Chapter 2
Strategic Practices of BPOs in India

2.1 Introduction

Business Process Outsourcing (BPO) has evolved as a tremendous business practice throughout the globe & that happens to be one of the largest growth areas in the outsourcing market. Majorly, it deals with outsourcing of the non-core, non-niche, ancillary business activities of a firm from a third party vendor who has domain expertise and credibility for prompt delivery of services at a pre-determined standard (Quinn & Hilmer, 1994; Halvey & Melby, 1996; Quinn, 1999; Dayasindhu, 2004; Rouse & Corbitt, 2004; Linder, 2004). Additionally, it involves outsourcing of the infrastructure supporting the business processes, including its IT infrastructure, apart from IT-enabled business processes (Loh & Venkatraman, 1992; Edwards, 2004; Mani et al., 2006). Some of the authors explained the business process as a set of logically related tasks performed to achieve definite business outcomes and that describes ‘how’ the work is done rather than ‘what’ work to be done (Davenport & Short 1990 and Davenport & Davenport 1993). It was as early as 1980s, when a couple of leading Western Multi National Corporations (MNCs) started outsourcing their business activities from a low cost structure country like India with the prime motto to en-cash the competitive cost advantages (Raul, 2004; The Hindu, 2005; Mehta et al., 2006). Ideally, they established their captives in tier-I Indian cities having sound infrastructural facilities and conducive business environment with strategically favourable policy measures of the both Central and State Governments. Delhi, the capital was considered to be their prime destination till 1990.

The period of 1990s was however much enchanting for Indian industries. The concept of Liberalization, Privatization and Globalization (LPG) was then gradually gaining its momentum worldwide endorsing a paradigm shift in the world business activities and India being no
exception (Mehra, 2005). Significant liberalized policy measures were adopted by the Union Government during this era. Most trade restrictions were almost uprooted and rigid policies were made flexible to a greater extent to extend a red carpet welcome for the private sector participation in industrialization. The basic objective behind such a liberal attitude of the government was nothing but to have a sharp check on the year long, massive erosion of profit in major sectors operating under its direct ownership and the growing inflation rates in the country. However, even then the government never knew that all these revitalized activities were waiting to reap it a very sweet result in the future, in the form of an emerging highly-paid outsourcing industry called Business Process Outsourcing (BPO).

During the late 1990s, the concept of technology-driven LPG evolved. Information technology, telecommunication and internet altogether almost changed the existing business practices and work timings. Technology helped the business to get access and use necessary information and services from several geographical locations of the globe along with the least possible cost (Bettis & Hitt, 1995; Picot et al., 1997; Sampler, 1998; Portor, 2001). With the advent of skilled labour and cheap global communication, many MNCs then opted to outsource their supporting activities as a major cost-cutting and quality enhancing strategy (Globorman & Vining, 2006). Now that India is a ‘low cost structure’ country with manpower expertise in most non-niche, supporting activities like Customer Relationship Management (CRM), human resource management, accounting, finance, information management, etc. many Western companies made up their mind to have India as their prime destination. In fact, this outsourcing was nothing but a compelling factor for major MNCs. The reason was an acute synchronization of business opportunities at their mother-land due to the market saturation. Of late, they realized that focusing on every aspect of business is not strategically sound. Rather the emerging concept of concentrating on core aspects of business what they can do best and outsourcing the rest non-core activities to a low cost structure country like India, ‘who has the domain expertise and can deliver the best with the least possible cost’, become very popular (Raul, 2004). The newer business model of outsourcing helped them immensely to achieve better synergy in their organizational operation with the major objectives being efficiency improvement, cost reduction
and value maximization of shareholders (Hayes *et al.*, 2000; Kelly & Poole, 2006; Sople, 2009). Till the late 1990s, low end jobs with semi-skilled, low-cost work force like voice based outsourcing, including CRM, data base management (data entry, data processing, data conversion, etc.) were popular for outsourcing. However, since 2000, Indian IT-enabled sectors entered into more sophisticated areas of operations with their high-skilled, top paying talent teams, thereby extending the services including research and consultancy, finance and accounts, logistics and insurance claim processing, engineering and pharmaceuticals sectors, medical transcriptions, animation and chip designing, etc. This redefined the concept of outsourcing. (Saunders *et al.*, 1997; Mitra, 2006). Even the recent Legal Process Outsourcing (LPO) concept has been no exception to it (Babu & Jayabal, 2004; Karnik, 2005; Arora, 2005; Pai, 2006).

Sources revealed the fact that current service providers like Kervey and Heartland have major expertise in medical transcription, transaction and claim processing (Raul, 2004) whereas, 24/7 Customer, Genpact, etc. have major domain skills in logistics, technology, financial and telecom services, content development, procurement, etc. The contribution of Genpact was highest followed by Dell, American Express, e-Serve, Scope (Standard Chartered captive), HSBC and JP Morgan Chase (De, 2004). The list is long enough and every day something new comes under the tag of this garland.

Outsourcing is a management strategy by which an organization delegates major or non-core business functions to specialized and efficient service providers. Economic of globalization and liberalization facilitate the process of searching for opportunities on the open global market to outsource some of organization’s activities instead of performing them internally. Various BPO researchers have worked on various theoretical frameworks on the strategic practices adopted by various companies. In the next section, we have elaborated on theoretical framework by providing comprehensive offshoring challenges and solutions.
2.2 Theoretical Framework on Strategic BPO Practices

India and China share certain similarities that enable them to develop advanced software that attracts leading countries (Zhao 2008). China with Japan, and India with US (the outsourcing partners of the two countries) are related to disparities in their institutional systems that have an impact on their software development. Various complex urban issues associated with the present pattern of urban development through review of urban development of selected metropolitan cities of India which have experienced the impact of Liberalization, Privatization and Globalization (LPG) process (Chadchan 2012). The practices and controls available to vendors to limit the transaction costs due to high uncertainty and potential opportunism, and facilitate the offshore outsourcing of a wide range of accounting activities (Nicholson 2006). As firms in developed countries (e.g., the US) continue to face enormous challenges to sustain competitive advantage, outsourcing to emerging markets is becoming an increasingly important source of business renewal and corporate transformation (Javalgi 2009). However, the most critical concerns for global outsourcing of IT and IT-Enabled Services (ITES) are issues related to the client’s organizational readiness for offshoring, issues dealing with work arrangements and relationships with the client (Palvia 2011).

