CHAPTER I

INTRODUCTION HISTORY AND BUSINESS PROCESS OUTSOURCING
BUSINESS PROCESS OUTSOURCING:
A STUDY OF CURRENT INTERNATIONAL TREND

CHAPTER I

1.1 INTRODUCTION

Business Process Outsourcing is the act of giving a third-party the responsibility of running what would otherwise be an internal system or services.

Business Process Outsourcing puts together two powerful business tools - business process management and outsourcing. Business process management uses technology to break down barriers between traditional functional silos, such as those found in finance, order processing and call centers. The goal is to redesign the process, reduce unnecessary steps and eliminate redundancies.

Outsourcing uses skills and resources of specialized outside service providers to perform many of critical task, yet non-core activities. BPO does both at the same time, thereby speeding implementation and ensuring that the intended benefits really hit
the bottom line In short, BPO means examining the processes that make up the business and its functional units, and then working with specialized service providers to both re-engineer and outsource these at the same time.

1.2 Vision
To do analysis of the current development in the international market place and come out with facts, details, statistics and conclusion that will help us in doing prediction, trend analysis and final thoughts.

As Business Process Outsourcing has evolved to become a mature business module that both leading Corporation and global service provider look to leverage. The modern day corporation’s strategic growths plan would not complete without addressing how global business outsourcing can impact organization’s bottom line and change the global market.
1.3 HISTORY

The modern languages deal with an increasing figure of new concept and ideas. To manage with an ever-evolving vocabulary, languages use abstraction to help generate the new concepts and ideas. Yet an unlikable result of thought is that it tends to obscure the historical context of these ideas and concepts, erasing the potential for an enhanced understanding of their true inheritance and nature.

Business Process Outsourcing is one such abstracted term that has over time, collective substantial constructive momentum as well as downbeat baggage. BPO has been around since the time of the hunters and gatherers. Those who were strong hunters hunted and those who were strong gatherers gathered. Simply put, the primal society perhaps subconsciously recognized the significance of specialty and outsourced assured functions to those who excelled at them or in monetary terms, performed them more efficiently.

Over a period of time, many started equating outsourcing with interest (or division of labor). Outsourcing is a constructive concept used in business, accounting and other areas. From the
accounting point of view, it is defined as the movement of an in-house service occupation to an outside vendor.

Business Process Outsourcing was not formally identified as a business strategy until 1989 Mullin, R. (1996). However, most organizations were not totally self-sufficient; they outsourced those functions for which they had no competency internally. Business Process Outsourcing support services are the next stage. In the 1990s, as organizations began to spotlight more on cost-saving measures, they started to outsource those tasks necessary to run a company but not related specifically to the core business. Managers contracted with emerging service companies to deliver accounting, human resources, data processing, internal mail distribution, security, plant maintenance, and the like as a matter of "good housekeeping" (Alexander & Young, 1996). Outsourcing components to effect cost savings in key functions is yet another stage as managers seek to improve their finances.

Outsourcing is not new - it has been a popular administration tool for decade. One can safely say outsourcing has evolved:

a) 1960's - time-sharing
b) 1970's - parts of IT operations

c) 1980's - entire IT operations

d) 1990's - alliances/tie-ups

e) 2000's - IT-enabled services

It’s advantageous to buy services from the outside rather than conduct them from within the company and it is because the service providers who focus in these services have developed efficiencies and learned how to offer high quality and competitive pricing.

Traditionally, companies have outsourced for tactical reasons – to reduce costs, free up cash, obtain resources not available internally, and improve their performance. Outsourcing some functions can shift costs from fixed to variable, thus enhancing a company’s ability to manage costs more effectively. If a company is moving into a new arena, outsourcing enables it to add new functions with minimal impact on internal resources. It is difficult to quarrel with cost savings, and the companies that approach outsourcing with careful planning save money. As per the Survey conducted over 30 companies, it was found that
averaged a 9 percent cost savings and a 15 percent increase in capacity can be done by outsourcing.

