OUTSOURCING HR SHARED SERVICES IN THE TIMES OF COVID: ROLE OF TECHNOLOGY AND CUSTOMER NEEDS FULFILLMENT

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Abstract

The Human Resources Shared Services (HRSS) model helps organizations combat internal resource competition by reducing redundant activities thereby improving cost efficiencies. The COVID-19 pandemic has impacted seemingly all global entities, most of them in a negative way. In the middle of businesses failing and halting worldwide operations due to the pandemic, HRSS plans are thriving. This paper examines the reasons behind progress of HRSS model despite unpromising conditions and derives learnings for business operations in the new normal work setup. It further elaborates on the contemporary shared services trends along with outsourcing and changing business climate bringing forth a new normal. We add the COVID-19 perspective and provide a comprehensive practitioner 2X2 framework connecting two inevitable dimensions of 'technology advancement' and 'customer need fulfillment via virtual means' for future HR dominions. The paper provides practical insights to HR practitioners and leaders about outsourcing HR services in the new expected normal business setup. Further, it envisions the future trajectory for HRSS in midst of novel global effects and disruptive technologies of artificial intelligence and cloud computing.

Keywords: HR shared services, Outsourcing, COVID-19, Customer Service, Technology.
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1. Introduction

Increasing demand for organizational effectiveness along with the need for cost reduction had made Human Resource Shared Services (HRSS) a popular choice worldwide in the pre-COVID world. The impact of the virus after early 2020 disrupted supply chains and manufacturing plants across the world, haltering many businesses. It was naturally expected that shared HR support function will also take a hit.

However, the pandemic situation proved to be a boon for HR shared operations in many organizations (Bhagia et al., 2020; Oliver, 2020) as they used the halt in other business operations to speed up their pending plans to centralize and/or outsource HR functions, driven primarily to increase cost efficiencies further.

The pandemic and the world's response in managing its health effects together with the economy have created further uncertainties in the business climate. While the arrival of the vaccine late in 2020 was expected to instill some stability, the new variants of virus being identified world over, together with increasing COVID casualties and reimposition of lockdowns has dampened any hopes of a quick restoration of pre-COVID environment. In fact, the common wisdom is more of this pandemic being a hard marker towards a transition to a new normal unlike the pre-COVID days where increased virtual mode of office work, leaner organizational structures and remote operations will be part of the new normal. Outsourcing in such a scenario is an unavoidable option for many organizations to adapt to new normal faster (Dua, 2020). Therefore, it is important to examine business areas such as HR shared services, which have survived and thrived, and to borrow important learnings from these cases for success in the new expected normal for businesses.

This paper reviews HRSS and outsourcing literature in the context of recent trends in business climate change due to COVID-19, and discusses insights on HRSS's success during the pandemic. We also provide some helpful insights for the HR practitioner, leaders and management academicians on complex interactions between the two big challenges in HR realm – technology adoption &advancement, and customer need fulfillment, in the context of current pandemic. We conclude by laying out the likely future trajectory of HRSS taking into account people analytics and related disruptive technologies.

2. Literature Review

2.1 HR Shared Services

Shared services in HR works through a consolidation of services within a corporation. In a traditional HR model, each operating entity (for example, a business unit, a functional regional unit) within an organization is likely to have supporting HR services dedicated to the entity's needs (Bala & Jomon, 2013). The HR shared service model merges these separate service activities into a single unit (Ulrich, 1995).

A generic HRSS model has resources centralized at one or a few places and the services are shared across different units of the organization. An example would be centralized payroll management of a firm with a worldwide presence.

HRSS model works by categorization into two types of HR activities - Transactional and Transformational (Lepak et al., 2005; Reilly, 2000). Transactional activities are mainly administrative in nature. Transformational activities are on the

other hand are strategic in nature (Lee, 2011). The key objective behind this categorization is to remove redundancy through the centralization of routine administrative HR functions in order to free up time and resources for HR activities that add value to core business goals and helps organization in developing competitive advantage (Bamberger and Fiegenbaum, 1996).

In today's dynamic work environment, HRSS helps organizations to combat the internal resource competition by reducing redundancy, thus saving on time and resources, and providing flexibility for business related strategic contributions (i.e., transformational HR activities) compared to the old model of mere business support services. The change from traditional HR to HRSS is achieved through the reengineering of HR processes which involves bundling and centralization of the common routine HR services (Ulrich, 1995; Reilly, 2000).

