

# **BPO: The Precursor of Digital Firms**

**Kakul Agha**

Co-ordinator

Department of Business Studies

Middle East College of Information Technology (MECIT)

Knowledge Oasis Muscat

P.O.Box: 79; Al Rusayl; P. C 124

Sultanate of Oman

Tel. no.: +968 99762 634; +968-24446698 Ext – 202

Fax: +968 24446028

E mail : [kakul\\_p@yahoo.com](mailto:kakul_p@yahoo.com)

Registration No. : T 026

## **Abstract**

The concept of BPO is explained by analyzing primarily the Asian developing countries' economy and the market situation. Outsourcing has been recently clubbed together with the advanced use of information technology to invent a tool called BPO, which is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service. Typically, companies that are looking at business process outsourcing are hoping to achieve cost savings by handing the work to a third-party that can take advantage of economies of scale by doing the same work for many companies. Or perhaps the cost savings can be achieved because labor costs are lower due to different costs of living in different countries.

The question is where are we heading to? Are the businesses utilizing the n<sup>th</sup> advantage of BPO also or are they leaving something to be done in the 'brick and mortar' rooms of an organization?

My research paper probes into the possibilities and the likelihood of BPO being the precursor of a totally digital firm that adopts a new business model, the functions and activities of the management that are spread globally, communicate, share and disseminate information required to operate successfully, on a habitual basis. The tasks are completed regionally but outputs and profits are generated globally.

**Key words:** Virtualization, Core competencies

## **Introduction**

The growth of internet coupled with outsourcing has given a new tool to the business world named as Business Process Outsourcing (BPO). It capitalizes on the extensive and heightened use of internet and its related technology to yield profit maximization and reduction of costs to the organizations. BPO can prove to be more effective in the future with use of allied and sophisticated tools but is there a possibility that the human resources can be completely taken away? Scientists prove that human resources shall be an inevitable part of organizations for decision making situation, but surely the 'brick and mortar' offices shall get replaced with high tech outsourced jobs. The products and services that get generated by organizations shall be produced globally and marketed globally too.

## **Evolution of Internet**

The internet is vast in its scope as well as application. The concept of internet came into being as a result of an experiment by the US Department of Defense in the 1960s. They wanted to create a computer network that would continue to function even at the event of a disaster. It was supposed to be flexible so that if a part of the network was damaged or destroyed, the rest of the system would still work. And from there started a series of inventions that resulted in high-tech business processes of today.

Earlier the internet was mainly used for information access and communication. Today the use of internet has been extended to collaborating with business partners, researching competitors, providing customer support and buying and selling products and services. This implies that the business use of internet is shifting from that of an electronic information exchange to a broad platform for strategic business applications.

The internet itself can be viewed as having six strategic capabilities that support a variety of key applications, which can provide value to the organization. These capabilities include global dissemination, interaction, customization, collaboration, electronic commerce and integration. Each of these capabilities serves as building blocks for a mix of internet based applications that can give competitive advantage and strategic business value to an organization.

With the advent of E-Commerce or electronic commerce, monetary transactions need to be done online, without the help of physical notes. Experts studying trends in technology have already gone to the extent of predicting the existence of a society without physical currency. All a person would actually have to do is transfer the currency from his little digital wallet to someone else's. E-commerce ensures minimum inventory control, improved customer service and global reach<sup>1</sup>.

Another widely used aspect of the internet is databases. Analysts, who foresee more complex database in the future view today's databases as being rather primitive. On the internet complex databases are already being developed so much that experts have predicted that the day is not so far off when practically any information about anything and anybody will be available on the net.

These are just some predictions about where internet could take us in the near future. The scope of the internet is increasing at such a pace that it is impossible today to foresee what it could include tomorrow.

Nolan has presented a framework for understanding the evolution of Information Technology within organizations which describes three eras – the Data Processing or DP era, the Information Technology or IT era and the Network era<sup>2</sup>.

### **A Brief History of Outsourcing**

Outsourcing (or contracting out) is often defined as the delegation of non-core operations or jobs from internal production to an external entity (such as sub-contractor) that specializes in that operation. Outsourcing is a business decision that is often made to focus on core competence. A subset of the term ‘Offshoring’ also implies transferring jobs to another country, either by hiring local subcontractors or building a facility in an area where labour is cheap. It became a popular buzzword in business and management in the 1990s.

