

Business Process Outsourcing

Chapter 1

Introduction to BPO

Introduction *TO Business* ***Process Outsourcing***

Most important & innovative one is the creation of a **Global, communication & Information infrastructure** that has now dug deep everywhere.

The worldwide telecommunications infrastructure has produced a business innovation called **Business process outsourcing**

BPO is movement of business process from **Inside** the organizations to **external** service providers

Introduction To Business Process Outsourcing

- ❖ **BPO refers to Processes**
- ❖ **Many Large Companies have been outsourcing non-core activities like , for years**
 - 1) Housekeeping**
 - 2) Security**
 - 3) Maintenance of IT**
- ❖ **The business process outsourcing is a general used to describe the outsourcing of Non critical core business functions of an organization to external vendors for long period of time**

Introduction To Business Process Outsourcing

- ❖ The concept of **business process orientation** (BPO) is based upon the work of Deming (Walton, 1996), Porter (1985), Davenport and Short (1990), Hammer (1993, 1996 and 1999), Grover et al (1995), and Coombs and Hull (1996).
- ❖ This body of work suggests that firms could enhance their overall performance by adopting a “process view” of the organization.
- ❖ Although many firms have adopted the BPO concept, little to no empirical data existed substantiating its effectiveness in facilitating improved business performance.

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❖ McCormack (2000) conducted an empirical study to explore the relationship between BPO and enhanced business performance. The research results showed that BPO is critical in reducing conflict and encouraging greater connectedness within an organization, while improving business performance. Moreover, companies with strong measures of BPO showed better overall business performance. The research also showed that high BPO levels within organizations led to a more positive corporate climate, illustrated through better organizational connectedness and less internal conflict.

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❖ For a central concept, one that has become something of a Holy Grail for 1990s managers, BPO has remained remarkably hard to pin down. Its champions argue that it is a new approach to management that replaces the rigid hierarchies of the past ("I report to my boss") with structures that are much flatter, more cooperative, more process-oriented ("I report to my customer."). Many of us have had experience with both types of organization and we know intuitively what BPO feels like. Yet, if you're like me, you want a more solid foundation on which to make decisions and recommendations.

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❖ Most of the literature on business process orientation has been in the popular press and lacks a research or empirical focus. Although empirical evidence is lacking, several models have emerged during the last few years that have been presented as the high performance, process oriented organization needed in today and tomorrow's world. Deming, Porter, Davenport, Short, Hammer, Byrne, Imai, Drucker, Rummler-Brache and Melan have all defined what they view as the new model of the organization. According to each model's proponent, the "building" of this model requires a new approach and a new way of thinking about the organization which will result in dramatic business performance improvements.

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- ❖ This “new way of thinking” or “viewing” your organization has been generally described as business process orientation.
- ❖ Process centering or building an organization with a business process orientation has led to many reported successes. Texas Instruments, Progressive Insurance and American Standard have all been reported, albeit anecdotally, as receiving improved business performance from building a process orientation within an organization (Hammer 1996).

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❖ Process orientation, and its relationship to improved cross-functional interaction, was introduced almost fifteen years ago by Michael Porter. He introduced the concept of interoperability across the value chain as a major issue within firms (Porter 1985). W. Edwards Deming also contributed with the “Deming Flow Diagram” depicting the connections across the firm from the customer to the supplier as a process that could be measured and improved like any other process (Walton 1986). Thomas Davenport and James Short (1990) described a process orientation within an organization as a key component in the “New Industrial Engineering: Information Technology and Business Process Redesign.”

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- ❖ Michael Hammer also presented the business process orientation concept as an essential ingredient of a successful “reengineering” effort. Hammer coined this term to describe the development of a customer focused, strategic business process based organization enabled by rethinking the assumptions in a process oriented way and utilizing information technology as a key enabler (Hammer, 1993).
- ❖ Hammer offers reengineering as a strategy to overcome the problematic cross-functional activities that are presenting major performance issues to firms and cites many examples of successes and failures in his series of books and articles. Hallmark and Wal-Mart are often put forward as success stories and IBM and GM as the failures.

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- ❖ Culture is a major theme in the examples cited. A “business process culture” is a culture that is cross-functional, customer oriented along with process and system thinking.
- ❖ This can be expanded by Davenport’s definition of process orientation as consisting of elements of structure, focus, measurement, ownership and customers (Davenport 1993). Davenport also stressed commitment to process improvement that directly benefits the customer and business process information oriented systems as a major component of this culture

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❖ Finally, Hammer (Hammer 1993, 1995, 1996, 1999) described “process thinking” as cross-functional and outcome oriented. He also used four categories to describe the components of an organization. These are:

1. Business Processes
2. Jobs and Structures
3. Management and Measurement Systems
4. Values and Beliefs

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- ❖ China is considered as BPO hot spot around the world in the **Manufacturing & technical**
- ❖ India is considered as BPO hot spot around the world in the **Engineering & Technical**
- ❖ Mexico is considered as BPO hot spot around the world in the **Manufacturing**
- ❖ United States is considered as BPO hot spot around the world in the **Analysis & creative**
- ❖ Philippines is considered as BPO hot spot around the world in the **Administrative**

