Risks of Human Resource Management Outsourcing in Enterprises and the Precautions

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Abstract. With the arrival of the globalization era and the refinement of social division of labor, human resource management outsourcing has gradually become an important means to improve the core competitiveness of enterprises. However, human resource management outsourcing in enterprises is facing imperfect laws and regulations, corporate culture differences, information asymmetry, outsourcers’ low professional ability, enterprise cost management errors, staff suspicion instability and many other risks. Therefore, we must do a good job of risk identification and assessment of human resource management outsourcing in enterprises. This paper proposes some countermeasures on this issue.

Introduction

With the arrival of the era of globalization and social division of labor, human resource management outsourcing has gradually become an important way to improve core competitiveness of enterprises. Successful human resource management outsourcing can help enterprises to reduce operating costs of enterprises, improve business performance and focus on their core businesses.

However, the implementation of human resource management outsourcing is also facing a lot of potential risks. Without timely prevention and control, the risks may bring barriers to expected ideal human resource management outsourcing and great loss to be suffered by the enterprises. Hence, risk prevention and control of human resource management outsourcing is an indispensable part of the enterprises.

Risks of Human Resource Management Outsourcing in Enterprises

Risks from Outside the Enterprises

Risk of Imperfect Laws and Regulations. As China's outsourcing industry started late, the development of laws and regulations on human resource management outsourcing is also relatively imperfect. At present, in China's legal system, there are few laws on outsourcing, and there are only a few laws and regulations that target the outsourcing industry, which are mainly for the logistics and transportation industry, information technology industry and engineering supervision. For human resource management outsourcing, there are not enough relevant laws and regulations constraints, and in real economic life, there is not mature management experience can be followed for human resource management outsourcing. Therefore, relevant state agencies should enact related laws and regulations for the enterprises as soon as possible to
create a favorable policy environment. If the enterprises can not well grasp the relevant policies and regulations, the risks in the process of human resource outsourcing management are easily caused by policy factors.

**Risk of Corporate Culture Differences.** In the long-term business process, enterprises will gradually form their own unique cultures. Once a corporate culture forms, it will maintain relatively stable, and it will show impact on the whole process of enterprise business. Human resource outsourcing involves integration of both sides of enterprises and human resource outsourcers. Due to the differences between the two cultures, inevitable cultural collision will happen in the process of both sides’ cooperation. If the service content, the service mode provided by the outsourcer can not be compatible with an enterprise’s culture, the quality and efficiency of the service will be greatly reduced, which may lead to dissatisfaction of the enterprise’s employees, and thus weaken the cohesion of the enterprise.

**Risk of Information Asymmetry.** Human resource management outsourcing activities in enterprises are the formation of "proxy and be proxied" relationship between an enterprise and an outsourcer. When bearing the costs happened in outsourcing services, the enterprises should also provide relevant information to the outsourcers to ensure that human resource outsourcing activities can be carried out smoothly. Hence, the two sides need to reach a common, collaborative relationship. The quality of human resource management outsourcing service depends on two factors: one is the outsourcers’ professional capacity, effort and moral standards, and the other is the validity of the relevant information provided by the enterprises. If information asymmetry exists, it may lead to improper selection of outsourcers, or the outsourcing activities are difficult to achieve expectations, so that the human resource outsourcing activities of the enterprises will meet frustration and suffer losses.

**Risks from Outsourcers**

**Opportunism.** In the process of human resource management outsourcing, if the supervision of the enterprises is not in place or strict, the outsourcers may feel lucky, cut corners and even reduce service quality to save their operating costs. When the enterprise can not pay remuneration as stipulated in the contract or can not reach the term of the outsourcer, the outsourcer may more likely have opportunistic psychology which may bring significant losses to the enterprise.

**Low Outsourcing Professional Capacity.** On the one hand, after outsourcing human resource management, some enterprises will leave their human resource management affairs to the outsourcers and let go due to their lack of financial strength or other reasons. If the professional capacity of outsourcing service providers is not good enough, the lack of supervision will lead to risk. On the other hand, because of the outsourcing industry in our country started late, the outsourcers' qualification level is uneven, some outsourcers with weak qualifications or simply do not have the qualifications for human resource management outsourcing may mix into the market. Once enterprises choose them as human resource management outsourcers, it will give the enterprises greater risks, and eventually lead to failure of human resource management outsourcing and bring losses to the enterprises.

**Risks from within Enterprises**

**Risk due to Unscientific Comprehensive Cost Estimation.** The most fundamental reason for enterprises to carry out human resource outsourcing is to reduce its comprehensive cost. If the
cost of outsourcing is greater than the cost of self-completion, the enterprises will not choose to outsource; on the contrary, the enterprises will choose to outsource. However, before making the outsourcing decision, if the measurement of its comprehensive cost is not accurate and unscientific, it will lead to major mistakes in outsourcing decision-making, thereby increase the risk of outsourcing.

**Risk from Employees.** Outsourcing of human resource management functions will inevitably affect vital interests of some of the HR staff. Some employees may face dismissal, job rotation and other issues. If it is not treated appropriately, it may have two aspects of negative effects. One is the impact on the enthusiasm of other staff on work, they may be worried about their dismissal. The second is that it is likely to increase the resentment of the transferred staff or laid-off workers, thus affect the harmony of the enterprises and its work efficiency, which may lead to failure of human resource management outsourcing or difficulty in achieving the intended purpose.