The last two decades have seen organizations of all sizes adopting the HRSS model to control costs and survive in a competitive market. Given the successes, even more organizations have started imitating the shared services model (Wixted & Smith, 2014).

2.2 HR Shared Services with Outsourcing

The centralization of services also makes it easy to outsource them. Outsourcing is a business relationship between an organization and a third party to manage business operations on the organization's behalf, often for a lower cost. More than just a cost reduction tool, over the years it has become a strategic tool for growth (Corbett, 2004).The latest outsourcing surveys show that organizations worldwide consider outsourcing as enabler of business transformation (Deloitte Global Outsourcing Survey, 2020). However, not all outsourcing plans are flourishing. For example, manufacturing operations via outsourcing were affected adversely during COVID–19. Before we look further into the reasons for HRSS thriving during COVID-19, we will dig deeper into outsourcing and look into the enablers for HRSS.

Outsourcing in case of HR shared services leverages technology, and in most cases, uses virtual media. It starts with an estimate of demands from internal customers–the line managers or other company employees. Customers get the services provided by third party through various channels such as company intranet, call centers, or HR professionals. The HR service is provided either through the service centers or a 'Center of Excellence' depending on the nature of service (i.e., transactional or transformational), and its extent of centralization. Many different variations of outsourcing models are possible depending upon industry, size, extent of bundling and centralization possible (Collier & Schallenbach, 2017) but most of the versions require only virtual presence.

When an organization standardizes most of its routine HR services, it is sensible to centralize and then outsource due to the economies of scale and cost management attractiveness. On the other hand, however, big organizations also have the ability to replicate the outsourced work internally or in a low-cost location (i.e., offshore), so that the centralized services work exclusively for the organization while retaining cost advantages. Therefore, complete outsourcing or offshoring for big organizations seems natural and is more a function of the planned degree of centralization (Gospel & Sako, 2010). Interestingly, smaller organizations are increasingly opting for outsourcing too. One of many explanations is that smaller organizations enjoy fewer resources and setting service centers may require time, effort and other resources in order to establish technology, infrastructure and re-engineering of processes (Van Denburgh & Cagna, 2010). Also, small organizations may not have large enough needs to warrant separate in-company units and may benefit by pooling together common support with other small organizations in an outsourced model. While creating an internal service center may not be a possible solution for organization of all sizes, outsourcing appears to be a popular choice among all.

Most HRSS models outsource their routine non-core services while keeping control over their strategic capabilities. As outsourcing impacts the distribution of capabilities between the end user and the supplier it is an area of concern when highly customized services are involved. The basic re-engineering of HRSS creates two different platforms where in-house creation of unique services is retained and is used for transformational activities as the first platform. The second platform is about outsourcing services to receive better and cost-effective services as a result of their standardized nature (Gospel & Sako, 2010).

While many big and small organizations may be able to enjoy outsourcing benefits for routine transactional services, the bigger challenge is enabling HR's strategic contribution to the organization. One of the objectives for organizations to outsource or go offshore is for HR to spend less time, talent and resources on routine activities so that they can spend more time on value creation. This objective, however, cannot be achieved without separating routine and strategic HR activities. The challenge many organizations face is that long after HR services are centralized, key HR players that are expected to perform transformational HR roles, still take care of transactional HR services (Grossman, 2010). Transition from traditional HR to shared services can be fuzzy and requires engagement of all key stakeholders throughout the transition in order to achieve transformational HR objectives (McCracken & McIvor, 2013; Meijerink & Bondarouk, 2013).

The decision to outsource standardized routine HR services also depends on access to latest technology. While an exponential rate of technological change in turbulent economic times make it difficult for medium and small size organizations to stay up with the latest in technology, outsourcing creates opportunities where access to

technology is possible (Ferndale et al., 2009). Additionally, it paves way for self-service of HR support. Self-service is preferred way of the supportive HR delivery method to resolve problems quickly and in a more satisfactory way, leveraging advanced, easily available, and user-friendly technologies. Studies show that the most effectiveness of HRSS comes from self-service models along with outsourcing because many trivial complaints and queries are resolved via online means or call centers (Ulrich, Younger & Brockbank, 2008) without much assistance, resulting in substantial cost reduction. The other reasons' organizations may choose to outsource from specific providers depends on political stability and control of corruption in provider country (Alili Sulejmani & Alili, 2019) - organizations would not want to risk their investments because of political instability.