Cognizant’s key operating principles which include customer-centricity unique operating model known as Two-in-a-Box Model and their emphasis on working together with clients to make their businesses stronger and how they have contributed to the company’s spectacular growth story (Moorti 2011). Taking the case of Bangalore (Karnataka) and Kolkata (West Bengal), some researchers have examined state government agencies and their impacts on the city’s growth policies (Shaw 2007). Some research outlines factors that are required for sustained growth of IT regions and evaluates the Hyderabad IT industry and the state governments’ IT policy against them (Biswas 2004). It has been observed that service provider firms from emerging markets are now offering Build-Operate-Transfer (BOT) outsourcing contracts in which the client firms are allotted the right, but not the obligation, to transfer pre-specified assets from the service provider (Jensen 2013). Also there are differences in competency requirements for KPO and BPO services
Further, demographic variables like age, level of education, and total years of industry experience are important factors for competency mapping. The impact of work life balance and burnout on job satisfaction in the context of the Information Technology (IT) and IT Enabled Services (ITES) industries was always an important factor (Kanwar 2009). Some research shows that close interaction with geographically spread audience and the periodic interventions could be the factors impacting the communication competency of the managers (Raina 2012).

Successful offshoring must begin with an understanding of the market and competitive pressures (Lampel 2008). Then it builds on recognition of how these pressures can be addressed using or modifying the offshoring options currently practiced. The extensive diffusion of new technologies in the IT industry, including technical knowledge and human resource development, industrial cluster, market information and management skills, research and development, financial resources, domestic and international markets, and the interaction between these factors and the government are considered important elements (Hung 2009). The outsourcing practices in the banking sector in India plays a crucial role. The impacts of perceived benefits, roadblocks, and criticality on the attitudes towards outsourcing were found to be strong and statistically significant (Ravi (2011). Successful Indian IT and ITES companies will pursue higher value-added activities through acquisition of related European and North American-based companies in order to achieve greater credibility with major customers (Henley 2007). However, availability of employable talent is the single most important determinant for the growth of the IT services and ITES industries in the long term (Report 2011).

Analysis of qualitative and quantitative data collected from the top executives of Indian ITES industry suggest that perceptual evaluation of (i) three intangible firm assets (employee, organization, and management-related), and (ii) recent firm performance positively impact relationship quality (Lahiri 2011). The antecedents of process integration and its impact on BPO performance are task complexity, task security, end customer orientation of the client and IT
capability of the BPO (Narayanan 2011). Both Danish and Indian firms use the input from their offshoring partnership to upgrade their organizations and business processes (Jensen 2009).

KPOs working in Financial Services face many challenges including gaining the confidence of potential clients about outsourcing knowledge intensive work, and finding effective solutions to mitigate the outsourcing risk (Currie 2008). Some framework also developed to assess the likelihood and impact of earn out offers on the acquiring company wealth gains in cross border acquisitions in India (Kohli 2013). A significant failure through chronological description of scandals that took place at one of India’s largest outsourcing vendors, Satyam Computer Services (Atesci 2010). An integrated framework is also developed where various institutional and organizational factors co-evolved to enable engagement of clients and providers in offshore outsourcing (Lahiri 2011).

Indian BPOs have to consistently prove their capabilities to deliver and create near indispensable situation for the parent to survive without them (Ramachandran 2004). The impact of Lean Six Sigma and a firm’s quality management capabilities in developing its Organisational Learning Capability (OLC), especially in the Business Process Outsourcing (BPO) environment of a developing country was studied thoroughly (Ashish 2012). Some researcher finds that success in offshore BPO is based on a combination of cost savings, quality of offered services and strategic issues in India and is specific to business context and will change over time (Kevan 2009). Some framework catalogues the types of outsourcing decision possibilities and the way they would be impacted, thus providing a useful conceptual handle to practitioners (Gunta 2007). Some models suggests that companies doing business in India should capture all the issues in a detailed risk matrix and find solutions to all eventualities that can be envisaged today and going forward (Singh 2009).

Some framework suggests that Government, Industry and NASSCOM have to work together as India has the opportunity to emerge as one of the top three global IT innovation hubs driven by
opportunities arising in new areas of mobile applications, clinical research & climate change (Mittal 2009).

Organizations have always seeking for ways to achieve competitive edge over their potential competitors. The need to respond to market changes frequently and the difficulty of predicting the direction of such changes mean that organizations must focus on their core competencies and capabilities. One avenue that organizations have pursued to improve their competitive position in this new business environment has been to increase the role of outsourcing in their operations. In addition, economics of globalization and liberalization facilitate the process of searching for opportunities on the open global market to outsource some of organization’s activities instead of performing them internally. Thus in the next section, we will discuss how offshore outsourcing plays important role in the global BPO market.

2.3 Offshore Outsourcing and Global BPO Market

Business Process Outsourcing makes it easier to achieve growth through mergers and acquisitions. It can make it easier to downsize, improves the prospect of selling a business unit and it leads to tighter linkage between strategy and information technology. A BPO researcher has mentioned that the offshoring phenomenon is maturing and companies are now offshoring including innovation, world-class talent, and skills (Carmel & Agarwal, 2002).