**Risk in Human Resource Management Functions.** Through human resource management outsourcing, some businesses in human resource management departments are divested so that human resource management departments can focus on their core businesses. The functions of human resource management have changed. But to do so, enterprises may also depend on human resource management outsourcing which means it is difficult to cope with the changing needs of human resource. Meanwhile, the outsourcing process may lead to the change of the original management process, the division of responsibilities, the orientation of individual occupational development and it will lead to the employees’ concerns and suspicions. This will directly or indirectly affect the mood of employees, increase instability factors in the enterprises, and even cause internal conflicts, making all aspects of business management difficult to be harmonious and coordinated, resulting in significant reduction of operational efficiency of the enterprises.

**Risk Prevention of Human Resource Outsourcing in Enterprises**

**Strengthen Governmental Supervision and Guidance**

Firstly, government departments should realize the development situation of China's human resource management outsourcing services, refer to the experience of human resource outsourcing in developed countries, and establish a set of industry standards of human resource outsourcing according to China's national conditions including the industry access system, operational processes, service items and charges guidance standards. Secondly, governmental departments should design a simple but efficient examination and approval system and regulatory procedures to strengthen supervision, with particular emphasis on things during and after the event. It is necessary to eliminate the phenomenon of outsourcing agencies’ operating without a license, but more importantly, resolutely ban the phenomenon of illegal operation of outsourcers.

**Establish Outsourcing Risk Monitoring Mechanism**

Periodic reporting system of both sides should be established. Outsourcing service providers should report the progress of their work and special issues to the enterprises on a regular basis, and for the enterprises, they should evaluate the outsourcers’ situation of target achievement from time to time. Simultaneously, the enterprises should know the employees’ satisfaction to
the outsourcing service providers through interviews and questionnaires, and correct the outsourcers’ deviations in a timely manner, or provide necessary services to the outsourcers. The enterprises should make moderate adjustment of the default target, restructure internal and external advantages of resources and optimize the outsourcing program according to the outsourcers’ progress, situation of target achievement and the enterprises’ development and changes. If the service capacity and service quality of the outsourcing service providers are difficult to adapt to the needs of the enterprises, the two sides should timely terminate the agreement thus to minimize losses.

Promote Cultural Integration with Outsourcing Service Providers

In order to promote the cultural integration with the outsourcing service providers, first of all, enterprises should understand the cultural differences between the two sides. Leaders of the enterprises should get to know the development history, management philosophy and operating characteristics of the outsourcing service providers in the beginning of human resource management outsourcing. They should realize the cultural differences and anticipate potential cultural conflicts. Secondly, both sides should construct cultural exchange channels and mechanisms. Cultural differences exist objectively, but the causes of cultural conflicts are often due to that the two sides can not communicate effectively, thereby exacerbating the two sides’ bias or misunderstanding. Hence, the construction of cultural communication channels and mechanisms, and strengthened communication and exchange between the two sides are beneficial to enhancing understanding, resolving miscarriage of justice and reduction of the probability of cultural conflicts. Finally, both sides should promote mutual accommodation. On the basis of the two aspects above, the enterprises should make their employees further understand the cultural characteristics of the outsourcing service providers so as to establish mutual adaptation and the relationship of mutual respect through training or seminars.

Pay Attention to Information Exchange with Outsourcers

When enterprises are in the selection of human resource management outsourcing service providers and plan to conduct a comprehensive study on the outsourcing market, they should focus on the qualification of the candidates. In addition to checking the relevant materials they provide, the enterprises should also pay attention to the completion of their businesses, customers’ satisfaction, social impact of their customers, evaluation from the outsourcers’ peers, outsourcing costs and other aspects. After making a comprehensive assessment of such elements, the enterprises ultimately make their choices. Similarly, when the outsourcing service providers are in the selection of enterprises, they should also make a comprehensive assessment of the enterprises, including their business performance, financial position, personnel structure, wage level and their peers’ evaluation etc. Of course, the enterprises should provide relevant information to the outsourcers as comprehensive as possible on the basis of not involving their trade secrets, which is conducive to communication and understanding between the two sides and improving the quality of bilateral cooperation.

Effective Cost Management

When implementing human resource management outsourcing, the enterprises will be very concerned about its return on investment. In general, the enterprises tend to take full account of the cost of a particular task that the existing staff completed, including employee compensation, benefits and office expenses, etc. Afterwards, the enterprises should make comparison with the
cost of outsourcing. In fact, this is only one part, the enterprises should also consider other factors, for example, the development potential of enterprise employees, the technological level of the enterprises, the satisfaction of employees on outsourcing work, the way to achieve the highest return on investment.

**Strengthen Two-way Communication with the Staff**

Before the implementation of outsourcing, enterprises should clarify the necessity, meaning, content, objectives and possible changes brought to the enterprises by the implementation of human resource outsourcing so that the employees could have a psychological preparation. After the implementation of human resource outsourcing, part of the staff in the enterprises may be dismissed because of being unable to meet new job requirements. For this part of the staff, the enterprises must make full communication with them, and give them adequate compensation, to avoid that the dismissal of this part of employees may bring uncertainty to the enterprises which affect the normal operation of the enterprises.

**Conversion of Human Resource Management Functions**

After human resource management outsourcing, the functions of human resource management in the enterprises have changed, human resource managers must adjust and transform the way of thinking and the focus of work. They should put their main energy into strategic human resource management in the enterprises. The role of senior leaders of human resource management departments in the enterprises should also be converted from the executive leaders of the enterprises to the pushers of team learning and construction, the advocates of enterprise reform and the planners of human resource optimization in the enterprises.

**References**

