BPO INDUSTRY

The Indian Information Technology (IT) and Information Technology Enabled Services (ITES) industry has been one of the great success stories of modern India. An industry that did exist barely 2 decades ago is now the toast of the nation and the envy of the world. It is arguably the most global of any Indian industry and has created international benchmarks for quality, proving to the world and to ourselves that Indian companies can compete globally and win on quality (Nasscom-Deloitte Study, 2008).

India is at the forefront of the rapidly evolving Business Process Outsourcing (BPO) market and is well established as a’ destination of choice’ among global outsourcing companies. Over the past decade, Indian BPO industry has grown exponentially in size and has significantly matured in export service delivering capability and footprint.

The outsourcing sector is currently valued at $47.8 billion in 2006-2007 and is projected to grow to $150 billion by 2012. India has been a particular beneficiary of IT and Business Process Outsourcing and accounts for 65 percent of Global IT and 46 percent of ITES offshoring market. The Indian IT and ITES sector has been growing and has achieved a revenue increase of tenfold from $4.8 billion in 1998 to 47.8 billion by 2007. The overall contribution of the Outsourcing industry to India’s GDP is still relatively small accounting for only 5.4 percent of GDP in 2006-2007, but projections suggest a figure of 12.3 percent by 2012.

The liberalization of the Indian Telecom sector in 1994 gave an unexpected boost to the ITES/BPO industry. India has turned into a hot destination for global offshore outsourcing companies. The shift of the Indian economy towards more service orientation suggests that in the long term, India will continue to be a major player in the global BPO industry. The number of people directly employed stood at 1.6 million in 2006-07 and it is projected to be 5 million by 2012 and indirect employment includes about 1.2 million jobs in ancillary services like transportation, catering, infrastructure, etc. (Nasscom Strategic Review, 2007).
2.1. THE CONCEPT OF BPO

Outsourcing is a journey of two organizations seeking jointly to overcome predictable challenges (Nakkiran S John; Franklin D, 2005). BPO stands for ‘Business Process outsourcing’ which 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 (Destination India, 2009).

Webster’s Universal Dictionary meaning of “Outsourcing” is: "A company or person that provides information; to find a supplier or service, to identify a source".

The philosophy behind BPO is specific “Do what you do best and leave everything else to business process outsourcers”. BPO creates breakthrough thinking by providing a clear focus on organizations core competencies and then harnessing the unique capabilities of equally talented and focused outside partners to handle non-core competencies.

Alpesh B. Patel et al (2005) defines BPO as the delegation of one or more IT – intensive business processes to an external provider, which in turn owns, administers and manages the selected process based on defined and measurable performance criteria.

It is the long term contracting out of non-core business processes to an outside provider to help achieve increased shareholder value. BPO is a business discipline built on a long term commercial relationship between a process supplier and a process consumer that is enabled by a process infrastructure and maintained at a high level of mutual commitment and collaboration (Nakkiran S John; Franklin D, 2005).

2.2. COMPONENTS OF BPO

In a world where IT has become the backbone of businesses worldwide, 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 it enables the outsourcer to reduce costs and increase quality in non core areas of business and utilize his expertise and competencies to the maximum.

Outsourcing is made up of two words – ‘out’ and ‘sourcing’. Sourcing refers to the act of transferring work, responsibilities and decision rights to someone else. It will be futile for a manager to expel efforts booking a business trip, as it involves intricacies such as finding flights, booking hotel rooms, reserving a rental car that, need not be remunerated at the manager’s salary.

The organization will run at a loss by having a manager conduct the administrative task rather than sourcing it to an individual who is costing the organization less in terms of salary. Hence costs, both real (the salary) and opportunity (the time, attention and effort), are important determinants in the sourcing decision. No organization is self-sufficient, nor does any organization have unlimited resources. Organizations must source work that can be conducted by others at lower cost and with greater effectiveness or it will waste valuable resources in the pursuit of capabilities that can be readily purchased from others. Sourcing is normally conducted with an external party which is external to the unit conducting the sourcing, hence the word ‘out’. An organization can outsource work to another organization or person who is external to it. Sourcing, as discussed above, is the act of transferring work from one entity to another. Outsourcing is the act of transferring the work to an external party.

Organizations are continuously faced with the decision of whether to expend resources to create an asset, resource, product or service internally or to buy it from an external party. If the organization chooses to buy, it is engaging in outsourcing. An outsourcing initiative calls for the transfer of factors of production, the resources used to perform the work and the decision rights. The organization transferring these is referred to as the client, the organization that conducts the work and makes decisions is the vendor, and the scope of the work is captured in a project.
2.2.1 The Major Components:

The simple business process outsourcing model consists of 3 components as:

i. The client
ii. The vendor
iii. The project

Description of the above components is given as follows:

2.2.1.1 The client: A client is the person or organization that would like to outsource a given project. Normally, this entity is thinking about utilizing outsourcing as a strategic tool. A client can be an entire organization or a unit within an organization. If the project being outsourced is the entire IT department of the organization, we can say that the organization is the client. However, if we are only outsourcing the payroll functionality of the human resource department, the client is the human resource department, though indirectly the entire organization is also the client.
2.2.1.2 The Vendor: The vendor is the service provider who will take over and conduct the outsourced work. Vendors come in many shapes and sizes. For instance, a vendor can be an external organization, which is most often the case. However, a vendor can also be a subsidiary of the organization. For instance, Dell Computers has opened operations in places like Brazil, where they own the outfits. Dell routinely sends software work to these locations because of the availability of a skilled workforce and cost savings. Hence, Dell is engaging in what might be called ‘wholly-owned outsourcing’ by outsourcing work to subsidiaries that it owns.

Vendors can be differentiated based on where they are located. Some vendors are located onshore or in the same area as the client. Others are located near-shore, as in the case of potential Canadian companies for US clients. Finally, vendors can be offshore, as in the case of Indian companies for British clients.

2.2.1.3 The Project: The third component is the actual work being outsourced. In the past, the most common form of such work was manufacturing or labour-intensive projects. Today, however, there is move towards the outsourcing of more complex forms of work, such as software development or Research and Development (Mark J Power; Kevin C Desouza and Carlo Bonifaci, 2007).

2.3 OVERVIEW OF BPO OPERATIONS

The basic BPO operations related to the major functions namely Demand Management and Supply Management performed in an organization has been schematically shown in the figure No.2.2. From the diagram, it is clear that the processes/activities that can be outsourced include accounts payable and accounts receivable, telemarketing, negotiation and closing, inquiry handling, field support, payroll benefits, direct procurement, indirect procurement, contract manufacturing, product/service creation, warehouse management, inventory management and logistics distribution.
Figure No.2.2 Overview of BPO Operations

Source: Alpesh. B. Patel and Hemendra Aran (2005)
2.4 BPO SERVICE APPLICATIONS

Following is a list of common BPO service applications:

1. Data Entry Services / Data Processing Services.
2. Data entry from Paper/Books with highest accuracy and fast turnaround time.
3. Data entry from Image files in any format.
6. Data Entry: Yellow Pages / White Pages Keying.
7. Data Entry and compilation from Web site
8. Data Capture / Collection
9. Business Card Data Entry into any Format
10. Data Entry from hardcopy/Printed Material into text or required format.
11. Data Entry into Software Program and application
12. Data Entry for Mailing List/Mailing Label.
13. Manu scripting typing in to word
14. Taped Transcription in to word.
15. Copy, Paste, Editing, Sorting, Indexing Data into required format etc.
16. Data Conversion Services Service Example:
17. Conversion of data across various databases on different platforms.
18. Data Conversion via Input / Output for various media.
19. Data Conversion for databases, word processors, spreadsheets.
20. Receipt and Bill Data Entry, Catalog Data Entry.
21. Conversion from Page maker to PDF format.
22. Conversion from Ms-Word to HTML format.
23. Conversion from Text to Word Perfect.
24. Conversion from Text to Word to HTML and Acrobat.
25. Convert Raw Data into required MS Office formats.

2.4.1 Simple Examples of BPO Jobs:

Anandkumar V et al (2008) describe the following situations to give a clear picture of BPO jobs and its related processes:

1. Suppose we have to go to a bank and open a new account. The form gets updated by someone in the system and we soon get a mail with your new account number and password.

2. After we travel and come back to office, we submit the bills; someone checks it and credits the amount to the bank account.

3. Suppose we have to buy a mobile phone and someone in the service provider’s back office needs to set us up on the network and provide us with the right set of services.

4. A research professor wants to get details on a certain area and does not have time to surf through a detailed website. He seeks the help of someone like a research assistant.

5. An insurance company wants relevant information on the highest liability age group for a certain product. They have the data, but want someone to analyze it.

6. Suppose that our personal computer (PC) crashes and we need to get it fixed in time for an urgent presentation. You call up the toll-free number of your PC’s manufacturer and someone helps you troubleshoot and solve the problem.

7. Assume that we need to book a ticket and call the leading airline company. Someone helps you with the best rates, books your ticket, charges your credit card, and sends you confirmation by email.