Offshore outsourcing allows users of IT services to benefit from favourable conditions in the offshore location, mainly lower labour costs, ample supply of well-educated labour and quality of service. India & China are the largest players in the offshore services market while Philippines, Malaysia and other Eastern European countries are eager to cash in on the offshoring trend. Offshore outsourcing has become a major debated issue in the US in recent years. Despite claims about economic benefits from offshore outsourcing for the US, economists and intellectuals are divided over the future of BPO and its real effects on the economies of the developed nations in the long run. According to a study by the McKinsey Global Institute in 2003, offshore outsourcing delivers large and measurable benefits to the US economy. It reduces
the costs of IT & IT-enabled services by as much as 60 per cent, keeps US companies competitive in global markets. However, a recent report by Forrester Research projects a bleak outlook for the future citing the shrinking of offshore outsourcing benefits. Despite these contrary projections, a recent survey by the National Association of Software and Services Company (NASSCOM) reveals that as many as 400 of the Fortune 500 companies now either have their own business process or IT centres in India or outsource their business processes or IT to Indian technology firms.

While offshore outsourcing is associated with several benefits, these ventures also pose many risks. In the next section, we delved deep in various risks involved in offshore outsourcing projects, the challenges faced by companies in these collaborative initiatives, and solutions that may aid in overcoming those challenges.

2.4 Issues in Offshore Outsourcing

IT-ITES outsourcing phenomenon has matured over the last 15 years. It has become a significant component in a firm’s business strategy and IT-ITES outsourcing is no longer viewed only as a cost cutting tool (Dibbern, et al., 2004). Yet, several new challenges have emerged with the development of the offshore outsourcing phenomenon. However both clients and vendors are becoming increasingly adept at addressing the key issues in offshore outsourcing using sophisticated management techniques and technology to facilitate a lasting relationship. The following issues are relevant in the general realm of IT-ITES outsourcing and in specific realm of offshore outsourcing.

2.4.1 Tactic Goals

Some studies have indicated that outsourcing reduces costs. They even contend that cost savings are mostly a result of implementation of cost reduction strategies rather than economies of scale, which could have been done in-house and even without outsourcing (Lacity, 1993). Production
costs, transaction costs, and firm size are influential economic determinants of the outsourcing decision and managers have to be careful in estimating and using these costs in their calculations of return on investments (Ang & Straub, 1998). Another critical issue that has significant impact on costs is the issue of outsourcing risks and how these risks are managed. Risks become more manageable when risk exposure is explicit (Aubert, et al., 2001).

2.4.2 Strategic Goals

The primary motivation for offshore outsourcing stems from the cost reduction emphasis in today’s competitive economy. However, as the offshore outsourcing phenomenon is maturing, companies are offshoring their core work with a proactive strategic focus rather than with a proactive cost focus (Carmel & Agarwal, 2002). Prior research has also shown that companies engage in IT-ITES outsourcing have different strategic intents including innovation, business impact, and commercial exploitation (DiRomualdo & Gurbaxani, 1998; Kishore, et al., 2004-5). Deeper analysis of the outsourcing issues has revealed that economic benefits are not the only issue predominant in the decision to outsource.

2.4.3 Work Culture

There are a number of contributing factors that cumulatively result in failure and one of the most important factor plays major role is the cultural differences. While differences in time schedule and language are visible, cultural differences are subtle and insidious, making it easy to be misunderstood or be mismanaged (Krishna, et al., 2004). Contrary to popular perception, some studies have found that contract employees perceive a favourable work culture in their client organizations (Ang & Slaughter, 2001; Pearce, 1993; Smith, 1994). However, supervisors in client organizations perceive contract workers to be lower performing and less faithful. When permanent co-workers experience work spillover from contract professionals, a negative spiral may emerge (Ang & Slaughter, 2001; Pearce, 1993; Smith, 1994).
2.4.4 Client-Service Provider Relationship

Client and service provider relationship is a critical concern in BPO. Recent research characterizes IT-ITES outsourcing as a management of relationship with service providers rather than as simple contracting of commodities and services (Kishore, et al., 2003). Outsourcing relationships can be characterized as one of four types of relationships: support (low strategic impact, low substitution), alignment (high strategic impact, low substitution), alliance (low strategic impact, high substitution), and reliance (high strategic impact, high substitution). Relationship competency can be used to benchmark supplier capabilities to establish relationships that support clients’ business objectives. Researchers have also emphasized the need to create social capital in BPO deals for close partnering between clients and service providers (Willcocks, et al., 2004). Some researchers also suggest that successful relationships require an optimal level of control over the vendor in outsourcing relationships. While excessive vendor controls are detrimental, precise functional requirements, monitoring progress, and meeting project deadlines are important for successful relationships. Researchers have also suggested that helping vendors redesign their internal processes to enable self-control from the beginning of the outsourcing projects is beneficial to both parties (Choudhury & Sabherwal, 2003; Susarla, et al., 2003). An important aspect in outsourcing relationships is trust between the client and vendor organizations. Studies indicate that a balance between trust and structure improve performance, while excessive focus on each one ignoring the other might hamper performance. Finally, some frameworks to evaluate an outsourcer’s offerings on categories such as security, pricing, integration, service level agreement, reliability, availability and scalability are also evolving (Ekanayaka, et al., 2003).

The goals of outsourcing are strategic: improved efficiencies, lower costs, improved flexibility, higher quality, and greater ability to achieve competitive advantages. The ultimate strategic goal is to develop core competencies that will strengthen barriers of entry for new firms to survive. By focusing on core competencies and partnering with appropriate service providers & suppliers, organization’s risk can be minimized and shared with all involved parties. When outsourcing
decisions are made on the basis of an in-depth understanding of the organization’s core competencies, and are intended to build or enhance the organization’s competitive advantages, outsourcing becomes strategic.

Firms’ decision on outsourcing is usually analysed as a ‘make or buy’ dilemma. On one hand, market imperfections, such as measurement problems, difficulties to control the collaboration between the customers and the provider, reduction in control over how certain services are delivered and increased complexity in arms-length contracts may in turn raise the company’s liability exposure. Cost reduction, increased capacity, improve quality, increase profitability and productivity, improve financial performance, lower innovation costs, risks, and improved organizational competitiveness, are very commonly considered as the main reasons to justify business process outsourcing strategies.

