

Outsourcing - enabling today's India

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India is the world's largest provider of offshore outsourcing; it is a key driver of India's recent economic success. Competition among business process outsourcers for resources and new clients, and client demands for more sophisticated services, has strained their resources. Many now seek capital and partners - through mergers or acquisitions - to build capacity. They seek to transform themselves, through adherence to international standards and certification, to meet their client's rising expectations regarding quality, business continuity assurance and security.



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India is witnessing a surge in its economic growth. The media has already started sensationalizing, based on advisories and projections by market analysts. Economists attribute it to the liberalization policies the country has recently adopted. Politicians in power find it fashionable to claim credit, but as the statistics show, the growth was triggered primarily by the services business, especially Information Technology, IT, services. The outsourcing of off-shore business processes is one of the key drivers of India's recent economic surge.

The IT industry, since 1999, has shown a CAGR, *compound annual growth rate of 46 per cent*. IT Exports - primarily software and related support services, SSS, and business processing outsourcing, BPO, - account for nearly 70 per cent of the IT industry. The SSS grew by 32 per cent and the BPO has witnessed tremendous growth in the past four to five years of nearly 48 per cent (US\$4.6 billion in 2004, US\$6.3 billion in 2005, and nearly US\$8.5 billion in 2006). BPO exports account for nearly 27 per cent of the total exports in this sector. According to Nasscom McKinsey, by 2008 IT exports will total US\$90 billion, equivalent to 35 per cent of India's total exports.

In comparison, from 2005 to 2006 the Indian railways contributed US\$10 billion in revenue and employed 1.4 million, whereas SSS and BPO exports, a relatively new sector, contributed nearly US\$30 billion and employed one million.

India is the world's largest provider of offshore outsourcing, with nearly half the global market. Given the first movers' cost advantages, India remains the first choice of organizations adopting offshore outsourcing.

The services business, primarily the offshore outsourcing, has been the most significant contributor to India's growth. As the figures below from Gartner suggest, this is a trend that is likely to continue to surge in the immediate future.

Offshore operations employ a range of business models:

- captive setups owned by the user organizations requiring sizeable up-front investments;
- joint ventures and alliances between domestic companies in partnership with foreign entities with shared operational control; and,
- locally owned offshore outsourcing vendors.

Offshore outsourcing is now a capital intensive, sophisticated and relatively complex services business requiring scale and built-in quality assurance.

There is stiff competition among BPO service providers, both for resources (employees, etc.) and for new clients. However, there is a steady growth in traditional data capture and transcription services, given the easy entry and start, providers are witnessing commoditization and oversupply.

There is increasing traction in high end process outsourcing. Clients are off-shoring more complex processes and suppliers are developing specialised, core competency experience. BPO is evolving from transactional data entry service to problem solving/decision making, full process outsourcing and to research and analytics. The move from out-tasking to transformational BPO has already started.

The realization that BPO is a 'sticky' business is fuelling the interest of service suppliers, and offshore outsourcing is increasingly spurring many traditional SSS providers actively to seek BPO options. Numerous SSS and BPO players are going public to garner resources (US\$100-400 million). This has set off a spree of

mergers and acquisitions, and created a number of larger players that significantly change the service provider landscape.

However, to garner a significant share in the business the scramble will require:

- amassing resources (angel investors, IPOs, captive investment) to build capacity and robust processing structures;
- communicating more effectively about the value delivered; and,
- effectively transforming and building the capacity needed to deliver value.

The BPO cost reduction proposition calls for the development of core competencies that will require significant structural transformation (see figure II).

Service providers need to not only build capacity and transform themselves - they need, also, to communicate the results of this transformation so that the market perceives the value they can deliver.

Speed is essential; the sector does not have the luxury organically to evolve core competency.

