Volume No:3, Issue No:6 (June-2018) ISSN No : 2455-7595 (Online)
International Journal of Research in Management Studies
A Peer Reviewed Open Access International Journal
www.ijrms

Enforcing Core Competences Assists Companies In Realizing Their Development Strategy And Challenges Of Organisations

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Abstract
There are a large number of reasons and drivers behind the outsourcing process and why a manager or company should consider outsourcing one or several functions. Outsourcing creates opportunities for positive synergy by bringing the core competences of two companies together. In addition, corporate globalization has also been a strong driver behind outsourcing. To reduce the cost, which always accompanies complex procedures, the manufacturing industry continues to focus more intensely on their core competences. Most companies define their core business as the conceptual design, production, marketing/distribution and service.

Core competences:
Modern business theories suggest that most activities that are not part of a company's core competency should be outsourced. The issue of competitive advantage is the core to the field of strategic management. However, most strategic management studies are concerned with obtaining competitive advantage through managing the output of the firm, e. g. its market position or throughputs, for instance the knowledge stock of the firm.
The concept of core competences was developed in the management field. Prahalad and Hamel introduced the concept in a Harvard Business Review article: a core competency is "an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity." Non- core competences can be defined as activities which, although important for running operations, are not an essential segment of production.

Keywords: Corporate Globalization, Harmonizing, Harvard Business Review, Non- core competence.

I.INTRODUCTION
Outsourcing has been defined as work done for a company by people other than the company’s full-time employees. In the modern setting, outsourcing turns out to be highly complex and organizations use outsourcing vendors for a variety of reasons. According to analysts, companies usually cite cost reduction as the most crucial reason for HR outsourcing. As companies were discussing how to cut costs in the face of an economic downturn, many look at outsourcing for some of their HR processes.

Cite this article as: Dr. S. T Naidu & M.Joga Rao, " Enforcing Core Competences Assists Companies In Realizing Their Development Strategy And Challenges Of Organisations", International Journal of Research in Management Studies (IJRMS), Volume 3, Issue 6, 2018, Page 21-27.

However, some analysts argue that by outsourcing major HR activities, the number of HR jobs is decreasing, others feel that on the contrary by outsourcing these kinds of repetitive and administrative jobs, higher-level HR professionals get the time they need to tackle strategic workforce challenges. With more and more companies looking to rationalize employees on their payroll, manpower outsourcing is slowly becoming the new buzz in India. HR services are among the key elements in the enlarging outsourcing game and recognizing the fact that senior management needs to get out of mundane day-to-day processing work and focus instead on strategic planning, core competencies, customer satisfaction and decision making, a number of large companies, across globe have begun opting for outsourcing of their HR services. Some of the functions most commonly handed over to outside providers include payroll, benefits administration, background checks, recruiting and training. Even small companies that might not get noticed much in big studies of outsourcing trends, turn to outside services to help with such chores.

Human Resource Outsourcing Evolution in India:

HRO is an evolving industry in India. With more and more companies looking to rationalize employees on their payroll, manpower outsourcing is slowly becoming the new buzz in India. And the trend seems to have hit not just big multinational companies but the public sector and government undertakings as well, though on a very low key yet in the latter. It has turned out, furthermore, that HR departments especially rely significantly on outsourcing, even though they might not, at first, realize that only a few standard practices are, in fact, out-sourced.

A recent survey ‘Outsourcing in the Asia-Pacific’, conducted by Hewitt Associates, a global HR outsourcing and consulting firm, confirms the situation. The survey showed that many companies in the region are either unfamiliar with the process and procedures of HR outsourcing, or are unaware of the players operating in the area. “Even though across the globe companies are realizing that headcount is directly related to the revenue and are outsourcing most of their transaction and administration related work, the general opinion among the Indian companies is that it is still economical to manage all their HR process internally.” A recruiting firm says, "It is a process of outsourcing involving particular tasks like recruitment, making payroll, training and development to a third party who have expertise in these respective fields." "HR outsourcing can happen in areas such as payroll, employee benefits administration, fixed assets administration, network, receivable and logistics management, hardware maintenance, telemarketing, call centers and database management. In India, the most common processes outsourced are related to training, payroll processing, surveys, benchmark studies and statutory compliance. Elaborating about the benefits of manpower outsourcing,

