

MIRACLE OF BUSINESS PROCESS OUTSOURCING GLOBAL OUTSOURCING SUCCESS

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OUTSOURCING was unavoidable but it is partnership. BPO is in big demand in developed countries and in large supply in the developing countries. This global chaining of businesses has not only opened up new avenues for employment in many developing countries but also created astronomical opportunities for income generation, communication skills, customer relations and people management are the current hallmarks of the BPO industry. It is claimed that a person working in this industry can make a smooth transition to many other service oriented industries such as health, hospitality and tourism. This paper centres around new wave of globalisation and its economic effects, contracting and outsourcing factors behind outsourcing, braving the BPO backlash, booming BPO, Postwar development, BPO market, Indian BPO and its success and future outlook. To conclude, only competitive companies can serve investors, employees and stakeholders during this dramatic phase of globalisation with futuristic solution to meet the silent but sweeping challenges.

Introduction

“We aim above the mark to hit the mark” – Ralph Waldo Emerson. True to this adage, in general, human potential is an unlimited and under utilized organizational resource. People are capable of much more than they are normally called on to do, and they can learn much more than was formerly thought possible. An individual possess an untapped intellectual reservoir that can serve as an organizational creativity pool and resource if properly managed. The modern manpower manager accepts the concept of continuous assessment and a good portion of his time and effort involves establishing procedures and methods for dealing with and implementing this idea within the organization that employs him.

New Wave of Globalization and its Economic Effects

In the new wave of globalization, some developing countries have succeeded for the first time in harnessing their labour abundance to give them a competitive advantage in labour intensive manufactures and services. The most recent wave of globalization starting around 1980 and continuing today has been spurred by technological advancement in transport and communication technologies and by the choice of large developing countries to improve their investment climates and to open up to foreign trade and investment. For the first time, poor countries have been able to harness the potential of their abundant labour to break into global markets for manufactured goods and services. Manufactures rose from less than a quarter of developing country exports in 1980 to more than 80 per cent by 1998. Countries that strongly increased their participation in global trade and investment include Brazil, China, Hungary, India and Mexico.

The slowdown in the global economy has led to many Western companies concentrating on their core business and outsourcing support activities. Outsourcing is not entirely new to India. It had its origin in the pre-Y2K days, when India was seen as a “code paradise” by panic-stricken Western software companies. Now the difference is that the work being outsourced goes beyond information technology.

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There are two main reasons for this sudden rise in business process outsourcing (BPO) activity in the country. One is the huge market potential, and the other is that it is a survival option for many software development firms.

Contracting and outsourcing

Transferring select functions or services and delegating day-to-day management responsibility to a third party is known as business process outsourcing. Outsourcing is not 'contracting out'. While 'contracting out' is often for limited duration, outsourcing is a long-term commitment by a company which agrees to provide the service to the client.

The risk in a contracting relationship is held by the customer and managed by the supplier. In outsourcing relationships, there is a greater sharing of risk. Greater trust is needed to engage successfully in outsourcing than in a simple contracting situation. This is because in outsourcing the supplier also assumes the risk, but the customer is more permanently affected by any failure on the supplier's part. While contracting is done within the model of a formal customer supplier relationship, the model in outsourcing relationship is one of true partnership.

The advantage of an outsourcing relationship is that it helps the client company focus on its core business processes. Further, its focus will be on improving its competitive position and searching the market place for opportunities in which the client company is expected to compete. It may be noted that the type of contract for software development falls under the category of 'contracting out'.

Factors Behind Outsourcing

Global sourcing or outsourcing is as old as East India Company. Management theorists and economists have analysed the factors that promote outsourcing. The rise of the multinational corporation (MNC) would not have been possible without outsourcing. No company can hope to produce all its requirements in-house and has to procure raw materials and components from other parties. There are risks attached to contracts, especially if proprietary assets like knowhow, patents and brand names have to be safeguarded.

