Business Process Outsourcing: A Fillip to Corporate Entities

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< EXECUTIVE SUMMARY >

◆ Business Process Outsourcing is the investment strategy for sourcing best practice process capabilities end to end along business value chains: the customer relationship chain, supply chain, organizational productivity chain, and product and service innovation chain. BPO helps to provide better visulization tools, better horizontal scalability and data mining, smooth integration into the enterprise using simple agents, and consolidated portal access with role based authorization and notification which enables outsourcers to feedback not only results but also raw information to the clients. The article below analyses the pros of establishing a BPO and the strategy to be adopted for proper functioning of BPO.

INTRODUCTION

In a- fast-changing market, the biggest impediment to progress of an entity is the anachronistic understanding of what the business is really about. The other questions, which also fraternize with this are: what the customers are actually longing for and how the businesses are to cope up accordingly to satisfy their demand and to sustain in this competitive environment? Meeting the challenge of future growth requires new ways of thinking and functioning—less attention to the inner core and more attention to its customers. Cost reduction, at this present competitive environment, has also become a business imperative and outsourcing high volume-processing tasks is one much-touted solution. To achieve greater control, efficiency and cost reduction, a key driver of outsourcing is that it provides the top management the ability to refocus their scarce talents on more creative and value-added services. Outsourcing models, whether co-sourcing, pure outsourcing, offshore sourcing or joint venture, all work to cut through organizations' obstacles to make operations more efficient. Under any model, outsourcing delivers value through levers like wage arbitrage, business process enablement, technology enablement, service management and governance.

Ironically, the role of the present chief executive officers (CEOs) has become even more vital to every organization's effort to throw off the malaise and to create efficiencies through downsizing, rightsizing and outsourcing that move organization to the next level of productivity and profitability. Today, the issue is not so much about what you cannot do yourself efficiently, but what you do not want to do, for whatever business reason. This has made many large organizations more willing to outsource more strategies, core business processes than ever before. A few days ago, enterprises were hesitant to outsource even non-strategic business processes. However, today they routinely outsource their core business processes, from employee self-service to call centres and large chunks of enterprise resource planning functionality and portals. More and

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more enterprises, at the same time, are favouring outsourcing as they perceive value in the expertise, broader experience, and operational efficiencies of managed vendors. Frank J. Casale, CEO of the Outsourcing Institute, Jericho, a New York-based professional association, commented "There is definitely strategic value here, particularly in the areas of improving quality and service, instilling best practices? and having an expert on top who will stay abreast of constant changes. It is no longer seen solely as a cost-cutting measure, a last-ditch effort to save money and perform financial triage."

Business Process Outsourcing (BPO), as such, helps to provide better visualization tools. better horizontal scalability and data mining, smooth integration into the enterprise using simple agents, and consolidated portal access with role-based authorization and notification which enables outsourcers to feed back not only results but also raw information to the clients. Results like these are expected to place increased pressure on growth through new, breakthrough product lines and new business models, or achieving differentiation through high-performing core processes such as distribution, customer relationship management, logistic and branding .... all of which leads to innovation and profitability.

BUSINESS PROCESS OUTSOURCING: WHAT IS IT?

Business Process Outsourcing (BPO) is the investment strategy for sourcing best practice process capabilities end to end along business value chains: the customer relationship chain, supply chain, organizational productivity chain, and product and service innovation chain. It is intensively collaborative because it rests on meshing the BPO client's skills, technology base and processes with BPO provider's distinctive offerings. It is additive and possesses the strengthening capabilities along the value chain (Keen, 2002). Outsourcing, in this scenario, is a contractual agreement with the "out" being the key part of the term and with BPO, the emphasis is on "sourcing". What makes BPO practical is that sourcing can increasingly be handled electronically by connecting the BPO client and the BPO provider. It is a process design enabled through collaboration by both the firms computer and telecommunications systems and the creative thinking which adds significantly to the customer relationship value chain and ultimately a win-win relationship is developed for the BPO client, its customers, business partners and the BPO providers as well. Nike is one of the first to embody the concept of the "virtual" firm by concentrating on design and sourcing every other key capability from outside. It is a manufacturer that manufactures nothing, but it makes sure that "its" manufacturing processes are the best. For every single automotive firm that has survived the competitive shake out, cutting out in-house manufacturing and shifting to outsourced logistics were strategic necessities. Outsourcing requires collaboration with suppliers to ensure highest quality and tight links with product planning and production.

