

Comprehensive Study of Business Process Outsourcing Practices in India

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Abstract

BPO, Business Process Outsourcing, is the mantra of employment, the buzz of present, and the promise of future. Business process outsourcing ('BPO') has emerged as a key component of management strategy as a global supply chain of information and expertise that stretches from Mumbai to Manhattan is etched. With the opening of economy, free movement has been granted and any organization may initiate its business operations anywhere. This mobility has increased competition in terms of quality and prices both. In this overall changed business scenario, the rule of survival of the fittest will prevail and those who can serve society with quality product at low price will thrive and others are bound to perish. Times are changing, and rapidly so. BPO is one of the popular business practices in today's competitive environment. India has enormous opportunities emerging from globalization and consequent lowering of tariff barriers. The Indian BPO industry is constantly growing. Outsourcing may have started off on the basis of a labour arbitrage benefit in non-core jobs, but it is now rapidly redefining business models. Changing macro-economic factors supplemented by technological advances have led to the evolution of the outsourcing industry. Solid history in software development, High English proficiency, Government support activities, Cost effectiveness, Process quality focus, Skilled workforce, Good entrepreneurial skills, Reasonable technical innovations, had built India as a dominant player on the global front in BPO industry and ranks ahead of competitors such as China, Philippines, Ireland, Australia, Canada etc. On the other hand Improper Infrastructure, lack of business process experience, Poor globalization skills, Internal competition for resources, Regional geopolitical uncertainty, Rising labour costs, Competition from other countries, Government blocking reforms and different means of Corruption are the future challenges for Indian BPO sector. This article tries to elucidate the prospects, Competitive advantages and challenges before Business Process Outsourcing in India.

KEYWORD: Outsourcing, Business Process, BPO Industry, Globalization, Macro-economic Factors

INTRODUCTION

DEFINITION – BPO

“BPO is the delegation of one or more business processes to an external service provider that in turn owns, administrates and manages the selected process based upon defined and measurable performance metrics.”

Business process outsourcing (BPO) is the leveraging of technology vendors to provide and manage a company's critical and/or non-critical enterprise applications. Through the business transformation process of service-oriented transformation,

which leverages the technologies and standards of service oriented architecture, companies can increasingly leverage third party companies that act as business service providers. Business process outsourcing can use off-shore resources, but is not required. Business process outsourcing (BPO) is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service.

India has enormous opportunities emerging from globalization and consequent lowering of tariff barriers. Information Technology has given India formidable brand equity in the global markets. 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. Through joint efforts of Government and the Industry, software development and IT enabled services have emerged as niche opportunities for India in the global context.

The Government has been making continuous efforts to make India a front-runner in the age of Information revolution. India today has the advantages of skilled manpower base, active and healthy competition amongst states in attracting investment in infrastructure as well as framing IT applications in areas such as e-governance, eLearning, e-commerce, entrepreneurship, Software exports growth and a large potential in the domestic market. Information Technology Act dealing with Cyber Security, Cyber Crime and other information security related legal aspects is in place. As a result of technological convergence at the infrastructure, services and industry level; there has been a tremendous up-surge in new product / service industries.

Right from the early years of its existence, the Indian BPO industry has been wrought with these clichéd associations—night shifts, monotony of work, attrition, digestive disorders on the one hand—and a fun work environment and college like atmosphere at the other. While night shifts and the consequent health issues and attrition haven't gone away and continue to be among the biggest bother, there is beginning to emerge a new face of the Indian BPO industry— that it's a serious career and not a 'stopgap arrangement'. This, in turn, has pushed the satisfaction index up. Don't know for sure if God called on some BPO employees (like in Chetan Bhagat's 'One Night@Call Centre').

The idea of outsourcing is not new. It started way back in the 1700s when manufacturers started shifting the manufactured goods to countries with cheaper labour during the Industrial Revolution, following the precepts of Adam Smith in his book 'The Wealth of Nations'. The history of outsourcing to India is an interesting story.

