1995; Lyons, 1995), albeit mostly in the context of non service industries. Western nations, particularly the US, have seen a recent increase in HRM

outsourcing [Galanaki E.; Papalexandris(2007), Szierbowski-Seibel K.; Kabst R (2018), Klaas B.S.(2008)]. Similar trends can be found in Vietnam, Taiwan, and other Asian countries [Lacity, M.C.; Khan, S.A.; Yan(2016), Lacity, M.C.; Khan, S.A.; Yan (2019)]. The principal explanations offered for outsourcing human resources include lower costs, meet the demand for HRM knowledge, obtain specialised and high-end services, and improve business performance [Nguyen, T.T.T, Chang, M (2017), Galanaki E, apalexandris N (2007), Ko, C (2019)]. Workforce redundancy, performance evaluation, payroll and benefits, skill development and training, law and regulations, and retirement plans are among the HR tasks that have been outsourced [Galanaki, E.; Papalexandris, N(2007), Gottardello, D.; Valverde,(2018), Quinn, J.B (1999), Schlosser, F.; Templer, A.; Ghanam, D (2006), Sheehan, C.(2009), Shen, J (2005)]. The process of outsourcing human resour

ces management to a service provider outside of a business is known as human resource outsourcing (HRO). Because they cannot afford to hire qualified part-time or full-time personnel across all areas of the organization's operations, many businesses outsource all or parts of their HR-related tasks. Other human resources tasks that are frequently outsourced include hiring and vetting, compensation, labour relations (IR), and workplace health and safety. The choice of whether to outsource HR operations or keep them in-house, however, depends on the costs and benefits of doing so and is driven more by HR requirements than by building internal strengths. Core Functions of human resources management which are outsourced by the organizations. (.S.POORNA CHANDRIKA, 2020)

- Recruitment and selection
- Background checks
- Training and development
- Performance Management
- Executive development and coaching

- Compensation Management
- Employee relocation process
- Union and labor relations process
- Employee grievances
- Expatriate administration
- Health care benefits administration
- Human resources information system
- Retirement planning
- Pension and benefits administration.

OBJECTIVES OF THE STUDY

The current study intends to conduct a thorough analysis of earlier studies on organisational performance and human resource outsourcing. It gives insight into the organisational effectiveness and performance because of the outsourcing decision.

Methodology

The article uses information gathered from previously published literature on outsourcing and organisational performance. Information from both published and unpublished sources, such as journals, the internet, etc., is included in the secondary sources of data.

Literature Review concept of Outsourcing

There is much debate in management literature defining outsourcing (Gilley and Rasheed, 2000). Some definitions refer to sourcing operations that were once carried out internally. Lei and Hitt (1995) define outsourcing as "reliance on external sources for manufacturing components and other value-adding activities". Some concentrate on locating parts, systems, and finished goods abroad (Bettis et al., 1992; Feenstra and Hanson, 1996). Perry (1997) focused on employment, defining outsourcing as: "another firm's employees carrying out tasks previously performed by one's own employees". Sharpe (1997) described outsourcing as handing off tasks outside of an organization's designated core competencies to

a supplier. A broad definition - Studying the literature on vertical integration, vertical disintegration, and "make or purchase" is necessary to source operations that an organisation has the internal capacity to carry out.

HUMAN RESOURCE OUTSOURCING

HRO is the process of an organization or person contracting another company or person to do a particular task for it, to gain some benefits out of it. (Hadfield, 2014). In his academic work, Barney described human resource outsourcing as applying a variety of models and methodologies to new or nonexistent forms of activities and significantly reshaping and redesigning them with the goal of producing output meant for end users titled "Human resource management: A contemporary approach." Barney (1995) Human Resource Management: A Contemporary Approach. 5th Edition, Prentice Hall/Financial Times, New York Kim-Soon et al., explored the theories, the current issues and challenges of HR management, factors influencing HRO and the benefits of HRO in manufacturing industries. They discovered that the most often outsourced functions were security management and workforce management based on qualitative data from six manufacturing industries. High staff turnover rates and problems faced by employees are regular problems and challenges for industries. As a result, manpower and management effectiveness are the primary driving forces behind outsourcing. It was discovered that in manufacturing industries, human resource officers are able to increase their effectiveness in managing manpower, with the focus being on