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- ❖ Many back office functions such as
- ❖ Payroll
- ❖ Customer services
- ❖ Technical support

Are few processes that organizations of all size have been able to successfully outsourced

BPO requires :

- 1) Skillful Management
- 2) Security

Technology

Introduction To Business Process Outsourcing

- ❖ BPO is a socio-technical revolution that provides a rich new source of competitive advantages
- ❖ Many managers prefer to stay away from this concept of BPO as they believe it quite wrongly to be technological innovation and better left to the Chief Information Officer.
- ❖ The human skill set includes:
 - 1) Developing various teams
 - 2) Reassuring staff of their role in organization
 - 3) Training people

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- ❖ The human skill set includes
 - 1) Dealing with loss of job & or assignment
 - 2) keeping moral high throughout change process
 - 3) Encourage people in decision making

- ❖ The implementation of a BPO project also requires attention to technology issues like the followings
 - 1) Compatibility of system between BPO buyer & vendor
 - 2) Data & system security

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- ❖ The implementation of a BPO project also requires Data & system security
- ❖ The implementation of a BPO project also requires attention to technology issues like the followings
 - 1) Software & database compatibility
 - 2) Data & knowledge Management
- ❖ Payment of BPO vendor depends upon Quality delivered
- ❖ The driving factors of the BPO revolution are Educational Attainment

How BPO Works

- ❖ BPO involves the complete transfer of a business process to an external service provider
- ❖ Quality is prime deciding factor in outsourcing to BPO
- ❖ Payment of BPO vendor depends upon **Quality delivered**
- ❖ The implementation of a BPO project also requires attention to technology issues like the
 - 1) Software & database compatibility
 - 2) Data & knowledge Management
 - 3) Back up & recovery procedures
 - 4) Data Interface challenges

Driving Factors of BPO Revolution

❖ BPO has emerged from a set of driving factors that have intentionally converged in this particular time to enable the shifting work to its lowest cost /highest quality provider regardless of where the provider is physically located .The driving factors of the BPO revolution are:

❖ **Educational Attainment**

❖ **Broadband Connection**

❖ **Inexpensive data storage ,Abundant data storage**

❖ **Business specialization**

❖ **Internet Security**

❖ **Online analytical processing**

Driving Factors of BPO Revolution

❖ **Educational Attainment** :United state still dominates the world with the quality of higher education that is offered but rest of world is not behind. There are more number of Asians pursuing technical degree than Americans. This is a reason why US firms are looking for looking abroad for outsourcing Asia

❖ **Broadband Connection** :The age of broadband internet connection is in full swing now. When internet speeds are in the range of **2 megabyte per sec** the term is used as broadband

❖ **Inexpensive data storage ,Abundant data storage** :Storage of data is most critical issue for business One danger of moving the work to the third party is the loss of

1) Job & or assignment

2) Organizational Learning

Driving Factors of BPO Revolution

- ❖ Data storage has always been a critical resource for business. In the days of
- ❖ paper-based record keeping, data storage was primarily accomplished via file
- ❖ cabinets, closets, and dingy overstuffed basements. The computerization of the workplace gradually replaced paper-based filing systems at first with punch
- ❖ cards and later with magnetic tapes and then disk-based storage. As the integration of the Internet and its related technologies into business processes

Driving Factors of BPO Revolution

- ❖ and functions has progressed, data storage has gone from being a problem to one of oversupply. Firms that had envisioned growing rich by supplying on-
- ❖ line data storage on an as-needed basis have discovered that storage has become a commodity—it is nearly as limitless as the Internet. Advances in data
- ❖ storage, including sophisticated data retrieval, have driven down storage costs
- ❖ dramatically. Rare is the individual today who walks about with a floppy

Driving Factors of BPO Revolution

- ❖ disk in his or her shirt pocket. Rather, most have learned to transfer files into
- ❖ a virtually limitless cyberspace storage room, where they can be retrieved
- ❖ whenever and wherever needed.
- ❖ The elimination of the barriers to data storage has enabled new ways of thinking about what is possible in the structure and procedures of the work-place. In times when storage was scarce, difficult decisions had to be made
- ❖ about what data to collect, keep, and eliminate. Even more limiting, in times

Driving Factors of BPO Revolution

❖ **Analytical Software:** Software is major source of business in BPO industry; It is tool to work.

- 1) Expert Systems
- 2) Decision support systems
- 3) Artificial intelligence

are software tools that perform analytical tasks.