Even after over a decade of competitive global outsourcing, most of it still goes to India. Reaching this pinnacle in outsourcing has been a long journey. Services outsourcing to India started in the 1980s and rapidly accelerated in the '90s. In today's world, information technology has become critical to business and the meaning of outsourcing has undergone a drastic change over the years. Companies have started focusing on their core competencies and outsourcing many non-core functions, for which they had no competence internally.

First, some global airlines began outsourcing their back office work to India—and then IT companies followed. Some of the earliest players in the Indian outsourcing market were Texas Instruments, American Express, Swissair, British Airways and GE, who started captive units in India. Over the years, the industry has built robust processes to offer world class IT software and technology-related services.

For many, India's emergence as a player in the digital, interconnected global economy has come as surprise. Until the 1990s, India was a relatively closed global market economy, although it was and continues to be the largest democracy in world. The currency crisis of 1991 forced the Indian government to use most of the nation's gold reserves as collateral for an IMF loan and led to economic deregulation and the reduction of import tariffs. These changes attracted investment by multinational companies which realized the value of that segment of the Indian population that was educated, English-speaking, and technologically skilled. Developments in telephony, fibre optics and satellite communications made Internet-based communication and transfer of data possible, paving the path for outsourcing to India.

Business Process Outsourcing (BPO) has emerged as India's new sunshine sector and the country is now one of the prominent electronic housekeepers to the world, taking care of a host of routine activities for multinational firms. The firms here handle a host of back office work which includes responding to credit card enquiries, preparation of invoices, pay rolls, cheques, reconciliation of daily accounts, writing medical transcriptions, processing applications, billings and collections. The boom in BPO activities has prompted policy planners to view this sector as one of the potential avenues to absorb the growing mass of educated unemployed.

The escalating possibilities of job creation along with the scope to provide 'decent employment' enabled the BPO sector to be showcased as the one, whose promotion is most appropriate, given the bleak factor endowments of the economy. Today, India is the hottest destination for any company that wants to outsource its business processes. As per the NASSCOM-McKinsey Report 2002, BPO is the fastest growing industry, which expanded at an impressive rate of 70 per cent during 2001-2002. According to the latest NASSCOM, 2010 estimate, outsourcing centres in India currently employ 1, 71,100 workers and it has the potential to generate direct employment for one million workers in the next five years.

According to National Association of Software and Service Companies (NASSCOM), the major reasons behind India's success in ITES/ BPO industry are:

- Fast turnaround times, and the ability to offer 24x7 services based on the country's unique geographic locations that allow for leveraging time zone differences.
- Better focus on maintaining quality and performance standards.
- Abundant, skilled, English-speaking manpower, which is being harnessed even by ITES hubs such as Singapore and Ireland.
- A friendly tax structure, which places the ITES/BPO industry on par with IT services companies.

- Proactive and positive policy environment which encourages ITES/BPO investments and simplifies rules and procedures.
- High-end telecom facilities and infrastructure which are on par with global standards.

The attractiveness of India as the most favoured BPO destination can be contributed to three basic factors—cost, people and environment. India ranks first among a host of desirable nations in terms of cost (which includes employee cost, infrastructure cost, management cost and the tax structure). It beats all its competitors on the people front as well. The people factor is evaluated on the lines of size of the job market, workforce education level, language barriers, past outsourcing experience and employee retention. However, when it comes to environment (which includes country risk, infrastructure, cultural compatibility, proximity etc.) India lags behind countries like Canada, Australia and Ireland. Contrary to the sunny side of the story, we have a dark side of the BPO too.

The list of IT related outsourcing options to India although not extensive, but will entice with the overwhelming potential and possibilities of outsourcing. With the advent of globalization, more and more jobs are being outsourced to India. The outsourcing trend has brought with it a vast number of opportunities to India.

OBJECTIVES OF THE STUDY

- **To know prospects, and challenges before Business Process Outsourcing in India**
- **To Know Competitive advantages of BPO industry in India**

RESEARCH METHODOLOGY

This study is based on secondary sources of information from Publications of various Institutes, Organisations, published newspapers, journals—online & printed, magazines, web sites, books. The information is collected from libraries and websites. The literature is cross checked and validated to give the latest information.