Post War Developments

The post war years saw relocation of manufacturing from developed to developing countries in areas like light engineering, shoes and apparel. Manufacturing was segmented globally and labour intensive parts were located in low wage destinations. Companies like Nike and Adidas were known for this style of operation. They had managers who provided designs for component manufacture in hundreds of locations and coordinated component assembly in convenient countries. They were footloose in that they arbitrated on tax and labour regimes. These manufacturing patterns led to frictional unemployment in home countries. Those displaced could however be retrained in other skills. In the process, within a reasonable time, they went up the food chain. The burgeoning service sector absorbed many of them.

Braving the BPO Backlash

The flag bearers of globalization and free trade have found their creed coming back to haunt them. The United States, one of the most aggressive countries in support of free trade, is now echoing many developing countries as it says globalization is fine as long as the jobs in the domestic economy are not affected. These arguments have a familiar ring of them as many countries have similarly resisted the American drive to open up markets pointing to jobs being lost due to cheap imports. For the U.S., such responses have never been acceptable in the past, since the credo of globalization is that inefficient industry should close down and give way to more efficiently and cheaply manufactured goods from elsewhere in the world. In fact, one of the main tasks of the U.S. Trade Representative's office has been to monitor the rest of the world and assess which markets are opening up and which remain "closed" through high tariffs and quantitative controls on imports.

Suddenly, these votaries of free trade are worried about employment issues, an aspect of globalization that has never been of much concern to them in the past. The issue is assuming grave proportions in the U.S. with public concern mounting over job losses due to the outsourcing of a wide range of services, from financial to telecom, to India. The worry is justified from the point of view of American white collar workers who are finding their desktop jobs literally pulled out from beneath them as multinational information technology, telecom and

financial service companies set up huge call centres in India. The shifting of such centres to India and other countries such as China is purely based on price factors as services in these countries cost a fraction of those in either the U.S. or Europe.

The Political Economy of Outsourcing

While the creation of call centres is offering employment to thousands of the educated unemployed in urban areas of India, it is creating massive unrest in the U.S. as job losses are taking the shine off the economic revival there. A true blue free trader, U.S. President George Bush initially stood his ground last year when several American States were considering banning outsourcing of government contracts to other countries.

The sudden reversal in the U.S. administration's stance has everything to do with politics and nothing to do with economics. The loss of jobs to business process outsourcing (BPO) to India comes close on the heels of closures in the U.S. manufacturing sector as cheaper products from China have been flooding the market for years. The likely Democratic presidential candidate, John Kerry, has made these job losses an emotive issue, though economists in the U.S. are still trying to convince worried citizens that outsourcing will ultimately boost the economic revival. Besides, according to the U.S. - India Business Council, most job losses have come through corporate restructuring the only one-fourth has been due to the outsourcing of services.

Interestingly enough, despite the outcry over outsourcing, the American ban imposed on outsourcing of government contracts has had a minuscule effect on Indian industry, according to the IT industry association, NASSCOM. Even so, it is clear that developed countries continue to have double standards on free trade and globalization. In the case of agriculture, where countries such as India need to protect millions of subsistence farmers from cheap imports, the U.S. argument is that opening up the market will help middle class consumers. Yet opening up of the U.S. market to service from India is viewed in a different light and protectionist legislation passed to curb outsourcing and protect Americans from losing jobs.

It must be noted in this context that the actual loss of jobs in the U.S. has been estimated at 2.3 million since 2001 but the actual numbers that have gone offshore are estimated at only 2,00,000¹. In other words, the reduced employment in the U.S. appear to be due to a host of other factors but the outsourcing issue has simply been put high on the political agenda thereby obscuring the facts.

As for the reaction of Indian industry, there appears to be little concern over the decline in outsourcing as reports from the software capitals of Hyderabad and Bangalore show that the ambit of such services is actually broadening. From becoming merely call centres handling back office work, the scope of activity is now covering a much wider range including marketing, and companies are now becoming strategic suppliers. Bangalore-based companies are even looking at the BPO backlash as a back-handed compliment, giving them a brand equity which they never had in the past.

