

Secret of Organizational Success In An Ever Increasing Competitive Environment

Business Process Outsourcing

Business Process Outsourcing (BPO) is a relatively new buzz in the corporate world especially for small and medium-sized enterprises. People may think that outsourcing is the domain for large multinationals with large scale requirements. Outsourcing works well for just about any business that wants to reduce cost and increase income. Efficiency is improved and more time and energy can be focussed on core activities and functions. Outsourcing is an innovative concept with strong economical benefits which many businesses are embracing.

Conceptually BPO allows an enterprise to focus on its core competency by outsourcing non-core areas that generally consume a substantial amount of an organizational time and energy. Companies are increasingly outsourcing the management of Information Technology (IT) services for reasons that include concern for cost, quality, performance, access to world-class technical and application skills.

The value proposition of outsourcing has only become more compelling in our current resource constrained economy, as business leaders seek to leverage their proven outsourcing partnerships to accomplish even more with less.

Some Facts

- Business process outsourcing (BPO) is simply the movement of business processes to the highest-skill/lowest-cost provider.
- There are talent hot spots around the world, including India, China, Mexico, the Philippines, and the United States.
- Gartner Group estimates that 85 percent of U.S. companies will outsource their HR functions and that BPO will reach \$178 billion in revenue by 2007.
- BPO is a socio-technical revolution in that it is both a social shifting of jobs and a technology-based method of doing so.
- BPO is an emergent phenomenon to the extent that it is a result of several driving factors, none of which was intended to create the potential for BPO.
- There are six primary driving factors of the BPO revolution: educational attainment, broadband, data storage, analytic software and Internet security.
- To BPO or not to BPO is a strategic decision for organizations.
- A BPO initiative requires both technical and non technical managers in order to implement it properly.

Drivers for Outsourcing

Albeit there is a good mix of factors contributing to the need for outsourcing, these factors vary widely from one organization to another. The key drivers for outsourcing are:

1. Core competency augmentation with emphasis on staying lean

Rapidly changing technologies, a high degree of uncertainty, fluctuations in the economy, changing customer life styles and demands have forced organizations to stay lean (reduce head count) and competitive in order to ensure their survival, stability and steady growth. In order to respond to these changes, organizations have to focus on transformational processes to fix the disparity between the functioning of the organization and the requirements of its competitive environment. Hence an organization has to focus more on its core competencies for enrichment and enlargement of their offerings by outsourcing its non core functions. It is these value enriched offerings that help ensure the survival and strategic growth of an organization in today's competitive world.

2. Cost & Quality Objectives

This was the first and the primary reason why companies started looking at outsourcing as an option. Organizations that did everything on their own had to spend huge amount of money on running every function in an effective way. Outsourcing service providers, on the other hand, could offer the same value at lower costs due to economies of scale.

Management concerns about cost and quality drive the outsourcing initiative. Similar issues such as getting services for a reduced price, reduced staff levels at an acceptable and affordable quality levels featured often in the planning process.

3. Improve operational efficiency

Entrusting a part of your processes and functions to an external company can improve an organization's efficiency in a number of ways. First, your processes are handled by a company that is more efficient in that particular area. Second, with better management of costs and improved handling of operations, your overall efficiency also increases.

In other words, recruitment firms are not the ones that are raiding each other. According to executives in recruitment firms, it is IT and ITeS companies that are poaching staff from recruitment firms to run their in-house human resources departments.

4. Abundance of skilled manpower

A key reason why many top companies moved a part of their activities to low cost locations was the abundance of skilled manpower and resources. India, for instance, has a huge population of English-speaking graduates who are willing to work at much lower salaries compared to their US counterparts.

5. Lack of availability of internal resources

Many times the number of people internally available to handle a function is not adequate. Moreover, their level of competence to handle that particular task is also questionable. In such a situation, the company has to make a choice. Either it hires that many more people and develops that skill or it outsources that function to a service provider.

6. Improve speed and time-to-market

By effective utilization of available resources and improvement in overall efficiency and productivity, a company can easily reduce cycle time and improve the time-to-market for any product. An outsourcing service provider thus assists in increasing this speed of delivery, making you more competitive in the market.