Growth of Indian BPO Industry

Growth of BPO Sector in India during the first half of 2007 was showing a moderate trend of growth which is registered at 14%. Five years ago, the growth in this sector was quite low due to less contracts but the situation is worse now. However, the growth of the BPO sector is expected to improve. Year 2013 is set to be another ground breaking year for BPO industry in India and globally. I foresee the BPO sector to grow at a steady pace. The outsourcing represents one of the highest potential for India's economic growth and will continue to grow further to become larger than the IT business itself. Today outsourcing companies have created a niche for themselves, moving much ahead of simple voice based back office work to high-end knowledge and skill-based work. The industry is no longer business process outsourcing; it has evolved into business process management (BPM).

There are following key points that need to be considered in foreseeing the growth of BPM industry: Companies like WNS have looked at a larger canvas by going global, taking up global opportunities for revenue growth, optimizing supply chain, client partner approach and investing in cutting edge analytics, are factors adding to the growth of the Indian BPO industry.

New emerging verticals like shipping & logistics, healthcare and retail will bring major business to Indian BPOs, owing to our current capability in analytics, finance & accounting, and research. Apart from these, Indian BPO players still have an edge above others due to the two old and basic factors—cost arbitrage and scale of resources, which will help India, reach the \$9.5 billion mark smoothly.

PROSPECTS FOR BPO INDUSTRY IN INDIA

As such, any functions of management like marketing, financing, customer management, finance, production etc. can be outsourced. In India, customer care continues to be in the dominant segment in BPO with both revenues and employment doubling in 2012-13 over 2001-02.

BANKING, FINANCIAL AND INSURANCE

BFSI clients are keen on outsourcing since their front-end operations are in high cost locations. Their quest to control the expense to revenue ratio makes this a high-interest area for BPO firms, which can rid them of a lot of back-office work. For instance, company sends its raw accounting data to external service provider for processing it into final accounts and its interpretation. Other operations like retail banking, credit card processing, and mortgages and underwriting are also included herein. Growth rate is expected to be over 60%.

RETAIL

Retail service is an untapped opportunity. Retail chains like Wal-Mart and Tesco outsource back office work such as logistics management, receivables, payables and collections.

HEALTH CARE

It is completely new area for Indian BPO firms, but has great potential. Already, about 20 companies are engaged in healthcare, offering services like billing, medical insurance, disease-coding, claims management, accounting and clinical trials data management. Growth rate is approximately 100-120%.

HUMAN RESOURCES

HR is another underdeveloped area but it has the potential to grow to \$3.5 billion-5 billion by 2008. HR processes include data entry, payroll, processing, staffing, training, compensation, employee communication, pension plans & leave administration and HR data analytics. Growth rate is around 115-125%.

HOSPITALITY

Areas like travel and hospitality that are already being undertaken will also grow. That is because airlines and hotels are under pressure to reduce overheads.

TELECOM

Practically anything can be outsourced in telecom. So about 25% of global outsourcing is in telecom. BPO outfits are engaged in activating services,

managing relationships, answering queries, offering technology support and billing. Growth rate is over 100%.

COMPETITIVE ADVANTAGE OF INDIA IN THIS SECTOR

India is set to become the most popular destination for BPO operations. A large number of multinational companies are outsourcing their business processes offshore to Indian BPO companies. Theoretical literature mentions several advantages of business process outsourcing.

Time Zone Differences: Time zone differences are a natural outgrowth of large geographical distance separating collaborating teams. More and more global organizations have been outsourcing call centres to India, because of India's time zone advantages. India's twelve hour time difference enables global organizations to provide their customers with 24x7x365

days services. By taking advantage of India's time difference, companies in the U.S have been able to ensure that their customers receive round-the-clock customer support. By outsourcing call centres to India, one can take advantage of India's time zone advantage.

English Language Skills: Communication in business process outsourcing projects will mostly be done in English, due to the fact that client and vendor are based in different countries and mostly have different native languages. There is some misperception with regard to the English speaking capabilities of Indian workers, which, if not taken into account, can cause the outsourcing project to not have the expected outcomes. Meenakshi and Vani, mention that although India has a large number of graduates who supposedly possess good English language skills.

