



Business Process Outsourcing : Reality Bites

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Abstract:

BPO is typically categorized into back office outsourcing, which includes internal business functions such as human resources or finance and accounting, and front office outsourcing, which includes customer-related services such as contact centre services.

The Indian BPO industry has to realize that once the industry matures, profit margins and return on investment stagnate and reach a plateau. It is for this reason that the time is ripe for the Indian BPO sector to innovate and move up the curve.

Hence a conceptual study is carried out to understand the concept and chart out the future prospects of this segment.

Keywords : *BPO, Technology, future prospects*

Introduction:

Business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider. Originally, this was associated with manufacturing firms, such as Coca-Cola that outsourced large segments of its supply chain.¹

BPO is typically categorized into back office outsourcing, which includes internal business functions such as human resources or finance and accounting, and front office outsourcing, which includes customer-related services such as contact centre services.²

BPO that is contracted outside a company's country is called offshore outsourcing. BPO that is contracted to a company's neighboring (or nearby) country is called near shore outsourcing. Often the business processes are information technology-based, and are referred to as ITES-BPO, where ITES stands for Information Technology Enabled Service³.

Knowledge process outsourcing (KPO) and legal process outsourcing (LPO) are some of the sub-segments of business process outsourcing industry.

According to the study conducted by NASSCOM and Everest India, Indian outsourcing industry is still the global leader in outsourcing market. Mr. Som Mittal, the then President NASSCOM, said in 2010, "By 2020, the industry expects to have around 5 million women employees on its rolls. Currently, the industry has around 37% women employees and around 26% of the female employees are chief wage earners" and women being the major work force in BPO industry, also contribute to higher attrition rate.

India, China and the Philippines are major powerhouses in the BPO industry. In 2017, in India the BPO industry generated US\$30 billion in revenue according to the national industry association.⁴

In recent years, the term Business Process Outsourcing or BPO has gained prominence and the trend of outsourcing back office operations to centers in India and Philippines along with other countries in Asia has taken center stage. Often, we come across projections that show a greater growth in BPO with more western firms outsourcing to the Asian and other countries.

This module is intended to cover the BPO phenomenon in depth and provide the readers with a clear understanding of the dynamics

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involved as far as this phenomenon is concerned. The various articles in this module would help the readers form a perspective of how the BPO sector works and the business drivers and imperatives behind the outsourcing phenomenon.

Why Outsourcing?

First, why should any company in the west outsource its back office operations? There are several reasons for this and the primary driver is the cost factor. Since wages in India and other Asian countries are cheap in Dollar terms which mean that for the same amount of money that the firms are paying their employees in the west, they can get a highly leveraged amount of work when they outsource to India and other Asian countries.

Next, because of the fact that the time zones of the West and Asia complement each other to ensure that work gets done in a 24/7 cycle. What we mean is that since the US and Asia are separated by almost a half day time zone differential, whenever it is nighttime in the US, it is daytime in Asia and vice versa meaning that the work can be done round the clock.

Third, the BPO employees in the India and Asian countries like Philippines are proficient in English and with some training can be taught to talk in an American accent or a British Accent. This means that the end users or the consumers in the US and Europe can feel comfortable secure in the knowledge that they can make themselves understood as well as understand what the person at the end of the line is saying. Finally, because of the way in which the BPO phenomenon has developed over the years, many companies in India and other parts of Asia are now better at the back office work than their American or European counterparts which means that not only is the cost an important criterion, quality of service offered is also excellent.⁵

Advantages of the BPO Industry:

The reason for companies to outsource their business processes is pretty simple. Business Process Outsourcing enables business owners to reduce the burden of work and concentrate on other core aspects of their operation. Outsourcing to a third-party company, which is already well-established and has the relevant experience in

providing services, is a much more convenient option. Outsourcing your business processes comes with a series of advantages. Some of those include:

Cost Reduction: Outsourcing helps organizations cut costs and save money, and is one of the most important reasons for people opting to outsource their business process. BPO has given rise to a talented pool of employees available at low wages results in huge cost reductions, which in turn results in better revenues for the company

Availability of Experienced Professionals: Recruiting new employees and training them involves a lot of hassle and is a huge cost to the company. When the tasks are outsourced to an already established company with all the resources, the troubles of hiring and training is conveniently avoided