The outsourcing history in international market is one of phenomenal growth in a very short span of time.

The idea of Business Process outsourcing has its roots in the 'competitive advantage' theory propagated by Adam Smith in his book, 'The Wealth of Nations' which was published in 1776. Over the years, the meaning of the term 'Business Process outsourcing' has undergone a sea-change. What started off as the shifting of manufacturing to countries providing cheap labor during the Industrial Revolution, has taken on a new connotation in today's scenario. In a world where IT has become the backbone of businesses worldwide, 'Business Process Outsourcing' is the process through which one company hands over part of its work to another company, making it responsible for the design and implementation of the business process under strict guidelines regarding requirements and specifications from the outsourcing company. This process is beneficial to both the outsourcing company and the service provider, as enables the outsourcer to reduce costs and increase quality in non core areas
of business and utilize his expertise and competencies to the maximum. And now, we can see the benefit to the service companies in development countries as they mature, prosper and build core capabilities beyond what would generally be possible by the outsourcing company.

Since the onset of globalization during the early 1990s, many successive countries have pursued programs of economic reform committed to liberalization and privatization, e.g. till 1994, the Indian telecom sector was under direct Government control and the state owned units enjoyed a monopoly in the market. In 1994, the Government announced a policy under which the sector was liberalized and private participation was encouraged. The New Telecom Policy of 1999 brought in further changes with the introduction of IP telephony and ended the state monopoly on international calling facilities. This brought about a drastic reduction and this heralded the golden era for the ITES/BPO industry and ushered in a slew of inbound/outbound call centers and data processing centers. Although the IT industry in development countries has existed since the early 1980s, it was the early and mid 1990s that saw the emergence of Business Process Outsourcing. One of the first outsourced services was
medical transcription, but outsourcing of business processes like data processing, billing and customer support began towards the end of the 1990s, when MNCs established wholly owned subsidiaries which catered to the process off-shoring requirements of their parent companies. Some of the earliest players in the market were American Express, GE Capital and British Airways.

The Business Process Outsourcing industry is a young and nascent sector in many nations and has been in existence for a little more than six to seven years. Despite its recent arrival, the industry has grown phenomenally and has now become a very important part of the export-oriented IT software and services environment in many South-Asian region. It initially began as an activity confined to multinational companies, but today it has developed into a broad based business platform backed by leading Indian IT software and service organizations and other third party service providers. The BPO market expanded its base with the entry of IT companies and the ITES market of the present day is characterized by the existence of these IT giants who are able to leverage their broad skill-sets and global clientele to offer a wide spectrum of services. The spectrum of
services offered by Asian companies has evolved substantially from its humble beginnings. Today, Asian companies are offering a variety of outsourced services ranging from customer care, transcription, billing services and database marketing, to Web sales/marketing, accounting, tax processing, transaction document management, telesales/telemarketing, HR hiring and biotech research.

Looking at the success of countries like India, China and their IT/software industry, the Government identified BPO as a key contributor to economic growth prioritized the attraction of FDI in this segment by establishing 'Software Technology Parks' and 'Export Enterprise Zones'. Benefits like tax-holidays generally enjoyed by the software industry were also made available to the BPO sector. The Governments of various states also provide assistance to companies to overcome the recruitment, retention, and training challenges in order to attract investments to their region.
1.4 BUSINESS PROCESS OUTSOURCING: A PROSPECT

1.4.1 Describing: Business Process Outsourcing ("BPO")

While the ITO market, including the offshore services market, is relatively mature, with large, multi-disciplinary deals a relatively regular occurrence, the BPO market is far from mature (contrary to what most vendors will try to tell you).