2.3 Changing Business Climate and the New Normal

Many businesses across the world have taken a hit in 2020 forcing many to downsize or close down their operations. Most predictions about international trade and money transactions are discouraging (Goodman, 2020). During these turbulent times, cost reduction is the primary objective and therefore, some organizations are using Covid-19 as opportunity to streamline their resources and optimize the online work setup while reducing costs in the process. Accounting and HR shared services appear to be those that are more likely to survive economic downturns and its long lasting aftereffects (Oliver, 2020).

This pandemic has amplified the challenges of increased efficiency, adaptation to latest technologies and access to global clients. Business operations which are able to better address these challenges are more likely to survive and relatively thrive in these uncertain times. The basic philosophy behind implementation of HRSS specifically addresses these exact challenges (Ulrich, 2008). The main reason organizations have tried to transition to HRSS model from tradition support oriented HR is efficiency, cost reduction and allowing HR to contribute to main business growth. Therefore, organizations planning to move to shared services model were already prepared for challenges thrown by COVID.

Moreover, the new work setup runs on new possibilities–less of visible infrastructure but more of invisible infrastructure. It means that organizations have realized that work can be done without meeting each other at a specific physical location and global timings can be aligned to meet deadlines. It is all possible with the use of advanced technology. When it comes to working in the new normal setup, the concerns have shifted from regulatory constraints to data protection policies (Deloitte Global Outsourcing Survey, 2020).

3. Conceptual Framework

3.1 Role of Technology and Virtual Medium

In these times ofCOVID-19, organizations have realized that businesses survive based on their ability and speed to adapt to emerging technology, as well as, if they can offer their services and products through virtual media. The COVID economy, which prospered in the pandemic, depends on these two main dimensions. Netflix and Amazon are such two examples who were able to meet and exceed the challenges set by these dimensions. First important dimension in this regard is alignment with technology advancement. Organizations, where services can be standardized and aligned with upcoming technology have better chances of survival as it ensures service delivery at low cost and without much human interaction. Luckily for HR shared services, technology has been an integral part of implementation due to its compact and cost effective re-engineering requirements.

The second factor is possibility to offer and fulfill most customer needs through virtual media. Most routine HR services in contemporary organizations are provided through various channels such as company intranet, call centers, or HR professionals. The success of HRSS model depends on the fact that most of the routine services can be availed through technology without much human mediation. This further helps the cause and makes it easier choices for outsourcing as no indigenous skills are needed to serve the customer.

Figure 1 explains some of the examples of business operations and their fit in the proposed 2 x 2 matrix. It shows how manufacturing in electronics sector is badly affected due to COVID because of its low operating ability through virtual means. Similarly, although supply chain operations are using most advanced disruptive technologies (e.g., Block Chain;) but their inability to mitigate human interactions affected it adversely. Finally, it explains that ability to categorize operations where delivery is possible without human interaction and minimal error (e.g., HRSS, accounting) makes it more immune to the damaging effects of COVID economy.
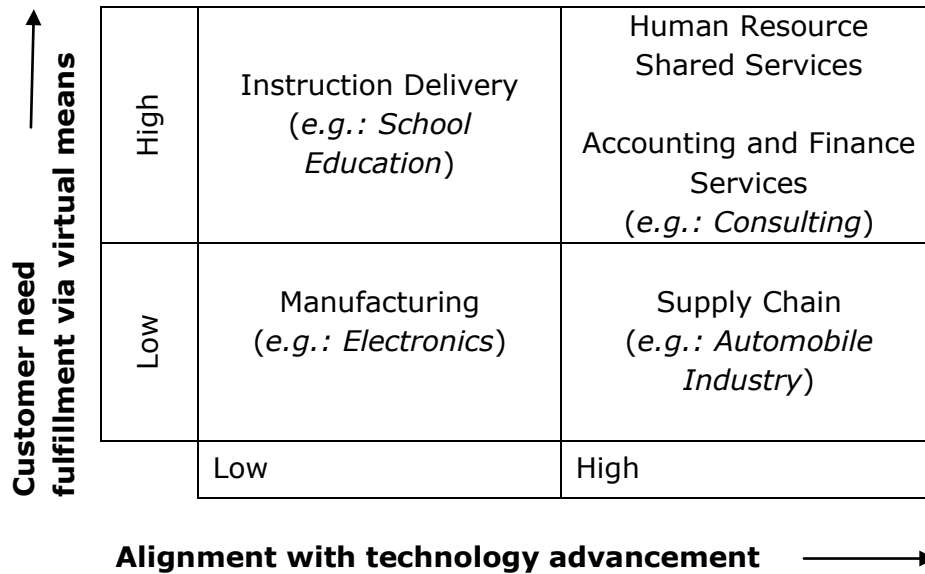
	High	Instruction Delivery (*e.g.: School Education*)	Human Resource Shared Services Accounting and Finance Services (*e.g.: Consulting*)
Customer need fulfillment via virtual means	Low	Manufacturing (*e.g.: Electronics*)	Supply Chain (*e.g.: Automobile Industry*)
		Low	High