Business process outsourcing has become an accepted management practice across most companies and industries. At the same time, it is becoming a more complex endeavour, going deeper into the value chains of companies. Until recently, companies were looking for something relatively straightforward from a BPO relationship: greater efficiency, streamlined operations and lower costs. Today, companies expect more: business insight, innovation, industry expertise, a commitment to continuous improvement and more. The BPO industry is moving to a cost-plus-value proposition focused on delivering strategic business impact, not just operating cost reductions. In the next section we will observe the various strategic BPO practices in India.
2.5 Current Strategies of BPOs in India

For many companies, traditional outsourcing has led to significant cost savings and has improved the bottom line. Some companies have discovered even greater returns are possible and are using their global partners to drive top-line revenue with innovative new products, faster time-to-market, and entrance into new markets. While studying the strategic practices of the major BPOs in India, some common practices observed which are elaborated in the next sections.

2.5.1 Value Beyond Cost Reduction Strategies

Outsourcing is always seen as a very powerful cost reduction tool, but confining global sourcing to this limited role leaves greater opportunities untapped. As the industry has matured, global companies are now able to provide varieties of offerings, providing value added services which are far beyond cost reduction activities only. Specific areas of opportunities include acquiring capabilities and Intellectual Properties (IP) which are not readily available in-house, scaling resources up and down quickly and obtaining contextual knowledge for product, customer or market access. In a high performance BPO, both client and provider acknowledge the importance of cost reduction, but do not see it as the prime motivation. High performance businesses are more willing to consider greater functionality from the outsourced service even if it costs more.

Taking the example of Citibank’s Global Consolidation Plan captioned as ‘Think Global - Deliver Local’. Virtually all operations in the 100+ countries in which Citibank operates are controlled centrally. Many product lines are operated from e-Serve service centres in India. Each of the total cost transformation efforts has some strategic thrust. Some decentralize, others centralize, some outsource extensively & some selectively. However, they all have a common denominator:
Figure 2.1: Cost versus Value of Strategic Imperatives

<table>
<thead>
<tr>
<th>Cost</th>
<th>Margin</th>
<th>Higher cost may be justified by reaching a market of higher margins</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Growth</td>
<td>Value brought by future growth can justify additional costs in innovation</td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>A highest quality choice will produce extra costs that will result in less complaints</td>
<td></td>
</tr>
<tr>
<td>Service Levels</td>
<td>Customer satisfaction will increase when service levels are shaped to clients need</td>
<td></td>
</tr>
<tr>
<td>Control</td>
<td>Tight control is beneficial in certain situations, at the expense of bigger control structure</td>
<td></td>
</tr>
<tr>
<td>Risk Assurance</td>
<td>Risk assurance costs may increase, but can be removed in the case of a problematic situation</td>
<td></td>
</tr>
<tr>
<td>Proprietary Knowledge</td>
<td>Cost of patents and registry may pay off by exclusivity of products &amp; services</td>
<td></td>
</tr>
</tbody>
</table>

Source: Booz Allen Hamilton Report, Moving Beyond Cost 2007

Global Business Services (GBS) by KPMG

KPMG has developed ‘The Shared Services and Outsourcing Advisory (SSOA)’ practice to support global partners and professionals. Shared services and outsourcing of Selling, General, and Administrative expense (SG&A) functions have historically been motivated to reduce administrative costs by creating leverage across horizontal business processes, while focusing retained resources on the core competencies of the business. However, moving beyond the cost theme, this model has many other tangible benefits including enhanced global growth, acquisition integration, and improvements in agility and innovation.

Figure 2.2: Global Business Services (GBS) by KPMG

<table>
<thead>
<tr>
<th>IT</th>
<th>HR</th>
<th>F&amp;A</th>
<th>Procurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Arbitrage</td>
<td>Product Innovation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capacity Management</td>
<td>Business Intelligence</td>
<td></td>
<td></td>
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<tr>
<td>Quality Improvement</td>
<td>Business Agility</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process Efficiency</td>
<td>Process Transformation</td>
<td></td>
<td></td>
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<tr>
<td>Onshore/Offshore Leverage</td>
<td>New Market Entry</td>
<td></td>
<td></td>
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</tbody>
</table>

Source: KPMG Report, Get More Value 2012
2.5.2 Global Collaboration Strategies

Few product development organizations have global sourcing strategies which are linked to their overall product development or R&D strategies. Business value increases when the companies provide additional functions such as handling the entire support of a product line, designing key portions of new product architecture, and providing Intellectual Property for new products. Global collaboration strategies should be organization wide and multi-year. Companies are facing issues best addressed at an organization level rather than at a project level, such as:

- Defining the role of global collaboration in corporate strategy and business unit strategy
- Changes to business processes, IP management, contracting, etc.
- Human resources issues i.e. changes in skills sets, impact on local staff
- Development of strategic partnerships that span projects

Defining such a strategy takes time but is the best way for companies to obtain strategic rather than tactical value from global collaboration. For most companies, this strategy development is a multi-stage process. Human resource aspects play an important role. The most successful companies communicate their global collaboration strategy and rationale before projects began and again at periodic intervals.

