

THE SCIENCE OF HR OUTSOURCING



A Concept Note

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Table of Contents

1	PREFACE	3
2	WHAT IS HR OUTSOURCING?	3
2.1	What to Outsource?	4
3	WHY OUTSOURCE?	5
3.1	Continual Discontinuity	5
3.2	The Technology Perspective	5
3.3	Return of the Investment	6
4	WHEN TO OUTSOURCE?	6
5	THE HOW FACTOR	7
5.1	Organizational Health Check	7
5.2	Conceptualization	7
5.3	Execution	8
5.4	Monitoring	8
5.5	Recycle	8
6	WHOM TO OUTSOURCE?	8
7	THE WAY FORWARD.....	8

1 Preface

Ask any entrepreneur or Business Owner, the first thing that he will reveal to you is that, business success is not designed or executed in the corner office of an Ivory Tower. The path to success in business starts on the ground. If we were to borrow from the concept so well popularized by Bob Kaplan and Dave Norton, it all starts not from the strategy, but the people who matter. If you have the right people, you will have the right execution process which will lead you to a sphere where the customer looks for you and not the other way around. The cumulative impact of your having the right people executing the right process and a marketplace which is fascinated by your ideas, products, services and a delivery model is Business Success, measured by your financial performance.

As Peter Dowling aptly put it, “In the ultimate analysis, all business problems are created by people and therefore, must be solved by people”. If that is the case, it has to be your people, who will be the key factor in your business success or failure, as the case maybe.

You may love it or hate it, but the World of Business from year 2020 and beyond is going to see unprecedented changes accentuated by a new normal and a redefined world order. If that new normal needs to be managed and led by your most critical resource, that is, your people, then the biggest worry that you should carry to your bed today, is your People Management function. No matter whether you are Tech Savvy or a Tech Novice or whether you are running a small, medium or large enterprise, whether you are a financial wizard or a technocrat, the fundamental need for you to have a set of people who can “Lead the Change” will remain.

Therefore we will be starting on a wrong note if we call this function as Personal Management, Human Resources Management, or Human Resource Development. It moves to a Management conundrum which can only be solved by starting to look at this from a “People Function” perspective.

This document is an attempt to look at the What, Why, When and How of an outsourced people function and both its merits and demerits. This document is more of a CEO perspective than a functional perspective.

2 What is HR Outsourcing?

Unfortunate it may sound, but HR Outsourcing as a concept, is differently understood by different people, especially the CEO fraternity. Some think HR Outsourcing is about subcontracting payroll management, statutory and legal compliance and other mundane activities that the department is supposed to manage. On the other hand, some others think that outsourcing means an offshore management of HR Operations may or may not with the use of technology. There are also people who think of HR Outsourcing as providing of skilled and experienced manpower to manage HR wherein these resources are implanted at the client site. On the extreme, since people produce

performance, some people believe that HR Outsourcing will produce the business results that they are looking for. For some HR is about recruitment and training and nothing beyond. We must appreciate that this confusion neither starts nor ends with the CEO. Equally at fault is the Consulting fraternity who believes either in all or none of the above. Even more damaging will be to think that it is a combination of some or all of the above.

Why does this confusion exist? Primarily, this confusion is related to the very nature of HR. Unlike any other resource such as money, material, infrastructure or technology, HR deals with people who have emotions. Good, bad or ugly, the day you touch the people, you are touching the human mind which has emotions and sentiments. There are the issues of culture, values and belief systems, both at the organizational and individual levels. To add fuel to this fire, consider this: You can quantify any other resource, whether money, material or time, but it is near impossible to quantify human psychology and the way the mind works.

That raises a fundamental question. What is the role of HR in not only business, but any social system? Practically speaking, the role of HR is to be a facilitator, who can motivate people to produce extra ordinary results. The corollary is that you do not need extra ordinary people to produce extra ordinary results. More often than not, you will find ordinary but well motivated people producing extra ordinary results and paradoxically, ill-motivated people with extra ordinary credentials producing undesirable outcome.

2.1 What to Outsource?

As is evident from the above discussion, there are the following things to consider while making a decision to outsource HR or People Function as we would prefer to call it.

- System and process driven activities within HR, more popularly understood as:
 - Staffing
 - Payroll, Statutory Compliance and other Personnel Administration related tasks
 - Training and development
 - Performance Management
 - Policy and Process Administration
- Strategic HR:
 - Alignment of a business plan to an actionable HR strategy
 - Policy and Process Design and HR Architecting
 - Organizational Vision, Mission and Value clarification
 - Compensation Design
 - Productivity Enhancement
 - Organizational Culture
 - Leadership Funnelling and Succession Planning
 - Employee Engagement
- Organizational Change Management
- HR Analytics and monitoring of effectiveness of HR interventions

3 Why Outsource?

This is not an easy question to answer. When it comes to HR, no size fits all. Every organization, its leadership and strategy, are unique to that organization. There may be one, all or a combination of reasons for you to outsource your people function. It may include among others, the following:

3.1 Continual Discontinuity

Especially in the small and medium sectors, one invariably finds that the HR/People Function itself is largely unstable. These organizations do not have the operational bandwidth or financial wherewithal to hire highly qualified and experienced HR Professionals primarily due to the cost factor. At the same time, these professionals will not find enough challenges which intellectually or operationally, stimulate them. As a result, either the SME sector is forced to hire junior or mid-junior professionals to manage their HR. One of three things can happen:

- These professionals, over a period of time, get stuck with mundane HR activities, which a typical CEO will not find worthy of his investment.
- Due to the insufficient exposure and experience, these professionals largely fail to deliver the CEO's expectations.
- More damagingly, some of these professionals enter the SME sector for reasons other than professional enrichment. It could be a need to engage oneself with a job, until a better alternative emerges, or in some cases, it would be a need to enhance the profile value.