The term 'outsourcing' entered the vocabulary of business a generation ago and is currently a burning issue in finance as well, as banks and financial institutions seek to win more and more strategic transaction business from their clients and make their own high-cost infrastructures work harder. BPO provides companies a way to rapidly transform their entire procurement function by bringing abroad a team of third party professionals who are experienced in strategic sourcing; and the consequence being the outsource provider becomes company's procurement organisation. The process of BPO creates an operating environment which is substantially more conducive to change. It provides a balance of improved product quality and service delivery through access to best practices, technology and professionals. BPO acts as a catalyst for change to help stimulating company growth by achieving unique competitive capabilities. Each of the following words contributes a more pervasive understanding of BPO (exhibit: 1).

Exhibit: I
BUSINESS PROCESS OUTSOURCING

BPO is	BPO is not
Business discipline	Procurement routine
Long-term	Single development/ consulting projects
Relationship	Transaction
Enabled	Contracted out
Process	Functions, tasks
Infrastructure	Individual applications
Maintained	As needed, situational
High level	Delegated to individual process unit
Mutual	Buyer-seller deal
Collaboration	Purchase and payment

Source: Keen, 2002

The customary outsourcing process is confined to the arms-length request for proposal process, followed by formal contract negotiations. Typically, cost reduc-

tion has been a key driver for these deals, which artificially limits the scope of benefits that could potentially be realized. Over the years, the process of BPO has become wrapped in conventional wisdom and restricted the use to: (a) outsource non-core activities, (b) niche providers who offer best practice process, (c) cost savings achievements and (d) improvement of management's focus on more strategic issues. At present, the BPO universe is in an expanding mood. The executives, at present, use BPO to meet a diverse set of objectives. The leaders are on the belief that to achieve the best out of the process is through designing the other objectives, including highly-strategic ones, along with cost reduction. Organisations, at present, are feeling increasingly comfortable with strong relationships and shared control through outsourcing strategies as well as tactical processes. Corporate entities are also asking at best for a single provider to handle processes to simplify relationships and improve integration, and, most importantly pushing the operational envelope to drive value.

BPO AS BUSINESS IMPERATIVE

Companies for years have outsourced business functions and technology operations. BPO is thus not "new" in itself as it marks the convergence of three well-established and major long-term historical forces that have increasingly affected business for over a decade. It is the coming together of these forces where BPO acts as their integrator and enhanced enabler. The three forces are:

- The traditional perception of evaluating performance of corporate entities based on earnings per share, as the metric of performance, has been transformed and moved towards capital efficiency and shareholder value. This historical shift makes BPO a massive source of economic leverage.
- Information technology plays a key role in the outsourcing process and the continuous endeavour for advancement has made online process sourcing and integration practical. Companies with well-integrated technology can exploit the opportunity by linking their own processes, applications and information resources to a BPO provider "seamlessly".
- The evolution of process understanding and methods also makes BPO a natural extension of such process movements as TQM (Total Quality Management), BPR (Business Process Reengineering) and supply chain management.

BPO thus acts as the intersection of imperative and enablers —- must do's and can do's. The principal imperatives at the present day are: *Collaborate or die. Get the right processes right.* The main enablers, on the other, are the emerging BPO provider base and the technology standards. There is actually no money at all for the telecommunication companies in selling bits and bandwidth only. As such, all the software package providers, consulting firms and software houses are to offer "solutions" rather than products to attract and retain clients. For the elite the solution is BPO. BPO has the ability to lead business houses to a new "no excuse" management era where, it is expected, there will be no valid excuse for flawed processes in any area that affects a value chain. There are at present, plenty of excuses as most firms are devoid of money, skill, experience or time to be excellent in every process area, because they need to concentrate on their "core" competencies. Excuses in various facets relating to these fade away when a firm go through an outsourcing process as BPO helps to:

- Put up best practice process capabilities without diverting the financial capital, time and organisaational energy that reengineering processes in house demands.
- Exploit the opportunities of the Web and the firm's own technology platform to access processes on demand.
- Eliminate the false distinction between core and non-core processes that is often used to validate outsourcing, and instead make every process "core" to effectiveness.

