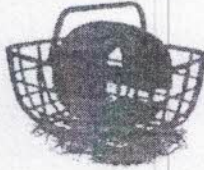




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## Business Process Outsourcing (BPO) Regarding Management Issues

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### RESEARCH PAPER - COMMERCE

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#### ABSTRACT

*Innovation is an essential and enduring aspect of any human enterprise. Management of contemporary organizations is no exception. Amidst globalization and technological breakthroughs, the industrial economy that dominated the 20th century is slowly but steadily giving way to an information or knowledge economy. This new economy is characterized by a rapidly globalizing world, radical technological advancements, hyper competition, ever-changing business and management models, and associated constant change and uncertainty. Revolutionary technological developments in information technology, communications, production, and infrastructure have made it possible to produce goods and services in one part of the country, region, or indeed the world, for consumption in another part.*

**Keywords:** Employment, Implications of Business, Planning, R & D, Future Growth.

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### Introduction:

Accompanied by these changes, business process outsourcing (BPO) has quickly emerged as a key business strategy in the last decade or so. More than half of Fortune 500 companies are outsourcing and off-shoring to varying degrees, and others are actively considering them. According to Gartner, a research consultancy firm, the worldwide BPO market was worth \$132 billion in 2006 (Singh, 2006). The most outsourced services included vertical industry operations, customer relationship management (CRM), supply management, human resource management, finance and accounting, payment services, and administration services. The main objectives of companies that considered BPO were to focus on business functions that helped to create competitive advantage, reduce costs, and improve service levels.

BPO is also very controversial. While business leaders' heap praises on BPO's merits and stress the necessity of BPO as a key sustainable competitive advantage, critics, including many political leaders and trade unionists, blame it for loss of jobs, especially when it includes off-shoring. BPO is not just a business strategy but encompasses broad economic, technological, and social aspects. While it is underpinned by technical innovations, its success depends on how the social and human aspects are managed.

Outsourcing essentially involves redefining the boundaries of the organization. It can range from peripheral activities such as security and cleaning to major organizational change with significant impact on organizational structure, employee skills, and performance management. If managed appropriately, BPO can result in significant performance improvements and productivity gains and offer strategic and competitive advantages to the organization.

As with any other management concept, organizations need to pay careful attention in evaluating whether outsourcing is beneficial and if so, in what areas. Once a decision to outsource is made, selecting an appropriate vendor and defining the relationship and performance parameters need to be carefully managed. Failure to manage the outsourcing process can result in serious consequences, such as decline in revenue, customer backlash,





and employee demotivation. The success of outsourcing is in its governance. It is not a silver bullet to solve the internal organizational problems.

#### Outline of BPO:

What is BPO? Why is it important? How should it be managed? To answer these questions, one needs to understand the way business is conducted and the environment in which it is conducted. As a business enterprise evolves, it is structured into several functional areas for better organization such as design, production, materials management, logistics management, marketing, finance, and human resources. These functions, however, are interdependent and therefore, need to work together for the overall success of the organization.

Depending on the nature of the organization, the activities are divided into core and noncore functions. The core activities are central to the organization and have direct bearing on the success of the organization. The noncore activities are supportive or secondary functions. The division of activities is also dependent on how the organization defines its business processes. A business process combines various inputs to create an output that is of value to the internal or external customer. A well-defined business process is customer centric, that is, it is meant to serve the customer. It is designed to address many of the problems with traditional organizational structures which create a huge and unwieldy bureaucracy that impedes rather than addresses customer service.

Organizations need to continuously evaluate and improve business processes to suit the business environment in which they operate. The key considerations are reducing cost, gaining efficiency, and improving customer service. This calls for business process reengineering. One of the major reengineering initiatives in the recent past is outsourcing of noncore business functions. BPO refers to the shift of noncore business processes from internal management to outside third-party providers. The outsourced activities may not be the core part of an organization, but that is not to say that they are less important. For example, some of the most outsourced processes such as payroll and benefits administration and customer call centers are an important part of any organization