Ability to Focus on Core Business: Since a considerable chunk of the business is outsourced to a service provider, the top management of the company can focus their attention on core operational areas. This also leads to better employee productivity and helps them make better and more informed business decisions

Excellent Source of Customer Feedback: Most BPO employees are in direct contact with the customers, as a result of which they are able to receive a first-hand feedback about products and services. This valuable feedback, in turn, helps the company to improve upon the services provided

Access to the Latest Updated Technologies: Buying a licensed version of the latest software and other technologies is very expensive. This proposition is also risky, especially for small to medium-sized businesses who cannot afford to dedicate a steady budget to buying the latest technologies. Therefore, it becomes difficult for a company to stay updated with the latest developments. Outsourcing to companies that already have access to the technology and have the relevant expertise therefore proves to be more advantageous for global organizations

Excellent Employment Opportunity: The BPO industry is one of the highest job providers in most countries. In fact, it is the ranked second in terms of the number of jobs created in some of



the Asian countries. The remuneration provided to the employees is also one of the best in the industry, which is one of the major reasons for youngsters to work in BPO. The BPO industry has provided employment to a lot of talented youngsters and has single-handedly changed the GDP of various small countries

Future of BPO in India

India has emerged as a hot destination for BPO work in recent years. The success is mainly due to the fact that there is a ready availability of large numbers of resources fluent in English and the diligent and hardworking efforts put in by the companies in India that do BPO work. Further, the fact that Indians are well educated (by Asian standards) and that there is a humungous body of resources who have graduated in commerce and technology has meant that the BPO story took off in right earnest in India. Added to this is the fact that the demographics favor India since a majority of its population is young and under 30. This is the so-called demographic dividend wherein a country that is youthful reaps the fruits of having a labor force which can be tapped into. All these reasons have conspired to bring about a revolution in the way the Indian BPO sector has performed.

However, things are not all that hunky dory since many other countries in Asia seem to be playing catch-up with Philippines emerging as a viable alternative to India. One of the reasons for the completion is that the wage differential that India had over the West is eroding since the industry is maturing and hence wages of the workforce are going up.

This means that other low cost rivals like the Philippines can tap into the advantage that India hitherto had. Further, there is a certain level of saturation that has set in India with the law of diminishing returns coming into play. These factors mean that India has to watch out for competition from other countries. Of course, there are certain steps that can be taken to arrest the decline and ward off the competition.

For instance, Indian BPO companies can branch out into Tier II and Tier III cities so that their wages are competitive and that a skilled workforce that exists beyond the cities can be tapped into.

Moreover, the costs can be kept down because of the fact that these cities have a lower cost of living and doing business than the Tier I cities. The most important step is that Indian BPO companies can move up the "value chain" which means that they can migrate to higher end knowledge work or KPO which is more cerebral and pays well. The point here is that it is time for the Indian BPO industry to take the phenomenon to another level and this is precisely the reason for many Indian BPO's to take up KPO work as well as opening centers in smaller cities.

Finally, the Indian BPO industry has to realize that once the industry matures, profit margins and return on investment stagnate and reach a plateau. It is for this reason that the time is ripe for the Indian BPO sector to innovate and move up the curve. With other nations snapping at its heels, the Indian BPO sector cannot afford to take it easy nor be complacent.

Conclusion

Organizational competitiveness is determined by its ability to meet changing customer needs better than others. In a rapid changing society under the influence of a number of socio-techno-economic factors, it is almost impossible for any organization to build competitiveness on all the value links. However, new paradigm created by the Internet and several physical infrastructural components have opened up new possibilities for redefining value networks. There is every indication that distances are shrinking across the globe, both in virtual and physical terms, if we look at it from the angle of time, which is the scarcest resource. What happened in the manufacturing sector over the years will be true in service industries also thanks to the technological revolution. This is particularly so in services where face-to-face service delivery is either not required or desired by customers for reasons of convenience and cost advantages.

The rapidly emerging scenario has multiple implications for the Indian BPOs in general. Since political compulsions often overtake techno-economic logic, and economies of developed nations are still in a recessionary phase, preserving jobs at any cost is an attractive slogan for them, particularly in an election year. In any case, the Indian BPO firms have to consistently



prove their capabilities to deliver and create nearindispensable situation for the parent to survive without them. This will not only involve growing technical and domain expertise but also refinement in systems and practices while keeping costs under control. In essence, BPO firms have to manage their consolidation and growth challenges simultaneously.⁶

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