Any company can outsource routine tasks and doing so may save money and provide a more efficient service than using in-house operations, but it will not leverage a firm's capabilities in terms of customer service, innovation, financial capital performance, adaptation to change and branding. To achieve these advantages, a company has to priorities its process needs, build a portfolio of best practice processes, link them together, integrate them into the firm's operations and carefully balance what it does itself and what it does outsource.

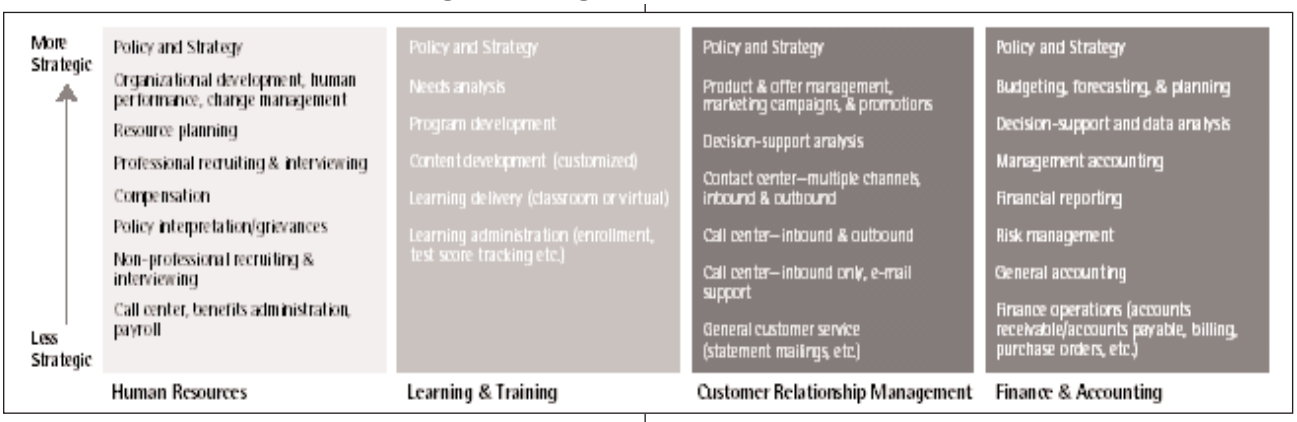
TO OUTSOURCE OR NOT TO OUTSOURCE

Outsourcing, though, often presents, as a cure-all for

companies that sign on for it, may not be so healthy for companies that offer it. Many organisations used to hesitate to outsource, and for good reasons. Firstly, fear of losing control to a third party, which directly affects the financial health of the organisation is a very valid response to outsourcing propositions. Secondly, there is little appetite for large-scale complex projects of the sort that promise high rewards but might prove hard to measure and which could take years to achieve. The third reason why managements are justifiably cautious is the hype that presents outsourcing as a ready-to-go panacea for every area. It may be possible to get efficiencies of scale of a given process run, but if that leaves a costly and difficult manual job to do on the remaining, then the actual value achieved by an outsourcing exercise can be minimal. Thus, offloading tedious functions may enable a company to focus on more important things, but it's not always easy to determine what to outsource or what to keep.

BPO service is not new in customer care as well. Organisations have long contracted out highly structured call centre processes. These arrangements have helped organisations cope effectively with fluctuating capacity demands, reduce costs by shifting call centre operations to less expensive locations and lighten the management burden of a function characterised by high turnover and high-touch, people-intensive processes. Today, companies are outsourcing a much broader range of processes of medium to high strategic value, including human resources, learning and training, custolller relationsllip management, finance and accounting (exhibit:2). Although human resource outsourcing may be increasing, there is substantial variation in how firms are responding to this controversy. While some firms may make little use of human resource outsourcing, others rely heavily on the use of outside vendors to provide human resource activities, ranging from routine administrative tools (Jamrog et al., 1997) to heavy reliance on outsourcing of major portions of the human resource function (BNA, 1996; Corporate Leadership Council, 1996; Goldfarb & Naasz, 1995). Companies are increasingly realising that plenty of things look disorganized, which is why analysts believe that the BPO market will grow faster than the more traditional IT outsourcing market.