For many companies, traditional outsourcing has led to significant cost savings and has improved the bottom line. Some companies have discovered even greater returns are possible and are using their global partners to drive top-line revenue with innovative new products, faster time-to-market, and entrance into new markets. This shift, from traditional outsourcing to global collaboration, as shown in Table 2.1, has become a competitive advantage for global companies.
Table 2.1: Shift from Outsourcing to Global Collaboration

<table>
<thead>
<tr>
<th>Outsourcing</th>
<th>Collaboration</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project Goal</strong></td>
<td>Cost Reduction</td>
<td>Revenue generation</td>
</tr>
<tr>
<td><strong>Collaboration Goal</strong></td>
<td>Lower Costs</td>
<td></td>
</tr>
<tr>
<td><strong>Partner Value</strong></td>
<td>Technical Expertise</td>
<td></td>
</tr>
<tr>
<td><strong>Project Type</strong></td>
<td>Maintenance, Quality assurance, New features</td>
<td>New product development, New market entry, New product versions</td>
</tr>
</tbody>
</table>


### 2.5.3 End-to-End Strategies

High-performance BPOs consider the entire end-to-end business process to be in scope, including elements managed within the client’s enterprise, those run by third parties as well as related processes that may impact overall performance. Service level agreements (SLAs) are important, but both client and provider work together to focus on overall process excellence and the business outcomes to which the SLAs are simply an indicator. Majority of high-performance businesses consider process excellence to be an important priority in a BPO relationship. A vital point here is, in high-performance BPO, client and provider work together on process consolidation, rationalization and standardization across business units and geographies, and this often includes centralization of services. Genpact has developed ‘Smart Enterprise Processes’ (SEP), a unique scientific methodology for business process management.
End to End Order-to-Cash (sales fulfilment, accounts receivable & collections) Process:
In the consumer packaged goods industry, Genpact’s SEP cuts preventable deductions (such as spoilage, pricing errors, fines and fuel surcharges) by 50-75 per cent. For a $5 billion company, this translates into $50-70 million business impact. Figure 2.3 shows the sequential steps from acquisition of a customer’s order to the customer’s money reaching the supplier’s bank account offered by Genpact.

Figure 2.3: End to End Order-to-Cash by Genpact

End to End Source-to-Pay (procurement, supply chain management and accounts payable) Process:
For a $5 billion manufacturing company, Genpact’s SEP methodology can reduce purchase spending by $50-150 million over three years and deliver an increase of one to three percentage points in margins. SEP helps clients improve performance on key metrics such as concentration of spending, usage level of electronic auctions, and vendor scoring. Figure 2.4 shows the end to end sequential steps from sourcing to payment offered by Genpact.

Figure 2.4: End to End Source-to-Pay by Genpact
Infosys BPO has developed End to End (E2E) Category Management continuous improvement program without an end point, targeting value within the suppliers’ supply chain and the buyer’s company. E2E Category Management improves efficiency and compliance far beyond direct, price-based savings. E2E Category Management consists of 5 interlocking processes, each identifying and delivering value.

**Figure 2.5: End to End (E2E) Category Management by Infosys**

Source: Infosys Report, Building Tomorrow’s Enterprise 2014

### 2.5.4 Collaborative Governance Strategies

In the high performance BPO relationships, collaborative BPO governance is much more than a set of committees or a schedule of meetings. It also comprises the attitudes toward the relationship and the behaviours that strengthen it and drive both parties toward higher levels of performance. Other distinctive collaborative behaviours include:

- Senior leadership from both parties work together to understand each other’s objectives
- Senior leadership from both parties resolves conflicts fairly
• Companies continuously adapt their BPO arrangements based on changing business or marketplace conditions and new delivery capabilities

Price Waterhouse Coopers (PWC) has developed a centre-led governance model, where the governance team develops the global business services strategy and each business process owner is required to use standard frameworks to define and implement each area’s strategy. As per Figure 2.6, regardless of the model, the governance team needs to perform the core processes.

**Figure 2.6: Centre-led Governance Model by PWC**


### 2.5.5 Change Management Strategies

Change management as important parameter and must be executed carefully. Change management needs to be considered in terms of two different perspectives. First, the immediate issues as an organization are transitioning from its previous mode of operations to the new outsourcing environment. Secondly, in terms of being able to adapt continuously to change in the long run. The gap between high performance BPO and typical BPO performer is large in terms of attitudes toward change management.
Accenture research has mentioned the change in the organization from ‘pyramid’ to ‘diamond’ model. With a pyramid structure, most employees remain at the bottom of the pyramid. Employees continually build valuable, client-specific experience as they are promoted higher up the pyramid. However, the cost of expertise in the pyramid model is high because it is applied only internally. By contrast, a provider can spread experts and the cost of those experts across multiple clients. Diamond-shaped retained organizations replace the heavy bottom of the pyramid with BPO providers. Many transactional activities that were once performed by employees are now performed by the service providers. The benefits of the diamond-shaped retained organization are reduced costs, access better skills, and greater flexibility.

**Figure 2.7: ‘Pyramid’ to ‘Diamond’ Model by Accenture**

Source: ‘Mastering High Performance BPO: Transformation of the retained organization,’ Accenture 2012 (Adapted from Jim Lammers and Sandy Ogg)
Virtual Captives

One of the key concerns about outsourcing is that handing over processes to a third party entails a loss of control. To tackle this issue, Genpact has developed a ‘virtual captive’ model, which has the look and feel of being an in-house operation. Virtual captives are positioned & designed to offer best-in-class processes as they work with multiple customers across the globe. Most importantly, the teams behave as one end-to-end team when dealing with clients and providers alike.

2.5.6 Outcome Based Strategies

High-performance BPOs aim for specific strategic outcomes from a BPO arrangement that can be measured and that can help achieve competitive advantage. In some deals, the outsourcing provider commits to the achievement of those outcomes known as gain sharing i.e. paying a penalty if they are not met or sharing in rewards if they are.

Today, clients and vendors are seeking models to help them coordinate and manage globally dispersed centres, build strong sourcing relationships, instil a collective identity and ultimately deliver high quality services seamlessly. One such operating model that has been successfully implemented across several industries and is expected to drive the next phase of IT-BPO service delivery is the Hub & Spoke model.

The Hub & Spoke model is used in the context of multi-location sourcing wherein a central consolidator called the ‘Hub’ provides a single face to the customer while seamless extensions called ‘Spokes’ are leveraged to provide the services, distributed across multiple locations. In a wider role, the Hub is expected to take on management responsibilities including those of capabilities development, customer management, regulatory compliance, uniform standards of delivery, and manpower management. On the other hand, a Spoke is administered as a delivery
centre that can be scaled up or down depending upon business requirements. Some companies may also choose to leverage near shore Spokes as base locations for business development.

