

Problems and solutions with offshoring in india

[Countries](#), [India](#)



The paper tries to study the problems with Offshoring in India. It attempts to provide a framework that can help iron out contentious issues with regards to outsourcing in India. It mentions the solutions and attempts to provide a better understanding of the problems and its resultant negative impacts.

Research indicates that as companies face competitive pressures to reduce operating costs and streamline business operations, many insurers are turning to business process outsourcing (BPO) and information technology outsourcing to achieve those goals.

Companies commonly outsource back-office activities, such as call centre operations and administrative functions. During late 2001, Gartner surveyed 114 U. S. insurance carrier organizations that had written net premiums of US\$100 million or more. The survey reported that 48 percent of property and casualty insurers outsourced at least one business process in 2001. An additional 9 percent of property and casualty insurers had plans to outsource some business processes in 2002.

Literature suggests that the recent outsourcing trend is set to continue in the near future. Industry experts indicate that outsourcing has moved beyond the contracting out of simple, repetitive business processes. Companies are now bringing outsourcing solutions into the heart of their organizations. In insurance, outsourcers are taking care of policy administration, claims processing, claims settlement and supply-chain management. Brief history about outsourcing in India and thesis statement

Global corporations today recognize outsourcing of services, and offshore outsourcing in particular, as a “ holy grail” in their search to cut costs and

increase productivity. This is particularly true for the insurance industry, which is notable for its people-intensive processes. Independent research company Datamonitor believes that retail banks can expect a cost saving of between 10 and 30 percent by outsourcing information-technology services to a third-party supplier. However, industry experts agree that the argument for outsourcing extends beyond just cost-cutting.

Additional gains include economies of scale, the ability to focus on core competencies, to increase revenues, to overcome an inappropriate skill set, to shorten the time frame of starting up new systems, to increase control over service standards and to create a single point for claims information, as detailed in the paragraphs below. The insurer can benefit financially from a major loss adjuster's economies of scale and from a consistent approach to dealing with claims, wherever they arise. The difficulty of coping with the peaks and troughs of claims volumes becomes the loss adjuster's problem rather than the insurer's.

Outsourcing can enable insurance companies to focus on their core competencies, more effectively manage costs and even bring in outside expertise to squeeze more revenue out of existing operations. Such solutions can help make companies leaner, giving them a competitive advantage over their rivals. Why India? What kind of Merits they have over other countries? Education Remains a Key Constraint to Growth: India compares unfavorably with its Asian peers when attainment at all levels is used as an indicator of success.

In 2000, the Indian working-age population had undertaken 5.1 years of education compared with 6.4 years in China and 6.8 years in Malaysia. A level of government spending on education and the efficiency of the spending remains poor. Quality of Graduates, Although Poor remains Superior to those in China: Only eight percent of 18 to 24 year olds participate in higher education in India. This equates to less than half of the average for the Asian region. India has approximately 350 universities and approximately 17,700 undergraduate colleges.

Despite the academic reputations of institutions such as Indian Institute of Management (IIM) and Indian Institute of Technology (IIT) it is estimated that only 25% of technical graduates and 10 to 15% of general college graduates are suitable for employment in the offshore IT and BPO industries. Whilst multinationals hiring from Indian institutions are able to provide special training schemes to compensate for quality problems, graduates from comparable Chinese institutions are not comparable to Indian graduates in terms of quality. Key Decisions in Outsourcing to India:

Process Assessment: Is the process dynamic, integrated with other activities, and customer facing (but not a 'core competency'). This is important as certain regulations might not permit specific processes to be outsourced owing to their core nature in serving the customers. For e. g. certain processes require personal medical history or financial records to be made available to outsourced partners in India. There have been recorded instances in the public domain where the security of such information has

been jeopardized and fraudsters have been able to access confidential information.

Volume Assessment: Are process volumes greater than minimum efficient scale? If the volumes are large and the cost to serve customer is high than it might justify the shifting of operations to India. However, in case of low volumes, the cost of shifting to India vis-a-vis the effort and risks involved might not make outsourcing to India a sound decision. Specific skills sets and low volume might require more than average Indian wages to be paid in India. Also the outsourcing partner might not invest enough resources to safeguard the confidentiality of data or consistently maintain the quality of work.

