

Benefits of outsourcing to host country



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In spite of the recent global economic recession, the worldwide business outsourcing market has achieved tremendous growth, According to one of famous International investment consultancy firm known as “ McKinsey & Company” predicts that the demand for outsourcing services will obtain \$230 billion by in 2011 from whole worlds and it will grow and by 10. 5 percent (compound annual growth rate.). In the current business world many large organizations are outsourcing various jobs for example call centre services, payroll, e-mail services, Business Process Outsource and HR. As example:

HSBC Bank has outsourced their call centres and Electronic Data Processing at India and Sri Lanka.

AVIVA Insurance outsourced their call centres at India and Sri Lanka.

IBM has outsource business Transformation system and customer contact work [call centres] at India

1. 1 Outsourcing

Outsourcing can be defined as contact between two companies to provide services which might otherwise be performed by in-house employees. In today’s world there is trend of outsourcing . Many multinational companies are now outsourced various level of jobs, as example such as call centre services, payroll management-mail service assistance. These outsourced jobs are handled by companies who have skilful labours who specialize to provide in services which are located outside the home country.

In today business world Outsourcings has become latest trend which is becoming more common in information technology field.

1. 2 Reasons for Outsourcings

There are various reasons behind for outsourcings. Following section will describe the reasons for outsourcing:

Improve Goal Congruence

Outsourcing allow management to make attention on the vital or core business issues related with meeting customer needs and maintaining day to day issues.

Outsourcings Allow To Access World-Class Capabilities

Each notation is specialization in their own core activities. Ex: Qualitative labour-India. Advance technology-China and Japan. Outsourcing allow to access world-class capabilities, including innovative technology and so forth

Share Risks With Different Peoples

Outsourcing allows management spread certain level of risks as example demand variability and capital investments.

Provider Free Resources for non core activities

Outsourcing allowing organization to concentrate on non core activities and it allow to allocate those free resources among other activities

Reducing Cost By Economic Of Scale

Outsourcing allows organization to provide services at lower cost structure, which resulted from economies of scale. Reducing cost is the most persuasive reasons for outsourcing.

Allow To Use Resources Not Internally Accessible

Outsourcing is most preferable opportunity for companies that have potential to rapid growth, expansion into a new geography area , or spin-offs . Outsourcing Allow to use Resources not internally accessible

Allow To Mange Functions Are Difficult

Control problems are a one of major reason for outsourcing. However, managers have to find out underlying causes for difficulties rather than outsourcing

Even though there are various reason behind for outsourcing , ability of obtaining cost advantages is The main objective of outsourcing is, But lot of organizations are fail to realize any cost advantages received from outsourcing. The famous investment company “ Gartner” is predictive that in 2009, 80% of organizations outsourced by having primary goal of coat cutting bit they are unable to achieve their primary goal of cost cutting, because there are various hidden cost of outsourcing. Such as outsourcing companies have high level of staff turnover rates than other organizations , Normally it is high as 80% - 100%, cost of losing client due to increases of frustration. Therefore outsourcing must be fully monitored. Can easily fail.

1. 3 Different Types of Outsourcing

Outsourcing can be different type. Following section demonstrate the different types of outsourcing

1. BPO – Business Process Outsourcing

BPO is the contact between two companies to handle business activities on behalf of another organization. The big companies in developing countries . such as USA, UK, Australian etc., outsourcing their back office function to India to get cost advantages and quality services.

E. g. HSBC and IBM outsourced its employee payroll, data entry, voice calling activities to India

2. LPO – legal process outsourcing

LPO is the contact between two companies to process legal activities, such as patent application drafting, legal research and so forth.

3. RPO – Research Process Outsourcing.

This is most famous outsourcing method in the biotech industry. Customers outsource their R&D work to external parties. RPO also stands for Recruitment Process Outsourcing.

4. HRO – Human Resource Outsourcing.

Human resources management comprise training, staffing, payroll management etc. These activities are outsourced by external companies that are located overseas.

Ex In the US market, HRM outsourcing is a vast area. The amount counter for HR outsourcing is 29-30% of the total outsourcing

5. MBPO – Medical Business Process Outsourcing.

2. 0 Call Centres Outsourcing

The call centre industry comprises 80% of the total outsourcing industry in the world. that is why normally outsourcing refer and known as call centre outsourcing . A call centre outsourcing is that external party performs the part of a client's business which handling telephone calls. Outsourced call centre handle customer complaints over the telephone. Call centers actually start on as plain provider e-mail response and managing services. But in today's world outsourced has been spared in vast area. it cater huge areas , such as providing technical support over the phone, handling customer relationships , arrangement of travel services, , provide educational consultation , customer care assistance , financial services, and provide online business to customer support

Two different words go together with outsourcing, that is BPO and Call centre. Call centre can be stated as a BPO organisation. A Business Process Outsourcing (BPO) organization which is responsible for performing a process or a part of a process of another business organization.