these factors rather than just cost reduction. In order to support the growth of the industry, this research sought to identify which roles in human resources (HR) are most frequently outsourced. The top five HR tasks that are outsourced are, according to a national survey, recruiting and selection, instruction, health and safety at work, payroll, and benefits for employees. These tasks were frequently outsourced for three reasons: to gain specialised HR talents, to increase quality and efficiency, and to free up resources so that HR could focus on its strategic role. Resources, learning, cost-saving, and political factors were identified as the four key outsourcing reasons that explain why HR tasks are outsourced so frequently. These align with the rationale of outsourcing in non-HR fields, except from the learning component, Kim-Soon N, Ying CP, Ahmad AR(2016). It has been discovered that job outsourcing is a natural tendency in today's increasingly interdependent global economy. HRO methods have developed into second-generation outsourcing, which has significant potential to expand subsequently in the future. Sector and firm size had little to no impact on the level of HRO. The majority of the enterprises reported that they had successfully and equitably attained both the cost benefits and the resource based benefits of HRO. Sim SC, Avvari VM, Kaliannan M. Malaysian trends in HR outsourcing: the undetected tiger. 2016 Theorists, such as Becker (1964) and Goldstein (1986), have made compelling arguments for the performance effects of training. Several studies conducted in recent years have supported the notion by showing that training has a favorable impact on

productivity and cost-saving indicators of organizational performance. On the basis of the direction given by the models of Speaker typology (Greer, 2001), Lepak and Snell (1998), and Baron and Kreps (1999), Payroll activities are of low strategic importance, are transactional in nature, are non-unique, and do not offer a source of competitive advantage, hence enterprises should outsource them to enhance business performance. This study used a sample of manufacturing organisations to examine HR outsourcing methods and their impact on financial, innovation, and stakeholder performance indicators in an effort to throw more light on the connection between corporate performance and outsourcing. Our findings imply that some HR outsourcing operations do in fact have a considerable, advantageous impact on firm performance. Particularly, our results show that outsourced training improves both the creativity and performance of stakeholders. Additionally, it was discovered that payroll outsourcing had a favourable impact on company innovation. Abdul A. Rasheed, Charles R. Greer, and K. Matthew Gilley Organizational performance and HRO in manufacturing enterprises, 2002. In this study, we discussed studies on the practise of outsourcing human resource management in SMEs. Three cross-sectional surveys conducted between 2009 and 2018 are the foundation of this article. Managers of medium-sized businesses gain more from outsourcing than do those of smaller businesses, and as a result, they can reduce HRM expenses while improving quality by working with suppliers who have specialised knowledge and experience. Gumundur Kristján Skarsson and Ingi

Runar Edvardsson, 2021. Organizations nowadays are researching the world to build strategies for manufacturing and supply chain sourcing outside their own nation due to the expenses of travel, local labour contract restrictions, and available low-cost sources (Harries 2012) Companies have been driven by rising global competition to develop and implement international purchasing strategies that centre on lowering prices and improving quality, fulfilment, manufacturing cycle times, responsiveness, and financial conditions, as extensively reported in academic literature (Gianluca, 2013). According to estimates from 2008, the global market share for outsourcing training was between 5 and 6 percent, with India leading the pack with Ksh. 1,417 billion from training outsourcing and Ksh. 3900 billion from IT outsourcing training (Kemibaro, 2010). To reduce costs, boost quality, and encourage innovation, manufacturers have found it essential to build an effective supply chain and utilise global resources. The world's most prosperous demand-driven global value chain companies are those that have outsourced payroll along with the surge in globalisation (Rizza, 2012). Payroll processes need to be evaluated by businesses in order to choose the best approach and maintain control over this crucial function because they can be expensive and complex. Possibly the most transactional, regular HR activity is payroll processing, which is also the most outsourced HRM task (Norman, 2016). The results demonstrated that there was consensus that training should be outsourced. It was advised that doing so would introduce fresh perspectives from outside trainers and also provide staff with the top skills necessary for