Materiality Assessment: Are potential improvements (in both percentage and absolute terms) through outsourcing worth my attention? Any outsourcing arrangement requires considerable time and money investment. There would have to be an outsourcing partner selected or the company might want go to India and look for opportunities to setup base itself. **Home Market Assessment:** Is my home competitive landscape consolidated but my home labor market inflexible/tightly regulated? The issues for outsourcing should be clearly defined as the market assessment in India could vary based on the specific need set for outsourcing.

There might be certain labor restrictions and regulatory restrictions in India that might make outsourcing less attractive. **Vendor Assessment:** Is the activity well-defined? Vendor assessment would start from the various basic of identifying a partner vendor to maintaining and reviewing the benefits of

the relationship. Successful stories of Offshoring in India UBS has invested \$40 million in a new back-office facility in Hyderabad that opened in June 2006 and has to date recruited 200 employees on the way to an anticipated 1, 500 by mid-2007.

In 2005, JP Morgan Chase also announced their intention to recruit approximately 4, 500 staff members in India over the next two years. JP Morgan, Merrill Lynch and other leading investment banks are also leveraging India's highly educated workforce for their research and other analytical needs. UBS's new Indian service center in Hyderabad aims to provide knowledge services including research and analytics, business services including transaction and data processing, and IT infrastructure support.

The center is part of the first phase of UBS's offshoring initiative in India and is intended to meet the institution's sourcing requirements as well as reducing costs, rationalizing systems and further streamlining processes. The center is intended to complement existing UBS offshoring activities around the world including initiatives such as the Sydney (Australia) IT help desk and outsourcing of the IT development work in Shenzhen (China). UBS's Chief Financial Officer describes offshoring as being " part of a well run business strategy".

Wells Fargo announced in 2006 that it would build a captive IT center in Hyderabad, India, with approximately 300 employees rather than depending on Indian outsourcing vendors. The decision to develop a captive center in India was based on three factors: previous poor experience with Indian

outsourcing vendors, competitive pricing and a technologically proficient labor force local to Hyderabad. Problems with Offshoring Brand strength and customer loyalty: When insurance processes are outsourced, quality might suffer.

The involvement of an outsourcing partner can create intrusion to the relationship between insurers and policyholders, affecting insurance companies' brand strength and customer loyalty. E. g. a strong argument against outsourcing is indeed that the way a client is treated when a claim is made forms part of the package that they have paid for. However, the insurance company can retain control over the way claims are handled by entering into a detailed service agreement with the third party claims handler.

Penalties and the implied threat that the agreement will be terminated if the service does not reach the required level should ensure that the contract is honored. In fact, some industry experts point out that it in some cases, it can actually be more difficult to penalize an in-house claims department that performs poorly. Companies also need to guard individual processes and data. They should look out for companies that offer high levels of comfort on this count by way of separate facilities for the client or at least strict data privacy rules between staff handling its work and that of other insurance or finance companies.

Reputational effects: If for example, the call centre is located on the other side of the world, it can be challenging to achieve and maintain an adequate level of integration. The risk then exists that two different identities will

develop: one that the company communicates via its advertising, and a potentially very different one that people experience on the phone. This can ultimately have a detrimental effect on a company's reputation.

However, in terms of protecting a customer's identity and its brands and strengthening customer loyalty, modern information technology and telephony resources are so advanced and efficient that an outsourced service can be performed and presented as if it were an integral part of the insurer's own operations, with all branding and labeling identifying the insurer rather than the provider. Outsource suppliers state they take great care to prevent any intrusion into the relationship between insurer and policyholder, with most customers being unaware of any third-party involvement.

Another related problem is that of bad publicity following the outsourcing of a whole department or business area and the accompanied loss of jobs. The fear of job losses may lead to increased union action. There are further challenges to Offshoring in India: Remoteness – There are pockets in India which act as outsourcing hubs. There are few cities which have come on the world map due to presence of outsourcing infrastructure. Connectivity within these cities also remains a matter of concern at times. Though, physical connectivity through airlines is improving.