but they are outsourced simply because a third party can provide them faster, better, and cheaper. Further, as organizations gain experience in outsourcing and develop maturity in managing the process, they may start outsourcing even their core functions and processes. To understand why BPO is becoming so popular, let us look at the outsourcing of payroll and benefits administration. This function or business process is responsible for calculating and timely payment of wage and salaries and other employment benefits such as superannuation, leave administration, and medical expenses. Depending on the size and complexity of organizations, this function is run by a number of people using an appropriate information systems package with considerable fixed costs. While this function is important to serve the internal customers, that is, employees, it is a noncore function. Such functions are often better handled by third-party providers who specialize in such activities by servicing several companies at a time, enabling them to spread their fixed costs and achieve economies of scale. They also acquire specialist knowledge in how best to deliver these services and can invest in new technologies. Therefore, they are able to deliver the services cheaper, better, and faster.

### Driving Factors:

#### A. Globalization-

The business world is rapidly becoming a global village. The decline of communism as an economic ideology; growing regional trade agreements and alliances, such as the European Union (EU), North American Free Trade Agreement (NAFTA), and Asia-Pacific Economic Cooperation (APEC); growing influence of the World Trade Organization (WTO) in defining trade agreements and arbitrating trade disputes, and so forth have all contributed to what Friedman (2005) refers to as the "flattening of the world." The 21st century is most likely to be dominated by Asia with China and India quickly emerging as economic giants.

#### B. Comparative Advantages-

According to Ricardo's (1821) economic perspective, nations should compete with each other based on the relative advantages they derive from their natural resources,





geography, intellectual capital, and so forth. For example, Singapore's Changi Airport has emerged as the Asia-Pacific hub for airlines primarily due to its location aided by entrepreneurial spirit and government support. India, which is home to more than a billion people, half of whom are under 25 years of age, produces several million university graduates every year, most of whom speak English and a considerable number who specialize in science, engineering, and technology (SET). In contrast, a majority of the Western countries have aging populations and suffer from skill shortages in SET. It is no wonder Indian workers are in demand worldwide for their skills. The difference in time zones across the world is another advantage of outsourcing and off-shoring. For example, most of the Indian call center operations take place at night time to cater to day time customer service in the United States.

The comparative advantages between nations and firms keep changing depending on circumstances and accordingly, they need to pursue their economic interests. For example, the Asian Tigers such as Singapore and Taiwan started as low-wage countries to attract direct foreign investment, but as their economies grew and became developed, they started outsourcing to other low-wage countries such as China. In recent times, China has emerged as the manufacturing hub of the world, and India is quickly becoming the services hub. India is called the "electronic housekeeper of the world" in recognition of its dominance in information technology (IT) and information technology enabled services (ITES) such as call centers.

**C. Technology Trends-**

Transformational advances in transportation, production, information, and communication technologies have accelerated outsourcing in the manufacturing and service industries. For example, broadband Internet, enormous and secure data storage capabilities, analytic software, collaborative technologies, and so forth have revolutionized global information and communications enabling outsourcing and off-shoring in the information technology industry.





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#### **D. Global Pool of Creative Talent-**

Creativity and innovation are the lifeblood of the knowledge economy. With ageing populations and growing skill shortages, the Western economies are increasingly dependent on the global pool of knowledge workers. According to Florida (2002), creative people are highly mobile and willing to relocate for the best social, cultural, and economic opportunities anywhere in the world. The multinational corporations are therefore setting up their research and development (R&D) centers in places such as India, China, Ireland, and Israel, where there is a relatively abundant supply of scientists, engineers, and technologists.

#### **E. Public Sector Reforms-**

In countries with liberal democracies, widespread public-sector reforms have resulted in privatization and liberalization of public services in order to strengthen accountability for public expenditure and better returns on investments under competitive market conditions. These policies have often led to outsourcing of public services and civic amenities, such as electricity, water, education, health, and garbage collection to private providers. The public tender process for these services is aimed at awarding the service contract to the best bidder who can provide quality service at the least cost.

#### **F. Hyper Competition and Demanding Customers-**

With increasing globalization, markets have become extremely volatile and competitive. Accordingly, organizations are being forced to cut costs to the minimum and strive for the best possible returns for shareholders, failing which investors will withdraw their investment and go elsewhere in search of better returns. Further, consumers are becoming increasingly demanding and sophisticated. Market-savvy customers search for products and services that meet global standards in quality, cost, and features. Outsourcing is increasingly seen to be a key business strategy to achieve maximum returns on investment and meet customer expectations.