The earliest form of limited BPO has been going on for decades – payroll processing. Other limited scope BPOs include HR, finance/accounting services, call centers and claims processing, but until a large, multi-disciplinary, "shared services" outsourcing agreement is successfully completed and implemented, the BPO market cannot be considered mature. This isn't likely to happen until one of the Tier 1 providers purchase some large company's shared services functionality and resells those services to other customers.
Because of this uncertainty and immaturity in the BPO marketplace, it is important for BPO customers to spend the time and energy getting these deals structured correctly. One of the most important things for an outsourcing customer to do is understand in detail exactly how the vendor proposes to provide the services. Vendors will persist providing this information. They know that once they are in the door and performing the services, you are unlikely to kick them out due to the pain of bringing in a new vendor. However, a detailed understanding and documentation of exactly what the vendor will do and what the vendor will charge for, it is the only way for a customer to evaluate whether the savings promised by the vendor are actually achievable and whether the pricing structure makes sense.

Business Process outsourcing (BPO) can be defined as the transfer of an organization's entire non-core but critical business process/function to an external vendor who uses IT based service delivery. BPO aims to raise a Client company's shareholder value because it is about delivering outcomes—viz., higher performing business processes. Companies essentially have three kinds of processes: 1) Core processes (which give
strategic advantage), 2) Critical, non-core processes (which are important but are not competitive differentiators), 3) Non-core, non-critical processes (which are needed to make the environment work). No one suggested outsourcing core processes; they recommend investing in them. But many do recommend outsourcing critical, non-core processes to providers who specialize in those processes, because they will invest in it and aim to make them world-class. And most advisors recommend outsourcing all non-core, non-critical processes.

Outsourcing does not mean handing over an entire process. Generally, it means turning over to a BPO provider the “how” aspects of a process—the systems, infrastructure, administration, execution, and some of the design of non-core processes. But retain the “what” aspects of the process—the governance, policy setting, decision making, and strategy of these processes. The intent is to outsource the work (the boring part) while retaining the direction-setting part.

Outsourcing is not a one-time event; it is continuous. Companies that outsource one process later outsource another,
then another—as their strategies change and new outsourcing options open up. The outsourcing field is thus not slowing down. At the moment, BPO is the driving force, and it is developing fast.

1.4.2 Things to consider in a BPO contract

Some critical issues to pay attention to in a BPO contract are:

a) Work scope
b) Rates
c) Term & Termination
d) Performance Guarantees
e) Deflationary Pricing over length of contract
f) Training costs
g) Data Security, Privacy, Confidentiality and Continuity of Business
h) Indemnification and Insurance
i) Financial Strength of Vendor

Fixing a poorly defined contract during a project is very difficult. So getting it right is extremely important for the overall success of any BPO engagement.
Corporations outsource various functions for all kinds of reasons. The most common reasons are to reduce and control operating costs, move from a fixed cost to a variable cost model, improve company focus, gain access to world-class capabilities, and free internal resources for other purposes in that order. BPO also provides start-up companies with a much quicker time to market.

Successful BPO requires three acts:

a) Selecting the right activities to outsource,

b) Identifying the right supplier to provide the services

c) Ensuring the right governance approach for the relationship.

Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns administers and manages the selected process based on defined and measurable performance criteria.

Some of the motivation factors as to why BPO is gaining ground are:
a) Factor Cost Advantage  
b) Superior Competency  
c) Utilization Improvement  
d) Economy of Scale  
e) Business Risk Mitigation  

Availability of highly qualified skill pool and faster adoption of well-defined business processes leads to higher productivity gains without compromising on quality.  

Customers across verticals like Insurance, Banking, Pharmaceuticals, Telecom, Automotive and Airlines seem to be the early adopters of Business Process Outsourcing. Of the vertical listed above, insurance and banking are able to generate bulk of the savings purely because of the large proportion of processes they can outsource like claims processing, loans processing and client servicing through call centers.  

Improvement in cost, quality and productivity has encouraged customers to rapidly scale up their offshore operations. It is no longer seen as a one-time cost reduction
or process improvement but customers are demanding year-on-year improvements in process metrics.