7. Optimum utilization of resources

If some of the processes are being managed by an external service provider, your internal resources can be utilized in a better way for some other functions. This avoids unnecessary expenditure by reducing the need to invest too much time and capital in non-core activities. The company's assets and resources can thus be made available for more important activities.

8. Focus on core competence and innovation

If the non-core activities of an organization are outsourced, it becomes easier for the company to focus on its core competence. As the company becomes more focused on its vision and all the internal resources are dedicated to these core business objectives, the company can achieve greater breakthroughs with innovation.

9. Greater flexibility and competitiveness

With greater degree of specialization and increased focus on core activities a company is able to manage all its requirements in a much more efficient way. It makes the company more agile and flexible in responding to market changes and demands of competitive pressures.

10. Availability of functional expertise and domain knowledge

It is practically difficult for any company to develop expertise and domain knowledge in all its activities. For instance, a garment manufacturer or cosmetics company might want to use technology for better functioning but IT is not its area of expertise. Therefore, it makes sense for such companies to outsource their IT and business process work to companies that are best at doing them.

11. Global Best Practices

Outsourcing service providers usually operate across the globe and handle a number of functions for different companies. This gives them an opportunity to learn and gain expertise in the best business practices used by the top companies of the world. Their knowledge and expertise can be leveraged by any company to adopt these global best practices.

Two Giants Take the Offshore BPO Lead: CASE STUDY

GE Capital's International Services Microsoft

GE Capital's International Services unit, which provides everything from risk calculation to IT services and actuarial analysis for GE worldwide, has grown from 634 employees to 17,000 during the past five years. More than half of those workers are in India, and they are not being used for mindless data entry—in India every employee has a college degree, and more than 1,200 have Master's degrees in Business Administration (MBAs).

Microsoft has about 200 employees developing software in Bangalore, where it opened its first non-U.S.-based product development centre five years ago. In July 2003, the company announced it will be shifting more currently U.S.-based jobs to India as it seeks to lower technical support and development costs. Microsoft will increase its staff in India in the coming years, as the country continues to turn out tens of thousands of English-speaking engineers each year.

Sources: Adapted from Reed Stevenson and Anshuman Daga, "Microsoft Shifting Development, Support to India," *Reuters News Service* (July 2, 2003); and Nelson D. Schwartz, "Down and Out in White Collar America," *Fortune* (June 23, 2003), p. 82.

It is critical to point out that BPO is not a technology or a technology system at a business strategy.

Financial Objectives

There are several other financial issues that can make outsourcing appealing. One is the opportunity to liquidate the firm's intangible IT assets, thus strengthening the balance sheet and avoiding a stream of sporadic capital investments in the future. Also, outsourcing can turn a largely fixed-cost business into one with variable costs. This is particularly important for firms whose activities vary widely in volume from one year to another or which face significant downsizing.

Combating Environmental Uncertainty

Outsourcing can facilitate organizations to reduce the impact of change in the environment by outsourcing certain functions to 'specialist' companies who have expertise on these specific functions. The management can then focus on Change Management. Outsourcing could be considered as a strategy to manage change in the external environment.

Globalization

Globalization is another aspect that synergizes the increasing need for outsourcing. Currently, many companies are turning their attention to foreign markets but these companies do not have in-house expertise to confer or operate their business in the international arena. Therefore as an example, they need to outsource their organizational functions to the service providers who have international expertise in those functions.

What Should Be Outsourced

More and more companies are deciding that outsourcing business processes makes sense from many points of view. Gartner Dataquest reports that globally BPO will grow from \$106.7 billion in 1999 to \$301 billion in 2004.

How do we decide what functions are non-core for an organization, and can thus be outsourced?

Determining the company's core competencies may not be as straightforward as might be thought. When making this decision, ask three questions:

1. What drives our business?
2. What makes our product unique?
3. What do our customers think of when they think of our company?

Then outsource things that are important but that do not require the organization's "patented formula" or "classical heritage" to be world class.

Key Benefits from Outsourcing

Outsourcing has numerous identified potential benefits. Financial benefits from outsourcing include rapid funding of new systems development and economies of scale and scope. Consolidating infrastructure through IT outsourcing, a firm can experience cost reductions in hardware and software licensing, facilities, and support headcount.

