

## 1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Emerging Modes of Business – Part 3
Module Id	kebs_10503
Pre-requisites	Knowledge about Emerging Modes of Business
Objectives	<p>After going through this lesson, the learners will be able to understand the following:</p> <ul style="list-style-type: none"><li>• Concept of Outsourcing</li><li>• Nature of Outsourcing</li><li>• Scope of Business Process Outsourcing</li><li>• Types of Business Process Outsourcing Services</li><li>• Need for Outsourcing</li><li>• Concerns over Outsourcing</li><li>• Knowledge Process Outsourcing</li><li>• Types of KPO services</li><li>• Smart Card</li><li>• Applications of Smart Cards</li><li>• ATM</li></ul>
Keywords	BPO, KPO, ATM, SMART CARDS

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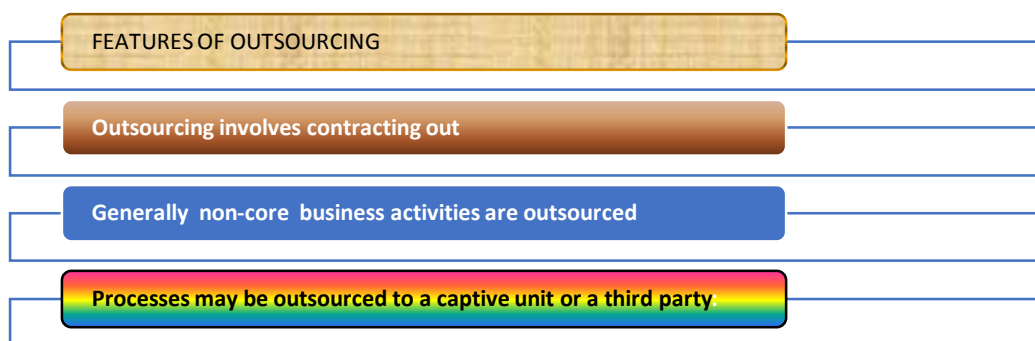
### 1. Outsourcing: Concept



Outsourcing is yet another trend that is radically reshaping business. It refers to a long-term contracting out generally the non-core and of late even some of the core activities to captive or third party specialists with a view to benefitting from their experience, expertise, efficiency and, even investment.

#### Nature of Outsourcing

This simple definition leads one of the salient features of the concept that are not peculiar to an industry/ business or country, but have become a global phenomenon.



(i) **Outsourcing involves contracting out:** Literally, outsourcing means to source from outside what you have hitherto been doing in-house. For example, most companies have so far appointed their own sanitation staff for maintaining neatness, cleanliness and overall housekeeping of their premises. That is, sanitation and housekeeping functions were being performed in-house. But of late, many companies have started outsourcing these

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activities, i.e., they have entrusted outside agencies to perform these activities for their organisations on a contractual basis.

(ii) **Generally non-core business activities are outsourced:** Sanitation and housekeeping functions are non-core for most organisations. Of course, for municipalities and sanitation services providers, these activities comprise the core of their business activity. Housekeeping is a core activity for a hotel. In other words, depending upon what business a company is in, there will be some activities that are central and critical to its basic business purpose. Other activities may be regarded as secondary or incidental to fulfilling that basic purpose. The purpose of a school, for example, is to develop a child by means of curricular and co-curricular activities. Clearly, these activities comprise the 'core' activities. Running a cafeteria/canteen or a book store is non-core activity for a school.

As the organisations venture to experiment with outsourcing, they may initially outsource only the non-core activities. But later on, as they become comfortable with managing interdependencies, they may start getting even the core activities performed by the outsiders. For example, a school may tie-up with some computer training institute to impart computer education to its students.

(iii) **Processes may be outsourced to a captive unit or a third party:** Think of a large multinational corporation that deals in diverse products and markets them to a large number of countries. A number of processes such as recruitment, selection, training, record and payroll (Human Resources), management of accounts receivable and accounts payable (accounting and finance), customer support/grievance handling/troubleshooting (marketing) are common to all its subsidiaries operating in different countries. If these processes could be centralised and parcelled out to a business unit created especially for this purpose, this would result in avoidance of duplication of resources, realisation of efficiency and economy's performance of same activity on a large scale at one or a few select locations, thereby resulting in substantial reduction in costs. Clearly, therefore, if the task of performing some activity internally is sufficiently large, it may be beneficial for the firm to have a captive service provider, i.e., a service provider set up for providing services of a given kind to only one firm. General Electric (GE) is, for instance, the largest captive BPO unit in India for providing certain kinds of services to the parent company in the United States as well as to its subsidiaries in other countries. Or else, these processes may be parcelled out to third party service providers who operate independently in the market and provide services to other firms too.