Call centres can be outsourced to following functions

Call canters can be divided into major two parts

Inbound contact centre – Inbound contact centre mainly encompasses customer oriented services such as provide customer assistance, sales inquiries assistance, troubleshooting solutions, and credit card process.

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Outbound call centre. An inbound call centre also implements customer services as well as it became live representative to provide extreme satisfaction to its customer and enhance the performance of the organization.

3. 0 Benefits Of Outsourcing to The Host Country

This section will discussed Benefits of outsourcing call centers to the host country. Current trend in the call centre outsource market is the Asian countries. That is lot of call centers are located in Asian Countries such as India, China, Sri Lanka, Thailand, Philippine, and so forth. in outsourced market, India is the market leader in the international outsourced by grabbing big market share which is more than 80 %. this is basically due to its well fluent English speaking skilled workforce and low level of salary range when compare to developed countries salary range. India salary range is 80% lower than developing countries like USA, UK and so forth . Other feasible locations for off shoring in Asia include China and the Philippines, Sri Lanka . this will further elaborated by using diagram [Figure 1]

HSBC has one future plan to open wholly owned BPO subsidiary known as HSBC Electronic Data Centre in Kolkata, India, which forecated to employed 2, 000 staff working on back-office operations,

HSBC' has another BPO at Naina Lal Kidwai India, , has employ 2, 000 staff

HSBC is spreading the network of processing centers by opening a new business process outsourcing centre in Sri Lanka to provide data processing and customer service facilities for the bank's global operations. The new centre at Colombo

Aviva has plan improve 5, 000 employment opportunities in relation to business process outsource (BPO) services in India and Sri Lanka

Figure 1: Distribution of Outsourcing Operation

Is outsourcing desirable or undesirable? It is still debatable. Outsourcing provides various benefits to the home countries which is business is undertakings as well as the country where services are being or will be provided (Host Country).

This assignment is basically based on outsource call centre in India. India is one of the world's leading providers of call center services . India is the most favored IT/BPO destination of the world. There are lots of the big MNCs all over the world are interested in outsourcing their operations in India.

This report will discuss the benefits of outsourcing to host country. To develop this report India is consider as home country

Why India is selected for outsourcing? The answer is very straight forward. India is full with large skillful labour forces. India produces the largest number of graduates in the world. This lead to improve skilled labour forces in India.

Call center Outsourcing offers many advantages to the country where the services are being provided can be discuss as follows:

1. Improve Economic Growth of Host Country

Call centre Outsourcing brings cost advantages and increase in profits in macroeconomic terms to both home countries which business undertakings

as well as host country benefits in various aspects. During last few years India has achieved tremendous growth rate by contributing services of off shoring. According to market research, India has been benefited extremely from growth in this outsourcing area and the rate of growth is above the expectation level. “ In the fiscal year that ended March 2010, India’s IT industry and outsourcing call centre revenue was \$16 billion, and \$8. 5 billion of this was from Call centre Outsourcing services”.

According to market research , It is forecasted that the country’s IT related services and call centre Outsourcing services exports will reach \$30 billion by 2011 . Market research conduct on outsourcing predicted that the global call centre outsourced services will encounter for revenues of US\$1. 2 trillion by 2011. Finally, providing outsourcing services will lead to improve Economic growth of host country and “ Indian gross domestic product can be expected to grow at 8. 5 +/- 0. 25 per cent (in fiscal year 2010/11)”. Share of call centre outsourcing from total exports can be graphically shown as follows

Figure 2: contribution of outsourcing to Indian Exports

2. Reduce Unemployment and Create New Employment Opportunities

Outsourcing services will be the good sign for national unemployment in India. Services off shoring will lead to expand employment opportunities in developing countries like India. India has paved the way for a significant number of jobs In terms of growth in off shoring area. According to market research and statistic Call centre outsources are projected to increases

employment level up to 1.1 million by 2011 and 3.3 million by 2015 and in the telecommunication industry alone, it is forecasted that straight job creation is reach 2.2 million by 2011 as well as outsourcing will create a further 3 jobs which are not core related to outsourcing as well as Reduce unemployment and create new employment opportunities. It can be shown as follows [Figure 3]

Figure 3: Unemployment Rate vs. GDP Growth Rate

Example:

HSBC is off shoring processing looks locations which enables to obtain work with lower cost , to provide low cost qualitative services to Asian countries . in Asian news paper it indicate that “ in developed countries. These locations take on work such as data processing and customer service, but also internal software engineering at Pune, Hyderabad (India), Vishakhapatnam (India), Kolkata (India) “, and 65, 000 people were working in the call centers over the next two years

Even though outsourcing is great solution for unemployment it has some negative impacts. “ Outsourcing is a management tool that has a great amount of emotions. Upon hearing about outsourcing, majority of the employees fear that they will lose their job. Like any other managing change in an organisation, workers resist and hate the concept of outsourcing. In both cases of off-shoring and outsourcing, in the short term, there are risks of job losses, but the gains from relocation could lead to the creation of new jobs and outsourcing is a great opportunity for the employees to get a better training, development and career opportunities”.