"Today, every organization is aiming at achieving productivity by enhancing return on investments and achieving the economies of scale. In this context, it makes sense to focus only on the organization’s core competencies and outsource non-critical business activities. Therefore, routine administrative work, although important, can be outsourced to third

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party vendors." Experts say the basic reasons hampering the growth of HR outsourcing in India are confidentiality and cost factors. Besides the fear of losing jobs, losing control over confidential data, ethics and quality of outsourcing vendors, security breaches and overall confidence in the vendors deters many organizations. “Also currently there are no standard benchmarks available so pricing varies a lot from vendor to vendor for similar services.

But as the Hewitt survey puts it with economic slump showing signs of improvement, many HR outsourcing vendors are optimistic that things will look up in the near future. Experts also believe that in present times HR outsourcing is undergoing a transition phase. “There has also been a transition on its user acceptance, where it is moving from a corporate domain to public sector undertakings and the government sector1.

Core Competences and Outsourcing:
There are a large number of reasons and drivers behind the outsourcing process and why a manager or company should consider outsourcing one or several functions. Outsourcing creates opportunities for positive synergy by bringing the core competences of two companies together. In addition, corporate globalization has also been a strong driver behind outsourcing. To reduce the cost, which always accompanies complex procedures, the manufacturing industry continues to focus more intensely on their core competences. Most companies define their core business as the conceptual design, production, marketing/distribution and service. The manufacturers are interested in identifying the real value-added activities of their production process.

Core competences:
A company's core competency is the one thing that it can do better than its competitors. A core competency can be anything from product development to employee dedication. If a core competency yields a long term advantage to the company, it is said to be a sustainable competitive advantage. Modern business theories suggest that most activities that are not part of a company's core competency should be outsourced. The issue of competitive advantage is the core to the field of strategic management. However, most strategic management studies are concerned with obtaining competitive advantage through managing the output of the firm, e. g. its market position or throughputs, for instance the knowledge stock of the firm.

The concept of core competences was developed in the management field. Prahalad and Hamel introduced the concept in a Harvard Business Review article: a core competency is "an area of specialized expertise that is the result of harmonizing complex streams of technology and work activity." Non- core competences can be defined as activities which, although important for running operations, are not an essential segment of production. There are differences between individual competences or capabilities and core competences. Individual capabilities stand alone and are generally considered in isolation.

The relationship between developing core competences and outsourcing is critical-outsourcing is the tool that allows companies to focus on their core competences, enhancing productivity and delivering greater value to their customers. However, not all activities are candidates for outsourcing, and certain criteria must be considered when determining which activities to outsource. Core competences are

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"skills" or "knowledge sets", not products or functions. Focus is on the intellectual skills that create a maintainable, yet temporary, competitive advantage. A core competence should also make a significant contribution to the perceived benefits as experienced by the customer of the product.

They do not "overlap" with production or business units and can be found in various areas. They connect the activities in the company. Core competences can be found in the knowledge and experience of the staff. It is of vital importance for the company to keep such employees. This can be reached by ensuring appropriate possibilities for promotion and work conditions for the employees. Core competences or processes have to be defined carefully. Those companies which have such core competences and skills that separate them from their competition are successful. Companies must continually monitor their position relative to their core competences, and those of their competitors, as the value of their competences can be eroded by time and competition.

Companies constantly benchmark, validate, and test their core competences. They need to continually invest in their competences to effectively compete in changing business environments. The company's competitive strategy depends on the originality of a particular source or capability, which also has to be maintained. Enforcing core competences assists companies in realizing their development strategy. The companies have to respond to larger structural changes within the branch and the possible change of their business strategy2.