The hired party service providers are the persons/firms which specialise in some processes such

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as Human Resource Management (HRM) and provide their services to a wide base of clients, cutting across industries. Such service providers are called 'horizontal' in the outsourcing terminology. Else, they may specialise in one or two industries and scale up to doing a number of processes from non-core to core. These are called 'verticals.' As the service providers mature, they move simultaneously horizontal and vertical.

The most important reason underlying the use of outsourcing is to benefit from the expertise and experience of others. Institutions like schools, companies and hospitals can outsource the cafeteria activity to the catering and nutrition firms for whom these activities comprise the core or heart of their operations. The idea of outsourcing is valuable as you tend to gain not only in terms of their expertise and experience and the resultant efficiency, but it also allows you to limit your investment and focus attention to what your core processes are.

Little wonder that outsourcing is fast becoming an emerging mode of business. Firms have started increasingly outsourcing one or more of their processes which can be more efficiently and effectively carried out by others. What qualifies outsourcing as an emerging mode of business is its increasing acceptance as a fundamental business policy and philosophy, as opposed to the earlier philosophy of 'doing it all by yourself'.

### **Scope for Outsourcing**

Outsourcing comprises four key segments: contract manufacturing, contract research, contract sales and informatics

The term outsourcing has more popularly come to be associated with IT-enabled services or Business Process Outsourcing (BPO).

Business Process Outsourcing (BPO) is a subset of outsourcing that involves the contracting of a specific business task, such as human resources and customer service, to a third-party service provider.

BPO is normally divided into two categories:

- i. Back Office Outsourcing: It includes outsourcing of internal business functions such as billing or purchasing.
- ii. Front Office Outsourcing: It includes outsourcing of customer related services such as marketing or technical support.

Business Process Outsourcing (BPO) that is contracted outside a company's own country is sometimes called 'Offshore outsourcing'.

BPO that is contracted to a company's neighbouring country is called 'nearshore outsourcing'.

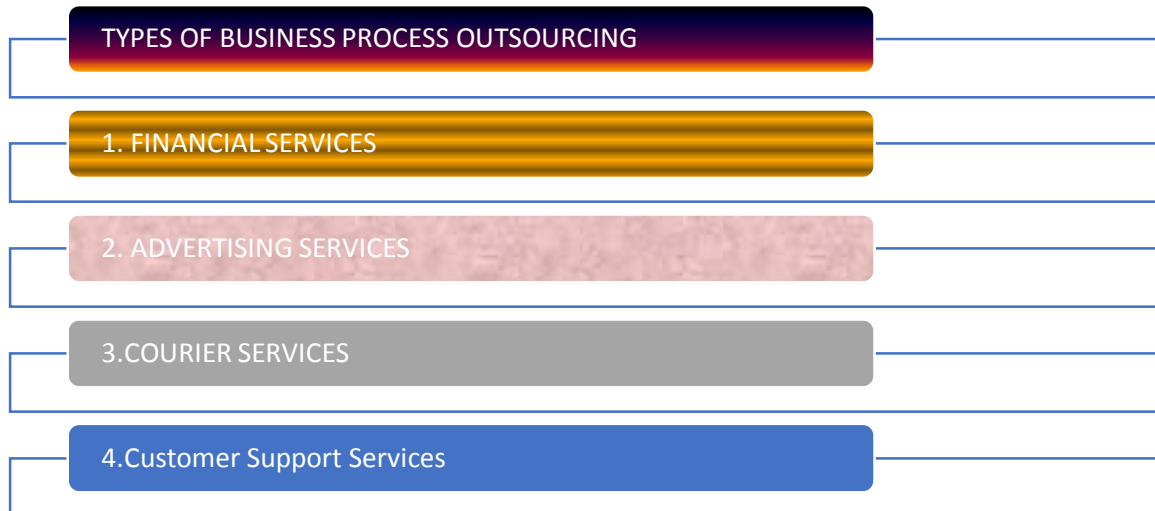
BPO that is contracted with the company's own country is called 'onshore outsourcing'.