2.5. EVOLUTION OF GLOBAL BUSINESS PROCESS OUTSOURCING

Outsourcing is not a new phenomenon. Adam Smith wrote about it 200 years ago! The theory of ‘Cost Advantage’ and Michael Porter’s ‘Value Chain Concept actually paved the way for BPO. It has been in use since the beginning of the 20th century, when Henry Ford decided that instead of owning rubber plantations to produce its own tires it could simply outsource them. The concept of outsourcing started with Ross Perot when he founded Electronic Data Systems in 1962 (Nakkiran S John; Franklin D, 2005).
The evolution of Global Business Process Outsourcing can be explained using the table given below:

**Table No.2.1 Evolution of Global Business Process Outsourcing**

<table>
<thead>
<tr>
<th>Period</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1776</td>
<td>Adam Smith’s Wealth of Nations propagates competitive advantage through outsourcing. Though the term ‘outsourcing’ itself was not used then.</td>
</tr>
<tr>
<td>18\textsuperscript{th} – 19\textsuperscript{th} centuries</td>
<td>With whaling fleets and floating factory ships, the concept of ‘offshore manufacturing’ gets a fillip.</td>
</tr>
<tr>
<td>Early 20\textsuperscript{th} century</td>
<td>Companies like Ford Motors own everything, even forests to make rubber for car tires. General Motors runs a 2,000 people HR and travel desk to cater to its employee needs.</td>
</tr>
<tr>
<td>1940s</td>
<td>ADP starts with handling payroll outside companies. Today the $8 billion, 41,000 employee payroll expert handles payrolls for one in six US workers and recently opened office in India.</td>
</tr>
<tr>
<td>1960s</td>
<td>EDS develops an integrated system to process health insurance claims, accelerates growth of transaction processing business.</td>
</tr>
<tr>
<td>1970s-1980s</td>
<td>Hundreds of call centre’s spring up in the US and the UK Convergys, the largest call centre company (70,000 employees today) started as a captive unit of Cincinnati Bell. US companies from oil majors, telecom operators, pharma firms to FMCG firms outsource customer care, telemarketing, payroll and other functions.</td>
</tr>
<tr>
<td>1980-1990</td>
<td>US and European companies start shifting work to Ireland, Israel and Canada. Ireland particularly benefits as costs are lower and it offers multi-language capability. At their peak the over 100 call centers in Ireland employ over 300,000 staff.</td>
</tr>
<tr>
<td>1990-1999</td>
<td>C.K. Prahlad’s core competency theory expounded in a Harvard Business School paper caught the imagination of big corporations around the world. The basic lessons of the theory – identify your core competencies, focus on them and get out of everything else. American Express, Swissair, British Airways and General Electric (GE) start captive units in India.</td>
</tr>
<tr>
<td>1999</td>
<td>The New Telecom Policy of 1999 ended the state monopoly on international calling facilities. This heralded the growth of inbound/outbound call centers and data processing centers. One of the first outsourced services to third party players was medical transcription. Though outsourcing of business processes like data processing, billing, and customer support began towards the end of the 1990s when MNCs established wholly owned subsidiaries.</td>
</tr>
<tr>
<td>2000</td>
<td>Third party players spring up in India. By 2005 end, over 300 open shop in India and beyond. Some of them even set up operations outside. About 45 global destination BPO bandwagon are now competing to get a slice of the annual $300 billion outsourcing pie.</td>
</tr>
</tbody>
</table>

**Source:** Business World- BPO Industry Report (2008)
2.6 BIRTH OF BPO INDUSTRY

Historically, the idea of outsourcing has its roots in the ‘competitive advantage’ theory propagated by Adam Smith in the Wealth of Nations published in 1776. The origin of the BPO industry in India goes back to the mid-1980’s. Several European airlines started using New Delhi as a base for their back office operations, British Airways (BA) being one of them. The BA captive was finally spun off as a separate organization called WNS, which is today one of the largest third-party BPO player in the banking, finance, security and insurance (BFSI) and travel sectors.

In the second half of the 1980’s, AMEX consolidated its Japan-Asia Pacific (JAPAC) back office operation in New Delhi. This centre was headed by Raman Roy and several leading name of the BPO industry have been associated with it at some point in their careers. GE and the vision of Jack Welsh has been one of the key drivers of the global outsourcing industry. Jack proposed that seventy per cent of all IT/BPO work in GE had to be outsourced. Out of this 70 per cent had to be outsourced to developing countries and 70 per cent of this had to be outsourced to India. This philosophy has been followed in spirit and in action. GE’s success has led to other companies emulating it (Anandkumar V and Subhasish Biswas, 2008).

2.7 EVOLUTION OF CALL CENTERS

Customer Relationship Management (CRM) is a segment of the multi-billion globe-girdling business process outsourcing (BPO) industry which has sprung up during the past two decades in the wake of the information technology and telecom revolution in the Western World. Under the BPO umbrella fastest of the starting blocks and building momentum is the CRM or call center service industry.

2.7.1 Origin of Call Centers: Sometime around 30 years ago, the travel and hospitality industry began to centralize their reservation centers into what we would recognize now as huge call centers. Banks have also used them since the 1970s at least, and later in that decade, with the rise of the catalog shopping movement and outbound telemarketing, call centers became a staple within many industries.

Each industry, however, had its own way of operating centers, its own standards for quality, and it’s on preferred technologies. This balkanization of the industry persisted.
until early in the 1990s, when call center managers became more recognized as having a consistent set of skill and an operational. The trend of outsourcing customer support services (also called as call centers) to India began in 1998, when GE established a facility in Noida, near New Delhi. The ever expanding offshore IT and BPO market in India is a result of the country’s significant edge over competitors in key segments. First and foremost is India’s leadership in the area of skilled IT and BPO professionals. India has one of the largest pools of low-cost English speaking scientific and technical talent, which makes it one of the most preferred BPO destinations.

A call center is an information service bureau with a strong tele-communications network manned by trained professionals at its core. It usually has access to a wide data base, internet and other support infrastructure to provide information and support services to customers and to discharge customer-related functions like sales and marketing, complaints handling, relationship and account management for business organization. Call center ‘agents’ in India manage credit card, insurance, telemarketing and product complaints of (usually) US and UK based corporate (Nakkiran S; John Franklin D, 2005).

2.7.2 Elements of a Call Center: The three main elements involved in running a Customer Relationship Management (CRM) center (call center) are Computer Telephony Integration (CTI), Contact management application software and the telephone network.

The Computer Telephony Integration (CTI) is the major element in a call center and it offers any company that implements a CRM center the ability to maximize the use of information about its customers, which may be most valuable asset the company owns. Other important elements include firstly Automatic Call Distribution (ACD) to automatically distribute incoming calls to agents and to monitor the response times and distribution of work.

Secondly an Interactive Voice Response (IVR) system to lead the caller through a menu structure enabling him or her to automatically carry out transactions such as the transfer of money, getting a balance, requesting fax-back information and ordering tickets or goods. Advanced features associated with CTI include Screen Pop-up, which allows information on the calling customer and his requirements to be presented at the agent’s desktop screen. Also the other elements namely contact management software and the
telephone network is organized as per their requirement in the centers (Nakkiran S John; Franklin D, 2005).

2.8 SCOPE OF OUTSOURCING

The BPO functions that are outsourced can be divided into horizontal services and vertical services. Horizontal services and Vertical services have been explained under separate titles as given below:

2.8.1 Horizontal Services: These cover a wide range of services like Human Resource (HR), Finance and Accounting and CRM, which are common to all industries. Outsourcing is more common in these processes as they are typically back-office processes and do not offer much competitive advantages to the outsourcer. The services under horizontal services group can be described as follows:

2.8.1.1 Finance and Accounting: Typical activities in this area include management of accounts payable/receivable, bank reconciliation, fixed asset management, cash management, financial reporting, and risk management. The finance and accounting outsourcing market is worth $15 billion and is expected to register a growth rate of 13% annually.

2.8.1.2 Customer Services: This involves providing support for marketing, technical help, advice or disbursing information. Contact centers are generally equipped with high-tech telecom infrastructure, trained consultants, and access to required databases, internet and other online information resources. These centers provide customer service on a continuous basis, often 24 hours a day, 7 days a week. In many cases, the vendor deals directly with the client’s customer, calling for a greater level of maturity of the vendor and personnel.

2.8.1.3 Transaction Processing: Transaction processing activities that are normally outsourced include processing of sales order entry, claims, loans, cheque, applications, credit card and reconciliation.
2.8.1.4 Human Resources: Human resource outsourcing encompasses activities relating to payroll, benefits administration, training, recruitment, expense management, and travel and employee records management. Payroll services encompass looking after payroll statements, bonuses, commissions, tax payments, etc.

Employee records management includes personnel forms, policies, procedures, and performance management records. The vendor is also in charge of complying with state and federal laws. Globally, HR is one of the most widely outsourced business processes.

2.8.1.5 Content Development: Content development activities that are usually being outsourced are animation, design services, multimedia CD and DVD authoring, web development services, development and maintenance of e-learning technologies, such as learning management systems (LMSs), content management systems (CMSs) and authoring platforms, etc.

2.8.1.6 Financial Research: This is a new area in the field of outsourcing and includes activities such as data maintenance, basic financial analysis, research, financial modeling etc. This enables senior analyst at the home location to focus on client interactions and other value-added activities. Examples of companies that have adopted this include JP Morgan, Citigroup and Morgan Stanley which have set up operations in India for this very purpose.

2.8.1.7 High-end Engineering: This includes activities such as design, research and development and high end engineering. These are, in most cases, central to the company’s business and require personnel with high skill levels. Majority of these functions are typically out sourced/off shored to captive setups.
2.8.2 Horizontal Services -Diagrammatic presentation:

The following Fig: No.2.3 gives a clear schematic representation of the scope of business process outsourcing activities -Horizontal services.

**Fig No: 2.3 Scope of outsourcing activities-Horizontal services**

<table>
<thead>
<tr>
<th>Finance &amp; Accounting</th>
<th>Customer Service</th>
<th>Transaction Processing</th>
<th>Human Resources</th>
<th>Content Development</th>
<th>Financial Research</th>
<th>High-end Engineering</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Transaction management</td>
<td>• Inbound calls</td>
<td>• Claim processing</td>
<td>• Payroll</td>
<td>• Animation</td>
<td>• Engineering</td>
<td></td>
</tr>
<tr>
<td>• Billing</td>
<td>• Outbound calls</td>
<td>• Credit card processing</td>
<td>• Benefit administration</td>
<td>• Graphics</td>
<td>• Research &amp; development</td>
<td></td>
</tr>
<tr>
<td>• Tax Management</td>
<td>• Tele marketing</td>
<td>• Loan processing</td>
<td>• Recruiting</td>
<td></td>
<td>• Design</td>
<td></td>
</tr>
<tr>
<td>• Financial analysis</td>
<td>• E-mail support</td>
<td>• Cheque processing</td>
<td>• Training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Risk management</td>
<td>• Market survey</td>
<td>• Collection</td>
<td>• E-learning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Financial reporting management</td>
<td></td>
<td></td>
<td>• Record management</td>
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<td></td>
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</tbody>
</table>

Source: Alpesh B Patel; Hemendra Aran (2005)

2.8.3 Vertical Services

These services are specific to certain industries, for example, claims processing is specific to the Insurance sector. Industries that have taken the lead in outsourcing and dominate vertical focused services are financial services, insurance, healthcare, and securities.