Back in the early years of US History, the making of America's covered wagon covers and clipper ships' sails was a job outsourced to workers in Scotland, with raw material imported from India. England's textile industry became so efficient in the 1830s that eventually Indian manufacturers couldn't compete, and that work was outsourced to England.

More recently, in the US in the 1970s, it was common for computer companies to export their payrolls to outside service providers for processing. This continued into the 1980s, where accounting services, payroll, billing, and word processing all became outsourced work. But most of this work was outsourced to service providers only as far away as another state, not overseas, and the reasons for outsourcing had more to do with small efficiencies than reshaping the economy.

It wasn't until the late 1980s that outsourcing began to emerge as a potentially powerful force in transforming global economies. Meanwhile, in technology circles, the focus on outsourcing turned from its efficiency to its economy and productivity. Early outsourcing to overseas providers by corporations like Kodak and American Standard began to capture the public's attention. Kathleen Hudson, then Kodak's CIO, said, her goal was to "plug into the wall and have data come out". That type of thinking helped put outsourcing on the map<sup>3</sup>.

#### **Outsourcing defined...**

Outsourcing is defined as the management and / or day-to-day execution of an entire business function by a third party service provider.

A related term is out-tasking – turning a narrowly defined segment of business to another business, typically on an annual contract, or sometimes a shorter one. This usually involves continued direct or indirect management and decision making by the client of the out-tasking business.

Outsourcing and out-tasking involve transferring a significant amount of management control to the supplier. Buying products from another entity is not outsourcing or out-tasking, but merely a vendor relationship. Likewise, buying services from a provider is not necessarily outsourcing or out-tasking. Outsourcing always involves a considerable degree of two way information exchange, coordination and trust.

The term “outsourcing” became a household name perhaps because many high-tech companies in the early 1990s were not large enough to hire their own customer service departments. These companies later hired technical writers to completely simplify their usage instructions for their products, index the key points of information and contracted with temporary employment agencies to find, train and hire ( for low wages) low skilled workers to answer their telephone technical support and customer service calls. These agents generally worked in ‘Call Centers’ where the information needed to assist the calling customer was/is indexed in a computer system. The “agents” were/are generally not allowed to tell the customer whether or not he/she actually works for the company; thereby creating the illusion that the customer was/is calling the company.

The amount of investment required for customer service through outsourcing, and many companies, from utilities to manufacturers, closed their in-house customer relations departments and outsourced their customer service to call centers across and outside the country. The latest in outsourcing customer service is the offshoring of customer service that can only be enabled due to heightened use of Information Technology.

For some, globalization is about opening up free trade between countries – increasing globalization helps to create opportunities for nations and benefits workers in both rich and poor countries. For others, globalization is yet another way for the rich to line their pockets at the expense of the poor – a non-sustainable system that excludes developing nations.

Organizations that deliver such services feel that outsourcing requires the turning over of management responsibility for running a segment of business. In theory, this business segment should be mission-critical, but practice often dictates otherwise. Many companies look to employ expert organizations in the areas targeted for outsourcing business segments typically outsourced include Information Technology, Human Resources, Facilities and Asset Management and Accounting. Many companies also outsource customer support and call center functions, manufacturing and engineering. Outsourcing business is characterized by expertise not inherent to the core of the client organization.

The worldwide business process outsourcing (BPO) market is undergoing rapid transformation. The drive to leverage technology, the arrival of web services and a more cost conscious customer are in combination, causing major shifts in BPO service provision and adoption. According to a new special study published by the International Data Corporation (IDC), worldwide spending on BPO services totaled \$712 billion in 2001. IDC projects the worldwide BPO market to grow to \$1.2 trillion by 2006<sup>4</sup>.

## **‘Digital Firm’ or ‘Virtualization’**

The internet supports collaborative processes on a global scale. Business Process Outsourcing (BPO) enables new forms of cooperation amongst organizations. It is believed that with the help of internet, organizations can be established without the use of ‘brick and mortar’ buildings and business functions could be carried out by outsourcing the latter. This form of an organization is called a *digital firm*, where most of the business functions have been digitized. *Virtualization* is another term for a digital firm. Even though the business is going on, still there is no existence of a corporate office, branch offices and factories in the vicinity to keep rolling in the work<sup>5</sup>.