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## **Types of Business Process Outsourcing Services**

Principal Outsourcing Services can be categorized as follow: -

- i. Financial Services
- ii. Advertising Services
- iii. Courier Services
- iv. Customer Support Services



In fact, even more popular term is ‘call centres’ providing customer-oriented voice based services. About 70 per cent of the BPO industry’s revenue comes from call-centers, 20 per cent from high-volume, low-value data work and the remaining 10 per cent from higher- value information work. ‘Customer Care’ accounts for the bulk of the call center activities with 24 hrs x 7 days handling of in-bound (customer queries and grievances) and out-bound (customer surveys, payment follow-up and telemarketing) traffic.

### **Need for Outsourcing**

Necessity, they say, is the mother of all inventions. This can be said to be true even in case of the idea of outsourcing. As discussed in the introduction to the chapter, global competitive pressures for higher quality products at lower costs, ever demanding customers, and emerging technologies are the three major drivers causing a rethink or re-look at business processes. These may be regarded as factors responsible for the continuing emergence of outsourcing as a mode of business. In fact, today outsourcing is being resorted to not out of compulsion, but also out of choice. Some of the major reasons (and also benefits) of outsourcing are discussed below.

(i) **Focusing of attention:** You may be good at doing so many things in academics and extra-curricular activities, yet you would be better off by focusing your limited time and money on just a few things for better efficiency and effectiveness. Likewise, business firms are realising

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the usefulness of focusing on just a few areas where they have distinct capability or core competence, and contracting out the rest of the activities to their outsourcing partners. You are aware, that, in order to create utilities or value, a business engages in a number of processes, viz., purchase and production, marketing and sales, R&D, accounting and finance, HR and administration etc. Firms need to define or redefine themselves. They, for example, need to consider as to whether they would like to be called a manufacturing or marketing organisation. Such a way of delimiting the scope of business enables them to focus their attention and resources on select activities for better efficiency and effectiveness.

(ii) Quest for excellence: You are aware of the benefits of division of labour and specialisation. Outsourcing enables the firms to pursue excellence in two ways.

One, they excel themselves in the activities that they can do the best by virtue of limited focus. And, they excel by extending their capabilities through contracting out the remaining activities to those who excel in performing them. In the quest for excellence, it is necessary not only to know what you would like to focus on, but also what you would like others to do for you.

(iii) Cost reduction: Global competitiveness necessitates not only global quality, but also global competitive pricing. As the prices turn southwards due to competitive pressures, the only way to survival and profitability is cost reduction. Division of labour and specialisation, besides improving quality, reduces cost too. This happens due to the economies of large scale accruing to the outsourcing partners as they deliver the same service to a number of organisations. Differences in prices of factors of production across the countries are also a factor contributing to cost reduction. For example, India is a preferred destination for global outsourcing of Research and Development, manufacturing, software development and IT enabled services (ITES) because of large scale availability of required manpower at lower costs.

(iv) Growth through alliance: To the extent you can avail of the services of others, your investment requirements are reduced, others have invested in those activities for you. Even if you may like to have a stake in the business of your outsourcing partners, you profit from not only the low-cost and better quality services provided by them to you but also by virtue of a share in the profit from the overall business they do. Therefore, you can expand rapidly as the same amount of investible funds result in creation of a large number of businesses. Apart from financial returns, outsourcing facilitates inter-organisational knowledge sharing and collaborative learning. This may also explain the reasons why the firms today are outsourcing not only their routine, non-core processes, but also seeking to benefit from outsourcing such strategic and core processes as Research and Development.

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(v) **Fillip to economic development:** Outsourcing, more so offshore outsourcing, stimulates entrepreneurship, employment and exports in the host countries (i.e., the countries from where outsourcing is done). In India in the IT sector alone, for example, there has been such a tremendous growth of entrepreneurship, employment and exports that today we are the undisputed leaders as far as global outsourcing in software development and IT-enabled services are concerned. Presently, we have 60 per cent of the \$150 billion (1 billion = Rs. 100 crores) global outsourcing share in the informatics sector.

