

BPO – an avenue for cost efficiency and optimized delivery

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Overview

Given the emotional debates in the US election campaign and the hype created by some labor unions in Europe, it is essential to understand that outsourcing is not just about cost cutting.

Leading companies in financial-services and other industries, for example, are using offshore partnerships to do more than just cost cutting. They are taking advantage of the distinctive skills and high performance offered by companies in developing economies to enhance their own operating performance, outsource even vital business activities (such as design of components), and accelerate their entry into adjacent product markets.

Outsourcing is a dynamic, rather than static, opportunity. Outsourcing is not limited to low-skilled business activities. Outsourcing can lead to superior performance – even in highly skilled activities – and a better platform for staying competitive at home and for entering new product markets abroad.

Offshore outsourcing provides companies in the US, Europe and Australia with bigger opportunities than merely sending low-value, labor-intensive activities abroad.

The size of the BPO market

Experts believe that the global BPO market will almost double between now and 2008, reaching US\$ 124 billion. The global market is still dominated by six US players – IBM, Accenture, EDS, Affiliated Computer Services, Computer Sciences Corp. and HP. These global players have competence centers around the world, including the Philippines.

The speed of outsourcing in Europe is picking up: 2003 was the year of the mega-deals. (slide)

The drive toward offshore outsourcing continues to accelerate with forecast market growth of 30% in 2004. Despite concerns over job losses, offshore services will become a standard strategy item for enterprises in Europe. (slide)

According to Deloitte Research, 730,000 financial services jobs will migrate from Western Europe between now and 2008.

The effect on Asia

Companies throughout the region have mainly been the beneficiaries of globalization and the trend towards service outsourcing. Whether handling service calls from K.L., processing of checks in Shanghai, processing bill of lading in Manila or diagnosing

network traffic from Bangalore, the move by companies to outsource 'non-core' activities has proven a boon for many firms throughout Asia. Let's look at some slides, covering

- Outsourcing in Asia – Functions outsourced
- Primary reasons for outsourcing
- Benefits gained.

Historically, outsourcing has evolved from manufacturing / assembly in the sixties and seventies, to IT infrastructure in the seventies, to application management and then to business processes.

While companies typically looked at outsourcing as a means of cutting staff and costs, the actual benefits in many cases are substantially greater. Companies outsourcing non-core operations were able to not just reduce expenses, but also streamline their business processes as well as free up resources to pursue more critical strategic objectives.

A company that is expanding wants to focus on growth, not record keeping or back office operations.

But while many companies might turn to specialist firms to handle defined business tasks, consultancies such as Accenture say they offer broad 'end-to-end' solutions rather than a 'point-by-point' approach.

One of the largest outsourcing cases in Thailand, for instance, is a joint venture formed by Siam Cement and Accenture. The joint venture offers enterprise business application services, HR and payroll administration and call center servicing, with staff drawn from both Accenture and Siam Cement. The joint venture not only provides services for the Siam Cement group, but has since expanded to offer services to other clients.

A good example in the Philippines is the decision of Procter & Gamble to outsource their HR administration worldwide to HP Philippines and to outsource their accounting worldwide to IBM Philippines. Of course, both companies are not limiting their services to P&G but offer their services to other clients around the world.

Some companies might start with outsourcing IT functions for a single business unit; but once they realize the potential, then they look to expand the entire scope.

Cost savings of 30% to 50% are typical for an outsourcing contract, although not immediately (the transaction cost are high and process handover takes time). The actual benefits very much depend on the overall strategy and structure of the project. One needs to know what one is trying to achieve. Outsourcing is a means to an end, not an end in itself. It's more like sharing a journey with someone else. Any project needs to carefully define the services and expectations that would be required by the client from the outsourcer.

Concerns about ‘loss of control’ can be managed by careful program design that stipulates service levels and penalties for failing to meet standards. (slide)

But an even more successful approach is to adopt a broader control framework, one that tailors objectives to help align the outsourcer’s objectives with those of the client. This can be through control mechanisms where the outsourcer has employees and management working directly at the company’s site. (slide)

Outsourcing is moving increasingly towards a ‘plug and play’ approach, where standardized solutions are offered by a single outsourcer to multiple clients. It’s really about solving a problem, about defining a strategic vision. People first thought of it as a way of moving away from non-core operations; but now, the question is, am I the best person to do this job? Is there someone else in the marketplace who can do it better? Doesn’t it make more sense to make my back office somebody else’s front office?

We are only at the start of a major shift in the way work is done. Outsourcing, both domestically and offshore, is likely to impact all of us.

