1.0 Executive Summary

This dissertation study was basically carried out to understand the "**impact of IT industry (software companies) on Business Process Outsourcing (BPO) in Bangalore City".** What is the role of Business Process Outsourcing in IT industry, various practices of Business Process Outsourcing in relation to IT industry, how BPO is being an effective tool in IT industry, how is it advantageous to the software companies, and major problems IT industry is facing due to Business Process Outsourcing.

In research part of the dissertation study, a sample size of **30 software companies** was considered. A survey was conducted with a self-administered questionnaire for the software companies. Questionnaire consisted of structured as well as unstructured questions. Research was confined to the major and medium size **software companies**.

The findings of the study revealed that **Business Process Outsourcing** plays a major role in software companies and used as an effective tool to save the cost. At the same time **BPO** has caused some problems to the software companies in terms of data security, functional dependency etc. But ultimately Business Process Outsourcing is used as a major tool in IT industry.

2.1 Background of the study

The verdict is out! The IT industry is on the front foot now, and is growing at a steady pace. ITES is fast growing to be a major part of the IT industry. Business process Outsourcing (BPO) forms an important part of the ITES industry, and is all set to grow exponentially in the years ahead. Business-process outsourcing means delegating back-end administrative functions that are necessary to run a business but are not a part of the core business. Outsourcing grows in bad times because companies want to cut costs, and it grows in good times because companies want to focus on growth, as Gartner's Scholl says, essentially implying that BPO is here to stay!

What is BPO?

Companies are increasingly outsourcing key business functions and their related IT operations. The BPO industry is built around the raison d' etre of efficiency and cost-effectiveness. With the current focus on core business capabilities, many companies are outsourcing select business functions to expert partners. BPO takes a set of activities and takes on the responsibility of reengineering the entire way the operation is done. Outsourcing is required in different areas like Finance, Health, Accounting, Human Resources of companies, etc. Globalization, competitive markets, and mergers and acquisitions are the primary stimuli for business-process outsourcing. By outsourcing business processes, companies can get a firm assessment of the cost of running their operations. The philosophy behind BPO is specific, does what you do best and leave everything else to business process outsourcers. Companies are moving their non-core business processes to outsource providers. BPO saves precious management time and resources and allows focus while building upon core competencies. The list of functions being outsourced span purchasing and disbursement, order entry, billing and collection human resources administration, cash and investment management, tax compliance, internal audit, pay roll…the list gets longer everyday. In view of the accounting scandals in 2002 (Enron, WorldCom, Xerox etc), more and more companies are keen on keeping their investors happy. Hence, it is important for them to increase their profits. BPO is one way of increasing their profits.

Outsourcing is not new- it has been a popular management tool for decade. One can safely say outsourcing has evolved:

- 1960's – time- sharing
- 1970's – parts of IT operations
- 1980's – entire IT operations
- 1990's – alliances/ tie-ups
- 2000's – IT – enabled services

Business Process Outsourcing (BPO) ***is the long-term contracting out of non-core business processes to an outside provider to help achieve increased shareholder value***. **Business-process outsourcing means** ***delegating back-end administrative functions that are necessary to run a business but are not a part of the core business***. **Business Process Outsourcing (BPO)** is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria.

BPO involves turning over an entire function or business process to a back office supplier (for instance the resource management of an organization which may involve payroll and finance; information technology; human resources; inventory management). As corporations merge and consolidate operations, this trend towards outsourcing basic business processes is becoming a new business model for international corporations.

WHY OUTSOURCE?

A recent landmark study of BPO practices among many of the world's leading corporations shows why business has recognized the financial and operational advantages in securing the services of a professional organization to manage non-core activities. Many organizations, including ADCC clients, have commenced the process of better positioning themselves through outsourcing non-core functions and have already begun to reap the many benefits listed below.

Highly skilled workforce, with knowledge and skill of different business processes.

High quality infrastructure – ensuring communication ease Alliances and Partnerships in US- ensuring onsite customer support.

Availability of telecom connectivity through fiber and satellite, enabling seamless interface with remote systems and customers.

The Government of India has recognized the potential of BPO and has taken positive steps by providing numerous incentives. The National IT Taskforce submitted its 108-point Action Plan to promote IT in the country. The Government of India has approved the plan and is in the process of implementing it.

- **Focus on Company's core business:**

  Your management is freed up to focus more time, energy, and resources on building the company's core business as we assume full responsibility for managing day to day customer contact and back-office operations.

- **Achieve cost reductions**

  Through process re-design, the latest technology and economies of scale, we reduce operating costs by as much as 30% while bringing other administrative costs under better control.

- **Improve Service quality**

  We organize and manage the business processes with a view to providing a higher level and quality of services to customers, both external and internal.

- **Maintain competitive edge**

  We enable management to focus on building a more competitive business, and provide the supporting systems and services to the business. We provide the supporting systems and services to help companies compete more effectively in global marketplace.

- ### Obtain outside expertise

Our company's industry and technical specialists provide management with valuable guidance and skills, which are our core competencies, and which clients may not have in-house.

- ### Meet changing customer demands

Our outsourcing teams provide management with flexible and scalable services to meet their customers' changing requirements, and to support the company's strategic moves.

- ### Gain access to advanced technology

We design and implement leading-edge enterprise systems to support the business processes, and we manage the technology infrastructure with more efficient capital investments and training costs.

- ### Achieve revenue enhancements:

By outsourcing non-core processes, management can focus on increasing sales and market share, developing new and improved products, expanding into new markets, enhancing customer service and increasing shareholder value.

2.2 Statement of the Problem

This dissertation study was carried out in order to find out the **"impact of Business Process Outsourcing on IT industry".** Since it is growing at faster rate software companies are using Business Process Outsourcing as a cost effective, value addition as well as time saving tool in their organization.

This study was taken up to find out the practices of **Business Process Outsourcing, Role of outsourcing, Problems faced by software companies due to Business Process Outsourcing.** A survey was conducted to know the perception of Business Process Outsourcing among the IT industry.

2.3 Need and Importance of the study

Since Business Process Outsourcing (BPO) industry is growing at the faster rate than expected and software companies are utilizing these units to the maximum, therefore following are the reasons and importance of the study.

1. What is the role of Business Process Outsourcing in IT industry?
2. To understand the practices applied by the software companies.
3. What are the advantages and disadvantages of Business Process Outsourcing (BPO) with respect to IT industry?
4. Identifying the **Critical Success Factors** (CSFs) of Business Process Outsourcing for software companies.

2.4 Objectives of the Study

The main objective of this dissertation study was to measure the "**impact of IT industry (software companies) on Business Process Outsourcing (BPO) in Bangalore City"**. The other parallel objectives were as following.

- To understand the **role of Business Process Outsourcing** in IT industry.
- To study the various **practices of Business Process Outsourcing** regarding IT industry.
- To understand the **merits and demerits of Business Process Outsourcing** in IT industry.
- To find out the **problems faced by IT industry** due to Business Process Outsourcing and to offer remedial measures.

3.0 Review of Literature

Role of BPO in IT Industry:

This virtual walkthrough takes you through the entire process of outsourcing, right from taking the decision to outsource to vendor selection to outsourcing project management. It list down the key points that any outsourcer should look for before going for outsourcing including

- Strategic outsourcing decision
- Outsourcing best practices
- Outsourcing project management

Outsourcing will impact current processes. Project Leaders will be required to assist in process re-engineering, and periodically provide feedback on the impact of the change. They would define individual work acceptance and test criteria and identify project specific process guidelines.

Individuals will be affected the most. They will see loss of control, will fear of loss of job, will fear external scrutiny of work product and will be frontline witness and participants to culture clash. Individuals will need to be re-trained.

Outsourcing brings a new culture to your operations. Offshore outsourcing adds another dimension to the cultural clashes that may occur. At times you may be left wondering as to when it is a cultural issue or when it is a people's issue. An understanding of cultural issues may help smooth communication pitfalls. Solicit the services of a good culture consultant for a cultural orientation to your team. You will be surprised to how much dividend this will pay to you and your team.

Back office operations evolution

Initially, back office operations were created as captives of parent companies and were treated as cost centers. Over the period, these have evolved from cost centers to profit centers due to:

Corporations are increasingly converting captive back office operations into profit centers by accepting external clients

Types of back office services:

today, back office services cover the following:

- **Administration**
  - Tax processing
  - Claims processing
  - Asset management
  - Transcription and translation
  - Document management
  - Other administration
- **Finance**
  - Billing services
  - Accounting transactions
  - General accounting
  - Tax consulting and compliance
  - Risk management
  - Financial reporting
  - Financial analysis
  - Financial management
  - Other finance services

- **Human Resource**

  - Benefits administration
  - Education and training
  - Recruiting and staffing
  - Payroll services
  - Hiring administration
  - Records management
  - Other HR services

- **Payment services**

  - Credit/debit card services
  - Check processing
  - EDI

- **Other transaction processing**

Industries such as banks, insurance, airlines, telecom services require large-scale data processing and data based decision making capabilities. Raw data and/or paper documents are sent to locations where the back office operations (image retrieval, scrutiny of data, data input, customer reports, internal MIS, reconciliation etc) are carried out.

Significant potential exists for cost savings through outsourcing across industry verticals. Hence, customer interest in outsourcing will not be limited to just a few verticals, but be much more widespread. Insurance and retail banking generate the bulk of savings because of the high proportion of processes that they can offshore. As a result, companies in these two verticals are taking the lead in sourcing ITES from India and rapidly growing in scale.