The vertical services mentioned above are explained as follows:

2.8.3.1 Healthcare: Healthcare industry is expected to be one of the biggest beneficiaries of outsourcing. Timely execution of processes and reduced costs help the healthcare providers improve their service levels and contain their rising costs. Some of the processes commonly outsourced in healthcare services are medical billing, claims adjudication, cashless hospitalization services, medical transcription and IT.
2.8.3.2 Financial Services: Financial institutions and banks have been leaders in outsourcing business processes. Customer care and transaction processing are the most commonly outsourced functions. Some of the other functions that are outsourced are tax processing, asset management, human resource, loan and mortgage processing. However, there is now a shifting to outsourcing core activities like treasury and investment banking activities like research support etc.

2.8.3.3 Insurance: Insurance has been a late entrant to the world of outsourcing. Increased competition and volatile economic and political landscape has prompted insurance companies to look at outsourcing to improve efficiency and reduce cost. Outsourcing in insurance companies is expected to show a double-digit growth. Insurance companies have outsourced processes like application processing, underwriting, claims adjudication and customer care.

2.8.3.4 Airlines: Airlines have been forerunners in the field of outsourcing, customer care, data services, loyalty programs, revenue accounting, cargo support and revenue recovery processes have been typically outsourced in this area.

2.9. CURRENT DRIVERS OF BPO

The Outsourcing business has grown manifold primarily because it’s major benefits (drivers). The significant BPO drivers are listed and explained as follows:

2.9.1. Cost Reduction

Cost savings are realized due to economies of scale, continuous improvements in processes and low wage rates in developing countries. Off shoring presents a great opportunity to reduce costs. Labor forms an important part of the costs structure as these processes are predominantly labour intensive.

In a competitive market, companies have to look at reducing their costs in order to stay competitive. Incidence of fixed cost for owning the process lies with the company. For example, if a company owns a call center, it has to incur fixed costs for setting it up plus the running costs of the call center. This scenario can be avoided if company outsources call center operations, converting the fixed costs into variable costs. The vendor will be responsible for the capital costs involved in setting up the center while outsourcer will be
charged only if he uses the service. This will enable the company to manage its resources effectively as a scarce resource like capital is freed for other purposes. While outsourcing within a country can lower costs, shifting processes to an offshore location reduces costs substantially. For example, moving the process to a low cost location like India would result in typical cost savings of 40-50 percent. Given the most outsourced processes are largely standardized; savings are directly proportional to scale of work offshore. For illustration, Citibank saves around $75 million annually by outsourcing its back-office operations to India.

2.9.2. Focus on Core Operations

Offshore outsourcing is strongly influenced by need for focusing on core activities. Outsourcing processes frees up management time and capital and enables best utilization of the two. Once the core processes are identified, the company should target to outsource peripheral / support business processes. Outsourcing these business processes will help management concentrate on core activities, thus enabling the company to strengthen its position in the market.

Benefits of outsourcing are also manifested in peripheral processes, as non-core to the company is core to the outsourcing provider. Hence, non-core processes will receive greater attention from the provider than it would have received from the company’s management. Most vendors try to meet quality standards like Six Sigma and CMM SEI, resulting in dramatic improvements in quality. As the error and rework is reduced, cost of running a process falls. Hence, outsourcing benefits both the vendor and the outsourcer.

2.9.3. Shared Infrastructure

An individual company, usually, has limited ability to increase the utilization of infrastructure assets (facilities, networking, computer equipment, support staff, and management) beyond its own purposes. Outsourcing enables multiple companies to split the infrastructure costs with other companies thereby, lowering their cost. Another dimension of offshore BPO is that back-office and call center work can be performed from the same work stations at alternate times taking advantage of time zone differences.
2.9.4. Improvements in Service Level
Non-core for the outsourcer is core for the vendor. Vendor focuses on re-engineering and running the processes efficiently. Since, it is a core activity for the vendor; he would strive to bring about improvements in the process outsourced and deliver superior quality standards. There are a number of examples to illustrate this benefit. For example, Amex experienced higher first call resolutions and less error work in its captive units in India. Similarly, Dell witnessed nearly 40% improvement in their outsourced technical help desk performance in terms of the first call resolution.

2.9.5. Access to Large Talent Pool
Countries like US experience shortage of professionals, which results in companies paying a premium for availing their services. They also have to pay for retaining that talent. The costs for recruiting and retraining fresh staff are also higher, in case an employee decides to quit for better paying jobs.

However, countries like India where labor pool is large and diverse provide an abundant supply of professionals. Shifting processes to these countries will enable the company to access large talent pool at a fraction of cost in their country. Also the jobs, which are considered low end in developed countries, are rated very high in the developing world. Hence, the outsourcer would have access to large pool of qualified personnel in these countries.

2.9.6. Process and Product Innovation
If the process is a non-core activity for the company, maintaining best systems and practice for executing the process takes a back seat. However, if the process is outsourced, the vendor tries to incorporate best available systems. Hence, the vendor has a large experience base enabling him to leverage his learning and employ best practices to eliminate, simplify, and rationalize steps and costs in the business process to the benefit of the clients. Additionally, BPO firms are usually motivated to improve the process to increase their efficiencies in order to reduce the costs because they are paid for completed work at contracted service levels.
2.9.7. Leveraging Multiple Time Zones
If the functions are off shored to India, outsourcer can leverage different time zones. Difference in time zone enables faster development cycles. Some part of the process can be executed in the US in the daytime and then transferred to India. This will enable the company to work 24 x 7. The vendor can utilize the workplace for call center activity in the nights and processing or non-voice work during the day. This enables better utilization of resources and reduces cost per activity (Alpesh.B.Patel, Hemendra Aran, 2005).

2.9.8. Changing Customer Needs
Outsourcing provides management with flexible and scalable services to meet their customers’ changing requirements. Alternatively, the company would have to invest in regularly upgrading its systems and manpower skills to keep in line with customers’ requirements. Outsourcing transfers the onus of investing in upgrading infrastructures and employee skills to the vendor.

2.9.9. Improving the Bottom-line
According to McKinsey study (2007), off shoring can result in a savings of 40-50% cost savings, which has a potential of being increased to 60-70% through reengineering and task level improvements like training, etc. The study also states that off shoring and re-engineering a contact center service process will have a positive impact of 40-50% on the bottom-line.

2.9.10. Business Risk Mitigation
There are strategic benefits from business process outsourcing- such as improved performance, profitability and shareholder value.

2.9.11. Maintain Competitive Edge
It enables to focus on building a more competitive business, and provide the supporting systems and services to help companies compete more effectively in the global marketplace.
2.9.12. Obtain Outside Expertise
Vendor firm’s top business, industry and technical specialists provide management with valuable guidance and skills which are their core competencies and which the company may have not had in-house.

2.9.13 Gain Access to advanced Technology
Vendor’s designs and implement leading-edge enterprise systems to support the business process and so manage the technology infrastructure with lower capital investments and training costs.

2.9.14 Make Continuous Improvements in Process
Vendor’s designs build and manage the business processes to operate better, faster and less expensive and work with clients to make continuous improvements in process effectiveness and efficiency.

2.9.15 Achieve World-class Standards/ Benchmarks
Vendors re-engineer business processes to incorporate the best-in-class practices of the world’s leading companies and use the performance measures and benchmarking to improve performance and costs.

2.9.16 Gain Greater Internal Flexibility
Through Outsourcing management can focus on more strategic issues and other important company initiatives and has more flexibility to assign staff and allocate resources to higher-value projects which will vary from customer to customer and industry to industry. (Nakkiran S; John Franklin D, 2005).

2.10 LIMITATIONS OF BPO
Outsourcing has given the global IT and ITES Industry numerous valuable advantages which allowed the sector to maintain their leadership even in the situations like recent economic recession.
Despite the huge benefits of outsourcing, there are inhibitors or limitations for outsourcing. They are listed and explained as follows:

2.10.1 Service quality
The offshore BPO industry is not as matured as IT services. This may affect the service quality in some cases. The company should bear in mind the maturity of vendors before outsourcing. It would be better to set up captive operations if the vendors lack expertise in executing the process to be outsourced. The outsourcer should take into account implications of vendor’s failure to provide to perform on his business.

2.10.2 Data Security
The most obvious risks in BPO revolve around the access, storage and transfer of data. Compliance with regulations and US privacy laws – that require financial-services companies to protect the privacy of customer data and prohibits them from sharing it with other entities without permission are driving organizational efforts to secure their data. Countries like India do not have robust data security laws. This may be a matter of concern to outsourcing companies, as the vendor may have access to some sensitive information. To mitigate this problem, outsourcers tend to prefer top BPO vendors, like Infosys, Wipro, etc.

2.10.3 Staff Redeployment Issue
Off shoring has been one of the major reasons that cause job losses in America. Though the job losses are more so due to the economic downturn than off shoring, it has contributed its share to American worker’s woes. Due to this, many states in US have taken steps to counter offshore outsourcing. The social cost of outsourcing is too large for any company to ignore. Fallout of outsourcing is loss of goodwill and low morale of existing staff. The company might be able to mitigate the problem to some extent by investing in staff retraining and redeployment to the extent possible.

2.10.4 Geopolitical Risks
Before venturing offshore, the company should examine border unrest, religious fabric of the country, government policies, terrorism, etc. With terrorist activity on the rise, the company should assess such risks before entering into an agreement with the vendor.
2.10.5 Cultural Differences
Cultural differences need to be effectively managed through exchange programs and by training the initial workforce at domestic facilities. However, some companies may prefer outsourcing to locations having cultural proximity to its home country.

2.10.6 Regulatory issues concerning off shoring
Some states in the US have introduced laws banning companies performing state contacts from off shoring their work to low cost locations or subcontracting the work to overseas companies. New Jersey was the first to an outsourcing of state contracts to companies using overseas labour. Although, this legislation does not seem to have a large impact on India, what the Indian companies need to be concerned about is the level of data protection and privacy laws prevailing in the country. Some of the impending bills require stringent data protection and privacy conditions to be considered before off shoring processes.

2.10.7 Financial problems with the Vendor
The company that outsourcers can get into serious trouble if the service provider refuses to provide business due to bankruptcy, lack of funds, labor etc.