In any case, the end result is that these professionals do not remain in the organization long enough for both the employer and the employee to find value of association. The programs they design or initiates implementation are left partially done for a replacement to come in which means the CEO goes back to square 1. This continual discontinuity is one of the most significant reasons why a CEO thinks of outsourcing the HR functioning to a qualified Consultant, who will ensure continuity of the programs and interventions.

3.2 The Technology Perspective

Technology is a change agent. Financial considerations apart, it is not a business by itself, but a business enabler.

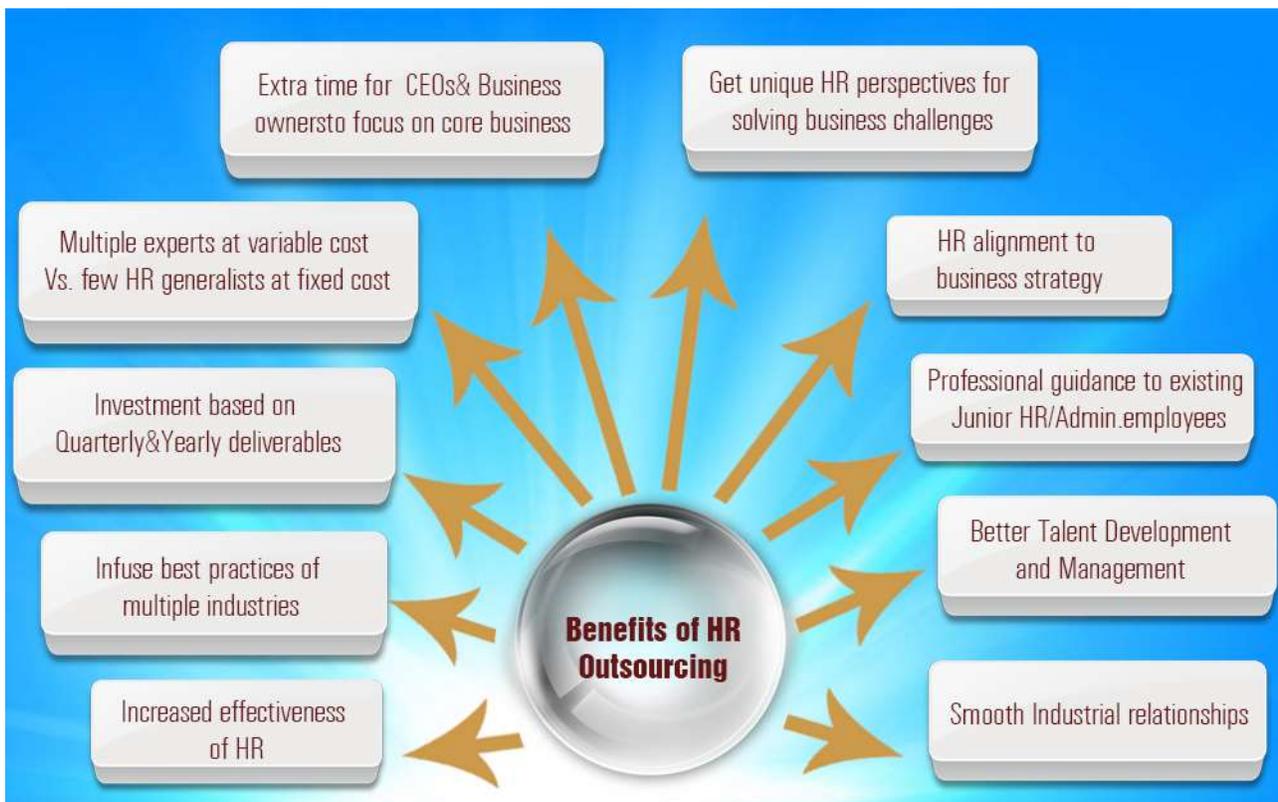
Like it or not, technology is going to be all pervasive and the omnipotent factor. Technology is going to be looked upon by the CEOs as a strategic investment, not expenditure in the future. The primary objective of technology enablement will be creating cost effectiveness, smooth operations and more importantly, business continuity. As is the case of technology, so is the case of HR. It will be an investment to create an atmosphere of enhanced productivity, skill up gradation, behavioural changes and cultural alignment. It will be suicidal to treat HR as a cost centre anymore. The end objective of HR of the future will be to enable organizational ROI.