Exhibit: 2
Range of Strategic Value in Four Process Areas



Source: Linder and others, 2001

But questions are frequently asked 'is outsourcing truly strategic, or is it simply a way to rent what you don't want to own?' Moreover, how do companies gauge whether or not outsourcing is a better strategy than internal management? Outsourcing consultants concede that because most forms of BPO have been around for a few years at most, calculating their effectiveness is almost impossible. In the present day global economic environment there is increased pressure on growth through new breakthrough product lines and new business models, or on achieving differentiation through higher-performing core processes such as distribution, customer relationship management, logistic and branding ... all of which bring full circle of innovation. The relationship between outsourcing and innovation may not be apparent immediately but there is an intriguing link between a company's ability to overcome skill and organisational constraints and its ability to commercialise new ideas. Some analysts believe that about half of all outsourcing projects fail soon after the deal is made because the contract's term and the user's expectations are often out of sync. Users have realised that the contracts fall generally into three categories: utility deals involving the transfer of IT operations, enhancement deals requiring the outsourcer

to deliver productivity enhancements, and transformation deals creating a partnership between the client and the outsourcer. Chip Gliedman, research fellow at Giga Information Group, when asked by the customers for advice on whether or not a company should go for outsourcing for a project, suggested for a closer look on a four-prolonged analysis. The four critical factors are cost, benefit, flexibility and risk. They are detailed below to provide some further insight:

Cost: The most important consideration for BPO service is the cost involved in the project. The costs involved are to be categorized under two broad heads: listing all related expenses for the project if it were to be managed in-house, and the other refers to the costs associated with if it is done through the outsource providers. The method involves in calculating the cost is: first, all the estimated costs like, hardware, software, personnel, consultation and other related expenses relating to the project are to be identified and categorized on yearly basis, depending on the estimated length of the project. Second, the total year-wise costs are to be calculated and, finally, the total costs for the entire length of the project are to be measured and compared with in-house and the outside providers respectively.

Benefit: The benefits available out of the BPO services refer to the primary (or direct) benefits that a company can enjoy from the outsourcing arrangement (advantages like direct cost savings, faster cycle times, higher and sophisticated systems availability etc.). A monetary value to each of these benefits is to be assigned. Though items such as cost savings and reduced need for labour are easy to quantify; savings of cycle time, reduced delivery time, using sophisticated systems are hard to quantify and measure. Gliedman, however, admits that some intelligent presumptions will be very effective here, but comments optimistically that such practical difficulties in quantifying the benefits will not make any hindrance to the exercise.

Flexibility: When the company makes an entry into the outsourcing deal, some indirect benefits are enjoyed by the client initially. These form of benefits are referred to as flexibility. Outsourcing may also give an option to the company to reorganize its internal employees to other projects. This is an opportunity a client can enjoy as a result of outsourcing. If a value is put on such option one can decide positively or negatively for or against outsourcing.

Risk: When a company proceeds for outsourcing venture, it is very essential to identify and quantify the risks associated with the mission. The process involves identification of the key risk factors which include questions like: what would happen if the outsourcer were to go out of the business, what is the psychological effect of the employees when asked to adopt to the new business processes, when benefits are hard to quantify can cost-benefit analysis be able to give any true direction to this effort, etc. Gliedman commented that the idea is to try to determine how realistically can a company be able to estimate the risk. He said, "It can be done. What's more. it helps frame the outsourcing debate in a new way. Once you get people arguing about the numbers, you remove the emotion that people get caught up in. Is outsourcing good or bad? The answer is, it depends on the numbers."

FRAMEWORK FOR CHOOSING AN OUTSOURCING PROPOSITION

The outsource service client frequently asks questions like: how outsourcing can fit into any activity of an organisation; whether the outsourcing partner has particular competencies to benefit the organisation as well. It is generally thought that outsourcing can deliver value to the recipients when it is part of a tailored solution to an underlying need and is flexible enough to meet the needs of the recipient. It is also perceived that rather than an end in itself, outsourcing is one tool-of-the- trade for what it is called process optimisation - a process that ultimately delivers tangible value to businesses. The five C's checklist provides a more useful framework for assessing an outsourcing proposition or partner:

1. Competence: Before choosing an outsourcing proposition, it is very much essential to assess competency of the outsourcing partner in dealing with the business processes of the company where customers are the bases. However, another more subtle aspect refers to choosing between alternatives of losing a core competence in-house or the outsourcing avenue based on their relative competency skill.
2. Confidentiality: Outsourcing often involves handing over customer records, and may be even customer contact, to the outsourcing partner. The questions are: will the company's database sit alongside those of competitors? What technical safeguards, as well as legal guarantees, do the company has that

strict separation of records? Thus, when an outsourcing agreement is signed, the outsourcer must be very cautious in maintaining the confidentiality of his client on the hope of future business. The client, on the other, must be vigilant enough to deal with the outsourcer.