even more competitive employment. Additionally, this lessened issues with duplication and errors. Because it helps to provide staff with the crucial skills for new systems, it also aids in lowering resistance to change. Training and development, bettering staff performance, boosting staff retention, and helping you hold onto qualified people are all components that lead to employee engagement. Employees concurred that hiring should be done by experts and companies who specialise in recruitment as one of their primary activities because recruitment is not a constant activity in an organisation and doing it in-house could result in a 42 higher cost. James Kibe Mwangi(2017). According to Peteraf (1993), a company's resources and capabilities are essentially heterogeneous. Consequently, it must focus on its essential skills and the effective use of its resources, and only outsource tasks that do not require strategic resources. The company's competitive advantage can be preserved in this way. Gilley and Rasheed (2000) identified three factors that contribute to improved organisational performance. First, The organizations can concentrate on the things it can do well by outsourcing non-strategic tasks. By encouraging the business to be more creative and skilled in particular tasks, this concentration can enhance results. Second, increased outsourcing of tasks requiring non-strategic resources can lead to better service quality (Dess, Rasheed, Mcloughlin, & Priem, 1995). This is because a specialist supplier focuses their efforts on a narrow range of tasks, producing superior results than internal execution. Finally, but just as importantly, outsourcing organizational activities with little strategic value can save

expenses and boost organisational performance. Akinbola (2012) conducted research on how outsourcing techniques affect the organisational performance of the fast food sector in Lagos. This study's limitations stem from how quickly Nigeria's fast food industry was evolving and expanding at an explosive rate. To obtain primary data for the proper study questions to be asked and proper testing of the three hypotheses, 300 questionnaires were given to 10 selected fast food organisations in Lagos. According to the study's empirical findings, outsourcing has so far had a favourable impact on the fast food industry's performance and has helped the sector lower operating costs. Power, Desouza, and Bonifazi (2006) state that corporations outsource because of cost savings, a focus on core business functions, access to resources and knowledge, and a rise in the level of information technology sophistication. Considering the decrease in telecommunication costs, the increased level of digitalization and informational tools, and other collaborative tools.

CONCLUSION

The findings imply that some forms of HR outsourcing operations do, in fact, have a considerable, favourable impact on corporate performance. Particularly, our results show that outsourced training improves stakeholder returns both in terms of inventiveness and performance. Additionally, it was discovered that outsourcing payroll had a favourable impact on company innovation. Although, the discovery revealed that business size does not have any moderating impact on correlations between performance and outsourcing, further analyses of organisational and environmental circumstances offer a

potential direction for future research. Since the 1990s, organisations and businesses have adopted the concept frequently for a variety of reasons. In order to survive the intense competition for clients in the banking sector, several institutions have resorted to outsourcing. Among other arguments put up for outsourcing human resources, the following is one: A lot of companies decide to outsource their requirement for experts to carry out their duties because hiring them internally would be expensive. Miao Miao, 5 Teng Qian, Kouyate Boh Aisaata, (2019) The majority of the enterprises reported that they had successfully and equitably attained both the cost benefits and the resource-based benefits of HRO. Considering the potential for developing knowledge and how it will be used, the expense of gaining internal facilities in comparison to using an external service, and other factors, One must choose between expanding the workforce and outsourcing some or all of the work. Additionally, businesses should decide if outsourcing is acceptable for a one-time job or a long-term contract. Any reservations should be discussed with management, and any issues should be brought up with them. In the same way, seek input from employee reps and banish worries about job redundancy. Consider the emotions of employees whose jobs will be greatly impacted by the choice to outsource. Give them enough time to get used to the new policies and suppliers. 2018's Uma Bhushan, Jasmeet Kaur, Rajashree Gujarathi, and Seetharaman The results imply that Human resource outsourcing significantly affects people's or employees' job satisfaction in many businesses.