### **Concerns Over Outsourcing**

It will not be out of place to be aware of some of the concerns that outsourcing is besieged with.

(i) **Confidentiality:** Outsourcing depends on sharing a lot of vital information and knowledge. If the outsourcing partner does not preserve the confidentiality, and, say, for example, passes it on to competitors, it can harm the interest of the party that outsources its processes. If outsourcing involves complete processes/products, there is a further risk of the outsourcing partner starting up a competitive business.

(ii) **Sweat-shopping:** As the firms that outsource seek to lower their costs, they try to get maximum benefit from the low-cost manpower of the host countries. Moreover, it is observed that whether in the manufacturing sector or the IT-sector, what is outsourced is the kind of components or work that does not much build the competency and capability of the outsourcing partner beyond the skills needed to comply with a rigidly prescribed procedure/ method. So, what the firm that go in for outsourcing look for is the 'doing' skills rather than development of the 'thinking' skills.

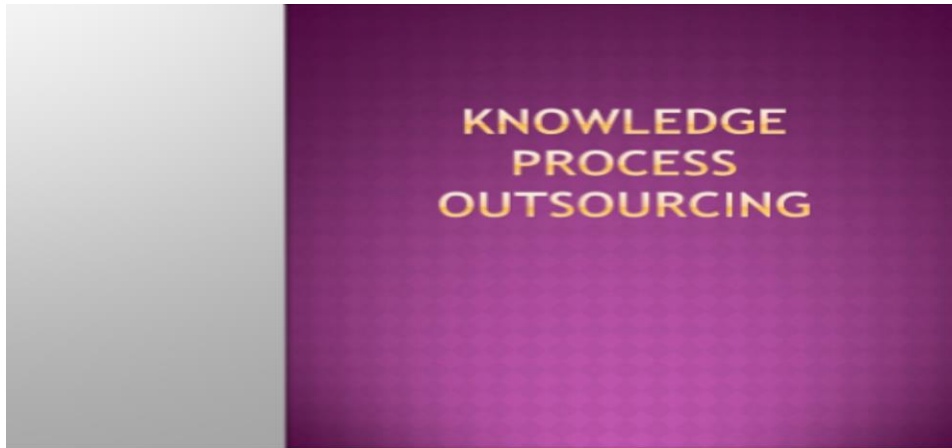
(iii) **Ethical concerns:** Think of a shoe company that, in order to cut costs, outsources manufacturing to a developing country where they use child labour/women in the factories. Back home, the company cannot do so due to stringent laws forbidding use of child labour. Is cost cutting by using child labour in countries where it is not outlawed or where the laws are 'weak', ethical? Similarly, is it ethical to outsource the work to countries where there exists wage-discrimination on the basis of sex of the worker?

(iv) **Resentment in the homecountries:** In the course of contracting out manufacturing, marketing, Research and Development or IT-based services, what is ultimately contracted out is 'employment' or jobs. This may cause resentment back in the home country (i.e., the country from which the job is being sourced out) particularly if the home country is suffering from the problem of unemployment.

The aforementioned concerns, however, do not seem to matter much as the global outsourcing continues to flourish. As India emerges as a global outsourcing hub, the industry is forecast to explode at exponential rates.



