

## **New Outsourcing Opportunities in India**

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Outsourcing industry has been gaining momentum for last couple of years and it has been estimated that IT outsourcing alone in India would reach about \$55 billion dollars by 2008. India has been described as the myriad of challenges and opportunities. To attract new businesses, Indian companies are offering services in new areas such as Human Resources, Finance and Accounting, Payroll, research, writing, CRM etc. Companies should take advantages of the lower costs and talented pool in India to further reduce spending on small and non-critical services. This paper discusses certain new areas of outsourcing that are currently offered and can be offered in future by companies in India.

### **INTRODUCTION**

Outsourcing Industry has been the driving force for companies coming out of economic hardships as these firms are pushing to outsource professional services to countries like India. It has been estimated that over 80 US firms indicated to outsource professional services at a summit held in 2003 [1].

India has been described as the myriad of challenges and opportunities.

There are three fundamental reasons to outsource professional services to

India: Cost, Infrastructure and skilled labor. India has been the technological

leader in IT outsourcing for many years and receives major business in IT outsourcing. Due to stability in the democratic government, companies tend to invest more in India than in China. Nasscom research [3] indicates that Indian outsourcing industry would reach \$55 billion dollars by 2008 and McKinsey research [2] indicates that global BPO market is going to reach \$160 billion by 2008. Indian companies with their enormous potential are aiming to achieve a large pie from the BPO sector. To achieve new businesses, Indian companies are offering services in new areas such as Human Resources, Finance and Accounting, Payroll, research, writing, CRM etc. Over last 3 years, Indian companies have been working on achieving success in verticals like medical transcription, visualization, media and other new areas. Medical transcription is one of the well-established BPO industries. They have been training their employees according to compliances of EU laws and US laws so that this manpower can be used for new services, some of which are discussed in this paper. Companies should take advantage of the new services offered in India and improve their production, cost reduction and add value to their customer relations.

## **Human Resources Outsourcing**

One of the most important trends in recent times is the outsourcing of Human Resources professional services. India has been at the helm of providing these services. HR outsourcing includes administrative tasks such as payroll, recruiting, training etc. With increase of competition through out the world and fall in prices due to increase in globalization, companies need to focus more on their core competencies. Most of the organizations have realized the need of outsourcing of non-important functions within the company. Human resources are one such area, which can be outsourced to countries like India. By doing this companies can focus on their core competencies and let the BPO's take care of HR areas in a cost effective manner.

HR outsourcing case studies by [5] have indicated that managing human resources involves specialized activities such as training, payroll administration, employee database management, employee retention, employee benefits and a lot more that many companies either don't have the proper resources or time to manage on their own. By outsourcing their HR functions, companies can save huge amounts of money and be free of complications that are involved in maintaining an internal HR department.

By doing so, companies can concentrate on their core competencies saving their valuable time and resources.

Outsourcing human resources activities can give executives in this field to focus on more important tasks. Human Resources outsourcing industry looks promising in terms of saving costs and valuable man-power for other important activities. As a very important hub for outsourcing activities, India is bound to achieve a larger chunk of the HR outsourcing business due to various factors discussed below [4].

Latest figures show that the outsourcing industry would amount to \$234 billion dollars while global Human resources outsourcing industry would touch \$67 billion dollars in 2005 [7], which is about 29% of the total outsourcing business. It has been estimated that Human resources industry in India only enjoys about \$70 million in revenue from the outsourcing pie [7]. The latest McKinsey study shows that HR outsourcing would grow to about \$1.4 billion in India by 2008. Hence there is an excellent potential for companies to outsource their HR operations in India for reasons such as low cost, quality assurance, availability of skilled labor, excellent infrastructure, a large English speaking population and excellent government policies. A Gartner Focus Report [6] (Outsourcing: Time to Deliver Results) states that: "Only those companies ready to address the necessary transformation of

their HR processes will find that outsourcing will bring access to world-class processes, competitive advantage, and increased shareholder value."

Some of the trends of the industry show that in 2005, there would be a wave of outsourcing in the Human resources operations. Accenture helped save a telecommunications firm 5% by managing its Human Resources operations in India. With new success stories companies would be able to examine the benefits and potentially opt to outsource their HR operations. Even governmental organizations in USA and Europe are studying the benefits of outsourcing HR operations. IN 2005, a large number of skilled labor in HR operations is on the corner to retire, and this gives global firms an opportunity to examine the outsourcing options in this area [6]. Also during 2005 it has been studied that small and mid size firms with employee strength varying between 1000 to 10,000 employees would look at HR outsourcing options, creating an excellent opportunity for companies in India. One of the major advantages of outsourcing HR operations to India is that due to the skilled labor force and excellent IT infrastructure, companies would be able to provide personal learning for individuals at a very low cost. Companies in India like IBM and GE have already set up operations for this specific purpose.