There are new ways of conducting business electronically both inside and outside the firm that can ultimately result in the creation of digital firms. Increasingly internet is providing the underlying technology for these changes. The internet can link thousands of organizations into a single network, creating the foundation for a vast digital marketplace. A digital market is an information system that links many buyers and sellers to exchange information, products, services and payments. Through computers and networks these systems function like electronic intermediaries with lowered costs for typical marketplace transactions. Buyers and sellers can complete purchase and sale transactions digitally, regardless of their location<sup>6</sup>.

‘Virtualization’ means that every company that wants to transform its business to e-business needs to find ways to virtualize its business. For large monolithic enterprises this means that they have to break themselves up into pieces and operate as a virtual network of companies. For example a manufacturing company can split its supply chain into smaller independent companies and then outsource the old functions to these new and nimble companies while only the core competencies remain with the original enterprise. To react quickly to change a new business process must be creatable instantaneously that is much easier to achieve for a network of small companies than for one large monolithic organization. In short, virtualization provides for organic form, improvisation, individual responsibility and for fast reactions to change.

## **BPO over the Web**

Once the organization has redesigned the business processes to fit the e – business environment they need to be implemented. Ideally this implementation should be as painless for the company as possible. It should be automatic, rapid and inexpensive. Companies increasingly try to avoid this hassle of installing new softwares, by moving the operations of whole business processes to external outsourcing companies. This fits well with the current tendency to focus on the core competencies and have all the non-crucial services performed and managed by outside service providers.

BPO is long term contracting of a company’s business processes to an outside service provider in the hope of getting the same service at a lower cost and better quality. This should allow the company’s management to focus its attention full time on the company’s core business. In the 1950s there were the fully integrated companies who were doing everything internally. Since then more and more business functions have been moved to external service providers. This started with peripheral functions like security

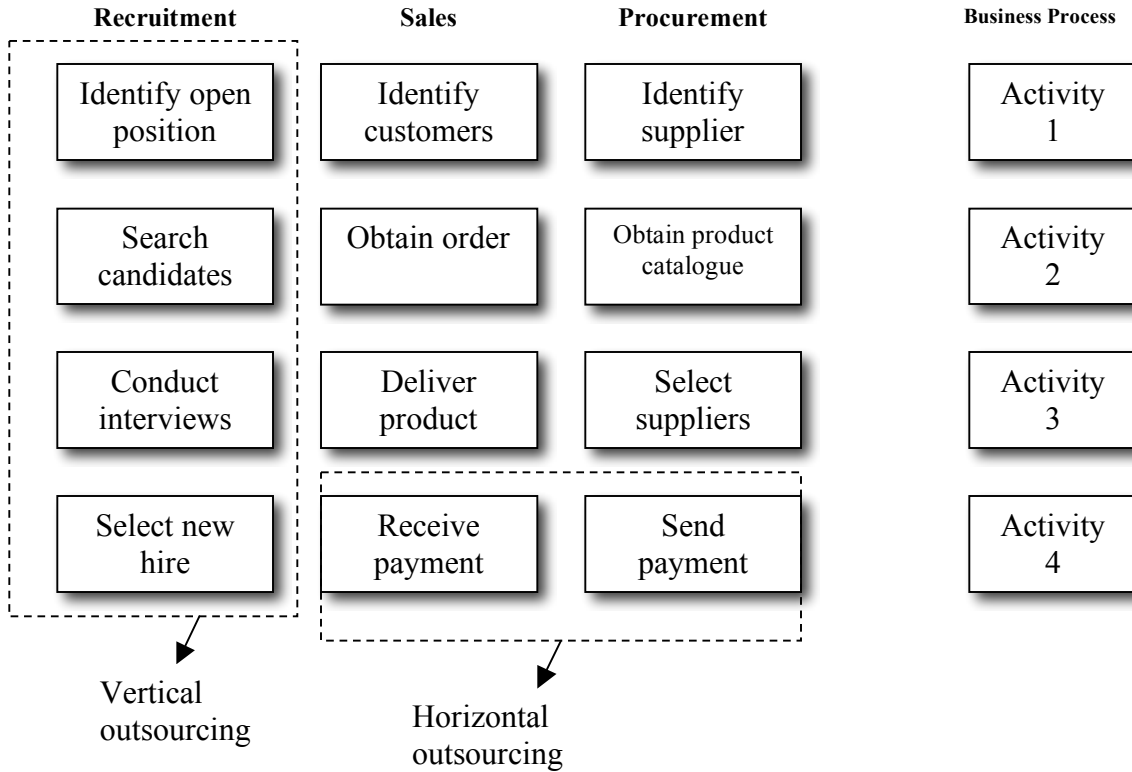
services, janitorial and house cleaning services. Currently even the core business functions like HR, finance and project management are being outsourced. What does this indicate? Is this a new trend in the business world? The answer to this question is simple – organizations view all the functions in terms of competency indicators. Hence it is essential for them to strive for the best output in all of them. Globalization puts a lot of pressure on these organizations and hence it is merely ‘survival of the fittest’<sup>7</sup>.