3. Control: It is generally expected that a company has the right level of control over how and when the process will run. Where too little control is dangerous, but too much, on the other, may mean doing the job of the outsourcing partner herself. It is to be ensured that back up and contingency plans are adequate and at least good enough at par with the company's internal arrangements. Another point to consider: if the company becomes fully dependent on the outsourcing provider, the negotiating power could be reduced, along with the ability to come out quickly from the situation. The company should be very cautious and take precautionary measures before it is going out of hand.
4. Cost: It is very tedious process to identify each and every categories of costs and put proper value to the benefits of outsourcing arrangements. One needs to ensure here that the charges can be unbundled and will not escalate with elapsed time or in particular circumstances.
5. Competitiveness: BPO, if performs successfully, will obviously improve the competitiveness of an organisation. Ironically, BPO is regarded as an essential management tool not only for controlling costs but also for gaining competitive advantage.

A COMPREHENSIVE FRAMEWORK FOR MANAGING BPO

Both the outsourcing providers and the clients lack proper knowledge of a comprehensive framework for designing an effective relationship. However, Linder and others (2001) of Accenture Institute for Strategic Changes have focussed on four key areas (exhibit: 3) to provide a broad outline that reflects the complexity and variety of business process outsourcing relationships. The key areas are:

Depth of relationship (how deep should the relationship be?)

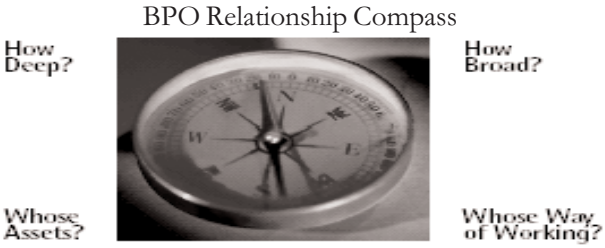
Breadth of relationship (how broad should the relationship be?)

Modus operandi (extent of transfer of working to the outsourcing provider)

Asset and process ownership (extent of transfer of assets to the outsourcing provider)

Source: Linder, 2001

Exhibit: 3
BPO Relationship Compass



Source: Linder, 2001

Depth: The success in the BPO system absolutely depends on the relationships in a wav that fits the needs and circumstances. The term 'depth' refers to the degree of intimacy between the organisation and the BPO service provider to accomplish the objective. However, the degree generally depends on what is being outsourced and how critical it is to the future of the firm. Most firms generally have a method of working with the service providers in contractual relationship —- an arms-length arrangement with clear performance expectation and minimum contract. Another method like collaborative or committed relationships requires different management strategies where the relationships are based on trust, openness and mutual collaboration.

Breadth: Instead of depending on the other for the entire project some organisations choose service provider to meet their needs successfully by outsourcing only a part of the firm's entire process, like a small part of the entire customer relationship management operation. On the other, it may be in the form outsourcing an entire function such as human resource, payroll etc. or even multiple functions to a single outside provider. The performance of the service provider (solution integrator) reflects the entire operational performance of the firm. This is a very risky affair and as such the organisations can reduce the risk of outsourcing to a solution integrator by starting small.

Modus operandi: Questions are asked about the methodology of working to get the best out of outsourcing. Actually it depends on the extent the firm is seeking from the service provider. The logic in favour of out-

sourcing is different for different organisations. Where some organisations favour outsourcing to get the "best practice" process of the service provider, others want outsourcing to derive different benefits based on the individual way of working of the service provider. However, some organisations want to follow their own way of working by rapidly implementing standardized capabilities or by learning from their outsourcing providers. They may also gain by accessing to new technology used by the providers.