#### **G. Focus on Core Competency-**

Division of labor and specialization of tasks were two of the key scientific principles

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of management that dominated the 20th century industrial economy. In contemporary firms, streamlining or standardizing business processes across the organization results in restructuring of the organization to focus on activities in which the organization has core competency and outsourcing the rest.

**II. Changing Organizational Structures**

A bureaucratic organization with traditional hierarchical boundaries between departments and functions leads to waste of scarce resources, such as money, time, and efforts with duplication, poor quality, and cost blowout. Today's quickly moving and changing world calls for flexibility and agility. Autonomous and cross-functional teams that facilitate networking and cooperation between people, jobs, and units by becoming flatter, more flexible, and responsive are therefore replacing bureaucratic structures. With reengineering of business processes and restructuring of work units, organizations are in a better position to determine which functions need to be carried out in house and which need to be outsourced.

**Management of BPO:**

BPO is essentially managed by the client, that is, the organization is outsourcing the work, and the vendor, that is the external service provider performing the outsourced work. The client can be the whole organization or just part of it (e.g., an IT department), depending what and how much is being outsourced. The vendor, in most cases, is an external organization or as in some cases, a fully or partly owned subsidiary of the client. For example, IBM USA may outsource part of its work to IBM India. The nature and complexity of the relationship between the client and the vendor depend upon the size, scope, and importance of the project that is the work being outsourced. For example, complex forms of work such as R&D are knowledge intensive, loosely defined, and involve multiple stakeholders over a longer period of time. Outsourcing of such work requires a more strategic and collaborative approach and a relationship between the client and the vendor. Therefore, this kind of work may only be outsourced after the vendor proves its credentials and trustworthiness to the client's satisfaction.

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### Future Directions of BPO:

According to Gartner, organizations increasingly prefer single suppliers that deliver integrated solutions rather than piecemeal suppliers. Clients also prefer to deepen their relationship with vendors through an incremental approach rather than awarding big contracts at the initial stage of a new relationship. In keeping with these trends, BPO vendors are consolidating their operations through mergers and acquisitions. This means that exit strategy becomes even more important in contract terms and conditions. Further, Internet- and Web-enabled technologies will play a bigger role in BPO operations.

With explosive growth in off-shoring of BPO to countries such as India, new problems are emerging. Even though India produces millions of new graduates every year, many of them do not have the right skills, and those who have them change jobs too frequently pushing employee turnover to unacceptably high levels. Their wages are also going up which may in the long run upset the cost advantages. With the major offshore BPO providers increasingly setting up operations onshore and near shore, outsourcing is becoming more and more global. This may blunt the criticism often levelled against outsourcing that it leads to job losses in developed countries.

### Conclusion:

While there is overwhelming evidence of widespread outsourcing across a wide range of industries, there is also a considerable rate of failure with BPO projects. One of the well-known cases of failure is the Australian federal government's IT infrastructure outsourcing in late 1990s which failed badly to realize the cost savings envisaged. A review suggested that the government was overly optimistic of the benefits of outsourcing and significantly downplayed the associated risks of outsourcing large-scale projects. In many cases, clients have pulled back from outsourcing and brought the operations back in house, called insourcing or back sourcing.

There is also considerable consumer resentment and employee trade union opposition to outsourcing which cannot be brushed aside by corporations with corporate social responsibility.

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That said, outsourcing is a logical extension of division of labor and specialization, the key scientific principles of management that shaped the 20th century economy. Globalization and technological breakthroughs have fundamentally changed the way we work, and outsourcing is a key business strategy that harnesses the potential of the new business environment. Outsourcing and off-shoring are the key elements of the third-generation business model, after global exports and production. Businesses that provide BPO services have become a new phenomenon and can offer strategic and competitive advantages apart from cost savings. This is reflected in the fact that BPO has grown well beyond low level, transactional services to knowledge intensive, core transformational services that encompass a wide range of professional occupations such as engineering, medical, legal, and accounting.

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