Outsourcing opportunities vary from standardized corporate center activities such as accounting, payroll, etc. to more niche and vertical specific opportunities such as clinical trials support for pharmaceutical companies, claims processing for the insurance sector, account opening support for the banking sector, etc.

To calibrate the feasibility of outsourcing and the cost saving potential of any process, a rigorous four step procedure needs to be followed:

- Lay out the entire value chain for the process.
- Break down each segment of the value chain into its constituent activities.
- Identify the activities that can be performed remotely.
- Estimate the cost (labor and associated infrastructure) of activities that can be outsourced to offshore locations.
- For example, in claims processing, most activities in origination and closing can be off shored, while others require a physical interface with the claimant and therefore cannot be off shored.

The current off shoring activity in insurance also suggests that claims and servicing are the focus processes. Most companies that offshore insurance processes to India started with simple low-complexity claims and policy servicing processes. Now, the set-ups have also started off shoring more complex claims, risk analysis and underwriting processes.

Like insurance, there is tremendous opportunity in retail banking too. For example, in loan processing, there are several activities from origination to servicing which can be off shored. In application entry to closing stages, the entire data entry, underwriting/credit decision, communication and up sell to applicant and final document preparation can be off shored. Similarly, in fund disbursement to coupon delivery stages, the review of closing documentation, booking of document to system and general ledger reconciliation can be performed remotely. Several service activities, e.g., handling internal and customer inquiries, file management can also be out located. Several global financial services are already taking advantage of this opportunity. For example, HSBC provides supports for origination process among several others from India. Similarly, Citibank uses its subsidiary eServe to support cheque processing, customer service and trade finance processes.

Setting up a back office business:

- The first step in setting up a back office business is arriving at a mission statement, answering questions such as the strategic objective to be achieved; benefits that will be offered to clients and benefits that will accrue to the company.
- The competitive niche positioning will need to be identified. This process will consist of analyzing the competition, defining the type of service operations being planned, selecting the type of ownership structure that is desirable and deciding on the type of customer that will be targeted.
- In analyzing competition, companies will need to look at issues such as prevailing reputation in back office services, prevailing labor costs, prevailing telecom support, size of labor pool, regional coverage, availability of training for labor force, incentives, etc.
- Companies will have to determine their primary competitive niche by looking at issues such as quality, speed and reliability, value for money or flexible capacity.
- Players in the market will have to decide on the service offerings they will introduce, based on the kind of telecom and labor infrastructure they have.
- Companies will have to decide on the type of ownership model they want to go for, like joint venture, network affiliate, local ownership, etc.

Back office service providers will also need to determine the kind of business and customer they will be going after. Readily available market analysis and reports can be used to decide on the industries that offer the most potential.

Potential of BPO:

The ITES industry, of which BPO forms a very important part, is expected to be a $17 billion industry in India and generate over 1.1 million jobs by 2008. The sector has grown by 73% during the last fiscal and recorded revenues of Rs. 7,100 crore.

IT Enabled Services: Market Segmentation

(Rs crore)	1999-2000		2000-01		2001-02 (Estimate)			2008 (Forecast)	
	Employ-ment	Reve-nues	Employ-ment	Reve-nues	Employ-ment	Reve-nues	Growth Rev. (%)	Employ-ment	Reve-nues
Customer interaction services including call centers	8,600	400	16,000	850	33,000	1,650	94	270,000	20,000
Back office operations/ Revenue Accounting/ Data Entry/ Data Conversion incl. Finance & Accounting/ HR services	15,000	950	19,000	1,350	35,000	2,850	111	300,000	21,000
Transcription/ Translation services	5,000	120	6,000	160	5,200	150	-6	50,000	4,000
Content development/ Animation/ Engineering and Design/ GIS	15,000	820	27,000	1,600	30,000	2,100	31	300,000	25,000
Other services including Remote education, Data Search, Market Research, Network	1,400	110	2,000	140	3,000	210	50	180,000	11,000
Consultancy and management									
TOTAL	45,000	2,400	70,000	4,100	106,200	6,960	70	1,100,000	81,000

Source: nasscom.org

Well, despite the global economic slowdown and WTC attack, one area that is generating lot heat is outsourcing. Outsourcing in general is similar to IT outsourcing, although on taking a closer look, there are a few differences. Subtle distinctions between vendor offerings, the integration of some IT outsourcing with in-house efforts, and the

terminology in outsourcing agreements exist. Businesses need to understand the differences to embark on a successful outsourcing expedition.
The trend is likely to take off in a big way in the country as overseas companies find India a better place to outsource most of their IT needs. In fact, a slowdown in the US shouldn't affect us and cost-cutting in the US could mean acceleration of outsourcing orders coming to India, boosting the country's software exports to $6.2 billion in 2000-01, says a Nasscom study. An IDC report says the worldwide outsourcing spending will increase from $116 billion in 1999 to $177 billion by 2004, at a CAGR of 9%.
With the Internet challenging conventional business models, companies are trying to restructure themselves around e-business and compete in the Internet economy. Through this month, CIOL helps you in learning the nuances of this emerging industry.

India Inc. surely means business in the area of business process outsourcing and will consolidate its reputation as the most favored destination for outsourcing projects and services from all over the globe. The Government's investment in the areas of infrastructure development and favorable government policies is another added advantage for companies looking to India as an outsourcing partner.

From 5-star hotels are some of the factors that went on to create a euphoria that brought an entire yuppie and wannabe generation to the call centre industry. Like it happens always, the initial novelty tapered off and the young 22-something crowd is now taking the call centre option only as a stop gap, as they wait for bigger breaks.

The concept of outsourcing is gaining acceptance among corporations as a mainstream alternative to in-house operations. India has emerged as one of the preferred countries for outsourcing with the availability of outstanding quality and affordability of skilled professionals. We wrap up the special edition on outsourcing underlining the growth and opportunities in this sector.

With the rapid growth of Internet and e-business emerging as one of the top business process, a new breed of e-biz vendors has redefined business models. E-business outsourcing market is blooming amidst the widespread adoption of technology and, to an extent, the lack of technical skills.

For a business, e-outsourcing is buying IT products and services that could be furnished in-house from one or a variety of sources on the Internet. For example, an enterprise might hire a Web hosting firm to set up and run its Web site or an application service provider (ASP) to provide specific back and front-office applications or even an outside security firm to install and maintain firewalls on a virtual private network (VPN).

A recent Gartner-Dataquest survey of CIO’s indicates that they can no longer handle all of their enterprises' IT needs in-house. More than half of them see outsourcing as a way to trim costs in a tough economy. Also, outsourcing eliminates the need to attract, hire and retain skilled IT personnel. Here is a discussion on what to outsource and how to approach a strategic decision.

A term coined by the Gartner Group, MSP (Managed Service Provider) denotes vendors who deliver IT infrastructure management services over a network to multiple customers on a subscription basis. The basis for their existence is that they will do a better job of maintenance than the company could do themselves, and that they can do it cheaper as well.

Outsourcing is a rampant phenomenon in IT business today with companies becoming more and more inclined towards cutting costs and improving efficiency to tide rough times. Yes, ample reduction in cost is assured by way of outsourcing but what assures quality? No kudos for guessing that right, it’s benchmarking!

Rules for Success:

- **Perform due diligence in choosing an outsourcer**. Manage the transition well by getting all information in writing. And work to forge a relationship of trust.
- **Am I the best in doing this process?** — Would I hire myself to do this process? If not, then consider outsourcing the process.
- **Choosing the right outsourcer** — The three most important criteria to look for are proven track record, technical excellence and ability to deliver process improvement
- **Develop a clear, well-designed transition plan** — Satisfaction levels are lowest in the first year of outsourcing. A cross-functional transition team and a detailed transition plan will go a long way toward ensuring the success of the project. In that first year there's tremendous change: you're still migrating systems, you may be re-engineering processes, and most significantly, your people are still adapting to a very different environment
- **Key to success** — is having everyone working toward clear objectives that are well-defined in the beginning
- **A good Service Level Agreement (SLA) will** — delineate which service levels will be measured. How they will be measured. How reports will be provided. What level the outsourcer promises to perform. Have milestones with penalties if not met.

Business Process Outsourcing includes:

- **Customer Service Interaction including Call Centers** – Call Centers are expected to grow to Rs. 3,000 crore in 2002-03 and maintain a 45% growth rate for the next few years. With the advantage of English speaking population, low cost manpower and quality service, many companies are increasingly outsourcing their operations to India.
- **Back Office operations/Banking/Revenue/Accounting/Data Conversion/HR etc.** - Verticals such as banks and aviation require large-scale data processing and data based decision-making capabilities. Raw data and or paper documents are sent to remote locations (IT-enabled destination) where data entry and necessary reconciliation is carried out.
- **Transcription Services** - Medical transcriptions involve the transcribing of medical records from audio format or dictated by doctors or other healthcare processionals into either a hard copy or electronic format. Doctors' overseas record their findings into a Dictaphone or any other such device and the sound tracks are transferred through dotcom links to ITES companies specializing in this area.
- **Content Development/Animation** – India's strength lies in her low cost, high quality manpower. The same applies in these two fields. With the animation industry slated to be to the tune of $ 70 billion by 2005, much of the work will be outsourced to countries like India.

