



# A critical study into discerning challenges posed by visible US based BPOs an open-source onshore model which is a hybrid between outsourcing and captive

**KEYWORDS**

outsourcing, onshoring, reverse sourcing, hybrid model

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**ABSTRACT** Business process Outsourcing is into much evolved version from the basic lift and shift paradigms into increasingly complex service offerings provided by the vendors across the globe both critical and non-critical as well as core and non-core processes. In the data driven age the security and integrity of repository of data to be shared with unknown or less known vendors is becoming a complicated decision to be faced by global companies forcing a phenomenal change in the business and revenue models in the recent past. This paper explores the possible growing practices of reshoring or onshoring back to the headquarters and how the service providers are equipping themselves to manage the emerging scenario. This paper also addresses the concern expressed by Indian top service providers in understanding this criticality and trying to contemplate the clientele requirements in an enduring manner to sustain their edge on global service delivery. On-shore expansion is increasingly rising as a priority for BPO firms as such operations are becoming a major selling point to win new deals, which are increasingly thin on the ground in the BPO sector.

**Introduction**

Labor arbitrage alone cannot remain as a critical differentiator for Indian BPO firms forever which incidentally gave them the first mover advantage in late 1990s when global companies were obtrusively laying more profundity in their search for service providers. The previous three decades Indian BPO majors both pureplay and integrated saw an unparalleled run having their pipeline full of better and larger deals which are invariably more global and equally complex in nature. Duening & Click (2005) ascertain BPO is the movement of Business Processes from inside the company to any external service provider; which aptly ends up as a cost effective during offshored (Budhwar et al., 2006:881). These Business processes invariably comprise of non-core activities like recruitment and human resource functions, logistics and warehousing management, facilities, maintenance, legal services, invoicing and payroll etc. However, it has been suggested that, there are specific countries that specialize in these Business Processes (Kang, 2008).

**2. Flavours of Sourcing**

Beginning in 2008 after the financial crisis which gave all of a sudden a rude shock to Indian BPOs, which directed them to understand that only armed with the optimal labour cost as the sole factor and started increasingly investing in domain capabilities to offer transformational services to their valuable clients offshore. At this juncture the BPO players invariably possesses an inherent advantage due to their high competencies to offer assorted services with value enhancement hence the birth of outcome based pricing models which were more effectiveness based by making service providers to move up in the value chain.

Table 1.1 illustrates the various generations of growth happened in the outsourcing phase.

Table 1.1 Generations of Outsourcing

Period	Growth Phases	Competitive Factors	Strategies
Late 1990s	First Generation	Labor arbitrage, English fluency ,Lift and shift	Serving to Captives

Till 2000	Second Generation	Offshoring, FTE based Transactions	Cost savings, Scalability
2001-2007	Third Generation	Offsite plus Onsite, FTE, technological up gradation	Noiseless Delivery Mergers and acquisitions
2007-2011	Fourth Generation	Outcome based Delivery	Platform BPOs
2011-2014	Fifth Generation	Analytical insight, Innovation and felxibility	Non-Linear Models, Acquisitions on emerging verticals
Since 2014	First Generation	Design Thinking	Client Pitching

Adopted from Managing and Using Information Systems: A Strategic Approach by Keri Pearlson& Carol Saunders sourcing decision cycle frame work. The Figure 1.1 depicts the different flavours or options available to global companies to outsource their non-core activities offshoring, nearshoring, on shoring, dual shoring, offshore insourcing, and even reverse-outsourcing (e.g. Amazon offering its e-commerce features for other retailers

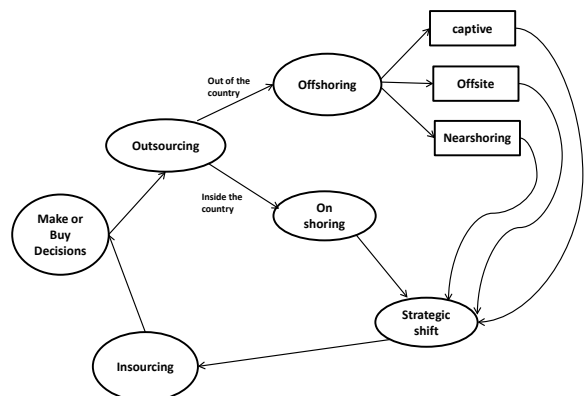


Figure 1.1 Various Flavours of Outsourcing

Business process outsourcing companies, specifically those in the contact center space, are reversing the trend of moving most outsourced work to low-cost locations such as India and the Philippines, chasing higher-value business in exchange for working closer to their clients.

“On-shore” and “near-shore” presence is increasingly becoming an important area of differentiation that is helping those vendors who can demonstrate the capability garner a larger share of business.

During 2008-2010 nearly 71% of the contracts were delivered mainly offshore. In 2011-2012 that fell to 59% and the trend is further picking up. The major reason being offered is that having a flexible set of delivery locations is often in a provider's interest which may in turn accommodate different client requirements. Where work is moving back on-shore or near-shore (reshoring) it is primarily to try and improve the quality of customer service - typically with the use of native speakers as employing locals say upto 50% of the workforce may happen very soon. The pace of the global economic recovery is also an important factor is driving work back to the home markets, particularly from clients who want to cut costs but are unwilling to send the work out of the country due to data issues and privacy concerns invariably companies are attempting to investigate additional avenues to variabilise cost by additional outsourcing, although not necessarily off-shoring. Given that American BPO providers are not about to build out massive offshore capabilities, it makes sense for them to argue for value propositions within unique hybrid models that allow for smaller, higher-value operations onshore moving up the value chain. And when it comes to high-value processing, there is still concern within financial services with regard to the retention of human capital. Higher-end processing can involve valuable and sensitive information that is best kept close to home.

#### 4. Indian BPO companies' futuristic Directions

The top Indian BPO service providers were asked to highlight their contention for moving onshore or reshoring was assessed. The findings are given in Table 1.2

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
Nearness to client	32.463	2	3.333	105	9.739	.000**
Employing local workforce	1.766	2	.925	105	2.909	.043**
More access to processes	.630	2	.181	105	3.486	.034**
Response to Innovation	1.540	2	1.361	105	1.131	.326
Quality delivery	167.096	2	.858	105	194.821	.000**
Higher volume of work	.933	2	1.547	105	.603	.549
Continued client pitching	.397	2	.713	105	.557	.574
Ease of renewal	.953	2	1.169	105	.815	.445

#### 5. Findings

The reason for going onshoring or reverse sourcing is largely favoured by Indian BPO companies in the context of Nearness to Client ( $H_0$  is rejected), Employing of more local workforce ( $H_0$  is rejected), More closer accesses to processes ( $H_0$  is rejected), and Quality delivery ( $H_0$  is rejected) are found to be significant.

The other factors like Response to innovation, obtaining more volume of work or repetitive orders on account of nearness and continued client pitching and ease of client retention was found be not significant ( $H_0$  is accepted)

#### 6. Conclusions

It is no more the volume of low end work where labour bills are calculated based on full time equivalent or number of personnel employed but the recent trends point out to more outcome based pricing models and to win close competitions at their home countries global companies are largely drawing their service providers to sit close to them with the add on choice of employing local workforce as a continued effort on process improvement and optimization. This will have more onshore/nearshore assignments of Indian outsourcing majors foraying into inorganic growth models of mergers and acquisitions in the long run to foster winning relationships to clinch marquee client accounts running into billion dollars.

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