The following list of outsourcing areas is by no means conclusive:

1. Finance and accounting: management of financial and accounting department functions to streamline planning, controls and processing.
2. Internal audit – management of business, operating and financial risks and on-going evaluation and strengthening on internal accounting controls.
3. Tax compliance – management of home country and international tax return planning, and preparations to reduce taxes and processing costs.
4. Procurement – management of strategic procurement and global sourcing to optimize savings and profitability.
5. Human resources – management of cost competitive HR programs designed to attract, retain and motivate workers.
6. Real estate management – management of facilities to improve real estate operations, property usage, asset management and administration.
7. Applications process – management of enterprise resource planning systems and individual software applications that support business processes.

BPO means moving the entire business functions to outsourcing provider who assumes full responsibility for processing these functions. To successfully outsource parts of a business, the business needs to be split into disjointed vertical pieces where each piece is made up of the entire business process.

The internet has enabled a new brand of outsourcing where the outsourcing provider is linked directly to core processes of the company. Rather than vertically splitting the business by moving whole processes such as recruiting pieces to the outsourcing provider, business processes can be cut into horizontal pieces where different parties operate different parts of the process.



**Vertical and Horizontal BPO – Figure 1**

Example of this sort of outsourcing is operations of business travel, handling of the logistics process, procurement or customer billing.

A close look at the four generic process groups reveals that the groups have reached different levels of outsourcing maturity. Well structured processes such as “buying and selling” and “design and production” are well suited to BPO while like “learning and change” or “management and decision making” are candidates for horizontal web outsourcing.

<b>Buying and selling</b>	Structured	Customer Relationship Management	Vertical and horizontal BPO
<b>Design and production</b>	Structured	Enterprise resource planning	Vertical and horizontal BPO
<b>Learning and change</b>	Unstructured	Knowledge navigation	Horizontal Web
<b>Management and decision making</b>	Unstructured	MIS – Data warehousing	Horizontal Web
	<b>Organization structure</b>	<b>IT Technology</b>	<b>Outsourcing</b>

**Four main generic process categories – Figure 2**

## **Enabling technologies for outsourcing**

Internet technologies offer the ideal environment for business process outsourcing. The Web provides open standardized information access, seamlessly linking a company and its outsourcing provider. Virtual collaboration tools like groupware and teleconferencing allow teams with members from different companies to communicate easily. The standardization of general business process automation on a few systems forces companies to adapt their processes to work with their packages. This makes life easier for outsourcing providers, because they can set up large competing centres running multiple versions of their packages for multiple customers.

## **Trends**

Outsourcing is big business, generating global revenues of \$298.5 billion in 2003, according to Gartner Inc. Many now relate outsourcing with call centers in India. However, Forrester Research estimates that by 2015, as many as 3.3 million US jobs and \$136 billion in wages will move not only to India, but also to China, Russia, Pakistan, and Vietnam. Europe has taken a central role in outsourcing as well, and is soon expected to reach nearly 25 percent of total global outsource spending.

