



Durgadevi Saraf
institute of management studies

LOCAL EXPERIENCE. GLOBAL IMPACT

Vol 1

ISSUE 1

March 2015

ISBN 978-93-5196-952-5

INTERNATIONAL CONFERENCE ON OUTSOURCING STRATEGY AS A NEW PARADIGM

Under the Aegis of Remsons Centre for Management Research DSIMS Mumbai



Organised on: March 14, 2015



About DSIMS

Durgadevi Saraf Institute of Management Studies (DSIMS) is another milestone in the history of Rajasthani Sammelan that has done unmatched service in the field of education in the commercial capital of India. The business school has been promoted to fulfill the dream of the promoters who have aspired value based management education that would fulfill the needs of all the stakeholders. The Institute aims at providing professional management education to students & thereby provides highly motivated & skilled management professional to the industry.

DSIMS organizes an international conference on a current topic, annually in the month of March. The conference carries a cash prize award for Best Paper. The conference schedule and theme will be announced in the month of September/ October 2015 for the next conference to be held in February/ March 2016. The brochure of the conference will be available on our website: www.dsims.org.in Your wholehearted participation is welcome.

List of courses:

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DSIMS has been ranked amongst the TOP 200 B-Schools in India in the Times B-School Survey 2015. Only 12 B-Schools from Mumbai have been ranked in the list and DSIMS is 10th among them.



Indian Management Vol. 53; Issue 11 November 2014 has rated Durgadevi Saraf Institute of Management Studies, "A4" under B schools of West India

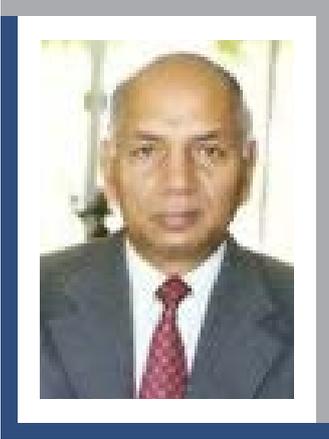


DSIMS is ranked as Asia's Fastest Growing Private Education Institute at the WIRC Leaders Excellence Awards 2012-13



Careers 360 rates Durgadevi Saraf Institute of Management Studies, "AA+" for 2015

MESSAGE:



Shri Vishwaprakash Harlalka

Donor, Remsons Centre for Management Research,

(In Memory of Radhadevi Harlalka)

Durgadevi Saraf Institute of Management Studies

Research is an integral part of a management institution for it also helps the Management institutes to bring the practical issues into classroom learning. Management research helps to provide practical solutions to the problem faced by the industry and business, it therefore brings academia and business closer to complement each other. I am happy to know that Durgadevi Saraf Institute of Management Studies is playing an active role in the area of research under the Remsons Centre for Management Research. The institute has organized an International Conference on the theme ‘Outsourcing Strategy – A New Paradigm’ on 14th March, 2015. The conference was inaugurated by Mr. Prashant Saran, Member, SEBI who also delivered the inaugural address. Many research papers were presented at the conference.

I compliment Dr. C. Babu, Director, DSIMS and Dr. Sharad Kumar, Dean and Head, Remsons Centre for Management Research and team for organizing the conference and making it a grand success.

ONVENORS' NOTE

With sweeping changes on the horizon, the new Indian government's pro-business and trade friendly approach is expected to boost investment in the outsourcing sector. Owing to advantageous factors like presence of one of the best intellectual resources, lower cost structure and multi-lingual capabilities, India has emerged as the 21st century's outsourcing powerhouse; offering many advantages as a global outsourcing hub, especially for IT enabled Services (ITES) and Business Process Outsourcing (BPO). As a result, India continues to dominate the global outsourcing market with market size estimated to be worth more than US\$50 bn. Banking and financial services contribute nearly 40% to India's outsourcing industry. However, of late, the outsourcing industry has been facing many challenges, like competition, shortage of trained and skilled manpower and maintenance of quality standards.

This conference is focused to bring about contribution from academia, researchers and industry practitioners towards challenges and new issues faced by the outsourcing industry in India and the world. The conference was attended by academicians, professionals, research scholars and policy makers.

A total of eight research papers were presented in the conference on the stated theme based on different functional areas of Management and Economics. Besides, two papers were received and accepted but the authors could not attend the conference. These papers are published as a part of the conference proceedings.

We hope that this compendium of research papers, will be found useful by the researchers, industry professionals and policy makers.

Dr. Kiran Karande
Convenor

Dr. Sharad Kumar
Chief Convenor

EEDITORIAL

Outsourcing is a successful business model grounded on fundamentals of economic and management principles. It is based on the doctrine of comparative advantage and Transaction Cost Economics proposed in Coase Theorem. Today's corporations often follow a two by two business process matrix to understand their path to outsource. Gartner Research 2015 shows that other than cost reduction, focus on core competence plays an equally critical role. The cost savings can be utilized to foster innovation and state of the art research in the parent company, creating economies of scale and scope. In the contemporary context, outsourcing is a broader enterprise operations strategy. There is a clear move towards integrated global service models that includes shared manufacturing and services.

The International Conference at Durgadevi Saraf Institute of Management Studies (DSIMS), Mumbai on 15th March, 2015 aptly conveys the changing dimensions of the business of outsourcing. In the 1980's, outsourcing referred to contract manufacturing of assembly line sub – components and parts of engineering industries. In the twenty first century due to greater extent of globalization & business dependence, the term outsourcing focuses on a new international trade in services, leading to a sustained comparative advantage of nations. There is also a sharing of risks, rewards, and resources. The aim of the Conference was to highlight the International business strategies to harness the strong economic dividends gained by the process of outsourcing.

The papers presented in the International Conference on the theme "Outsourcing Strategy – A New Paradigm" was organized by Durgadevi Saraf Institute of Management Studies (DSIMS), Mumbai on 14th March, 2015 are compiled as a part of the post Conference Proceedings.

Ten research papers are selected for this Conference Proceeding.

The Conference was inaugurated by Mr Prashant Saran, Member, SEBI. He focused his talk on Integrated Reporting (IR) which is a recent model promoted by International Integrated Reporting Council (IIRC) that can help companies assessing the overall impact of outsourcing and interdependence directly or indirectly on external agencies which support business operations.

In his article “**COMPARING LINE AND HR MANAGERS PERCEPTIONS OF HUMAN RESOURCE OUTSOURCING HR**” Professor Ravindra Dey introduces the importance of outsourcing solutions that combines global sourcing and delivery capabilities to offer flexible and cost-efficient services. In this regard, he has compared Line and HR managers' perception of Human Resource Outsourcing (HRO) activities.

Mr. Kishore Manelkar in his article “**OUTSOURCING – STRATEGIC STAFFING IN THE IT INDUSTRY**” is based on Strategic Staffing Mix (SSM) Modeling for IT industries to arrive at best possible hiring strategies ensuring lowering of risks, flexibility and scalability in the system.

Prof. Dr Kamalini Pathak in her article “**THE ECONOMIC AND SOCIAL IMPACT OF GLOBAL SOURCING**” illustrates the sustainable competitive advantage of IT outsourcing from India.

In the article “**OUTSOURCING - A LONG JOURNEY**”, the author Mr. Vijay Mirajkar in timelines has addressed the the different models of outsourcing, the size of the service off shoring market and latest trends in this industry.

Mr. Ajay S. Agrawal and Mrs. Charlotte Agrawal in their article “**A STUDY OF OUTSOURCING STRATEGY IN FINANCIAL INSTITUTIONS**” highlights how outsourcing has become a critical component of financial institutions' management of their business operations and control of their costs.

Prof. Dr. Sharad Kumar in his research article on “**OPPORTUNITIES & ISSUES IN OUTSOURCING IT WITH SPECIAL REFERENCE TO OFFSHORE OUTSOURCING**” has made a comprehensive coverage of the issues and

challenges of offshore outsourcing, which includes financial, strategic and organizational implications grounded on core competency theory.

Prof. Beena Prakash in her article “**COPING STRATEGIES OF BPO EMPLOYEES AND DEMOGRAPHIC DETERMINANTS**” examines the process of transition in outsourcing, the associated coping strategies adopted by employees and how they are concomitant with different demographic variables.

Prof. Amal Roy in his article “**COLD CHAIN PRODUCT DISTRIBUTION & REVERSE LOGISTICS OF PHARMACEUTICAL COMPANIES OPERATING IN INDIA**” reviews regulatory requirement and best practices of storage and Route to Market (RTM) Strategies of shared services in the context of a collaborative supply chain.

In the article “**REVIEW OF OUTSOURCING IN GOVERNMENT ORGANISATIONS IN INDIA – AN HRM PERSPECTIVE**” Prof. Ashok Kumar reviews the nature of public functions that were outsourced and their impact on effective functioning of the government.

In the article “**OUTSOURCING IN THE LIGHT OF APPLIED WELFARE ECONOMICS**” Dr Sumana Chaudhuri has presented a conceptual framework to analyze the financial and economic benefits of outsourcing using a decision theoretic CBA approach.

An E&Y 2011 report reveals that risk mapping between partners of outsourcing and effective international economic regulation to leverage on the synergies of the efficiency of shared manufacturing and services can indeed reap rich dividends for both the parties involved in the outsourcing agreement.

In summary, outsourcing and offshoring are viable options for many organizations looking to grow their operations and networks, but there are many aspects to consider in determining whether this is the right choice. The rich and diverse research articles presented in the Proceedings will definitely act as a beacon to steer the outsourcing decisions in future.

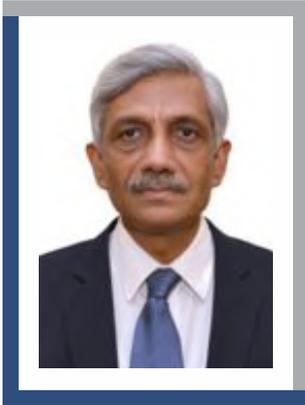
Dr. Sumana Chaudhuri
Editor

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INAUGURAL ADDRESS BY

Mr. Prashant Saran, Member, SEBI



Dear Dr. Babu, Dr. Sharad Kumar, Faculty, other dignitaries and my dear students. I am extremely happy to inaugurate the International Conference on Outsourcing Strategy at Durgadevi Saraf Institute of Management Studies. I complement the DSIMS

for choosing this topic for the conference which has great significance and relevance in the present interdependence business scenario. I do believe that an appropriate management of outsourcing is the most important for the success of any enterprise in today's global business environment. However, the issues that confront the outsourcing management have gone much beyond simply trying to ensure high quality products, at reasonable prices within tight time schedules. These issues remain important and basic but the reputational risk sometime overshadow the advantages that one might have by having a cheap and reliable source of products, services and financing as some of the large apparel retailers learnt to their dismay after a devastating fire in factory building in Bangladesh.

How companies can avoid making a similar mistake in future. The reputation risk can come from an environmental disaster like BP, or disapproval from society like the Bangladesh fire. The companies have also to consider other matters regarding their human resources while taking some of the outsourcing decisions. What tool can help companies to take an informed decision?

I will focus my talk on Integrated Reporting (IR) which is a recent model promoted by International Integrated Reporting Council (IIRC) that can help companies assessing the overall impact of outsourcing and interdependence directly or indirectly on external agencies which support business operations. IIRC is a global coalition of, regulators, investors, companies, standard setter,

accounting professionals and NGOs. More than 1000 companies including some Indian companies are already reporting in the IR format.

The objective of IR is to capture creation of value over time. The main premise of IR is that financial capital is not the only capital that is used by the companies. Reporting is one sided and incomplete if it is confined to recounting how equity and debt provided as financial capital are utilized by the company. When the investors invest in the capital of a company, it is expected that the management will run the company in such a way that the invested capital will be enhanced and will also yield dividends. Regeneration of and accretion to capital is the hallmark of a successful business. A business uses many capitals other than financial capital. For example, a company uses buildings and plants in carrying out its activities. A company that takes good care of its buildings and plants and keeps on adding to their value and functionality will be more successful in the long run than one which does not take care. The neglect or the abuse might not immediately reflect in their financial statements. Bankers know this fact instinctively. That is why they always make it a point to visit the plants of a company before taking a final decision to lend. They know that financial statements are not enough. This kind of capital is called Manufactured Capital (MC) in the IR parlance. The Manufactured Capital might belong to the company or it might belong to society or to some outside agency. For example, roads and ports are the publicly owned Manufactured Capital. A company may enhance the MC during a year or it might destroy it. A mining company might think that it is being smart in overloading its trucks and showing a little better financial profit. Yet in the long run it will be damaging the roads it uses and the costs will escalate exponentially in future. It must be now obvious why Manufactured Capital should be accounted for.

Most of the companies now do account for their Intellectual Capital in the sense of patents. There is a

little more to intellectual capital than simply patents. It is the sum total of processes and procedures that are embedded into the business model of a company that marks an outstanding company from its mediocre counterparts, many of these processes and procedures may be operated by the outsourcing partners. Even this type of intellectual capital is to be recognized and attempts made that it is enhanced over a period of time rather than letting it deteriorate. Closely linked to it is Human Capital. There was a time in the beginning of Industrial Revolution when financial capital was most important for a company because other factors of production viz. land and labour were considered as a commodity. Labour was surplus and was unskilled. One pair of hands was as good as another. If on labourer fell sick or died, another quickly replaced him. Learning at the job just took a couple of hours at the most. It is the other way round these days. It is the finance that has become a commodity. You can get it from anywhere in the world at the click of a mouse. At the very worst, you might have to pay a few basis points more. On the other hand, it is often impossible to fully replace a creative and knowledgeable employee. Companies like Google are entirely dependent on the skill and creativity of their employees. Human capital, therefore, needs to be recognized and accounted for.

No company can exist in a vacuum. It is a part of the society and uses inputs put in by the society. For example, a software company does employ engineers trained by the local engineering colleges. If it neglects to help these colleges to upgrade themselves, it will lose out on the quality of future recruits. On a broader scale, a company can operate only till such time as the society gives it the license to operate. The day, the company loses that goodwill, its days are numbered. Therefore, it is necessary to also account for Social and Relationships, like we do for other types of capital.

Last, but absolutely not the least, is the natural capital that a company uses. Every business uses air and water though it might not always be obvious. It is not only the power plants that use enormous quantities of water. Integrated chip manufacturing involves unbelievably large quantities of water. There was a time it was considered kosher to abuse the environment thinking that only the future generations will pay for it. It is no longer true. The

environmental balance has reached such a delicate stage that the environmental debts are to be paid here and now.

IIRC has provided a very detailed reporting framework for Integrated Reporting (IR). The most important element of IR is its strategic focus and future orientation. It requires the companies to tell about opportunities, risks and dependencies flowing from market position and business model. It requires them to tell about availability, quality and affordability of various capitals. The companies are warned to avoid boilerplate disclosure because unlike usual reporting, here we are reporting an uncertain future and not a definite past.

The information in the IR framework entails both quantitative and qualitative aspects. It is, therefore, so vast that without a focus on connectivity of information IR will become a jumble of unconnected facts. IIRC encourages the companies to tell the comprehensive value creation story with reference to external environment, governance, opportunities and risks, strategy and resource allocation, business model and performance, and future outlook. The idea is to tell how a user can understand the future of the company. The most important element of connectivity is how each kind of information connects to financial information.

Conclusion

The reason why I have described the IR framework in such great detail is not to advocate or suggest mandating it. Looking at the history of supply outsourcing, it is obvious that over the last couple of decades, attempts have been made to capture more and more aspects of businesses so that companies are able to concentrate on their core business and handle resource allocation function efficiently while keeping the possible risks within sight. In absence of a reliable measuring system, mis-allocations drive the companies to near catastrophic situations. There is a strong need to be aware how important it is that accounting should incorporate all the societal concerns.

I again thank the DSIMS for organizing this wonderful conference on a topical issue of outsourcing strategy.

Key note speech by Mr. Raj Thaker, Managing Director, V2Solutions on Outsourcing - Turning World Into A Global Village



I am thankful to Durgadevi Saraf Institute of Management Studies to invite me to the conference on Outsourcing to give key note address on the topic which is close to my heart. As an entrepreneur, I would like to share my experiences both good and bad in dealing with outsourcing in my IT ventures.

As we know it undergoes cyclic changes every decade. It has evolved from a pure skill-based need that addresses supply - demand equations to the medieval cost arbitrage to the recent Solution based approaches to the current driven by miniaturization, mobility, social & analytical aspects that have fundamentally shrunk the world to be a very small place. In this presentation, I am giving a gist of how I used outsourcing in a big way to my company's advantage in my life as a serial entrepreneur.

Why do Companies outsource?

“Outsourcing controls capital costs, increases efficiency, allows you to focus on core business issues and reduces risk..”. The main reasons are-

1. Focus on core processes
2. Reduce operating costs
3. Access to expertise
4. Saving valuable managerial time
5. Reduce time to market
6. Risk sharing

While this is the case, the outsourcing industry is wrought with very serious issues. Out of the big chunk of the projects that fail, more than 60% failure is attributed to ‘communication issues’ which translate to poor scope management, requirements analysis. In fact lack of expertise or technical or technology knowledge figures way down in the list of identified reasons. These can be summarized in-

1. Loss of Managerial control,
2. Quality problems,
3. Hidden costs,
4. Data security threat and
5. Bad publicity & ill-will back home (origin country of outsourcing)

In spite of these teething problems, there are many multi-nationals that are known for their engineering, design & quality have setup extension shops in India. Some notable mentions are Motorola, Google, Apple, Microsoft, etc. This is because outsourcing is

by itself not bad, but it solves some very fundamental business problems that plague companies. As we progress into the 21st century, it is even more imperative to be ahead in the curve on-Speed of execution, Efficiency, Quality output, Customer satisfaction, Reduce costs. In fact it is mandatory to focus on the above to stay relevant & be ahead in the race.

I myself stand testimony to how outsourcing can fundamentally help companies reinvent themselves and re-position to garner maximum advantage from this ecosystem consisting of complementary expertise. From my early days as a trader of agricultural products, I leveraged outsourcing to stay focused on my core activities around procuring & identifying cheaper producers and outsourced the rest. With the learning from this industry, I moved on to co-found an ecommerce product company that was one of the firsts to ship items between India & US way back around 2000. After a very successful sell out exit to India's premier internet company that was NASDAQ listed, I moved on to co-start a technology services company that I currently managing.

Outsourcing has gone through major disruptions with the Innovation era and it now stands tall uniting the entire world as a market place. Some of the disruptions include-Everything-as-a-Service (EAAS), Automated Self-service platforms, Co-creation, Crowdsourcing, etc.

Conclusion

Finally, I would like end my presentation by saying that India is at a cusp and needs to pivot somehow in this global competition. While there is government's thrust on “Make in India”, I would like to append “Make India Better” which I believe will automatically take care of many aspects to achieve the primary goal. This will obviously result in various things like-

- Availability of qualified resources
- Lateral knowledge skills
- Enthusiastic and young population
- Economy on the growth path
- Strong and ethical entrepreneurs
- Better tax structures and tax holidays
- Cost and Quality arbitrage

I would like to take this opportunity to wish the best to Durgadevi Saraf Institute of Management Studies and all the student community who will be taking the mantle to make India realize her wish to be a premier business hub.

COMPARING LINE AND HR MANAGERS PERCEPTIONS OF HUMAN RESOURCE OUTSOURCING

RAVINDRA DEY*

Professor and Head of Organizational Behavior Xavier Institute of Management and Research, Mumbai

Abstract:

Complexity of globalized market placed today cannot be ignored and businesses are facing more challenges regardless of its size, sector and level. They need to continuously improve, innovate, grow and survive in the competitive market. One of the ways businesses are surviving and growing is by using outsourcing as one of the options to meet the challenges of the competitive business. Outsourcing signifies the use of professional expertise from outside the organization and thus creates value. Human Resource outsourcing is also gaining importance and the scope of outsourced HR is expanding at a rapid pace. It has its advantages such as cost savings, however it comes with issues related to confidentiality and ethics.

This paper compares Line and HR managers' perception of Human Resource Outsourcing (HRO) activities. It tries to find out opinions of Line and HR managers about outsourcing of activities related to Human Resources. Survey responses from 58 line managers and 41 HR managers from various organizations indicate some distinct perception among the different set of managers about which areas of HR activities should be outsourced. Also it takes views from both sets of managers regarding pros and cons of outsourcing HR activities. Implications are thereby discussed.

Keywords:

Human resource outsourcing, HRO, HR activities, Line managers, HR managers

1. Introduction

According to Greaver (1999), outsourcing is the act of transferring some of the organisation's recurring internal activities and decision rights to outside providers as set forth in a contract. This act of outsourcing helps an organization focus on its core expertise like IT, health, sales, etc. while letting a third party manage the other peripheral services like

data entry, employee database, housekeeping, customer service and so on. It acts as an important factor as it helps an organisation achieve its strategic objectives.

While various business activities are being outsourced by different organisations, there is a growing trend for Human Resource Outsourcing. According to the Managing Director of Capita HR Solutions, Wayne Story, "HR outsourcing is on every HR Director's list of things to do. It has to be driven by the business case though – the right partner, at the right time, for the right reasons." Human Resource Outsourcing helps to focus on the core HR activities while the noncore activities like payroll, benefits administration, background checks, recruiting and training are being outsourced. Outsourcing has become an integral part in today's corporate landscape. Nearly companies of all sizes find themselves outsourcing some or all of their HR functions.

Today, HRO companies have expanded to comprise all HR functions, becoming one-stop shops for companies looking to outsource any and all of their HR responsibilities. According to Subba Rao (2006), HRO has grown into a larger beast than just being a service bureau and providing a limited number of services. Companies want HR departments to become strategic partners in the business and not be burdened with administrative tasks. They wish to streamline those departments with total Human Resource Outsourcing - taking nearly all administrative functions out of them. Thus, a majority of the staff can focus on HR strategies, human resource planning, retention, succession planning and other such major HR activities.

According to a study made by Seth and Sethi (2011), there are various reasons why companies go for Human Resource Outsourcing. These include:

- Cost reduction
- Profitability
- Improve productivity
- Accelerate expansion

- A stronger career path for employees
- Professional expertise

While Human Resource Outsourcing provides the above benefits, it has its own disadvantages like:

- Considerable care in coordinating the information flow with the outside agency
- Compromising the organisation's control over the functions that are outsourced
- Job insecurity
- Quality of work done by the outside agency

As outsourcing is not an answer to every problem, care needs to be taken in making outsourcing decisions as they are crucial to an organization. While outsourcing helps to gain a competitive advantage in this competitive environment, Human Resource Outsourcing should be well-planned approaches that will help an organisation achieve its strategic objectives.

2. Literature Review

While most of the companies prefer outsourcing some business activity or the other, a recent trend is the growth of Human Resource Outsourcing. The changing business environmental conditions are causing the HR department to focus more on the core activities than the non-core activities. While the distinguish between the core and the non-core HR activities is still debatable, Finn (1999) suggests that a basic distinction between these two can be made. Core activities are known to include HR policies, top-level strategy and line management responsibilities and the non-core activities include routine personnel administration, specialist activities and professional HR advice. This has been taken a step further by Dave Ulrich (1998) by suggesting that core activities include transformational work and non-core activities include transactional work. The transformational work helps to create a unique value for employees, customers and investors while the transactional work are standard and routine based which can be easily duplicated and replicated. Focusing on the core HR activities is the strategic role that an HR professional is called to play in today's competitive environment. This can be related to Dave Ulrich's HR model (1998) which focuses on the four major roles of HR which includes the role of a strategic

partner, change agent, administrative expert and employee champion. Outsourcing one or few of the non-core activities helps to focus more on the strategic activities which are crucial to an organization. Focusing more on the strategic activities acts gives an organization a competitive advantage. It also helps to overcome one of the major challenges faced by the HR department i.e. talent retention and also help in improving the productivity of the employees.

There are a number of reasons why companies are going for outsourcing. Some of which include increased productivity, profitability, quality, growth and to improve company focus. But another dimension also observed by Turnbull (2002) is the finance driven idea that views Human Resource Outsourcing as an activity that helps to save a lot of money. While it provides the necessary benefits to an organisation, Human Resource Outsourcing will be beneficial only on the selection of the right vendor. Poor selection of vendor leads to poor outsourcing which thereby leads to poor quality of service. Various factors need to be considered for this selection which includes reputation, organizational fit and degrees of experience. Cost of the vendor should not be the only criteria for selection as this selection stands as a crucial decision for the company. According to Miller (2009), careful selection of an outsourcing firm, in order to find one that offers solutions that fit the needs and the culture of the organisation is critical to outsourcing success.

Besides the selection of an appropriate vendor, maintaining a positive relationship with the outsourcing firm is also important. Caruth and Caruth (2010) suggest that open communication channels help build and solidify the relationship between the company and the outsourcing firm. A positive relationship requires a two way communication and a good communication helps to prevent the occurrence of problems. Outsourcing is viewed as a long term solution instead of a short term one. And this requires commitment from both the parties i.e. the organisation as well as the outsourcing firm. Therefore, there exists a need to maintain a good relationship between the two parties.

Poor outsourcing can also result from the HR activities that are being outsourced. Therefore,

determining which activities should be outsourced is an important decision. And in making this decision, organisations need to consider its impact on the organisation's performance. According to a study made by the Bureau of National Affairs (2007), the five most commonly outsourced HR activities include employee assistance/counselling, pension/retirement plans, other employee benefits (health, medical, life insurance, cafeteria, etc), training and payroll. While most of the companies outsource at least one HR activity, the number of activities to be outsourced totally lies with the organisation. Also, there is a need to understand when an organisation should go for outsourcing and when it should not. According to the study made by Seth and Sethi (2011), an organisation should be comfortable letting a third party handle its HR functions. Also in the absence of the adequate resources and HR representatives to manage the HR needs should an organisation consider outsourcing?

3. Objective of the study

The objective of this study is to understand the relationship between the perception of the Line Managers and HR Managers on Human Resource Outsourcing on the following aspects:

1. Why organizations would not prefer to go for HRO?
2. Why organizations would prefer to go for HRO?
3. Which of the HR activities can be outsourced?

4. Problem Statement

As it appears from the literature review, one of the most powerful tools in HRM is Human Resource Outsourcing although HR activities have been traditionally performed in-house. It is observed that HR Outsourcing is usually opted for because of the cost advantages it offers along with the HR expertise so as to be able to ease the amount of pressure on the HR department in the organisation. It would be interesting to examine the factors the HR Managers or Line Managers base their decisions upon while deciding whether to outsource or not. Companies may after all choose to outsource non-strategic HR practices in order to direct internal policies more at value-added activities, stressing the strategic role of the in-house HR function. In view of the distinction between strategic (core) and non-strategic (non-

core) HR practices, the question which type of HR activities are most likely to be outsourced will be highlighted in the study.

5. Hypothesis

The hypothesis of our research is as follows:

Ho1: There is no significant association in the perception between the line managers and HR managers with respect to why organization would not prefer to go for HRO.

Ho2: There is no significant association in the perception between the line managers and HR managers with respect to why organization would prefer to go for HRO.

Ho3: There is no significant association in the perception between the line managers and HR managers with respect to which of the HR activities can be outsourced.

6. Research

The research methodology included a closed ended questionnaire, whereby the researcher provided the respondents with a hard copy of the questionnaire. The respondents had to answer the questionnaire individually providing details of their work and organisation. The questionnaire comprised of four main questions, which were the basis of this research. It was an objective questionnaire with no room for subjective answers.

6.1. Primary Data

The primary data was collected using convenient random sampling. However, these respondents were residents of the city of Mumbai.

6.2. Sample Size

There were 99 respondents in total, which comprised of 58 Line Managers and 41 HR Managers.

6.3. Sample Design

The research is based on convenient random sampling technique considering the type of study. Only those middle managers who had an inclination to the study were covered.

6.4. Secondary Data

Secondary data was collected through various research papers, journals, magazines, books and internet primarily focussing on the subject.

6.5. Research Instruments

A closed ended questionnaire with multiple choices was used. To understand the background of the respondents, they were asked to fill in their details like age, gender, name of the organisation, the size of the organization, their functional area and the position they worked in.

6.6. Reliability & Validity of the Study

To check the content validity of the questionnaire, various HR heads from different organization were contacted and the components of the questionnaire were modified as per their suggestions. Cronbach's Alpha Reliability Index was used to evaluate internal consistency of each construct. A minimum of 0.5 is considered as satisfactory level during the early stage of any research and a score of over 0.7 is considered to be a good level. The reliability for this sample was found to be 0.794 which indicates a high level of consistency for the scale. Refer to Table 1a and 1b for further details of Reliability of the Data.

6.7. Logical Analysis

Effective and efficient data analysis is the result of effective data preparation. This was found to be very crucial between the completion of the fieldwork and the statistical processing of the collected data. Data preparation involved transferring the questionnaire into an electronic format, which permitted and enabled data processing. Microsoft Excel was used to compile the data. This data were further used using Statistical Program for Social Sciences (SPSS) software for further analysis and interpretation.

4. Result and Discussion Issues

The basic objective of the study is to understand the relationship between the perception of the Line Managers and HR Managers on Human Resource Outsourcing on the following aspects:

1. Why organizations would not prefer to go for HRO?
2. Why organizations would prefer to go for HRO?
3. Which of the HR activities can be outsourced?

Each aspect had 10 options to choose by the respondents. Therefore there were 30 different items for the 3 broad level questions. A series of chi-square test was carried out to assess the differences in perception of the line managers and HR managers for each of these 30 items. The analysis of the same are

discussed below.

7.1 Reasons for why organizations would not prefer to go for outsourcing?

Table 2a consists of the comparison of mean scores for the question why organizations would not like to go for HRO, between overall, Line Managers and HR Managers responses. The mean scores does not indicate a significant difference as far as the rankings are concerned. The top 5 options and bottom 5 options is almost the same for both the categories of people i.e. Line managers and HR managers. Therefore chi square test was carried out to find out the significant difference between the different items. It was observed that 3 items for this aspect, the p value was below .05 which means the null hypothesis for these 3 items were rejected. Refer to Table 3a for more details. The alternate hypothesis for the following 3 items were accepted which indicated that there is a significant association between the following items:

- Outsourcing would be too expensive
- Negatively it would affect the company culture
- It will not be able to achieve cost saving measures

When we refer to the mean scores of the line managers and HR managers, we could observe that line managers believe that HRO would be cost effective and also it would not affect the company culture in any ways.

7.2 Reasons for why organizations would prefer to go for outsourcing?

Table 2b consists of the comparison of mean scores for the question why organizations would like to go for HRO, between overall, Line Managers and HR Managers responses. The mean scores ranking indicates that there is a difference in terms of agreement for the items related to this aspect. To find out more and know which items had a significant difference a chi-square test was carried out between the different items of this aspect. It was observed that 6 items for this aspect, the p value was below .05 which means the null hypothesis for these 6 items were rejected. Refer to Table 3b for more details. The alternate hypothesis for the following 6 items were accepted which indicated that there is a significant association between the following items:

- Organization would get a cost advantage
- HRO will improve the overall quality within the organization
- HRO will help the organization to cope up with the increasing competition
- HRO will improve operational capabilities
- HRO will solve problems creatively
- HRO would bring change in the organization

When we refer to the mean scores of the line managers and HR managers, we could observe that the HR managers are more optimistic about why organizations should go for outsourcing. The scores of HR managers are higher than the line managers when it comes to reasons why organizations should go for Human Resource outsourcing.