**Figure 2.8: Hub & Spoke Model by KPMG**

<table>
<thead>
<tr>
<th>Responsibilities of a hub</th>
<th>Responsibilities of a spoke</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocate work to spokes, and provide a seamless customer experience</td>
<td>Work with the hub in delivery/innovation</td>
</tr>
<tr>
<td>Monitor performance</td>
<td>Achieve excellence in specific capabilities</td>
</tr>
<tr>
<td>Cross-pollination of ideas and skills across spokes</td>
<td>Ensure optimal use of available resources</td>
</tr>
</tbody>
</table>

Source: KPMG in India Analysis - Hub and Spoke operating model 2012

**Outcome / Transaction Based Pricing Model**

With time & maturity, customers look for benefits that go beyond cost savings and service improvements to provide broader business value & improved business impact. This prompted the emergence of pricing models like transaction based pricing and outcome based pricing. A comparison of pricing models on outcome, risk & relationship maturity is depicted in figure 2.
Figure 2.9: Outcome / Transaction Based Pricing Model

Shift from Outsourcing to Global Collaboration

Transaction based pricing model provides both customers as well as service providers various benefits:

- From customer’s perspective, the benefits of transaction based pricing are more flexible, scalable & cost effective as payment is based on consumption only
- Makes it easy to compare and select service providers by comparing their per transaction price along with service level agreements

Infosys BPO has developed **Process Progression Model (PPM)** for an end-to-end transformation of business processes. PPM brings together multiple transformation levers and competencies developed by Infosys to assist clients progress their business processes in a phased manner to maximize efficiency and effectiveness of each process. The model provides a
comprehensive assessment of process maturity at a location level and outlines a clear roadmap for achieving the next phase of improved business outcomes.

**Process improvement strategy:** An outcome centric result oriented approach to outsourcing be it through gain share initiatives or a fully outcome based contract, needs to be highly collaborative and maintain a focus on desired outcomes. With this type of collaborative foundation, a Lean Six Sigma process improvement strategy, which relies on the voice of the customer & voice of stakeholders as a starting point, is now far more relevant and suitable to leverage in an outsourcing arrangement. GlaxoSmithKline (GSK) is one of a number of companies that has partnered with Genpact on Lean Six Sigma initiatives to drive end-to-end process improvement & effectiveness.

### 2.5.7 Expertise Development Strategies

With more maturity, BPOs facilitate richer and complex business outcomes where service providers are expected to deliver higher levels of value. Part of that value is in the ability to use deep domain and industry knowledge. Companies look for competencies to analyze data about the functions and processes being outsourced to drive business outcomes. Majority of high-performance businesses acknowledge the importance of using data and information to capture additional benefits.

Genpact, one of the largest analytics providers worldwide has created a unique position through its Smart Decision Services. This is a combination of process reengineering, consulting, technology and analytics. Genpact provides a comprehensive set of benefits like operational efficiency, smarter decisions, market intelligence and revenue maximization.
Analytics to Drive Customer Loyalty in Retail Business: TCS Model

The retail industry is facing intense competitive and margins are also slimming down. There is an increased pricing pressure & customer loyalty is no more a static data point. Retailers are faced with two major challenges: the evolution of the market based on macroeconomic factors and the evolution of their customers. The evolution can be thus grouped into three broad streams:

- Increasing depth of the data collected and analyzed
- Working with partners to optimize the cost of analytics
- Increasing real-time analysis of data

In terms of optimizing the cost of analytics, TCS offers pre-built technology environment with pre-configured data marts and various predictive models provide solutions to support customer
intelligence, merchandise intelligence, operations intelligence performance management. It enables customers to gain competitive differentiation, achieve greater focus on core capabilities, and reduce Total Cost of Ownership (TCO).

2.5.8 Technology-based Strategies

In high performance BPOs, technology is a source of innovation and not only the infrastructure of delivery. Technology provided by the service provider is an important component & it is important to gain access to technology in a BPO relationship. High performance BPOs also use technology in their BPO relationships to provide effective monitoring of performance, greater transparency and innovations to fuel new generations of products and services.

Technologies such as cloud computing, social media platforms, business analytics software and process automation software are being used to deliver lower costs in a more effective way. Recent research from Accenture revealed that high-performing BPOs use technology as a source of innovation rather than just providing the infrastructure of delivery.

The evolving technology has opened new avenues for the Indian IT-BPO vendors in the form of SMAC (Social Media, Mobility, Analytic and Cloud). As the enterprises globally adopt new technology formats for operational efficiency and cost optimization, the Indian BPO vendors can develop their SMAC strategies.

2.5.9 Employee Retention Strategies

Retention of key employees is critical for the long term benefit and success of any organisation. The performance of employees is often linked directly to quality output, customer satisfaction, & image of a company. Effective succession planning is very crucial for any growth. Hence, failing to retain a key employee is a costly proposition for any organisation. Actually, losing the middle management translates to loss of multifold of his salary. This is worse for Indian BPOs where
attrition is very high and fresh talent is intensively trained, groomed and inducted in the system every day.

Various HR surveys in BPO industry has identified graveyard shifts, inability to handle stress, monotonous work, lack of career growth etc., as some of the common reasons listed by employees for quitting jobs. Hence, quality of supervision is critical for employee retention. Employers have started recognizing their employees’ strengths and helping them to improve on the weaknesses. Employees are recognized, rewarded, incentivized and appreciated regularly. BPOs have come up with excellent employee retention models where employees are offered excellent career growth prospects. They are encouraged and developed to take up higher positions & responsibilities. BPOs run various fun at work programs to keep the work place cheerful and fun-filled as much as possible. Various employee friendly policies include flexible working hours, work from home schemes, granting compassionate and urgency leave, providing healthcare to employees and dependant members, etc. Special policies on work life balance are also having positive impact on retaining as well as on attracting right talents.