1.4.3 BPO has become so important

*BPO is important because it links to shareholder value.*

As customers have become more sophisticated, they have come to realize that the goal is to link business performance to shareholder value. BPO has gained prominence because people have asked, “When do I get the business result?” BPO is about optimizing business performance to drive value creation.

*Executives want shareholder value from investments.*

This is an important shift in management thinking with respect to IT and shared services. They want to know how shared services and world-class processes are creating shareholder value for the firm. They are likely to ask, “What about partnering with a supplier to sell to their capabilities to the outside?”
BPO has emerged as a repeatable model for reducing costs while increasing service quality.

Businesses have worked for decades to use alliances to combine and leverage their unique skills and access to markets. The building of core functions, while outsourcing non-core functions, has moved from theory to practice. This trend has become increasingly important as globalization expands the range of competitors and innovation rapidly raises the bar in many non-core areas.

*BPO is often the next step after shared services.*

Companies that have centralized services and created a shared services organization have already handled some of the change management issues that arise from BPO. They also often see the next step as BPO.

1.4.4 BPO a key area of focus for large companies

Most of the back-office infrastructures of large firms were built for a previous era - preglobalization, pre-Internet, and pre-M&A.
They must change quickly to meet the need for economies of scale and higher competition. For the large firm, the benefit of BPO is access to best practices, which in turn enables improved efficiency and substantial cost savings.

BPO makes sense in a fast-moving world where management attention needs to be on critical operational processes and where management talent is scarce. Doing fewer things well and delegating what's non-core externally is strategically crucial. Back-offices, while important, are largely non-core.

Corporations are ready for BPO. They understand traditional outsourcing and are more comfortable embarking on more complex outsourcing engagements.

1.4.5 Create a BPO Strategy

The importance of business process outsourcing (BPO) on every organization's bottom line cannot be ignored; however, it is imperative to base outsourcing decisions on more than just cost savings. Business strategy should also be included in the decision process.
The business rationale behind BPO is that outsourcing saves money and focuses scarce management time and resources on a few core competencies. The list of outsourced functions grows daily and includes call centers, order entry, billing and collection, human resources administration, cash and investment management, tax compliance, internal audit and payroll.

The real reason behind the surge in BPO is that companies are becoming more demanding. Cost-cutting and improved service levels are no longer the only result expected from outsourcing. These days, CEOs are demanding value. They want to see, and have come to expect, transformational change from their outsourcing efforts - from changing how human resources are managed to change the way the supply chain operates. The ultimate goal is to link business performance to increased business value.

In BPO, the metrics that matter are business metrics. For example, the key metric for a bank is the cost to administer a mortgage every month. In the insurance marketplace, it is the cost per beneficiary per month that matters. For healthcare firms, the issue is the cost per member per month. These are
the crucial business metrics for which the provider is measured and rewarded.

Some of the expected benefits from outsourcing are:

a) Cost reductions
b) Improved service quality
c) Superior competency
d) Access to leading technology
e) More freedom to focus on strategic activities
f) Increased shareholder value
g) Economy of scale
h) Shared risk

Our research tells us that the biggest cost gains and efficiency improvements from outsourcing tend to come from re-engineering organizational processes and implementing best practices.

1.4.6 Managers considering the BPO option

Research indicates that outsourcing is well suited for a fast-growth economy, in which companies use service providers to
grow rapidly; outsourcing does well in a slow-growth economy, in which companies look to change their cost structures. CFOs are looking at BPO as a way to reallocate resources and focus on core tasks since so many managers are busy trying to juggle broken processes and have little time for vision and leadership.

Managers are looking at BPO as way to deal with application fragmentation. Despite huge investments in enterprise applications such as SAP, Siebel, PeopleSoft and Oracle, corporations' business processes have become bureaucratic and inefficient through decades of acquisitions, divestitures, adoption of new technologies and other changes or adaptations caused by the normal course of business.