Online Analytical Processing (OLAP) has created a wide range of new possibilities including **Hiring process**

Online Analytical Processing (OLAP) has created a wide range of new possibilities including **Effects on organizational design**

Driving Factors of BPO Revolution

❖ Internet Security

❖ Internet security talks about the ability to send information & data over internet without having to fear

❖ 1) espionage

2) leakage

3) loss

There are many security **Protocols** available today & many executives understand them. The Indian IT Act of 2000 addresses

1) privacy related issues

2) Define hacking

3) Computer evidence

Driving Factors of BPO Revolution

❖ Internet Security

Internet security refers to the ability to send information and data (including voice) over the Internet without fear of leakage, espionage, or outright loss. It is critical for companies to be certain that their data integrity will be

maintained despite its movement around the globe in the servers, routers, and computers that make up the World Wide Web.

In the past, many executives were reluctant to conduct any back-office business transactions over the Internet or beyond their own four walls because they felt the security risks outweighed the value proposition. 26

Driving Factors of BPO Revolution

- ❖ BS 7799 is comprehensive set of controls of best practices in information security. This was published in February 1995
- ❖ ISP 17799 is internationally recognized information security management standard. It first published in year 2000
- ❖ **Health Insurance Portability and Accountability Act (HIPAA)** establishes standards for the secure electronic transfer of health data

Business specialization

❖ The concept of BPO emerged when the market become more price sensitive and competitive. By outsourcing business operation the organizations can get the price advantage and the same can be passed to their customers. We have understood the importance of business operations of our clients and give them quality service. We capitalize on our experience and technology to provide unmatched service.

The services would include

❖ **Back office Processes** – The entire business operation or certain divisions of operations is outsourced. Typically departments like **Administration**, **HR Services**, **Marketing**, **Accounts & Finance**, **Data processing**, **Back Office Operations**, **Web Related Services** and **Customer Services** can be outsourced.

Business specialization

- ❖ Even though the operation is setup miles away, the client has full accessibility to monitor their work. Reporting, prioritization, allocation of work can be done in real time thus enable to clients' to co-ordinate without any problem.
- ❖ The flexibility of working as per client's required timings and days makes the operation successful. Communication is shared online using chat, email, voice and video conferencing.
- ❖ To provide operation specific outsourcing services such as :

Business specialization

❖ **Accounts & Finance**

Invoicing, Billing, payables Mgmt., collections etc.

❖ **HR**

Recruitment, PMS, Welfare, Payroll, employer services, Surveys etc.

❖ **Data**

Claims processing, Third party verification, Content Management

❖ **Marketing**

Marketing support, sales co-ordination, lead generation etc.

Services

processing

Business specialization

❖ **Customer Services**

Voice and Non-voice based customer support.

❖ **Back**

Office

Services

Full fledged back office support for all core and non core business functions.

❖ **Web**

Related

Services

Content Writing, Web Page Designing, SEO and Link Exchange.

BPO Types

❖ BPO types in reality are :

1) Offshore: This is most challenging type of outsourcing & most demanding .It began with the movement of factory jobs in the US to various locations in Asia.

By taking advantages of the lower cost of wages overseas ,US manager can cut there overseas cost by almost 40% .More & more companies are moving & more & more companies functions are outsourced today. There is no uniform approach to offshore BPO

BPO Types

- ❖ The so-called sweatshops identified in
- ❖ Vietnam, India, China, and elsewhere have stirred criticism for American
- ❖ companies, including Nike, Wal-Mart, and Walt Disney Company. Despite
- ❖ the criticism leveled at some companies that outsource processes and functions to international labor markets, the advantages of doing so continue to outweigh the disadvantages. By taking advantage of lower wages overseas,
- ❖ U.S. managers can cut their overall costs by 25 to 40 percent while building
- ❖ a more secure, more focused workforce in the United

BPO Types

2) Onshore : BPO does not involve outsourcing business internationally or offshore, they carry out business in their own country

3) Near shore : Near shore term is a relatively new term used in the US market that refers to practices of outsourcing in the same continent. Near shore outsourcing involves a lower level of risk. For example, Mortgage Electronic Registration Systems, an organization

created by the mortgage banking industry to develop systems for mortgage tracking, is moving its customer relationship management (CRM) function

BPO To Outsource or not?

- ❖ **BPO** has managers around the world asking what it can do *for* them and what it might do *to* them. They are excited about the potential for **BPO** to help them manage costs and improve their balance sheets. Under constant pressure from analysts to control headcount, outsourcing back-office activities
- ❖ to contract laborers in remote corners of the world can provide welcome and quick relief. Whether the labor source is in India, Pakistan, China, or some other international port, the prevalence of high-speed Internet provides opportunities for real-time back-office support regardless of location.
- ❖ At the same time as these new possibilities are opening up as a result of the **BPO revolution**, new questions are being asked and new challenges in organizational design

BPO To Outsource or not?

- ❖ Many organizational leaders remain skeptical about **BPO** because of the lingering aftereffects of the tech bubble burst. Their memories are still fresh with images of the “change the world” mentality of the tech bubble and its dismayingly rapid crash.
- ❖ The very thought of investing in new business models right now—especially those with a technology or Internet component—is very difficult for many managers and executives.

Business Process Outsourcing

End Of

Chapter 1