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HR outsourcing: challenge or opportunity?

HR Outsourcing is a process in which the human resource activities of an organization are outsourced so as to focus on the organization's core competencies. Often HR functions are complex and time consuming that it will create difficulty in managing other important thrust areas.

Debate on human resource (HR) outsourcing:

The debate on human resource (HR) outsourcing is polarized. The first view approaches outsourcing as an opportunity for the internal HR department. Outsourcing generates time and resources for tactical and strategic HR contributions and allows a stronger focus on core activities. In other words, this scenario assumes that outsourcing of transactional and operational HR activities benefits the strategic position of HRM.

The second view considers outsourcing as an HR cost-cutter. In this case, outsourcing is considered synonymous with downsizing or reductions in HR staff which, at first sight, generate little value to the core competence of the organization. The main driving force behind outsourcing is believed to be the quest for maximum cost-cutting in the field of HRM. This view approaches HR outsourcing as a challenge.

The few studies indicate that HR outsourcing has increased substantially over the last decade. A popular belief is that organizations use HR outsourcing primarily to cut costs in the HR department. However, another study shows that the real payoff from HR outsourcing is not in reduced costs, but in improved quality. Other drivers of HR outsourcing are gaining specialized HR expertise, achieving flexibility, reducing risks and enhancing access to advanced technology.

Usually businesses that outsource HR are typically small to midsize firms with number of employees ranging from 25 to 1500.

The common HR outsourcing activities are:

- Payroll
- Training
- Temporary agency work
- Recruitment and selection of operational and support staff
- Advice in HRM
- Recruitment and selection of managerial staff
- Development of job or wage classification
- Outplacement
- Appraisal
- Career guidance

Some of the well-known HR outsourcing companies are Viteb, PeopleStrong, Trinet etc. HR outsourcing has become a popular solution for organizations to remain competitive and cut costs. It also provides skilled professionals who are focused specifically on HR. The lower cost of operation and labor, and reduction in overhead costs makes it attractive to outsource. When certain functions of an organization become operationally uncontrollable, outsourcing helps to overcome such difficulties. By outsourcing operational HR tasks and delegating people management to line managers, more time and resources can be released for more strategic HR contributions.

In other words, HR devolution and HR outsourcing offer the HR function the opportunity to reposition itself and prepare for the role of “strategic business partner”. HR outsourcing empowers the HR department. It frees up HR professionals to focus on strategic HRM. Generally, firms are less likely to outsource core HR activities, as compared to non-core HR activities.

Best HR outsourcing for onsite support: HR consultant

An independent HR consultant is best for those who want the benefit of someone working side-by-side with you at your location and helping you identify your HR needs as your business grows. A consultant working a few hours a week will typically cost much less than a full-time HR team member.

HR outsourcing trends in Malaysia:

Both cost benefits and resourced-based benefits are key drivers of HR outsourcing decisions, with a majority of the firms reporting having achieved these benefits equally and positively. Most of the functions outsourced were traditional-transactional HR functions. Slightly more than half of the HR outsourcing decisions are made by top management without the involvement of HR managers.

Finally, outsourcing is an opportunity for the HR department. After all, outsourcing creates more time and resources to focus on strategic and value creating HR activities. On the other hand, outsourcing is a challenge for the HR department. In this view, outsourcing is seen as a cost-cutting instrument causing “HRM without HR managers”. Future research might focus on the impact of HR outsourcing on the organization of the HR function and internal HR customer satisfaction.