BPO offers the opportunity to reorganize and "clean up" a specific function, optimizing it for an organization's current operating structure, competitive environment and technology platform. Moreover, BPO service providers allow a corporation to continue to re-optimize the function over time. The corporate adoption of Internet/intranet technologies and ERP systems is making it easier to deliver many business processes remotely and more efficiently.
1.4.7 BPO a key area of focus for IT service providers

With BPO, the supplier owns and operates the resources, including infrastructure, applications and people to deliver a business process as a service to customers. For the service provider, BPO provides:

A) Attractive economics and the competitive landscape are two reasons why service providers are interested in outsourcing. Relative to other areas of outsourcing, BPO is compelling for three reasons:
   a. Less competition
   b. Higher profitability
   c. It provides a beachhead for smaller or new firms to gain a foothold in the market.

B) Technology enablers eliminate some important obstacles to BPO. The adoption of Internet/intranet technologies and enterprise resource planning (ERP) software is making it easier to deliver many corporate functions remotely and more efficiently. BPO substantially expands the addressable technology services market.
1.4.8 Business processes are candidates for outsourcing

The targeted business processes generally fall into the six areas as defined below:

a) Human resources - payroll, benefits administration, education and training.
b) Logistics/distribution - procurement, transportation, warehouse management and material management.
c) Sales, marketing, and customer service - telesales and marketing, database marketing, Web sales and marketing.
d) Payment services - credit/debt card processing or check processing.
e) Finance/accounting - accounts payable/receivable management, risk management and general accounting.
f) Administration - tax processing, claims processing and document management.
g) Manufacturing - design, production and component inventory management Information Technology - application development and maintenance, desktop support and helpdesk support.
1.4.9 Interested in Business Process Outsourcing

a) CFO who are looking at every option to further cut costs
b) IT Executives under pressure to reduce costs and improve quality
c) Human Resources executives seeking lower transaction processing costs
d) Finance and Accounting executives considering new processing options
e) Customer Care executives building the next-generation virtual global contact center
f) Sourcing executives with cost cutting and offshore mandates
g) Shared Service executives looking to leverage an offshore advantage
h) Outsourcing Providers seeking new ways to reduce cost and improve services
i) Venture Capital Firms targeting the IT and IT-enabled service markets
j) Consultants working with clients to develop and implement an BPO strategy
1.4.10 Vendors active in the BPO market

BPO is a broad category, and many different publicly traded firms can be classified in some way as BPO firms. A representative, though not exhaustive, list of companies that could benefit from BPO would include:

a) Affiliated Computer Services, Exult, Hewitt, and ProBusiness, which are some of the newer companies that we think as best poised to take advantage of BPO today (and where it is a materially significant percentage of revenues).

b) Automatic Data Processing and Paycheques in payroll as well as Concord EFS, First Data Corporation, Global Payments, and Total System Services in payment processing. These are some of the larger, more established outsourcing firms.

c) The well known IT outsourcing firms - Computer Sciences Corporation, Electronic Data System, Fiserv and IBM - have all established large, billion-dollar-plus BPO organizations and should benefit from BPO's growth. These lines of business, however, are still relatively small as a
percentage of revenues (10%-15%), but should be an increasingly important contributor to growth over the next several years.

d) The Big 5 consultants - Accenture, IBM, BearingPoint, Cap Gemini Ernst and Young, and Deloitte - have made particular strides in BPO, leveraging their process improvement-oriented consulting practices.

e) Other companies that could potentially benefit from BPO include Convergys and West Corp. (both in teleservices or customer relationship management) and Interrelate (in CRM).

f) A critical success factor in BPO is teaming with the right provider. To date, few vendors have provided complete, end-to-end BPO solutions. The market is cluttered with point and partial solutions, but this is beginning to change thanks to vendors such as Accenture, EDS, ACS and Bearing Point, and their new one-stop BPO delivery models.