Alignment with technology advancement ⟶

Figure 1 – *Effectiveness of outsourcing services in the times of COVID-19.*

4. Discussion

Businesses across the globe are experiencing uncertainties like never before due to the widespread pandemic. Business operations in most sectors are badly affected and either have to stop functioning or reduce their capacity to function. Some business operations however, have thrived in these turbulent times. It is this interesting learning scenario that we have examined in this paper. We outlined the current pandemic context and dimensions which have led to success of HRSS and crystallized these learnings in the form of a conceptual framework. We hope these learnings will be helpful for managers and academicians alike in order to adapt in the 'new normal business setup'.

Technology is changing at a fast rate while individuals are trying to keep up by adapting to the most recent advancement for their personal use. Organizations are slower to adapt to this change. In order to survive and stay ahead of competition, organizations have to stay updated with the latest technological advances. HR can help in bridging this gap by leveraging the service centers to centrally test and deploy latest technological advances along with the training as necessary (Bersin et. al., 2017). HRSS is a great platform for organizations in this regard, as service centers can promote and train employees to use latest technologies to resolve most of their routine issues.

Not all businesses can serve customer through virtual media but there can be some overlap where virtual assistance can reduce human contact. This is requirement not just for the COVID situation but for what future businesses would have to adapt to. A concern is that all these changes also require different kind of setup and support systems. For example, appraisal programs need to be modified so that self-sufficiency is incentivized by rewarding increased use of technology. Organizations have to make these subtle and gradual changes integral to their reward system in order to make them part of their organizational culture.

4.1 The Road Ahead

A trend that will catch up with HR soon enough is the use of Artificial Intelligence (AI) for complex decision making. With recent breakthroughs in Artificial Intelligence, organizations are becoming more automated. Even complex human activities within an organization such as conflict management and decision making are now machine operated and less dependent on real human interactions. Recent interesting examples of HR in Google and Amazon explain how AI is being used in tandem with HR data analytics. Amazon has begun recruitment using its home developed AI program, which is calibrated by its historical (ten-year) data on recruitment. Another of their AI programs to terminate low productivity workers is on a trial run (Dastin 2018; Hanly, 2019). Similarly, Google has successfully implemented 'Project Oxygen' to reconsider the hierarchical layers within the organization. Many of their popular and effective HR policies and frameworks are products of their in-house HR data analytics (Garvin, 2013). With existing data on almost all the steps of different HR services, organizations can analyze what makes them more efficient and what does not (Sahoo, 2019). HRSS is an excellent opportunity for organizations to use their in-house data for their customized trainings and using outsourcing for their highly standardized services, while using this feedback to make their processes better, establishing an effective organizational learning system.

Finally, cloud computing is another recent trend in HR management which will help organizations with virtual presence with respect to HR services. To have better cloud based business models, organizations need to focus on their information and technological capabilities and HR departments can play a positive role by integrating these capabilities with internal organizational decision making (Ross & Blumenstein, 2013). Cloud based computing assists in streamlining and enhancing an organization's information, improves its management and leads to better adoption of technological advancements. HR capabilities can be more easily updated through cloud based business models (Wang et al., 2016). Organizations with HRSS systems will be faster in adapting to this next step due to the already established service centers and experience in technological integration.

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