Communications Network: The ability to transfer knowledge and to coordinate and monitor the project, when involved parties are separated by thousands of miles, depends heavily on the quality and reliability of a country's communications network. The global competitiveness report for 2009-2010 ranks India 103rd out of 133 countries with regard to the quality and availability of telephone lines. Furthermore, it has built submarine cable networks to improve bandwidth available for business process outsourcing vendors in India.

Geographic Distance: Geographic distance is mentioned by several articles as one of the major drawbacks of offshore business process outsourcing. With regard to outsourcing to Indian companies these different aspects are all influenced by three issues, namely time zone differences, a unreliable communications network and the English-speaking skills of both Indian and western workers.

Large and Educated Workforce: Call centres in India have a largest number of qualified, tech-savvy, IT literate, trained, skilled and experienced professionals. India has the largest

English-speaking population after the USA. India's large and well-educated workforce has been one of India's main advantages over other countries. India will continue to have a well-educated and large workforce, because India has an ever increasing number of college graduates and a large number of successful training industries. These factors ensure that India's resources will keep increasing year after year.

Specialized Call Centre Outsourcing Services: Call centres in India have experience in offering a number of call centre outsourcing services, such as, inbound call centre, telemarketing services, technical helpdesk services, CATI services, disaster recovery services, email support services and chat support services amongst others. Call centres in India can also provide a host of IT enabled services, such as, helpdesk services, accounting services, transaction processing services, remote network management and end-to-end processing amongst others. Call centres in India can offer expert product specific solutions, such as risk modelling, data mining, actuarial services and underwriting variation analysis. Call centres in India offer cost-effective call centre outsourcing services without compromising on quality. Call centres in India also have the best of technology, people, processes, resources, operational expertise.

Cultural Differences: Gupta et al provide an in-depth understanding of the culture of countries in the southern Asian cluster, including India. It is important to take into account

Indian culture, when deciding upon business process outsourcing, as cultural differences need to be recognized and discussed before entering into a relationship with a vendor. Indian workers are very much relying on guidance and orders from superiors and clients. Indian employees dare not ask questions, even if this is required to not frustrate the Lower-level managers will avoid decision making and are reluctant to take on responsibility.

India's large manpower is willing to work for a lesser price. In a call centre operation, manpower typically accounts for 55 to 60 percent of the total cost. In India, manpower is available at a fraction of the cost overseas. Initial investment in infrastructure and training can be expensive and make one believe that the promise of cost reduction is false. However, there will be savings and the fact that several global giants continue to set up call centres in India is proof of this.

India's Policies: Government Supports to the BPO Sector in India:

The Indian government has extended its support to the outsourcing and IT industry. The government of India has allowed duty free exports of capital goods and has provided tax exemption on the export of ITES. The Indian government has also aided the Indians in building software technology parks that have the latest in telecom facilities and infrastructure.

This support from the Indian government has gone a long way in making India the world's most preferred outsourcing location. Government attitude, towards markets and freedom, is very important for a country's competitiveness. India is ranked 95th of 133 companies reviewed in global competitiveness report 2009-2010 with regard to the burden of government regulation. Bureaucracy is mentioned as the most important issue for companies doing business in India. Access to government offices, too many cumbersome forms to fill, lack of coordination between government departments in processing forms and long periods of waiting for approvals after filling forms are examples of bureaucratic issues.

Latest Technology and High-End Infrastructure: Call centres in India employ the use of the latest technology, the best software and high-end infrastructure to provide high-quality

customer support services. India has also experienced privatization and reduction in the tariff of internet services, telecom, cellular services and paging services. This has given India an advantage over other locations, in terms of infrastructure. India has the largest number of state-of-the-art call centres in the world. The Government of India has recognized the potential of IT-enabled services and has taken positive steps by providing numerous incentives. It seems contradictory to say that the migration of jobs from one country to another actually creates jobs in the former.