2.10.8 Loss of Control
Outsourcing requires the control of the process being outsourced transferred to the service provider. Thus the company may lose control over its process (Alpesh B Patel; Hemendra Aran, 2005).
2.11. BPO INDUSTRY CLASSIFICATION

2.11.1 General Classification

The organizations/players in the BPO industry can be generally segregated under four broad areas as indicated in the Figure No.2.4 given below.

**Figure: No.2.4 BPO Industry Segregation**

The four major areas included in the BPO sector are bulk task-based service providers, process experts, service line experts, and bundled service providers. The Indian industry has scaled the levels of being a bulk task provider, process expert, and service line expert. The quality of work, rates, and challenges start getting more complex as we move up the chain.

The big players of the business are keenly looking at the top tier of the business. It is an area where the global players like IBM, Accenture, and Cape Gemini have consolidated their place. Their consulting background has helped them win large turnkey contracts spread over extended durations. The jargon used for such deals is ‘total outsourcing’ and every year there is multi-billion dollar valued total outsourcing deals being awarded.

Source: Anandkumar & Subhasish Biswas (2008)
2.11.2 Voice and Non Voice BPO Classification

Focusing on the basics, the BPO industry can be broadly classified into 2 broad areas namely voice BPO processes and non-voice BPO processes. The key differences between the voice and non-voice companies of the BPO industry are given below in Table No.2.2.

**Table No.2.2.** Comparison between Voice and Non-Voice Processes

<table>
<thead>
<tr>
<th>Voice</th>
<th>Non-Voice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real time.</td>
<td>Real time and batch.</td>
</tr>
<tr>
<td>It is difficult to provide multi-country support because of language challenges.</td>
<td>Easier to provide multi-country support</td>
</tr>
<tr>
<td>Customer identifies you with the brand.</td>
<td>Since it is not interactive, there is no direct correlation with a brand.</td>
</tr>
<tr>
<td>For example, a Dell Computer user calling a call centre thinks he is talking to a representative from Dell.</td>
<td></td>
</tr>
<tr>
<td>The focus of training is first on communication, accent, etc., before moving on to processes.</td>
<td>The focus is on processes.</td>
</tr>
<tr>
<td>Need for specialization in domain is limited.</td>
<td>Requires specialization and can evolve into a professional career track.</td>
</tr>
<tr>
<td>Errors, if any, have limited liability.</td>
<td>Errors/delays, if any, can have high liability. For example, change in interest rate can wipe away huge amounts of money if the work is not completed as scheduled.</td>
</tr>
<tr>
<td>Requires large investment in technology, links, etc.</td>
<td>Requires smaller investment.</td>
</tr>
</tbody>
</table>

*Source: Anandkumar & Subhasish Biswas (2008)*

There is a world of difference between the two sets of businesses. The non-voice component is also called Transaction Processing (TP). The non-voice business has a clear relationship with the IT business. It is easier to get started and to scale up.

Both, however, call for high levels of risk management and require high levels of adherence to compliance norms. The centers being set up for these businesses have to ensure foolproof safeguards against any malpractices. Data security and the use of technology are the keys to success in this industry. As part of the data protection drive,
employees could be asked to sign a non-disclosure agreement and abide by it. As a security measure, BPO companies have embarked on policies that restrict employees from taking laptops, mobile phones, and cameras to the operation floors. The data scribbled by an employee while working on the floor needs to be stored before the employee leaves the operation floor. Data accessibility could be restricted as per the levels of authority as prescribed by the authorization matrix in the procedure manual. Periodic audits will help in plugging the loopholes. The audits could be internal as well as client-mandated external audits.

2.11. 2.1 Voice BPO business
The BPO voice business can be broadly divided into the following two major categories as Inbound and Outbound.

The Inbound and Outbound voice business is described as given below:

i) Inbound Calls
During an inbound call, a customer calls a dedicated number or toll-free number in order to get information or help for resolving a problem.
Examples of inbound call include:
   a) A frequent traveler in an airplane calling an airline to check on his mileage points or to book a ticket.
   b) A consumer calling a company to sort out a problem with a faulty device or to request the assistance of a service engineer.
   c) A credit card user calling his bank to inquire about his transactions, check for any incorrect transactions, or to reset his password.
   d) A consumer calling a trading house to buy or sell shares.
Inbound calls can be further classified as technical and non-technical calls. A technical call can be from the use of a product, for example, a PC or laptop. A non-technical call would be from a person wanting to buy an airline ticket, a person seeking information on an enquiry service, a call to reset a password, or enquire about one’s credit card balance. Technical calls tend to be longer, in some cases lasting 18-20 minutes. Non-technical calls tend to be less than 5 minutes in duration.
ii) Outbound Calls

Outbound calls are normally collection, or sales calls. In a company specializing in outbound calls, there would be a battery of callers who keep calling existing and prospective customers.

Examples of Outbound Calls include:
   a) Reminding a customer to pay his insurance premium.
   b) Trying to sell credit cards/personal loans.
   c) Follow up from a bank to remind a customer to pay credit card arrears.
   d) Customer survey and feedback.

Outbound calling is like cold calling and can be very frustrating. Most outbound callers are measured on their effectiveness in selling and closing a deal, and in collection of dues. It would be normal to see an outbound caller making over 100 calls a day. The entire load of balancing call volume is done through hi-tech gadgetry that distributes the load between multiple players across the globe.

2.11.2.2 Non-Voice BPO

The non-voice BPO is closely associated with the IT business. It has a more complex picture. This is also called as transaction processing.

The non voice business has been split under following areas:
   a) Data entry, medical transcription, etc.
   b) Rule-based processing like order processing, provisioning, finance and accounts, etc.
   c) Domain-specific processing like investment banking, analytics, reporting and planning, research, audit (can be collectively termed as KPO).

A transaction processing BPO firm is supposed to maintain agreed quality parameters as applicable to the process as the data / transaction worked upon could make or break a business. For example, processing a telegraphic transfer of a bank and sending money across the globe with the right exchange rate, currency, value date, and destination becomes very important. Any error would cause a delay. This delay would attract interest depending on the rates applicable as agreed by the bank with the customer. The customer sending/receiving money could also stand to lose significant amounts of money if there
are any delays as the exchange rate fluctuates with time. Thus, the customer could incur secondary losses. Similarly, in an insurance-related BPO firm, if a claim is wrongly processed / reconciled, it may lead to serious litigation.

Companies are pegging their future on the growth of non-voice BPO. It is estimated that globally over 70 per cent of the BPO business and 25 million of the 30 million BPO jobs are accounted for by the transaction processing BPO firms.

2.12 BPO MARKET ESTIMATES

The IT/ITES industry’s contribution to the country’s GDP has been steadily increasing from a share of 1.2% in FY98 to 5.2% in FY07; it has contributed to foreign exchange reserves of the country by increasing exports by almost 36% and its direct employment as grown at a CAGR of 26% in the last decade, making it the largest employer in the organized private sector in the country. In addition, it also indicates that the IT/ITES industry has significantly contributed through socially relevant products/services and community initiatives in human resource development, education, employability, health, encouraging women empowerment and employment of differently disabled and ‘out-of-the-mainstream’ candidates (Nasscom-Deloitte Study, 2008).

Among the business functions that are normally outsourced, logistics is the largest segment, accounting for 42% of total spend on outsourcing followed by sales and marketing, which accounts for 34%. While the share of logistics is expected to remain stagnant at 42%, sales and marketing is estimated to go down to 27%. Engineering and R & D is likely to grow at the expense of sales and marketing to about 6% in 2008 from the current 2%.

The growth of different segments is driven by diverse factors. Logistics outsourcing is driven more by strategic considerations than cost, given the increasing adoption of integrated offerings and full service providers. Strategic considerations and need for access to efficient skilled talent is pushing companies to outsource even key activities such as engineering and R&D (Alpesh B Patel; Hemendra Aran, 2005).
2.13 INDIA AS AN IDEAL BPO DESTINATION

Globally, India has been considered as the most preferred destination for BPO companies. The key growth drivers of Indian ITES-BPO can be stated as follows:

1. Abundant talent
2. Sustained cost competitiveness
3. Continued focus on quality
4. World class information security environment
5. Rapid growth in key business infrastructure
6. Enabling business policy and regulatory environment

The above 6 key growth drivers are instrumental in promoting India as the most preferred BPO destination. Following gives the description of the factors:

2.13.1 Abundant Talent: Demographic profile is an inherent advantage complemented by an academic infrastructure that generates a large pool of English speaking scientific and technical talent with domain expertise in specialized areas. Talent suitability concerns are being addressed through a combination of government, academia and industry led initiatives. These initiatives include national rollout of skill certification through NAC (NASSCOM Assessment of Competence), setting up finishing schools in association with MHRD to supplement graduate education with training in specific technology areas and soft skills and MoU’s with education agencies like UGC and AICTE to facilitate industry inputs on curriculum and teaching and develop faculty development program.

2.13.2 Sustained cost competitiveness: India has a strong track record of delivering a significant cost advantage, with clients’ regularly reporting savings of 25-50 percent over the original cost base. The ability to achieve such high levels of cost advantage by sourcing services from India is driven primarily by the ability to access highly skilled talent at significantly lower wage rates and the resultant productivity gains derived from having a very competent employee base. This is further complemented by relative advantages in other elements of the cost structure (e.g. telecom) that contribute to India’s cost competitiveness – even when compared to other low-cost destinations.

2.13.3 Continued focus on quality: Demonstrated process quality and expertise in service delivery has been a key factor driving India’s sustained leadership in global
service delivery. Since the inception of the industry in India, players within the country have been focusing on quality initiatives, to align themselves with international standards. Over the years, the industry has built robust processes and procedures to offer world class IT software and technology related services. More than 200 companies are quality accredited and serve over 255 Fortune 500 companies.

2.13.4 World class information security environment: Stakeholders of Indian BPO recognize fool proof security as an indispensable element of global service delivery. Individual firm level efforts are complemented by a comprehensive policy framework established by Indian authorities, which has built a strong foundation for an ‘info-secure’ environment in the country. These include strengthening the regulatory framework through proposed amendments to further strengthen the IT Act 2000, scaling up the cyber lab initiative, scaling up the National Skills Registry (NSR) and establishing a self regulatory organization.

