
Business process outsourcing some implementation issues

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The role of Business Processing Outsourcing (BPO) needs no elaboration today. The implementation issues in BPO have been focussed in this paper. These include seven C's : core competency, contract, control, credibility, conflict, cost, continuity.

Outsourcing is the buzzword in these days. Outsourcing is nothing but allowing someone else to do your work for you so that you are able to devote your time to more important jobs. This concept is relevant in all areas, as today one can also outsource some routine chores to some other person. Outsourcing is a smarter way of doing business. It is a huge business opportunity today. In today's fast moving business scenario, business firms are contemplating various methods in achieving greater success. More and more firms are looking at new ways to reduce costs and meet the pressures of increasing accountability post-Enron. They are looking for more tasks that can be outsourced. And if possible off shored to high-quality, low-cost locations. Hence the reason why many firms are outsourcing some of their processes in reducing their burden and concentrating on core competent areas. Business process outsourcing

became the trend and almost all companies are moving in this direction. Everything from technology support to payroll to travel to financial services to customer care is being outsourced to specialists big and small, known and unknown.

The possibility that this opportunity make an enormous impact has even caught the imagination of politicians. Many states are trying to lure big BPO outfits. Some are even willing to change policies for that. Karnataka has changed its labour rules to allow women to work in night. Andhra Pradesh is willing to change school and college curricula.

The Need for outsourcing:

A business firm needs to perform various functions in carrying out its business. Of these various functions it performs certain functions which are not its core areas. A manufacturing firm's core area is the process of manufacturing and its allied areas. But however, traditionally it performs various other processes like HR functions, Accounting & Financial

functions which requires less thrust. In today's competitive world one needs to have more efficient and effective way of functioning. So, the firm may concentrate on its core competent area i.e. manufacturing and achieving greater success in manufacturing a product. The other functions may be outsourced to some specialists who are not part of the oraganisation. By this way it can reduce it costs on those processes. This kind of outsourcing gave a new scope of business and many independent companies are emerging and offering its specialized services to firms who are outsourcing their jobs.

BPO in India:

Nasscom-McKinsey report advocated the "India offshore model", which very much signifies the role India is playing in this business. Indian business process outsourcing (BPO) and call centre companies- or -ITES- are coming of age. Even as a debate rages in the US on the pros and cons of outsourcing, a "new supply chain of expertise" links the west to India and other outsourcing centres. From

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Philippines to Singapore, Malaysia, Brazil and Caribbean, says Ravi Aron, Professor of Information and operations management at the Wharton school of the University of Pennsylvania. For Indian BPO companies, the new phenomenon offers a route to participation in core US business processes. If they are able to steadily move up the value chain, they will become more like business partners and less like mere suppliers of services to US and other global companies.

India's BPO sector is growing so fast that even Nassocom-McKinsey, which in 1999, had estimated that BPO will be worth \$17 billion in India by 2008, revised its estimate to \$21 billion- 24 billion. *Another report on the BPO industry by ICICI securities has projected India's share of the global process outsourcing services to rise from 1.2 per cent of a \$75 billion market in 2002 to 8.7 percent of a \$103 billion market in 2007. The bottom line is that India offers huge cost advantages that few can ignore. In US and UK, contact centre services cost around \$22 to \$ 30 per hour. In India the rate is \$12 to \$16 per hour. The main drivers of outsourcing, according to the ICICI Securities report are: Cost. Quality, Technology and Reliability.*

Outsourcers basically outsource non-core areas(functions) like, HR, Finance, IT, Logistics, Facilities management, Marketing & Sales. Some of the major BPO firms operating in India are EXL Service (Noida-based), Spectramind (Wipro), Daksh (Gurgaon-based), WNS, v Customer, Tracmail, HCL e-serve, Epicentre, ICICI onesource (Bangalore-based). GTL, Progeon (INFOSYS), Smartserve (NIIT).

Cellular company, Airtel, promoted by Bharti group has developed a network of more than 100 outsourcing partners who manage a host of activities from payment collections, bill printing, cash management, customer

service and distribution. The company wants to come out of almost everything other than three core activities: business planning, networking planning and market planning. LG Electronics, Samsung Electronics India Information and Telecommunication, Pfizer India, Philips India and Max New York Life are leading the pack of outsourcers. Pfizer India, which has been in India for over 50 years outsources 40% of manufacturing to 20 companies, all building maintenance (at the Mumbai corporate office) is done by Knight Frank, corporate travel is outsourced to Cox & Kings, payroll to India Life Hewitt and cash management to Deutsche Bank.

Eli Lilly's operations are worth about Rs.1 09 crore, and it sees its core strength as marketing and is continuously looking at outsourcing opportunities. It has found service providers even for claims processing (billing functions), logistics, manufacturing, payrolls, facilities management, and IT systems development and integrations.

Objective

In the backdrop of above discussions this paper makes an attempt to outline the implementation issues in BPO.

Implementation Issues in BPO :

The effective implementation of any outsourcing decisions rests on critical consideration of the following 7 C's:

Core competency

The first basic issue to be addressed is by identifying its core competence area, which the firm can't afford to outsource because of strategic reasons. However, some processes of the core competence can also be outsourced to derive the benefits of the specialists'. For ex. The designing and engineering skills for automobiles. Choosing the areas to be outsourced.

