

HR outsourcing the next big thing

The Yankee Group a US research and consulting firm, estimates that the worldwide HR outsourcing services (HRO) market will grow to \$80 billion by 2008, at compounded annual growth of 12 per cent, with non-core transactional duties such as payroll and benefits administration increasingly outsourced (particularly in the US) rather than conducted in-house.

Kelly HRfirst, the staffing alternatives business unit of employment services firm Kelly Services, reckons that about 85 per cent of all US businesses outsource at least a portion of their HR functions.

Cost savings and efficiency gains reaped through HRO services, Kelly HRfirst points out in a report, have paved the way for businesses to increase their use of recruitment process outsourcing (RPO), a "rapidly emerging and high-demand subset of HRO."

The recruitment consultancy Elixir Web Solutions estimates that the RPO subset - comprising the entire recruitment cycle, from needs assessment to sourcing, screening, and interviewing candidates, and hiring-- will account for \$30 billion of the HRO market by 2008.

How much of this business has come India's way, and how much of it can India expect to win in the years ahead, given the scale on which off shoring is taking place?

Gautam Sinha, CEO of the Bangalore-based IT recruiting firm TVA Infotech, points out that within the Indian market, the total annual spend on recruitment is Rs 700 - 800 crore (Rs billion)-- so this can theoretically be considered the potential size of the RPO business (and RPO is only a subset of HRO) that can be generated from locally-based companies.

Then there is off shoring. Of the \$3.6 billion in revenues that Indian companies earned from IT-enabled services in 2004, only 2 per cent or some \$70 million were from HRO services.

But the potential is indicated by several factors: large global players such as Fidelity, Exult and Hewitt have set up operations in India (there are also others such as Hyderabad-based Kenexa India, Bangalore-based TVA Infotech, and Chennai-based Secova eServices); a Nasscom-McKinsey report has projected that Indian firms' revenues from HRO will increase to \$3.5 billion by 2008, while Gartner thinks India can expect to win 10-15 per cent of the US HRO services market; and finally, only 6 per cent of US HR spend is off shored, a figure that is certain to rise.

Raghuvir Sakuru, managing director of the US-owned Kenexa India, a provider of outsourced HR services, says 20-30 per cent of the non-customer interface functions segment of the HRO pie can be off shored, and India can hope to win a substantial share of this. Kenexa India, he says, accounts for 10-15 per cent of the RPO business done by its US parent company.

Sinha notes that HR outsourcing has certainly begun in India -- payroll and benefits administration has been for some time, as has training. Recruitment has not yet been outsourced on any significant scale, except for modest chunks-- the risk involved (arising from the need for confidentiality) prevents companies from doing more recruitment outsourcing.

The aspects of HR that are most amenable to outsourcing, Sinha says, will be payroll and benefits administration; help lines and the answering of queries relating to HR policies; recruitment by large hirers; training; and performance appraisal. He believes that the core HR processes -- such as career development, for example -- "will and should be retained in-house."

In some large software companies that hire in the tens of thousands every year, he notes, there is still a debate on whether recruiting is a strategic function or can be outsourced.

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Adds Sakuru: "Three or four years back companies never realized the need for automated processes. Now they do, since they are recruiting in the thousands. And there are also companies that offer automated solutions." Five years from now, he says, "It will be a completely different landscape."

However, Sinha lists two problems associated with HR outsourcing, which act as obstacles to the trend gathering momentum: "First, outsourcing is associated with layoffs-- which Indian society is not yet ready for, because of the stigma associated with being laid off. Second, people who are in the system should be comfortable with the idea of not having direct control over the HR process. This is not yet happening in India, because individuals tend to measure their professional prowess by the number of people who report to them."

Of all overseas markets, according to the Kelly report, India holds the greatest promise because it is experiencing rapid growth in the job market across many industries.

It needs R&D talent in the automotive industry, middle and senior-level managers, engineers, MBAs, workers in niche industries (such as biotech and IT product development), and English-speaking employees for retail and call centre jobs. Indeed, the employment boom is creating a talent shortage

In reality, however, Indian firms, says Kelly, generally feel that it is more economical to manage HR functions internally. There is also distrust caused by substandard deliverables by vendors in the past. Finally, there is also concern about maintaining the confidentiality of data and corporate security.

To date, HRO and RPO are growing faster in the United States than in any other global market. This, says Kelly Services, is explained by changes in labor supply and demand that today's HR departments are ill-equipped to keep up with.

Workers have reduced company loyalty, greater expectations from their jobs, and want to manage their own careers. Significantly, these very changes are rapidly taking place in India too.

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