Advantages & Disadvantages of BPO in IT Industry

Advantages:

- **Achieve cost reductions** – this is made possible through process improvements, reengineering, and use of technologies that reduce and bring administrative and other costs under control.
- **Key in on company's main business** – with the day-to-day back office operations taken care of, the management is free to impart more time to building the company's core businesses.
- **Obtain outside expertise** – Rather than recruiting and training personnel, BPO ensures that domain experts from another company provide the needed guidance and skills.
- **Meet constantly changing customer demands** – many BPO vendors provide the management with flexible and scalable services to meet the customers' changing requirements, and to support company acquisitions, consolidations, and joint ventures.
- **Achieving revenue increases** – by outsourcing non-core processes, companies can focus on increasing their sales and market share, develop new products, expand into new markets, and enhance customer service and satisfactions.

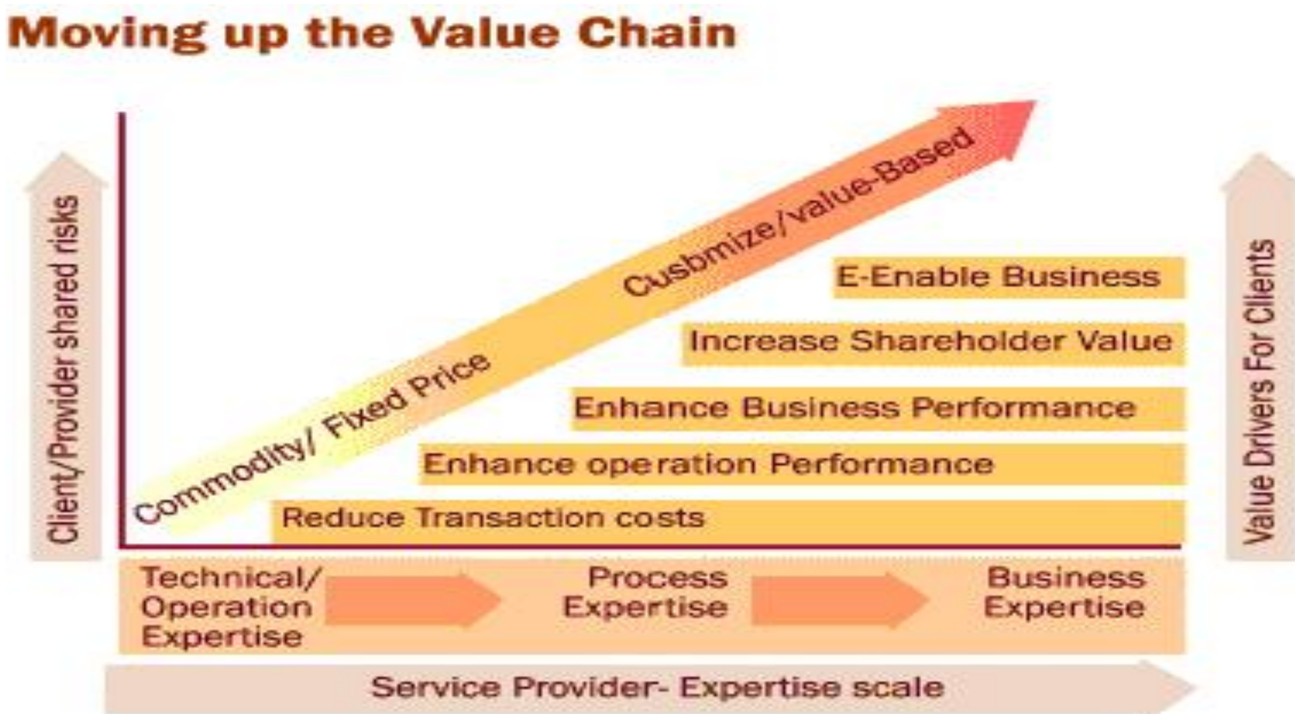
Business Benefits:

- Increase market strength
- Reduce capital costs, overhead costs and investment risks
- Renew value to transaction-intensive business processes
- Increase access to state-of-the-art technology
- Improve service levels
- Increase security

Business Process Outsourcing services translate into benefits for your business:

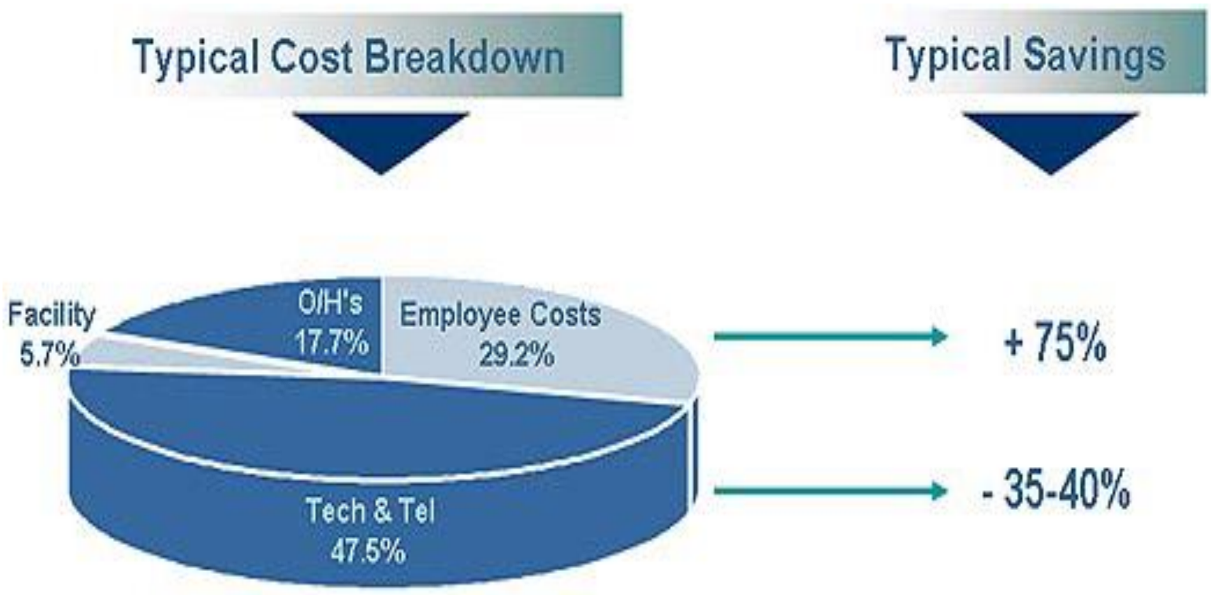
- Free resources for more strategic business initiatives by leveraging outsourcing expertise.
- Improve the business value of transaction-intensive processes using systems integration expertise.
- **Leverage worldwide state-of-the-art BPO facilities** – fluent in 15 languages and supporting customers in more than 50 countries – for IT infrastructure.
- **Reduce overhead costs** – and increase employee career options – by shifting accountability for staffing.
- **Improve service levels** with around-the-clock service delivery.
- **Improve business operations** through analytics and business intelligence.
- Better anticipate and control costs through **variable-based pricing** options.
- **Transition quickly and easily** to an outsourced environment using our proven change management methodologies.
- Maintain control of business processes with Unisys comprehensive account management.

Business Process Outsourcing helps a company to achieve competitive advantage. It helps a company to move up in the val chain.



Why India?

Robust communication infrastructure, a large English-speaking workforce, low labor costs, appropriate time-zone difference with the West and the brand equity built by the software services sector are compelling reasons for choosing India as the BPO destination.



The international bandwidth situation has improved dramatically over the last 3 years with the launch of India's first private undersea cable. Moreover, considerable bandwidth is also available to companies through state owned Videsh Sanchar Nigam Limited - VSNL (partially owned by India's largest business conglomerate). VSNL has strategic stakes and has negotiated contracts to use parts of several international cables like SEA-ME-WE II, SEA-ME-WE III (40 GBPS capacity), FLAG (10 GBPS capacity) and SAFE (40 GBPS capacity) offering connectivity to most locations around the world. Other private operators in India also have aggressive plans to build undersea cable with considerable bandwidth over the next 2-3 years. Besides, the privatization of NLD operations within India has resulted in the emergence of new players. The privatization of the telecom Industry has resulted in significant drop in telecom rates. Continuing competition in the industry with the recent entry of newer players will see a further drop in telecom prices. As a result, the telecom costs have dropped by 85% in 3 years.

Power availability has also improved dramatically over the last 5 years, thus ensuring power reliability at most ITES locations like Bangalore, Delhi, Chennai, Bombay, Pune and Calcutta. Respective state governments in India have undertaken reforms in the power sector to improve power supply to ITES companies.

The Indian BPO industry has been growing 70 percent a year and is now worth $1.6 billion, employing 100,000 people. And as McKinsey analysts put it, BPO has to grow only 27 percent till 2008 to deliver $17 billion in revenues and employment of a million people.

<u>Diving Into BPO</u>: <u>Five Mistakes and How to Avoid Them</u>:

Compared with traditional IT outsourcing, business process outsourcing can mean greater risk -- and greater reward. Here's how to avoid slip-ups and score high.

Outsourcing is like diving into a swimming pool. Once your feet leave the platform, you're committed. It's not the time to discover the water is only a few inches deep.