2.13.5 Rapid growth in key business infrastructure: Excellent telecom infrastructure and rapid growth in key business infrastructure has ensured unhindered growth and expansion of this sector. The BPO sector has been a key beneficiary with the cost of international connectivity declining rapidly and service level improving significantly. The growth is taking place not only in existing urban centers but increasingly in satellite towns and smaller cities. Critical business infrastructure such as telecom and commercial real estate is well in place; improving other supporting infrastructure a key priority for the government. STPI infrastructure available across the country and good supportive regulations along with magnitude of investments shows government support to the industry.

2.13.6 Enabling Business policy and Regulatory environment: The enabling policy environment in India was instrumental in catalyzing the early phases of growth in this sector. Policy makers in India have laid special emphasis on encouraging foreign participation in most sectors of the economy, recognizing its importance not only as a source of financial capital but also as a facilitator of knowledge and technology transfer. The Indian ITES-BPO sector has benefited from Investor friendly policies of Indian Government. The participating firms enjoy minimal regulatory and policy restrictions along with a broad range of fiscal and procedural incentives.
2.14 THE PROCESS OF WORKING OF BPO

The service provider starts by working with the client to determine what information the client needs to manage the business and make informed decisions. The client’s specific requirement in the needed area is clearly identified and the vendor starts working on that process. Also an assessment of the client’s processes up-to-date has been done and the BPO provider uses best practices to design business processes that will capture the necessary information.

In any industry, perhaps as much as 80% of the business process can be considered standard. That means a BPO provider can come to clients with a proven blueprint for the majority of their process. Expertise of that sort enables the BPO provider to offer not only superior insight and speed of implementation, but also its proven process methodology and software expertise enables it to design processes quickly and cost effectively, and at the same time, to be best in class. For example, this may include technologies like imaging and workflow in high volume transaction processing environment or special project accounting functionality provided to clients with many consultants in the field.

In partnership with a systems integrator, the BPO provider works with its client to design the accounting systems and the software to make the process work. By working this way, the BPO provider can serve as the client contact while the integrator stays behind the scenes. This involves a combination of enterprise software integration as well as the customization necessary for the client to meet their reporting needs. A full-service outsourcing company provides the processors who handle accounts payable, accounts receivable, payroll, general ledger accounting, fixed assets, preparation of financial statements, and other processes.

These individuals usually work at a shared services center, located wherever prices for real estate and skilled labor dictate. They don’t have to be near the client. Some may be former employees of the client who have moved over the BPO provider’s payroll. All are experienced financial and accounting professionals, attracted to the BPO provider in part because its core competency is in their area of expertise. The draw here is that outsourcing can lead to better opportunities for financial professionals because they can move from the company’s back-office to the BPO’s front office and they get all the associated benefits of being a contributor to their company’s back-office to the BPO’s
front office and they get all the associated benefits of being a contributor to their company’s core focus.

2.15 OUTSOURCING CONTRACTS
Elizabeth Anne Sparrow (2007) explains the outsourcing contracts in offshore outsourcing focusing on contract structure, service level agreement, negotiations, contract award, transition and managing performance. Contracts carry a number of potential risks. Control and risk mitigation are therefore key concerns and the outsourcing contract plays an important role in protecting the interests of the client organization. The client’s legal department or other legal advisors will clearly play a major role in the construction of the outsourcing contract.

The aim should be to agree a fair and comprehensive contract. The deal should be carefully balanced with neither side significantly disadvantaged. It should be expressed in clear and precise terms. Legal terminology should be avoided wherever possible, since it can often be confusing. This is particularly important if your service provider’s first language is not English. Both supplier and customer must be able to understand the contract without difficulty.

The process of preparing, discussing and seeking agreement about the outsourcing contract is itself very beneficial as it forces both the client organization and the supplier to address all issues and concerns before a commitment is made to the offshore project. Difficult and sensitive topics have to be tackled rather than avoided. The outsourcing relationship can then begin on a sound footing, with both parties having a deep understanding of the agreement.

2.15.1. Contract structure
There is no standard outsourcing contract and each offshore project has its own unique set of requirements. The contract will consist of main clauses covering general terms and conditions together with service particulars, and a series of schedules including the service level agreement and price details.
2.15.2 Contract Main Clauses

The contract can be structured in different ways and what follows describes one model framework.

The contract main clauses include the following items:

1. **General provisions**: For example, definitions and governing laws.

2. **Contract duration**: Mention the required duration possibly with provision for extension periods.

3. **Change control**: A contract clause specifying that both parties will comply with the principles and processes detailed in a contract schedule.

4. **Audit rights**: These give your organization the right to examine the supplier’s records to confirm that you are receiving the quality of service agreed and are being billed accurately for the services delivered.

5. **Confidentiality and data protection**: This ensures that any personal or commercially sensitive information is protected. The contract should require both parties to keep each other’s information confidential and ensure that employees, contractors and advisors do likewise. If personal data will be processed in the project, you need to be confident that the contract contains sufficient measures to ensure compliance with the Data Protection Act.

6. **Intellectual property**: All assets that form part of the outsourcing deal, including telecommunications equipment, third-party contracts and software licenses should be listed, with details included in the schedules.

7. **Software developed by the client organization**: A license should be granted formally to the supplier to use any software created by your organization and used in the offshore project. The contract should make it clear whether your organization will retain the intellectual property rights in the software once the supplier starts to modify the application.

8. **Software developed by the supplier**: The contract should make provision for the intellectual property rights associated with software written for the offshore project to be assigned to the client organization.
9. **Software developed by third parties:** You need to be sure that any software created by a third party and transferred to your supplier to use in the offshore project is correctly licensed for use and that ownership is clearly defined. The major offshore suppliers may have their own licensing arrangements in place for commonly used applications. In all other circumstances the client need to start negotiations with third-party software providers as soon as practical.

10. **Security provisions:** An overview of the policies and standards to be adopted are included in the main contract, with detailed procedures and practices described in a schedule.

11. **Service particulars:** Based on the statement of requirements and outlining project deliverables and milestones, optional service extensions, framework for transition and knowledge transfer, quality policies, performance measures and reports, contract management structure and meetings.

12. **Changes and charging structure:** Precise charging formulae, tax issues, detailed invoicing and payment procedures are included as a schedule and general principles in the main contract. You need to agree how fluctuations in currency will affect charges and who bears the currency risk.

13. **Managing poor performance:** The aim is to address minor faults without delay and encourage good performance. Careful consideration needs to be given before financial remedies are specified. Measures to discourage poor performance may include cash refunds and service credits. Agreed escalation procedures should be included in a schedule so that faults can be remedied as quickly and as efficiently as possible. A force majeure clause will cover instances where failure to meet contractual commitments is beyond the reasonable control of either party.

14. **Warranties, liabilities and indemnities:** Warranties are representations made by the service provider, for example relating to performance, breach of which entitles the client to claim damages. Indemnities provide for compensation payable for specific losses, for example for breach of data protection requirements. Limits to the provider’s liability for default or under an indemnity need to be carefully negotiated and should be both reasonable and realistic.

15. **Dispute resolution principles:** The first objective is to manage the outsourcing contract in such a way as to minimize the likelihood of disputes arising. But the
contract should include structured dispute resolution procedures, defining responsibilities and steps that will be taken before legal proceedings are initiated. The main contract should include a statement of the principles with detailed procedures defined in a contract schedule.

16. **Contract termination:** Setting down the procedures and rules that will apply. If the agreement has run its full term, the contract will need to specify everything needed to ensure a smooth handover either back to your organization or to another supplier. Where the contract is terminated early, notice periods and compensation arrangements need to be defined.

### 2.15.3. Service level agreement

The service level agreement is one of the most important components of the outsourcing contract. The agreement defines the level of performance that the supplier has contracted to provide and gives the client rights and remedies should the supplier fail to deliver this level of service. It can act as an effective incentive to encourage the supplier to meet client’s objectives for the outsourced project. Although the service level agreement is usually a schedule to the main contract, it should be written in terms that everyone working on the project can readily understand rather than in legal language. Try to avoid a multiplicity of interrelated performance measures and service levels that only a few people fully understand. Keep things simple and focus on the core requirements.

The service level agreement is very much a living document that is in regular use in the management of the outsourcing relationship. Once formally agreed, its contents should be widely disseminated among onshore and offshore team members. Everyone should be clear about what is expected of them, so that they can work towards project targets and be aware of any penalties that will apply if the standards are not met.

Service level agreements need to be kept up-to-date. They should regularly be reviewed to ensure that they continue to meet business needs and the outsourcing objectives. Changes may be requested at any time and should be handled through the normal change control process.
2.15.4 Topics covered under Service level agreement

The main topics covered by the service level agreement are listed below:

I) Introduction:
   a) Project name and brief description
   b) Scope of agreement
   c) Names of parties to the agreement
   d) Start and end dates

II) Description of project:
   a) Outline of the project
   b) Outline of the project plans
   c) Link to business and IT strategies
   d) Deliverables
   e) Milestones
   f) Roles and responsibilities of users, in-house IT team and supplier team.

III) Quality management:
   a) Quality standards to be applied to project
   b) Compliance with international standards such as ISO 9000
   c) Audit arrangements

IV) Security and data protection:
   a) Policies and practices to be adopted
   b) Compliance with international standards such as ISO 15408
   c) Audit arrangements
   d) Disaster recovery and contingency plans.

V) Outputs:
   a) Project products
   b) Project progress and performance reports
   c) Management information reports.

VI) Charging:
   a) Invoicing procedures and targets
   b) Payment terms (actual charges may be listed in a separate contract schedule for ease of use and confidentiality reasons).
VII) **Refunds and service credits:**
   a) Criteria that trigger refunds and credits
   b) Procedures for making refunds and credits

VIII) **Interfaces:**
   a) Specifications of the links between this project and other initiatives and operational systems.
   b) Procedures for resolving disputes between different suppliers over causes of project failures.

IX) **Performance review:** Frequency and type of project progress review meetings.