The next thing to be done is to

identify the areas which the firm can outsource. Here the firm should concentrate upon the available resources, the know-how, and the importance of the area in the context of the firm's image, the cost and the specific requirements of the firm.

The above variables should be evaluated thoroughly to decide whether a particular function can effectively be outsourced. Even if a function yields positive results after evaluation the peculiar characteristic of the function and the business may not permit the outsourcing of that function.

For ex. HRM functions. *"HR in one company is always different from another. Culture, personality, characteristics and values are specific to company. HR is eventually a relationship and, hence difficult to outsource completely, barring routine or mechanical functions like payroll processing," says Madhukar Shukla, Professor at Xavier's Labour Relations Institute, Jamshedpur. (in Business world, 19Aug,2002)*

Contract (Duration)

Next is the contract period to be given to BPO firms. The contract issue, i.e., the duration aspect will depend on the nature of the function to be outsourced and its competence. The outsourcer has to think how long he can outsource the functions. Some of the functions can be outsourced for a longer period and some other for a short time.

Control

Once a long-term contract is handed out, it has a tendency to grow roots and embed itself so deeply in the system that controls get weakened and there is a blurring between the organization and its contractor. There is a need for close supervision and monitoring of the work of the contractor. It can go wrong from cost overruns, time overruns. Setting proper objectives and control mechanisms to direct the contractors towards the objectives will

also gain prominence. If a company outsources the customer care management/customer relationship management function to a firm, it needs to see whether the firm is behaving in the same way as the outsourcing company desires. Otherwise, the company will lose its image and even loose its customers. Hence, there should be proper mechanism to control the outsourced firm.

Credibility

While giving away outsourcing functions, the company needs to verify the credibility of the firm in fulfilling the operations. Various processes requires expertise, the claim of firms being expert in those processes is to be checked. The credibility and trustworthiness of firms in doing the business is prominent issue which, requires thorough investigation. Efficiency of BPO firms should be seen before offering services to them.

Conflict (of interests)

A BPO firm may handle same operations for different organizations. Conflict of interests arises from firms performing such functions. Therefore the scope for such conflict has to be avoided by suitably drafting the SLA (Service Line Agreement) which prohibits the BPO firm from entering into outsourcing contract with another firm in the same business as the outsourcing firm is in.

Cost

The cost of outsourcing functions is another important issue in BPO. Cost is the most important factor in the outsourcing decision. The outsourcer should certainly compare the cost of outsourcing a function vis-a-vis performing it by itself. However, the expectation in cost saving as a result of outsourcing should be reasonable one. Since companies basically look at cost reduction, the vendor firms may quote very low cost, which ultimately lead to failure of the contract. Vendor firms quote least prices to outdo their

competitors and only the vendor who has quoted the least cost will be awarded the contract. Now it is obvious that the vendor finds it unviable to provide the quality services at such reduced cost & hence the failure. Therefore it is to be kept in mind by the companies that they can't expect huge cost cut and better quality. What they have to look for is the reasonable savings in the cost without compromising on quality.

Continuity

This is another issue to be considered while outsourcing. The firms should be selected on the basis of continual services. Otherwise, the business gets affected a lot. BPO clients did not want their business to be disrupted under any circumstances. Outsourcers are clamouring for **multilocal** BPO operations and these would throw up new opportunities. It is with the thought that, in case one place gets affected, others will come to its rescue. And there would be business continuity. Clients will not be happy with a BPO outfit that doesn't have a contingency plan. Without multilocal facilities and the assurance of continuity, foreign companies don't want to outsource mission critical applications like finance and accounting, human resources, administration and payment services to Indian companies. Apart from ensuring continuity there are other advantages to be gained from going multilocal. Low skill jobs like; data entry could be outsourced to countries where labour is cheaper than in India. Second, some countries have data access legislation that prevents databases and information from crossing geographical boundaries. BPO centers in those countries could take care of that problem.

Conclusion :

Business Process outsourcing is

going to see bigger growth than IT in this decade. It will reduce transaction costs and allow companies to disintegrate into process. They would retain their core competency and outsource even critical processes to specialist firms. Offshoring, infact, is going to become a new management discipline. Wharton Business School is already offering courses to equip executives with skills to manage the new style of functioning. Even big companies are entering into BPO and new entrants will have to find a niche. The outsourcers looking to implement outsourcing their non-core functions have to consider the issues rose above. It will enable them to choose the right kind of vendor and can look forward to implement the outsourcing job more effectively and efficiently. But yet, disputes on costs, quality, lack of communication, lack of streamlining of processes, non-adherence to SLAs, mismatch on expectations and delivery are the major reasons for collapsed outsourcing deals. *"Outsourcing is a three-legged race, both the teams have to move at a planned pace. For things to workout, changes need to be minimized during build-up phase, or requirements need to be frozen at some stage of the project. An outsourcing relationship fails due to a disconnect between customer expectations and perceived results"*. The costs of things going wrong are huge on both sides.

It can be thus concluded that, selection of the right activities to outsource, identifications of the right supplier of the services and the right governance approach(Service level agreements) for the relationship are the major thrust areas in BPO.

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