That's particularly true for business process outsourcing (BPO) -- the offloading of entire business functions, as opposed to single aspects of IT. Such functions can be as focused as payroll or as broad as the entire HR practice. They aren't core competencies -- or you wouldn't outsource them -- but they are certainly crucial to your operations.

Handing off such business-critical processes involves a certain amount of risk. The outsourced administration of employee benefits may not give you any direct competitive advantage. But you're certainly at a disadvantage if benefits administration grinds to a halt, or even if it's a source of employee dissatisfaction.

Still, a growing number of organizations are taking the BPO plunge. Nearly half of all organizations outsource at least one business process. Worldwide, spending on BPO will almost triple from $107 billion in 1999 to $302 billion in 2004, a compound annual growth rate of 23 percent. That makes BPO one of the fastest-growing areas of technology services, expanding at more than twice the rate projected for overall IT spending.

That's no surprise to organizations reaping the benefits of BPO. Because BPO involves not only the IT infrastructure but also the workflow, talent and best practices that support the function, there's tremendous opportunity to reduce costs and improve efficiency. BPO enables organizations to get out from under the pain of fixed overhead, the cost and hassle of building IT infrastructure, and the responsibility of recruiting, training and retaining staff. It also means a single point of accountability for re-engineering and continuous improvement.

But for every BPO success story, there's a cautionary tale of outsourcing gone awry. Before you place your key processes in the hands of another company, learn from the most common BPO blunders. It could mean the difference between a costly, difficult exercise and a strategic move that delivers measurable business benefits.

Mistake #1: Not Knowing Why

The number one mistake companies make is not knowing why they want to outsource," we need to have a clear picture of what we want to achieve.

There are numerous reasons to outsource, and it's important to understand upfront what you want out of it. Do you want to reduce costs? Do you want to increase service levels? Do you have a talent shortage? Do you want to integrate new technology?

In broad terms, BPO should create value -- value for your customers, value for your enterprise, value for your shareholders. "BPO can create value by focusing internal resources on more strategic activities," "Instead of spending its time on payroll, benefits and personnel administration, for example, your HR department could be focused on compensation strategy, organizational management and human capital development."

BPO can also create value through integration -- between HR and finance, say, or between procurement and finance. It can provide access to technology -- and the talent to support it -- that your organization couldn't otherwise cost-justify. And it can add value through analytics and business intelligence, says Scholl; such as relevant reports that can help improve the way you run your business.

Mistake #2: Not Performing Due Diligence

Eighty percent of companies expect to outsource at least one IT functions by 2003. Yet 70 percent of IT managers lack experience making outsourcing decisions.

So it behooves an organization to develop a detailed, stepwise approach to reviewing potential outsourcers. Experts agree that the three most important criteria to look for are a proven track record, technical excellence and the ability to deliver process improvement.

In evaluating an outsourcer, ask whether it possesses both the technology and business expertise to make your business functions work more efficiently.
Does the company have sufficient enterprise computing strength? Does it have global reach? Does it have best-of-breed IT and business skills in the particular function to be outsourced? If I am a transportation company, has the outsourcer done this for transportation companies before and been successful?

Most important, talk to existing customers. Try to speak with at least five, advise experts, and try to speak with organizations in your industry. Find out what problems they encountered and, more important, how they resolved those problems. Get opinions on the outsourcer's strengths -- and weaknesses. And find out why the organizations selected that outsourcer over the others they evaluate. We want to find out how long the outsourcer has been providing the service, what type and size of clients they're working with, what kind of volumes they handle, and what types of systems they use,

By outsourcing, we avoid the cost of maintaining the talent and trying to keep up with the latest technology.
Finally, due diligence also applies to your own organization. "You need to measure internal performance before you outsource. If you don't do benchmarking beforehand, how will you know if you are achieving benefits by outsourcing?

Mistake #3: Not Having a Transition Plan

Satisfaction levels are lowest in the first year of outsourcing. They improve in the second year, and improve again in the third year. But "the transition period is where most of the pain points are," That makes sense, because in the first year you're still migrating systems, you may be re-engineering processes, and most significant, your people are still adapting to a very different environment. That's particularly true for the employees responsible for the function before it was outsourced. In many cases, some of those people become employees of the outsourcer. But those who remain on your staff may try to hold onto old roles, unintentionally undermining the process.

The transition period is the riskiest and most uncertain time, we are trying to transfer knowledge, employees are dealing with the 'me' issue, and we are handing off the function to a company that doesn't yet know exactly how to run your particular operation."

What you need are a cross-functional transition team and a detailed transition plan. One person on that team should be responsible for day-to-day details, and that individual should have a counterpart on the outsourcer's side. The outsourcer should also be the source of the transition plan, using proven methodologies that are flexible enough to adapt to your needs.

A transition plan is as important for the outsourcer as it is for us. That was key to the success of the project. We all worked toward a common objective, because it was well-defined at the beginning.

Bear in mind that a large outsourcing project can be a complex, long-term undertaking. We can’t expect it to be trouble-free. But you certainly can expect the outsourcer to respond quickly and appropriately to problems, and to provide constant improvements over time.

There were some initial technology difficulties but we have to expect some hiccups. That's why we need to be clear about requirements." Following the transition, Little reports, "the technology program is on track, the service levels have held up, and the operational stability has been tremendous."

To ensure a project's long-term success, experts recommend that organizations focus first on transition and then on transformation. "Too many companies try to take a big-bang approach, in which they attempt to do business process outsourcing and business process re-engineering at the same time," observes Gartner Dataquest's Scholl. "But users haven't yet seen the benefits of outsourcing, and they're already being forced to change their habits. You're more likely to be successful if you wait till you see the benefits of outsourcing before you pursue the benefits of transformation."

Mistake #4: Not Getting It in Writing

The contract, of course, is the linchpin of the entire undertaking. At its core are service-level agreements (SLA) that specify what we expect from our outsourcer and what our outsourcer promises to deliver. A good contract will delineate which service levels will be measured, how they will be measured, how reports will be provided and at what level the outsourcer promises to perform.

The contract should also specify what happens if service levels don't meet your satisfaction, and provide an exit strategy if the relationship isn't working. Legally we want to have rights to cancel the deal if the transition isn't moving fast enough or if the whole project is going badly, establish milestones, with penalties if they're not met."

Make the contract as specific as possible. SLAs typically address operational metrics such as network availability. But what does "availability" mean? What is the response time to fix a problem? When do users have access to a helpdesk? we don't want to find out later that what I thought wasn't what you thought,

Note that BPO contracts aren't the same as for traditional IT outsourcing. "In business process outsourcing, our SLA should be business-based, not IT-based," "For example, if we are outsourcing HR, we should measure time to hire, quality of hire, retention rates, that sort of thing. Those aren't the kinds of things we measure in traditional IT outsourcing."

The contract should also spell out how much we are paying and what you are paying for. It should be clear about what costs extra and whether costs will change over time. But the contract shouldn't be built around price alone. If you constantly squeeze our outsourcer, the result can be an adversarial relationship. The focus should be on value, and the outsourcer should be compensated accordingly.

Mistake #5: Not Building a Relationship

"Outsourcing needs to be a partnership," says Berkley. "That's an overused phrase, but it remains true." Barclays' little agrees: "If you enter this sort of relationship, you need people you can work with, people who share your ideals and whom you can trust."

Such a relationship goes beyond contracts and SLAs. "We have cost agreements and service-level agreements, but those are legal formalities," says Ron Whatford, director of group operations for Lloyds TSB. "The reason [the relationship with Barclays and Unisys] works is that we are truly in partnership. That's the key ingredient."

Organizations that have been successful with BPO say that it's a relationship of trust that delivers value over the long haul. "Dollar savings are fine, but they tend to deteriorate," says Berkley. "You need a strong cultural fit, where you're sharing the same values and objectives. There needs to be a long-term give-and-take where both organizations benefit." If both you and your outsourcer benefit, there are greater incentives on both sides to invest the resources and effort necessary to make the relationship successful.

What's more, BPO relationships are rarely neutral. "When there isn't a relationship of trust, there's a cycle of mistrust," says Peterson of Mayer, Brown & Platt. "If one side doesn't trust the other, they start to look for problems, and they want to protect themselves." The result is a breakdown in communication and a decrease in both service and satisfaction levels as energy is diverted from the task at hand. "The relationship spirals downward," he says.

Failure to foster a relationship of trust can be the hardest mistake to avoid, because trust is difficult to characterize and measure. It's complicated by the fact that it needs to extend across all the departments involved in the project, such as IT, HR and finance. And it's an issue less likely to be addressed by the outsourcer. "IT outsourcers recognize the importance of a strong cultural match," says Scholl, "but few business process outsourcers do."

But for organizations that get it right -- that know why they want to outsource and perform due diligence, that manage the transition and get it in writing, and that forge a relationship of trust -- the result is more than lower costs or greater efficiencies; it's transformation. "Our costs are in line, and the service has been good," says Whatford of Lloyds' partnership with Barclays and Unisys. "But the real indication that [BPO] is meeting our needs is that it has encouraged us to look at other areas where we can do the same thing. We believe this is the blueprint going forward."

BPO Practices & IT Industry

Practices of BPO differ from companies to companies in IT industry therefore in this regard here is an example of Wipro Spectramind.