Ingi Runar Edvardsson and Guðmundur Kristján Óskarsson. (2021). Outsourcing of Human Resources: The Case of Small- and Medium-Sized Enterprises. MDIP. 1, 5-15.

Dr. T. S. Poorna Chandrika. (2020). HR Outsourcing on the performance management systems of IT and Pharma Organizations. European Journal of Molecular & Clinical Medicine , 7(2), 3441-3469.

Kouyate Boh Aisaata, Teng Qian, Miao Miao. (2019). Human Resource Outsourcing in Banking Sector: Case Study of UBA Bank-Guinea. Open Journal of Business and Management, 7, 245-262.

Chieh-Heng Ko. (2019). Exploring the Performance effects of Human Resource Outsourcing in the Hotel Industry. The International Journal of Organizational Innovation . 12(2), 20-28.

Ko, C. (2019). Exploring the performance effects of human resource out-sourcing in the hotel industry. Int. J. Organ. Innov. 12, 20–28.

Uma Bhushan, Rajashree Gujarathi, Jasmeet Kaur, Seetharaman A. (2018). Analysis of human resource outsourcing with regards to competitiveness of organizations. 2(4), 265-272.

Gottardello, D.; Valverde, M. (2018). Human resource management outsourcing in Spanish firms: Evolution over time and implication for devolution. Intang. Cap. (14) 56–73.

Szierbowski-Seibel, K.; Kabst, R. (2018). The impact of HR outsourcing and strategic HR integration on the HR-to-employee ratio: An empirical evaluation of the HR function over the