7.3 Which of the HR activities can be outsourced?

Table 2c consists of the comparison of mean scores for the question which of the HR functions can be outsourced, between overall, Line Managers and HR Managers responses. The mean scores does not indicate a significant difference as far as the rankings are concerned. There is a uniformity in terms of responses for which items should be most preferred when it comes to outsourcing of various HR activities. There is also a pattern being observed that the transactional activities as defined by Dave Ulrich (1998) such as Temporary staffing, HRIS, Payroll processing and Recruitment are being the most obvious choice for outsourcing compared to the transformational activities such as HR Strategy, OD and Performance Assessment. However to find out more and know which specific items for this aspect had a significant difference a chi-square test was carried out between the different items of this aspect. The p value was found to be less than .05 in all the items except Training and Development. Refer to Table 3c for more details. Therefore the null hypothesis for 9 items have been rejected and it has been found that there is a significant association in the following items:

- Temporary Staffing
- HRIS
- Payroll & Compensation
- Recruitment
- Employee Welfare and Benefits
- Employee / Labour relations
- Organization Development
- Performance Assessment
- HR Strategy

It signifies that there is a significant association in the perception of both line managers and HR managers when it comes to which of the HR activities needs to be outsourced.

8. Limitations/future scope

A limitation of the research was the relatively small sample size. The research was confined to the city of Mumbai. Therefore, it would be interesting to find whether there would be a difference of opinion if the data would have been collected from the other parts of the country. Future research could be carried out to either confirm the findings to a greater extent and to check if the conclusions obtained hold true as the

sample size increases.

9. Conclusion

Based on the study it can be concluded that cost advantage still remains an important aspect of outsourcing of HR activities. The Line Managers and HR Managers fear that outsourcing HR activities may make them lose control over the HR department as a whole and also lose face to face contact with the employees. The Line Managers and HR Managers agree that amongst the functions that can be outsourced, Temporary Staffing, HRIS and processing of Payroll whereas transformational and strategic activities like HR Strategy, Performance Assessment and OD should be carried out internally by the HR Department.

10. Managerial implications and recommendations

While Human Resource Outsourcing is commonly practiced worldwide, it is also gaining importance in India and the scope of outsourced HR activities is expanding. In India, Human Resource Outsourcing is not only being considered by the multinational companies but also the public sector and government undertakings. Also, a lot of the foreign companies are outsourcing their activities to India. The possible factors that could hamper the growth of Human Resource Outsourcing in India include confidentiality, cost factors, fear of losing jobs and the quality of outsourcing vendors. But with the increasing competition, the pressure lies on the outsourcing firms to match the expectations of the companies. Both the line and HR managers need to work together and focus on the Strategic and Business growth aspect of the organization. HRO should give the organizations a competitive advantage rather than HRO being seen only as a cost saving measure.

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Appendix

Table 1a: Reliability of the Data

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.794	.791	30

Table 1b: Reliability of the item-wise Data

Item – Total Statistics

Item No.	Items	Cronbach's Alpha
1	Organization would not want to lose control of HR function	.780
2	Organization would not like to loose face-to-face contact with employees	.787
3	Data security risk	.788
4	Negatively it would affect the company culture	.793
5	Outsourcing would be too expensive	.789
6	Negatively it would affect customer service	.784
7	It will not be able to achieve cost savings measure	.784
8	Resistance within employees in general	.793
9	Had a bad experience with outsourcing	.798
10	Resistance within Senior management	.795
11	Organization would get a cost advantage	.777
12	It will improve the overall quality within the organization	.782
13	It will help organization to cope up with the increasing competition	.782
14	It will improve operational capabilities	.787
15	It will ease / relieve some amount of HR pressure	.789
16	It will solve problems creatively	.783
17	It would bring change in the organization	.788
18	Organization would have access to expertise knowledge and skills	.795
19	It would help manage organization better the demand and supply or manpower	.797
20	Organization would have better assess to new technologies	.803
21	Temporary Staffing	.788
22	HRIS	.772
23	Payroll & Compensation	.790
24	Recruitment	.781
25	Training and Development	.795
26	Employee Welfare and Benefits	.785
27	Employee / Labour relations	.784
28	Organization Development	.782
29	Performance Assessment	.787
30	HR Strategy	.794

Table 2a: Overall Comparison of the mean scores

Why organizations would not prefer to go for outsourcing?	N	Mean	Std. Deviation	Overall Mean N=99	Overall Std. Deviation N=99	Overall Rank N=99	Line Mgr Rank N=58	HR Mgr Rank N=41																																																																																																						
Organization would not want to lose control of HR function	Line	.62	.489	.69	.466	2	2	1																																																																																																						
	HR	.78	.419						Organization would not like to lose face-to-face contact with employees	Line	.59	.497	.65	.480	3	3	2	HR	.73	.449	Data security risk	Line	.76	.432	.74	.442	1	1	3	HR	.71	.461	Negatively it would affect the company culture	Line	.55	.502	.58	.497	4	4	4	HR	.61	.494	Outsourcing would be too expensive	Line	.34	.479	.43	.498	5	5	5	HR	.56	.502	Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6	HR	.51	.506	It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350
Organization would not like to lose face-to-face contact with employees	Line	.59	.497	.65	.480	3	3	2																																																																																																						
	HR	.73	.449						Data security risk	Line	.76	.432	.74	.442	1	1	3	HR	.71	.461	Negatively it would affect the company culture	Line	.55	.502	.58	.497	4	4	4	HR	.61	.494	Outsourcing would be too expensive	Line	.34	.479	.43	.498	5	5	5	HR	.56	.502	Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6	HR	.51	.506	It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358						
Data security risk	Line	.76	.432	.74	.442	1	1	3																																																																																																						
	HR	.71	.461						Negatively it would affect the company culture	Line	.55	.502	.58	.497	4	4	4	HR	.61	.494	Outsourcing would be too expensive	Line	.34	.479	.43	.498	5	5	5	HR	.56	.502	Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6	HR	.51	.506	It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																		
Negatively it would affect the company culture	Line	.55	.502	.58	.497	4	4	4																																																																																																						
	HR	.61	.494						Outsourcing would be too expensive	Line	.34	.479	.43	.498	5	5	5	HR	.56	.502	Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6	HR	.51	.506	It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																														
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	HR	.56	.502						Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6	HR	.51	.506	It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																																										
Negatively it would affect customer service	Line	.14	.348	.29	.457	7	8	6																																																																																																						
	HR	.51	.506						It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7	HR	.44	.502	Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																																																						
It will not be able to achieve cost savings measure	Line	.21	.409	.30	.462	6	7	7																																																																																																						
	HR	.44	.502						Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8	HR	.29	.461	Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																																																																		
Resistance within employees in general	Line	.28	.451	.28	.453	8	6	8																																																																																																						
	HR	.29	.461						Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9	HR	.24	.435	Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																																																																														
Had a bad experience with outsourcing	Line	.14	.348	.18	.388	9	9	9																																																																																																						
	HR	.24	.435						Resistance within Senior management	Line	.14	.348	.14	.350	10	10	10	HR	.15	.358																																																																																										
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	HR	.15	.358																																																																																																											

Table 2b: Overall Comparison of the mean scores

Why organizations would prefer to go for outsourcing?	N	Mean	Std. Deviation	Overall Mean N=99	Overall Std. Deviation N=99	Overall Rank N=99	Line Mgr Rank N=58	HR Mgr Rank N=41
Organization would get a cost advantage	Line	.38	.489	.56	.499	1	3	1
	HR	.80	.401					
It will improve the overall quality within the organization	Line	.24	.432	.44	.499	4	7	2
	HR	.73	.449					
It will help organization to cope up with the increasing competition	Line	.10	.307	.34	.477	6	10	3
	HR	.68	.471					
It will improve operational capabilities	Line	.24	.432	.42	.497	5	6	4
	HR	.68	.471					
It will ease / relieve some amount of HR pressure	Line	.48	.504	.55	.500	2	2	5
	HR	.63	.488					
It will solve problems creatively	Line	.10	.307	.28	.453	10	9	6
	HR	.54	.505					
It would bring change in the organization	Line	.21	.409	.32	.470	8	8	7
	HR	.49	.506					
Organization would have access to expertise knowledge and skills	Line	.48	.504	.46	.501	3	1	8
	HR	.44	.502					
It would help manage organization better the demand and supply or manpower	Line	.34	.479	.33	.474	7	5	9
	HR	.32	.471					
Organization would have better assess to new technologies	Line	.34	.479	.30	.462	9	4	10
	HR	.24	.435					

Table 2c: Overall Comparison of the mean scores

Which HR activities to be outsourced?	N	Mean	Std. Deviation	Overall Mean N=99	Overall Std. Deviation N=99	Overall Rank N=99	Line Mgr Rank N=58	HR Mgr Rank N=41
Temporary Staffing	Line	.69	.467	.76	.431	1	1	1
	HR	.85	.358					
HRIS	Line	.10	.307	.38	.489	5	6	2
	HR	.78	.419					
Payroll & Compensation	Line	.34	.479	.48	.502	4	4	3
	HR	.68	.471					
Recruitment	Line	.41	.497	.54	.501	3	3	4
	HR	.71	.461					
Training and Development	Line	.52	.504	.57	.498	2	2	5
	HR	.63	.488					
Employee Welfare and Benefits	Line	.21	.409	.34	.477	6	5	6
	HR	.54	.505					
Employee / Labour relations	Line	.07	.256	.24	.431	7	7	7
	HR	.49	.506					
Organization Development	Line	0.00	0.000	.18	.388	8	9	8
	HR	.44	.502					
Performance Assessment	Line	0.00	0.000	.15	.360	9	10	9
	HR	.37	.488					
HR Strategy	Line	.07	.256	.14	.350	10	8	10
	HR	.24	.435					

Table 3a: Chi-Square Tests

	Why organizations would not prefer to go for outsourcing?	Value	df	Asymp. Sig. (2-sided)	N of Valid Cases
H1a	Organization would not want to lose control of HR function	2.852 ^a	1	.091	99
H1b	Organization would not like to loose face-to-face contact with employees	2.225 ^a	1	.136	99
H1c	Data security risk	.326 ^a	1	.568	99
H1d	Negatively it would affect the company culture	.331 ^a	1	.565	99
H1e	Outsourcing would be too expensive	4.568 ^a	1	.033	99
H1f	Negatively it would affect customer service	16.245 ^a	1	.000	99
H1g	It will not be able to achieve cost savings measure	6.128 ^a	1	.013	99
H1h	Resistance within employees in general	.034 ^a	1	.855	99
H1i	Had a bad experience with outsourcing	1.813 ^a	1	.178	99
H1j	Resistance within Senior management	.014 ^a	1	.906	99

Table 3b: Chi-Square Tests

	Why organizations would prefer to go for outsourcing?	Value	df	Asymp. Sig. (2-sided)	N of Valid Cases
H2a	Organization would get a cost advantage	17.619 ^a	1	.000	99
H2b	It will improve the overall quality within the organization	23.389 ^a	1	.000	99
H2c	It will help organization to cope up with the increasing competition	35.771 ^a	1	.000	99
H2d	It will improve operational capabilities	19.172 ^a	1	.000	99
H2e	It will ease / relieve some amount of HR pressure	2.220 ^a	1	.136	99
H2f	It will solve problems creatively	22.217 ^a	1	.000	99
H2g	It would bring change in the organization	8.665 ^a	1	.003	99
H2h	Organization would have access to expertise knowledge and skills	.185 ^a	1	.667	99
H2i	It would help manage organization better the demand and supply or manpower	.083 ^a	1	.773	99
H2j	Organization would have better assess to new technologies	1.158 ^a	1	.282	99

Table 3c: Chi-Square Tests

	Which HR activities to be outsourced?	Value	df	Asymp. Sig. (2-sided)	N of Valid Cases
H3a	Temporary Staffing	3.518 ^a	1	.061	99
H3b	HRIS	46.554 ^a	1	.000	99
H3c	Payroll & Compensation	10.993 ^a	1	.001	99
H3d	Recruitment	8.320 ^a	1	.004	99
H3e	Training and Development	1.336 ^a	1	.248	99
H3f	Employee Welfare and Benefits	11.579 ^a	1	.001	99
H3g	Employee / Labour relations	22.944 ^a	1	.000	99
H3h	Organization Development	31.122 ^a	1	.000	99
H3i	Performance Assessment	25.009 ^a	1	.000	99
H3j	HR Strategy	6.054 ^a	1	.014	99

OUTSOURCING - STRATEGIC STAFFING IN THE IT INDUSTRY

Kishore Manelkar

Co-Founder, Promoter and Director, T&M Services Consulting Pvt. Ltd.

Abstract :

The IT industry contributes to almost 7 % of the Indian economy and growing strong. Most of the business comes from exports (mainly from the US markets). This industry runs because of the vast knowledge capital of the Indian population. Hence people or manpower are the main drivers in this service related software sector. Owing to different business domains and wide spread / changing technologies, it is very difficult to manage and maintain a large workforce. Hence these companies have their workforce on Contract or on Fulltime Employment basis.

Over the last 15 years, there has been 2 slowdowns witnessed by this industry and hence it is important to have a Strategic Staffing Mix (SSM) to ensure flexibility, scalability and to buffer slowdown risks.

My research would focus on creating a SSM model for this industry. This proposal has been submitted to the Mumbai University (with some changes).

Keywords :

IT sector, Strategic Staffing Mix (SSM), Workforce Contract, Service Outsourcing

1.0 Introduction :

IT is used in almost in all business verticals however the extent of use to their business may vary. Loh and Venkatraman (1992) found no difference in IT outsourcing levels between firms in manufacturing industries versus service industries. Similarly, Sobol and Apte (1995) study shows that the difference between these types of firms is not significant with respect to both domestic and global IT outsourcing levels. However, contrary to the above findings, Han, Kauffman and Nault (2006) reported that firms in service industries use IT outsourcing significantly more than firms in manufacturing industries.

Owing to the diversity of the IT projects across domains or business verticals, IT software companies need large numbers of qualified professionals or employees to execute these

projects. Schuler, Jackson, Tarique (2011), in their study have highlighted the Porter's Diamond model; specially the workforce (Factors endowment) area. The study mentions how the workforces around the world have expanded, both quantitatively and qualitatively. It also highlights that firms see that they are able to gain and sustain a global competitive advantage when they manage their workforces effectively (Porter, 1990; Gupta and Govindarajan, 2001; Bryan, 2010).

According to Arora and Athreye (2002), India's large English speaking and qualified population with comparatively low salaries, has given India the global edge over other developed and developing nations, in the IT Software domain. Thus, over the years, the Indian IT Software companies executing international projects have considerably grown. However, large companies have started looking beyond costs and geographies, while outsourcing to IT companies (Arora, Arunachalam, Asundi and Fernandes, 2001)

1.1 The Indian IT Industry and its impact on the Indian Economy & Services Sector

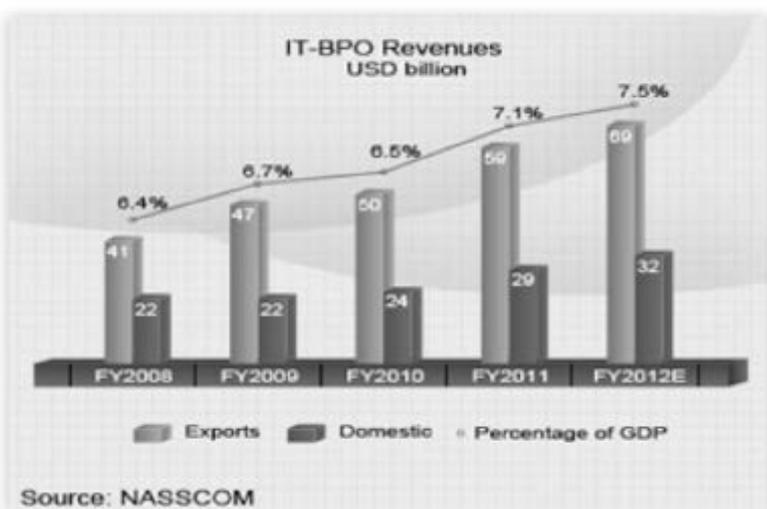
In 2011, the world GDP was at USD 70.2 trillion, out of which almost 67.5% constituted the Services Sector (i.e. USD 42.12 trillion). In India, the GDP in 2011 was at USD 1.8976 trillion out of which 58.2% came from the services sector.

As per NASSCOM, the estimated aggregate revenue for FY2012 for the Indian IT industry, was expected to cross USD 100 billion. Also, the aggregate IT software and services revenue (excluding hardware) was estimated at USD 88 billion (estimated growth of about 14.9 per cent over FY2011). Another landmark figure was that of the IT Exports, which was expected to reach the USD 69 billion mark. This means that 25% of India's Total Exports comes from the IT software Sector. Further, India is also expected to increase its market share, in global sourcing - from 51% to 59%. This clearly shows the pace and dominance of Indian IT and Software sector in the Indian economy.

Not only from the revenue perspective, the IT industry continues to be a net employment generator – and is expected to add 230,000 jobs in FY2012, thus providing direct employment to about 2.8 million, and indirectly employing 8.9 million people.

As a proportion of national GDP, the IT sector revenues have grown from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012.

Hence, this shows how important the IT industry is to the Indian Economy.



1.2 Share of IT Software Services exports in the IT Industry :

Over the years, Indian IT service offerings have evolved from application development and maintenance, to emerge as full service players providing testing services, infrastructure services, consulting and system integration.

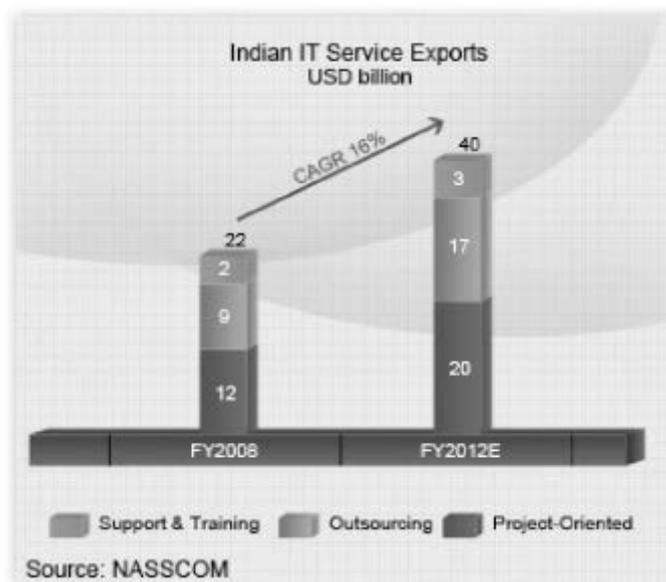
Source : <http://indiabudget.nic.in/es2012-13/echap-10.pdf> Accessed on 18-Nov-13

Source : <http://www.nasscom.in/indian-itbpo-industry> Accessed on 20-Nov-13

Source : <http://www.nasscom.in/indian-itbpo-industry> Accessed on 20-Nov-13

Source : Nasscom <http://www.nasscom.in/it-services> accessed on 20-11-2013

It was observed that, IT services exports is the fastest growing segment, growing by 19 per cent in FY2012, to account for exports of USD 40 billion.



1.3 Indian IT Software Exports and US markets :

The Total exports from India, in 2011, was at USD 225 billion out of which USD 47.6 billion from software services exports and Total exports at USD 300.60 billion in the year 2012 – 2013 out of which IT exports was at around USD 69 billion out of which almost 60% revenues are generated from US (almost \$42 billion i.e almost 4% of our Indian economy). This shows the dependency of Indian IT software and services companies in the US markets.

Hence for my research, I will have a special focus on the US markets.

Table 1: Software exports contribution from US markets:

Destination of Software Services Exports							
Activity	2010-11			2011-12			Annual Growth in (%)
	billion	US\$ billion*	Share (%)	billion	US\$ billion*	Share (%)	
	(1)	(2)	(3)	(4)	(5)	(6)	
USA & Canada	1410.4	30.9	65.0	1597.4	33.3	64.3	13.3
Europe	508.4	11.1	23.5	578.8	12.1	23.3	13.8
of which UK	325.4	7.1	15.0	355.3	7.4	14.3	9.2

Source : <http://www.nasscom.in/indian-itbpo-industry> Accessed on 20-Nov-13

Source : <http://pib.nic.in/newsite/erelease.aspx?relid=70041> accessed on 16-11-2013

Source : http://commerce.nic.in/pressrelease/pressrelease_detail.asp?id=3010 accessed on 16-11-2013

Source : <http://www.nasscom.in/indian-itbpo-industry> Accessed on 20-Nov-13

Source : http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=29029#T4 accessed on 16-11-2013

Destination of Software Services Exports							
Activity	2010-11			2011-12			Annual Growth in (%)
	billion	US\$ billion*	Share (%)	billion	US\$ billion*	Share (%)	
	(1)	(2)	(3)	(4)	(5)	(6)	
Asia	111.9	2.5	5.1	129.2	2.7	5.2	15.5
of which East Asia	87.4	1.9	4.0	99.4	2.1	4.0	13.7
West Asia	20.2	0.5	0.9	24.8	0.5	1.0	22.8
South Asia	4.3	0.1	0.2	5.0	0.1	0.2	16.3
Australia & New Zealand	59.3	1.3	2.7	87.0	1.8	3.5	46.7
Other countries	80.1	1.8	3.7	91.9	1.9	3.7	14.7
Total	2170.1	47.6	100.0	2484.3	51.8	100.0	14.5

* For footnote please refer to Table 2.

Source

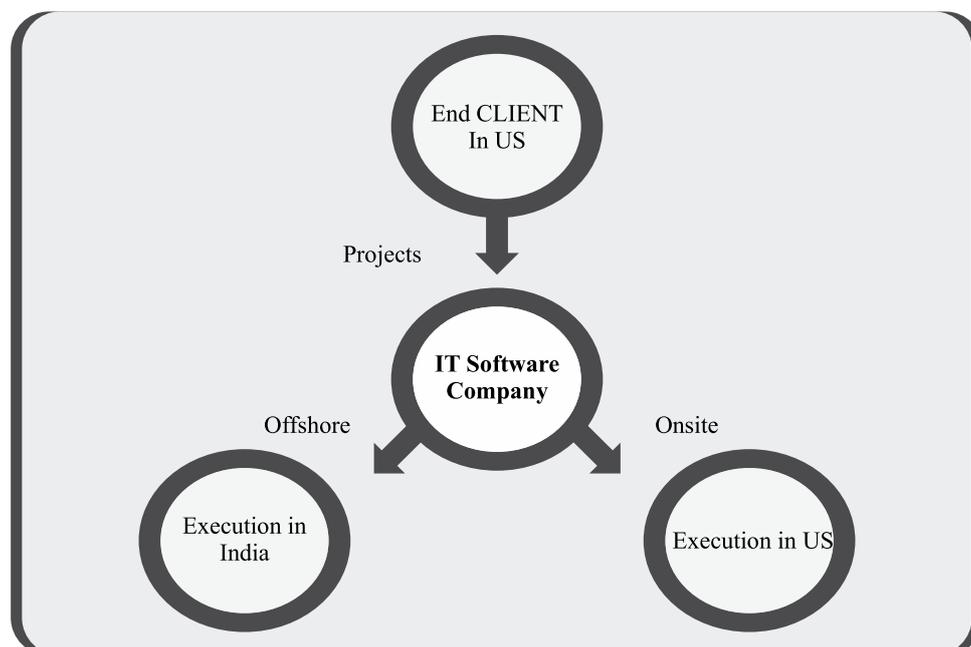
http://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=29029#T4

1.4 The IT Software companies business model having international (specific to US) projects :

It is interesting to see how the IT Software companies operate. The End client or the customers of the IT Software companies, evaluates and awards the projects (to the IT Software companies). The

same is executed “offshore” i.e. in India and “onsite” i.e. in USA (Aspray, Mayadas and Vardi, 2006).

According to Aspray, Mayadas and Vardi (2006), most of the software projects awarded to the IT software companies were executed “offshore” and a small part was done in the US. This resulted in a substantial amount of jobs moving out of US mostly to India and Indian companies being the beneficiaries of executing these projects.



There may be many types of projects which would be examined however, according to Aspray, Mayadas and Vardi (2006), there are at least six kinds of projects sent offshore related to software and information technology:

- (1) Programming, software testing, and software maintenance;
- (2) IT research and development;
- (3) High-end jobs such as software architecture, product design, project management, IT consulting, and business strategy;
- (4) Physical product manufacturing—semiconductors, computer components, computers;
- (5) business process outsourcing/IT Enabled Services—insurance claim processing, medical billing, accounting, bookkeeping, medical transcription, digitization of engineering drawings, desktop publishing, and high-end IT enabled services such as financial analysis and reading of X-rays; and
- (6) Call centers and telemarketing.

1.5 Recruitment and Hiring done by Indian IT software and services companies, having international projects (specific emphasis on US projects):

IT Software projects (being part of the service industry) totally depends on delivery of the projects - which is done by their people. Therefore, the most important resource in timely delivering projects is - manpower. Recruiting the right manpower ensures success of projects.

Deshmukh (2013), Price (2007) and Flippo (1979) have highlighted that Recruitment and selection process helps in searching for prospective employees and stimulating and encouraging them to apply for jobs in an organization.

Price (2007) also explains that the process of recruitment is not a simple selection process, it needs management decision making and broad planning in order to appoint the most appropriate manpower. Existing competition among business enterprises for recruiting the most potential workers in on the pathway towards creating innovations in hiring, with management decision making and employers attempting to hire only the best applicants who would be the best fit for the corporate culture and ethics specific to the company.

Schuler and Jackson (2005) and Bratton and Gold

(1999) study highlights the strategy and nature of recruitment and selection for a company is influenced by the state of the labour market and their strength within it. Furthermore, it is necessary for companies to monitor how the state of labour market connects with potential recruits, by becoming more dynamic in tapping the right workforce.

The work of Silzer (2010) highlights evolution of HR from Recruitment to Talent Management (whether internal or external), in tune with the current need.

1.6. Staffing pattern in the IT software Sector:

In the IT software sector, the projects awarded by Clients to the IT companies have to be executed using qualified technical professionals or employees. Spermann (2011) highlights that sources for staffing employees for companies are either “permanent” or regular employees or also known as Full Time Employees or our “marginal” or on a Temporary basis or hired through agencies / service providers.:

- Full Time Employment basis (FTE)- recruiting professionals on company payroll or
- On Temporary Staffing basis (on contractual basis)

The hired associates / employees are classified as billable and non-billable resources. The billable resources are those employees, who are attached to projects and are billed to the end-client. The non-billable resources are those resources who are :

- Bench staff (technical associates not deployed on projects) or
- Support staff (HR / Admin / Marketing who are not directly billable.

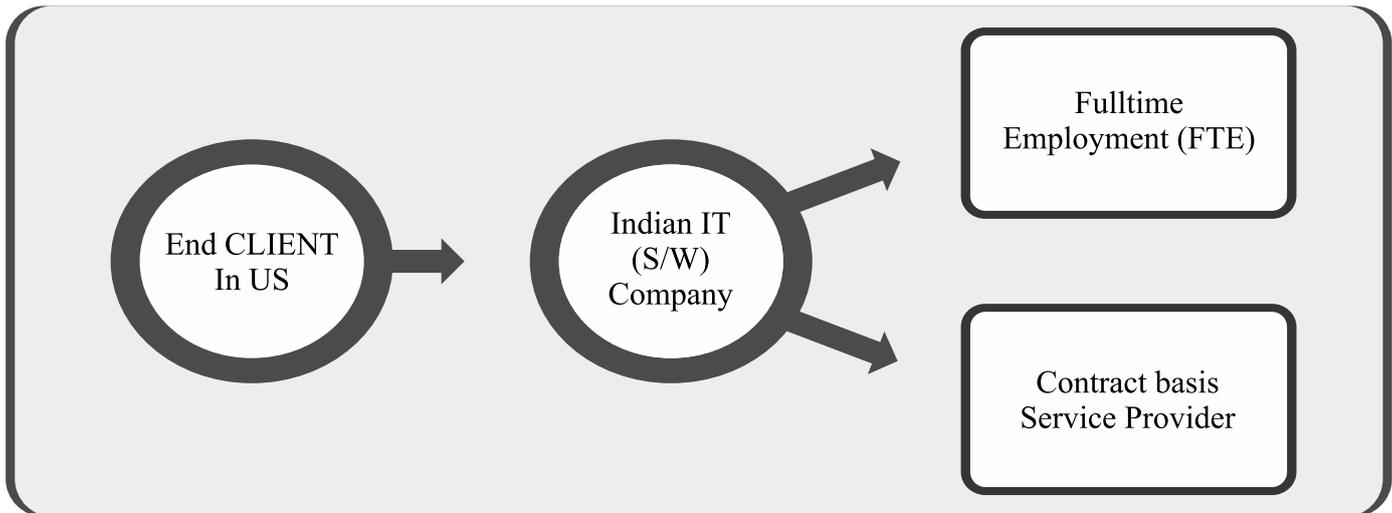
2.0 Definition of terms and concepts :

Peck, Theodore and Ward (2005 Pg 5) defined the evolution of Temporary Staffing as “The privileged normative and institutional status of the ‘standard’ job – relatively secure, full time, regulated by an open-ended contract of employment, often unionized and well paid – has been eroded, sometimes dramatically, just as the numerical weight of such jobs has declined by the sustained growth in a wide range of ‘non-standard’, flexible

and contingent jobs, many of which are part-time, temporary and/or insecure”.

Competitive and flexibility have paved the way for the growth of non-standard forms of work. The rise in part-time, temporary and agency work, along with labour subcontracting, explains how employers have been able to hire workers to do similar work on differentiated pay rates, working hours and conditions (Allen and Henry 1997; Benyon 2002;

2.1 The Project Staffing Model :



The Indian IT Software Company : The Indian IT Software companies take IT projects from the End Client (in US). The End Client could be from any business vertical (e.g. : Banking, Financial Services, Insurance, Engineering, Automotive, Pharma, Retail, FMCG, etc). The control of the project is with the Indian IT Software company and the projects taken, are typically based on (Rottman and Lacity, 2006):

- Fixed price basis (can be milestone/segment or activity based)
- Time and Material basis

Examples of Indian IT Software companies would be companies like TCS, Infosys, Cognizant, Wipro, etc.

End Client (in US) : The End Clients or Client companies would mean companies / organizations which award projects to IT Software companies, from any business vertical (e.g. : Banking, Financial Services, Insurance, Engineering, Automotive, Pharma, Retail, FMCG, etc). i.e. to illustrate, companies like Bank of America, JP Morgan, AIG,

Nolan 2004; Smith and Morton 2006).

Hiring options would therefore mean engaging manpower either on a regular employment (i.e. Fulltime Employment) basis, or through subcontractors / service providers by leasing their staff for a pre-defined period, or taking manpower on direct contract.

GE, Ford Motors, Pfizer, Walmart, Coca Cola, etc.

Most of the Indian IT companies have now started acquiring projects directly from leading End Clients which earlier were awarded only to large US IT majors like HP, IBM, etc.

This study would aim at highlighting the changing trends in the hiring pattern and the need to understand and study the preferences of Indian IT software companies, having US projects, towards both – Permanent Recruitment and Temporary staffing.

2.2 Strategic Staffing Mix (SSM)

To ensure better profitability, reducing costs, better delivery, the IT Software companies have to identify Strategic Staffing models which would be a right mix between Temporary Staffing and Full time employment staff, so as to reduce their Bench Staff, resulting in better profitability. It is observed that almost 70% of the total cost in software companies is related to manpower or labour cost (Arora and Athreye, 2002). This project would hence aim at identifying the factors which affect the right Staffing

strategy to improve organizational performance.