Carlos Watson, political analyst for CNN, observes that globalization affects where businesses set up shop. He notes that while media attention has focused on the corporate exodus to India, "three to four times [as] many jobs have moved to China in the last 15 years." There can be many reasons to it like - the difference may be in the kinds of jobs – the majority of jobs outsourced to China are in manufacturing. Chinese goods are cheaper for American companies to buy because of currency rate differences – the US had a \$120 billion trade deficit with China in 2003, and it is expected to be even higher in 2004. International monetary policy inequities may be the next important item in the globalization discussion, according to Watson<sup>8</sup>.

Outsourcing is clearly not just about payrolls and call centers. It could be that the research and development of the product may be outsourced to one country and the production to another. There is a possibility that the billing could be done in some other country and the customer's queries could be answered in another.

## **Concluding remarks**

At first glance it would seem that outsourcing has the potential to make jobs at home less secure, and so global trade organizations ought to be responsible for resolving employment problems where and when they occur. But on the other hand in terms of information technology developments it appears as if the growth of outsourcing will give rise to complete digital firms. The brick and mortar buildings where employees are confined to the four walls get replaced with people spread out geographically working towards achieving the mission of any one organization.

Innovations in outsourcing have yet to be exhausted – outsourcing can boost developing world economies. But the world is a finite space with limited natural resources, including human resources. Ironically, it is humankind's ability to innovate that may account for the eventual demise of outsourcing, as we mechanize more and more work – technology is changing manufacturing and retail jobs radically. Hands-on work is being outsourced

now, but new innovations may eventually make the workplace as we currently understand it obsolete. We may one day be able to punch out and go home – forever.

But today it is clear that Business Process Outsourcing can lead to a situation where the organizations are totally digitized in nature and their complete virtualization happens. BPO can lead to a world where the parent company is at one place and the work is being outsourced to various other countries while the output product or service is being sent to distant lands for delivery. Virtualization is not far from today but definitely the presence of human resources cannot be ruled out.

### **Bibliographical References**

---

1. **Internet and E-Commerce**, (2001), Information Technology and Systems, Icfai Center for Management Research, Hyderabad, Chapter 13, p - 118.
2. Sumner, M. Schultheis, R. **Management Information Systems: The Manager's view**, 4<sup>th</sup> ed. Tata McGraw Hill Edition, 1999, ISBN 0-07-463879-3.
3. **Outsourcing**, <http://en.wikipedia.org/wiki/Outsourcing>.
4. Agha, K. (2005) **A Study on the motivational levels of workforce in the BPO industry in India** – PhD Thesis in progress.
5. Gloor, P. (2003) **Making the e-business Transformation**, Gromwell Press, England, ISBN 1-85233-265-4, Chapter 1, p 48 – 52.
6. Laudon, C. K. and Laudon, P J. (2004) **Management Information Systems: Managing the Digital Firm**, 8<sup>th</sup> ed. Prentice Hall of India, ISBN 81-203-2353-X.
7. Agha, K. **E-Business: Challenges and Opportunities in the GCC**, in the Proceeding of the International Conference in 'E-Business, E-Business in GCC – Challenges and Prospects' (EGCC'04), (19th May 2004, Majan College (University College), Muscat, Sultanate of Oman).
8. Kelly, T. **A Brief History of outsourcing**, Portland, Oregon. Available from <<http://www.globalenvision.org/library/3/702/>>, [Accessed 24 September 2005].
9. Watson, C. (2004) **The inside edge: The rise of online citizen: Not India but China**, CNN.com, Available from <<http://www.cnn.com/2004/ALLPOLITICS/03/17/polls/>>.
10. Wilson, S. Marsh, I. and Breusch, T. (2002) **Job insecurity and globalization: what factors shape public opinion in Asia and Europe?** Technical Report, Second Semester Seminars, Political Science Program, RSSH, ANU. Available from <<http://eprints.anu.edu.au/archive/00002014/>>.

- 
11. Rajaraman, V. (2004), **Introduction to Information Technology**, Prentice Hall of India, ISBN 81-203-2402-1.
  12. Curtin, D. P. Foley, K. Sen, K. Morin, C. (1998) **Information Technology: The Breaking Wave**, Tata McGraw Hill Publishing Company Limited, ISBN 0-07-463558-1.