2.5.10 Global Expansion Strategies

According to Evalueserve (2007), ‘the affect of global slowdown is massive’ & visible in areas like Banking, Financial Services and Insurance (BFSI), aviation, automobile, manufacturing, consumer goods, etc. Property rates have increased by 20-30 per cent, especially in major metro cities pushing up establishment costs and operating cost of BPOs. Apart from that, the global downturn has affected many companies hard and fast causing panic to all. Many companies took drastic actions quickly. The best leaders spent quality time with management teams working on business planning and aligning strategies. These leaders involve key stakeholders and open to innovative ideas and ultimately looked at the business from the bottom to up & end to end.

The global economic slowdown has re-strengthened the objectives of many companies and re-emphasizes the importance of cost reduction and improving operational efficiency. There is a lot
of competition in the market for both the low end and high end services. However, such competition is more towards the low end services. Firms involved in high end services are able to survive because of non-availability of right talent. If company has resources, it can create its own workforce and thus their work becomes easier. Although there are a lot of opportunities in the market and it is easier for the big companies to survive because of their brand image, ability to absorb sudden changes through innovative measures.

A large number of Indian companies are looking for expansions by setting up delivery centres across the globe. Indian players are targeting regions such as China, Latin America, and Eastern Europe to set up new offshore locations. Some of the prominent reasons for this trend are clients’ ‘increasing demand for localized services’. Thus, Indian vendors are exploring offshore locations where they can leverage the local talent and language capabilities. They are operating in different geographies with varying time zones which helps in offering 24*7 services and acts as a substantial differentiator for any BPO player. Moreover, the pressure to maintain profit margins is fuelled by an increased level of competition.

Ever since the concept of business process outsourcing has become global, the Western companies have started rushing to India to outsource their back office operations. In the current scenario, overseas acquisitions by the Indian BPOs seem to have been changed. Over the past few years, Indian BPOs have retorted multiple overseas back office business processing companies in the US & UK.

In the past, when a customer wanted an offshore solution, they partnered with Indian service providers for a winning cost arbitrage proposition. Then slowly, margins in the US turned less lucrative for global players than they used to be. So, instead of passing on revenues to Indian companies, it was more meaningful for them to set up captive offshore operations in India to take more advantage of the cost.

The environment changed again when recession hit the US economy and customers began to squeeze billing rates. Rates dropped to about 6-7 per cent over the past three years impacting
profit margins adversely. Unlike global firms with multiple global delivery centres, relatively smaller BPOs suddenly faced shortage of cash flow to expand overseas. For instance, Irving (Texas) the call centre arm of Aegis Communications Group, which generated revenues of $140 million in 2003 & serving clients such as AT&T and American Express, sold out for $28 million to a joint venture of India's Essar Group and Deutsche Bank.

The latest news on the BPO is ‘dual shoring. The dual shoring destination operate out of two global delivery centres, for example one in the US or UK and the other in India. Traditionally, most BPOs run sales and marketing offices in US & UK, but the trend is now changing. Companies seem to be getting a part of their job done in India too.

Another reason for the rush to acquire overseas is purely political. This is a creative method to counter attack the global backlash against offshoring. It is also the right time for Indian BPOs to scale up business outside its shores. Despite the protectionist uproar in North America, the fact is that the market and the demand are still buoyant there. Besides, Indian BPO companies need a persistent acquisitions drive to stay ahead in the race for a healthy share of the global outsourcing pie.

Mergers and Acquisitions (M&A) are taking place at a steady pace in India despite the gloomy economic environment. The recent spate of acquisitions by Indian BPOs has been both mysterious and obvious simultaneously. On one side, there exist the global economic slowdown coupled with protests against outsourcing in US while on another side, the Indian BPOs are sitting on piles of cash. It was obvious for the BPO industry to grow either organically through growth or inorganically through M&A (Mergers and Acquisitions). Organic growth, or increasing the volume of business, is increasingly becoming difficult during the election year in the US when BPO has become a major target of both political parties to gain attention from people. Hence, the only other alternative left for sustained double digit growth is through acquisitions.
As the industry continues to grow, there is a lot of consolidation happening in this sector. The industry is witnessing mergers and acquisitions like never before. Companies like Genpact, Sutherland and Infosys are looking to acquire companies like Apollo BPO and Firstsource. In 2011, Apollo Hospitals wanted to sell its stake in its BPO arm, Apollo Health Street & both Genpact & Sutherland were interested to acquire Apollo BPO. As a non-core activity, Apollo has been open to divest its stake. This acquisition helped players like Sutherland and Genpact to extend market share in healthcare BPO segment. Genpact acquired EmPower Research and Headstrong as part of their expansion plan into consulting and business research. Companies like Firstsource are also planning to sell its stake to a big player Infosys.

The Indian IT-BPO industry has played a major role in M&A activity, with the average number of transactions remaining strong and deal value reaching $3.4 billion and $1.4 billion in 2011 and 2012, respectively. Most IT-BPO companies view merger & acquisition as a way to sustain current valuations. As organic growth falls to between 12-14 per cent, inorganic growth can make up the remaining 2-4 per cent gap to the target growth rate. This translates into at $2-4 billion inorganic revenues for the industry.