For this research, the strategic models or the right mix between Temporary Staffing and Full time employment would be referred as Strategic Staffing Mix or SSM.

$$SSM = \% \text{ of Temp Staff or Outsourced Staff} + \% \text{ Fulltime Employees}$$

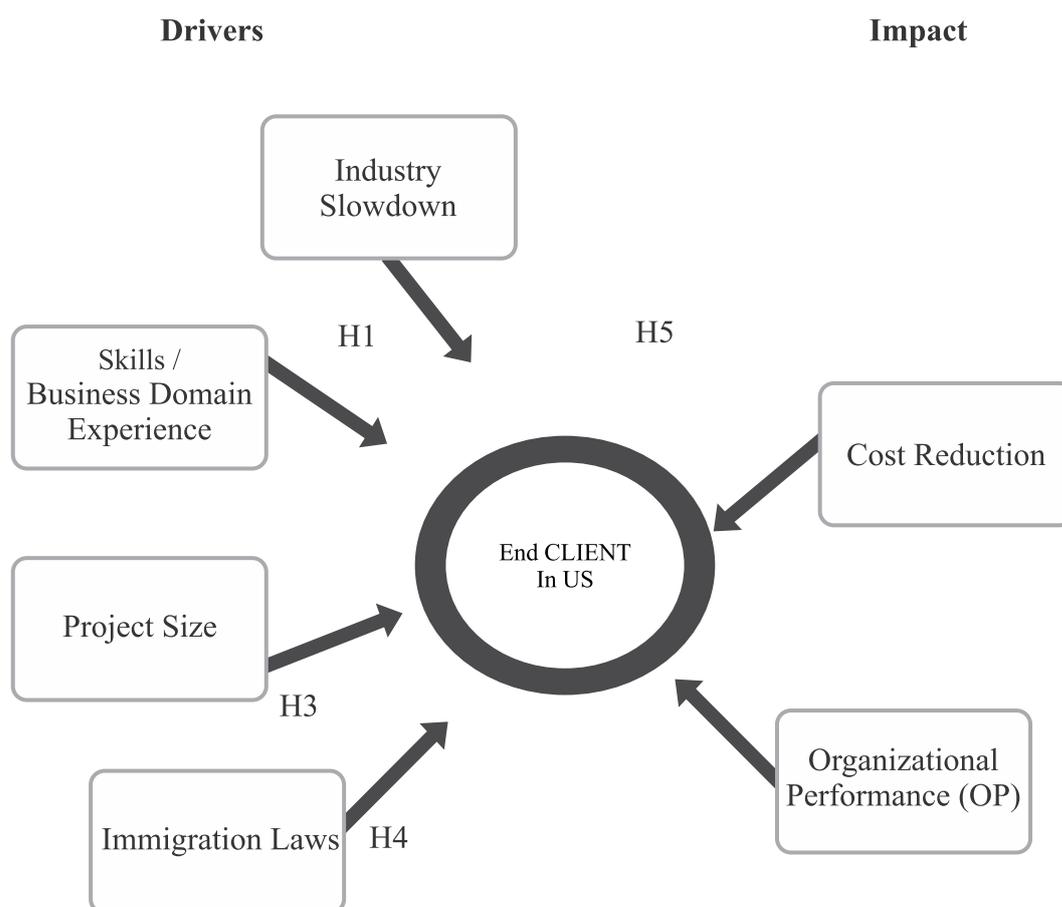
3. Research Objectives

Aim or Goal of this Research : To arrive at a best possible hiring strategies for IT Software companies (with focus on US markets), across their various business domains.

Based on the study and review of the related literature, the gaps were identified. From the gaps, the below Research objectives were framed.

- To help Indian IT Software companies fine tune their Recruitment or Hiring strategy (with respect to US markets) during the industry growth / slowdown.
- Analyze and help Indian IT Software companies to identify the right hiring strategies (with respect to Temporary Staffing or Regular hiring) based on skills, domain and experience.
- To assist in identifying the right mix (Temporary Staffing and Permanent employees) based on project sizes.
- To study the impact of immigration or Visa related restrictions (limiting to work permit visas) on the hiring strategy.
- Study the need for a SSM in lowering manpower Cost or improving the ROI.
- Study the impact of SSM on overall Organizational Performance.

Keeping the Drivers and Impact of SSM in mind, a Theoretical framework can be shown as below:



4. Research Design – Coverage, Data Collection, Data Analysis :

4.1 Research Methodology : This Research would involve studying and collecting primary information using survey or questionnaire from the Indian IT Software companies and hence this would be a combination of Qualitative & Quantitative, tuned towards an Exploratory Research.

4.2 Coverage / Sampling Process / Sample Size: Keeping the Research Title and Research Objectives in mind, the basic sampling process would be to shortlist the top Indian IT Software companies. For eg : The top seven Indian IT Software companies revenues add up to USD 42.76 billion (TCS 11.6 billion, Cognizant 8.6 billion, Infosys 7.39 billion, Wipro 6.87 billion, HCL 4.6 billion, Tech Mahindra 2.7 billion and Mphasis 1 billion) i.e. almost 50% of the total software revenue generated by Indian IT Software companies worldwide.

Applying the formula for arriving at a sample size () developed by Cochran (1963) and using the below correction formula for finite population (Israel, 1992), to arrive at a sample size “n”.

n = 113 companies

Hence, a sample size constituting to a majority of Indian IT Software companies, approx the top 113, would be selected. Further, identifying the HR or Talent Heads of these companies would help to understand their Hiring Strategies.

4.3 Data Collection :

The sources of data would be a combination of Primary (by using tools like Survey / Questionnaire) and Secondary (i.e. through Journals / Research papers / IT associations like NASSCOM, etc). Questionnaires would be framed based on the Hypothesis. The scales used would vary based on, the data to be gathered in tune with the Hypothesis. Typically, Nominal / Ordinal and Interval scales would be used, while framing the questionnaires. Typically to measure perceptions, a 5 point Likert (1932) scale would be used.

4.4 Data Analysis :

Collected data would be analysed using statistical software and models like SPSS, etc and represented to arrive at a conclusion against the Hypothesis

framed.

5 Conclusion

Strategy is the key to starting, sustaining and growth of any organization. It precedes any business model. Seddon & Lewis (2003) quotes that “Strategy defines how all the elements of what a company does fit together (Porter 2001, Pg 71)”. The importance of manpower in Strategic thinking has always been at the apex. People drive business. Hence it is important to arrive at a right mix of Permanent employee and Temporary Staff to ensure proper growth and flexibility to ramp up employees in organizations (Moorman & Harland, 2002).

A research would be done covering the major companies in the IT software industry to finally arrive at a viable model.

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THE ECONOMIC AND SOCIAL IMPACT OF GLOBAL SOURCING

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Abstract :

In today's era of hyper competition and change, one of the crucial challenges facing organisations is to build sustainable competitive organisations. A changing environment necessitates a change in strategic initiatives. The discussion on high technology has been concerned with advanced capitalist economies. Developing countries have been unable to alter radically their industrial structure due to numerous internal institutional and external technological barriers. Consequently, they have sought global participation through outsourcing activities. This is indeed a welcome break from previous orthodox 'self-reliant' approaches. However, excessive dependence on outsourcing limits the synergy between vibrant domestic and foreign markets. It highlights the shortcomings of outsourcing from India and suggests that software development must be rooted in a high technology policy that is integrated with the broader strategy of development. The study illustrates not only the relative success of a developing country but also underscores the persistent unequalising structural mechanisms that developing countries must contend with to foster local development.

Keywords :

Era, technology, orthodox, synergy, self-reliant,

Introduction: Outsourcing

In business, outsourcing involves the contracting out of a business process to another party for handling better business processes. The term "outsourcing" dates back to at least 1981. Outsourcing sometimes involves transferring employees and assets from one firm to another, but not always. Outsourcing is also the practice of handing over control of public services to for profit corporations.

Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring relocating a business function to another country. Financial savings from lower international labor

rates can provide a major motivation for outsourcing/offshoring. The opposite of outsourcing, insourcing, entails bringing processes handled by third-party firms in-house, and is sometimes accomplished via vertical integration. However, a business can provide a contract service to another business without necessarily insourcing that business process.

"A practice used by different companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. Outsourcing is the business practice of hiring people outside a company to perform services that traditionally were performed within the company, by the business's..."

Two organizations may enter into a contractual agreement involving an exchange of services and payments. Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill or expertise in the areas where they want to outsource. In the early 21st century, businesses increasingly outsourced to suppliers outside their own country, sometimes referred to as offshoring or offshore outsourcing. Several related terms have emerged to refer to various aspects of the complex relationship between economic organizations or networks, such as near shoring, crowdsourcing, multi-sourcing and strategic outsourcing.

Outsourcing can offer greater budget flexibility and control. Outsourcing lets organizations pay for only the services they need, when they need them. It also reduces the need to hire and train specialized staff, brings in fresh engineering expertise, and reduces capital and operating expenses.

One of the biggest changes in the early 21st century came from the growth of groups of people using online technologies to use outsourcing as a way to build a viable service delivery business that can be run from virtually anywhere in the world. The preferential contract rates that can be obtained by temporarily employing experts in specific areas to

deliver elements of a project purely online means that there is a growing number of small businesses that operate entirely online using offshore contractors to deliver the work before repackaging it to deliver to the end user. One common area where this business model thrives is in providing website creation, analysis and marketing services. All elements can be done remotely and delivered digitally, and service providers can leverage the scale and economy of outsourcing to deliver high-value services at reduced end-customer prices.

Reasons for outsourcing

Companies primarily outsource to avoid certain costs - such as peripheral or "non-core" business expenses, high taxes, high energy costs, excessive government regulation/mandates and production and labor costs. The incentive to outsource may be greater for U.S. companies due to unusually high corporate taxes and mandated benefits, like social security Medicare and safety protection. At the same time, it appears U.S. companies do not outsource to reduce executive or managerial costs. For instance, executive pay in the United States in 2007 was more than 400 times more than average workers—a gap 20 times bigger than it was in 1965. In 2011, twenty-six of the largest US corporations paid more to CEO's than they paid in federal taxes. Such statistics imply that the reason companies outsource is not to avoid costs in general but to avoid specific types of costs.

Implications: Management processes

Greater physical distance between higher management and the production-floor employees often requires a change in management methodologies, as inspection and feedback may not be as direct and frequent as in internal processes. This often requires the assimilation of new communication methods such as voice over IP, instant messaging, and Issue tracking systems, new time management methods such as time tracking software, and new cost- and schedule-assessment tools such as cost estimation software.

Communications and customer service

In the area of call centers end-user-experience is deemed to be of lower quality when a service is outsourced. This is exacerbated when outsourcing is

combined with offshoring to regions where the first language and culture are different. Foreign call center agents may speak with different linguistic features such as accents, word use and phraseology, which may impede comprehension. The visual cues that are missing in a telephone call may lead to misunderstandings and difficulties.

Security

Before outsourcing, an organization is responsible for the actions of their entire staff, sometimes a substantial liability. When these same people are transferred to an outsourcer, they may not even change desks. But their legal status changes. They are no longer directly employed by the organization. This creates legal, security and compliance issues that are often addressed through the contract between the client and the suppliers. This is one of the most complex areas of outsourcing and sometimes involves a specialist third-party adviser. Fraud is a specific security issue as well as criminal activity, whether it is by employees or the supplier staff. However, it can be disputed that fraud is more likely when outsourcers are involved, for example credit-card theft when there is the opportunity for fraud by credit-card cloning. In April 2005, a high-profile case involving the theft of \$350,000 from four Citibank customers occurred when call-center workers acquired the passwords to customer accounts and transferred the money to their own accounts opened under fictitious names. Citibank did not find out about the problem until the American customers noticed discrepancies with their accounts and notified the bank.

Insourcing

Outsourcing has gone through many iterations and reinventions. Some outsourcing contracts have been partially or fully reversed, citing an inability to execute strategy, lost transparency & control, onerous contractual models, a lack of competition, recurring costs, hidden costs, and so on. Many companies are now moving to more tailored models where along with outsource vendor diversification, key parts of what was previously outsourced has been insourced. Insourcing has been identified as a means to ensure control, compliance and to gain competitive differentiation through vertical integration or the development of shared services. Insourcing at some level also tends to be leveraged to

enable organizations to undergo significant transformational change.

Further, the label outsourcing has been found to be used for too many different kinds of exchange in confusing ways. For example, global software development, which often involves people working in different countries, cannot simply be called outsourcing. The outsourcing-based market model fails to explain why these development projects are jointly developed, and not simply bought and sold in the marketplace. Recently, a study has identified an additional system of governance, termed algocracy that appears to govern global software projects alongside bureaucratic and market-based mechanisms. The study distinguishes code-based governance system from bureaucracy and the market, and underscores the prominent features of each organizational form in terms of its ruling mechanism: bureaucracy, the market, and algocracy. So, global software development projects, though not insourced, are not outsourced either. They are in-between, in a process that is sometimes termed Remote In-Sourcing. Projects are developed together where a common software platform allows different teams around the world to work on the same project together

Globalization and socio-economic implications

Outsourcing has contributed to further levelling of global inequalities as it has led to general trends of industrialization in the Global South and deindustrialization in the Global North. Even though outsourcing has promoted a movement of industrial sites from the Global North to Global South regions, it has not been the only reason for the concurrent deindustrialization and industrialization of the North and South respectively. Deindustrialization in more economically and technologically developed regions has also been affected by increased industrial productivity.

The rise in industrial efficiency which characterized development in developed countries has occurred as a result of labour-saving technological improvements. Although these improvements do not directly reduce employment levels but rather increase output per unit of work, they can indirectly diminish the amount of labour required for fixed levels of output. Likewise, a trending shift in demand towards non-tradable services such as those in the health-care or government sectors has further accelerated deindustrialization in the Global North. Since these tasks cannot be outsourced, the demand for them needs to be met domestically

abiding by the local market price. Despite the variety of domestic and international factors affecting deindustrialization in the Global North, those concerning the external influence of the global market have been the most influential ones since 1994. The recent industrialization process outsourcing has encouraged in the Global South has taken place at a much faster pace than it did during its beginnings in the North, given that the well-developed technology was already developed, and merely spread to further regions.

Growth and income

The almost simultaneous industrialization of the developing Global South and deindustrialization of the more developed Global North resulted in an international convergence of incomes. Outsourcing has been characterized by rapid rates of growth and industrialization in the Global South. Conversely, the Global North has experienced a moderate slowdown in growth. Patterns of global industrialization and deindustrialization are explained by a combination of models in economic geography and economic growth. Models in economic geography illustrate that decreasing communication costs reduce the spatial clustering of industrial development. The lower cost to the spread of ideas improved coordination and communication within corporations across greater geographic distances. This process originated roughly after the international chaos of the World Wars, as a consequence of advancements in information technology during the 1960s. Further adaptations to technological progress, particularly the spread of the internet and liberalization of the telecommunications industry, permitted an acceleration of the movement of ideas and consequently of outsourcing since about the 1980s.

Trade

Outsourcing emerged with a new wave of globalization marked by high volumes of trade and capital flows. The increased movement of capital and goods contrasted starkly with the barriers and protectionism prevalent throughout the World Wars and the Great Depression during the Interwar Years.

Migration

The level of migration has remained relatively low, particularly compared to the mass migratory trends which characterized the Industrial Revolution roughly between 1850 and 1914, probably because labor

markets are not free now. Countries now have discrimination labor laws, only allow people with citizenship cards live and work free in their territories, even getting a citizenship card is difficult for someone not born in their territory. Free labor markets, discrimination based with a person skills would help reduce outsourcing problems, letting people freely follow their jobs in other countries.

Future of outsourcing services to India

Analysts believe that India remains a vital destination for outsourcing and expect its annual GDP to grow at 8–10% for the next decade. In addition, outsourcing efforts to India are held up as an effective remedy for concerns about both Chinese government policy and labour force issues, such as increasing costs and shortages. The related Industry dependent on this are Catering, BPO training and recruitment, transport vendors, home pick up and drops for night shifts being the norm in the industry, security agencies, facilities management companies.

Criticisms

The BPO industry in India faces two key criticisms. The first criticism concerns the damaging psychological effects on Indian call-center employees who are expected to ape the Western employees they have replaced in terms of accents, slang and even names. The second criticism focuses on the wider ramifications of the industry's political influence. It has been claimed that this influence, which far exceeds the industry's economic contribution, has allowed the industry to secure the support and resources of the Indian state ahead of other sectors of the national economy where the developmental returns would be far greater.

Conclusion

The decision on whether or not an organization should outsource a part of their business is a complicated one, and should not be taken lightly. Searching for short-term cost savings is not a bad idea, but choosing outsourcing based solely on cost reduction or tactical problems is a short-term solution and will undermine a company's potential for long term success. The organization should have sufficient management skills and the ability to adapt new behaviors and processes to successfully manage an external part of their business. These skills should include knowledge management abilities and a willingness to apply them to a new and more challenging situation. Finally, once a decision

has been made to outsource aspects of a business, specific knowledge management strategies can be implemented that will maximize the benefits that are available from a decentralized business model.

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OUTSOURCING- A LONG JOURNEY

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Abstract :

Present digitised wave not only break traditional technology barriers but also make globalization of services both from supply and demand sides, a true reality. Traditional jobs, services and demand will give way to newer jobs and services that provide improved value for end customers. The year 2015 will be about new ways to outsource, new models, new ways to manage deals and a plethora of rich new service innovations that we are yet to dream up. Disruptive technologies will force structural changes in the outsourcing industry & some of the old models will disappear but at the same time, newer opportunities will arise.

India can benefit from outsourcing & off-shoring by ensuring that it moves up the value chain, keeps costs under control & off-shore things which will provide better value to itself & it's customers rather than trying to do all by itself.

This research article depicts the journey of outsourcing from historical period to till date. The article covers various dimensions of outsourcing especially in IT & ITES industries in India. The article is a state of the art conceptual paper which throws light on the different models of outsourcing, the size of the service off shoring market, latest trends in this industry and as well it compiles some relevant case studies of IT Outsourcing for a better understanding of this industry.

Keywords:

IT & ITES sector, Models of outsourcing, disruptive technology, innovation

What is outsourcing.

Actually for many people in India, in general, the word outsourcing is related to some kind of voice call centre or the like. This is a relatively recent phenomenon... which started in early 2000.

However, outsourcing is in fact a very old concept....

While human race progressed from the stage of

living in caves & hunting etc. to a more civilized stage, outsourcing started. Man learnt the advantages of helping each other in work so that work can be done faster & easier. It was a primitive style of division of labour of sorts...

Let me explain further. As man started to stay in houses built by stone/ mud & started cultivating land for food & started using utensils made of metals, this is where the early outsourcing started.

He soon realised that he cannot make all his utensils himself, every person cannot build his own house, nor can he stitch his own clothes.

Thus soon a group of people with specific skills like masonry, carpentry, smithy, tailoring, pottery etc. emerged. The entire community started to use the skills of these specific groups for specific tasks. This is a very primitive way of outsourcing....

Even today, we hire a house maid for activities like cleaning utensils, mopping the flooring, cooking food, ironing clothes etc. this is outsourcing!!!

Way back in the 1960s & 70s; many of the engineering & pharmaceutical companies in & around Mumbai were doing everything in-house.

Right from the general manager to sweeper to security guards including the person cooking food in the canteen, the gardener, the liftman etc. were all company employees. Apart from building & machinery, companies owned trucks for transporting finished goods; it owned buses for transporting employees. Mind you, even the drivers of these trucks, buses & drivers of senior management cars were company employees.

Companies use to generally buy only raw material & packaging material and used to manufacture everything in-house. The finished products were typically shipped out of the factory. In fact, most of the companies use to take pride that they are manufacturing everything "End to End".

Now consider the scenarios today.

Most of the functions including some component manufacturing are outsourced. Security, canteen services, office cleaning services etc. are routinely outsourced. Many companies are outsourcing their IT services, HR & payroll services etc. Even customer support functions are mostly outsourced. Transportation of goods & employees too is outsourced.

Definition: Here are a few definitions of outsourcing.

- Outsourcing can be defined as any activity which can be done in-house by a company; but is contracted to outside organization for some benefit or the other.
- Large manufacturing companies, which hired outside companies to produce specialized components that they needed for their products. (Automakers, for instance, hired companies to make components for air conditioning units, sound systems and sunroofs. In some cases, they moved entire factories to foreign countries.) (1)

Mind you that it is not necessary that you always have to contract -out the work to another company. Sometimes, you may hire contract professionals to get a specialized work done within your company for which you may not want to hire full time employees or the skills required are difficult to get.

Why Outsourcing:

Typically, organizations face the question of “Make or Buy?” during their operations. This question is typically at the root of outsourcing.

In sourcing

In sourcing is typically getting the work done in-house. Sometimes you may want to have better control over processes or you may find that quality can be better controlled by supervising the production closely. Even sometimes, the proprietary technology may necessitate that work is insourced.

What is off-shoring?

Now outsourcing contract is given to a company which will manufacture or provide services locally,

i.e. within the same city or outside or the manufacturing or services could be provided from across the border of the country. The second case is off-shoring.

Off-shoring is essentially outsourcing the work to a company which will provide the goods or services from across the border i.e. from another country.

Outsourcing refers to an organization contracting work out to a 3rd party, while offshoring refers to getting work done in a different country, usually to leverage cost advantages. It's possible to outsource work but not offshore it; for example, hiring an outside law firm to review contracts instead of maintaining an in-house staff of lawyers. Offshore outsourcing is the practice of hiring a vendor to do the work offshore, usually to lower costs and take advantage of the vendor's expertise, economies of scale, and large and scalable labor pool. (2)

Advantages of Outsourcing

- Outsource your non-core activities and spend more time concentrating on your core business processes.
- Outsourcing gives you access to professional, expert and high-quality services.
- Your organization can experience increased efficiency and productivity in non-core business processes.
- You can streamline your business operations.
- Offshore outsourcing can help you to get overall cost advantage.
- Outsourcing can make your organization more flexible to change.
- Save on investing in the latest technology, software and infrastructure and let your outsourcing partner handle the entire infrastructure.
- Get the assurance that your business processes are being carried out efficiently, proficiently and within a fast turnaround time.
- Offshoring can help your organization save on capital expenditures.
- By outsourcing, your company can save on team management problems as your offshore partner will be managing the team who does your work.
- Cater to the new and challenging demands of your customers.
- Give your business a competitive advantage - increase productivity in all the areas of your business.

If you want your organization to stay ahead of

competition, concentrate on your core competencies and make use of the latest technologies, then outsourcing can help your organization achieve all this and more. The advantages of outsourcing far outweigh the disadvantages. Many organizations across the globe have made the choice to outsource and experience the benefits that it has to offer.

Disadvantages of Outsourcing

- Your outsourcing provider may get access to your company's confidential information and hence there is a threat to security and confidentiality in outsourcing.
- At least initially, when you begin to outsource your business processes, you might find it difficult to manage the offshore provider when compared to managing processes within your organization.
- Your outsourcing provider might not be providing services only for your organization. Since your provider might be catering to the needs of several companies, they will not be able to give your company 100% attention.
- There can be other disadvantages, such as, misunderstanding of the contract, lack of communication, poor quality and delayed services amongst others.

But all of these disadvantages can be avoided by partnering with the right service provider.(3)

Models of Outsourcing: (6)

1. Staff Augmentation:
2. Managed Services
3. BOT
4. Project based outsourcing
5. Out tasking

Staff Augmentation (4)

This is the most basic of all outsourcing models. You add contractors to increase your output as demanded by the organization. You still control all resources but this setup allows add-on services which are presently deficient in your company (i.e. support services for market expansion). In addition to being the most basic setup, this has the least risk among all the outsourcing models. You may use this to expand current capacity to serve short-term immediate business needs.

This is also called as Time & Material model as it is quite popular because of simplicity of understanding & execution.

Managed Services:

In some cases, the enterprise customer already owns all the people, process and technology & assets necessary to perform the service that it wants to outsource. It may enlist the assistance of a service provider in to operate and maintain the service delivery infrastructure, without any substantial number of the enterprise customer's service personnel.

In a pure FM contract, the service provider provides people, processes and technology to solely ensure the functionality and viability of an existing infrastructure. FM services may include change management.

Service provider owns neither the underlying infrastructure nor technology, but uses know how and proprietary technology for managing the service delivery infrastructure.

BOT:

It involved, setting up a call center or data center, including owning premises, equipments & also operating the same. Finally at the end of stipulated period, you transfer the entire operation to outsourcer at a pre agreed price.

In India, it is quite common to build infrastructure projects through private funding & then handing over to govt. after a stipulated time.

Project Based Outsourcing:

Here a specific project is outsourced. For e.g. you want that entire office is provided with central air-conditioning system. Then this complete task is outsourced to a single vendor.

Another example could be construction of overhead water tank for a factory. Yet another example could be an IT project for payroll processing etc.

Out Tasking:

A specific part of the entire process is outsourced. E.g. A building construction contractor may have a team for RCC construction, wall building, tiling work, plumbing, painting etc. However, he may outsource only work related to electrical fixture

work and windows fittings

That apart, based on pricing yet another set of models is there. (5)

Outsourcing contract models

Just to list a few ones...

1. Staffing model (T&M model)
2. Fixed price (FP) model
3. Fixed price plus incentive (FPI) model
4. Cost Reimbursable model
5. Cost plus Fixed Fee (CPFF) model

Size of the outsourcing market

The Indian IT industry combined turnover is @ \$108 billion. (7)

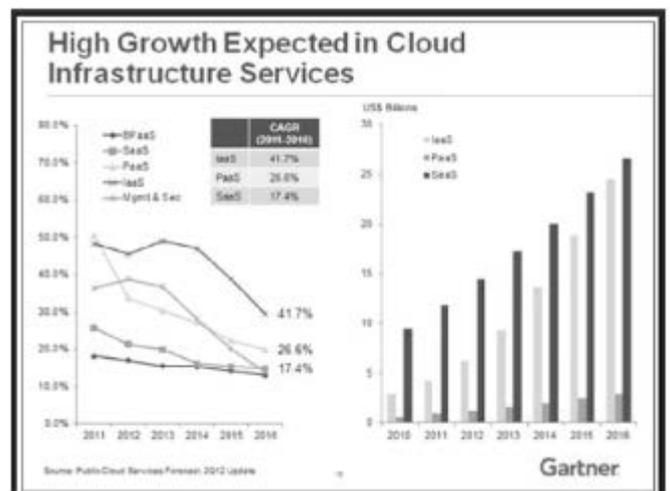
India continues to be the topmost offshoring destination for IT companies followed by China and Malaysia in second and third position, respectively. Leading IT services firms are expanding their traditional offerings (in India) to include research and development (R&D), product development, and other niche services.

Emerging technologies present an entire new gamut of opportunities for IT firms in India. Social, mobility, analytics and cloud (SMAC) collectively provide a US\$ 1 trillion opportunity. Cloud represents the largest opportunity under SMAC, increasing at a CAGR of approximately 30 per cent to around US\$ 650-700 billion by 2020.

Social media is the second most lucrative segment for IT firms, offering a US\$ 250 billion market opportunity by 2020.

According to statistics, 10 percent of the global outsourcing business (US\$900 billion-US\$1000 billion) has been outsourced to low-cost countries. Currently, countries such as India, Australia and Canada are deemed as the most mature offshore ITO /BPO markets, among which the offshore business of India accounts for 70% at approx. US\$70 billion. China, Philippines, Mexico, Central and Eastern Europe are the competitors. The increasingly popular China Outsourcing is used as a national brand, which creates business income from US\$ 0.5 million to current US\$5 million. China has become a well-deserved international rising star of outsourcing industry. (8)

Here are some forecasts.



Which are the big outsourcers?

1. BFSI
2. Manufacturing companies
3. Pharma companies
4. Telecom
5. Entertainment, Media & Publicity

The organizations within those industry verticals experiencing fundamental shifts to their economics, are more prepared than ever to admit they need to look outside of their current organizational boundaries to keep their business operations competitive. Simply-put, secular changes to industry environments are crystallizing options for businesses and driving more radical and actionable behaviours from executives under pressure to deliver continual productivity improvements

Increasingly, we are seeing a realization that retaining some processes internally isn't – in any shape of form – bringing organizations a competitive edge, and these sourcing decisions are no longer only about cost – they represent a fundamental change in the way business leaders now view outsourcing as an integral function of their operations.

For example, many of today's leading banks do not lead their markets because they process mortgage applications better than their competitors. Their management teams typically prefer to find a services partner to process them at lower cost, using industry-standard process flows and technology, while it focuses its internal competencies on business functions that can help the bank gain market share, such as smarter customer targeting, or upselling new product through customer support channels etc.

Similarly, most of today's leading insurance providers have already embarked on long-term engagements to have their claims processes managed, processed and adjudicated by third-parties, allowing their internal talent to focus on market-leading initiatives, such as competitive advertising strategy and new service development that can help them gain an edge over the competition. Customers do not care about how their claims are processed – they care about how much their policies cost, the additional benefits they can receive as customer and the brand and reputation of the insurance carrier.

Industries experiencing dramatic secular shifts are developing long-term aggressive outsourcing strategies

(9) The more bullish industries planning significant increases with outsourcing are not only basing their

planning on achieving on-going cost-reduction, but also because the fundamentals of their industries have dramatically shifted in the recent past, for example:

- Entertainment, media and publishing: The crash of newspapers and network news; The Web 2.0 impact; Radical new distribution and business models.
- Software and Hi-Tech: Rapid commoditization of packaged software models; Impact of Cloud computing on licensing and pricing dynamics; Dominance of India, China and other low-cost nations to drive out the cost of development
- Energy & Chemicals: High price volatility for oil products; high capital costs of oil exploration projects; Shortages of talent; Aging infrastructure and constantly-changing compliance requirements.
- Banks: Massive de-leveraging; Re-regulation; Unprecedented debt/credit pressures.
- Insurance: New compliance measures (Solvency II, Obama Care) causing unprecedented administrative cost and workload; Shortage of risk analysts and actuaries to take on the higher level work.
- Manufacturing: High pressure to cut not only labour costs; but also to cut overheads associated with in-house production. In addition to cutting costs, the organizations become more flexible to adapt to the changing market situations because of outsourcing.
- Telecom: Massive competition amongst the telecom service providers has resulted in the industry looking at outsourcing in a big way. The business has to keep up with the ever changing technology to survive. This is largely a retail oriented business & highly competitive with huge transactions. Outsourcing for customer servicing helps it focus on it's core competency & also to keep costs under control.

(10) These are just a few examples of major industries, being shaken to their very foundations, where we can discuss secular shifts driving unprecedented demands on organizations to remain competitive. It is no coincidence that it is these industries that are today the most aggressive with embracing third-parties to redefine their global operations? Secular changes drive bolder, more radical behaviours, and it is already clear that a more aggressive approach to outsourcing is high on these organizations' agendas.

A few case studies of IT outsourcing

Brief details of some successful & some not so successful IT outsourcing cases

1. A UK based leading Financial News & Trading company

Entire IT infrastructure & customer service was outsourced. The supplier was running 3 customer call centres in India. It had a dedicated team of engineers to attend to Reuters customers whenever necessary & that too onsite services. A back office to manage it's IT assets across India. 5* Data centres were supported 24*7 In-house IT support for desktops, printers along with managed services for applications as well. Overall, it was a hugely successful deal. It was win-win for both. Reasons: Senior management backing the deal. Trust on the vendor for his skills & experience. Fair treatment to vendor employees.

2. An European FMCG leader

Transitioning the support from existing vendor to HP was a key point. Not only IT assets were transitioned but even resources were transitioned. HLL IT assets spread over 155 locations were tagged & transitioned. Helpdesk support, IT infrastructure which included servers, desktops, laptops, networks etc was included. In-house IT support for all the offices in India & supporting the IT infrastructure at 53 factories & 86 depots were handled. It was another very successful engagement. Reasons: Right selection of vendor & his team. Professional approach by customer towards the deal. Partnership approach to the deal.