Time differences – This can work both as an advantage and deterrent to outsourcing. There are night bound operations in India though due to the nature of industry these face high attrition and hence companies in US need to spend a lot of time reskilling new employees. Cultural problems –

Organizations need to know about the unique culture existing in India and the cultural diversity that exists there. Certain social behavior can be termed as offensive. Communication difficulties – Though this is limited owing to the large speaking English population there are difficulties with the various accents people have.

They are mitigated by voice trainers. However the biggest communication difficulties arise due to limited telephony and internet penetration. Socio-political risk – Multinational corporations are always at a greater risk and subject to high levels of scrutiny when operating in foreign land. This is true with India also where a section of the political elite might want the corporations to contribute more to uplifting the living standards to a wide range of population rather than benefit a select few.

Higher risk of fraud – There is high risk of fraud owing to easy accessibility of data. Also the monetary benefits of committing a fraud are higher for Indians. There is break down of social norms in most BPO's as the young generation works away from home in a different social setup which might have earlier bounded them to their basic ethics. Less social pressure and higher potential to commit fraud makes BPO's an ideal scapegoat. Solutions Hybrid. Balancing between ' Make' and ' Buy'

Many organizations started BPO's not just by outsourcing processes to India but by partnering companies based in India to sell their products in the Indian market. But what started as a marketing association, made the organizations realize the potential benefits of making India and other South East Asian countries their manufacturing or servicing hub owing to a wide

variety of benefits offered. Hence rather than buying services or products from India a lot of organizations started looking for partners to manufacture or process in India.

A lot of local companies were provided the technical expertise and high levels of operating standards while the local companies helped acquire regulatory approvals and served as the backbone for 'making' rather than merely be sources for 'buying'. Learning to build relationships with suppliers from Asian businesses What started as a buyer – supplier relationship is shaping out to be a partnering relationship. This is the nature of the global economy. While companies in the domestic market continue to slash jobs to achieve cost savings and at times move out of bankruptcy they continue to enter or expand operations in India.

This gets facilitated by building relationships with Asian suppliers. India is a peculiar case as though it has the superiority in manpower amongst its South Asian partners, it at times lacks the infrastructure and technical advantage that other countries might have. The multinationals are at times partnering with these companies to provide their technical knowledge and upgrade their skill set while utilizing their existing skill set and cost advantage to further stakeholder benefits.

Conclusion Outsourcing to India is moving away from being a wage arbitrage opportunity to being a partnership approach. However, what would be interesting to see is how long the wage arbitrage would be maintained as it has served to be the backbone of the rise of outsourcing to India. The Indian

currency, i. e. the Rupee has strengthened against the Dollar thereby compromising the margins of Indian vendors serving as outsourcing hubs.

Rising wage costs in India and related problems of attrition and growing interest of other South Asian countries in the potential of BPO's poses certain macro level challenges to outsourcing to India. The companies might evaluate the reasons for outsourcing to India. There are potential gains to be made by most companies by outsourcing to India provided they have the right reasons to outsource, a dedicated vendor, an evaluation mechanism to analyze the profitability of outsourcing and that companies have done a thorough socio-political impact analysis of outsourcing.

There are certain companies in India that have tried to make outsourcing an onshore-offshore model with a higher percentage of onshore activity than the traditional BPO model. The ideation came from the fact that there is large scale attrition and the US companies want their Indian counterparts to be more involved with the solution delivery or implementation also. Hence, certain section of the process managers and team members has been encouraged to spend a larger amount of time in the US.

This has also been done to provide certain employees a chance to work as an integral team with US counterparts. In instances, these employees have also been trained at onshore location in US and other company facilities outside India. However, this has been at the cost of profitability as this leads to increase in the cost of travel and lodging for the Indian employees of the BPO wing. Hence, organizations need to take a balanced approach in trying

to retain and motivate employees whereas trying to maintain the core wage arbitrage.

However, outsourcing does spell good time for the US companies at large. The dollars being pumped into the Indian economy are finding its way back to retailers and other manufacturers and service providers of US and Europe as the young Indian population looks to increase its spending on luxurious goods. However, it is difficult to present an exact correlation between the two phenomenons.