At the same time, there is no doubt that the outsourcing phenomenon is here to stay. As long as India remains far more cost effective for companies from the U.S. and Europe, they will continue to flock here and establish service facilities for clients back home. Market forces have gained a tsunami-like momentum on the BPO front with global industry turning to India as probably the most competitive services market in the world. The advantages have been enumerated time and again – a large and highly skilled workforce with good knowledge of the English language and extremely low wages by European and American standards. As long as these positive factors continue in its favour, it seems India will retain its competitive edge and bans could end up having little effect on the burgeoning BPO industry.

BPO Market in 2008

Worldwide the Business Process Outsourcing (BPO) market will reach \$682.5 billion in the year 2008 (IDC, 2004), according to a study by analyst firm IDC (International Data Corporation). The study presents an update to the five year forecast for the worldwide market for BPO services. It also focuses on the trends and events influencing opportunities in the BPO market and identifies future growth areas within each the BPO functional segment.

The study entitled 'Worldwide and U.S. Business Process Outsourcing (BPO) 2004-2008 Forecast and Analysis (IDC #31095) (IDC, 2004), answers the questions about key buyer and vendor trends within each BPO market and their impact on the market forecasts. The BPO market is really made up of many individual markets, each with its own nuances, unique opportunities and challenges.

Booming BPO

Business Process Outsourcing (BPO) as everyone knows has become the 'in' sector in India. Though the ITES-BPO industry in India is a relatively young and nascent sector, barely over five years old, it has shown an amazing growth and future potential. According to NASSCOM, participants in the ITES-BPO segment number in the hundreds and the figures keep growing every year.

Cheak this out- during 2003-04, the ITES-BPO exports accounted for US\$3.6 billion in revenues, up from US\$ 2.5 billion in 2002-03. By the year 2008, it is expected to employ over 1.2 million people and reach revenues of \$24-25 billion (NASSCOM, 2004).

India has a right mix of people, skills and capabilities to provide cost-effective, high quality solutions and services and continues to be one of the preferred destinations for BPO related work because, ultimately, it's superior quality work that counts. All this positives apart, the Indian BPO sector does have some important issues to deal with. From the service providers side, it is very ironic that there are "no 20 Wipro Spectra-minds" in India. "There are around 500 companies registered with NASSCOM for BPO. Less than 100 of them have 1,000 people employed with them, less than 5 companies have more than 5,000 people and only one company has more than 10,000 employees which is Spectramind. We need to have more consolidation. There are a number of companies looking at assets and entry strategy but we need 2-3 companies merging to form big companies".

The Outsourcing Backlash

Amidst the mounting furore against outsourcing, there have been fears that it could affect the Indian BPO industry. But industry people say that the sector has actually got more publicity out of this issue, which has resulted in more customers. The global outsourcing spend is expected to grow to \$827 billion by 2008 though India's share in it will continue to be small, according to the United Nations Conference on Trade and Development (UNCTAD, 2004).

According to the Secretary General of UNCTAD, Rubens Rucupero, "The global outsourcing spend was \$320 billion last year and in 2005 it is expected to be \$585 billion and \$827 billion in 2008. India's share in total IT spend will be 3 per cent". "Offshoring is a rapidly growing segment of outsourcing and despite much excitement about its significance to North-South trade, the share even of frontline countries such as India in this business is small and fears of a big wave of offshoring to poor countries swallowing up rich country high skill jobs appear misplaced".

Manpower Challenges

While India, with its vast base of English-speaking people, is geared up in terms of manpower for the ITES-BPO industry, much more needs to be done. "Our educational system does not cater to the requirements, aspirations and needs of this industry. For example, NASSCOM-McKinsey numbers say that \$45 billion is the size of accounting services. But there is not a single college or institution in the country which teaches USGAAP. We need fundamental changes in our system to enable the industry to have ready professional." Resources produced may have a strong conceptual/theoretical background but often lack communication and vocation-specific skills and the creative drive or specific regulatory certifications required by clients in foreign countries.

Data Privacy

This is another big issue facing the industry today so much so that NASSCOM is preparing a security audit for its 860-member companies in a bid to allay rising fears in the US and UK about customer privacy and data protection in India. Currently, India does not have a Data Protection Act (DPA). However, Indian companies primarily comply with BS7799-a global standard that covers all domains of security. While the industry body and many IT people have been saying that the DPA should be put into effect soon.