3. One of the Indian leading Call centre.

A 40 seat call centre for one of the leading group was setup by a service provider at Mahape- Navi Mumbai. Later another facility with 800 seats was created at Malad. Both the call centres were supported for Managed Services like Server, Desktop, Laptop, network & helpdesk support etc It was also a successful deal. Reasons: Combined team approach by customer. Backing by top management from both the organizations.

4. One of the leading voice based call centre

A 400 seat call centre for another BPO group was supported by a service provide at Malad. The call centre was supported for Managed Services like Server, Desktop, Laptop, network & helpdesk support etc. It was also a successful deal. Reasons: Complete trust by customer.

Professional approach & respect for vendor. Right selection of vendor.

5. A US based leading tractor manufacturer

SAP template implementation project for Pune factory. The original template was from their USA factory. Initial plan was 10 months for implementation. Actually it took 22 months. Huge delay because of wrong expectations, onsite- offshore model was not followed. Finally the project was completed but with huge delay & cost overruns. Reasons: Untested working model. No course correction. Too much politics.

6. A water & electricity utility company based in the gulf.

SAP IS utility implementation was planned for Saudi Arabia. Various modules is FICA, DM, etc were planned. However, the time lines were very aggressive. The vendor was not having necessary skilled resources. On top of it, there were issues related to work visa. The project was delayed by 14 months. Both customer & service provider were unhappy with the engagement. Reasons: Too much politics. Planning lacunae. Wrong vendor selection.

Latest Trends in O/S

• **Source: CIO Technology Outsourcing Trends to Watch in 2015**

1. Outcomes Become the Name of the Game
2. Dawn of the Cloud Robots
3. Customers Embrace Standardization
4. Renegotiation Reigns
5. Supplier Risk Takes Center Stage
6. Multisourcing Multiplies
7. The Busines Takes Over
8. The RFP Fades
9. The Cloud Comes Down to Earth
10. The Sourcing Decision Becomes Data-Driven

Outsourcing Trends for the Future

- Outsourcing relationships are expected to get more standardized; and process and people driven rather than price driven. This change is believed to level the playing field for outsourcing service providers in the future
- Cost pressures will pave the way for custom outsourcing contracts that are flexible in their SLAs (Service Level Agreements) and scope of delivery
- Small businesses, startups and SOHOs will witness a higher adoption of outsourcing in order to reduce the operational inefficiencies and increase their time to market
- Rising raw material, transportation and oil costs will make it important for companies to look at outsourcing in order to keep their operating costs low
- More high-end critical business functions will be outsourced in the next decade, while outsourcing of low-end services will stabilize
- Latin America and Europe might provide stiff competition to India as the favored outsourcing destination
- As businesses move towards cloud outsourcing; support and development will increase
- Manufacturing and Pharmaceutical businesses will move to cheaper destinations, such as India to take the advantage of low labor and operating costs. Additionally, research and development outsourcing in these industries will also tap into the vast outsourcing potential of India

How will process automation impact the future of BPO?

BPO providers face two major challenges which threaten their core business model and future growth potential: an ever-increasing cost base, and a constant requirement from customers to innovate and optimize processes rather than simply provide 'your mess for less'.

Cost pressures are a particular issue for service providers who have traditionally grown by taking advantage of wage arbitrage in offshore locations.

Increased competition for resources in those geographies though is leading to wage inflation, which, combined with currencies which are relatively stable against the dollar, pound or euro, will inevitably lead to a much higher cost-base and eroding margins.

The manufacturing sector dealt with this problem for years by constantly shifting production to lower-cost locations. However, BPO providers have limited room to do the same as the locations with large pools of qualified English-speaking potential employees are already locked into the wage-spiral.

Many expect to see a move in their market towards process automation. These techniques cover a wide range of ground, from autonomic, self-learning systems from companies such as IPSoft which have been used to automate many aspects of IT operation; through to process-automation toolsets provided by companies such as Blue Prism; through to bespoke integrated solutions combining OCR tools, corporate applications and frameworks produced by service providers and systems integrators.

Process automation will deliver benefits to both the customers and providers of BPO services:

- A provider's cost base will become decoupled from their internal personnel costs – several providers expect to see a very significant reduction in the number of staff required to manage a given volume of transactions.
- As well as reduced fees for the outsourced service (remember – software robots do not require breaks, feeding or sleep) customers will also see innovation in terms of process quality – with the potential for increased reliability, reduced error rates, and faster processing times.
- Providers' charging mechanisms will shift towards an output-based model with service provider costs linked to customer business outcomes, which can be seen as a win for both sides.

These dynamics will fundamentally change the BPO business model in the years to come. No longer will a BPO provider's success be determined by the number of people they can employ – it will all be about output, and who can automate more processes than others.

Which means technology will be at the heart of this revolution. Some BPO providers, such as seen in the recent deal between Infosys and IPSoft, will build appropriate alliances with technology vendors; others will try to create their own solutions. The worrying thing from the providers' point of view though is when clients decide to automate processes in-house rather than entrust them to their service provider. DIY BPO could be the next wave to shake the BPO market at its roots.

Standardized outsourcing solutions will be favoured over customization

Another trend that will affect the future of outsourcing is the move towards standardization of outsourcing solutions. The economic crisis of the recent years has led to companies favouring standardized outsourcing solutions over custom made solutions which are more expensive. Companies prefer to use their dollars saved to acquire new customers and to think out new business concepts.

This has led to organizations outsourcing to India and other countries more willing to move to a standardized way of working for non strategic processes. With the huge pressure to keep costs down, service providers will also rely more heavily on mass automation tools that will create additional opportunities and reduce the staff necessary to support critical business applications.

Outsourcing and cloud sourcing will merge and grow exponentially

Industry experts who have been observing the benefits of outsourcing and cloud sourcing predict that cloud sourcing will soon merge with the existing outsourcing market and provide better opportunities for the entire outsourcing industry. With businesses in general pushing towards cloud solutions for different reasons like flexibility, scalability and cost savings, outsourced IT services will be required for migration of existing infrastructure and services to make them cloud enabled.

This major advantage of outsourcing will benefit infrastructures supported by cloud resources and other smaller outsourcing providers.

Do the robot: The next big thing in process automation

The nature of outsourcing is changing. With increased costs and complexity, companies are looking for ways to use employees more effectively by shifting them away from repetitive, labour-intensive tasks. That's why process automation is a big part of Business Process Outsourcing (BPO) innovation, as it takes hold in industries around the world.

Robotic Process Automation (RPA) uses robot technology in manufacturing or supply chain settings. Likewise, many office tasks can be completed by "software robots" – automated systems that free employees to focus on more complex, business-critical tasks.

In a nutshell, RPA is a disruptive technology that utilizes robot or software technology to perform tasks that humans might find dull, repetitive or, in some cases, dangerous. RPA can reduce costs by improving efficiency and productivity because these types of tasks are completed quickly and consistently – and with a precision and reliability that exceeds human capability. Many believe RPA is the next big thing in BPO.

Some new trends that will reshape Global Sourcing in 2015 onwards

The "Digital Revolution" is expected to drive many of the anticipated global sourcing (also referred as outsourcing) trends which will cut across industries and have a profound effect on how businesses evolve and transform their operating models. Ten significant trends, as described below, will have an impact across various industries, albeit to varying levels. Business goes Digital

Digital Revolution has provided new avenues and is transforming the way businesses and economies look at technology. Unlike with previous paradigm shifts, the Digital Revolution driven by SMAC (Social Media, Mobility, and Analytics & Cloud) has matured over a period and has now acquired the tools to make significant change in the services landscape. Smart firms will start reinventing themselves as Digital Enterprises that align with demands from their internal and external customers and deliver services by leveraging the true power of Digital Services.

Globalization X

The current dynamics of acquiring services from across the globe is referred as Globalization X. For buyers of outsourcing services new emerging service delivery locations not only offer optimal cost, quality & better turnaround but also provide access to new markets as well. This trend is likely to drive the next wave of growth for global corporations that look to grow their presence in the preferred service delivery locations.

Transformation in Business Process Management (BPM)

The outsourcing industry is evolving from a task oriented BPO services model to a platform-centric and outcome-linked BPM (Business Process Management) model. In many instances, robotic automation will eliminate human intervention in these services. High-value analytics and knowledge centric services are growing twice as fast as traditional transaction based BPM services. These new services will drive the future growth of outsourcing. Big data, social media, enterprise mobility, device convergence and new technology will drive demand for specialized services. The fine line between core and non-core processes will diminish even further, bringing newer processes under the sourcing ambit.

Tier-II & III Destinations

Last decade saw the emergence of new geographies and cities competing to become viable outsourcing delivery destinations driven by pressure on available talent pool and infrastructure in Tier-I cities. Many of these new outsourcing delivery locations have matured and clients expect a distributed delivery of services, leveraging a network of service locations, to receive optimal service. A network of global locations enables access to untapped re-source pool, lower cost inflation and incremental availability of time & infrastructure.

Perception of Risk

Perception of a country or city among decision makers has a strong influence on the decision regarding a service delivery location. Governments of these countries take proactive action to reduce risk to businesses and potential investors by creating an enabling business environment supported by adequate financial and regulatory incentives and

interventions. It is expected that, going forward, governments and investment promotion bodies in these countries will make significant investments in marketing and branding their country to enhance the perceived value of their locations.

Regulators becoming key stakeholders

The four key stakeholders in the IT/ITeS industry include the buyers of services, the service providers, promotion agencies along with re-research & consulting organizations and industry regulators. Regulators include the various governments and industry bodies. The role of regulators will be vital in 2015 with increased focus on economic concerns, job loss/ creation and non-tariff barriers.

Near shore goes Mainstream by being Niche

After being in the shadows of matured offshore locations, Nearshore locations are finally coming of age. Countries are creating their own niche value proposition like Trinidad is providing F&A services to US, Morocco providing customer service to French speaking clients in Europe and Ireland for hosting data center for Western Europe. In 2015, many nearshore locations will become critical options for defined, niche services.

Final Word

After years of hearing about digital and all too familiar noise about technology revolution, we believe we are at the precipice of tipping over to a new age. This new age will not only break traditional technology barriers but also make globalization of services both from supply and demand sides a true reality. Traditional jobs, services and demand will give way to jobs and services that provide improved value for end customers. The year 2015 will be about new ways to outsource, new models, new ways to manage deals and a plethora of rich new services – not to mention the innovations that we are yet to dream up.

Conclusion:

Outsourcing is here to stay. It will continue to increase in volume & value.

Off-shoring will increase but will keep seeking better value in terms of quality, flexibility, expertise etc. & not just lower cost.

Off-shoring locations will keep changing as well.

Disruptive technologies will force structural changes in the outsourcing industry & some of the old models will disappear but at the same time, newer opportunities will arise.

India can benefit from outsourcing & off-shoring by ensuring that it moves up the value chain, keeps costs under control & off-shore things which will provide better value to itself & it's customer rather than trying to do all by itself.

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13. Many statements in the paper are based on author's personal experience & interactions with colleagues from the IT industry & other people from various other industries. That apart certain other areas are referenced from various internet sites & papers etc which are listed below.

A STUDY OF OUTSOURCING STRATEGY IN FINANCIAL INSTITUTIONS

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Abstract

Financial institutions throughout the world today are facing various issues such as higher volatility and uncertain business. The pressure posed on the financial institutions by the regulatory and socio-political environments has forced them to make their bottom-line more sustainable and predictable. Many financial institutions still fail to have streamlined processes which are creating hindrance to their day to day operations. There thus exists a dire need today for the financial institutions to work around a framework to improve their processes thereby resulting in increased profits in order to ensure financial stability for themselves.

The financial institutions today are posed with several problems which are hampering their profitability and reducing their market share. Some of these problems include adverse economic conditions, market volatility, shrinking demand, globalisation, competition, stringent regulatory control, increasing need for large capital, high pressure to reduce costs and scale up their businesses etc. At the same time the customers now-a-days have become highly demanding thereby expecting services across a wide range of communication channels. The financial institutions thus need to overcome all these challenges and focus more on their strategic planning activities in order to sustain themselves in this competitive market, enable customer satisfaction and increase their profit margins drastically. In order to do this, many financial institutions have resorted to.

Many financial institutions in such situations have opted for outsourcing of their increasingly complex and sensitive banking and financial operations to third parties which will enable them to strengthen their operations with the help of their deep domain expertise. Outsourcing or the use of third-party service providers is a business strategy that enables organizations to focus on their core operations and outsource other support activities which will help them to respond to an increasingly competitive

market place.

It will also facilitate global delivery network and enable the financial institutions to have a strong focus on their operational excellence and core business operations. Outsourcing also acts as a strong support in decision making since outsourcing agencies have an expertise in conducting several researches and this can help the financial institutions to grow significantly. Outsourcing has also enabled the financial institutions to improve customer satisfaction levels, unlocking cost efficiencies and have facilitated continuous process improvements and technology optimization.

Having listed the advantages of outsourcing, it needs to be borne in mind that outsourcing raises potential supervisory concerns for the financial organization. Outsourcing arrangements need to be handled with utmost care since it poses several key challenges and if not addressed adequately, can introduce significant risks for the financial institution.

Thus, with continued growth in the economy, increasing globalization and diversification of various industries, the outsourcing sector today has become more complex than ever before. Outsourcing market has been successful in developing customized services, implementing innovate strategies, supporting fast paced technology changes, identifying new business niches and capturing new market opportunities for the financial institutions. At the same time the change process has become increasingly fast than it was expected to be. The current economic situation has become very uncertain which will lead in slowing down of many trends due to the macro-economic situation. This paper thus intends to highlight how outsourcing has become a critical component of financial institutions' management of their business operations and control of their costs.

Keywords:

Outsourcing, financial institutions, BPO's, IT and ITES

Introduction

The concept of outsourcing has been derived from the American terminology 'Outside Resourcing' which means to obtain resources from outside. Later the term was used in economic terminology to indicate usage of external sources of resources to develop business, wherein majorly internal resources were used. Hence we can say that the concept of outsourcing is not new. In fact it is as old as capitalism and its roots can be traced back to 15th and 16th century. It started through setting out production system for household items needed by an emerging capitalist market in 15th and 16th century. Despite the fact that there was growth in factory system, then to need for outsourcing remained intact as no industry was enough self-reliant to produce everything they needed within their industry sites.

According to some estimates, in 1946 only 20% of the value added of US goods and services were from external sources, 50 years later, the proportion has tripled, reaching 60%.

Post-war Japan due to its constraint of geographical space, had to develop a sophisticated pyramidal system of industrial subcontracting involving several layers of subcontractors, having specialization in production of various industrial products. And in order to make this concept successful they have developed several management concepts like kanban, Just-in-time delivery of inputs and outputs to allow the seamless manufacturing of industrial products based on outsourced parts and components.

Fan (2000) states that outsourcing is a contractual agreement between the user and one or more providers to provide services or processes that the user is currently providing internally. He states that the fundamental difference between outsourcing and any other purchasing agreement being that the user contracts-out a part of their existing *internal activity*.

Classification of Outsourcing

A) **Traditional Outsourcing:**

It refers to when routine jobs or tasks are identified and the service provider hire staff for this job.

B) **Green Field Outsourcing:**

Without hiring the service provider the organization can directly hire an imminent company, which can execute their business,

which was not done in the organization internally.

Types of outsourcing

A) **Business Process Outsourcing (BPO) :**

Under this type of outsourcing, the service provider is been entrusted with the entire business process. The service provider takes on the full systems, which support the business process. It not only does the operation functions but also maintains and manages the IT systems. e.g. call centres, payroll etc.

B) **IT Outsourcing:**

Denotes that the service provider takes on the operation and maintenance of the service customer IT systems. The service provider is responsible for the customer's computer and communication systems as well as their data centres. In most cases the service provider also takes on the company's internal IT personnel.

Ways of outsourcing

A) **Off Shore Outsourcing:**

Also known as near shore outsourcing. Here the entire business process or part of it is been outsourced to a country other than where the product or its services are not been used. Generally it is undertaken where the process is more of repetitive nature and involves high information content. This type of outsourcing helps in gaining economies in wage rates due to differential wage scale in other countries.

B) **On Shore Outsourcing:**

It means that BPO or ITO of the business is outsourced to another company within the same country. Hence it also known as domestic outsourcing.

Growth of BPO in india

Business Process Outsourcing (BPO) can be defined as transfer of organisation's non-core but critical business functions to an external vendor who uses an Information Technology (IT) based service delivery. Since delivery is IT based, BPO is also referred as IT Enabled Services (ITES). Even though outsourcing of operations in IT field has been taking place for many years but it gained momentum since late 1990's due to rise of Internet and Communication

Technologies. With the fast changing socio – politico environment across the world the outsourcing became an important issue in all industries. Business houses underwent a paradigm shift from just having a provision for necessary service to handle them with core competencies and expertise.

In early 1990's General Electric recognized that it can get lot of benefits if the company shifts it's Back-Office operations and Customer service processes to India. After doing so, the step turned out to be great success and the company was able to better services at much cheaper costs. The success model of G.E. created a momentum wherein even other players from America started to explore India as a new destination for outsourcing.

Subsequently another corporate giant like American Express followed the move and shifted its transaction process work and Call Centres to India. Availability of better services, at cheaper cost promoted many other companies to start their operations in India. Thereby it resulted in emergence of India as global hub for IT outsourcing along with countries like China and Canada.

The privatization of telecom industry has resulted in emergence of new players and significant drop in telecom rates. Continuing competition in the industry is expected to result in a further reduction in telecom prices. The worldwide market grew at a rate of 9% and touched \$ one trillion by 2007 from \$773 billion in 2002. But the BPO industry in India grew at 54% annually from 2002-2008 and reached from \$2 billion to \$ 15 billion in 2008

Several other factors like availability of highly qualified staff, active cooperation from the government and better infrastructure like launch of India first private undersea cable in the recent past resulting in dramatic improvement in international bandwidth, also acted as a catalyst in promoting the growth of the BPO industry.

The main customers who are mostly benefited from the business process outsourcing services are the industries related to Healthcare, Insurance, Banking and Finance, Telecom, Automotive, E-commerce and Retail, Pharmaceuticals, and Airlines. Some of the leading BPO organizations, well known for their performance and service standards in India are Wipro, Infosys BPO, HCL, Satyam, IBM Daksh,

Impact of BPO on economic environment of india

BPO's have made a significant change in the economic environment of India. The driving forces that have led to the increase in the Indian economy are mentioned below:

- 1) Emphasis on quality services
- 2) Skilled sets and workers
- 3) Cost effectiveness
- 4) Quality products
- 5) English speaking manpower

Many of India's service providers are capturing the huge talent pool available by designing large scale talent reengineering initiatives and facilitating employee engagement activities. This has given way to both end-to-end and high-end-value added services across various sectors in India. At the same time, the Indian BPO industry has given way to long-term contracts resulting in high earnings of individuals which in turn contributes in a large way to the economic growth of India.

India's economic environment has boosted in the last couple of years due to the following reasons:

- 1) Nearly 4.4 million graduates and post graduates have joined BPO industry in FY2012.
- 2) India has pre-dominantly held the leading position of making 400,000-500,000 graduates available who can be hired on an immediate basis.
- 3) Industry-NASSCOM-Government initiatives to enhance long-term employability through finishing schools, mentorship programmes, setting up industry benchmark (NASSCOM Assessment of Competence) and IT-BPO Sector Skill Council (SSC) initiative has also contributed in a large way to the development of economic environment in India.
- 4) Best performance awards, recognitions, opportunities for career development of BPO employees, retention based bonuses and several CSR initiatives are some of the employee engagement activities which have given way to long tenure of BPO employees who in turn contribute effectively in churning lots of money thereby facilitating a growth in the Indian economy over the years.

Objectvies

- 1) To study the reasons for outsourcing in

financial institutions

- 2) To study the impact and challenges of outsourcing in financial institutions
- 3) To study the future prospects of financial services outsourcing

Reasons for outsourcing

Reduced costs :

Lower costs can attract financial organizations to outsource its processes. This is basically due to economies of scale, specializations and tactical focus. Outsourcing will also enable the organization to lower its costs by converting fixed costs into a variable cost structure so that fluctuations in labour and equipment needs can be taken care of.

Enhance performance

Outsourcing may be done with an intention to enhance performance since a third party would not have any biasness with the organization and would be the right source to understand the processes thoroughly and suggest any changes required to be initiated in it. This in turn will help in development of the organization.

Ability to access superior expertise and industry best practices

Outsourcing enables the organization to gain expert knowledge which in turn can help in the growth, development and advancement of the organization. Superior knowledge and expertise can help in streamlining and enhancing the processes which can prove beneficial to the organization in the long run.

Desire to devote scarce human resources to core businesses

The choice of the activities to be outsourced is often determined by the strategic value of the activity and its level of operational performance. Generally, the lesser strategic activities or activities which have lower level of internal performance are more likely to be outsourced. Outsourcing is generally undertaken by organizations to enable their own employees to concentrate fully on the core business of the organization.

Future prospects of financial services outsourcing

It is very evident in the current scenario that the financial institutions are facing an increased challenge of competition. This is evident from the fact that the net interest margin of the financial institutions has drastically reduced over the last one decade. With increased liberalization and globalization, this fall has further narrowed down to 1-1.5% especially in case of banks in the developed countries. In order to curb this loss, the financial institutions will have to take several measures such as undertaking product innovations and process re-engineering, looking for more options like fee-based income to fill the gap in the interest income etc. All these changes will be aimed at meeting the customer requirement in addition to reducing the cost and improving the efficiency of service. Service charges will now be decided only after taking into account the costing and deciding the amount of traffic that the bank can bear in future. Several banks may also think about reframing and restructuring their costing and pricing so that the profitable and non-profitable businesses are accordingly segregated. The cost of services across all banks has more or less been equal. However, banks which have a better cost control are in a position to achieve higher profits as compared to the banks which incur losses on account of under-utilization of resources, un-remunerative branch network etc. In order to do away with the high overheads, banks have now started charging customers to cover the expenses incurred by them and achieve the estimated profits. In fact many banks now view profit as revenue minus the cost equation unlike a decade ago where revenue for banks was calculated as the cost in addition to the profit equation.

In order to have consensus with their clients, banks will now initiate several tie-ups with various banks and corporate clients and their retail outlets. This in turn will enable banks to have an increased volume of business resulting in higher revenues. Banks would also introduce new products on the liabilities side such as forex linked deposits, investment-linked deposits etc. since investors with varied risk profiles will look for better profitability. Similarly banks would also improve the quality of their products by way of introduction of new innovative products which in turn would help in building brand

equity in the market for specialized products. With all these changes, the investors will then see the potential and advantage of investing their money in the banks and merchant banking entities which will enable the growth of the financial institutions rapidly.

As the business of the financial institution increases, outsourcing and adoption of BPO's will also drastically increase. However, outsourcing of the business activities would pose more threats to the financial institutions which they should foresee and accordingly deal with. Hence, the financial institutions should only outsource those functions which do not play an important part in its strategic planning process. At the same time, these institutions will also start looking analytically into the various processes and practices that are into existence at present to understand the need for making any appropriate changes which would enable them to reduce costs and avoid delays.

The financial institutions would start giving more emphasis to competition rather than co-operation. This will enable them to increase their customer base. It will also help in reducing costs and increasing their efficiency. Outsourcing their operations would enable the financial institutions to relocate many of their functions, especially those pertaining to their back offices which will enable them to reduce their costs and increase productivity. Outsourcing of the business activities of the financial sector has given rise to many job opportunities in India since it now forms the key domain of many organizations in India today.

Work Flow and Growth Prospects:

Outsourcing of financial institutions includes handling several banking processes, processing applications, customer support, enabling verifications, software and solutions of core banking and facilitating financial statement analysis and market analysis. As per the recent study, Banking, Financial Services and Insurance (BFSI) comprise 38 per cent of the outsourcing industry in India today (worth \$47.8 billion in 2007). This share is further expected to grow by 30-35 per cent every year. Outsourcing by the financial sector will enable them to have a competitive edge in the market since they would now be able to add value to several future oriented projects through emergence of several

financial networks and an opportunity which in turn will facilitate a 'network bank'. Outsourcing will also enable the financial institutions to improve their cost-income ratios on a long-term basis and secure competitive edge which will help them to gain a significant market share.

Outsourcing in the financial sector has been instrumental in formation of supply chains across a number of value added stages which has enabled banks to be a networked enterprise.

Challenges of outsourcing

Licensing and copyright issues :

There is a high possibility of the outsourced projects being copied and sold to several agents. This may involve passing on the information to the competitors as well who can use this information for attaining their market share. This then leads to various issues with regards to licensing and copyright.

Loss of time in managing the project :

There is a lot of time spent in managing the project. This is because the project has to be communicated to the client first. Depending on the feedback of the client, the project has then to be reframed and implemented.

Poor communication and cultural differences :

The outsourcing agent may have a poorer standard of work on account of poor communication skills. At the same time there would be cultural differences which would act as a hindrance in good quality of the project.

Political Instability :

India is politically instable. Change in government rules, norms and regulations can completely go against the outsourcing project framed earlier which may result in huge financial losses for the organization.

Lack of quality control :

The quality of programming varies considerably demanding great deal of trust. There is a possibility of problems cropping

later which may be expensive for organizations to fix later.

Customer Service :

Customer Service needs to be given the highest priority when outsourcing of a product considered. Outsourcing agencies are many times unaware of the seriousness of this fact due to which customers may not receive prompt service which is up to their satisfaction level. Thus, organizations may lose valuable customers on account of unsatisfactory quality of services provided by the outsourcing agencies.

Risks to confidential and personal data :

Once the data is outsourced, the outsourcing agency has full information about the organizations core business. This data, if revealed to outsiders can pose a serious threat to the organizations existence in the market and eventually be a major cause of its failure and close down.

Increasing long term costs :

It is forecasted that India's cost advantage which was 1:3 in 2007 will disappear by this year, on account of increasing Indian wages at a rate of 15% per year. Hence, outsourcing would mean budgeting for long term increased costs in addition to providing time to manage the project as well as have adequate budget to meet the risks of outsourcing.

Economic insecurity and fraud :

Several frauds which have come up in the recent years have posed a serious threat to the country's economic insecurity since the currency is soon getting drained off.

Effectively recruiting a work force :

The BPO industry has created a unique blend of recruitment challenges. At present, BPO offers jobs to millions of Indian professionals and it is expected that this number will still rise drastically in the near future. In view of this, an organization will have to considerably outreach its activities to reach a potential talent pool. It is estimated that for a voice-based process, an organization will

need to screen at least 20 candidates to be able to recruit 1 (20:1). This number is fast increasing and it is expected that in the near future, this ratio will be 50:1. This proves the complex nature of recruitment in India.

Training investment :

Outsourcing necessitates huge training investment. New recruits have to be well trained in order to meet the huge expectations in terms of ramp-up of processes. The customization in the standard three week 'voice/accent' programme seems to be too low which means there are additional costs involved in re-training and on-the-floor training needs. These training programmes also suffer a setback since they fail to address the deeper cultural issues that impact cross cultural communication.

Managing retention :

Attrition levels in the ITES/BPO have increased drastically in the past few years. These range from 15-60% per year out of which the average attrition level for a voice-based call centre is estimated to be 40%. Some of the major causes of attrition in BPO's are hype in India about the glamour of working in a BPO environment and the monotonous nature of the work which has taken a toll on the physical health of BPO employees on account of working in night shifts. It is also true that many companies have failed in their attempts to have a motivated and energised workforce.

Conclusion

In the current scenario, financial services across the globe are enormously taking help of this party in order to carry out their day to day activities which would otherwise be done by them. Recent studies have shown that many financial institutions have outsourced both their regulated and unregulated activities which are becoming very complex day by day.

Outsourcing has been primarily taken up by financial institutions to reduce costs and achieve strategic aims. The future of outsourcing in financial institutions can be seen across various departments

in an organization such as information technology, call centres, finance and accounting, administration and several back-office activities. Several regulatory surveys have now revealed that financial firms are intending to enter into arrangements with other related firms within a corporate group and third party service providers to outsource both, their regulated and unregulated activities as well.

Outsourcing involves completely letting off of a function or department to a third party. In doing so, the organization is expected to provide for any risks arising out of this in its regular risk management framework.

Outsourcing has been beneficial in the financial institutions for raising issues related to risk and transfer management. However, it is true that outsourcing has increased the reliance of financial institutions on a third party which in future may have an impact on the ability of regulated entities to manage their risks and at the same time monitor their compliance with regulatory requirements. At the same time, there is an increasing concern among financial institutions to ensure that the steps that they are taking to manage their risks and comply with applicable regulations are up to the mark.

The biggest concern that financial institutions are facing with respect to outsourcing is the potential for over-reliance on outsourced activities which are very crucial for the on-going viability of a regulated entity as well as its obligations towards their customers. Taking steps such as establishing effective risk management programmes, provision for contingency planning by the outsourcing firm, drawing up comprehensive and clear outsourcing policies, negotiating appropriate outsourcing contracts and analysing the financial and infrastructure resources can help the financial institutions to successfully outsource their business activities and also handle the risks attached to it amicably.

Outsourcing today is viewed by financial institutions as a valuable strategic tool which helps them to focus on the core competencies since the direct operational responsibilities are outsourced to a third party. At the same time, outsourcing of business activities enables financial institutions to gain expertise. Some of the challenges faced by financial institutions with respect to outsourcing are selecting a capable,

qualified and appropriate service provider, addressing human resource problems effectively, introducing employee engagement programmes, motivating employees and controlling attrition levels, establishing controls, independent validation and viable contingency planning and facilitating an arrangement that meets the needs of both parties. However, the financial industry has not employed ample resources to mitigate outsourcing risks by developing business practices which effectively manage and monitor outsourced activities.

On the whole, outsourcing results for a financial institution have resulted in significant development. Significance of the outsourced activity, control mechanisms introduced by the institution over outsourcing risk and the strength of the service provider will reveal whether the outsourcing risks have been adequately taken care of. Unplanned and unmanaged outsourcing can only increase an institution's overall operational, legal and reputational risk thereby leading to unintended credit exposures and huge business expenses which might eventually lead to the down fall of the financial institution.

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OPPORTUNITIES AND ISSUES IN OUTSOURCING INFORMATION TECHNOLOGY WITH SPECIAL REFERENCE TO OFFSHORE OUTSOURCING

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Abstract

Outsourcing of IT activities helps the organizations to focus on their core business. It also helps the organizations to minimize the cost by tapping the cheap and skilled labour across the globe. However, there are lot many issues to be tackled to make the outsourcing successful. The issues and challenges are more significant in case of offshore outsourcing due to regulatory, legal, economic, cultural and political issues. This paper examines the opportunities and issues in outsourcing information technology with particular reference to offshore outsourcing.

The major factors for outsourcing can be classified as Financial, Strategic and Organisational, Technical and Staff implications. The cost cutting has been the major strategy in most of the organisations in a highly competitive environment. Companies that have interest in keeping capital expenditure low prefer outsourcing. One important strategic decision that the companies outsource their IT is to enable them to focus on their core business. India is known for providing software solutions to various western countries. The companies not only look for the low cost solution but also seek for the efficient and reliable solution with post implementation support. Outsourcing vendors are perceived to have a wider spectrum of skills than can be developed and retained on a cost-effective manner in-house by non-IT firms. Despite of several advantages of offshore outsourcing many countries put lot of restrictions to engage overseas vendors and workforce due to fear of unemployment in the host country.