With the limitations discussed at the 3.1 above, the SME sector will find it extremely challenging to find the kind of HR resources that can measure up to the challenges of future and the resulting CEO expectations. The situation will call for outsourcing the HR function to a Consulting organisation with a strategic tinge.

3.3 Return of Investment

The time invested in employees by a CEO to build, sustain and course correct an environment conducive to Business growth, is sizable in Small and Medium Enterprises in India and similar developing economies. As a result, the CEO is tied in Operational fire-fighting and not on Strategic goals.

Moreover, the expertise of large number of specialised HR Professionals can be availed through HR Outsourcing at almost or even lesser investment. This is beneficial compared to maintaining less experienced or competent HR generalist professionals in HR department, on company rolls.



4 When to Outsource?

This is a fairly straight forward. You need to ask the following questions to yourself. They may sound harsh; nonetheless this is the right time to ask them:

- Is my HR function a true strategic business partner to my organization in light of the discussions above?

- Can my organization find appropriate HR resources, skilled and willing, to sail through rough seas?
- Who is my right Consulting Partner? Is such a partner willing to invest adequate time, resources and more importantly, the expertise, for the betterment of my organization?
- Am I ready to question the status quo to bring in innovative ways of working?
- Does my system provide for adequate safeguards to ensure business continuity?
- What is the appropriate mix of technology and headcount which is “just right for me”?

The answers to the above will tell you when to outsource your HR function. From our experience we can only conclude that it will be better to be sooner than later.

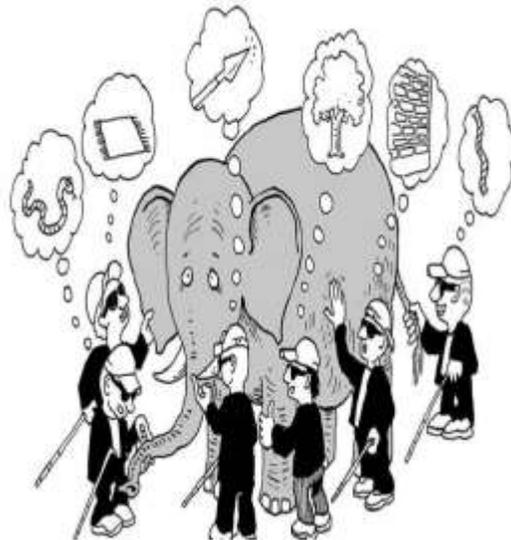
5 The How Factor

Rather than discussing how to outsource, which is an easier question to answer, we will discuss how a typical HR Outsourcing should actually work. It should have, at the bare minimum, the following attributes. Of course, more the merrier:

5.1 Organizational Health Check

If your organization has sustained itself for a fair amount of time, obviously there are certain things which your organization is good at. Having said that, there will always be those areas, which will need your attention to improve. Like in the case of a person going to a doctor, the first and foremost thing that one should do is to measure and understand where the organization currently stands. This organizational health check should encompass the entire business operations and should not be limited to a mere HR audit. In order to address both the areas of strengths and the areas of improvement, as will be revealed by the health check study, a combination of Action Research Modelling and appreciative inquiry will have to be used.

In the absence of Health Check Study, we will be a set of blind men trying to measure an elephant, so to say.



5.2 Conceptualization

The conceptualization of HR architecture, strategies and plans must be in line with the findings of the Health Check Study. The idea should be to create an organization wide HR strategy, in line with the business objectives. This may include strategies relating to all facets of organizational life. In other words, it has to be an “R to R” Conceptualization, meaning from recruitment to retirement.

5.3 Execution

A 100% perfect design with no implementation whatsoever is a sure shot prescription to disaster. On the other hand, a fair design with focused execution provides for acceptable business outcome. It is paramount important that the accountability and responsibility are fixed at all levels of the organization for a comprehensive execution of the strategy.

5.4 Monitoring

It is equally important to create an auditing and monitoring system that checks for the effectiveness of the implementation at regular intervals. The idea should be to understand whether the interventions are providing satisfactory ROI or does the strategy need a revisit and a mid-course correction.

5.5 Recycle

Based on the experience of the implementation, the process needs to be recycled with or without modification. This will call for resetting the agenda, objectives, targets and timelines.

6 Whom to Outsource?

The outsourcing partner should bring enough resources, expertise and experience in undertaking small, medium and large scale HR Outsourcing. PAN India strategic consulting organisations like TransCat People Solutions Pvt. Ltd. provide HR Outsourcing on a platform which is a mix of Human Expertise & technology already existing in your organization or to be newly acquired. Such outsourcing model is designed to fit your organization, tailor made for you.

We follow industry standard project management to keep the cost and the time under check. We collaborate with the client organizations in all phases of outsourcing. We offer both a BOT (Build Operate Transfer) and a BOM (Build Operate Manage) models.

7 The Way Forward

TransCat People Solutions Pvt. Ltd. will be delighted to discuss this further with you in order to understand the challenges faced by your organization and to arrive at a suitable agreement that will meet your needs to ensure sustainable growth.

For further information, please contact: contact@transcat.in

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