India has a very strong potential in HR outsourcing as 80% of the fortune 2000 companies are planning to offshore their HR operations. Companies in India can take this opportunity to get the maximum out of the HR outsourcing pie. In fact certain companies like Fidelity, Hewitt and Exult have already started offering solutions to HR outsourcing needs.

These companies offer the following services in the HR Domain:

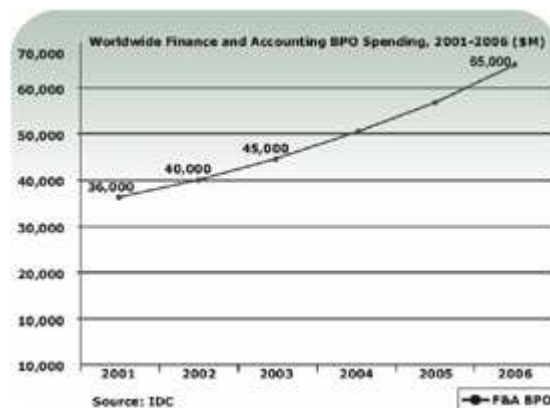
- Maintenance of personnel records
- Annual review and revision of employee handbook
- Audit of HR strategies, policies and procedures
- Implementation of employment/termination procedures
- Job description process
- Exit interviews
- Employee development program
- Performance management process
- On-site support
- Employee retention programs
- Long term incentive/equity stock option programs
- Employee Morale Building
- Compensation plan review

HR outsourcing services providers in India and the clients include giants of manufacturing, software and service industries like GE Capital, Ford Motors, Hyundai Motors, Satyam Group, Infosys, Enron, HSBC etc. HR outsourcing has a huge potential in creating about 300,000 jobs by the end of 2006. As of now according to Nasscom [7], HR outsourcing is undergoing a transition phase and would not much time before there is a

very significant increase in this business. HRO is bound to become a standard business practice by the end of the year 2005.

### **Financial Services Outsourcing in India**

Finance and Accounting Offshore Outsourcing is about a decade old. F&A is one of the areas, which can be easily off shored to companies in India. The following figure shows the trends in the F and A BPO industry for several years. Currently in 2005, the spending in this outsourcing sector is about 58 Billion Dollars. This is bound to increase by 10 percent in 2006 [8].



Analysts believe that this industry is one of the fastest growing BPO

segment and India is all set to obtain a major share of this global outsourcing sector. Due to various downturns in this industry in the recent years with cases of Enron, companies tend to separate themselves from their financial services and look for outsource providers who can provide analytical competencies for them. In a recent study done by IDC [8], the U.S. will remain by far the largest F&A business process outsourcing (BPO) market. Hence it is an excellent opportunity for Indian firms to take advantage of this growing sector.

Some of the Fundamental reasons for outsourcing F and A to India:

- Off shoring Finance and Accounting solutions to Indian companies can lead to cost savings of about 25-40 percent.
- Indian Professionals have great expertise and knowledge in the F&A solutions. They have extensive service delivery experience and can scale up operations rapidly. Interestingly, cities like Chennai produce the largest number of Accounting professionals in India.
- The minimum qualifications of Indian accountants and bankers are BS degree in Commerce. Some of them even have higher qualification degrees such as Chartered Accountancy.
- Indian firms have very strong hiring and retention policies.

A new area in this field, which is emerging in India, is order-to-cash process [9]. Companies, which need higher advantages in cost reduction, will find that order-to-cash would significantly increase their strategic, technical and financial benefits. It reduces the costs by improving working capital. By increasing the working capital, a company can improve its debt-to equity ratio and reduce its external financial needs. In 2002, Lucent technologies, outsourced its financial operations and saw an increase of 30 % increase in customer satisfaction index. There was an increase of 50-90% in its A/R and the company tripled the number of invoices it collected on time. The comprehensive set of A/R functions such as order management, collections, dispute management, credit, reporting and analysis is called order-to-cash cycle. This particular type of outsourcing process can produce value greater than just cost reduction. Many companies in India already have the infrastructure for supporting such operations. Most of the companies also have started providing services where they prepare financial statements such as balance sheets, cash flow management, profit and loss statements. These companies can prepare statements in accordance with the Generally Accepted Accounting principles (GAAP) established by the American Institute of Certified Public accountants. Many companies in India also make their accounting employees to take the CPA exam and get the required