The outsourcing of IT activities of organisations not always presents a rosy situation. There are host of issues and risks associated with offshore outsourcing viz. realistic estimation of cost reduction; risk of security breaches or intellectual property protection; sharing strategic business knowledge with offshore vendor; cumbersome process if the vendor fails to deliver; lack of sensitivity of offshore vendor to the industry specific

requirements and ability to comply with government regulations; cultural difference between the client country and the vendor country; etc.

Key Words:

Outsourcing IT; Overseas Outsourcing; IT Enabled Services (ITES), Business Process Outsourcing (BPO),

Introduction

The definition of outsourcing presents a problem and a survey of outsourcing vendors by Michell (1994) illustrated the wide difference of interpretations about what constitutes the outsourcing. The outsourcing of Information Technology (IT) and associated services has been growing with phenomenal dimensions. IT outsourcing is generally referred to as the commissioning of a third party (or a number of third parties) to manage client organization's IT assets, operations, people and/or activities to required results. Thus, the focus of outsourcing is on the management of the client's IT activities by the vendor to defined specifications or service level. This may often involve a degree of transfer of assets and staff between the client and third vendor. With the development of reliable and robust Internet technologies, a host of IT enabled Services (ITeS) have been commissioned by the outsource organizations on behalf of client organizations. The recent developments of cloud computing and cloud storage have provided lot of relief to the organizations by outsourcing their data processing and storage activities to third party and focus on their core activities. These technologies have also facilitated offshore outsourcing breaking the limits of national boundaries due to host of strategic and financial considerations. Although most companies have outsourced selected IT projects and functions for many years, the offshore outsourcing has exploded in size as companies have sought lower labour costs and other strategic benefits. The offshore outsourcing has created host of opportunities both for the client and vendor, but, it

has also brought various challenges due to regulatory, legal, economic, cultural and political issues. India and Philippines have been the preferred destinations for American and European companies whereas China and Vietnam has generally been preferred for overseas outsourcing by Japanese companies. The knowledge and understanding of English has given advantage to India to grab many overseas outsourced contracts from the western world.

Literature Review

Mohammed H.A. Tafti, (2005) has identified major risk categories of offshore IT outsourcing, discussed various risk factors within each category, and provided a general framework for the study of risk factors in this area. The study provides a general framework and a check-list of the major risk factors related to offshore IT outsourcing.

Khan N, Currie W.L, Weerakkody V, and Desai B. (2003) through from an ongoing research study on offshore IT outsourcing presented its findings. Field work was carried out in India and in the UK to evaluate the scale and scope of outsourcing activities. CEOs and CIOs were interviewed in fifteen supplier firms in India and two customer firms in UK, about strategic positioning in the offshore outsourcing market; benefits and risks from outsourcing; and other demand and supply-side issues. The findings suggest that, though offshore outsourcing offers new business opportunities for IT suppliers, much of the outsourced work continues to be low risk and low value. The challenge for outsourcing suppliers is therefore to devise strategies to move from body-shopping work to low cost, high value contracts, without incurring additional risk.

Khan S.U., Niazi M, Ahmad R. have identified factors such as cost-saving, skilled human resource, appropriate infrastructure, quality of product and services, efficient outsourcing relationships management, and an organisation's track record of successful projects which are generally considered important by the outsourcing clients. The results indicate that appropriate infrastructure, cost-saving, and skilled human resource are common in three continents, namely Asia, North America and Europe. Appropriate infrastructure, cost-saving, and quality of products and services are being common in three types of organisations (small, medium and large). These identified four factors-appropriate

infrastructure, cost-saving, quality of products and services, and skilled human resource have been common in the two decades (1990–1999 and 2000–mid 2008) for the success of IT outsourcing.

The study also observed that the cost-saving should not be considered as the driving factor in the selection process of software development outsourcing vendors. Vendors should rather address other factors in order to compete in the OSDO business, such as skilled human resource, appropriate infrastructure and quality of products and services.

Lacity M.C., Khan S.A., and Willicocks L.P. (2009) through the reviews of research studies of information technology outsourcing (ITO) practice found substantial evidence that researchers have meaningfully and significantly addressed the call for academics to produce knowledge relevant to practitioners. Based on a review of 191 IT outsourcing articles, the insights for practice on six key ITO topics relevant to practitioners were extracted. The first three topics relate to the early 1990s focus on determinants of IT outsourcing, IT outsourcing strategy, and mitigating IT outsourcing risks. A focus on best practices and client and supplier capabilities developed from the mid-1990s and is traced through to the late 2000s, while relationship management is shown to be a perennial and challenging issue throughout the nearly 20 years. More recent studies have developed around offshore outsourcing, business process outsourcing and the rise, decline and resurrection of application service provision.

Oza, N.V. and Hall, T., (2005) presented an empirical investigation of difficulties in offshore software outsourcing relationships by investigating eighteen high maturity software vendor companies based in India. They found that the difficulties in offshore outsourcing relationships have been relatively unexplored. Therefore a detailed investigation of the difficulties in commercial offshore software outsourcing relationships was conducted by collecting qualitative data through the standardized open-ended interviews and analyzed it through a grounded theory approach. Results of study indicate that outsourcing vendors are aware of potential difficulties that could be faced by both vendors and clients in offshore software outsourcing. The main offshore software outsourcing difficulties uncovered by this investigation include cultural differences,

expectation mismatch, language differences, loss of control, job loss and transition.

Activities and Services Outsourced

The major IT outsourcing activities include (1) Hardware maintenance; mainframe/data centre management, (2) Software development and implementation, (3) Networking activities like planning, designing, implementing and management of networks, (4) Data Processing and storage. The outsourcing could be complete where the vendor takes care of entire operations on behalf of the client and manage all the resources or it could be partial where the vendor helps the client to carry out its operations by providing technical and resource support. In case of IT Enabled Services (ITeS), the entire operations are generally outsourced in the form of Business Process Outsourcing (BPO), Knowledge Process Outsourcing (KPO), etc. Recently, there is a spate of outsourcing of specialized functions related to medical and legal aspects documents/data creation and management.

Rationales for Outsourcing

Many outsourcing decisions are based on a number of inter-related factors. The major factors for outsourcing can be classified as:

- (a) Financial implications
- (b) Strategic and Organisational
- (c) Technical
- (d) Staff implications

Financial implications

The cost cutting has been the major strategy in most of the organisations in a highly competitive environment. Thus, most obvious reasons for outsourcing IT is to save cost. Cost savings due to outsourcing are claimed to accrue for a number of reasons mainly due to economy of scale and expertise. A specialized vendor, it is argued, can perform and organise IT more efficiently than the client itself, obtaining savings in areas like deployment of hardware, telecommunication infrastructure, staff and management of backup and recovery provisions, etc. Economies are also claimed on the software licenses, upgradation of technology, etc. The vendor has all the relevant technology and expertise and is in a position to upgrade it on a continuous basis, whereas the

individual client has cycles of updating and tolerate lot of obsolescence of the technology to its disadvantage under competitive environment. The vendors can also obtain a better discount from the suppliers. It is also argued that sometimes the cost savings offered by the vendor is more to do with the inefficiencies of the client company's current IT operations rather than the applicability of any true economies of scale. Lacity (1993) argues that all potential benefits can be achieved in house by most reasonably sized IT departments if they have adequate competence and operate with efficiency. According to the study of vendors by Michell (1994) most of the established vendors do not regard price as the most important discriminating factor. It is the quality of the product and service rather than the price that matters most. A price that is felt to be too low is often viewed suspiciously. There is also a feeling that the vendor should be allowed to make a fair profit on the contract otherwise the project may end up paying in other ways and may lead into trouble.

Outsourcing IT also has impact on the balance sheet of the company in terms of moving from capital based IT activities to revenue based IT services. Companies that have interest in keeping capital expenditure low prefer outsourcing. This gives them greater financial flexibility and more borrowing power. The cloud computing and storage facilities help the clients to minimize their capital expenditure and pay for the use based services.

In case of offshore outsourcing the major advantage comes from the availability of cheap manpower in developing countries and the exchange rate differentials. The client organizations always have the flexibility to choose the vendor from anywhere in the world to suit their requirements and meet price expectations.

Strategic and Organisational

Strategic and organisational reasons for outsourcing are many and varied. One important strategic decision that the companies outsource their IT is to enable them to focus on their core business. The philosophy behind this approach is based on the concept of core competencies. The argument presented by this kind to focus on core activities is that it is difficult for organisation to attain standard in everything they do. Thus organisations focus on their core activities only and outsource the other activities to third parties where those activities are

the core business.

A related rationale for outsourcing is the attempt to focus on important activities, not in the business as a whole, but within IT and related functions. This embodies a recognition that IT now covers such multi-faceted activities that require a wide range of skills, expertise and physical resources that a single organisation can not adequately have in-house, and that they should focus on those IT areas that they can do best, or are most important, or are of highest value, and outsource the rest. In contrast to the core business focus this rationale obviously does not lead to the total outsourcing of IT but only to a degree of IT being outsourced. According to Porter and Millar (1985), IT provides the key to competitive advantage, particularly in information intensive industry.

Many organisations are going for their restructuring which inter-alia involves decentralisation of activities and reduction of staff, improve efficiency and reduce cost. Outsourcing has been considered as a useful opportunity to fulfill these restructuring objectives.

A further important reason for some organisations to outsource was the fluctuating demands for IT services and the difficulty for in-house IT capability to cope with such fluctuations and the cost of attempting to do so. In a number of cases the outsourcing of some or all of the IT activities is seen as a better option of responding to fluctuations in demand rather than creating and sustaining an in-house IT capability to meet peaks of demand.

Many times the organisation needs an IT service or solution more rapidly than can be provided in-house. Such situations can be handled only by outsourcing to meet the business commitments and opportunities within the time frame.

Some of the countries are known for having core competency in providing a particular aspect of IT services and IT solutions. India is known for providing software solutions to various western countries. The companies not only look for the low cost solution but also seek for the efficient and reliable solution with post implementation support. Besides availability of expertize manpower, the other factors such as social, political, regulatory and legal environment of the host country vis a vis the outsourced country also play an important role for the decision of offshore outsourcing. Japanese

companies often exploit the foreign labours particularly Chinese and Vietnamese by violating the Employment Security Act and Labor Standard Act set by Ministry of Health and Labors in Japan using the name of Offshoring.

Technical

Some companies may find the provision of certain types of IT service activities problematical in terms of allocating required sources viz. to buy the necessary hardware or telecommunication platforms, and obtaining and retaining necessary technical skills and expertise. Smaller IT departments particularly find themselves in this position due to inadequate in-house IT expertise. Such organisations heavily depend on outside vendors for any technical advice.

Poor performance of in-house IT often leads to outsourcing. This could be due to variety of reasons. The main amongst them is attributed to high turnover of IT staff. The high rate of turnover of IT staff in non IT companies is generally due to limited growth opportunity and lack of appreciation of IT activities.

Staff implication

It is not easy to retire or retrench the surplus staff rendered on account of outsourcing due to various prevalent labour legislations. The surplus staff is generally utilised in the organisations at sub optimal level. This generally negates the cost advantage of outsourcing.

Outsourcing does not always result in reductions in IT staffing levels. Some outsourcing is undertaken to handle demand for IT services that cannot be achieved internally due to lack of resources, skills or time schedule for completion, etc. Moreover large majority of outsourcing is partial rather than total. In such cases reduction in IT staff is not the main motive.

Outsourcing may help to overcome shortfalls in staff, provide access to a wider range of skills and experience, and complement in-house resources and expertise. IT is now becoming too diverse, developing quickly and require too many specialist skills. Outsourcing vendors are perceived to have a wider spectrum of skills than can be developed and retained on a cost-effective manner in-house by non-IT firms.

From a managerial perspective there are sometimes a number of rigidities and constraints in terms of in-house culture, terms and conditions of employment, restrictive practices and bargaining arrangements that may restrict the development of IT within the organisation. In such situations outsourcing has been seen to be an attractive proposition.

Despite of several advantages of offshore outsourcing many countries put lot of restrictions to engage overseas vendors and workforce due to fear of unemployment in the host country. The local technical professionals always put pressure on government to implement restrictions for fear of job loss against low cost global workforce.

Problems encountered in Outsourcing

The outsourcing of IT activities of organisations not always presents a rosy situation. A number of problems are encountered in dealing with the vendors. The Survey Conducted by Fitzgerald G. (1996) identified the following major problems related to IT outsourcing:

- (a) Defining service levels,
- (b) Client's ability to manage the contract and its details,
- (c) Getting different contractors and vendors to work together,
- (d) Vendor's lack of flexibility,
- (e) Vendor's lack of responsiveness, and
- (f) Vendor's total commercial attitude and profit motive.

Willcocks and Fitzerrald (1994) found that the management of contracts and vendors require quite a different set of skills to those normally present in an IT department, and some companies have failed to recognize this.

Issues and Risks of Offshore Outsourcing

There are host of issues and risks associated with offshore outsourcing. The first risk is associated with the expectation of cost reduction which cannot be estimated realistically due to hidden cost, uncertainty and differences in operating models. Second, the risk of security breaches or intellectual property protection is inherently raised when working in international business. Privacy concerns must be addressed. Third, the Capability Maturity Model (CMM) becomes an important measure of a company's readiness to adopt an offshore model. Offshore vendors require a standard model which is CMM level 5. Fourth, Most IT organizations have business knowledge that resides

within the developers of applications. Sharing strategic business knowledge with offshore vendor sometimes becomes risky. Fifth, what happens if the vendor fails to deliver, even inspite of best intentions. Thus, the risk analysis and competency assessment of the vendor becomes paramount. Sixth, all outsourced contracts baseline and assumptions. If the scope of the work varies it may add substantial cost which may not be estimated in advance. Seventh, offshore vendor must be sensitive to the industry specific requirements and have ability to comply with government regulations and provide sufficient transparency showing that it does comply and accountable during audit. Eighth, cultural difference between the client country and the vendor country has to be tackled properly. Many vendors have to put the call centre employees through accent training. Many vendors also sensitise the employees to the culture of client. Ninth, Key personnel are always in demand; therefore, there is always a risk to lose the key personnel midway. Tenth, the time and efforts to transfer knowledge to vendor rarely account for by the client's organization. Time spent to transfer the knowledge sometimes reduces the efficiency of the client's organization.

Conclusion

Outsourcing of IT activities helps the organizations to focus on their core business. It also helps the organizations to minimize the cost by tapping the cheap and skilled labour across the globe. The robust and reliable internet technologies have helped the organisations to connect to the outsourced vendors worldwide for their strategic advantage. However, there are lot many issues to be tackled to make the outsourcing successful. The issues and challenges are more significant in case of offshore outsourcing.

The Outsourcing IT is not a homogeneous activity that can be treated in the same way in all cases. Organisations have a variety of differing rationales to justify their outsourcing. Outsourcing should not be with the intention to get rid of a current problem or poor IT performance. Outsourcing cannot be the panacea to all problems. This is likely to lead to unsuccessful outsourcing due to the fact that an organisation that cannot successfully manage its own IT is unlikely to be able to specify and organise the outsourcing of it. Outsourcing requires a detailed understanding in order to be able to adequately specify the requirements to the vendor. It is the IT which should be outsourced not the problems of the organisation.

Organisations should be very careful not to outsource their IT or those aspects of their IT, that are strategic to

the business or that differentiate them in a positive way from the competitors. If these areas are outsourced there is a danger that the organisation will lose control of one of the elements that places the organisation to a competitive advantageous position and makes a difference to its performance and business. Moreover, the outsourcing may provide access to the vendor into all the critical areas and sensitive data. The client organisation may run the risk of leakage of critical information through an outside agency. The control over vendor's operations may be difficult to enforce if it is an offshore outsourcing. Thus, the reputation of offshore vendor should be taken into consideration before outsourcing.

Within IT there are likely to be some elements that can be successfully outsourced and some that cannot. Even if a substantial proportion of the IT can be outsourced there will be a limit. If every thing is outsourced, the organisation is likely to lose the ability to manage and assess the IT by itself. There should be in-house expertise to evaluate the capability of the vendor and the solution provided by the vendor.

One important key to success for the client is to manage the vendor and evaluate performance on an ongoing basis. Contracts need to be actively managed in order to build relationships with the vendor for the future. Establishing the relationship with the offshore vendor is still more difficult. In case of IT enabled services like call centres, BPO, KPO, etc. a long-term smooth relationship between the client and the vendor becomes absolutely necessary to avoid any business and reputation risk.

Outsourcing of software solutions may require ongoing maintenance and modification of software by the vendor. Sometimes the solutions are even handed over without proper testing and documentation. The client is put to a helpless situation. The vendor sometimes make the client so dependent on it that the client does not have any option to shift to other vendor, thus, creating monopoly like situation.

Thus, the key to successful outsourcing of IT appears to be the identification and observation of an outsourcing strategy, which recognises the potential, as well as the dangers of the outsourcing. A sound strategy may be to adopt a step-by-step approach whereby the safest, most fully understood elements would be outsourced initially. With the organisation gaining experience of how to manage outsourcing, further activities may be outsourced until a suitable balance of in-house and outsourced activities is obtained. The offshore outsourcing poses more problems due to

political, social, regulatory and legal issues which may not be compatible between the two countries. The legal recourse becomes extremely difficult when the client and the vendor belong to different nations having different set of legal provisions.

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COPING STRATEGIES OF BPO EMPLOYEES AND DEMOGRAPHIC DETERMINANTS

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Abstract

The IT/BPO sector is likely to have a positive impact in the backdrop of buoyant growth projections, positive investor outlook and the promise to have a non-adversarial tax regime. But evidence from the field suggests that the hours of work and working conditions in the BPO sector is leading to the stress syndrome, which in turn contributes to a 25–30% attrition rate among BPOs. Most of the young people who join BPOs are attracted by the salaries, but find it hard to cope with the long and irregular working hours. Studies in the area of working hours and mental wellbeing highlight the adverse impact of working longer hours on personal happiness, job satisfaction, workplace accidents, irritability, exhaustion, depression and relationships. At one hand we expect positive impact of buoyant growth projections but at other hand it has become critical for the companies to reduce stress and satisfy employees in order to retain them. Thus, at this juncture it is very crucial for organizations to understand coping strategies adopted by employees to reduce stress in the BPO sector. The objective of this research paper is to examine coping strategies adopted by employees and how they are associated with different demographic variables. Data was collected from 132 employees of small and mid-sized BPOs. The study shows coping strategies significantly associated with education, age and marital status and years of service of the employees in the organization.

Keywords:

Coping, avoidance, attrition, maladaptive

Introduction:

As per WHO Report (2005) Globalization and changing nature of job has enhanced stress for employees working in the developing nation. It is becoming evident that industrialized countries have devised stress coping and management strategies and are becoming more aware of the adverse effects of work-related stress but developing nations are

lagging behind. Outsourcing has become a recognized business strategy for enhancing the productivity and profitability of large companies (Grossman and Helpman, 2005). Business Process Outsourcing (BPO) is the most common form of outsourcing. It comprises transfer of operational ownership of some of the business processes to an external provider who manages the outsourced business processes according to the performance metrics prescribed by the parent company. India, undoubtedly, is the most preferred BPO destination in the world. The Indian BPO sector is prospering at an exponential rate, but it is ridden with inherent problems (Mehta et al., 2006). BPO industries are adopting tight controls to be cost-effective, offering little flexibility to their operators. There is always a conflict between quality and quantity. The operators are expected to minimize the duration of calls. At the same time, they should deliver higher client satisfaction through each call. Extraordinary emphasis on customer-centric operation leads to monotony of work, resulting in boredom for operators (Budhwar et al., 2006). There is a constant pressure to comply with performance metrics. Compulsion to serve on ‘graveyard shifts’ to service clients in different time zones across the globe further aggravates the woes of BPO operators. BPO companies have become ‘new-age sweatshops’ and BPO operators their ‘cyber coolies’ (Budhwar et al., 2006). Stress can result from an opportunity, threat or challenge when the outcome of the episode is uncertain but important (Robbins and Sanghi, 2006). Stress arises from a lack of fit between a person and his environment if the person finds it difficult to cope with the constraints or demands encountered (Harrison, 1976).

Literature Review:

Stress, in general, can be defined as the reaction of individuals to demands (stressors) imposed upon them (Erkutlu & Chafra, 2006). It refers to situations where the well-being of individuals is detrimentally affected by their failure to cope with the demands of their environment. Researchers cannot agree on a single definition for stress due to its complex nature

(Salami, et al. 2010). Occupational stress, in particular, is the inability to cope with the pressures in a job (Rees, 1997), because of a poor fit between someone's abilities and his/her work requirements and conditions (Holmlund Rytkönen & Strandvik, 2005). It is a mental and physical condition which affects an individual's productivity, effectiveness, personal health and quality of work (Comish & Swindle, 1994, 26). Over the past few decades stress is emerging as an increasing problem in organizations. Stress is vigorous state in which a person is confronted with an opportunity, demand, or resource related to what the individual wishes and for which the outcome is perceived to be both vague and vital. (Selye, 1936) first introduced the idea of stress in to the life science. He defined stress as the force, pressure, or tension subjected upon an individual who resists these forces and attempt to uphold its true state. The HSE (Health Safety Executive UK) defines stress is an undesirable response people have to tremendous pressures or other types of demands placed upon them. It arises when they worry they cannot deal with.

Stress and Coping strategies:

Coping strategies refer to the specific efforts, both behavioural and psychological, that people employ to master, tolerate, reduce, or minimize stressful events. Two general coping strategies have been distinguished: problem-solving strategies are efforts to do something active to alleviate stressful circumstances, whereas emotion-focused coping strategies involve efforts to regulate the emotional consequences of stressful or potentially stressful events. Research indicates that people use both types of strategies to combat most stressful events (Folkman & Lazarus, 1980). The predominance of one type of strategy over another is determined, in part, by personal style (e.g., some people cope more actively than others) and also by the type of stressful event; for example, people typically employ problem-focused coping to deal with potential controllable problems such as work-related problems and family-related problems, whereas stressors perceived as less controllable, such as certain kinds of physical health problems, prompt more emotion-focused coping.

An additional distinction that is often made in the coping literature is between active and avoidant coping strategies. Active coping strategies are either behavioural or psychological responses designed to

change the nature of the stressor itself or how one thinks about it, whereas avoidant coping strategies lead people into activities (such as alcohol use) or mental states (such as withdrawal) that keep them from directly addressing stressful events. Generally speaking, active coping strategies, whether behavioural or emotional, are thought to be better ways to deal with stressful events, and avoidant coping strategies appear to be a psychological risk factor or marker for adverse responses to stressful life events (Holahan & Moos, 1987).

Objectives:

1. To study the key stressors in the BPO sector.
2. To study most frequently adopted coping strategies.
3. To study is there a significant difference in coping strategies adopted by BPO employees based on gender, age, marital status, education and years of service in the organization.
4. To study significant coping strategies that can help reduce stress.

Hypothesis:

Reddy and Ramamurthy (1991) analyzed the influence of age on stress experience of a person. The sample consisted of 200 executives. The results revealed that executives in the age group of 41-50 experienced more stress than the age group of 51-60. Moderating variables among executives experiencing stress include not only age but also the years of service in the employment.

Hypothesis 1: There is significant association between coping strategies and stress.

Hypothesis 2a: There is significant association between coping strategies and gender.

Hypothesis 2b: There is significant difference in the coping strategies adopted by employees based on gender.

Hypothesis 3a: There is significant association between coping strategies and age.

Hypothesis 3b: There is significant difference in the coping strategies adopted by employees based on age group.

Education acts as mediator, either increases or

reduces stress depending on perspective of the individuals. Ansari (1991) had studied the nature and extent of stress in agriculture university teachers. Chand and Monga (2007) examined the correlates of job stress and burn out. He found that, higher education can combat stress and burn out related problems among the employees.

Hypothesis 4a: There is significant association between coping strategies and marital status.

Hypothesis 4b: There is significant difference in the coping strategies adopted by employees based on marital status.

Hypothesis 5a: There is significant association between coping strategies and level in the organization.

Hypothesis 6a: There is significant association between coping strategies and education

Hypothesis 6b: There is significant difference in the coping strategies adopted by employees and education.

Hypothesis 7a: There is significant association between coping strategies and length of employment.

Hypothesis 7b: There is significant difference in the coping strategies adopted by employees of different length of employment.

Research Methodology

In order to examine the relationship between coping strategies and stress and other demographic variables survey was conducted among employees in the BPO sector of Mumbai. Convenient sampling was adopted. Based on the size of the BPO 30 to 50 questionnaires were provided. A total of 180 questionnaires were sent, and 140 returned questionnaires represented 77.7% respondent rate. Eight questionnaires were rejected due to insufficient information.

Instruments

The survey instrument consisted of three sections: general demographic information, work stress and coping strategies.

General demographic information

The survey included five questions covering demographics. Personal information was requested regarding gender, age, marital status, education and length of employment.

Work Stress

To study work stress, EOSS scale developed by Telaprolu and George (2005) was used. It is a self-administering scale, which could be administered individually or in a group. It consist of 40 statements and has a five-point scale such as “always”, “frequently”, “sometimes”, “rarely” and “never” with scoring as 4, 3, 2, 1 and 0 respectively.

Coping Strategy Questionnaire

To measure coping strategies, questionnaire designed by Folkman and Lazarus was used. It is a structured questionnaire to measure coping strategies across eight factors (problem focused coping, escape-avoidance, distancing, seeking social support, positive reappraisal, self blame, tension reduction, self isolation).

Data Analysis

Table 1: Description of the respondents (n=132)

Variables	Number	Percentage
Gender		
Male	75	56.4
Female	57	42.9
Age		
Under 25	54	9.8
26-30	50	42.9
31-35	22	30.1
36-40	6	15.8
Above 41		
Marital Status		
Single	70	52.6
Married	51	38.3
Divorced	11	8.3
Education		
Undergraduate	77	57.9
Graduate	39	29.3
Post Graduate	16	12.0
Level		
Lower	77	57.9
Middle	39	29.3
Top	16	12.0
Length of employment		
Under 1 year	60	45.1
2-3 years	34	25.6
4-6 years	36	27.1
7-9 years	2	1.5
10-12 years	0	0
Above 12 years	0	0

The purpose of the study was to determine the most frequently used coping strategies and key stressors.

Table 2 : Descriptive Statistics - Summary of stressors

	N	Minimum	Maximum	Mean	Std. Deviation
Work stressor	132	1.25	3.75	2.3485	.62834
Role stressor	132	1.75	3.25	2.3750	.36353
Personal development	132	1.25	3.50	2.4716	.66800
Interrelationship stressor	132	2.00	3.50	2.7273	.51731
Organization climate stressor	132	1.00	4.25	2.3504	.93738
Valid N (listwise)	132				

The table 2 shows most frequent stressors for BPO employees is Organization climate stressor (M=4.25) followed by Work stressor (M=3.75)

Table 3 : Summary of coping strategies -Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Problem solving	132	2.33	5.00	3.7291	.75303
Wishful Thinking	132	3.00	5.00	3.8037	.54812
Detach	132	2.67	5.00	3.6522	.72288
Seeking	132	1.67	4.33	3.1752	.74993
focusing	132	2.67	5.00	3.9757	.69554
Self blame	132	2.33	5.00	3.3676	.83326
tension	132	2.33	5.00	3.2959	.64657
Self isolation	132	2.33	3.67	3.0000	.36259

The table 3 shows most frequently used coping strategies by BPO employees is Focussing (M=3.9) followed by Wishful Thinking (M=3.8) and Problem Solving (M=3.7).

Table 4: Correlation between coping strategies and stress

		Total coping strategies	Total stress
Total coping strategies	Pearson Correlation	1	-.379(**)
	Sig. (2-tailed)		.000
	N	132	132
Total stress	Pearson Correlation	-.379(**)	1
	Sig. (2-tailed)	.000	
	N	132	132

** Correlation is significant at the 0.01 level (2-tailed).

The above table shows significant ($p=.000$) negative association between coping strategies and stress. Thus, *Hypothesis 1: There is significant association between coping strategies and stress is proved.*

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798(a)	.637	.613	.32317

a Predictors: (Constant), selfisolation, wish, selfblame, tension, detach, focusing, prob, seeking

The above table shows R square value is 63.7%. As ANOVA is significant, model is statistically fit and independent variables brings about 64% variation in stress due to coping strategies.

Table 6: ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.537	8	2.817	26.974	.000(a)
	Residual	12.846	123	.104		
	Total	35.382	131			

a Predictors: (Constant), self isolation, wish, self blame, tension, detach, focusing, prob, seeking

b Dependent Variable: total stress

From the above table it could be inferred p value (.000) is less than α . Hence ANOVA is significant. Thus, is model is significant. From table 5 it could be inferred, Coping strategies are able to reduce stress by 63.7%

Table 7: Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	6.052	.804		7.527	.000
	Problem Solving	.287	.093	.416	3.086	.003
	Wishful thinking	.032	.114	.034	.282	.778
	Detachment	-.909	.100	-1.264	-9.096	.000
	Seeking	.701	.107	1.012	6.564	.000
	focusing	.408	.073	-.546	-5.597	.000
	Self blame	-.226	.067	-.362	-3.347	.001
	Tension	-.411	.105	-.512	-3.908	.000
	Self isolation	.014	.137	.010	.104	.918

a Dependent Variable: total stress

The above table shows problem solving, Detachment, Seeking help, Focusing, Self Blame, tension are significant. Detachment, tension and self-blame have negative sign indicates by reducing these type of maladaptive coping strategies will help reduce stress at workplace.

Relationship between gender and coping strategies

Table 8: Crosstab between gender and coping strategies

			gender		Total
			male	female	male
Coping Strategies	sometimes	Count % within Coping Strategies	6 66.7%	3 33.3%	9 100.0%
	frequently	Count % within Coping Strategies	65 56.5%	50 43.5%	115 100.0%
Total		Count % within Coping Strategies	71 57.3%	53 42.7%	124 100.0%

Table 9 :Chi-Square Tests

	Value	df	Asymp. Sig. (2- sided)	Exact Sig. (2- sided)	Exact Sig. (1- sided)
Pearson Chi-Square	.351(b)	1	.554		
Continuity Correction(a)	.059	1	.808		
Likelihood Ratio	.359	1	.549		
Fisher's Exact Test				.731	.411
Linear-by-Linear Association	.348	1	.555		
N of Valid Cases	124				

a Computed only for a 2x2 table

b 1 cells (25.0%) have expected count less than 5. The minimum expected count is 3.85.

From the above table it could be inferred there is no association between coping strategies and gender of BPO employees. as p value ($p = .554$) is more than .05. Thus hypothesis H2a and H2b is rejected. And there is no association between coping strategies and gender

Table 10: Crosstab between age and coping strategies

			age				Total
			Under 25	26-30	31-35	36-40	Under 25
Coping Strategies	sometimes	Count	6	1	0	2	9
		% within Coping Strategies	66.7%	11.1%	.0%	22.2%	100.0%
	frequently	Count	45	46	20	4	115
		% within Coping Strategies	39.1%	40.0%	17.4%	3.5%	100.0%
Total		Count	51	47	20	6	124
		% within Coping Strategies	41.1%	37.9%	16.1%	4.8%	100.0%

Table 11: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.002(a)	3	.012
Likelihood Ratio	10.283	3	.016
Linear-by-Linear Association	.062	1	.804
N of Valid Cases	124		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .44.

The above table shows as p value ($p=.012$) is less than .05. Hence there exist significant association between coping strategies adopted by BPO employees and their age. Hence we accept the hypothesis H3a that there is significant association between age and coping strategies.