For **BPO** projects, Wipro follow the **[Wipro Spectramind Service Delivery Model]**, which is a robustly defined framework to manage the complete BPO process migration and transition management and has been developed based on the experience gained from migrating more than 390 remote business processes to India over the past ten years. This proven service transfer platform is designed to ensure process integrity and minimize inherent migration risks.

The model includes a tried and tested **[Transition Toolkit]** to support transition management by ensuring that there is a documented methodology with formats, tools, guidelines and past learnings in place to aid the transition team in de-risking the transition of a customer's processes and reducing the pain of migration as much as possible. A coordinated project management system captures critical client documentation and incorporates an extensive knowledge base that assists the transition management team in understanding, duplicating, and migrating mission-critical business processes.

The model has four key stages, as shown in the diagram below and the objectives, activities, skills and responsibilities at each stage are different

	Pre-Analysis	Analysis	Transition Management	Ongoing Operations
Key Activities	▪Understand client business ▪Identify outsource opportunities ▪Assess requirements ▪Review environment ▪Confirm viability	▪Gather documentation ▪Identify solution and costing ▪Confirm and validate with client ▪Prepare process implementation plan	▪Adapt process plan ▪Emulate client process ▪Document operating plan ▪Confirm performance requirements ▪Customer acceptance	▪Operations accepts service responsibility ▪Quality plan put into effect ▪SLA acceptance
Location	Offshore	Offshore-Onsite	Offshore-Onsite	Offshore
Timeline	1-2 weeks	1-2 weeks	2-3 weeks	Ongoing engagement
Responsibility	▪Client functional managers ▪Wipro BPO specialists	▪Client functional managers ▪Wipro analysis team	▪Client functional managers ▪Wipro transition team	▪Client operations team ▪Wipro service delivery head

Source: wiprospectramind.com

The momentum for Business Process Outsourcing continues to grow as the factors that force companies to focus on core competencies intensify. Gartner predicts that the worldwide market for BPO will nearly triple from $106.7 billion in 1999 to $301 billion in 2004.

The key drivers for BPO include a shortage of skilled labor-not just in IT but in other core areas such as HR and finance-mergers and acquisitions, deregulation, and the competition and speed imposed by economic globalization.

This model has various advantages which are as following:

- ✓ Focus on core competencies.
- ✓ Assured quality.
- ✓ Cost effectiveness.
- ✓ Access to world-class talent.
- ✓ Risk mitigation.

Offshore Outsourcing – Implementing Change:

Outsourcing has an impact on people and Infrastructure. It changes the way people work. Failure to understand the impact of change can cause the program to fail.

Outsourcing requires Executive Management commitment- without this there will be little user buy in. A leading technology company struggled with Offshore Outsourcing for over a year. It took off when the CEO of the Company stepped in and mandated that Managers would be reviewed on their ability to make the program successful.

The Outsourcing Project Office should begin by creating a Steering Committee. The Steering Committee consists of the CEO/CIO, CFO, Chief Outsourcing Officer, and the Chief of Quality Assurance. Later Senior Members of the Outsourcing Service Provider (OSP) will be part of the Steering Committee. The Steering Committee will meet once a quarter and will be responsible for:

* Monitoring steering goals for Outsourcing

* Growth/ reduction for the program

* Directions for the future

* Review progress of work and monitor the Return on Investment

* Resolve functional or divisional issues

* Budget sanctions, allocations and approvals

* Go/No go decisions

The Chief Outsourcing Officer should then identify leaders top down. Outsourcing involves change, change in the way people work and change in the way work gets done. Change will affect:

* Management

* Project Teams

* Individuals

* Infrastructure

For Management the decision to Outsource is operational, strategic and financial. Management will like to assess the results of Outsourcing and its returns on investment.

Outsourcing will impact current processes. Project Leaders will be required to assist in process re-engineering, and periodically provide feedback on the impact of the change. They would define individual work acceptance and test criteria and identify project specific process guidelines.

Individuals will be affected the most. They will see loss of control, will fear of loss of job, will fear external scrutiny of work product and will be frontline witness and participants to culture clash. Individuals will need to be re-trained.

Outsourcing brings a new culture to your operations. Offshore outsourcing adds another dimension to the cultural clashes that may occur. At times you may be left wondering as to when it is a cultural issue or when it is a people's issue. An understanding of cultural issues may help smooth communication pitfalls. Solicit the services of a good culture consultant for a cultural orientation to your team. You will be surprised to how much dividend this will pay to you and your team.

Bind your team to the success of the Outsourcing program. Put a rewarding mechanism in place so that individuals see benefit in the resulting gain in productivity and cost containment and become willing participants and contributors.

Your infrastructure will undergo changes. The network and security policies will have to change to accommodate the OSP. Procurement has to be proactive and vigilant. Logistics needs to understand all aspects of exporting hardware and software to a foreign locale.

You will have to establish login, password and access policies, server policies, modified Configuration Management and other processes.

Identify a team of enthusiastic participants top down in implementing the change. These will be the leaders that will contribute to the success of the program

Offshore Outsourcing – Building Processes and Identifying Suitable:

Offshore outsourcing will affect your infrastructure and your people. Companies have formal and informal processes in their development organizations. Some are documented many are not. When you outsource your service provider will not be savvy to your processes or your work standards. Every interface or facet of your development process will need to transform or change to accommodate any offshore outsourcing. Assumptions will no longer be valid as time and distance come into play. Leave nothing to assumption instead start redesigning your processes afresh:

* Create a Software Engineering Process Group

* Map all Software Processes and standards, as they exist

* Identify all stages in this process

* Define inputs and outputs at all stages

* Identify the interfaces between stages

* Identify all participants in each stage

* Identify criteria for moving from one stage to another stage

* Identify checks and balances performed at each stage

* Identify all standards and infrastructure processes that are used – coding standards, check in and check out process for defects, Configuration Management, Change Management, Acceptance, integration and build etc.

* Identify dependencies on other functions- budget allocation, sanction, procurement, systems and network administration, HR, Finance and Accounts

Once you map the as is process you start designing the process to what they will be. The interfaces are important as interactions and handovers take place at the interfaces. How will these be impacted when you have a remote team? What would be needed to facilitate these interfaces to ensure that work gets checked in appropriately? Your focus is to track your parameters of importance:

* Time

* Cost

* Scope

* Performance

While software companies leave people management to their outsourcer. Involving other functions can be extremely critical. One Company engaged an offshore service provider for a major Software development program. The OSP (Offshore Service Provider) was given the go ahead to hire 30 consultants and start the first phase of the project. The Program Manager could not get a commitment from its own Procurement Agency and it took 30 days for equipment to finally be sanctioned and ordered. Worse the Program Manager was unaware that certain legal clearances were required before the equipment could be shipped overseas. That took another 15 days. Finally he failed to get his Sys Admin in the loop early on so when the overseas team wanted to get into the network they were denied access. It took some time before the administration could ensure the proper type of access could be provided. This resulted in a delay of over 60 days a period in which the team was practically idle.

Once internal processes have been mapped they have to be re-engineered to accommodate the overseas team. Some interfaces would be added and most stages would be redefined. The entry and exit criteria at each stage would change suitably to involve formal acceptance procedures. The participants would also change.

The check in and check out, configurations Management and other processes would have to be suitably modified.

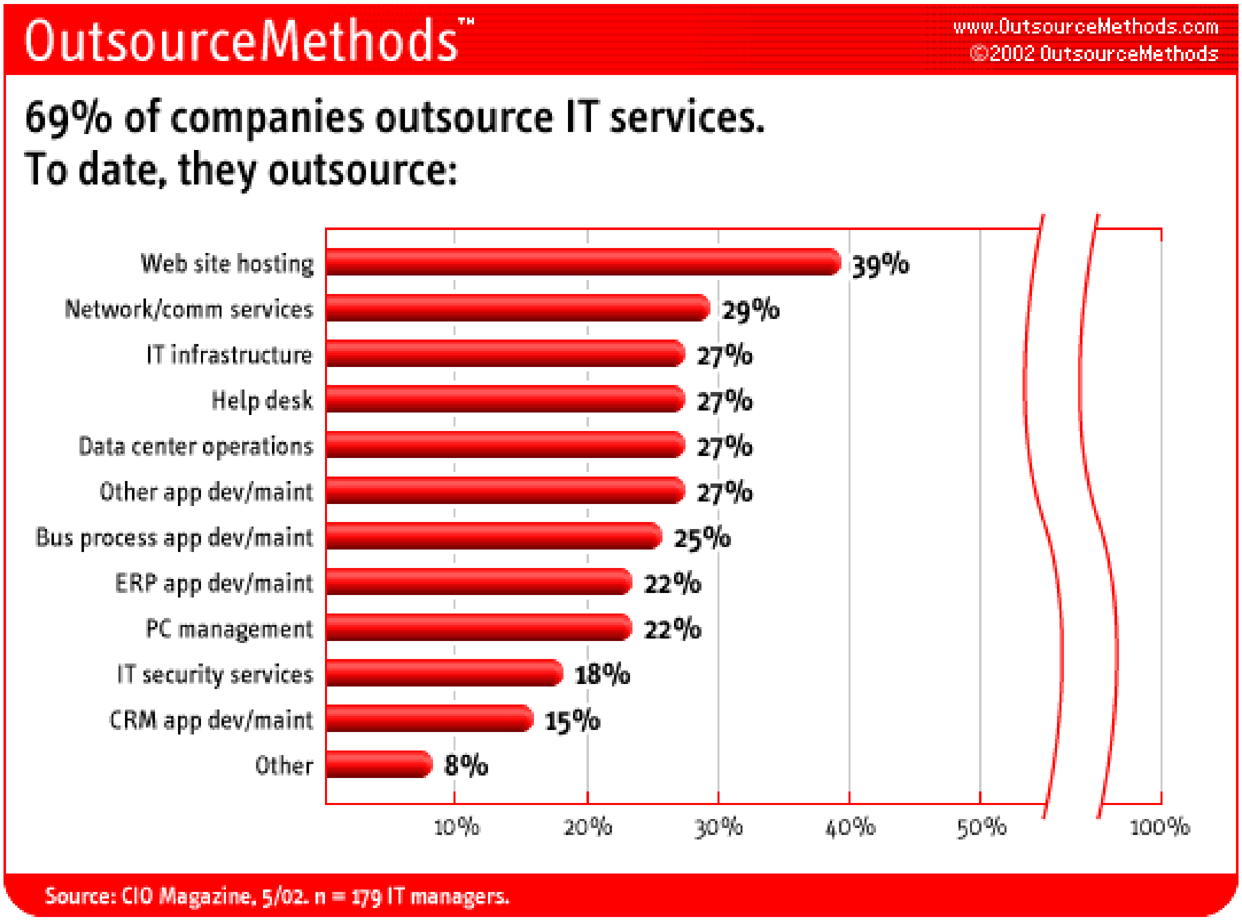
The next stage would be to identify the work to be outsourced. The best job that can be outsourced initially is one, which has the least variability. Projects such as Testing, Quality Assurance, Maintenance, Porting, and Internationalization of code are ideal for remote outsourcing. Variability will require frequent changes and close communication and if both companies are new to each other and distant this will stress the work to the point of instability or being entirely dysfunctional.