### 2.15.5 Negotiations

The aim of negotiations is to deal with all outstanding issues in a way that leaves each party content that they have struck a fair deal and that the relationship between them will enhance the business performance of both organizations. Negotiations require careful and comprehensive planning. Several hours’ preparation is needed for each hour spent in negotiation. The complexity of international outsourcing agreements requires a blend of business and legal expertise during negotiations. Anyone involved in negotiating an offshore project can expect to spend many hours traveling to and from the offshore destination.

#### 2.15.5.1 Negotiation Guidelines:

The following guidelines will help the client company adopt a constructive approach in negotiations:

1. Use logical persuasion and explain your interests in a businesslike manner.
2. Aim to decide issues on their merits rather than seek to improve your view.
3. Focus on interests, not positions: be definite but flexible.
4. Look for mutual gains wherever possible.
5. Be creative: look for alternative solutions when your organization and the supplier cannot agree.
6. Acknowledge the supplier’s legitimate interests and the wider context from their point of view. Elizabeth Anne Sparrow (2007).
2.15.6. Contract award

The contract awarded is a vital risk management tool and use the contract as a sound foundation and a guide to help the client get the best from the offshore project. The contract that is duly signed is a significant milestone, but it is only a step along the way. Also for success, make sure that there is continuity and knowledge about the contract in the team overseeing the project.

2.16 TRANSITION

The implementation of the outsourcing contract or transition from in-house to offshore project should be well managed just as any other IT program. In a traditional onshore deal, staff often transfers with the project or IT function to the supplier, taking with them an understanding of applications, infrastructure and associated business processes. Offshore outsourcing is quite different and an entire project or function may be handed over to a new team. Knowledge transfer is therefore a key element in any offshore transition plan. This is a resource-intensive stage when IT operations must continue as before even though the knowledge transfer processes takes up a lot of staff time.

The experienced employees sent by the supplier will become critical to the successful completion of the offshore project to time and budget. Staff retention can be a problem for the most skilled employees and the organization should seek assurances from the supplier that they will do all they can to keep the same key personnel on the offshore project from start to finish. The client organization should appoint its own project manager and not rely entirely on the supplier’s manager. Plan for in-house team to shift their working hours at this stage. Before transition begins make sure that process flowcharts, system documentation and project management records are fully updated so that they are ready to be shared with the offshore team.

Although the supplier will lead the overall transition program and will be responsible for many of the activities, the client organization will also have a number of responsibilities, particularly tasks that involve internal communications.
2.16.1 Transition activities

The transition activities in outsourcing include the following tasks:

a) Detailed project planning
b) Transfer of responsibility for the offshore project
c) Set-up and introduction of governance structures
d) Implementation of contract management process including invoicing and payment procedures.
e) Introduction of change request processes
f) Implementation of problem management and escalation procedures
g) Risk mitigation activities
h) Communications program
i) Career development help and support for those staff whose work is moving overseas.
j) Liaison with trade unions or other employee representatives.
k) Don’t be tempted to hand over responsibility for the project too early.
l) Adjust your plans if the offshore team is not ready.
m) If the client organization is new to offshore outsourcing it pays to allow extra time for transition.

2.17 MANAGING PERFORMANCE

To get the best from the offshore team, the client organization need to tackle the challenges of managing a remote outsourced service. As with any outsourcing relationship the client need to develop a good working relationship with your supplier, share the company’s vision of what can be achieved, monitor financial issues closely and regularly review key performance indicators (KPIs). But there is an added dimension when the project team is overseas. There is potential for cultural misunderstandings, the possible use of different terminology and the need to give detailed and precise instructions that the client organization may not easily be able to discuss with a team working in a different time zone.

To manage the outsourcing relationship effectively and derive the anticipated benefits for your organization, a skilled in-house team is needed. Companies entering outsourcing deals all too often neglect this.
2.17.1 Developing outsourcing relationships

Successful relationships need commitment, a cooperative approach and a constructive attitude. The organization will be working closely alongside a team based in a foreign land, from a different cultural background and historical context. It pays to take time to learn a little more about the country, its people, traditions and values.

Figure No.2.5 Successful outsourcing relationships

- Trust
- Win-win solutions
- Have realistic expectations
- Cooperation not domination
- Resolve personality clashes
- Successful outsourcing relationships
- Mutual understanding
- Be prepared to compromise
- Criticize, if you must, openly

Source: Elizabeth Anne Sparrow (2007)

Figure 2.5 describes the diagrammatic presentation of the key principles for building outsourcing relationships. The key principles adopted here involve mutual understanding, trust, cooperation not domination, win-win solutions, have realistic expectations, resolve personality clashes, be prepared to compromise, and criticize, if you must, do it openly. Work towards an open and honest relationship that is built on mutual trust.

The supplier must demonstrate a track record of delivering on promises and contractual commitments. This is a two-way process and it is necessary to ensure that the client organization is trustworthy and meets its commitments. Recognize that both parties need to benefit from the relationship and the supplier is justified in seeking a reasonable profit.
margin. Look for win-win solutions. A cooperative approach will pay dividends. In the longer term, domination by either party will damage the relationship. This does not mean accepting every suggestion that the supplier makes and there will be areas of disagreement. But look for a constructive solution without trying to force the supplier into a tight corner which will only lead to resentment. Good communication is critically important. Work towards an environment in which information is readily shared. Set-up links at all levels between the client organization and the supplier. Share celebrations and recognize good service as well as expressing concern or complaining about failures. Introduce the client organizations stakeholders to the offshore team and let the supplier know about their expectations.

2.17.2 Communication

Outsourcing introduces a whole new set of roles and responsibilities into the client organization. Everyone involved needs to understand their role and how to get things done. The introduction of offshore working is often a period of turmoil and readjustment as people adapt to a new way of working.

Communication is a vital element in the successful introduction of offshore working and should absorb a major part of every manager’s working day. There is a need for effective communication between the organizational team and the user community. This becomes more of a challenge when project team members work in another country and there is a need to maintain good communication between the supplier’s project team both onshore and offshore, the in-house IT department and the user community. One of the advantages of offshore outsourcing is that the client company can use the different time zones to extend the working day. Since it won’t always be possible to talk to the offshore team, depend on email communication or telephone messages. It is necessary to ensure that the processes are in place to deal promptly with messages and emails. Communications need to be clear and unambiguous, avoiding slang and jargon familiar only within the organization. Combine different forms of communication: telephone, email, videoconferencing and collaborative portals to suit different purposes. Communicate early and often and allow time for the outsourcing relationship to mature: don’t expect liaison to work well from day one.
2.18 CONTRACT MANAGEMENT AND ADMINISTRATION

The contract management team should be in place before the contract is signed so that the organization is in control and monitoring the project from the start. Make sure that the organization have suitably qualified people in the team and provide any necessary training. Contract management today is far more than administering contract changes and processing invoices. There is a need to invest rather more resources in contract management for offshore projects than for traditional onshore outsourcing.

2.18.1 Responsibilities

The responsibilities of the contract management function can be listed as given below:

1. Monitoring compliance with the contract, balancing the cost of monitoring against the risk of problems occurring.
2. Disseminating information about the contract and agreeing for the contract interpretations with the supplier.
3. Managing the contract change process
4. Resolving minor disputes
5. Monitoring the total value of the deal, business benefits delivered and expenditure.
6. Reviewing delivery against overall outsourcing objectives (Elizabeth Anne Sparrow, 2007).

2.19 PROCESS MIGRATION

Snigdha Sengupta et al (2007) in their report explained the process migration in offshore outsourcing with suitable BPO models. Migrating businesses from developed markets to India was something that the Indian IT services industry had perfected for nearly a decade. Project management from onsite to offsite was one of its key value propositions. Though the fundamentals for migrating businesses in the BPO context were similar, there were some basic differences. Primarily a company outsourcing work expects high levels of service at viable costs.

One of the factors which determine this is smooth transition of processes. Like a migratory bird flying across continents, migrating a process has got to be swift, agile, watchful and able to map paths carefully. Slip-ups here could mean penalties for not
meeting service level agreements (SLAs) and even loss of business. To ensure a hassle
free transition, companies today have a head of migration who leads a team of specialist
process experts. They are responsible for transfer of processes from one geographical area
to another.

There may be a dozen processes or several hundred. To begin with, for any process there
is a start and an end point. For instance, collections and accounts payable are processes.
In each of these there are a series of activities. Companies do not outsource functions or
activities but entire processes. The criticality lies in implementing processes as desired by
the client. A mistake in executing a process could lead to either a customer complaint,
inability in meeting SLAs or even litigation. There is almost no room for mistakes.
Typically, migration or transition effort requires a consulting mindset. Migration of
processes is also cross-functional: it has to interface with recruitment, training, facilities,
technology and operations. All of these have a reporting relationship with consulting.
Consulting and project management are involved in process transition.

2.19.1. The working of Process Migration
It takes about nine months to sign up a client and at least three months to migrate the
processes. There are three stages to the migration process: planning, execution and
stabilization. From tax laws to insurance regulations, financial accounting rules to
customer interaction levels, the way things operate in the US or Europe is different from
the way they do in India.

Also, with more complex and sensitive work being framed out to India like managing
healthcare records, financing planning, market analytics, the risks are higher with vendors
even requiring a license to undertake jobs. Hence, it is important to have an experienced
migration manager. Migration times too vary, from as short as four weeks for a simple
process like bank account balance query to as long as six months for a complex process
like health claims adjudication. Once it is done, there is no going back. That’s why the
gestation periods of BPO firms (about one year) tend to be longer than that of typical call
centre operations (around three to eight months), though now for the more experienced
players the process transition time is down by 40-50 per cent as the industry has gone
through a learning curve. Today, transition time for an accounts payable process is three
to four weeks. If there are multiple dealers, vendors and sites, then it is seven to eight weeks.

2.19.2 Stages in the migration process

There are three distinct phases in transitioning or migrating processes. These are planning, execution and stabilization.