Analysis of variance for coping strategies with different age group

Table 11: ANOVA

Coping Strategies and age

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.741	3	.247	3.895	.011
Within Groups	7.606	120	.063		
Total	8.347	123			

From the above table it could be inferred p value (.011) is less than .05. Hence ANOVA is significant. Thus, there is significant difference in coping strategies adopted by BPO employees based on their age (N=132).

Post Hoc Analysis

Table 12: Multiple Comparisons

Dependent Variable: Coping Strategies
Tukey HSD

(I) age	(J) age	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
		Lower Bound	Upper Bound	Lower Bound	Upper Bound	Lower Bound	Upper Bound
Under 25	26-30	-.09637	.05091	.236	-.2290	.0363	
	31-35	-.11765	.06642	.292	-.2907	.0554	
	36-40	.21569	.10866	.199	-.0674	.4988	
26-30	Under 25	.09637	.05091	.236	-.0363	.2290	
	31-35	-.02128	.06721	.989	-.1964	.1538	
	36-40	.31206(*)	.10915	.025	.0277	.5964	
31-35	Under 25	.11765	.06642	.292	-.0554	.2907	
	26-30	.02128	.06721	.989	-.1538	.1964	
	36-40	.33333(*)	.11719	.027	.0280	.6387	
36-40	Under 25	-.21569	.10866	.199	-.4988	.0674	
	26-30	-.31206(*)	.10915	.025	-.5964	-.0277	
	31-35	-.33333(*)	.11719	.027	-.6387	-.0280	

* The mean difference is significant at the .05 level.

The ANOVA was significant with $p=.011$. Thus, there is significant evidence to reject the null hypothesis and conclude that there is a significant difference based on age of employees. The post Hoc analysis shows significant difference in coping strategies adopted by BPO employees in the age group between (26-30), (31-35) and (36-40)

Association between coping strategies and marital status

Table 13: Crosstab coping strategies and marital status

			Marital status			Total
			Single	Married	Divorced	Single
Coping Strategies	sometimes	Count	9	0	0	9
		% within Coping Strategies	100.0%	.0%	.0%	100.0%
	frequently	Count	54	50	11	115
		% within Coping Strategies	47.0%	43.5%	9.6%	100.0%
Total		Count	63	50	11	124
		% within Coping Strategies	50.8%	40.3%	8.9%	100.0%

Table 14: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.396(a)	2	.009
Likelihood Ratio	12.871	2	.002
Linear-by-Linear Association	7.710	1	.005
N of Valid Cases	124		

a 3 cells (50.0%) have expected count less than 5. The minimum expected count is .80.

The above table shows relationship between coping strategies and marital status of employees is significant as p value is (p=.009) less than .05. Thus, we accept the hypothesis H4a, that there is significant association between coping strategies adopted and marital status of employees.

Table 15: ANOVA

Coping Strategies and marital status

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.632	2	.316	4.960	.009
Within Groups	7.714	121	.064		
Total	8.347	123			

From the above table it could be inferred p value (.009) is less than (.005). Hence ANOVA is significant. Thus, there is significant difference in coping strategies adopted by BPO employees based on marital status (N=132).

Post Hoc evaluation

Table 16: Multiple Comparisons

Dependent Variable: Coping Strategies
Tukey HSD

(I)	(J)	Mean	Std. Error	Sig.	95% Confidence Interval		
maritalstatus	maritalstatus	Difference (I-J)			Lower Bound	Upper Bound	Lower Bound
Single	Married	-.14286(*)	.04782	.009	-.2563	-.0294	
	Divorced	-.14286	.08251	.198	-.3386	.0529	
Married	Single	.14286(*)	.04782	.009	.0294	.2563	
	Divorced	.00000	.08409	1.000	-.1995	.1995	
Divorced	Single	.14286	.08251	.198	-.0529	.3386	
	Married	.00000	.08409	1.000	-.1995	.1995	

* The mean difference is significant at the .05 level.

The ANOVA was significant with p=.009. Thus, there is significant evidence to reject the null hypothesis and conclude that there is a significant difference based on marital status of employees. The post Hoc analysis shows significant difference in coping strategies adopted by Married and single employees. Also, hypothesis 4b is accepted that there is significant difference in the coping strategies adopted by employees based on marital status.

Relationship between coping strategies and level in the organization

Table 17: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.410(a)	2	.494
Likelihood Ratio	1.228	2	.541
Linear-by-Linear Association	1.303	1	.254
N of Valid Cases	124		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.02.

The above table shows relationship between coping strategies and level of the employees (High, Medium, Low) is not significant as p value is ($p=.494$) more than .05. Thus, we accept null hypothesis, that there is no significant association between coping strategies adopted and level of employees. Hence, hypothesis H5 is rejected.

Relationship between coping strategies and education

Table 18: Crosstab

			education			Total
			undergraduate	graduate	post graduate	undergraduate
Coping Strategies	sometimes	Count	0	0	9	9
		% within Coping Strategies	.0%	.0%	100.0%	100.0%
Total	frequently	Count	20	80	15	115
		% within Coping Strategies	17.4%	69.6%	13.0%	100.0%
Total		Count	20	80	24	124
		% within Coping Strategies	16.1%	64.5%	19.4%	100.0%

Table 19: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40.435(a)	2	.001
Likelihood Ratio	32.790	2	.000
Linear-by-Linear Association	25.481	1	.003
N of Valid Cases	124		

a 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.45.

The above table shows relationship between coping strategies and education of employees is significant as p value is ($p=.001$) less than .05. Thus, we reject the null hypothesis, that there is no significant association between coping strategies adopted and education of employees. Hence hypothesis H6a is accepted.

Post Hoc Evaluation

Table 20: Multiple Comparisons

Dependent Variable: Coping Strategies

Tukey HSD

(I) education	(J) education	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
					Lower Bound	Upper Bound	
undergraduate	graduate	.00000	.05390	1.000	-.1279	.1279	
	post graduate	.37500(*)	.06528	.000	.2201	.5299	
graduate	undergraduate	.00000	.05390	1.000	-.1279	.1279	
	post graduate	.37500(*)	.05018	.000	.2559	.4941	
post graduate	undergraduate	-.37500(*)	.06528	.000	-.5299	-.2201	
	graduate	-.37500(*)	.05018	.000	-.4941	-.2559	

* The mean difference is significant at the .05 level.

The ANOVA was significant with $p=.001$. Thus, there is significant evidence to reject the null hypothesis and conclude that there is a significant difference based on education level of employees. Thus, hypothesis H6b is accepted. The post Hoc analysis shows significant difference in coping strategies adopted by undergraduate, graduate and post-graduate employees.

Relationship between coping strategies and years of service

Table 21: Crosstab

			Years of service				Total
			Under 1 year	1-3 years	4-6 years	7-9 years	Under 1 year
Coping Strategies	sometimes	Count	0	5	4	0	9
		% within Coping Strategies	.0%	55.6%	44.4%	.0%	100.0%
Total	frequently	Count	60	27	26	2	115
		% within Coping Strategies	52.2%	23.5%	22.6%	1.7%	100.0%
		Count	60	32	30	2	124
		% within Coping Strategies	48.4%	25.8%	24.2%	1.6%	100.0%

Table 22: Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.825(a)	3	.020
Likelihood Ratio	13.247	3	.004
Linear-by-Linear Association	5.518	1	.019
N of Valid Cases	124		

a 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.02.

The above table shows relationship between coping strategies and level of the employees (High, Medium, Low) is not significant as p value is ($p=.494$) more than .05. Thus, we accept null hypothesis, that there is no significant association between coping strategies adopted and level of employees. Hence, hypothesis H5 is rejected.

ANOVA

Table 23: Coping Strategies and years of service

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.661	3	.220	3.442	.019
Within Groups	7.685	120	.064		
Total	8.347	123			

From the above table it could be inferred p value (.019) is less than (.005). Hence ANOVA is significant. Thus, there is significant difference in coping strategies adopted by BPO employees based on years of service (N=132).

Post Hoc evaluations

Table 24: Multiple Comparisons

Dependent Variable: Coping Strategies
Tukey HSD

(I) years of service	(J) years of service	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
					Lower Bound	Upper Bound	Lower Bound
Under 1 year	1-3 years	.15625(*)	.05540	.028	.0119	.3006	
	4 -6 years	.13333	.05659	.091	-.0141	.2808	
	7-9 years	.00000	.18191	1.000	-.4739	.4739	
1-3 years	Under 1 year	-.15625(*)	.05540	.028	-.3006	-.0119	
	4 -6 years	-.02292	.06431	.984	-.1905	.1446	
	7-9 years	-.15625	.18446	.832	-.6368	.3243	
4 -6 years	Under 1 year	-.13333	.05659	.091	-.2808	.0141	
	1-3 years	.02292	.06431	.984	-.1446	.1905	
	7-9 years	-.13333	.18482	.888	-.6149	.3482	
7-9 years	Under 1 year	.00000	.18191	1.000	-.4739	.4739	
	1-3 years	.15625	.18446	.832	-.3243	.6368	
	4 -6 years	.13333	.18482	.888	-.3482	.6149	

* The mean difference is significant at the .05 level.

The ANOVA was significant with $p=.019$. Hence, hypothesis 7b is accepted. Thus, there is significant evidence to reject the null hypothesis and conclude that there is a significant difference based on years of service of employees. Thus, hypothesis 7b is accepted. The post Hoc analysis shows significant difference in coping strategies adopted by employees having less than 1 year of service and 1-3 years of service.

Conclusion:

Stress disturbs the equilibrium of the body. It affects physically, emotionally, and mentally. When individuals experience stress or face demanding situation, they adopt ways of dealing with it, as they cannot remain in a continued state of tension. How the individual deals with stressful situations is known as 'coping'. There are two major targets of coping: changing ourselves or changing our environment. Coping refers to a person's active efforts to resolve stress and create new ways of handling new situations at each life stage (Erikson, 1959). From the above study it could be determined key stressors for BPO sectors are organization climate stressors followed by work stressors. Key coping strategies adopted by the employees are Focusing (M=3.9) followed by Wishful Thinking (M=3.8) and Problem Solving (M=3.7). The study shows problem solving, detachment, Seeking help, Focusing, Self Blame, tension are significant. Detachment, tension and self-blame are negative

indicates by reducing these type of maladaptive coping strategies and enhancing adaptive coping strategies will help reduce stress at workplace. Also the study shows significant difference in coping strategy based on age, marital status, education and years of service.

Basha and Ushashree (1997) studied on job stress and coping as related to perceptions of organizational climate. Significant negative relationship was found between perception of organizational climate and the amount of stress experienced by the employees. Newstrom and Davis (1998) found that when job autonomy provided to managers is high, they enjoy their work and have freedom to do the task according to their own will so that they feel less stress. Vashishtha and Mishra (2000) found that appraisal support had a partially moderating effect on occupational stress in organizational commitment relationship. The past research by (Folkman & Lazarus, 1980) which indicates that people use both types of strategies to

combat most stressful events. The predominance of one type of strategy over another is determined, in part, by personal style (e.g., some people cope more actively than others) and also by the type of stressful event, physical health problems, prompt more emotion-focused coping.

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COLD CHAIN PRODUCT DISTRIBUTION & REVERSE LOGISTICS PRACTICES OF PHARMACEUTICAL COMPANIES OPERATING IN INDIA

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This research work has been undertaken under the aegis of Remsons Centre for Management Research of DSIMS

Abstract

During the last decade, the biopharmaceutical products grew at an average annual growth rate of over 20% much faster than traditional pharmaceutical products. Biopharmaceutical products like Vaccines, Insulins, blood products etc require controlled temperature during storage & distribution process. The article reviews regulatory requirement & current practice of Good Storage and Distribution practices followed by all stakeholders in the supply chain viz. manufacturers, central warehouses, stockists & retailers.

Reverse Logistics has become a critical activity for Organisations in view of Risks, patient safety, regulatory & environmental requirements. Product returns take place for variety of reasons like date expiry, excess stock, damaged stocks, recall of substandard products etc. Organisations have realized that efficient product returns & management of reverse logistics can provide them with competitive advantage. Legal regulations and environmental concerns make it obligatory for manufacturers to adopt proper product return & disposal practices. The paper uses survey data collected from all stake holders on reverse logistics practices. Findings and Conclusions have been drawn based on analysis of responses received from various stakeholders.

1. Introduction

During the last decade, the biopharmaceutical products grew at an average annual growth rate of over 20% much faster than traditional pharmaceutical products. Biopharmaceutical products like Vaccines, Insulins, blood products etc require controlled temperature during storage & distribution process. The article reviews regulatory requirement & current practice of Good Storage and Distribution practices followed by all stakeholders in the supply chain viz. manufacturers, central

warehouses, stockists & retailers.

Reverse Logistics has become a critical activity for Organisations in view of Risks, patient safety, regulatory & environmental requirements. Product returns take place for variety of reasons like date expiry, excess stock, damaged stocks, recall of substandard products etc. Organisations have realized that efficient product returns & management of reverse logistics can provide them with competitive advantage. Legal regulations and environmental concerns make it obligatory for manufacturers to adopt proper product return & disposal practices. The paper uses survey data collected from all stake holders on reverse logistics practices.

2. Literature review

2.1 Cold Chain Products Distribution

The cold chain encompasses all the storage & transport facilities necessary to ship a product requiring controlled low-temperature storage from manufacturer to end user. There are increasing number of medicinal products requiring controlled storage & transit conditions. These are high risk products such as vaccines, Insulins, blood products and other proteinaceous materials which normally require storage between 2 to 8°C.

During the last decade, a lot of articles have been published in terms of Case studies, survey analysis etc regarding distribution of cold chain products. John Taylor in July 2001 issue of The Pharmaceutical Journal dealt with recommendation on control & monitoring of storage & transportation temperatures of medicinal products. The article includes guidelines from British Association of Pharmaceutical Wholesaler. There is need to provide battery back up to function on 24X 7 basis in case of power cuts. Temperature mapping & control of Walk-in –coolers etc is essential to maintain stability & shelf life. Measuring devices need to be calibrated

periodically.

Risk Bishan published an interesting paper in American Pharmaceutical Review (Jan – Feb 2006 issue) on Cold Chain management- an essential component of the global pharmaceutical chain. Responsibility for maintaining cold chain throughout the supply chain rests with Manufacturers, since the medicines are high priority for patient's safety. WHO has prescribed good storage (GSP) & distribution (GDP) practices. Regulatory bodies in different countries have laid down strict rules on temperature control during storage & transportation. UK survey shows maximum deficiency in storage & transportation in respect of temperature control & monitoring.

R H Bishara in his article in American Pharmaceuticals Outsourcing (May- June 2008 issue) highlighted importance of quality & integrity of temperature sensitive products in the entire supply chain. Temperature data loggers & software systems are essential to monitor & manage cold chain products.

2.2 Reverse Logistics

Products are returned for different reasons either by consumers or by the intermediate stages involved in the distribution chain. Retailers may return products because of damage in transit, expired date code, discontinuation or replacement of a particular model, seasonality factors, excessive retailer inventories, retailer going into liquidation, etc. Consumers on the other hand may return products for reasons such as quality problems, failure to satisfy customer's needs, remanufacturing or disposal.

The importance of logistics has increased substantially in recent years but global estimates of the economic scope of remanufactured, reused or discarded products are not readily available. This has led to a dearth in development of analytical models which could be used as tools in strategic decisions in the domain of Reverse Logistics (RL).

Marco Serrato, Sarah M Ryan and Juan Gaytan, in their paper on "Characterisation of Reverse Logistics Networks for Outsourcing Decisions" [--] have proposed the development of some decision making tools according to the characteristics of Reverse Logistics networks. They have presented a categorisation that allows Reverse Logistics strategic decision makers to identify essential differences between RL systems, on the basis of

earlier research work and identification of appropriate Third Party Reverse Logistics Providers (3PRL).

Some of the earlier research cited by Serrato et al : Tibben-Lembke (2002) on the importance of considering the product life cycle to analyse RL systems; Guide and van Wassenhove(2003a) on the most important variables in RL systems; etc. However the characteristics of the life cycle for the products managed in any RL system – identified by Tibben-Lembke as a critical point of consideration in analysing any RL network – are not clearly stated. Serrato et al thus set out to present a new categorisation of RL systems in their paper.

V. Daniel, R Gude Jr and Luk N Van Wassenhove, in their paper on "The Reverse Supply Chain" dwell on how smart manufacturers are designing efficient processes for re-using their products. They indicate how some companies are being forced to set up reverse supply chains because of environmental regulations or consumer pressures. Other companies like Kodak and Bosch are seizing the initiative on seeing opportunities to reduce their operating costs by reusing products or components.

In their paper they have identified Reverse Supply Chains into 5 key components and have analysed the options, cost and benefits of each. The key components so analysed are (i) Product acquisition; (ii) Reverse Logistics; (iii) Inspection and disposition; (iv) Reconditioning; (v) Distribution and sales.

They have concluded in their paper that as far as Reverse Supply Chains are considered, the most successful companies are those that closely coordinate them with their forward supply chains, creating a closed-loop system. Such companies, like Bosch for example, make product design and manufacturing decisions with eventual recycling and reconditioning in mind, thus dramatically reducing inspection and disposition costs and enabling companies to make a profit.

Sameer Kumar and Aaron Dieveney, in their paper on "Reverse Logistic Process Control Measures for the Pharmaceutical Industry Supply Chain", have attempted to analyse the pharmaceutical supply chain using the DMAIC process for improvement of Reverse Logistics in product recalls to avert the possibility of harm to the consumer. They hypothesised the problem areas in the supply chain and carried out a cause-and-effect analysis.

Their study yielded interesting and innovative

solutions which are being tested further. However specific information on the pharmaceutical supply chain was limited and well guarded, being a core competency with 3PRL providers who were found to be handling most of the RL activities for pharmaceutical companies.

James Stock and Mulki carried out a comprehensive study of reverse logistics practices of companies across the board through survey research methodology. They observed that companies understand the growing importance of Reverse Logistics, though the focus is relatively less.

Product disposal in Reverse Logistics should, in the authors' opinion be the strategy for sustainable growth. Outsourcing of Reverse Logistics and disposal activities can exploit benefits of economies of scale.

Hypothesis supported / proved by the study: (i) product returns are handled mainly by management level persons of the company; (2) majority of firms use return authorisation for accepting product returns; (iii) majority of firms dispose of return stocks themselves without delegating to stockists and retailers; (iv) product returns activity is not outsourced to third parties but scope exist for doing so.

3. The hypothesis

A. Cold chain pharmaceutical products :

- Null Hypothesis No 1: Requisite Standard Operating Procedures (SOP's) and Good Storage Practices (GSP) are available in the Cold Supply Chain to regulate the movement of sensitive pharmaceutical products and ensure efficacy and integrity.
- Alternative Hypothesis No 1: SOPs and GSPs are not rigorously implemented by some of the pharmaceutical companies. Quality and integrity of the products may be compromised in such cases.
- Null Hypothesis No 2: Adequate infrastructure is available in the pharmaceutical products supply chain like refrigerated transport, walk-in coolers, refrigerators, generators and battery back-ups to control the quality of temperature-sensitive products during transportation and storage.
- Alternative Hypothesis No 2: The infrastructure is weak in places leading to quality and efficacy

being compromised.

- Null Hypothesis No 3: Temperature data loggers and software are provided by pharmaceutical companies for electronic mapping of temperature and humidity conditions to ensure product quality and integrity. Prompt action is taken in cases of non-compliance.

- Alternative Hypothesis No 3: Temperature data loggers and software are not provided by all pharmaceutical companies for monitoring the quality and integrity of temperature sensitive products throughout the supply chain. Appropriate action is not always taken.

B. Reverse logistics :

- Null Hypothesis No 4: Requisite systems and controls are in place in the Distribution Supply Chain for date expired and damaged pharmaceutical products.

- Alternative Hypothesis No 4: Adequately rigorous systems and controls have not been implemented by some Indian pharmaceutical companies. There is a marginally better control regime in the operations of MNCs and large Indian companies.

- Null Hypothesis No 5: Requisite information systems are in place to effectively monitor and control the process of recall of sub-standard products by pharmaceutical companies

- Alternative Hypothesis No 5: The information systems for effective monitoring and control of the recall process and traceability for sub-standard products is not seamless and has many gaps.

- Null Hypothesis No 6: Claims against product returns by stockists are processed and cleared within a reasonable period of time by most pharmaceutical companies.

- Alternative Hypothesis No 6: Pharmaceutical companies do not accord requisite importance to processing of return claims from stockists. There is a perceptible lack of seriousness on their part in terms of resource allocation and execution.

4. Methodology

- In our research study the emphasis was on the last mile of the Supply Chain and on the practices followed by Authorized Stockists, Hospitals and Retailers
- A Questionnaire was designed on the basis of literature survey as outlined above and on the personal experience of the authors
- Various alternatives of administration of the research tool like sending the questionnaire to respondents by e-mail, courier and face-to-face interaction were considered
- The authors decided to opt for the face-to-face alternative in the interests of better communication and time management
- Stockists, hospitals and retailers within Central and Western suburbs of Greater Mumbai, and outside areas like Bhayander and Thane were studied
- The resources used for the survey were the students of DSIMS. An incentive of Rs 20 per complete questionnaire was given as a facilitation measure
- Letters were exchanged with prospective respondents assuring confidentiality and stressing the academic focus of the study
- As an additional inducement and to promote the perception of relevance of the survey, we assured all respondents that the summary findings would be made available to them on completion of the study
- To ensure accuracy of responses, convenient timings of the respondents were ascertained while scheduling the face-to-face interactions
- Care was also taken to ensure that the right respondent was available (proprietor, senior executive) for the interactions

5. Sample summary statistics

Geographical distribution and Categorisation – Cold Chain

Category	Region 1 : Mumbai metro, western and central suburbs	Region 2 : Mumbai metro, outlying areas like Bhayandar, Dahisar	Region 3 : Thane	Total
Stockists	11	6	3	20
Hospitals	9	-	-	9
Retailers	91	55	10	156
Total	111	61	13	185

Geographical distribution and Categorisation – Reverse Logistics

Category	Region 1 : Mumbai metro, western and central suburbs	Region 2 : Mumbai metro, outlying areas like Bhayandar, Dahisar	Region 3 : Thane	Total
Stockists	11	-	-	11
Hospitals	9	-	-	9
Retailers	91	41	3	135
Total	111	41	3	155

6. Findings

□ Section 1

Cold Chain Distribution

- Among the respondent stockists, 35% were found to receive cold chain products in Thermocole boxes with coolant packs; 50% receive them in refrigerated vans and 15% in normal DFC boxes
- Among the respondent retailers/hospitals 48.45% were found to be receiving cold chain products in Thermocole boxes with coolant packs; 24.84% receive them in refrigerated vans; 26.71% receive them in normal DFC boxes
- As far as storage of temperature sensitive pharmaceutical products are concerned 40% of the respondent stockists indicated that they store these products in walk-in coolers; 35% use refrigerators; 15% store these products at ambient room temperature; 10% use other methods of storage
- On the issue of storage of such products, 60% of the respondent retailers/hospitals indicated that they store these products in walk-in coolers; 16.97% use refrigerators; 17.23% store these products at ambient room temperature; 10.30% use other methods of storage (6016.9717.2310.3)
- On the other hand dispatch of temperature sensitive pharmaceutical products was found to be by refrigerated vans for 30% of respondent stockists; 35% by Thermocole boxes with coolant packs and 35% in normal DFC boxes
- 57.03% respondent retailers/hospitals were found to dispatch such products by refrigerated vans; the balance 42.38% use Thermocole boxes with coolant packs (57.0342.38)

➤ Reverse Logistics

□ Section 2

- Results of Hypothesis Testing – Cold Chain distribution
 - Supported/unsupported
- Results of Hypothesis testing – Reverse Logistics
 - Supported/unsupported

7. Summary and concluding remarks

- Designated person
- Dedicated space

- Lack of statutory requirements
- Trigger for power outages
- Internationally acceptance/use of biotech products in form of injectibles is growing at faster rate than conventional pharma products
- Efficacy of products compromised if temperature discrepancies are present in supply chain (Pfizer; Abbott, GSK)
- SOP does not vary from company to company
- Regulators like FDA and associations like OPPI and IDMA can generate SOPs
- Uniform operating practices should be introduced in industry
- Similar comments for Reverse Logistics
- Areas where process is prone to misutilisation, misrepresentation or corrupt practices
- Recommended destruction by incineration process

8. Scope for future investigations

- Sample size too small; needs to be enlarged
- Study was limited to a metro; need to broad-base the study

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Appendix Sample questionnaire:

Name:
Location:
Designation of respondent:
Date:
Mobile Number:
Email ID:

Cold Chain Products

- a. How do you receive these products?
 - Thermocol Boxes with coolants
 - By refrigerated van
 - Normal DFC boxes
 - Other - _____

- b. How do you store these products?
 - Walk – In – Cooler
 - Refrigerator
 - Thermocol boxes with coolant
 - Other - _____

- c. How do you dispatch these products?
 - Refrigerator
 - Thermocol boxes with coolant
 - Normal DFC cases

- d. Do you use data logger to track temperature of products in supply chain
 - Yes
 - No

- e. Where temperature levels have not been maintained what action do you take?

- f. Do you have backup against breakdown/power-cut?
 - Battery backup
 - DG Set
 - None

- g. Do you have standard operating procedure for storage and transportation of temperature sensitive products?
 - Yes
 - No

Excess Stocks / Stock outs

- a. How do you place order?
 - Telephone
 - Fax
 - Email
 - Auto-order
 - Other - _____

- b. Is your IT system connected with Manufacturer?
 - Yes
 - No

- c. What percentage (%) of products are invoiced in last week of the month?
 - 25 %
 - 40 %
 - 50 %
 - More than 50 %

- d. Reasons of excess Inventory of Products?
 - New Products
 - Excess order / Bullwhip effect
 - Inaccurate demand forecasting
 - Non-availability of products from manufacture / C&F
 - Other - _____

- e. Which manufacturer’s products do not have stock-out problem & why?

- f. Is there a standard operating procedure for

replenishment?

- Yes
 No

g. How do you return slow moving, short expiry products?

Return Logistics

a. How do you locate & return 'Recall' products?

- From retailers to stockist
 From stockist to C & F
 Other - _____

b. Is there a standard operating procedure?

- Yes
 No

c. How do you process data expiry / damaged stock?

- Return to stockist with full details at regular intervals
 Return to C & F with full details at regular intervals
 Other - _____

d. Is there any agreed standard operating procedure?

- Yes
 No

e. Are you involved in destruction of data expiry / damaged stocks?

- Yes
 No

f. If 'Yes', selected in the question 'e' than how?

Counterfeit Drugs

a. What is your estimate of the magnitude of counterfeit drugs in India, as a percentage of the total trade in pharmaceuticals?

- Less than 5%

- 8-10%
 More than 15%

b. Over the last 5 years the inflow of counterfeit drugs into the trade, in your opinion, has

- Increased
 Decreased
 Remained at approximately the same level

e. What are the mains causes of counterfeiting of drugs?

d. In your opinion does our present legal system provide adequate protection against counterfeiting?

- Yes
 No

e. Can the regulatory framework in India be improved by assigning accountability to any one authority in India, so as to have centralised control over counterfeiting of drugs?

d. Do you think that Auto ID technology can help in controlling this problem?

- Yes
 No

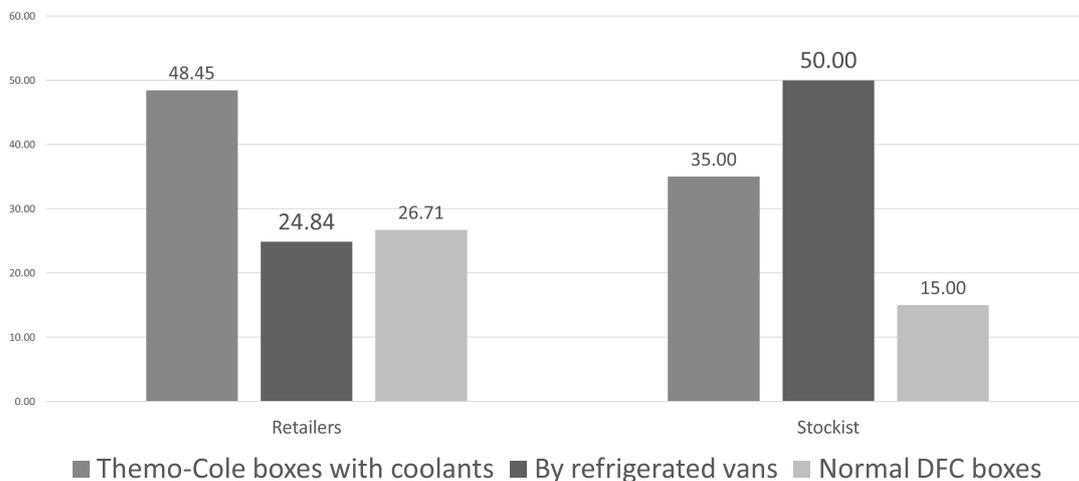
e. What are the possible benefits of Auto ID technology?