A leading Company outsourced a piece of work to a CMM certified organization and nine months down were ready to pull the plug as the program seemingly did not work. Wiser counsel prevailed and after a careful analysis the Company stepped back and changed the type of work that was being outsourced. The result was a dramatic turnaround.

It is important to understand that when you outsource the OSP has no experience on your job. They themselves will go through a learning curve. Make a provision for that learning curve.

Make a presumption that your OSP is inexperienced. Therefore, first identify projects that would match that inexperience, then as the OSP gets more experienced with your work and environment identify projects that are more complex.

Outsourcing of functions in IT Industry:



- Application development and maintenance outsourcing ranges from 15% for CRM, 22% for ERP, 25% for business process, and 27% for other applications.

Problems in IT Industry due to BPO

BPO is no easy picking:

For the past one year, not a week has passed without any software major or standalone company announcing their business process outsourcing (BPO) plans or client acquisition/s in the BPO space. BPO, a segment of the IT-enabled services industry, is being touted as the next big thing in the information technology arena. And with good reason too. The year 2001-02 proved to be one in which the software services industry grew by only around 25 per cent in the wake of the dotcom and telecom meltdown worldwide. But in a depressing year as this, the IT-enabled services market (of which BPO is a key constituent) bucked the trend, growing by 70 per cent. It is becoming painfully obvious that following a slowdown in technology spending, elongated sales cycles and slow ramp-up in clients, the decelerated growth of the software services industry is likely to continue, with probably a growth rate of under 20 per cent in 2002-03. Against this backdrop, the potential savior of the software services segment will continue to be the IT-enabled services segment. And Nasscom, the apex industry association for software, based on the McKinsey report, is predicating its future strategies on the growth of BPO as a key element of the IT-enabled services segment.

As the opportunity spectrum for BPO is immense, the software players are poised to play a significant role in this segment over the next few years. But the same cannot be said of standalone BPO players and third-rung software companies aiming to enter this segment, as the period of easy pickings (the so called "low hanging fruit") in this segment is almost over. It is highlighted that the opportunities and challenges facing the frontline companies aiming to capture the BPO space. In that article, the focus was on how BPO is a different kettle of fish vis-à-vis software services and how the key success factors and challenges facing the entry of standalone and third-rung software companies are different. Even though there continues to be a mad scramble to become a BPO player, any corporate strategy for success in BPO must focus on the following aspects:

- **Customer-centric activity**: The entire BPO exercise basically involves customers outsourcing their critical (yet non-core) activities to Indian companies. Functions such as human resources, logistics/distribution, finance/accounting or sales, which are outsourced under the BPO umbrella, are critical to the client. Considering the criticality of these functions, the BPO vendor is forced to comply with rigid performance evaluation measures. Secondly, unlike software services being evaluated based on Return on Investment metrics, the BPO is assessed largely on "cost control/reduction metrics." Given these strict performance metrics, major banks such as Citigroup, HSBC or American Express and manufacturing majors such as GE have chosen to keep it either in-house or as MNC back-ends so far. Similarly, given the customer-centric nature of BPO activity, Infosys, Wipro and HCL Technologies have either created BPO as a subsidiary or taken strategic equity stake in existing BPO companies.

- **Install quality systems and processes**: For first-time players in the BPO arena, installing quality systems and processes will be one of the biggest challenges. As quality systems hold the key to adhering to tight delivery schedules, this is one area that will require enormous investment of time and resources for any new entrant. On a comparative yardstick, frontline and second-rung software players are better placed, as India has the highest number of Level 5 software players on the Capability Maturity Model in the world.
- **Capital-intensive and longer sales cycle**: There are no rich or easy pickings in the BPO arena any longer. Any new entrant in this area will have to contend with the twin pressures of high initial investment in terms of setting up BPO infrastructure and long sales cycle in terms of acquiring a client. Unless players have sufficient staying power and generate reasonable cash flows for at least two years, there will probably be little reason to enter the BPO arena in the first place.
- **Scalability**: To remain a player to reckon with in the BPO scene, standalone BPO players must have the potential to scale up rapidly in line with the growth of the clients. Most outsourcing clients which use standalone BPO clients as an entry strategy into countries such as India will evaluate the "scalability potential" of the Indian BPO vendor. Hence, an entry-level standalone BPO player has to be geared for scalability in terms of infrastructure, quality processes and people to stay competitive. However, scalability has to be complemented by product differentiation and domain expertise.
- **Positioning in the BPO value chain**: The rungs in the BPO value chain are much flatter compared to that of conventional IT outsourcing. But if BPO is to remain a

long-term sustainable business proposition, any strategy based purely on cost arbitrage will commoditise this industry in no time. If the standalone BPO players have to succeed and keep enhancing margins, the only choice left to them is to develop consulting competencies. In the first stage, this will entail these players broad-basing their portfolio of service offerings to include greater technology participation and by introducing better work practices within an organisation. Eventually, only those players will succeed who can combine cost-arbitrage driven BPOs with more strategic solutions in the area of business process redesign and latest technology practices to reduce costs and enhance the competitive abilities of their clients.

- **Domain knowledge**: The currently available BPO services portfolio is fairly large to include finance/accounting, administration, logistics, human resources and sales/marketing functions. Though the manufacturing function has not been "strictly" classified under BPO, if included, it may emerge as one of the biggest domains (or vertical segments) available to the Indian BPO arena. However, till manufacturing emerges as a BPO activity on a large scale, standalone BPO players will be able to survive only if they are specialists in a couple of areas in the BPO services portfolio. Mainly because, US companies (which will be the biggest outsourcers to India) have been accustomed to outsourcing to BPO specialists in the US so far. Secondly, if BPO players have to maintain their cost advantage and keep the quality systems and processes at a high level, then, the need for greater specialization may become even more imperative.
- **Participate in consolidation**: As the BPO scene is getting crowded, the jostling for longevity in the BPO space has already begun. Standalone BPO vendors will succeed only if they have the financial wherewithal to participate in the consolidation process through prudent acquisitions. Otherwise, they may get marginalized in the long run.

BPO industry witnessing commoditization

The Business process outsourcing (BPO) or IT enabled services sector is facing the problem of commoditization, which is taking place at a rapid speed.

Commoditization of BPO has happened much faster vis-à-vis our expectation. Even in comparison with software services where commoditization happened in three to five years, in case of BPO it became reality in 12 to 18 months. We were expecting commoditization to happen in three to five years," said Raman Roy, president and CEO, Wipro Spectramind, at the Global Offshore Outsourcing Summit 2003 held in Mumbai on Wednesday.

"Though the industry is in a nascent stage, few BPO players are operating at unfeasible low rates. We are waiting for the jury to decide and at the same time we are focusing on higher end services," he added.

According to a study done by Ernst and Young, clients who are out-sourcing their requirements to India end up saving 30 to 50 per cent per employee in India compared to the US. Over the last four years, US firms saved $ 8 billion through outsourcing. The survey, conducted in March 2003, included the top management of IT firms operating in the BPO space.

The profile of companies featuring in this survey included only those with an offshore BPO presence in India, more specifically US based Fortune 500 corporations and BPO vendors. On an average these operations have been in existence in India for about three years. Most operate as captive units, though some are beginning to address non-captive customers as well. Business processes (core/non-core) outsourced by the corporate covered in the survey included customer care, design graphics, finance & accounting, insurance claims/credit card processing and medical transcription.