Outsourcing can also capitalize on a vendor's extensive domain expertise and best of breed change management and problem solving skills. A vendor should have the ability to get more out of the technologies and make investments in the latest technologies that a company could not afford internally. A vendor's main competency is in managing the outsourced systems efficiently through their skills and economies of scale and providing a level of efficiency that could not be achieved by the outsourcer. Underlying the outsourcing effort is a fundamental strategy to offload legacy systems and operations so a business may focus on developing new strategic frontiers.

Extending and redefining the true value proposition

The drift towards outsourcing not only in IT, but also in back-office business processes clearly demonstrates that today corporate leaders want to extend and redefine their value proposition by outsourcing.

It is widely accepted that in today's business environment, the key question is how to derive the greatest value from an outsourcing investment. So how do buyers of outsourcing services drive greater value for their companies? In the past, businesses felt that getting the best new technology would do it. But in today's environment, technology by itself cannot mobilize an organization from its current state to the next level of performance. Again, in the past, if a provider had a particular process expertise, that would mean value. But today, many organizations are conducting their businesses based on the sophisticated process based domain expertise. The true value proposition for today is the value-based service relationship that an outsourcer had to have with the service provider. Service excellence has become the basic instinct and real value differentiator that drives client satisfaction.

Service Excellence Driven

As business leaders move to outsource a greater depth and breadth of services across their enterprises and on a global scale, providers are increasingly touching the corporate world's most valuable asset, human capital and contributing strategically to help corporations efficiently manage critical information and intellectual property.

Outsourcing is extending to more people-centered activities that invade an organization at a more intimate level, where cultural match and service delivery become key to delivering the true value proposition. Just as cultural disparity is one of the major reasons for the failure of mergers, it's also the major factor influencing the success of Outsourcing relationships

Operational excellence, product/service leadership and highly effective client relationship management are keys to assuring superior service delivery. Service provider's corporate culture needs to be geared to producing high quality, consistent and measurable results. Priorities should be regularly gauged and used to define the service standards. The provider should have enterprise-wide goals that are enforced via internal service level agreements that enable service professionals to work together as a team to achieve goals and to deliver on expectations.

In all sourcing relationships, strategic sourcing can only achieve bottom-line impact if a company chooses a trusted partner that has clear methodologies and processes in place ones that ensure reliable and consistent service results throughout the tenure of the business partnership.

Value and Results Driven

Stringent performance measures should be applied for driving and broadening the value of an outsourcing relationship. The service provider must have a clearly defined service vision in line with outsourcer priorities and hones in on creating measurable value. Outsourcers need to ensure that their provider has a service methodology, the needed infrastructure, people, skills, technology, and metrics capabilities in place both to deliver and measure short and long-term ROI from value-added services.

A reliable service provider is one that can enhance & enrich the in-house expertise, streamline processes, improve lead times, and continuously invest in technology that supports superior service delivery. Clearly defined service standards and performance measures that provide baselines should be employed to measure performance, determine base pricing, and report service results. Service-level standards should be aligned with these priorities in order to ensure delivery in key areas and set response times and service availability.

Metrics Driven

The measure of any good service provider is the feedback elicited from their client. Client's feedback should be solicited on a regular basis to assure that the organization is aligned around client priorities and delivering on expectations. Measurement of client satisfaction with the provider on the 'soft side' of the metrics equation should be structured in a way that determines not only the client's satisfaction level, but also the intensity behind that satisfaction, with examples of specific encounters or events. Further, in addition to maintaining internally established service level standards and performance metrics, regular surveys and outside evaluations can help in validating service delivery. Additionally, service providers should have the flexibility to empower a team to move quickly through an organization at any time in order to make necessary changes.

Reasons to Believe in the Concept of BPO

Percent citing each reason as a "very important" rationale for their BPO efforts.

- Focus on core competencies: 67.3%
- Save money: 61.1%
- Tap vendor domain expertise: 55.5%
- Focus on strategic growth: 37.4%
- Maintain/reduce head count: 34.6%
- Redirect capital budget: 22.7%
- Reduce assets on books: 7.6%
- Other: 2.8%

Sources: CFO magazine and AMR Research

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