Major headcount additions announced between January-June 2004

Name of BPO	Headcount Additions Announced
Daksh	1,500
HTMT	1,500
Accenture	5,700
Dell	2,000
vCustomer	2,500
Xansa	2,000
Wipro Spectramind	1,300
Perot	2,000
24/7	3,000
Slash Support	1,200
Hughes	1,000
Zenta	2,500
WNS	1,000
Keane	3,400

Source: *Published Reports, ValueNotes Research, August 2004.*

Attrition

Reports claim that attrition rates vary by 20-40 percent in some firms, while the top ones average 15 percent. Trained employees are leaving one company for another after being lured by higher salaries. “While service rates for voice based call centre work are coming down, the number of seats are growing and HR costs have reached an all time high of 50-60 percent. The high costs are a result of the high demand for quality manpower. This in turn results in wafer thin margins.

Competition

India lacks a long-term strategy and could lose 45 percent of its market share soon to South-East Asia and Central Europe. BPO earned India US\$2.3 billion last year, representing more than 80 per cent share of the global market. “But India would stand to lost 45 per cent of that 80 per cent share by 2007”. This was because the government and the industry suffered from “the erroneous belief” that the sector could match the booming growth of the IT industry without devising a long-term road map to do so.

Analysis and Discussion

India’s Success

What is common among Toyota, Cummins, Tecumseh, Emerson, Hyundai, Maruthi, Tyco, Kennametal and Renault?. They are all global engineering giants and all of them have chosen India to be a part of their global supply chain. The list of names mentioned is by no means complete. Nor is the purchase from India limited to low value rough castings and forgings. In many cases it is fully machined components, sub-assemblies and even full assemblies. Toyota, for example, is setting up a plant near Bangalore to make complete transmissions for its new platform.

Indian industry had to wait till the advent of the Nineties to realise its true potential, when India launched its economic liberalization package. The consequent removal of constraints enabled the more nimble and farsighted Indian engineering companies to update technologies and processes (such as replacing general purpose machine tools by CNC machines), establish global scale capacities (Bharat Forge, for example has in Pune the world’s largest single location forging facility), deploy the most stringent quality and cost control systems such as Total Productive Maintenance and Six Sigma, and right size the workforce.

Today, India can boast of several engineering companies which are not just globally competitive but can even match the best in the advanced countries. Sundaram Fasteners, for example, has several times won the global best supplier award from General Motors for radiator caps. Coupled with the relatively low wage rates in India, this translates into India being one of the most cost-competitive vendor countries in the world.

For example, global buyers nowadays are keen on just-in-time supplies of components and subassemblies. Unfortunately, Indian transport infrastructure and the facilities and operational facilities of Indian ports are not yet of a standard which enable Indian vendors to meet such demands. A new worry for the foreign buyer is the frequent breakdown of law and order due to increasing incidence of terrorist bombings, bandhs, strikes, riots, and dharnas, which can cause severe disruption of supplies from India. Indian competitors like China, Mexico and Brazil, do not suffer from such frequent breakdown of civic order discipline.

The margins in this game are often wafer thin and there is constant pressure on the vendors from the buyers to reduce prices. It is, therefore, crucial that the Indian manufacturers are enabled to access basic raw materials such as metals, fuel and chemicals at international prices. Another problem that has cropped up is, ironically, on the manpower front. Due to the substantial differential in emoluments and workplace environment between the IT and engineering sectors, manufacturing companies often lost to the IT sector those engineers who have just crossed the training threshold and have started adding value to the company.

India has already become a favoured supplier of automotive components to the world, with export expected to cross \$1 billion this year from less than \$300 million three years ago (WEF, 2004).

Quietly Confident

In Hyderabad, a major destination for information technology companies with a focus on IT-enabled services (ITES) and BPO, developments in the U.S. are being watched keenly. While some dismiss them as an aberration, which will fade out after elections, some are apprehensive of a long-term backlash. But everyone is convinced that the competitive advantage India holds will ultimately influence the decision of the American corporates.