Employees as craftsmen and specialists

Outsourcing is, first and foremost, about specialization. This specialization is taking place at the organizational level and at the job level. For example, almost all net job increases in information technology take place in the services side of the industry. We can reasonably expect that, as the use of outsourcing continues to grow, every field will develop its own specialty services firms and that a growing percentage of the specialists who work in that field will work for those companies. As employees move into these specialty firms, one very important change is that they go from working in a cost center to working in a profit center. For the specialized firm, they are not a back-office operation – they are a front-office operation. People at the front line have the opportunity for greater rewards, but they also have more responsibilities and greater risks. Their work directly affects the company’s customers and its revenue.

This suggests that the level of skills and knowledge expected of specialists will advance at an accelerated pace.

Executives as integrators

Outsourcing also is changing the role of managers and executives. Their responsibilities are increasingly shifting toward the kinds of integration skills associated with top general managers, and away from the functional and operational expertise that characterized the past. Mike Unseem of the Wharton School of Business was one of the first to capture this change in quantifiable terms. He called it ‘lateral leadership’ and went on to identify four capabilities that make a lateral leader – to be able to think strategically, make deals, govern partnerships and manage change.

Greater use of outsourcing also leads to a greater focus on project leadership and process leadership. Increasingly, the work of the business will be done by bringing together teams of people, from across these multiple outside relationships, for the purpose of delivering a specific result. These teams come together for the project at hand and then disband once it's done.

Networking risks

As outsourcing increases, organizations become increasingly interdependent. This interdependence means that the risks to the organizations become interconnected as well. The use of outside organizations does not eliminate the responsibility of an organization and its board to ensure that the work done on its behalf is performed in a way that is compliant to all applicable laws and industry regulations. This principle has already been established in the banking industry through regulations and for health care through HIPAA. Similarly, requirements in the areas of attestation of controls, accountability and security need to be met internally but also through the company's network of providers.

The network risk management concept represents just a starting point for the changes to come. Outsourcing means interdependence. Interdependence means all organizations in the network are dependent upon each other for their success. This is one of the great organizational changes emerging through outsourcing. (slide)

A closer look at the Philippines

The Philippines has been a service provider for animation and for software for many years. Companies like SVI have done BPO work for a long time. Caltex, for instance, has been a pioneer in offering shared services. Others have followed, from Citicorp to IBM, from HP to HSBC, from Accenture to AIG, from Henkel to SGS. But the country has been weak in marketing its capabilities so far, at least in the direction of Europe.

However, the success of the call center industry during the last two years has been overwhelming and the global call center, help desk, telemarketing industry is aware of the Philippines now. We have about 25,000 seats today, employing close to 40,000 people. Predictions have been made that these numbers can double in twelve to eighteen months – if we can deliver the talent requirement.

This first wave is of great interest because it puts the Philippines on the map as a potential hub for BPO. While the companies mentioned earlier are already doing BPO for their own companies or for the jobs IBM, Accenture or HP obtain worldwide, the local industry is still small, with the exception of SVI and SPI. But with call center companies looking at BPO and actively hunting for BPO jobs in Europe and the US already, we may have the size of companies that can handle BPO, in future – provided we can deliver the skilled employees.

What are the challenges to develop this country into a major BPO player?

Let's start with a slide which shows how the world sees us (slide)

Our marketing has to improve!

We urgently need an umbrella organization as effective as Nasscom in India. Some two years ago, we started 'Outsource Philippines' with initial success in the US and Europe. Subsequently, we have created Business Processing Association of the Philippines (BPA/P) which stills has to get its act together.

We have to develop the human resource!

The human resource has to be developed in quantity and quality. Retention of the employees, organization structure, managing client relationship, and strategies to increase business are some other challenges being faced by the BPO industry.

The government of the southern Indian state of Karnataka, plans to have over 100,000 ready-to-employ candidates from its eight districts in the next 18 months to support the states BPO industry.

As part of its plans, the state government would launch a BPO skills assessment program, B-SAT, in its eight districts. B-SAT would aim at assessing a candidate's skills for a career in the BPO industry, by providing a comprehensive feedback to candidates on their capabilities and employability.

The program will cover areas including communication, listening, comprehension, keyboard skills, written skills, numerical aptitude, analytical and reasoning capability and mental aptitude. The government has already short-listed two assessment agencies to oversee the procedures. The state hopes to create 40,000 potential call center agents in the next couple of months with its new initiative.

According to the state's IT secretary, "We are targeting to create 100,000 of employable BPO agents in the next 18 months. By March 2005, we would have created half of this." He further added that many BPO firms have agreed in writing that they would hire the candidates who complete the B-SAT course successfully.

We have started moving in this direction in the Philippines.

We have to focus on quality management and get companies and individuals certified!

India is showing the way. Most of the Indian competition is CMMi certified; hardly any companies in the Philippines. How can clients make a decision whether to outsource to the Philippines or not if they are not sure that quality management methodology is available?