Asset and process ownership: BPO requires the services of both human and non-human assets. Organisations Who aspire for cost reduction often go for better access advantaged assets and share the assets with others for leverage. As regarding process ownership assets may be from the owners house or provider or from both. However, it actually depends on the organisation's excellence to craft the right relationships to meet their needs out of BPO agreement.

Exhibit: 4
Framework for Managing BPO

How Deep?	**Contractual** • Use competition to keep providers on their toes • Lead the relationship through the contract • Set aside a financial cushion to deal with unexpected change orders	**Cooperative** • Use results to diagnose issues, plan improvements • Share savings • Maintain auditable books • Mix staffs for strong teams	**Committed** • Share risks, rewards, and ownership • Maintain transparent books • Provider self-monitors operational performance
How Broad?	**Niche Provider** • Put a framework in place that helps providers work together • Actively troll for new vendors • Make finger-pointing grounds for dismissal	**Hybrid** • Review interface needs for all parts of process before framing relationship • Add niche firms when your solutions integrator can't get you best of breed	**Solutions Integrator** • Start by outsourcing a few processes, then expand • Check out the limits of your provider's expertise • Make sure your provider is internally integrated
Whose Way of Working?	**Organization** • Get your own house in order before outsourcing it	**Joint** • Create incentives for your provider's people • Exchange process knowledge to incorporate the best of both	**Outsourcing Provider** • Find a provider with experience in the process • Transition a process as is, then change • Resist the temptation to micro-manage the provider
Whose Assets?	**Organization** • Teach provider to support your technology according to your schedule • Watch out for laws that control transfer of employees	**Joint Venture** • Lay out an exit plan • Explicitly sort out IP ownership • Set ground rules for timing of new clients to shared centers	**Outsourcing Provider** • Ensure provider's information systems interface with yours • Use cultural exchange to help partner get to know you • Keep an up-to-date copy of data at all times

Source: Linder, 2001

THE INDIAN SCENARIO

India is clearly in the eye of storm in respect of the BPO issue, because of its high profile as software services and BPO location. Not only US and European companies are outsourcing software development and BPO work to Indian companies, in some instances they have set up their own software development and BPO subsidiaries in India. About 185 of the Fortune 500 companies have outsourced some part of their software requirement to India, according to the National Association of Software and Service Companies (NASSCOM). A large number of Indian software engineers also migrate each year to the US and Europe, or posted abroad by India software companies. The US banking industry has saved $ 6 billion to $ 8 billion during 2002-03 by outsourcing work to India in addition to gains in quality and higher productivity, according to internal research by NASSCOM. Some Indian BPO companies are also planning to set up facilities in countries like the US and the UK to get closer to their customers. This is primarily to offset competition from multinational BPO companies that have set up operations in India to take advantage of the lower cost of workers in the country. As on March 31, 2003 the sector employed 171,000 professionals and has generated revenues of $ 2.3 billion in 2002-2003.

Despite some of the failure stories, most industry

observers are very much optimistic about the bright future of Indian BPO industry. In fact, they are almost unanimous in their opinion that India will Soon have nearly a dozen $100-million third party BPO companies. Gartner Inc. said the small but growing backlash against offshore service providers in the US was a result of the current downturn in the economy and will not affect the trend towards offshore BPO and Indian software and information technology-enabled service companies should not be worried by the growing backlash against offshore service providers in the United States as the trend is likely to die down.

CONCLUSION

BPO is not an end itself, but a route simpler and more reliable processing with economies of scale benefits. It is too early to predict who the winners in the BPO services will be, but logic and economics strongly suggest that the companies will be built for scale; will price their services to maximize capacity in the way that large companies and utilities do; and will fine-tune their operations day-by-day to optimize cost and efficiencies. Questions may also arise: is it wise enough to put all the eggs in one third-party basket? Is it good enough to trade off strategic and financial flexibility by giving so much control to one or more vendors in order to reap cost- effectiveness. Greg Schrubbe, global executive for storage service with IBM Global Services in White Plains, New York, believes that the answer lies not in the technology but in the underlying management processes, strategy and execution. In other words, whether a firm will build in itself or outsource it, depends exclusively on herself in outlining the objective to accomplish and designing a road map to get there. Business process outsourcing is the inevitable next major source of innovation and competitive advantage. It is an opportunity that a company cannot afford to miss.

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