In the perspective of global slowdown, a sense of urgency is giving rise to a shift toward larger deals. Two renowned examples include Genpact’s $550 million acquisition of Headstrong & iGATE’s $1.2 billion acquisition of Patni (Table 2.2). In 2008, 11 transactions accounted for 80 per cent of the cumulative value of deals. With a change in the market scenario, in 2012 just six deals contributed the same share. Additionally, most of the larger consolidations experienced aggressive competitive bidding. For example, Headstrong was pursued by several large players including Capegemini, IBM, HP &Genpact which clearly shows the growing demand & appetite for bigger deals. However, inorganic growth yields dividends only to a certain extent. This is the reason that many players are looking for complementarities, rather than moving away from their core competencies. For instance, Infosys scrutinizes acquisitions to death despite having substantial cash reserves, is cracking its conservative outlook toward acquisitions and is embarking on a strategy of acquiring Indian as well as foreign companies.
### Table 2.2: Global & Indian BPO Merger & Acquisition Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>GLOBAL</th>
<th>INDIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-11</td>
<td>Oracle-Sun</td>
<td>Igate-Patni</td>
</tr>
<tr>
<td></td>
<td>Microsoft-Skype</td>
<td>Genpact-Headstrong</td>
</tr>
<tr>
<td></td>
<td>SAP-Successfactor</td>
<td>Serco-Intelenet</td>
</tr>
<tr>
<td></td>
<td>IBM-DemandTec</td>
<td>Tech Mahindra-Satyam</td>
</tr>
<tr>
<td></td>
<td>6300 Acquisition Innovation</td>
<td>324 Acquisitions</td>
</tr>
<tr>
<td>2006-08</td>
<td>Oracle-Hyperion &amp; Siebel</td>
<td>HCL-Axon</td>
</tr>
<tr>
<td></td>
<td>Google-Double click &amp; YouTube</td>
<td>WNS-Aviva</td>
</tr>
<tr>
<td></td>
<td>SAP-Business Objects</td>
<td>TCS-Citi BPO</td>
</tr>
<tr>
<td></td>
<td>Cisco-Nuova</td>
<td>EDS-Mphasis</td>
</tr>
<tr>
<td></td>
<td>IBM-Cognos</td>
<td>Wipro-Infocrossing</td>
</tr>
<tr>
<td></td>
<td>8500 Acquisitions Out of Box</td>
<td>330 Acquisitions</td>
</tr>
<tr>
<td>2003-05</td>
<td>Google-Applied Semantics</td>
<td>114 Acquisitions Scale</td>
</tr>
<tr>
<td></td>
<td>Google-Android</td>
<td>Essar-Aegis</td>
</tr>
<tr>
<td></td>
<td>Oracle-PeopleSoft</td>
<td>Datamatics-CorePay Solutions</td>
</tr>
<tr>
<td></td>
<td>Lenovo-PC division of IBM</td>
<td>MindTree-Link Software</td>
</tr>
<tr>
<td></td>
<td>8000 Acquisitions</td>
<td>Intelenet-Spanco</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2000-02</td>
<td>HP-Compaq</td>
<td>TCS-CMC</td>
</tr>
<tr>
<td></td>
<td>IBM-PWC Consulting</td>
<td>HCL Tech-Apollo</td>
</tr>
<tr>
<td></td>
<td>Yahoo-hotjobs.com</td>
<td>Apollo Contact Center</td>
</tr>
<tr>
<td></td>
<td>Diversification</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10500 Acquisitions</td>
<td>38 Acquisitions</td>
</tr>
</tbody>
</table>

Source: KPMG in India – CII Summit 2012
BPO sector in India has moved beyond the traditional voice and transaction processing and is increasingly looking for higher value added activities like KPO (Knowledge Process Outsourcing), which comprises business analytics, legal research, advisory and consulting services among other offerings. So firms wishing to quickly move up the value chain are gaining capability to perform the high level specialized services. The sector is also maturing enough to realize that the stage is set for the next phase when the market will be dominated by fewer but bigger firms. The share of total M&A activity in India represented by the BPO sector is close to 50 per cent, which is an indication of how the sector has become lucrative for investment bankers.

As the BPO industry in India deals with multiple issues like high volatility of Indian Rupee, lack of support from government with respect to friendly policies, elections in US, and global economic slowdown, the industry is all set to undergo a transition. As the firms move to value added outsourcing, companies are looking for acquisitions as a means of pursuing growth. Unaffected by the debt crisis in Europe and political protests in the US against offshoring, Indian Information Technology (IT)-Business Process Outsourcing (BPO) companies are busy acquiring more companies. While it is too early to measure the long term business impact of these deals, it is likely that the BPO sector in India is maturing into a well-established business model. The hopes of the workforce, as well as the investors, are restrained on the growth story that they have had all these years and need to sustain going forward.

2.6 Summing Up

In Chapter 2 we have discussed various theoretical framework & strategic practices adopted by various Indian BPO companies. In today’s world of ever-increasing competition, organizations are forced to look for new ways to generate value. The world has embraced the phenomenon of outsourcing and companies have adopted its principles to help them expand into other markets. Strategic management of outsourcing is perhaps the most powerful tool in management, and
outsourcing of innovation is its frontier. Outsourcing can improve organizational performance when applied as an organizational strategy. Successful firms identified the clear objectives and expectations of outsourcing activities as the most useful and contributing factors to their outsourcing effort. Outsourcing must be done carefully, systematically, and with explicit goals and expectations. Sensible reasons to consider outsourcing include both strategic and tactical concerns on both a department and organizational level. A good choice of outsourcing partners is the most useful and contributing factor among successful organizations. Outsourcing partners should be selected based on their expertise in the operation being outsourced and their cultural fit with the organization. Another factor is providing adequate training skills needed to manage outsourcing activities and to negotiate a sound contract. Providing managers with skills that will enable them to adapt to other cultures and work with other managers may be very important to ensure the success of outsourcing. Developing a comprehensive plan outlining detailed expectations, requirements, and expected benefits during all phases of outsourcing activities may be the key to successful sourcing efforts. In the next chapter i.e. Chapter 3, we will elaborately explore the literatures which are relevant to understanding the development of, and interpreting the results of this convergent study. Various researchers have worked on various topics of outsourcing and BPO i.e. definitions, forms, models, theoretical perspectives, risks, market trends & challenges. All gap analysis has been discussed in terms of all important literature reviews.
Chapter 3: Literature Review

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