- Instant verification possible at any location
 Allows robust tracking and tracing across the supply chain
 All of the above
 None of the above

11. Appendices

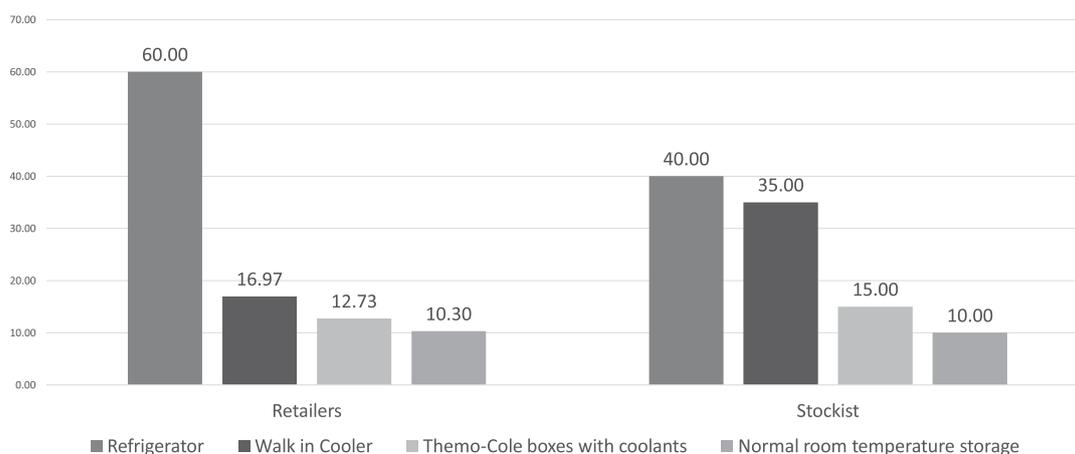
How do you receive the product? (INBOUND)

in % age



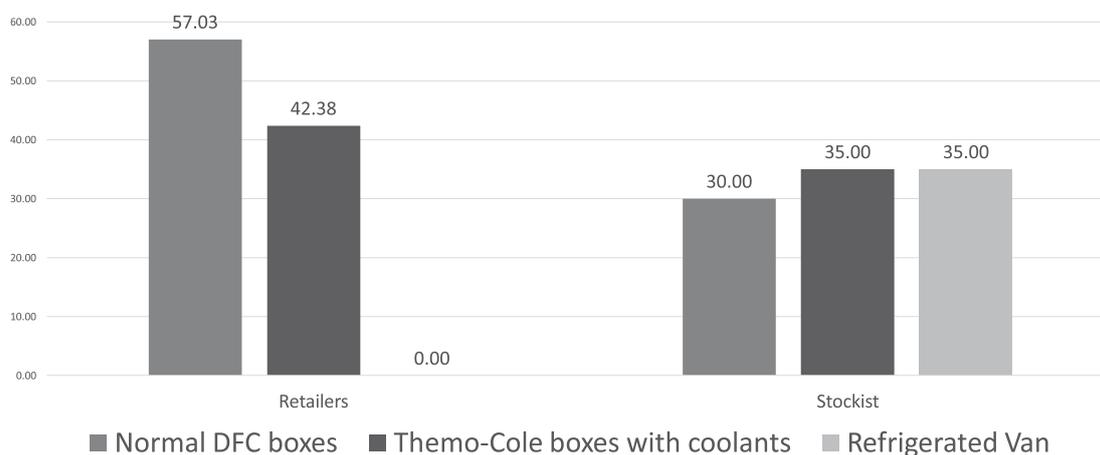
How do you STORE the product?

in % age



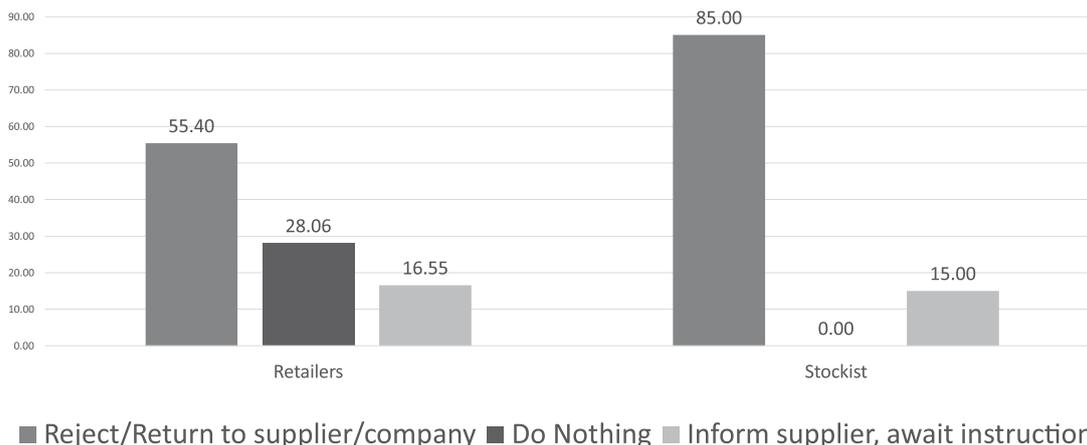
How do you dispatch the product? (OUTBOUND)

in % age



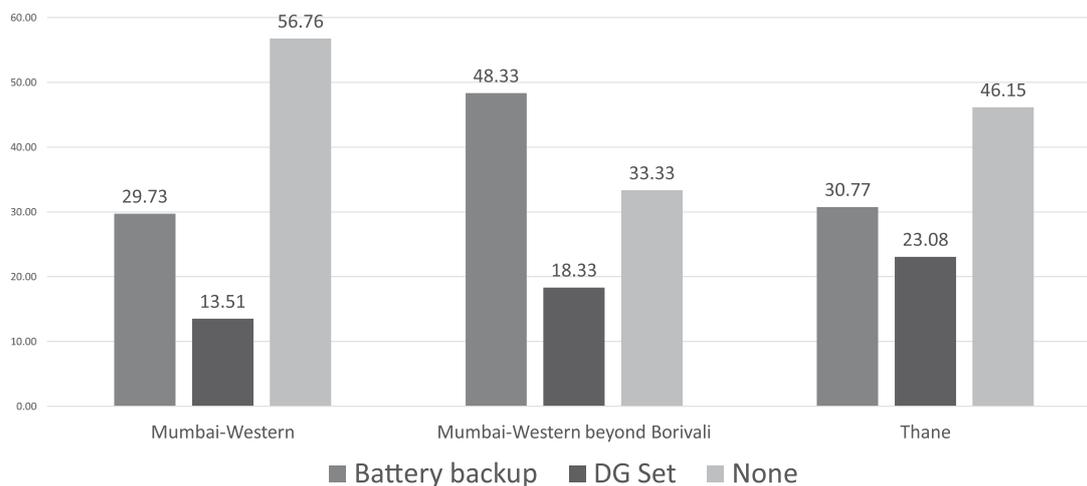
Actions taken in case temperature levels are NOT maintained

in % age

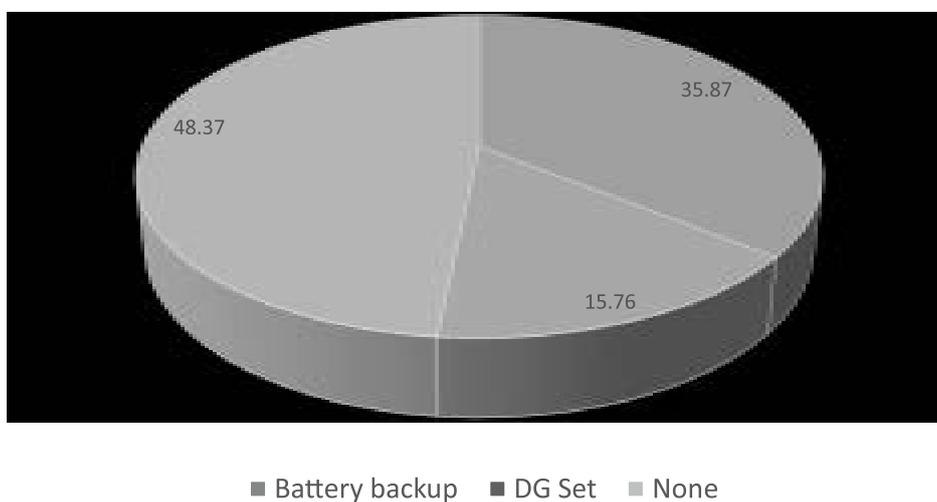


Availability of power backup (Geographic break up)

in % age



% of Respondants having power backup



OUTSOURCING IN THE LIGHT OF APPLIED WELFARE ECONOMICS

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Abstract :

This article examines outsourcing decisions from Applied Welfare Economics perspective. Companies base their outsourcing decisions solely on improving profitability by lowering costs. However, a lowering of cost of goods sold is not the sole criterion to outsource. There exists distinct comparative advantage in outsourcing decisions. Using a decision theoretic approach, a framework is conceptualized as a guide to outsourcing issues facing companies and nations. The gains from outsourcing results in Kaldor – Hicks criterion of redistributive wealth and opportunities for nations’ offshoring their jobs to more economically favorable locations. Globalization, technological innovation and International economic regulation makes outsourcing more effective, even though there is a temporary wage arbitration and increased risk of contractual agreement being not honored in spirit. In future, this framework shall also aid decision makers to pursue outsourcing for greater economic welfare of nations.

Keywords:

applied welfare economics, comparative advantage, Kaldor – Hicks criterion, International economic regulation

Introduction

The 2015 Union Budget has just been tabled in the Indian Parliament. The nation is a flux of growth. Expansion is generated from new “Make in India” business sutra to rapidly increasing service scope. With sweeping changes in the Indian economic horizon, which looks so prominent as we tip toe in the next fiscal year of 2015 – 2016, the government’s pro – business attitude is expected to give a philip in the shared services and the outsourcing sector. Bengaluru based Dynamatic Technologies’ have started assembling flap- track beams for Airbus’

A320 and A321 aircraft – the beams, which weigh 45 kilograms each, are critical structures connected to the wing and are used for moving the flaps during take-off and landing. Every large aircraft requires six beams and the plant produces 45 sets a month. In 2014, Airbus contracted Dynamatic for the supply of flap track beams for its A330 family of long-range jets. It represented a new high for the nascent commercial aerospace manufacturing industry in India. The procurement from India for this France based aircraft manufacturing company is slated to at least double in the current fiscal. India has moved from merely a low cost low skill outsourcing nation for developed economies to a state of art mission critical solution provider to the outside world. A fundamentally strong and lean manufacturing system, a superior and highly trained manpower owing to the new “Skill India” approach, which is competitive in cost to advanced economies of the west and a supply chain process maturity unheard of in the past has catapulted India from the past imperfections to wealth creating opportunities right from information technology enabled services to aerospace. NASSCOM studies have shown that 50% of the Fortune 500s will have centres in India by the end of 2015 with IT-BPM Revenues to hit USD118 Billion in FY2014 – 2015. This puts India on a new economic growth trajectory in 2015 using technology and innovation to drive efficiency and greater ROI from outsourcing and global shared services.

In this context it becomes a necessity to understand the economic basis of outsourcing to broadly appreciate the new government’s economic policies, such that they are effective and able to leverage upon the changing paradigms of global businesses that govern the country’s bearing on services and manufacturing competitiveness. Figure 1 details the reasons to outsource jobs.

REASONS TO OUTSOURCE

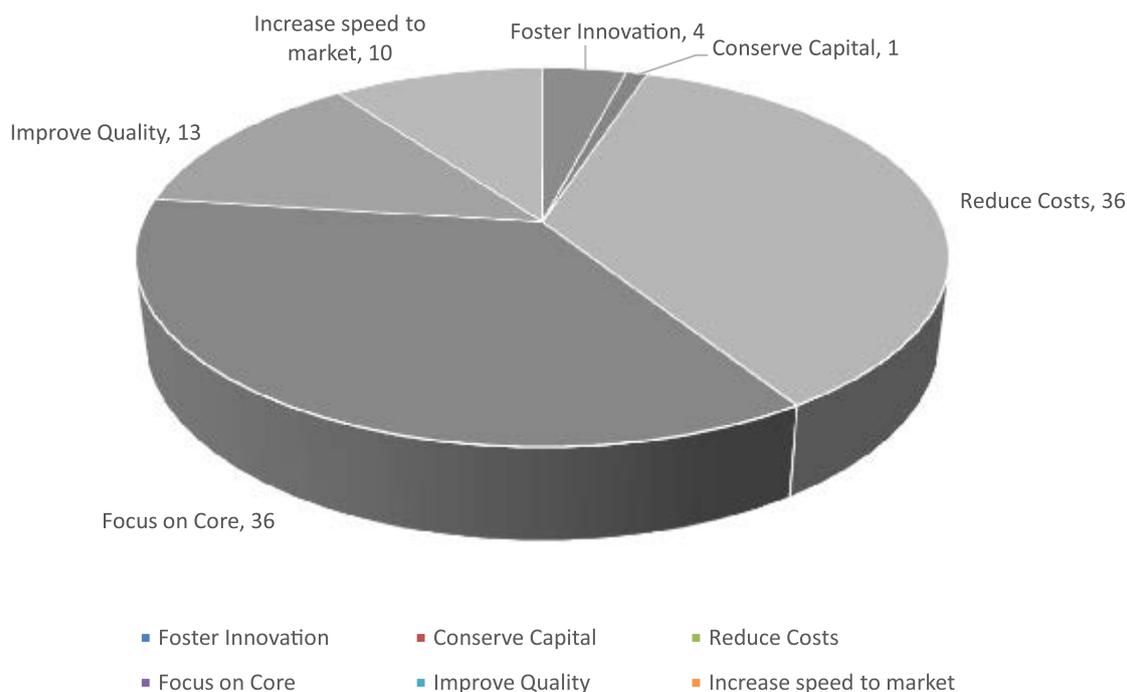


Figure 1: Reasons to outsource (in %) (Source: Gartner Research, 2015)

International outsourcing received significant attention in the recent past with economic think tanks like Jagdish Bhagwati, Arvind Panagariya and T.N. Srinivasan (2004) vocal about the “muddles of outsourcing”, particularly in context of structural imbalances in employment, labor and wages in US economy. The same sentiments are echoed by Mankiw (2004) looking as outsourcing as inevitable economic processes “I think outsourcing is a growing phenomenon, but it’s something that we should realize is probably a plus for the economy in the long run.” The motivation for the current study comes from Mankiw and Swagel (2006), “There has been little normative analysis on the welfare impact of offshoring. This is perhaps because economists see outsourcing as simply a new form of international trade, which as usual creates winners and losers but involves gains to overall productivity and incomes.”

What is important is to appreciate the fact that any proximate job loss in advanced economies as a result of outsourcing results in gain of cost savings for the domestic firm which can redeploy the freed capital in new product development and R&D, thus spinning off a flurry of set of economic activities in the home turf that generates economic gains in home base. To

allay the fears of loss of wages and income for advanced economies, there is a distinct gains from trade that makes the partner countries be in a win – win situation rather than the pervasiveness of job glut and economic downsizing of nations.

Literature Review

Outsourcing provides flexibility and cost optimization, allowing firms to move from fixed cost to variable expenses in realignment of Cost of Goods Sold (COGS), thus resulting in price savings and increased economies of scope (Ellram et al., 2008; Corbett, 2005, Doig et al, 2001). Outsourcing decisions are strategic in nature, which not only affects the firm’s cost structure but also the state of competitiveness, shared risks and resources. Outsourcing presents better economies of scale and scope that is often not available internally (Farrell, 2004; McDougall, 2004). However, it needs to be mentioned that, if there is inadequate application of mind and judgment, outsourcing decisions can result in moral hazard problems and uncalled for consequences that might result in escalated costs for the company outsourcing to offshore locations, therefore warranting a far more greater insight on the economics of outsourcing (Roth and Menor, 2003). From a theoretical assessment, there has been various economic theories in place to explain the

logic and rationale of outsourcing. These economic theories provide considerable light to outsourcing decisions. Prominent amongst them are transaction cost theory, core competencies theory, relational theory, resource based theory, evolutionary economics based theory, knowledge based theory, principal – agent relationship theory and social exchange theory. A summary of these theories is briefly discussed below.

Theoretical perspectives of outsourcing

Transaction Cost Theory: Researchers Lacity and Willcocks (1995) explored the phases of preparation, vendor selection, relationship management and reconsideration, from the viewpoint of the TCE theory.

Core Competencies Theory: Researchers Prahalad and Hamel (1990) defined Core Competencies as the collective knowledge of an organization, especially with regard to the ways of combining different productive skills and the integration methods of various different technologies.

Relational Theory: The Relational Theory provides explanations on how enterprises may acquire and maintain a competitive advantage with regard to their relationships with other organizations (McIvor, 2005).

Resource-based Theory: The main premise of the Resource-based Theory is that resources and capabilities can differ significantly among organizations and that these differences remain stable (Barney & Hesterly, 1996).

Evolutionary Economics Theory: Mahnke (2001) uses Evolutionary Economics in order to develop a broad model, which attempts to explain four out of the five phases of the outsourcing process, i.e. the phases of Preparation, Transition, Relationship Management and Reconsideration.

Knowledge-based View: The Knowledge-based View provides an understanding of how individuals cooperate to produce goods and to provide services (Nasiopoulos, Sakas, Vlachos, 2014).

Agency Theory: The theory suggests that the use of continuous monitoring and the reinforcement of the ties between two organisations (Barney & Hesterly, 1996) can address any problems which might arise (Arrow, 1985).

Social Exchange Theory: The Social Exchange Theory interprets interpersonal transactional relationships by using the economic cost benefit

analysis as a requirement for social participation and social exchange (Whitten and Wakefield, 2006).

From an economic standpoint, Transaction Cost Economics (TCE) aims to answer the merit of outsourcing. Earlier work done by Apte et al. 1995, Bardhan and Kroll 2003, 2006 highlights the role of TCE in postulating that organizations will choose the business model that leads to lowest cost in production of outputs. To strengthen the school of thought that advocates for use of TCE in grounding the advantages of outsourcing, several other studies have used TCE to better understand outsourcing decisions, advancing support for the cogency of TCE as a suitable framework through which to scrutinize outsourcing decisions (Arnold, 2000; Auburt et al., 2004; Maltz, 1994; Murray and Kotabe, 1999; McCarthy and Anagnostou, 2004; Noordewier et al., 1990; Odagiri, 2003; Ulrich and Ellison, 2005; Walker and Weber, 1987). There is equal sense of opportunism by the two parties involved in an outsourcing agreement in the marketplace (Williamson, 1985, 1988)

The extant literature majorly focuses on transaction cost theory and contributes significantly in building the construct of TCE as briefly outlined below.

Asset Specificity The degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value (Williamson, 1976, 1991b)

Bounded Rationality The rationality of individuals is limited by the information they have, the cognitive limitations of their minds, and the finite amount of time they have to make decisions (Simon, 1978; Wikipedia)

Decision The fundamental make or buy decision (e.g. Williamson, 1991b) in which a client organization decides to keep a transaction in-house or decides to contract with an outsourcing supplier for all or part of the transaction

Decision Outcome The outcome of an outsourcing decision (Lacity et al., 2010)

External Production Cost Advantage: The degree to which a supplier is perceived to have an advantage over a client organization in production cost economies (e.g. Williamson, 1991a,b; Ang and Straub, 1998)

Measurement Difficulty The degree of difficulty in measuring performance of exchange partners in circumstances of joint effort, soft outcomes, and/or

ambiguous links between effort and performance (Poppo and Zenger, 2002).

Opportunism “Self-interest seeking with guile” or “Making of false or empty, that is self-disbelieved, threats and promises” (Williamson, 1976, 1991b)

Transaction Costs The effort, time, and costs incurred in searching, creating, negotiating, monitoring, and enforcing a service contract between buyers and suppliers (Williamson, 1991b; Ang and Straub, 1998)

Transaction Frequency The number of times a client organization initiates a transaction, typically categorized as either occasional or frequent (Williamson, 1991b)

Uncertainty The degree of unpredictability or volatility of future states as it relates to the behavioral or environmental factors (Williamson, 1991b; e.g. Poppo and Zenger, 2002; Aubert et al., 2004)

From an economic perspective, TCE is used as an adaptive criterion for outsourcing decisions. However, this approach is myopic in the sense that it attempts to capture the extra cost i.e. the transaction cost which has to be undertaken by the companies which outsource their part of activities as well as the cost advantage enjoyed by them pre & post outsourcing. The gap emerging from the review of literature is the absence of a holistic approach i.e. a wider purview of economic impact of outsourcing, balancing all the multiple stakeholders’ (cross border) interests’. In such cases, Cost Benefit Analysis is often employed to investigate transactional, cost benefit view of outsourcing. This article is an extension of Social Exchange Theory to explain outsourcing decisions in view of Cost Benefit Analysis.

Cost Benefit Analysis is a practical tool at the disposal of Applied Welfare Economics to evaluate an outsourcing decision. Cost-benefit analysis (CBA) is a method of evaluating the net economic impact of outsourcing. The aim of CBA is to determine whether the outsourcing decision is desirable from the point of view of social welfare, by means of the algebraic sum of the time-discounted economic costs and benefits of the outsourced assignment. In other words, CBA works by measuring streams of benefits over time and streams of costs over time, and then expressing them in terms of their discounted “present value.”

The existing literature on Cost Benefit Analysis are deeply ingrained in applied welfare economics and

dates back to the 19th Century. It has since then been widely used as a tool for policy making (Prest and Turvey, 1965). Recent literature reports cost benefit analysis of outsourcing (Kremic et al. 2006).

There are costs and benefits to outsourcing (Domberger and Fernandez, 1999). TCE views outsourcing as a contractual agreement, which includes costs (Lacity and Willcocks, 1995; Maltz and Ellram, 1999; Lafferty and Roan, 2000). Outsourcing has also its benefits in lowering supplier overheads, transaction costs (Harler, 2000), leveraging economies of scale and specialization in specific operations (Roberts, 2001), decrease in capital cost (Kakabadse and Kakabadse, 2002), saving indirect cost (Vining and Globerman, 1999), better allocation of resources and increased flexibility (Wright, 2001).

Research Gap Analysis

There seems inadequate literature in the area of Economic and Social Welfare Analysis of outsourcing projects. Two distinct research gaps emerge from the review of literature.

- What is the aggregate economic welfare in an outsourcing decision?
- What would be the optimum risk allocation among various stakeholders with conflicting interests?
- What could be the possible International Economic Regulation exclusive to outsourcing as a part of International Trade, ensuring that the interests of all parties are best served in an outsourcing context?

Apropos to the research gap identification, the following research questions highlights the tone and importance of research in outsourcing decisions in the light of applied welfare economics.

Research Questions

- How does outsourcing affect aggregate economic welfare?
- What is its effect on the level of employment?
- How does it affect income distribution, especially the real wages of workers?
- Does outsourcing leads unambiguously to welfare gains, with the usual distributive effects between the two nations?

e. What about shared resources and risks?

In this article, an attempt has been made to develop a conceptual framework to arrive at outsourcing policy from an applied welfare economics perspective. In this direction, all stakeholders are included in the analysis, the outsourcing company, the parent company which is offshoring the job, the job market in home country and the outsourced nation and the competitive advantage of nations in a given socio-cultural, technological and geo – political context.

toward use of CBA for outsourcing decisions. In this context, Cost-benefit analysis, CBA, is the social appraisal of outsourcing policies, which have consequences over time. It uses criteria derived from welfare economics, rather than commercial criteria. CBA seeks to correct outsourcing decisions for revenue loss or appreciating externalities, both negative and positive. CBA seeks to attach monetary values to external effects so that they can be taken account of along with the effects on ordinary inputs and outputs to the outsourcing policy. Figure 1 illustrates the conceptual framework of CBA, which may be applied for decision making in outsourcing.

Decision Framework

This article aims to develop a conceptual framework

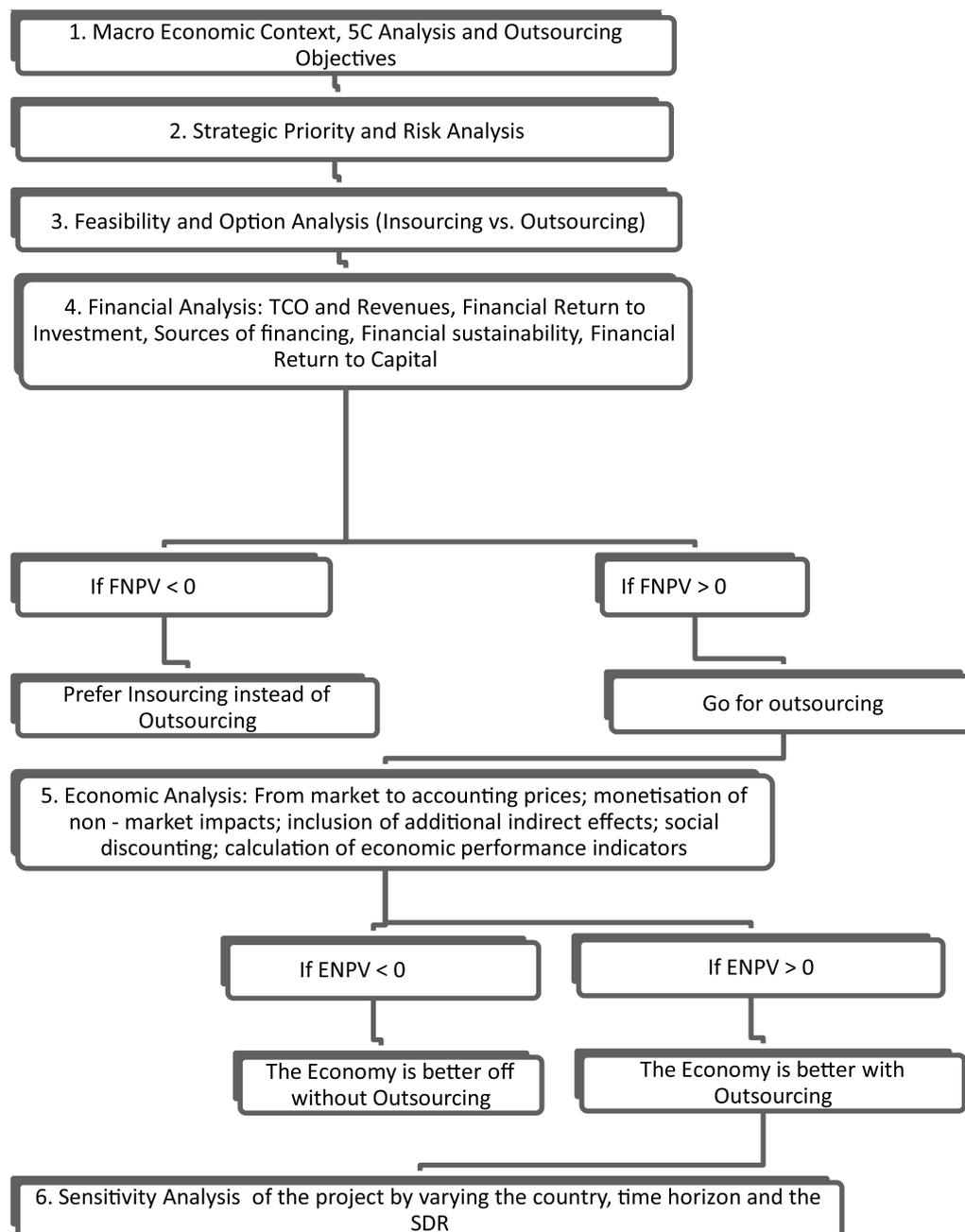


Figure 1: The Six Steps of Cost Benefit Analysis for Outsourcing (Source: Adapted from Guide to CBA, EU, 2008)

Cost Benefit Analysis is a practical tool at the disposal of Applied Welfare Economics to evaluate a project.

Cost-benefit analysis (CBA) is a method of evaluating the net economic impact of a project.

The aim of CBA is to determine whether a project is

desirable from the point of view of social welfare, by means of the algebraic sum of the time-discounted economic costs and benefits of the project. In cost benefit analysis, the social marginal benefit and the social marginal cost are usually taken for the analysis. A recent study by Booz, Allen and Hamilton (2014) shows the significance of CBA in outsourcing projects (Figure 2).



Figure 2: CBA reveals cost advantage in the long run (Source: BAH, 2014)

Growth and Equity are two basic objectives of CBA. Shadow prices are used to measure shadow profits or economic profits of projects, which are measures of general equilibrium approach and include all the direct and indirect effects of a project. Application of Social Discount Rate (SDR), which is the reflection of comparative financial statements of today's well-being because of the outsourcing decision and well-being in the future, is also applied in the economic cost benefit analysis of outsourcing projects. A higher SDR makes it less likely that outsourcing should be made, since it has serious impediments on the future well-being of nations. The selection of SDR has an important bearing on the outcome of the CBA and must be chosen carefully. Though there is

considerable divergence in the value of SDR, developing nations typically apply a lower discount rate (3 – 7%) as compared to the developing economies (8 – 12%).

CBA also acts as a potential Pareto improvement test for the outsourcing decision.

A positive NPV indicates that, with due allowance for the dating of costs and benefits, the project delivers a surplus of benefit over cost.

The consumption gains involved are greater than the consumption losses, taking account of the timing of gains and losses.

The existence of a surplus means that those who gain from the project could compensate those who lose and still be better off. Figure 3 shows the potential Pareto improvement in an outsourcing project.

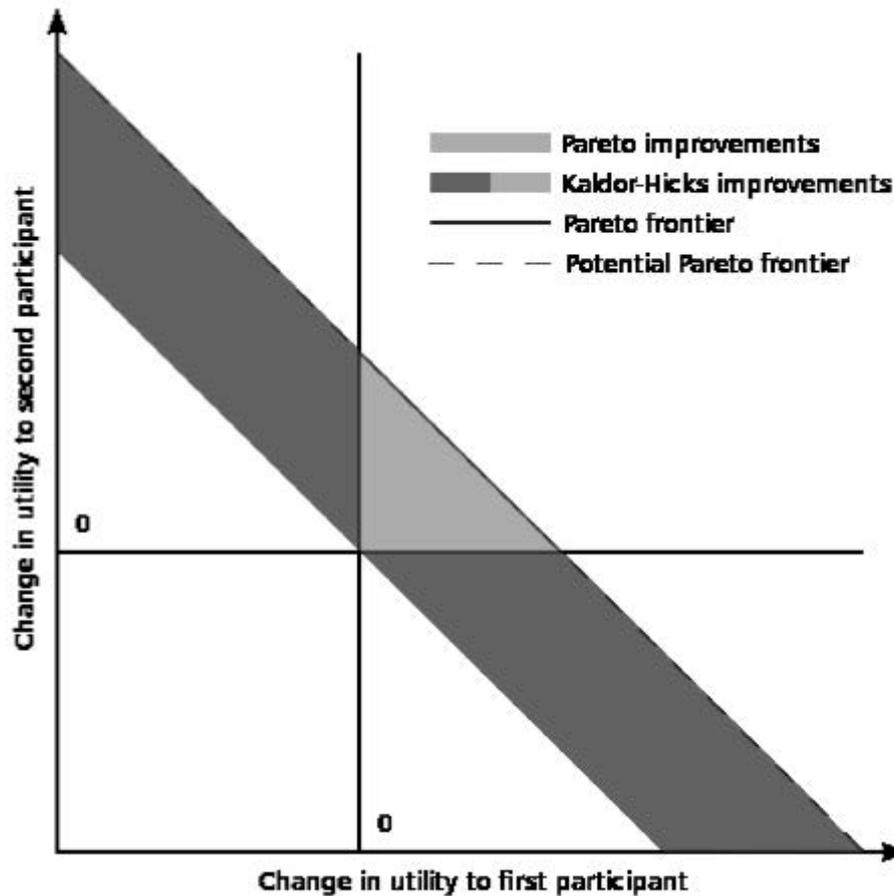


Figure 3: Potential Pareto Improvement in Outsourcing Decision (Source: Accessed from <http://es.wikipedia.org>)

The main justification for use of CBA as a chosen methodology for evaluating performance of outsourcing projects is that CBA can incorporate all the different costs and benefits, which not only includes private costs and benefits but also the different external costs and benefits (externalities) that arise as a spillover effect of the specific project to encapsulate the wider economic impact. Financial performance indicators like Financial Rate of Return (FRR) and Financial Net Present Value (FNPV) and economic performance indicators like Economic Net Present Value (ENPV) and Benefit Cost Ratio (BCR) can be suitably estimated in the analysis.

Scope of Future Research

This article is an opening to the huge opportunity that exists in evaluation of outsourcing projects in the light of applied welfare economics. A large outsourcing project assumes inherent risks of various nature especially when it is contemplated for a long time span for its full outcome to fructify through a series of benefits (besides revenue) and costs. Thus it is necessary to subject the analysis to

various forms of risks that may not be contemplated but entirely feasible. This has to be done with statistical tools like and sensitivity analysis of various kinds. The project comes through with the clear positive outcome after having been subjected to such risk profiles. It is a win-win outcome for all stakeholders – the government as the agent of society in the principal-agent framework, the public users of the outsourced goods and services at large, the clients and the vendors, and other agencies involved in the operation and regulation of the outsourcing project. The future endeavor is to develop a detailed analysis of shared risks and shared resources shared by the outsourcing partners. International economic regulation and monitoring of outsourcing projects would also add conceptual rigor to the analysis and synthesis of the performance evaluation through CBA of the outsourced projects.

Summary and Conclusion

The conceptual framework of CBA to be applied in outsourcing decisions, as illustrated in this article serves as a critical tool to measure the economic justification for reasons to outsource, with a firm

grounding on the rationale of financial gains from the project. Outsourcing as a sector is perhaps a good example which upon evaluation by CBA leads us to decide whether the project is financially sound as well as economically fundamental to the growth of the nations in general and outsourcing companies in particular. It also provides a sense of direction to the bodies like NASSCOM, FICCI or CII that collaborative efforts between two companies from two different countries can be mutually enriching as well as financially rewarding with profound economic gains.