certifications, which are mandatory by US Law. This shows that companies in US and Europe can outsource major chunk of financial operations to India and improve cost reduction. The employees force working on non-major issues can be used in other vital tasks. India as the major outsourcing hub would become world leader in outsourcing of financial services according to a study done by Nasscom. A recent study by the Economist Intelligent Center [10] shows that about 30 percent of companies outsource financial services to India out of the total financial services outsourcing industry, and about 70 percent of these companies are happy with their decisions. Initially India was not considered safe for financial record keeping but with improved infrastructure, security and stringent government laws such problems have been reduced significantly. Though cost savings is the key motivator for outsourcing, this study determines that F and A outsourcing is used in major corporations for transformation of their business models. Originally big corporations planned on sharing services with providers in India but now with the boom in BPO market, these companies would turn to BPO providers, which have a proven track. Sharing of services according to an Accenture study [11] shows that were only able to achieve half of the planned results. Initially companies only migrated small accounting services like Accounts receivable and payable but in 2005, it has been estimated that

there would be a vast transition in this market. India as the leader in BPO market stands tall to receive such businesses. Also, for small to medium sized firms, this is a wonderful opportunity to explore and set up BPOs in India at a very low cost. The companies that outsourced their financial services in previous years have moved up the value chain due to fundamental changes in their models achieving various cost reduction benefits. Companies in India have already started to transform to adapt to the needs of the US companies to gain domain expertise for good business. Some other important new services dealing with financial services are described as follows:

- *Write-up Services:* The various professional service providers can keep accounting records such as sales records, cash receipts and bank statements to create financial statements. Companies like Infosys, Wipro, TCS etc. can produce timely financial statements providing representations and analysis of the accounts. Different software can be produced for accommodating particular needs of different companies. India produces largest number of software engineers in the world and the above mentioned companies could be used as partners for such operations. Some of other services that can be provided are printing and processing checks, tracking and controlling payables and all types

of billing information. Outsourcing of bookkeeping services in India leads to Cost savings of about 40-50%.

- *Tax preparation services:* Indian companies are capable of preparing any tax returns for companies and individuals. The costs for tax preparation have increased widely in US, there is a need for outsourcing tax preparation to India to save costs. It has been estimated that there is 60% [5] cost savings in preparation of taxes are off shored particularly India. Companies use CPA's and experience tax preparation personnel for this purposes. The use of cost effective solutions transfers the documents from mainland US to India by ASP/FTP technologies. Some firms in India provide Tax preparation help for forms like 1040, 1065, 1120 etc. QMS quality management practices are adhered while performing sensitive tasks such as tax preparation. Firms in India guarantee fewer defects, reduction in turn around time and excellent delivery capabilities.

### **Other new Areas for Outsourcing in India**

Outsourcing has been going under a radical transformation over last two years. Various new areas besides HR and Financial Services Outsourcing have been emerging. Dramatic results in cost reductions have led to opening

of new ideas and ventures by companies in India. Despite of radical increase in traditional IT outsourcing new areas have been emerging at a relatively fast pace. There are certain areas, which have not been explored by many global companies. E-governance outsourcing is one such area that has a promising future. The maintenance and delivery of public systems through electronic means can be very beneficial to state governments in US. The private partner in India with its skilled labor force can play a significant role in cost reduction and providing a 24-hour knowledge factor [12]. This would provide the government with new knowledge platforms, which are very cost effective in India. Usually state governments in US do not tend to outsource public information systems to other countries but Arizona State has off shored certain operations to India. Project Management skills are poor in governments and with outsourcing all the manual services can be converted to digital ones at a very low cost providing services to public within least possible amount of time. All the day-to-day hassles of the small systems can be left to the off-shored partners. Choice of outsourcing can increase the competency of public undertakings to deliver and compete with private companies. Due to limited budgets and delays in sanctions of projects, governments do not focus on providing quality products to public in a timely

manner. Outsourcing to India can definitely help governments to improve their efficiency in performance.