Human Resource Outsourcing: An Overview:

An exploratory study of this type benefits from looking at the broader picture of the wider phenomenon. This chapter begins by comparing definitions of outsourcing followed by a brief review of the literature on the reasons for outsourcing. Next a recap of both the history and the geographic scope of outsourcing are presented. Finally, human resource outsourcing is described with an analysis of the major types of HR activities commonly outsourced.

Outsourcing Phenomenon:

There is little disagreement in the academic community that outsourcing is an important management practice and that the level of outsourcing has increased dramatically in the last decade. Business Week noted that HRO has been the fastest growing area of business process outsourcing. There is somewhat less agreement about the definition of the term “outsourcing”. Business process outsourcing can include transferring an entire business function (e.g. payroll), a production process (e.g. ready-to-install windshield manufacture) or a portion of the related processes (e.g. mailing paychecks, windshield glass delivery). The decision to outsource may be purely financial, but may also have strategic implications.

Defining Outsourcing:

Wikipedia on December 17, 2007, read “Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party company.” There are dozens of definitions of the term in the academic literature. Brown and Wilson define outsourcing as “the act of obtaining services from an external source.” Describing information technology (IT) outsourcing Kern, Will cocks and Heck stated that "outsourcing is the practice of contracting out or selling the organization's IT assets, people and/or activities to a third party supplier for monetary payments over an agreed time period." This framework fits the experience of HRO in that the definition includes the practice of "badge flipping" which is the term used when an HRO provider assumes the employment responsibility for a share of the new client's former human resource professionals.

Types of Outsourcing:

Thompson's categorization describes purchasing as involving a discrete transaction in which no communication is needed between ordering and delivery (e.g. books ordered for a training program). Subcontracting is akin to sequential interdependence where the buyer takes the lead (e.g. a diversity training firm is hired to run a one-day workshop for employees in Chicago). Strategic outsourcing involves a reciprocal relationship in which the outputs of one become the inputs of others and a joint relationship may arise (e.g. engaging an HR outsourcing provider to manage the employee call center handling benefit enrollment, reimbursement and all related questions and requests).

Defining outsourcing primarily in terms of procurement activities fails to capture the strategic nature of the issue. Outsourcing is more than a purchasing decision, as every organization purchases elements of their operations. Mol summarizes the attempt to define outsourcing by providing three descriptions of outsourcing:

1. Outsourcing refers to those activities that are undertaken by outside suppliers.
2. Outsourcing refers to the transfer of activities and possibly assets from a firm to an outside supplier.
3. Outsourcing refers to those activities that are undertaken by outside suppliers but could also be undertaken by the firm."

Advantages of Outsourcing:

Domberger and Hendry list five advantages to outsourcing: lower production costs, cost avoidance, strategic focus, flexibility and relational rents. Burkholder lists ten advantages of outsourcing:

- Acceleration of reengineering benefits
- Access to world-class capabilities
- Cash infusion
- Freeing up resources for other purposes
- Function difficult to manage or out of control
- Improved company focus
- Making capital funds available
- Reducing operating costs
- Reducing risk
- Resources not available internally

Lowering the average unit cost of the product or service sold by an organization is the primary reason most organizations give for outsourcing inputs .Managers asked to explain why they outsource a particular input sometimes explain the outsourcing decision as enabling them to better focus on strategy; however, Strassman concluded that "strategy is not driving outsourcing" and it may be a sign that "they're in financial trouble." If high-value skills are outsourced, over the long-term a loss of core competencies may arise (Prahalad and Hamel). Outsourcing typically allows an organization to avoid some future costs that are incurred by the vendor. Outsourcing may also enable a company to redirect energy to its particular core competencies by making more efficient use of worldwide labor, capital and technology for non-core work. Outsourcing permits the purchase of intellectual capital that might not otherwise be available. Outsourcing, provided it is done well, can increase productivity and contribute to better focus on an organization's strategic direction. As is often the case with new business technology, the success of a small number of early movers reported in popular business magazines too often is taken as universally applicable by managers eager not to be left behind. Such translations of the actual process undertaken and the true level of financial returns tend to be sorely lacking in detail with much lost in translation. Outsourcing buyer group meetings are filled with stories about how companies jumped into outsourcing without fully understanding the implications of this decision.