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REVIEW OF OUTSOURCING IN GOVERNMENT ORGANISATIONS IN INDIA-AN HRM PERSPECTIVE

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Abstract :

When the Economic Reforms started in India in 1991, one of the important priorities of the government was to reduce the government expenses without comprising the efficiency and responsiveness of the governance in the country. So, it became imperative for the various government departments to spend the available resources in the most efficient and productive manner. The government adopted the strategy to outsource some of the functions to outside agencies who could provide those services in a more efficient manner and at a lower cost. This article tries to find out the nature of functions that were outsourced and their impact on effective functioning of the government. It tries to find out both the positive and negative impacts of outsourcing. Normally, it is helpful in reducing the operational cost, but in many cases it also increases the instances of corruption and fraud. The article also tries to find out the regulatory issues in the whole process of outsourcing and the important role to be played by various regulatory agencies. It also deals with the various human resource issues like unemployment, job insecurity and lack of promotional avenues due to downsizing and outsourcing of various functions.

Keywords:

downsizing, manpower planning, employee relation.

1. Meaning, Concept And Philosophy

Outsourcing can be defined as the situation where 'an external vendor provides, on a recurring basis, a service that would normally be performed within the organisation'. In other words, outsourcing is a process in which companies concentrate on aspects of their business, which give them a competitive advantage (core-business) and contract out the more peripheral, or non-core aspects to other firms. It is in

this sense that the term is often used interchangeably with subcontracting or contracting out.

Outsourcing in government organisations in India has thus more to do with outsourcing of non-core or peripheral functions. These functions can be non-sovereign functions traditionally carried out in various ministries of central and state governments and their field offices. Alternatively, it can be outsourcing of non-core services or manufacturing activities as done in public sector undertakings. The philosophy behind is things which can be done by outside agencies at lower cost and with better quality need not be done by government organisations and these government organisations should focus more on their core activities or sovereign activities. In this way, government can be made "leaner, thinner and smarter". That is how the idea of rightsizing or downsizing also came. Because when you don't do certain activities you render the manpower earlier performing that work as surplus and therefore it is logical that you can downsize or more humanly called right size the organisation by shedding extra manpower. In government, we shed this extra manpower by formulating attractive Voluntary Retirement Schemes and also by putting ban on certain categories of recruitment. Thus, after shedding this extra fat called as surplus work force government organisations become leaner, thinner and therefore smarter and active just like human beings. Thus, the personified organisation becomes efficient and cost effective in the delivery of goods and services where it has core competence.

However, this philosophy of outsourcing has its critics as well. When Indian economy was opened and LPG era started in 1991, there was huge opposition from some political parties especially left parties like CPI and CPI(M), some regional parties and also from BJP, especially its sister organisation like Swadeshi Jagran Manch. Working class protested through trade unions in some pockets but there were no organised protest movements against

outsourcing. In fact, many political parties and trade unions could not understand the nuances of outsourcing and therefore simply started living with it. This resulted in the congress party and its government becoming the first party and government at Centre to implement outsourcing. However, there was no authentic policy document or guidelines on how to go about outsourcing. The outsourcing philosophy percolated down to ministries, departments and field unit level and they started implementing this philosophy. The advantages given were capacity management, cost savings, more focus on core tasks and therefore improved quality and delivery schedule and access to operational expertise and knowledge available outside the government. No doubt, outsourcing became a buzzword in organisations.

2. Outsourcing History

In the recent times, there have been lots of speculations and negative criticisms against outsourcing to offshore destinations. Nevertheless, it has to be noted that outsourcing as a phenomena is not new but has been going on since ages. If one looks at the outsourcing history one can realize that since ancient time's companies in developed countries have outsourced services to nearby less developed countries.

Before the IT revolution, many companies in the US outsourced manufacturing jobs to countries like Canada, Mexico and South America in order to cut costs. Many even set up separate workstations and factories in these regions. The only difference between then and now can be seen in the frantic pace at which things are happening. Also as manufacturing jobs involved solid goods they needed to be transported that gave rise to a different kind of employment opportunity. IT outsourcing does not involved any transportation from the manufacturing destination to the client's place. Apart from these differences, outsourcing history seems to be quite an old thing

3. Outsourcing Problem

Outsourcing has been seen as a major problem by workers of developed countries who had to loose their well paying jobs; as these jobs were outsourced by their companies to relatively cheaper off-shore destinations like India and China. Therefore, there are job losses and then there is a slow decrease in the

standard of living and all this because of the outsourcing problem. However, will it be correct to make such a statement?

The outsourcing problem is not something that crept on its own. In fact, it is not a recent phenomena but an evolutionary one. Outsourcing has been going on since ages; first in terms of manufacturing jobs and presently in terms of IT jobs. But who is to blame for this; the companies or the customers? Customers need better service at cheaper rates and providing this seems to be the best way to retain them. If a company decides not to outsource its products due to some sentiments, it is bound to loose out on its customers to other companies that are able to provide the same service at a cheaper rate because of outsourcing. So, in many cases, the outsourcing becomes a competitive necessity for the companies. Global outsourcing is a phenomenon that has come up because of increased technology, better communications and of-course competition. Therefore, to blame only companies for outsourcing would not be justified. In addition, who knows; global outsourcing in the long run could give rise to improved economic conditions and better paying jobs in all countries that take part in it.

4. Government Guidelines Regarding Outsourcing

Some of the policies and guidelines on outsourcing issued by various Central Government Departments/Commissions/RBI and State Governments are briefly discussed below:

Sixth Pay Commission has mentioned the outsourcing of basic work relating to cleaning, security, maintenance, etc. and welcomed this trend. It has emphasized a need to encourage and support this move by bringing about systemic changes. This will let the employees in Government focus on core and skilled activities. The major concentration of Group D employees in Railway and Ordnance factories and need for the upgradation of their posts to skilled in Group C after proper competency building is also mentioned. Similarly, abolition of the posts of followers and those like sweepers, khojies, etc in CPMF and BSF is also mentioned. The intention of the commission is that all these functions can either be outsourced with proper security clearance or given on contract without any operational problems. In a nutshell, the 6th Pay Commission recommends that all

nonessential jobs that can be done by outsiders without any operational problems or security issues can be outsourced.

Draft RBI guidelines for Outsourcing in Financial sector: The concept of outsourcing in Banks came up in 1990's after the emergence of private sector banks like ICICI Bank, HDFC Bank and Axis Bank. These banks made extensive use of the external agencies and manpower for aggressive expansion of their business. These outsourced agencies were extensively used for sourcing of account opening and loan applications, processing of loan proposals, data entry operations, recovery of outstanding loans and dues, marketing of insurance policies and credit cards etc. However, gradually it was realized that the outsourcing had many risks associated with it and RBI received many customer complaints about the behaviour and processes of the outsourced agencies. Therefore, RBI came up with draft guidelines on outsourcing of financial services by Banks. The main feature of these guidelines is that there is a demarcation between those activities that could be outsourced and those activities that should not be outsourced. It has been insured that activities related to receipt and payment of cash to the customers should not be outsourced.

Delhi Government has issued guidelines on sanitation in Government schools by outsourcing. The contract for sanitation in 117 schools is awarded to one firm while additional 621 schools are under contract to a second firm. The contract with these firms is an umbrella agreement. The guideline specifies all the terms and conditions of the work, mode of payment, adherence to statutory norms.

Governments of Andhra Pradesh vide its circular ref G.O.Rt.No.4459 dated 27.12.2006 issued guidelines for Outsourcing of supporting services in the Government Departments. As per this order, Government decided for outsourcing certain services in the Government departments to the agencies. Accordingly, the government has given the responsibility of supplying the required manpower for certain supporting functions and functionaries in some of the departments to the private agencies. The Guideline has directed to constitute a committee at the district level under the chairmanship of the District Collector for outsourcing decisions. A Detailed guideline on outsourcing was issued by the Government of A. P. as an annexure to the above

circular. The salient features of this annexure are mainly adherence to all labor laws and statutory guidelines such as EPF, ESIC, Maternity benefits, Paid Casual Leave, Timely payment of wages not less than the minimum prescribed by the state, Service tax registration and payment by the outsourcing agency, etc. In addition, the roles and responsibilities of the concerned Departments as Principal employers are clearly spelt out including their registration as principal employer.

Government of Tamil Nadu has issued tenders for outsourcing of Call centers in Tamil Nadu electricity Board for 2008-09 vide tender id no. 30521 & tender ref. No. CED/CNR.specification No. : E-898/2009-09.

Karnataka government decided to outsource the maintenance of government- run temples to mutts. The temples included centuries-old Sri Mahabaleshwara Temple at Gokarna in Uttara Kannada district to the Sri Ramachandrapura Mutt. This is an important Shaiva centre of worship on the coastal belt, the temple draws lakhs of pilgrims and its hundi collections alone add up to over Rs 10 lakh annually. The temple was under the aegis of the Muzrai department before it was handed over to the mutt following a government notification.

Ministry of Mines, Government of India has formulated guidelines for outsourcing programmers on contract basis vide its circular dated 13.02.2009.

The Ministry of Commerce, vide its press release dated 7th Sep,2006 emphasized that engineering Process Outsourcing will be the key element in India's EXPORT STRATEGY. Accordingly, many state Governments formulated policies for developing various outsourcing industries. Government of Kerala is one such example.

5. Implementation In PSU's, Central Government And State Government

Governments and Public Sector Units are increasingly resorting to outsourcing. These are following basic drivers behind outsourcing-

- Save money
- Improve quality
- To achieve better access to skills
- Avoid capital outlay (often a more important

- consideration than direct cost savings)
- Turn a fixed cost into variable one (thus, if, the workplace shrinks, HR costs can be reduced accordingly)
- In order to provide service with quality without having to train the present staff

The broader trends in privatization coupled with rising expectations of more efficient government services has created interest and willingness among government managers and political leaders for outsourcing. A lot of attention has been given on identifying organizations reasons for pursuing outsourcing. In an important study in 2005, 'G.W.Rainey' divided the rationale for outsourcing in two categories, i.e. "mundane" drivers and "elegant" drivers. Among the most commonly cited are "mundane" drivers (Rainey, 2005) focusing on cost savings and access to specialized expertise and services. Financially, organizations considering outsourcing are often attempting to achieve operational costs savings (through economies of scale provided by large external service providers), avoid capital outlays for technology upgrades, or turn fixed costs (permanent HR staff positions) into variable costs (HR services purchased at desired levels). More "elegant" rationales for outsourcing include creating stronger internal focus on core functions and delivering more strategic value for the organization.

The Public Sectors took up the course of outsourcing both due to "mundane" as well as "elegant drivers". Public Sector at some point of time realized that there cost of operations were high especially in areas where these were directly competing with the private sectors such as Airlines, telecom etc. In addition, the services provided were required to be of the level being provided by the private sectors. These firms realized that it would be better to strengthen its value addition by concentrating on core businesses. Even in the sectors not facing competition the outsourcing need was necessitated by the service level requirement of the people.

6. Outsourcing Of Economic And Noneconomic Activities, Goods And Services

In principle, the outsourcing can be done of any activity or supply of good, doing or production of which in-house is more inconvenient/costly than

entrusting it to an outside agency. Hence outsourcing can be of manpower (security, computer operators etc.) or of goods and services (eg. Catering, Supply and maintenance of electronic equipment etc)

7. Trade Union And Labour Issues

Resistance to change is ubiquitous and nothing quite resists change like organizational inertia. The trade unions and the employees effected must be properly explained the situation. Necessary training and skills have to be imparted to the effected persons to enable rehabilitation, wherever required. Engaging the appropriate unions early by communicating the benefits of outsourcing, offering to help transfer employees and helping them retain their union status are things which will be helpful.

It is possible that the use of outsourcing, especially that which involves the use of employees from labour hire firms working alongside regular employees of the firm will create problems of commitment for both group of workers. Outsourcing creates the possibility of a form of dual commitment. The commitment of employees to the enterprise they work as well as to the firm that employs them. (i.e. labour hire firm). Outsourced labour may be less committed to the host company than regular employees. If contract workers have little loyalty to their host company, they are unlikely to cooperate with regular employees to improve work process and productivity.

8. Some Outsourcing Examples In Public Offices

In forest department in Andhra Pradesh, outsourcing is being taken up in a noticeable scale especially in the field of computer operators, drivers, night watchmen, typist etc. In the goods and services field also various works like procurement and maintenance of computers etc is done through outsourcing. Similarly, the vehicles for officers are hired on outsourcing basis.

Human resource outsourcing took a turn in BSNL in 2002, the year it ventured into cellular business after a year of dithering. It was an unusual situation because in the cellular business, it was not an incumbent and therefore it did not have any first-mover advantage as in the case of landline. It immediately realized that its service selling method

– “consumer to us” had to be changed to “we to customers”. It outsourced its service selling business to dealers and distributors, BSNL dealer –distributor policy 2002. However, the legacy of being state-owned and the resistance by the staff meant that there were riders in to the amount of service to be sold. The radio was kept at 70% through franchisee- 30% through own Customer Service Centers. There was provision of incentive for own staff in order to bring about some sort of equalization with the commission being paid to the franchisees. Gradually, the perceived “threat” by the staff was reduced and in its “Sales and Distribution Policy-2006” the

In Police Services the lower-level transactional activities such as computer operators, payrolls etc are being outsourced. Probably the sensitivity of job entails that the higher-level functions cannot be outsourced. In addition, there is a case of reverse outsourcing. The private companies are outsourcing their security to the Public department.

In the Oil sector the Public Sector units are increasingly outsourcing day-to-day operation-assisted services such as security, transportation etc. Another interesting aspect of outsource is Customer Service Centers. India is the hub of world’s customer service centers due to low cost while India Public Sector companies outsource the Customer Service Centers in order to obtain a better level of customer satisfaction delivery.

9. Lessons Shared From Public Sector Hr Outsourcing

1. Get support from the top for the effort - From both the executive and legislature
2. Develop a communications program for employees, public and press about the benefits outsourcing can bring-not just internally but for taxpayers. Publicize the efforts underway to take care of the affected workers.
3. Work within Government budget process- Because budgeting is different (generally, annual) in government organizations, it helps to have proposals completed and ready for review in time for regular budget appropriations.
4. Establish clear-cut rigorous procedures-for vendor selection process to ensure fair consideration and avoid even the appearance of

impropriety.

5. Seek a vendor with experience in the public sector/Government-Policy guidelines and union agreement requirements make for strict processes and procedures.

6. Negotiate and concur on service level agreements that contain useful performance expectations and clearly defined role-matrices..

7. Allow for flexibility –certain services initially contracted may prove unnecessary over time, others overlooked may seem attractive and vital

However, delivery dates and penalties should be built into the contract.

However, there are certain problems and disadvantages found associated with outsourcing as follows-

1. Coordination Costs-the increased costs and difficulties of coordinating production and exchange with several external service providers rather than in –house control
2. Quality and service issues-There is often an incentive for the contractor providing the service to renege on quality, especially where quality is difficult to verify.
3. Costs of transacting-Search and selection costs to find an appropriate contractor, Contractors can often extract post-contractual revenue in the event of unforeseen circumstances due to bargaining advantage.
4. Cost of monitoring-As with all contractual relationships, the client firm may need to intensify the monitoring of the contracting firms performance in order to minimize the latter’s incentive to shirk or cut back on quality or service.
5. Control- Outsourcing may lead the client firm experience a loss of control over key areas, including the employment relationships and the management of employees.

10. HRM Implications

Though outsourcing as an idea has got popularised, there are very few studies available on implications

of outsourcing for HRM in IT sector and almost nil in government sector. The reason is most of the outsourcing is done in IT field especially from USA and European countries to India. India thus is beneficiary of outsourcing boom in US and Europe. And you hardly investigate the reasons for benefits! As far as government sector is concerned, outsourcing is recent phenomena and that too in a fragmented manner in different sectors and ministries and not like in only sector like IT. However with the available information the implications of outsourcing for HRM can be listed as follows –

10.1 Employees Relations: One of the unofficial reasons given by managers for outsourcing in the filed level is outsourcing reduces the requirement for staff and hence in turn reduces the related Trade Union related problems. Because if you do the same activity in house, the manager has to deal with unions almost for all issues right from quality to productivity to delivery. However, this does not mean that outsourcing reduces the workload of HR managers. In managers in the field have to engage in dialogue with unions and convince them to agree for outsourcing assuring them about their income. This persuasion and bargaining has to be regularly done for every time you take new activity for outsourcing. But once outsourced, it may not require engagement of unions next time. Since most of the government organisations are large scale, as per labour laws, trade unions are always available and dealing with them on this issue has become an important task for HR managers.

10.2 Knowledge Base of Organisation and Training: “Outsourcing can provide a short cut to a more competitive product, but it typically contributes little to building the people-embodied skills that are necessary to sustain product leadership” (C.K. Prahalad & G. Hamel, 'The core competence of the corporation', Harvard Business Review, 68(3)) This is equally true for government organisations including ministries. If purpose of outsourcing is to increase the capacity or have an access to expertise outside then naturally knowledge and skill base of the organisation is decreased and this leads to “hollowing out” of the organisation due to loss of skills, loss of corporate memory, weakened innovative capacity and switching costs, that may accompany outsourcing (Gianni Zappala). Sometimes outsourcing may also enhance the knowledge base of the organisations if through outsourcing experience the organisation get the

expertise especially in new area. Besides outsourcing also require training in areas to deal with outsourcing agencies and contracts management. These issues call for attention of HR managers because accordingly they have to assess the training need of present and future and organise the training.

10.3 Manpower Planning: Since the basic philosophy behind outsourcing is rightsizing of organizations and shifting focus on core competence, it leads to qualitative and quantitative shift in manpower pool of the organizations. The area/section from which a particular activity is outsourced, has to be closed and manpower becomes surplus. This surplus manpower needs to be suitable redeployed after providing suitable training in other area. This calls for multi skilling and again related negotiations with unions. HR department has to do lot of homework with executing department for redeployment of surplus manpower, surrendering certain posts, their VRS and their re-training. The related transfer and associated administrative issues also call for HR managers' attention. The manpower planning has thus has to take into account the extent of outsourcing taking place or likely to take place in an organization and accordingly plan future recruitment, selections and postings.

10.4 Recruitment and Selection: As outsourcing leads to qualitative and quantitative shift in manpower pool of the organizations, recruitment and selection process also accordingly gets adjusted. The post, which was until yesterday was vacant, may not be required today since the activity is outsourced and therefore it does not warrant filling of post through selection. But this may affect the promotional chance of another lower level employee who needs to be accommodated. Similarly, outsourcing of non-core activity may increase scale of core activity and therefore may require some additional manpower recruitment and selection, especially in an area where surplus manpower cannot be deputed. Outsourcing may create additional requirements in tendering and contracts section, monitoring and supervision section. In fact, in some departments the main work that remains with the department is tendering, contracts management, monitoring and work certification and billing. HR managers accordingly have to arrange necessary manpower.

10.5 Outsourcing of HR functions: The outsourcing phenomenon has also changed the way HR conducted itself. In government departments, IT

support function has been extensively outsourced in HR sections especially in payroll, benefits, and employee training areas. The extensive use of IT has made it easier to outsource the routine activities to specialist service providers by providing real time internet based access to HR database. This has also made HR departments leaner and thinner and reduced much of the paper work. Since employee's data has been computerized, it has become easier to analyze the data and use the analysis for effective decision making. In that way outsourcing has beneficial impact on HR department.

Conclusion:

Outsourcing has the potential to decrease the cost of service delivery, increase the quality of service, increase management flexibility, and provide access to the outside vendor's high level of expertise. On the other hand, decreased management control is a real danger when functions are transferred to an external vendor, and quality and service may suffer if outsourcing is not handled properly. The organization may lose strategic advantages if it becomes too dependent on an outside vendor. In many cases, there will be a loss of productivity and low employee morale as a result of outsourcing. Middle managers will often build a strong case against outsourcing, fearing their jobs are at risk. Thus it is important to begin managing the human resource impact before the transition. In areas where the organization is highly vulnerable and the potential for competitive advantage is high, products and services should remain within the company. Where competitive advantage decreases, organizations may be better off to look to external vendors.

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CUSTOMER RELATIONSHIP MANAGEMENT RELATIONSHIP MARKETING OF THE NEW MILLENIUM

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Abstract :

CRM stands for Customer Relationship Management. Its French equivalent is GRC (Gestion de la Relation Client) but CRM still is a term well known by francophones to describe this practice. Customer Relationship Management binds together all techniques and tools that are used to enter into relation with customers and prospects, in order to retain them and offer them a product or a service that is most suitable for their needs.

In concrete terms, CRM is managed through a software in which companies provide the following customer's information: last name, first name, telephone number, address, places where the client prefers to purchase, means of payment, average basket, etc. This information helps the company to better focus the client and to send him offers, to provide products and services that meet his needs, by reducing costs. Internally, the company has at its disposition a tool that sets out all the contacts.

Keywords:

CRM, customer relationship management, marketing

Introduction

Customer Relationship Management is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer. It involves the integration of marketing, sales, customer service, and the supply-chain functions of the organization to achieve greater efficiencies and effectiveness in delivering customer value.

Customer relationship management (CRM) refers to building one-to-one relationships with customers that can drive value for the firm. This paper discusses proven CRM strategies that companies can use as means of effective customer management (CM). The

continuing evolution of CM is made possible by understanding the interactive relationships that develop between firms and customers and among customers themselves. Firms will increasingly be able to customize marketing messages to larger target audiences on the basis of the customer's expected response and the customer's value to the firm. By following the CRM strategies discussed here, firms can reduce overall marketing costs, increase overall customer response rates, and, most importantly, increase overall customer and firm profitability.

Customer relationship management (CRM) is a combination of people, processes and technology that seeks to understand a company's customers. It is an integrated approach to managing relationships by focusing on customer retention and relationship development. CRM has evolved from advances in information technology and organizational changes in customer-centric processes. Companies that successfully implement CRM will reap the rewards in customer loyalty and long run profitability. However, successful implementation is elusive to many companies, mostly because they do not understand that CRM requires company-wide, cross-functional, customer-focused business process re-engineering. Although a large portion of CRM is technology, viewing CRM as a technology-only solution is likely to fail. Managing a successful CRM implementation requires an integrated and balanced approach to technology, process, and people.

Customer relationship management (CRM) has attracted the expanded attention of practitioners and academicians. More and more companies are adopting customer-centric strategies, programs, tools, and technology for efficient and effective customer relationship management. They are realizing the need for in-depth and integrated customer knowledge in order to build close

cooperative and partnering relationships with their customers. The emergence of new channels and technologies is significantly altering how companies interface with their customers, a development bringing about a greater degree of integration between marketing, sales, and customer service functions in organizations. For practitioners, CRM represents an enterprise approach to developing full-knowledge about customer behavior.

Communication with customer partners is a necessary process of relationship marketing. It helps in relationship development, fosters trust, and provides the information and knowledge needed to undertake the cooperative and collaborative activities of relationship marketing. In many ways it is the lifeblood of relationship marketing. By establishing proper communication channels for sharing information with customers a company can enhance their relationship with them. In addition to communicating with customers, it is also essential to establish intra-company communication, particularly among all concerned individuals and corporate functions that directly play a role in managing the relationship with a specific customer or customer group. Although communication with customer partners helps to foster relationship bonds, conscious efforts to create common bonds will have a more sustaining impact on the relationship. In business-to-business relationships, social bonds are created through interactions; however, with mass-market customers frequent face-to-face interactions will be uneconomical. Thus marketers should create common bonds through symbolic relationships, endorsements, affinity groups, and membership benefits or by creating on-line communities. Whatever the chosen mode, institutionalizing relationships with customers is accomplished by creating CRM Implementation Issues

One of the most interesting aspects of CRM development is the multitude of customer interfaces that a company has to manage in today's world. Until recently, a company's direct interface with customers, if any, was primarily through sales people or service agents. In today's business environment, most companies interface with their customers through a variety of channels including sales people, service personnel, call centers, Internet websites, marketing departments, fulfillment houses, market and business development agents,

and so forth. For large customers, it also includes cross-functional teams that may include personnel from various functional departments. Although each of these units could operate independently, they still need to share information about individual customers and their interactions with the company on a real-time basis. For example, a customer who just placed an order on the Internet and subsequently calls the call center for order verification expects the call center staff to know the details of his or her order history. Similarly, a customer approached by a sales person unaware of the fact that the customer had recently complained about dissatisfactory customer service is not likely to be treated kindly by the customer. On the other hand, if the salesperson was aware of the problem encountered by the customer, the complaint, and the action already initiated to resolve the complaint, the salesperson would be in a relatively good position to handle the situation well.

In concrete terms, CRM is managed through a software in which companies provide the following customer's information: last name, first name, telephone number, address, places where the client prefers to purchase, means of payment, average basket, etc. This information helps the company to better focus the client and to send him offers, to provide products and services that meet his needs, by reducing costs.

Internally, the company has at its disposition a tool that sets out all the contacts. The use of this contact database can be wide. To be in contact with the customer or prospect, a range of techniques may be employed:

- Telephone is really convenient to get into the heart of the matter with the person and to directly get his attention, with an exchange. This tool enables one to make up your mind about the customer's needs and requirements and to adjust arguments in accordance with what the customer says. Having that said, sometimes it can be difficult to break the telephone switchboard and office assistant barriers to contact the right person. It is a double-edged tool one must ensure that you have a valid mailing address that deals with the right person. Then, the email must be neither too short nor too long, and manage to get the attention of its recipient. Finally, this is a tool that doesn't imply response, whether immediate or not.

- In the case of an appointment, the advantage for the contact of the company is that the client or the prospect is inclined to receive him and thus supply and demand meet.

Purpose of CRM

CRM enables the company to create or keep in contact with the customer. The prospect of CRM is customer loyalty. With the increasingly stiff competition, to retain customers gets very complicated. In addition, the customer is free to select partner companies, products and services in addition, a loyal customer may also recommend the brand name and the company. CRM allows the company to be always present with the customer, to meet his needs, if possible to anticipate these needs and to propose offers. Furthermore, customers who feel that they are given special treatment by a company are more likely to deal again with this company for the services delivered to them.

Customer relationship management is a tool that can also serve as quality service. Following the sale of the product or service, it may be a good idea to turn to the customer in order to realize his satisfaction with his product expectation and with what has been delivered to him. This approach enables the company to review its technical practice, marketing or selling techniques in order to better correspond to the customer's expectations, In present generation new means of communication such as social media are good tools to discuss, to nurture the relationship with the customer and to measure his satisfaction.

Advantages of CRM

The advantages of carrying out a proper business CRM are many and varied:

- First of all, it is a good way to expand the customer's portfolio. By contacting prospects, it is most likely that many of them are interested in the company activity, in its products and services. It is obvious that if the company does not initiate a process to go towards the customer, then the customer will not come to the company, unless he experiments a specific and urgent need.

- Naturally, CRM offers the advantage of gaining customer loyalty. As stated above, loyalty is less costly for a company and the loyal customer becomes a professional recommendation of the

company and its services. Furthermore, the company can promote the work it has done for its customers in order to approach prospects. It is always more convincing to present a work carried out rather than to rely on our own theoretical expertise.

- A good CRM associated with a good tool ensures companies to have a good view over the list of customers and prospects, to know where it stands with relationship management, when to contact them again, etc. Furthermore, an improved customer and prospect insight ensures a better and more targeted communication.

- CRM also ensures enhanced productivity. By fostering customer's loyalty, the company spends less time acquiring new customers and saves then time on other projects.

Disadvantages of CRM

However, despite the significant advantages of CRM, there are several disadvantages:

- First, a mistaken tool choice may make CRM more complicated. This is why one needs to consider in advance what kind of tools would be appropriate to structure in order to follow its relationship with its customers and prospects.

- CRM is not easy to put in place, attention must be given to the choice of tools, but also to the effective implementation of CRM process that will be undertaken by the company.

CRM, the technology, along with human resources of the company, enables the company to analyze the behavior of customers and their value. The main areas of focus are as the name suggests: customer ,relationship , and the management of relationship and the main objectives to implement CRM in the business strategy are:

- To simplify marketing and sales process
- To make call centers more efficient
- To provide better customer service
- To discover new customers and increase customer revenue
- To cross sell products more effectively

The CRM processes should fully support the basic steps of customer life cycle . The basic steps are:

- Attracting present and new customers
- Acquiring new customers
- Serving the customers
- Finally, retaining the customers

Selection of the Right CRM Technology

The point here is one size doesn't fit all . There is no single CRM software or formula which will give instant success to all companies. For small or medium enterprises, the requirement is different from that of big firms. Most CRM packages provide excellent sales force automation, but not equally good integration with computer telephony, or with web. These are adequate for small and medium firms but not for large firms. A mix of different software to link the databases, data warehousing software, contact management software, and a CRM package will go a long way in helping to upgrade the small companies.

Other internet enabled applications available are enterprise resource planning packages, e-commerce applications, relationship management packages, enterprise portal applications etc. One can adopt the best practices to slash costs, introduce efficiencies into supply chain and internal operations. Today the global market for CRM services and solutions is currently worth \$148 billion. This proves to show the numerous choices available in this field.

Benefits of CRM

The following are the benefits of adopting CRM processes:

- Develop better communication channels
- Collect customer related data
- Create detailed profiles of individual customers
- Increased customer satisfaction
- Access to customer account history, order information, and customer information at all touch points
- Identify new selling opportunities
- Increased market share and profit margin
- Increased revenues
- More effective reach and marketing
- Improved customer service and support
- Improved response time to customer requests for information
- Enhanced customer loyalty
- Improved ability to meet customer

requirements

- Improved quality communication and networking
- Reduced costs of buying and using product and services
- Better stand against global competition

Types of CRM:

There are three types of CRM.They are

1. Operational CRM
2. Analytical CRM

The operational application of CRM enables effective interaction with customers. For this purpose various tools are used. These contact management tools aim to reduce costs by improved process efficiency and use of media based communication channels. These are also aimed to provide customers with a consistent interface across all communication channels. To achieve this relevant customer data is collected and also displayed at all customer touch points. This is the customer master data. Another set of data where employees' contact with customers is also logged. This has information like topics discussed, customer requirements, soft customer data like hobbies, preferences, interests, details about children and other minor stuffs.

Banks are an exemplary implementation of CRM as customer contact management. Channel management tools aim to understand how customer interacts with the company. It aims to deliver products and services across multiple channels in effective, efficient, and consistent manner. Content management tools enables the company to manage what is visible to the customers i.e. what the customers are able to see when they interact with the company. The various processes undertaken are: campaign management, sales management, service management, and complaint management the data collected in operational management is analyzed to segment customers. The valuable information thus obtained is used to satisfy customers. Analytical CRM is composed of:

1. Pattern discovery component
2. Product and customer analysis component
3. Multitude component
4. Sorting and customer fractionation

component

5. Customer value evaluation component

Analytical solutions provided for most companies are integrated view of customer across all channels and applications, campaign performance analysis, customer profitability analysis, cross-selling and up selling. The analytical solutions help answer questions like:

1. Who are their best customers?
2. Whom they are likely to lose?
3. How to retain them?
4. How to attract new customers?
5. How to improve profitability of customers?

Examples are data warehousing, online analytical processing (OLAP), and data mining systems.

Analytical CRM:

The various departments of company like the sales, technical support, and marketing, share the information they collect about customers. The objective is to improve the quality of customer service and increase customer loyalty.

It allows the company to synchronize and manage efficient, productive interaction with customers, prospects, partners, and internal associates across all communication channels. The customers' viewpoint is taken care of at every transaction level thus enabling better service to the customer. Collaborative CRM also reduces web service costs by enabling web collaboration.

Conclusion

Therefore, effective CRM implementation requires a front-line information system that shares relevant customer information across all interface units. Relational databases, data warehousing, and data mining tools are thus very valuable for bonding, reputation bonding, and structural bonding.

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