Value proposition:

India's cost advantage will help it emerge as the leader in the BPO market Where are Indian companies placed in the value chain in offering services in the BPO domain? Are they really moving up the value chain? According to Gartner, BPO is composed of 4 broad segments viz. as follows:

- **Supply chain management solutions**: Procurement, Distribution, logistics, Warehousing and Inventory etc.
- **Operations**: R&D, Manufacturing, analytics/ QC etc.
- **Business Administration**: Finance and admin, HR & Payroll, Billing, indirect procurement, Payments processing etc.
- **Sales, Marketing and Customer care**: customer selection, acquisition, retention etc

In terms of defining a value chain for the BPO market, the business administration segment constitutes the bottom of the value chain, while the operations segment constitutes the higher end of the market. Supply chain management solutions and sales, marketing and customer care segments constitute the intermediate layers of the value chain.

Hurdles on the way:

Infrastructure and telecommunications are still key issues hampering growth in the country. Besides these, Indian companies face challenges overseas, specifically in terms of acceptance of Indian solutions, proven capability and processes, brand, cultural issues and costs. According to Ramaswami, the key challenges are whether infrastructure ramp up is going to match business ramping up, and the ability to find suitably qualified manpower when BPO becomes increasingly complex.

There is also a misconception in the Indian mindset that all one needs is IT infrastructure to start a BPO company. Chohan feels that nothing can be further from the truth. BPO companies are typically capital intensive and investments have to be made up front to be in a position to scale quickly, since once decisions to shift entire departments are made, then the requirement to take on work loads should exist. Having understood this, Indian companies have a long way to go in developing process capabilities, building customer confidence and delivery models. Besides this, Ram feels that they have a major weakness in inadequate marketing and branding skills.

Even if all this is overcome, emerging BPO companies will face resistance in the form of threatened job security, performance issues, loss of control, higher than expected costs, and technology and cultural issues from potential customers. Organizations need a tremendous amount of support, commitment and action from the government to put on the fast track basic infrastructure projects, or at least create special, liberal economic zones within the country. The government and industry associations also need to work closely together to create visibility and promote the vast opportunities in BPO to attract entrepreneurial talent within the country.

The BPO industry is a very challenging business and requires outstanding execution skills. Given that customer service is intricately tied to a company's brand, companies conduct detailed due diligence before taking the outsourcing decision to India. Indian companies need to build outstanding management teams, have adequate capital, and build extensive human resource orientation and a strong customer acquisition engine in the US to succeed in this business. Developing "quality" processes that help deliver outstanding customer experience is a clear imperative for building scalable businesses.

Business Process Outsourcing requires a good understanding of a customer's business process, domain knowledge and expected service levels. Providers have to demonstrate their ability to deliver service and not just provide skilled resources. Business process outsourcing is a critical function and cannot be treated as tactical function it needs to be a strategic initiative. "Strategy formulation and third party program management are key to a successful outsourcing experience," The buyers need to have intimate knowledge of the country and its service providers.

3.1 Purpose

The BPO industry is growing at a faster rate than expected. Therefore the purpose was to understand the role of Business Process Outsourcing in IT industry, practices of Business Process Outsourcing in IT industry, advantages and disadvantages of BPO in IT industry and also the problems faced by software companies due to Business Process Outsourcing.

3.2 Methodology

Internet was considered one of the most appropriate sources to collect secondary data, therefore various search engines were used and different web sites were visited.

Other sources for the collection of secondary data were Newspapers and Business magazines &journals etc.

3.3 Conclusion

Secondary data collected regarding various aspects of Business Process Outsourcing (BPO) were aligned according to the need of this dissertation study. This help in bringing out a clear picture of Business Process Outsourcing (BPO) industry in terms of IT industry.

4.0 Methodology

4.1 Methodological Assumptions:

- **Type of Research:** Both descriptive and exploratory research through available information as well as by survey method.

- **Type of Study:** Information gathered after meeting with HR heads of different software companies as well as through Internet. An **elaborative study** was required in order to collect the information and analyse the same.

4.2 Sources of Data:

- Secondary data gathered through websites, Business magazines & journals and articles.

- Primary data gathered after a personal interview with HR heads of the software companies.

4.3 Sampling Procedure:

- Total sample size: **30 respondents** were considered for the research.
- Type of sample **: Specified sampling** as well as **Random sampling** was considered appropriate for the study.

4.4 Research Instrument:

- A self-administered questionnaire, consisted of structured as well as unstructured questions, was used in the research for data collection.

4.5 Method of Collection:

- The data were collected by direct interview method. All the HR heads of software companies were contacted personally.

4.6 Plan of Analysis:

The data collected were tabulated and analyzed accordingly by using graphs and bar diagrams in order to present the analyzed information in pictographic form for further scope of the study.

5.1 Hypothesis

Null hypothesis Ho= there is no relationship between the functions outsourced and cost effectiveness.

Cost effectiveness: 3 categories i.e. **high, medium and low**

Functions	**High**	**Medium**	**Low**	**Total**
HRM	05	10	00	**15**
Data Entry	00	05	05	**10**
Disbursement	05	00	00	**05**
Internal Audit	10	00	05	**15**
Purchasing	00	05	00	**05**
Tax compliance	10	00	10	**20**
Billing & Collection	05	10	00	**15**
Total	**35**	**30**	**20**	**85**

(Ex)	(A-Ex)* (A-Ex)	{(A-Ex) (A-Ex)}/Ex
(35*15)/85 = 6.17	(5-6.17)* (5-6.17)=1.36	1.36/6.17=0.22
(35*10)/85 = 4.11	(00-4.11)* (00-4.11)=16.89	16.89/4.11=4.10
(35*5)/85 = 2.05	(5-2.05)* (5-2.05)=8.70	8.70/2.05=4.24
(35*15)/6.17	(10-6.17)* (10-6.17)=14.67	14.67/6.17=2.37
(35*5)/85 = 2.05	(0-2.05)* (0-2.05)=4.20	4.20/2.05=2.04
(35*20)/85= 8.23	(10-8.23)*(10-8.23)=3.13	3.13/8.23=0.38
(35*15)/85 = 6.17	(5-6.17)* (5-6.17)=1.36	1.36/6.17=0.22
(30*15)85 =5.29	(10-5.29)*(10-5.29)=22.18	22.18/5.29=4.19
(30*10)/85 = 3.52	(5-3.52)*(5-3.52)=2.19	2.19/3.52=0.62
(30*5)85=1.76	(0-1.76)*(0-1.76)=3.09	3.09/1.76=1.75
(30*15)85 =5.29	(0-5.29)*(0-5.29)=27.98	27.98/5.29=5.28
(30*5)85=1.76	(5-1.76)*(5-1.76)=10.49	10.49/1.76=5.96
(30*20)85 =7.05	(0-7.05)*(0-7.05)=49.70	49.70/7.05=7.04
(30*15)85 =5.29	(10-5.29)*(10-5.29)=22.18	22.18/5.29=4.19
(20*15)85=3.52	(0-3.52)*(0-3.52)=12.39	12.39/3.52=3.51
(20*10)/85)=2.35	(5-2.35)*(5-2.35)=7.02	7.02/2.35=2.98
(20*5)/85=1.17	(0-1.17)*(0-1.17)=1.36	1.36/1.17=1.16
(20*15)85=3.52	(5-3.52)*(5-3.52)=1.48	1.48/3.52=0.42
(20*5)/85=1.17	(0-1.17)*(0-1.17)=1.36	1.36/1.17=1.16
(20*20)85=4.70	(10-4.70)*(10-4.70)=28.09	28.09/4.70=5.97
(20*15)85=3.52	(0-3.52)*(0-3.52)=12.39	12.39/3.52=3.51
	Total	**y=61.31**

Table (chi square) value x=21.0261

Calculated total value y=61.31

If y > x: Accept the null hypothesis and if x > y: reject the null hypothesis

Value of y > x, therefore Accept the null hypothesis

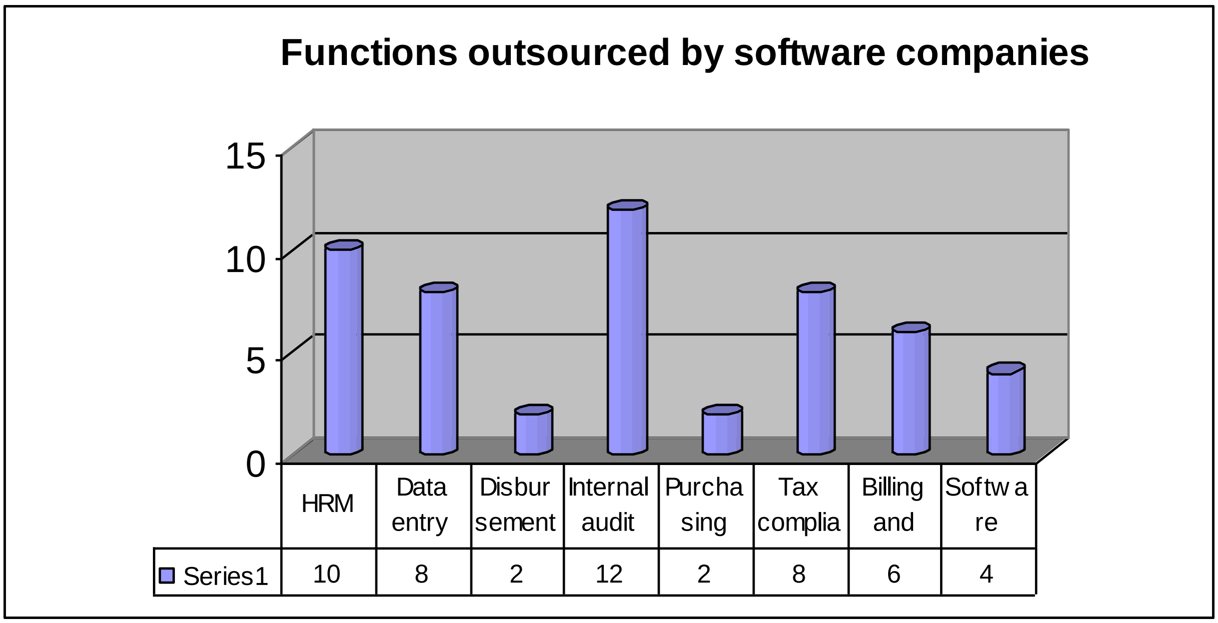
5.2 Analysis of Data and Interpretation

1. Functions outsourced by the software companies.

Table: 5.01

HRM	10
Data entry	08
Disbursement	02
Internal audit	12
Purchasing	02
Tax compliance	08
Billing & collection	06
Software testing	04