## Knowledge Process Outsourcing (KPO)

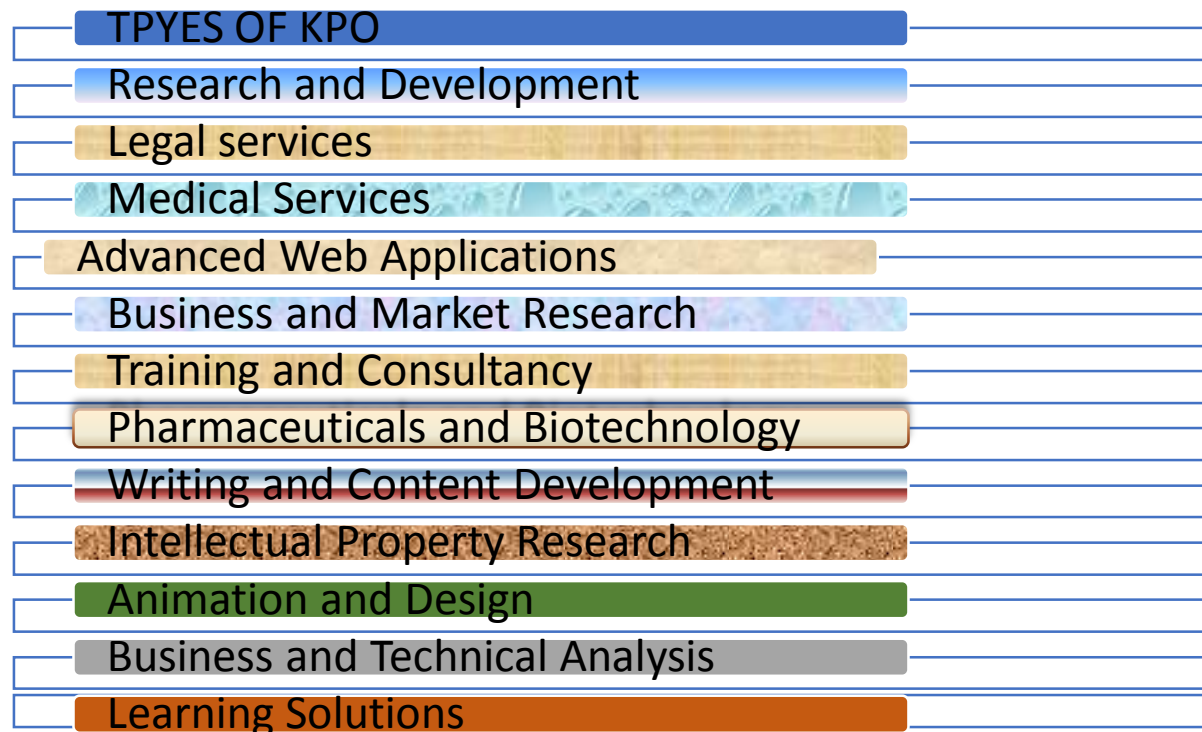


Knowledge Process Outsourcing (KPO) is a form of outsourcing that involves the contracting of knowledge intensive business processes that require specialized domain expertise to a third-party service provider.

KPO is an extension of BPO. In KPO, the work assigned to a KPO vendor is based on knowledge and information whereas work assigned in BPO is basically process-oriented.

### Types of KPO services:

Knowledge Process Outsourcing provides its services in the following fields:



- (i) Research and Development
- (ii) Legal services
- (iii) Medical Services



- (iv) Advanced Web Applications
- (v) Business and Market Research
- (vi) Training and Consultancy
- (vii) Pharmaceuticals and Biotechnology
- (viii) Writing and Content Development
- (ix) Intellectual Property Research
- (x) Animation and Design
- (xi) Business and Technical Analysis
- (xii) Learning Solutions

### Smart Card

- A Smart Card is a device that includes an embedded integrated circuit (I.C.) that can be either a secure microcontroller or equivalent intelligence with internal memory or a memory chip alone.
- It provides identity documentation, authentication, data storage and application processing.
- IC of Smart Card is used for storing data and it can be used with a smart card reader.

### Applications of Smart Cards

(i) (i) Telecommunication



(ii) Metro cards



(iii) E-Commerce



(ii) Banking

(iii) Medical and Health Insurance Cards

### ATM



- ATM stands for Automated Teller Machine
- An ATM is an Electronic telecommunication device that enables the customers of a financial institutions to perform financial transactions, particularly cash withdrawal, without the need for a human cashier, clerk or bank teller.

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- On most modern ATMs, the customer is identified by inserting a plastic ATM Card with a magnetic stripe or a plastic card with a chip that contains a unique card number and some security information such as expiration date or CVV.
  - Authentication is done by customer by entering a personal identification number (PIN)

### **Summary**

The two trends of e-business and outsourcing are reshaping the way business is and will be conducted, interestingly, both e-business and outsourcing are continuing to evolve, and that is why these are referred to as the emerging modes of business. India is riding high on the global outsourcing business and has gained considerably in terms of employment generation, capability building and contribution to export and GDP.