In this global environment where research is being conducted round the clock, a 24-hour knowledge factory principle [13] can be applied to research in various disciplines. India produces about 140,000 excellent engineers in all disciplines every year. Though these engineers are capable of performing major tasks, they lack in research experience during the duration of the degree. In 2004, 70,000 Indian nationals came to US for Higher education. Most of these students are dependant on funding from the Universities. An average University has to spend about \$30,000 per year to fund a student in the Masters Program. If the Universities and companies outsource research to institutions in India, they can achieve more with a significant cost reduction. There are many excellent students who do not prefer to study in a different country. Companies and Universities can outsource certain non-critical research portions to Universities in India at about 1/10<sup>th</sup> of the price. There are many ramifications of this idea but it is still an infant in the outsourcing industry. It is an excellent opportunity for companies to study the idea of outsourcing of non-critical research and can ultimately formulate regulations and collaborations with institutions in India.

Indian writers are known to use English with compassion and lucidity. The country has a very rich English speaking and writing force, which has been gaining attention since the early nineties. Outsourcing industry started with IT and call centers but now it has been moving to new areas such as research, journalism and most importantly technical writing. Being a British colony for over 300 years till the year 1947, English is used as the official language in India. India has one of the largest numbers of English writers in a non-native English speaking country. Outsourcing of article and book writing does not require much infrastructure and involves very low risk. This area is one of the newest areas in terms of outsourcing industry. Though British English is used in India, American English can be very easily dealt with, as it requires only minor spelling modifications. Many companies have trained professionals for tasks which include academic writing, technical writing, proof reading, book writing, creating summaries, medical writing, news writing, speech writing etc. Companies in India understand the need of having a global model for incorporating various writing skills in their professionals. Companies, Universities, Government can all outsource their writing tasks to India to have a significant increase in speech writing. Indian companies abide by the regulatory issues and guarantee confidentiality. Moreover, in particular case of writing news

articles, news channels and news papers can divert the attention of their reporters to important tasks of collection of news and leave the writing to professionals in India who provide a 24-hour factory [12] for such purposes. In fact companies do not even have to invest a huge amount in this type of outsourcing but hire professionals on an hourly basis, which are at least 60 % less than cost of professional writers in United States or Europe. This outsourcing sector is set to boom in India and organizations should take advantage of its significant benefits.

Another important field, which is going to foresee a boom, is the Customer Relationship Management (CRM). Nasscom study shows that 2005 would be the year in which CRM outsourcing becomes a legitimate BPO as important as HR and Finance and accounting outsourcing sectors.

Companies are looking at achieving higher success rate with their customers and BPO providers in India have been smart enough to concentrate on this issue. Another small but important area is procurement-to-pay outsourcing cycle. Companies should add the front-end sourcing to the service delivery procurement process, which is the strategic component of formulation of the business model for purchase. Indian companies have already encompassed strategies, which ensure better measure compliance.

## **Conclusion**

Companies are convinced that outsourcing their certain operations would lead to better quality management, cost reduction and increase in customer satisfaction index. Different new outsourcing opportunities discussed in this paper are only partial of what can be achieved out of the talented pool in India. Traditionally different cities in India have different billing rates because of the increasing cost of living expenses. These opportunities indicate a trend towards niche outsourcing opportunities where Indian intellectual capabilities are leveraged to provide value added services to clients across the world. Though issue of outsourcing to India requires complex analysis of short term and long-term issues but due to several leverages provided by Indian government, US companies should not have any problems in even outsourcing small services to India. Companies like Infosys, Wipro, TCS, Satyam etc are determined to enhance their capabilities and operations to better serve the needs of the global companies. The significant observation is that increasingly organizations are restricting their operations to their core strengths and completely outsourcing all else to specialists in these fields. Increased Internet security now available for web-enabled processes also acts as the vehicle to provide valuable information on the fly to executives, thereby steeply increasing their productivity levels.

Also in these areas of outsourcing cost reduction is not only the sole issue, companies also look at adding value to their productivity and increasing the quality of service internally to employees and externally to shareholders and customers. Since 82% of the US companies rank India as the number one outsourcing destination due to various reasons discussed in the paper.

President Clinton made a famous remark “You liberated your markets and now you have one of the 10 fastest growing economies in the world”. GE has opened a 130 million dollar center in Bangalore for research purposes. India is poised to have the highest number of ISO-9000 software companies in the world and 15 of the 23 companies that have achieved SEI-CMM level 5 are based in India. India has been proven to be the leader in outsourcing and it will again prove itself in new areas of outsourcing discussed in this paper. Companies should take advantages of the lower costs and talented pool in India to further reduce spending on small and non-critical services. If the organizations can develop a framework, which benefits them then it, can be a win – win proposition for them and for the service providers.

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