**Figure No.2.6 The Process Migration Roadmap**

Planning
- Define project goal, collate business needs and delivery metrics
- Develop process flowchart, research best practices and quality metrics
- Design process deployment map, conduct risk mitigation and assess cost benefits

Stabilization
- Validate process metrics, finalize contingency plan, and monitor team performance
- Work out transition plan and knowledge transfer, set up infrastructure, recruit employees

Execution
- Monitor pilot process on quality metrics, validate and test business continuity plan, assess defect, implement process control plan
- Achieve steady state operation, implement defect reduction plan, audit, analyze and share best practices

**Source:** Business world BPO Industry report (2007)

Figure No.2.6 shows the schematic presentation of the process migration road map. The 3 stages of planning, stabilization and execution have been shown with the specific activities involved in each phase.
Planning involves solution identification, defining the project goal, gathering business needs and metrics, developing a process flow chart and a solution design. The last step includes cost-benefit-analysis and risk mitigation analysis. Execution involves two stages. The pre-transition phase where a detailed transition plan is prepared, knowledge transfer and documentation and FTEs are hired to conduct pilots. The pilot helps validate and test the processes of the desired quality. Once the pilot is approved by the client and the process stabilizes, it is ready for a complete rollout.

2.20. BPO BUSINESS MODELS

BPO was an acronym unheard of in India just a decade back. That was the time when Swissair, British Airways, American Express General Electric set up their own centers. Unable to find vendors who could work for them, they had no option but to make their own investments in setting up facilities, recruiting and training staff to deliver a host of services requiring call handling, web support and transaction processing.

GE spent a couple of years evaluating options with due diligence on the feasibility of India as an outsourcing destination. While talent was abundant, there was no know-how about the job. And hence they started the move to set up captive units. Another reason for going captive was to protect sensitive client information.

Today, the highest number of BS7799 certified companies (the prestigious IT security certification) in the world are in India – attesting to the quality and security standards of Indian vendors. All metros and some tier II towns boast of gleaming glass fronted multi-storey complexes with wired up cubicles supporting the back office operations of several Fortune 500 companies.

A company that plans to send jobs to India can either set up its own centre gives it to one of the over 410 vendors or look at a hybrid model to deliver services. The last type refers to clients owning assets while operations are run by a third-party vendor. The two obvious types of models are the wholly-owned captive centre model and the offshore third-party vendor. These captive operations of big western companies aimed to reduce back office costs without outsourcing to third-party players. The second model is a more fleeting arrangement between western clients and subcontractors in India, often brokered by middlemen, in the early days and now done by companies themselves.
2.21 TYPES OF MODELS

The major types of BPO models include: Third Party BPO, Captive Center Model, Build-Operative-Transfer, Joint Venture and Pricing models. Four of the above models are listed and explained as follows:

2.21.1 Third Party BPO

When the BPO industry came into existence a decade back, there was no option but to choose only the captive model. However, today there are over 410 vendors who deliver services as diverse as data entry to animation. Overall, the advantages of off shoring to a third party vendor rather than setting up a captive unit one in many ways is similar to the advantage of outsourcing rather than keeping the function in-house. Using an offshore supplier brings all the advantages inherent in offshore outsourcing including low cost, while allowing clients to concentrate on the core activity. In many cases, these suppliers are better at outsourced services than part of your own internal staff as it is their core business and they want to retain you as a customer.

For instance, if you are running a pharmaceutical company having about 1,500 employees, you will need 20-25 people to handle benefits administration, payroll, leave, and the training needs of companies and also develop the HR strategy for the company. Off shoring to specialists like ADP, Hewitt or any of the third-party Indian vendors can free up your time and resources to focus on HR strategy while payroll, can be done by a third-party vendor. Figure: No.2.7 given below shows the schematic presentation of the Third Party BPO with the major activities.

Figure No. 2.7 Third Party BPO

![Diagram of Third Party BPO]
Some of the users of this model include GE (operated as a captive which is now the largest Indian third-party vendor – Genpact), American Express (70 per cent of the work is in-house and the rest with vendors), VeriSign, Green Point Mortgage, Nissan Motors, Abbey National, Aviva, British Airways and British Gas. Also the other users include big players like Wipro BPO and Genpact, mid-sized players like HCL BPO and EXL and small players like Market RX, Pangea 3, Evalueserve and Office Tiger. The advantages of Third Party BPO include: scalability, competitive billing rates, access to specialist skills, ability to attract good talent, ability to handle niche and diversified tasks. The disadvantages include: high attrition, lack of direct control, higher start up costs, limited ability to handle complex tasks, higher risk of data theft, privacy and IP infringement.

2.21.2 The Captive Centre Model

The captive centre model is the simple do-it-yourself method which companies have been doing at their headquarters and now they have to replicate it in a new destination, at a lower operational cost. At the minimum, the savings by offshoring to India are 30 per cent. The more complex the work, requiring experts to do it, the more is the savings as the experts come relatively cheaper in India than their counterparts back home.

While cost saving is a driver to offshoring, many companies prefer to set up captive units as it is politically correct. Offshoring results in the loss of some jobs in the host country. To mitigate negative publicity, a company may decide to set up its own operations rather than invite vendors to bid for work. Bank of America spent almost 18 months evaluating various business models, destinations and cost before moving work to Hyderabad. Computer major Dell is another company that has opted for a strong captive model, operating units in 18 countries around the world. In fact, it is ramping up its India presence with 7,000 staff in its captive back office operations to perform technical support functions for its customers.

About 60-65 per cent of the revenue of the Indian BPO industry is from the captive units. Captives will continue to grow in India. Wherever the needs of clients are large and desire for control is high, the captive route may be the best option. Figure: No.2.8 given below shows the schematic presentation of the captive center model with the major activities.
Advantages of the Captive Center Model include: it offers high control on operations, works as a shared centre for the company; low start up costs and low operational risks, protection from data theft, privacy, and IP rights managed better and high sense of ownership among staff.

Disadvantages of the model are that they are not scalable and they do not offer economies of scale. Also the long term costs are high in this case.

2.21.3 Build-Operate-Transfer (BOT) Model

Companies have traditionally chosen between the captive and the third party vendor models. Some companies have chosen a combination of both to spread the enterprise risk. The build-operate-transfer (BOT) model is relatively new under which the client makes a contract with an independent vendor to undertake a process in a dedicated manner and acquire it once an agreed scale and scope has been achieved.

Under the BOT model, the entire offshore centre is built by one entity – usually an offshore vendor – and then transferred to another. In many cases these centers are built specifically for a single client with the intention of ultimately transferring ownership. In other cases, an existing centre may be sold to a foreign buyer, complete with staff and equipment. The typical scenario, however, is one in which an offshore supplier has been operating a dedicated centre on behalf of the client sometimes for several years and the client decided it wants to own it and run it by itself. Many offshore suppliers would prefer to sell it to the client rather than losing the contract entirely or seeing the client opens its own offshore centre.
Figure No.2.9 gives the schematic presentation of the Build-Operate-Transfer model with the major activities.

**Figure No. 2.9 Build-Operative-Transfer**

<table>
<thead>
<tr>
<th>US Fortune 1000 Company</th>
<th>Outsourcing Consultant</th>
<th>Third Party Vendor in India</th>
<th>Wholly-owned subsidiary of Fortune 1000 company in India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wants to send back office processing work to India</td>
<td>Advises the US Company to start with a third party vendor and later become captive</td>
<td>Sets up a centre in India to deliver back office services to the US Company</td>
<td>After two years the US Company takes control of the centre in India and converts it into a captive</td>
</tr>
</tbody>
</table>

Advantages of the model are: low start up costs and operational risk, competitive billing rates and it better protects privacy and IP rights. The weaknesses of the model includes: limited control, high attrition and difficulty of transition from third party to captive.

Atena and AIG are such MNCs that now own their captive offshore centers, initially built by offshore suppliers. British Airways is one of the few that have actually gone the other direction. After establishing its own offshore centre and successfully operating it for several years, the entire operation was acquired by WNS. The BOT model is gaining preference as it offers client organizations the ability to leverage the third-party vendor’s process expertise and efficient cost structure, lower transition time and maintain a relatively higher degree of control on the outsourced operation (Snigdha Sengupta; Shelley Singh; Nelson Vinod Moses, 2007).

### 2.21.4 Joint Venture

The operation of the joint venture model is on the 50:50 bases. It allows setting up a BPO company in India with 50 per cent equity participation from US Company. The joint venture model could be the model of the future. It marries the captive and third party model, whereby core functions remain captive while less mission critical services are given out to a third-party vendor. Figure: No.2.10 gives the schematic presentation of the joint venture model with the major activities.
Joint venture model has the advantages such as scalability, low risk and startup cost, access to specialists, local skills and competitive billing rates. It also has limitations like limited control, risk of data theft, and instability.

### 2.22 CHOICE OF THE RIGHT MODEL

At present, the four predominant models being used by BPO outsourcers include 100 per cent captive units, BOT (build-operate-transfer) contracts, 100 per cent third-party contracts and joint ventures. Offshore is in a state of flux. Suppliers will increasingly experiment with various offshore models to find the right mix. For example, captives are going the third party way, like Genpact which was earlier GE’s captive in India till 2004. Earlier in 2002, British Airways spun off its Mumbai-based captive into WNS Global Services. There will be more experimentation with models. The joint venture model is likely to emerge as the model of the future. It is essentially a marriage of the captive and third-party model, whereby core functions remain captive while less mission critical services are given out to a third-party vendor. The market is currently over-crowded with vendors of all shapes and sizes. The growing popularity of the joint venture model could make the game tougher for independent third-party vendors.
2.23 RISKS OF OFF-SHORING

Offshore outsourcing carries a number of potential risks. Control and risk mitigation are therefore the key issues in off shore outsourcing. The major risks involved in off shoring can be stated as given below:

1. Organizational Risk
2. Technical Risk
3. External Risks

The above 3 major risks included in off shore outsourcing can be explained as follows:

2.23.1 Organizational Risk

Organizational risk involves global business risk and risk involved in compromising confidentiality. Global business risks include the planned project and program risks, unforeseen organizational and business events may also trigger risks during execution. Risk involved in compromising confidentiality includes protecting intellectual property, internal processes and methodologies when companies expand operations overseas. Managers need to plan for and adopt various measures to protect their proprietary processes while moving offshore. This may include physical, network and other security measures, enforcement of laws and other means to protect Intellectual Property and confidentiality.