The European Chamber and the European IT Service Center will introduce quality management models and schemes (EFQM and TickIT) here, making use of programs co-financed by the European Commission.

We have to focus on information security!

Again, India is showing the way. Facing US political pressure, outsourcing companies redouble the protection of clients' information.

Nasscom, an association of Indian IT service providers, has decided to market India as a 'Trusted Sourcing' destination. The association aims to take India beyond a 'low cost' and 'high quality' service provider to a highly secured and trusted sourcing base.

Nasscom has engaged Ernst & Young (E&Y), a global consulting firm, to create a security standard and framework, which will be implemented in all Nasscom member companies. A regular audit will also be conducted by E&Y.

Nasscom is also in the process of forming a National Advisory Board and an International Advisory Council to guide the Indian software and BPO sector on security issues. The members of the board would belong to sectors including the government, academe, technology vendors, consultants software and BPO sector started as a low cost sourcing destination and moved on to become and user organizations.

According to Sangeeta Gupta, VP, Nasscom, "Indian a quality service provider in the last few years. As India is expected to face competition from other countries on cost factor, we need to keep moving up in the value chain by providing an extra value to customers."

Sangeeta further added that the 'Trusted Sourcing' initiative will also include a series of events to be organized in India and other countries, focused primarily on security related issues. Apart from marketing and public relation exercise in the US and other important markets, Nasscom will also ensure that all of its members are following global practices and standards of security.

According to experts attending the Gartner IT Security Summit in London, when it comes to outsourcing IT operations to countries such as India and China, companies often focus on slashing costs and gaining productivity, but fail to take into account cultural differences that may affect their security.

Partha Iyengar, Research VP, Gartner India, termed India to be a solution for application outsourcing, but a problem in the security space. Iyengar said that the real issue was not the security measures used by service providers such as firewalls and data backup, but the cultural differences.

Industry experts have warned that a relaxed attitude toward privacy could have serious consequences when it comes to protecting corporate data. Outsourcing companies have

also been advised to train local staff to adhere to the company's global privacy standards and to check into the risk of government interception of sensitive confidential information.

Lawrence Lerner, Senior Technical Architect, Advanced Solutions Group, Cognizant, also termed the real issues to be with respect to cultural differences and in compliance and regulation.

High demand for outsourcing services has prompted Indian and Chinese services providers to hire a large number of employees, which has also resulted in a weak security system.

India's largest IT companies are hiring thousands of new staffers every quarter in an attempt to meet the surging outsourcing demand, a reality that adds to the security challenge. At Wipro Spectramind Ltd. in New Dehli, one of India's largest call center operators, private security firms conduct background checks on potential hires who would be handling sensitive information.

Wipro, which sometimes processes medical records and financial data, provides its clients with a host of specialized security measures. Some of the most security-conscious clients are asking that their corporate information remains on US-based servers.

In the Philippines, we urgently have to address this issue.

We need onshore presence in target markets!

Not only in the US, in Europe also. EITSC has done the first – small – steps by creating EITSC units in the UK, Germany, the Netherlands and Switzerland.

We have to harness the 'overseas Filipino professional' as our extended sales force!

In the UK, we work with Filipinos who have invested their expertise and money into a broker business for the outsourcing of IT-enabled services. Given the fact that there must be 100,000s of Filipinos professionals overseas, it is high time that we identify them and court them to become our extended sales force for all service industries, including the new sector of wellness, healthcare and medical services.

In conclusion:

The business reasons for outsourcing appear persuasive, and the experience positive. Yet some companies remain unconvinced. The main reason given for this is that process automation is sometimes perceived as a viable alternative to BPO. But technology optimization is only one facet of four improvement levers to pull: outsourcing economies of scale, labor arbitrage, technology optimization and continuous process improvement.

BPO providers with core skills in technology and systems integration take the risk out of implementing automation, and their investment in IT infrastructure is an inherent benefit to BPO.

In addition, the fusion of BPO and IT Outsourcing (ITO) can enhance the benefits available since process improvement is inextricably linked to application management. Automating the back office processes with enterprise applications achieves straight through processing (STP) efficiencies. Traditionally this links transactional and operational systems underneath core business processes. By outsourcing the end-to-end process together with the IT function, organizations can create new processes to increase speed and information flow for management decision support. There are now an increasing number of providers which can do this, and leverage services across multiple processes and multiple clients.

Economic uncertainty persists, and despite steady improvements in markets, shareholder and customer pressure will continue to put pressure on companies to change their back office, to be free of constraining systems and business processes that are deeply embedded into siloed business units or hard-wired to the past.

BPO offers enormous business opportunities for the Philippines. The Philippines has to catch a large share of this new business model.