The reasons for outsourcing can be condensed into four categories that affect organizational performance. One reason is cost (another firm can do the activity for less). A second reason is quality (another firm can do the activity better). A third reason is risk (another firm is better able to assume the risk of doing the activity). A fourth reason is focus (another firm should do this activity because it is time consuming and diverts focus). When one considers the principle agency problem, a fifth reason emerges-- convenience (another firm should do this because it is hard or otherwise undesirable). One might wonder if this reason is disguised as focus by HR leaders angling to get a "seat at the table."

Drawbacks of Outsourcing:

Disadvantages of outsourcing that have been identified include: hollowing out, opportunistic behavior, transaction costs, reduced learning and innovation (Domberger, Hendry). Hollowing out of the HR function reduces the amount of knowledge about the workforce controlled and owned by the organization. A sharp cut in the number of HR positions may reduce the ability to attract high quality HR professionals. Transferring an HR activity to a vendor can take a year or more and the switching costs may make it very difficult and costly to return the activity in-house. This can lead the vendor to act opportunistically with respect to reducing service levels and pricing a contract renewal. Interfacing with another organization on critical business processes involves transaction costs such as monitoring the agreement, establishing and renewing the contract and the risk of the vendor being acquired or failing that otherwise would not exist. Finally, any learning and resulting innovations that would provide higher quality and/or lower cost HR service are captured by the external party3.

Outsourcing of HR activities:

Lepak and Snell's model of virtual HR provides guidance to help determine which HR activities should be outsourced. Their model draws on transaction cost economics (Coase, Williamson,) and a resource-based perspective. The transaction cost theory perspective suggests that activities that are not firm-specific are more likely to be outsourced, while the resource-based perspective suggests that activities not critical to core competencies should be outsourced. The two-by-two model's value dimension categorizes activities in accordance with their contribution to the firm's core competencies, while its uniqueness dimension categorizes activities in accordance with the extent to which they are rare in the external market. The cross-categorization of these two dimensions produces four categories. Unique and high value activities make up the

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category of core HR activities, which are not candidates for outsourcing. In contrast, peripheral HR activities (low uniqueness and low value), idiosyncratic HR activities (low value and high uniqueness), and traditional HR activities (high value and low uniqueness) are all candidates for outsourcing. These strategic principles indicate that to enhance organizational performance, HR departments should retain activities providing a competitive advantage and outsource the rest. Additional guidance for which HR activities to outsource is provided by a strategic typology developed by Alan Speaker (Greer). The two-by-two typology classifies HR activities on two dimensions:

1. type of activity, with transactional and relationship activities as anchors, and
2. strategic value of the activity. The model incorporates the evolving wisdom of strategic.

HR that the greatest performance impact can be obtained with relationship-oriented– high strategic value activities.

Activities in this category include performance enhancement, consulting within the firm, employee relations, labor negotiations, and executive compensation. In contrast, transactional–low strategic value activities, such as payroll, benefits administration, employee records, retirement administration, and relocation administration are clearly candidates for outsourcing. Outsourcing these activities enables the firm to achieve more efficient workforce utilization by focusing on higher value activities. Thus, HR executives should see an imperative to move toward activities in the relationship–high strategic value category where they can make the most impact on organizational performance. Baron and Kreps ’diagnostic model also indicates that activities of low strategic importance and low task and social interdependence should be outsourced and that the key criteria for such decisions are cost and flexibility.

In addition to the theoretical rationales provided by transaction cost economics, the concept of competency, and the strategic HR perspective, there are additional rationales for HR outsourcing. These include specialized expertise, cost savings, reductions in liability or risk, and temporary expansion of HR capabilities to meet extraordinary circumstances4.

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