Long Term Benefits: In the short term, cost benefits and value addition may not be apparent

because of the initial investment involved in training and infrastructure. Also outcries against migration of jobs seem to cement the argument. However, as the NASSCOM report shows, the long term benefits are very powerful. Not only does BPO India allow global companies to avail of some of the best talent and expertise at competitive rates, but it also allows the company to actually save several jobs, which it might have had to lay off otherwise.

Cost-Effective Call Centre Services: Another important factor why global organizations prefer outsourcing call centres to India is because call centres in India offer cost-effective customer support services without compromising on quality. With the low cost of manpower available in India, Indian call centres have been able to provide high-quality call centre outsourcing services on a 24x7x365 days basis, at a cost which is more than 50% less if performed in the U.S or U.K. These reasons have encouraged more global corporations to outsource call centre services to India, because they can get access to quality call centre outsourcing services at a cost-effective price.

Traditionally, outsourcing was a means of lowering cost of production and processes. Customers being more cost conscious is causing a major shift in business process outsourcing adaptation and quickly increasing spend on business process outsourcing by companies worldwide.

The cost reduction opportunity is, in contrast to what has been found from literature review, the most important reason to consider business process outsourcing. The interviewees mentioned labour arbitrage and scalability, as the most important reason to consider Indian companies as partners in their business process outsourcing initiatives. Indian wages are about 20% of western wages, when including additional costs a final cost advantage of 20 – 40% is expected by western companies outsourcing to Indian companies. Next to this it is mentioned that Indian workers are used to long working hours, which will lead to faster (and thus cheaper) delivery.

India Enjoys the Confidence and Trust of Global Organizations: India has been one of the first nations to step into the call centre outsourcing industry. Global organizations have already outsourced call centres to India and have found India to be an ideal outsourcing provider. Today, some of the world's global giants have a base in India, from where they provide customer support services to their worldwide customers on a 24x7x365 days basis.

Outsource to India (O2I), a pioneer in outsourcing has been providing a wide range of services to global organizations. The following are a list of call centre services that Outsource to India offers.

- i. Inbound call centre services,
- ii. Outbound telemarketing services,
- iii. Technical helpdesk services,
- iv. CATI services, v. Disaster recovery services,
- v. Email support services, vii. Chat support services, viii. Value Addition

CHALLENGES BEFORE BPO IN INDIA

Distance from US: Geographically draw back to Indian BPO sector, is away from U.S. market. The effected hard-core sectors like pharmacy, biotechnology and related areas have more effect on its BPO operations due to distance when compared to other counter parts.

Poor globalization skills: India adopted the concept of globalization where recently when compare to west. This made us a bit poor in our globalization skills and operations.

Business process experience: Being an adopted concept to the Indian environment, we lack Experience in transforming business process effectively with instipulated time.

Infrastructure: One of the challenging areas for BPO in India is lack of infrastructural facilities in correlation with the amount of business growth.

And **other problematic areas** are:

- ✚ Leverage expertise for higher-value education.
- ✚ Fear/Uncertainty from Pakistan.
- ✚ Legal system.
- ✚ Positioning & Brand management.
- ✚ Cultural differences.
- ✚ Sometime blinding nationalism.
- ✚ Internal competition for resources.
- ✚ Over-promise/Under-deliver.
- ✚ Corruption/Piracy/trust.
- ✚ Competition from other countries.
- ✚ Government blocking reform/deals.
- ✚ Political & religious instability-war.
- ✚ Regional geopolitical uncertainty.
- ✚ Rising labour costs.

CONCLUSION

India is already well on the way to making the transition as scores of Indian companies are emerging as global players. Every new opportunity has got its own blessings and curses like the same outsourcing industry has also got its own opportunities and threats in this post LPG erabut it depends on our companies how well they are going to encounter the threats and how well they are going to capitalize

the opportunities gifted by LPG. If certain minute weaknesses are taken care of by us, India will predominantly continue its solid stake in BPO sector. India would soon move from business process outsourcing (BPO) to engineering process outsourcing (EPOs) and Knowledge Process Outsourcing (KPOs), as India was rapidly ascending the knowledge chain and was no longer a base for only low-end processes and operations.

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