To demonstrate and communicate value, the adoption of best practices, management system standards and acquiring certification in the following standards is becoming increasingly necessary:

- Information Security Management System - ISO 27001:2005;
- Information Technology Service Management System - ISO 20000-1:2005;
- Business Continuity Management - BS 25999:Part 1.

The BPO business environment is becoming increasingly competitive and global. The most fundamental objective of business - continuity - has become a hot topic of conversation lately at board level. Organizations are looking for a way both to minimize risk and maintain continuity of business under any circumstances. BPO business will need to adapt and develop ways to ensure continuity. BPO service providers, irrespective of model, will have to provide assurances that they can continue to operate under even the most extreme circumstances. This will often require redundant, fully staffed and operational service facilities in other locations, other cities or even in other countries.

Business is about the protection and productivity of its assets. The ability to guarantee the protection, integrity, availability, security and confidentiality of information as well as the client's other organisational

assets, including business processes, methods and practices is the service provider's critical edge; this is what differentiates a provider from its competition.

Profits are a measure of how effectively and efficiently a business manages its environment - its cycles, demand and supply - and how effectively it delivers and markets its goods and services. Information is the key to business efficiency, so businesses are especially vulnerable to its loss. The growing use of new technologies by all involved has increased security and service delivery risks for all organizations regardless of type or size. Information security and IT service management is no longer an issue for IT managers alone.

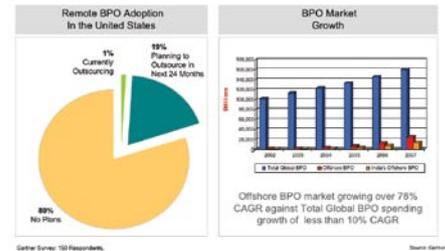
Technology is used to capture and process vast amounts of information and make it available at the right time and place to the right persons; it has also increased the vulnerability and ease with which these vast amounts of information can be leaked and lost, if truly secure practices are not adopted.

BPO business has now evolved to the point where it is providing services directly to end customers.

BPO customers demand robust structures and practices that comply with established practices and legal requirements. Servicing on-shore customers in different countries will require complying with the legal requirements of those countries. This compliance will become one of the cornerstones of the outsourcing contract, and compliance assurance will become a mandatory component of the service level agreements defined.

Adoption of secure practices cannot be a matter of chance, left to the initiatives of individual managers, but treated as a matter of significance, providing assurance by adoption of standards and best practices. In fact, adoption of best practices and standards has become a style of management. In a competitive business like offshore outsourcing (BPO, KPO, ITES, call centres, etc), indeed in any business - the adoption of sound standards and practices has become a measure of the confidence and assurance that the customers and stakeholders place upon the management. Customers seek and look for providers with managements that have adopted standards and can provide assurances of continuity and security; this is often a key differentiator between service providers. With technology enabled business processes, general business capability only provides a measure of comfort;

Figure I



service delivery must be assured. Businesses need technology, service assurance and information security, and built-in continuity assurance.

There are many standards and best practices that organizations can choose, deploy and adopt. However, business is about management; BPO providers need to deploy standards that address the issues of performance, sustainability and risk.

The 'Deming cycle' - PDCA, plan, do, check and act - puts continuing pressure upon conforming organizations to evolve and improve continually.

Standards are necessary in today's competitive business environment; to be efficient, and to ensure the integrity of their information, organisations must:

- ensure correct and timely information capture;
- protect their data from deliberate or accidental corruption; and,
- make information available to the right person as, when and where needed.

To establish reliable services and engender the trust of its customers and stakeholders in their ability to deliver, managements have to:

- protect and safeguard their organization's information;
- ensure information integrity;
- build in an assurance system; and,
- be able to demonstrate the adoption of practices within their organizations that show their commitment to sound business processes and focus upon their businesses.

Standards adoption and certification of their organisations enables them to demonstrate the above.

Transformation is the key to successful offshore outsourcing business. Building robust practices and structures into their businesses is what this transformation is all about. ●



Figure II