Chart: 5.01



Interpretation:

HRM (10), internal audit (12), Data entry (8) and Tax compliance (8) are the most outsourced functions among all the functions mentioned in the table. Billing and collection with a response of 6 is also outsourced at a decent rate.

Inference:

Internal audit and HRM are the two most outsourced functions among all. Rests are being outsourced as and when required.

2. **BPO as cost effective tool** (interpretation based on 3 years data provided by the software companies):

It is revealed from the responses of the respondents in software companies, that the cost of the function which is being outsourced by the software companies has fallen as the years are advancing because of intense competition in BPO and ITES industry. Since every BPO centre id quality and time conscious, it is ultimately benefiting the software companies which are going for outsourcing. The conclusions are drawn based on the 3 years data provided by the software companies.

3. Adding to better efficiency.

As the survey revealed that BPO is adding to better efficiency in the following ways.

- Company is able to concentrate on core competencies.
- Job done on time and accurately.
- Increase in revenue & growth rate.
- Better employee satisfaction & morale.
- It adds to better efficiency when there are a lot of complexities.
- Better transparency in the books of accounts.
- Better management of account receivables and account payables.
- Better quality work.
- Data integration.

4. Composition of projects outsourced.

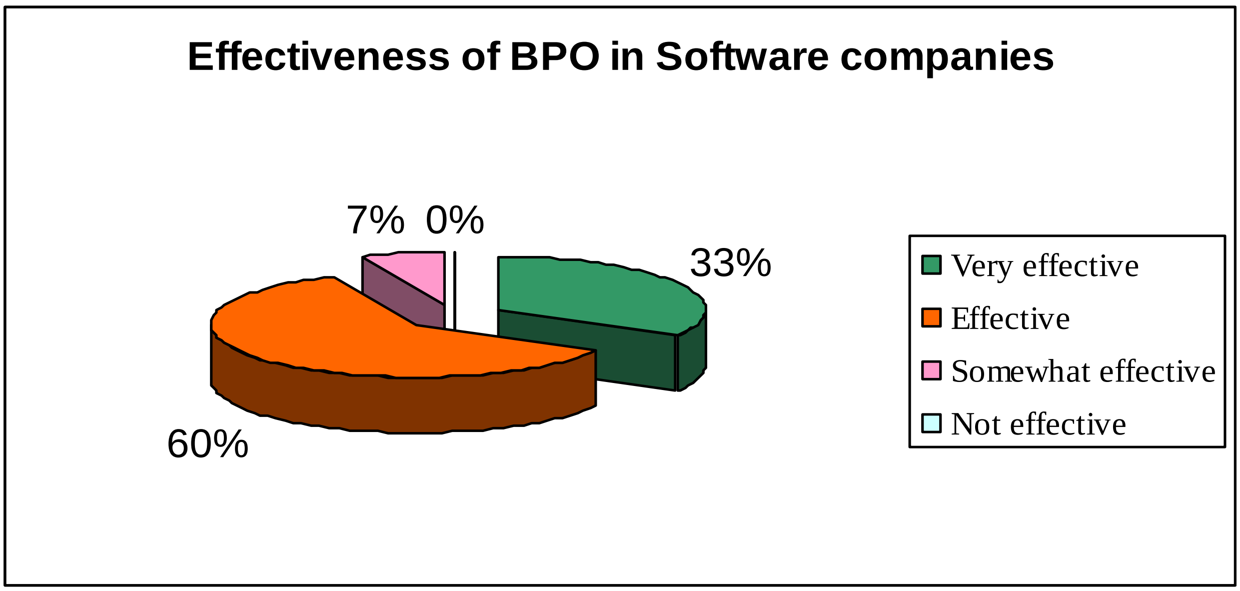
Since BPO industry is growing at a faster rate than expected, software companies are trying to concentrate more on their key projects and outsource the rest. The results of the survey reveal that there is an increase in the number of projects software companies are outsourcing as the years are advancing.

5. Effectiveness of BPO in software companies

Table: 5.02

Very effective	10
Effective	18
Somewhat effective	02
Not effective	00

Chart: 5.02



Interpretation:

60% of the respondents say that BPO is effective in IT in industry and 33% say that it is very effective tool in IT industry. Therefore survey proves that Business Process Outsourcing is an effective tool in IT industry.

6.1 Summary of Findings

- Companies are able to concentrate on core competencies.
- Job is done on time and accurately.
- Increase in revenue & growth rate.
- Better employee satisfaction & morale.
- It adds to better efficiency when there are a lot of complexities.
- Better transparency in the books of accounts.
- Better management of account receivables and account payables.
- Better quality work.
- Data integration.

Reasons for the effectiveness of BPO:

- Accuracy
- Cost advantage
- Trust of software companies in BPO centers
- Better management and control
- Increasing demand of BPO
- Companies desire to save time

6.2 Conclusions from the Study

Business Process Outsourcing industry is one of the fastest growing industries in India. The study was conducted to understand various dimensions of BPO such as role of BPO in IT industry, practices of BPO in IT industry, to measure the advantages of BPO in IT industry and also to find out the problems faced by IT industry due to BPO and to offer remedial measures.

A survey was also conducted to measure the “impact of Business Process Outsourcing (BPO) on IT industry in Bangalore City. A self administered questionnaire was used for data collection. The respondents were contacted directly. Secondary were collected through various sources such as company brochures, Internet, magazines & journals.

Following are the conclusions drawn based on the responses and various facts revealed during the study.

- Software companies that are outsourcing their functions feel that their job is done on time and with a lot of accuracy.
- Software companies are able to concentrate on core competencies.
- There is accuracy in the job done.
- These companies also feel that there is an increase in revenue & growth rate of the company.
- Business Process Outsourcing (BPO) helps these companies to expand their businesses.
- The companies, which are outsourcing their HRM function, feel that there is employee satisfaction and better employee morale within the organization.
- Companies also feel that whenever there is a lot of complexity, BPO adds to better efficiency.
- Companies that are outsourcing their finance functions feel that now there is better transparency in the books of accounts.
- Data integrity has been achieved.
- Better management and control.

There are companies, which are facing problems due to BPO. The problems are as following:

- Confidentiality of data.
- Security concerns
- Cross checking
- Sometimes there is communication gap between outsourcer and the company.

Overall there are more advantages than the disadvantages. Business Process Outsourcing as a tool helping software companies to achieve better efficiency and competitive advantage over its competitors.

BPO is driving software industry by providing an excellent quality of work and on time delivery. Companies like WIPRO and INFOSYS have opened their call centers, Spectra mind and Progeon respectively in order to help other companies also to get their outsourcing done on time.

7.1 Questionnaire

I **vivek mishra,** an M.B.A. final semester student of **Alliance Business Academy**, Bangalore, conducting a survey to find out the **impact of Business Process Outsourcing (BPO) on software companies in Bangalore city.** I assure complete confidentiality of all your responses.

Q.1. Name of the **Company**: ____

Q.2. How many employees are working in your company?

____

Q.4. What are the **key business areas**?

____

____

Q.4. When it was started?

____

Q.5. **Are you outsourcing**?

Yes ☐ **No** ☐

Q.6. What functions are you outsourcing?

HRM	
Data entry	
Disbursement	
Internal audit	
Purchasing	
Tax compliance	
Billing & collections	

Q.7. How far is it **cost effective** in the last 5 years?

Year	HRM	Data entry	Disbursement	Internal audit	Purchasing	Tax compliance	Billing & collection
2001-2002							
2000-2001							
1999-2000							
1998-1999							
1997-1998							

Q.8. Is it adding to **better efficiency**?
If yes, How?

____

Q.9. What is the **composition of outsourcing** with reference to total projects in the last 5 years?

Years	Projects outsourced	Done by themselves
2001-2002		
2000-2001		
1999-2000		
1998-1999		
1997-1998		

Q.10. What types of **problems** are you facing because of BPO?

____

____

Q.11. How effective is the **BPO in software companies**?

Very effective ☐ Effective ☐

Somewhat effective ☐ **Not effective** ☐

Q.12. What are the **reasons for effectiveness**?

____

____

Any suggestions for improving effectiveness of BPO?

____

____

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Thank you for your time and co-operation

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