The STPI (Software Technology Park of India), Hyderabad registered exports of Rs.3,668 crores, of which ITES and BPO accounted for Rs.1411 crores (almost 40 per cent) in March 2003. But hardly 1.5 to 2 per cent could be from U.S. Government contracts (STPI-H, 2004). There are major players such as Dell, GE Capital, Nipuna, Computer Associates and Cognizant Technologies in Hyderabad. But there is no direct work undertaken by companies, and whatever is taken up indirectly is very small; it is not going to have a major effect right now, he says.

Meanwhile STPIH continues to grow at a healthy pace, and expects to do Rs.4,500 crores by March-end, with increasing focus on ITES and BPO. The industry should take up a "low level but high intensity" campaign with NRI groups and the U.S. Government on the issue. The World Economic Forum President, Klaus Schwab's suggestion, at a CII meeting in Hyderabad in Aug'2004, that Indian IT Companies take up the issue of a ban on outsourcing with the Chief Executive Officers Club, a forum created at the WEF.

The share of U.S. Government contracts in exports of IT software and services from India is "insignificant (less than 2 per cent)" (WEF, 2004). He feels corporate America sees the benefits of offshoring work to India, as it would help improve efficiencies and compete better in the global market.

Offshoring has become inevitable and in a way binds all the economies of the world, he says. Customer visits are increasing, and global corporates are reposing greater faith and confidence in Indian companies ability to deliver mission-critical services.

Future Outlook

The ITES-BPO market is segmented along the lines of customer care, finance, HR, payment services, administration and content development with companies offering customers a range of outsourced services

ITES – BPO Growth by Service lines

Service Lines	2002-03		2003-04 E	
	Employment	Revenue (US\$ million)	Employment	Revenue (US\$ million)
Customer Care	65,000	810	95,000	1,200
Finance	24,000	510	40,000	820
HR	2,100	45	3,500	70
Payment Services	11,000	210	21,000	430
Administration	25,000	310	40,000	540
Content Development	44,000	465	46,000	520
Total	171,000	2,350	245,500	3,580

Note: All figures are tentative estimates, most players offer multiple processes in different shifts and so do not provide processing revenues or employees.

Source: NASSCOM, Annual Report, New Delhi, 2004.

including customer care, Web sales/marketing, billing services, database marketing, accounting, transaction document management, transcription, telesales/telemarketing, tax processing, HR hiring and biotech research.

Now, in a bid to do more high-end work, most BPOs are moving from voice based services to high value services like teleradiology, datamining patent processing, risk analysis, etc.

Growing areas in BPO

The industry verticals that are expected to experience the highest amount of ITES-BPO activity in the next few years are:

Financial Services

A large number of Indian ITES-BPO companies are focused on providing services like accounting, billing and payment services, transaction processing, equity research support for this sector, which continues to create the largest opportunities. Over the last couple of years, they have also started to offer higher value services to customers in the areas of insurance claims processing and equity research support.

Telecom

Another segment which is attracting ITES-BPO companies is the telecom industry which is using offshore outsourcing for functions such as customer support, technical support, offshore development of products.

Retailing

Last couple of years, large global retail chains have been offshoring processes such as transaction processing, billing, telemarketing and inventory management to India.

Automotive

The automotive segment has been outsourcing its engineering, finance and accounting activities. While engineering activities include computer-aided product and tool design, simulation and product and process documentation, the finance and accounting processes include claims processing and general ledger activities.

Conclusion

What is needed are some effective disaster management solutions and strategies as far as BPO is concerned. Corporates venturing into the BPO business should look a little beyond their pockets and into the future – further than the immediate bright horizon. Big corporate houses should give serious thought about providing support programmes that would give young people an edge no matter what turn the BPO industry takes. Rather

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than focus on costs, companies should look at how to maximize the quality of service they offer, by providing better training, a comfortable working environment and better management. What is required is a futuristic approach with futuristic solutions to meet the silent but sweeping challenges. Education should not take the backseat. It should be given the importance it deserves.

I will conclude with some famous words by Aristotle, “We are What we repeatedly do. Excellence, then, is not an act; but a habit”.

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