2.23.2 Technical Risk

Technical Risk involves challenges for IT staff which encompasses onside/offshore communication and co-ordination, limitation of management tools, infrastructure issues and knowledge management. The challenge facing the development staff in offshore development projects is significantly greater than domestic in-country development. This essentially involves the challenge of managing knowledge of systems that is traditionally done by enforcing system documentation, user manuals and the like. Communication between and across teams and projects is perhaps the biggest challenge managers face.

Getting people from different time zones together in a virtual meeting session can be a real challenge for managers. Most of the tools and techniques of software development like version control, issue tracking and management are designed for software development in a single location. Managing global projects requires teams to begin
exploring newer tools and techniques that can mitigate the associated cost of administration and management of offshore outsourcing projects.

Successful application development projects need reliable infrastructure, hardware and networks. Increased complexity of network security, network operational issues and disaster recovery/backup requirements are further exacerbated by off shoring. Sophisticated tools and technologies along with ‘best practices’ including tools of collaboration and communication help mitigate some of the infrastructural challenges of off shoring. Managing project information, data and communication repositories is one of the key success factors behind managing application delivery. Offshore development implies a greater reliance on internet based technologies as the framework for software development infrastructure. Use of knowledge management tools and techniques can help mitigate the risk of both data loss and information overload.

2.23.3 External Risks

External risk includes global and geopolitical risks, regulatory and governmental restrictions, currency, and global business risks. IT managers while managing global projects, they also have to consider political, geographic and geopolitical risks as well. The outbreak of SARS virus in 2003 brought home the implications of doing business in a globally connected world.

Offshore outsourcing can sometimes be hindered or aided by governmental policies and laws. What makes this risk more challenging is that laws of both the outsourcing and outsourced organizations, along with other international regulations come into play. This includes restrictions on travel, immigration and visas that constantly haunt players in the outsourcing industry. Currency and global business risks include volatile exchange rates which can have a significant impact on the profitability of any international project (Alpesh B Patel; Hemendra Aran, 2005).
2.24 EMPLOYEE ATTRITION IN BPO INDUSTRY

Employee Attrition (also known as labor turnover or wastage) is the rate at which people leave an organization. Employee attrition has a huge economic impact on the organization, both in direct and indirect costs. In the case of knowledge industries, a departing employee may have the critical skills needed for working with specific software, completing a step in an important process, or carrying out a task for a project.

In the beginning, global companies were attracted to the call center business in India due to low costs and lower attrition rates. The manpower costs in India were estimated to be around one-tenth of that in the US, while attrition was lower both because of the initial attractiveness of a new kind of a job and the significantly lower number of call center companies. In addition, jobs were offered mainly to fresh graduates at salary levels higher over the years, the activities had broadened and included maintenance of customer’s relations, building rapport with the company, telesales, etc. Additionally, with the increased outsourcing by global companies, Indian employees needed to work during night hours to coincide with the business hours of the US and the U.K. Working night shifts led to emotional stress and ailments such as sleeping disorder, depression, physiological and psychological problems. These factors gradually put pressure on the employees, resulting in the problem of increased employee attrition. The biggest problem faced by BPO organizations in India today is the increased employee attrition, which varies between 20%-50%. Attrition in the voice business is high across the globe. The new challenge facing the Indian BPO industry is to deliver value and move up the value chain.

2.24.1. Cost of Attrition

Attrition causes huge loss to the company, not only in terms of manpower but also in monetary terms. Attrition is like rust. Not only does attrition hamper the growth of business, it also creates an organization with no values. Culture building is impossible and that again is one of the reasons why there is such high attrition. It is a vicious circle and the biggest problem in this industry.

Various estimates suggest that losing a middle manager in most organizations, translates to a loss of up to five times his salary. This might be worse for BPO companies where fresh talent is intensively trained and inducted and then further groomed to the successive
stages. To ensure that attrition rates are kept to a minimum, businesses need to redesign their reward and recognition packages to help the industry hold onto staff and to find the right kind of people who can keep pace with the unique work patterns (Nakkiran S; John Franklin D, 2005).

Repetitive low-end jobs, physical and psychological problems and inadequate growth opportunities are the major reasons cited for the high attrition rate. This disadvantage has increased the operating costs of BPO organizations and is considered to be a threat to the industry. BPO organizations earlier paid huge salaries to attract a large number of employees. Though the high packages and sophisticated work environment in BPOs succeeded to attract a large pool of youngsters, they failed to sustain the pool. And the reasons range from physiological fatigue, psychological stress to fear of an elusive future.

It is a fact that, retention of key employees is critical to the long-term health and success of any organization. The performance of employees is often linked directly to quality work, customer satisfaction, and increased product sales and even to the image of a company. Whereas the same is often indirectly linked to, satisfied colleagues and reporting staff, effective succession planning and deeply embedded organizational knowledge and learning. Employee retention matters, as, organizational issues such as training time and investment, costly candidate search etc., are involved. Hence, failing to retain a key employee is a costly proposition for any BPO organization (Attrition-in-the-BPO, 2007).

**2.25 THE GLOBAL BPO INDUSTRY**

With increase in mergers, acquisitions, competition and globalization, BPO industry is expected to witness higher demand for new applications and advanced systems leading to growth in the outsourcing market. India has enormous opportunities emerging from globalization and consequent lowering of tariff barriers.

North American companies have been very aggressive in promoting the outsourcing of business processes. Industry estimates indicate a growth in North American outsourcing from 39 per cent to 52 per cent between 2003 and 2006. Organizations are sending a clear signal that they recognize the high value addition that BPOs can deliver to their internal and external stakeholders. It is clear that the bulk of the work outsourced has been from
North America. Having experienced the benefits of IT outsourcing, these companies have been fast to move and gain benefits from outsourcing business processes.

As of 2007, more than 80 per cent of the outsourcing of business processes to Indian companies has been done by North American corporate. Europe has been slow to start off. While banks and corporate houses in the United Kingdom (UK) have moved fast, the rest of Western Europe has been slow in outsourcing. Stringent labor laws and stringent workforce protection cause challenges in countries like France to outsource work. These countries have the highest employee costs and benefits in the world, which is crippling their profitability and growth. The limited outsourcing that has taken place in Western Europe has been outsourced to Eastern Europe. But with an aging population, low childbirth, and high social costs, Europe could soon adopt and accelerate the BPO engine.

The following Figure No.2.11 describes the global BPO Industry structure with 6 important BPO sectors as banking and financial services (BFSI), travel and hospitality, manufacturing, telecom, pharmaceutical and other groups. The percentage distribution of each sector is shown in the diagram to get a clear global picture of the BPO work outsourced.

**Figure No.2.11 Global BPO work outsourced**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>BFSI</td>
<td>55%</td>
</tr>
<tr>
<td>Travel and Hospitality</td>
<td>9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9%</td>
</tr>
<tr>
<td>Telecom</td>
<td>8%</td>
</tr>
<tr>
<td>Pharma</td>
<td>3%</td>
</tr>
<tr>
<td>Others</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Total = US $ 25 - 35 billion*

**Source:** Nasscom- Strategic Review (2005)

Information Technology has given India formidable brand equity in the global markets. In the last two decades, the Indian IT/ITES industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment.
generation. India has been a particular beneficiary of IT and Business Process Outsourcing and accounts for 65 percent of Global IT and 46 percent of ITES off shoring market. Indian BPO companies have a unique distinction of providing efficient business solutions with cost and quality as an advantage by using state of art technology (Sathishkumar, Balasubramanian, 2009).

It is evident here that the voice market continues to be large and constitutes about 40 percent of the market. The opportunity size is so large that it does not require any great analysis to boldly say that the next decade will see the BPO industry grow even more rapidly. Some optimistic estimates indicate that five years from today, the BPO industry would be larger than the IT industry. The ability to improve service levels is a primary driver in large-business respondents’ pursuit of BPO. For most companies, BPO is a service that helps them augment established services without necessarily supplanting them through wholesale swap-outs of people and technologies. BPO company stocks are getting picked up more by retail investors than institutional investors who are hoping that there could be another Infosys or Cognizant in the making.

2.25.1 Global BPO Hot Spots

Given the size of the market and a large onsite business for BPO companies, the US is indeed the largest market for BPO. India is the largest outsourcing market. China, Hungary, the Czech Republic, Costa Rica, the Philippines, Singapore, Vietnam, Ireland, Mexico, Central America, and Canada are other large markets. The latter countries are more of near shore centers feeding the large US market. A near shore centre offers proximity and low costs, making it an attractive value proposition.

The BPO industry started gaining momentum around 2000 in India, in 2003 in the Philippines, and is just about getting started in China. The cost advantage of Asian countries is compelling. Scale and size is helping them grow rapidly. India had already proven itself as an IT outsourcing hub. By exceeding revenues of US $ 5 billion in 2005, the Indian BPO industry has achieved in five years what the IT industry took over 10 years to achieve.

The advantage of a good system of English education has helped India and the Philippines to rapidly grow in the contact centre business. The 10-12 hour time differential with the US has also helped. Given the higher cost structure of Shanghai and
Beijing, the BPO industry is moving to low-cost centers like Dalian, Shenzhen, and Chengdu. The booming BPO industry in Chengdu has also attracted the attention of international players. In February 2007, IBM opened a new global delivery centre in Chengdu, its fourth in China after Dalian, Shanghai, and Shenzhen.

Countries like Russia, Hungary, Romania, and the Czech Republic in east Europe are rapidly becoming the outsourcing base for Europe. Multi-language capability in French, German, and Russian in these countries makes it attractive. The cost structure is lower than that of west Europe. South Africa is another emerging location – it has a large labour pool with multilingual skills. Proximity to the Middle East and Europe, and a deep cost advantage vis-à-vis the US and west Europe makes it an attractive option.

Every country has some level of presence in the BPO world. Attracting and retaining talent is the foundation for growth and companies that have addressed this have grown rapidly. Successful BPO firms are clear leaders in people engagement. The culture is driven from the top. Given the dynamism and the need of BPO firms, successful HR professionals have applied innovation and marketing to drive new engagement models. They have evolved a new HR mantra for the BPO industry – by engaging and being a one point of contact for people issues they have made a huge impact. They are empowered and work with passion to make a difference in the day-to-day business. They identify problems and work proactively. They realize the need to equip themselves with marketing and finance skills to be effective in their job (Nakkiran S; John Franklin D, 2005).