References

- last decade. *Int. J. Manpow.* (39) 283–300.
- Nguyen, T.T.T.; Chang, M. (2017). Antecedents of human resources outsourcing decision in Vietnam. *Pers. Rev.* (46) 702–717.
- Nguyen, T.T.T.; Chang, M. (2017). Antecedents of human resources outsourcing decision in Vietnam. *Pers. Rev.* 46, 702–717.
- Tomas F. Espino-Rodríguez a, Pei Chun-Lai b , Antonía Ma Gil-Padilla. (2016). Does outsourcing moderate the effects of asset specificity on performance? An application in Taiwanese hotels. *Journal of Hospitality and Tourism Management.* 13-27.
- Kim-Soon N, Ying CP, Ahmad AR. (2016). Outsourcing of Human Resource Functions: An Exploratory Case Study. *Advanced Science Letters.* 22(12):4548–4551.
- Sim SC, Avvari VM, Kaliannan M. (2016). HR outsourcing trends in Malaysia: the undetected tiger. *Strategic Outsourcing: An International Journal.* 9(2):189–217.
- Fox S. An examination into the importance of recruitment and selection in a business; should it be considered an internal HR function or outsourced to a specialist? Doctoral dissertation, Dublin, National College of Ireland, 2015.
- Dubem Isaac Ikediashi, Onuwa Okwuashi, CliveM J Warren. (2015). Significant factors influencing outsourcing decision for facilities management (FM) services: a study on Nigeria's public hospitals. *Property Management* 33(1).
- 1 Butler MG, Callahan CM. (2014). Human resource outsourcing: Market and operating performance effects of administrative HR functions. *Journal of Business Research.* 67(2), 218–224.
- Mary J. Meixell, George N. Kenyon, Peter Westfall. (2014). The effects of production outsourcing on factory cost performance: an empirical study. *Journal of Manufacturing Technology Management* 25(6) 750-774.
- Seyed Hamed MoosaviRad, Sami Kara, Suphunnika Ibbotson. (2014). Impact of international outsourcing on the value adding of industries. *The International Journal of Logistics Management* 25(3), 463-486.
- Yang Yu, Valerie Lindsay. (2011). Operational effects and firms' responses. *The International Journal of Logistics Management* 22(3), 306-323.
- Shaled Mahumud, Mohammed Msum Billah & Syed Mustafizur Rahman Chowdhury. (2010). Human Resource Outsourcing: A Study on Telecommunication Sector in Bangladesh. *International Journal of Business and Management.* 7(10), 74-84.
- H.I. Hsiao, R.G.M. Kemp, J.G.A.J. van der Vorst, S.W.F. (Onno) Omta. (2010). A classification of logistic outsourcing levels and their impact on service performance: Evidence from the food processing industry. *International Journal of Production Economics* 124, 75-86.
- youssef Boulaksil, Jan C. Fransoo. (2010). Implications of outsourcing on operations planning: findings from the pharmaceutical industry. *International Journal of Operations & Production Management* 30(10), 1059-1079.
- Oyugi, V. (2010) The Effects of Outsourcing on Corporate Performance at B.A. T (K) Ltd.
- Peter Broedner, Steffen Kinkel, Gunter Lay. (2009). Productivity effects of outsourcing. *International Journal of Operations & Production Management* 29(2), 127-150.
- Sheehan, C. (2009). 2 Outsourcing HRM activities in Australian organisations. *Asia Pac. J. Hum. Resour.* 47, 236–253.
- Di Gregorio, D.; Musteen, M.; Thomas, D.E. (2009). Offshore outsourcing as a source of international competitiveness for SMEs. *J. Int. Bus. Stud.* (40) 969–988.
- Oza, A. and Hill, K.L. (2007). Outsourcing to India: Advantage or Disadvantage? *Academy of Information and Management Sciences*, 15-19.
- Galanaki, E.; Papalexandris, N. (2007). Internationalization as a determining factor of HRM outsourcing. *Int. J. Hum. Resour. Manag.* 18, 1557–1567.
- Bin Jiang, Gregory V. Frazier and Edmund L. Prater. (2006). Outsourcing effects on firms' operational performance An empirical study. *International Journal of Operations & Production Management.* 26(12), 1280-1300.
- Schlosser, Francine K.; Ghanam, Denise; and Templer, Andrew. (2006). How Human Resource Outsourcing Affects Organizational Learning in the Knowledge Economy. *Journal of Labor Research*, 27 (3), 291-303.
- Schlosser, F.; Templer, A.; Ghanam, D. (2006). How human resource outsourcing affects organizational learning in the knowledge economy. *J. Labor Res.* 27, 291–303.
- Schlosser, F.; Templer, A.; Ghanam, D. (2006). How human resource outsourcing affects organizational

learning in the knowledge economy. *J. Labor Res.* 27, 291–303.

Shen, J. (2005). Human resource outsourcing: 1990–2004. *J. Organ. Transform. Soc. Chang.* 2, 275–296.

Toma's F. Espino-Rodríguez, Víctor Padro'n-Robaina. (2005). A resource-based view of outsourcing and its implications for organizational performance in the hotel sector. *Tourism Management*, 707–721

K. Matthew Gilleya, Charles R. Greerb, Abdul A. Rasheed. (2004). Human resource outsourcing and organizational performance in manufacturing firms. *Journal of Business Research.* 57, 232-240.

Elmuti, D. (2003). The Perceived Impact of Outsourcing on Organizational Performance. *American Journal of Business*, 18, 33-41.

Klaas, Brian S. (2003). Professional Employer Organizations and Their Role in Small and Medium Enterprises: The Impact of HR Outsourcing. *Entrepreneurship Theory and Practice.* 28, 43-61.

Kakabadse, N. and Kakabadse, A. (2000). Critical Review—Outsourcing: A Paradigm Shift. *Journal of Management Development*, 79, 670-728.

Greer, Charles R., Stuart A. Youngblood and David A. Gray. (1999). Human Resource Management Outsourcing: The Make or Buy Decision. *Academy of Management Executive.* 13, 85-96.

Quinn, J.B. (1999). Strategic outsourcing: Leveraging knowledge capabilities. *Sloan Manag. Rev.* 40, 9–21.