3. Women are equally treated in providing Job Opportunities

Outsourcing will provide equal job opportunities to women in India. The ability to complete far-off locations job that located very closer to their town lead to improve women's employment level. This is the one of major motivation factor which provides chance more female to enter the off shoring employment. For women, the unemployment rate has trended slightly downward over last few years, while the jobless rate has fallen quickly. [Figure 3-Unemployment Rate of women]. This indicates that more women have entered the labor force during last few years. This factor has directly link to the employments opportunities created by outsourcing call centres in India.

Example:

According to market research, which indicates that " 49 %of Wipro's (a large Indian off shoring company) workforce is female, while ICICI OneSource's workforce is 60 percent female ". This will indirectly lead to improve employment level their earning capacity

Figure 4: Unemployment of Women

5. Outsourcing provide motivation for Education

One of major reason for outsourced manufacturing is cost . that is basically outsourcing relies on a basis for cheap, but with well educated and highly skilled workforce. The highly skilled labours are created from well established education process. In India the payment level provided by employees who are working in the outsourced companies are above the

industry average range of salary. On other hand this type of employment can be considered as more respectable job. So all these factors lead to motivation to be part of outsourced company. so become employer of company potential candidates should have sufficient level of skilled including fluency of English. In a nutshell Outsourcing provide motivation for Education

6. Host country Consumers' get Advantages of Quality of Services

Some time The call centres being provide same services to host country local customers[Ex: India] as well as home country customers [Ex: US market] . as a results host country customers enjoyed by getting qualitative services which are normally served to developing counties.

Example:

In 2009 HSBC established call-centre in Sri Lnaka which providing same services to host country local customers [Ex: Sri Lanka] as well as home country customers

7. Transfer of Advance Technology to Host Country

Outsourcing call centres will lead to transfer Technology and knowledge to home country. Outsourcing requires appropriate technical sophistication. For example, it is essential to have reliable and inexpensive communication links with the rest of the world when doing outsourcing. Host country can get massive advantages from latest technology in short term as well as long term. There is no limitation to transfer technical knowledge.

8. Improvements in Human Asset

Export-oriented field have been shown to get better the quality of human Asset . outsourcing lead to Improvements in Human Asset

9. The Outsourcing processes is more environmentally friendly

Outsourcing does not lead to adverse negative externalities, such as environmental pollution and labour expropriation. The impact of this type of negative environmental externalities is normally at ignorable level. Because it is very difficult to calculate these negative impact to the society and environment. Because the actual consequences which exposed to the world after a long period of time.

10. Rapid Expansion of the Services Sector

The amount of employment level in service sector is about 30% , Based on marketing research, in developing countries, , 83% of the US employments market is non-farmers who are employment in services sector, There is high tendency to the growth of jobs in the services sector . it is estimated that in USA market more than 97% of the jobs created are service related jobs during the 2012

4. 0 CONCLUSION

In conclusion, Outsourcing has positive impact on both Host country and Home Country as well. Outsourcing Call centre helps multinational companies like HSBC, AVIVA, IFS and etc. to create a higher value at a lower cost through getting location advantages and low salary rate skilful labour.

Host Country will be benefited by transmitting latest technology, global training for the employees, creation of massive job opportunities and rapid growth in GDP. On the other hand The benefit arrived for home country due to outsourcing is , people who live in home country need to less amount of money to purchase well qualitative goods and services, this lead to improve greater savings in home country which finally affect positively in home country's economy

In particularly while host country is being getting advantages of the outsourcing at the same time the employees in the home country will be affected by the facts of unemployment. Because outsourcing the jobs have possibility to lose. The developing countries like India , Sri lanka get benefited because of outsourcing , but in other hand the people in the first world nations will suffer from unemployment. Even though it improve unemployment level of economy of home country, it positively affect on home country's economy by improving GDP. Then this leads to improve productivity on global economy.

Outsourcing is a one of the latest and successful management strategy that has a huge amount of advantages. Lot of the employees are in under pressure . because they have fear of losing their job because of Outsourcing. Therefore employees don't like to engage with this concept even if there are many advantages exist to all parties.