

## OUTSOURCING: THE SHINING PATH WAY OF GROWTH IN INDIA

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### INTRODUCTION

In this increasingly competitive world, it can be contracted, to reduce the costs and maximize profits, without compromising on quality and time. Such a contract is known as outsourcing, which is a powerful management tool for redefining and re-energizing any organization. It is useful, not only for maximizing the present profits of the organization with the existing clientele, but it also relieves and enables the employees to work on higher value added jobs. BPO industry is a young and emerging sector in India and has now become a very important part of the export-oriented IT software and services environment. It initially began as an activity confined to multinational companies, but today it has developed into a broad-based business platform backed by leading Indian IT software and services organizations and other third party service providers. Today, Indian companies are offering a variety of outsourced services ranging from customer transcription, billing services and database marketing, to web sales/marketing, accounting, tax processing, transaction document management, telesales/telemarketing, HR hiring and biotech research. In this paper an analysis has been made to highlight the concept of BPO, its stages and phases of growth, some of the recent developments and implications of BPO sector.

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## THE CONCEPT OF BPO DEFINED

Business process outsourcing (B.P.O) is a form of outsourcing which involves the contracting of the operations and responsibilities of a specific business function to a third-party service provider. This is a way to improve operational performance while reducing costs. In the developing countries, outsourcing is becoming a trend in information technology and other industries for services that usually has been regarded as intrinsic to manage a business.

BPO refers to a decision to sub-contract some or all non-core processes. The main motive for Business Process Outsourcing is to allow the company to invest more time, money and human resources into core activities and building strategies, which fuels companies growth. Business Process Outsourcing (BPO) is the delegation of one or more IT-intensive business processes to an external provider that in turn owns administers and manages the selected process based on defined and measurable performance criteria.

BPO has been the latest **mantra** in India today. As the current sources of revenue face slower growth, software companies are trying new ways to increase their revenues. BPO is on top in their list today. IT services companies are making a quick entry into the BPO space on the strength of their existing set of clients.

India became a prominent destination for outsourcing in the services sector in the 1990s. Outsourcing to India started with the growth of IT industry, which has responded to the changing market requirements by increasing the scale of operations and capability to handle complexity. The Indian software industry, according to Kris Gopalakrishnan, CEO, Infosys Technologies Limited, has gone through the following four stages of development:

### STAGES AND PHASES OF GROWTH OF BPO

1. **1970s to early 1990s**: There was a shortage of skills and cost was the prime driver for outsourcing to India. Companies focused on expanding their skill sets during this period.
2. **1994 to 1998**: This was the most crucial time for IT outsourcing in India. The post liberalization reforms helped the already existing companies to speed up expansion. New companies also got support in the form of incentives from the government. The important tasks outsourced to India during this period were medium and large application projects on legacy migration and enterprise wide IT and problems related to Y2K syndrome. The companies focused on acquiring

diverse skills and execution capabilities, along with achieving client delight through productive and quality delivery of projects.

3. **1999 to 2001:** While projects related to Y2K syndrome were outsourced on a large scale to India, companies started acquiring additional competence especially in enterprise resource planning and customer relationship management during this stage. The industry gave importance to a variety of business aspects such as achieve excellence in quality of output delivered, making investments in R&D, ensuring business continuity and financial stability, gaining world-class project management capabilities, expanding services to IT consulting by gaining domain skills and developing infrastructure for further growth.
4. **2001 to present:** The industry now caters to large application development and maintenance needs of corporate across the world. Indian companies chalk out IT strategies for large corporations, and focus on providing end-to-end solutions. Indian companies are now in the process of aggressively gaining expertise for carrying out high end work such as R&D, architecture and business integration. BPO in India has grown rapidly as compared to software services as the advantages offered by the country (low cost and abundant talent pool) were well known and tested in IT outsourcing. Most of the infrastructure required was already in place and companies needed to set the processes right to get BPO going in India. According to Mohanbir Sawhney, Professor, Kellogg School of Management, evolution of BPO in India has witnessed three prominent phases. These phases are:
  1. Large multinational companies set up their captive centers in the country. American Express, GE and Citibank were among the pioneers which were followed by numerous banks, financial services, manufacturing companies, etc. These companies performed their back-office operations and customer services through these offshore captive centers.
  2. The captive centers were followed by the establishment of start-up BPO operations by experienced professionals. Such companies were often backed by venture capital.
  3. IT majors such as IBM ventured into Indian BPO market to tap the opportunity. These companies had experience in managing offshore IT operations which helped them in gaining an easy entry into the BPO market.

The Next Trend Towards BPO has been shown in Box 1

#### Box 1: BPO sector to see consolidation in 2011

NEW DELHI: With fast changing industry dynamics, the country's BPO sector is expected to see a consolidation wave in the coming months, says global research group Gartner. "A consolidation wave in Business Process Outsourcing (BPO) sector

Source:- The Times of India, Dec. 28, 2010

With a large, English speaking, low cost workforce, India was well positioned to take advantage of the trend and the sector has been growing at astronomical rates. The first part of this decade saw growth of 40-50% and the Indian outsourcing sector is now approaching revenue of \$30 billion. Recent wage inflation and the global financial crisis are putting a dent in this years growth numbers, but the industry is still expected to post double digit growth in 2008 and 2009. Run away growth may be slowing but the Indian outsourcing sector will continue to expand for years to come.

### **INDIA AS A HUB FOR GLOBAL OUTSOURCING**

As shown in box 1, outsourcing is being used extensively in today's business world. Organizations of all kinds use outsourcing to improve the competitiveness of their products and services. Outsourcing as a phenomenon has been used by organizations to free up capital and manpower from mundane activities, to focus on their core competence. A lot of literature is available on outsourcing which shows the attention that this phenomenon is currently enjoying. Harvard Business Review commented that outsourcing has been one of the most important management concepts of the present times.

**Implications and growth of the BPO Sector**

The concept of outsourcing gained visibility with the recession of 1990-1994, which forced companies to outsource transaction oriented activities to other countries where the cost of undertaking such activities was cheaper. Thus, reducing cost and increasing efficiency were the driving factors which propelled companies to outsource from 1990 onwards. Though technology and process improvement activities turned out to be great saviors in terms of increasing the efficiency of organizations, they did not altogether obliterate transaction related activities.

**Improving efficiency through competitive advantage**

Rapid commoditization resulted in the power shifting from producers to consumers. As a result the ability of organizations to command a higher price for their unique value propositions only lasted for a fleeting amount of time. Organizations had to find some way to improve their efficiencies and keep up their competitive advantage. Thus the modern concept of outsourcing was born out of a hypercompetitive environment that companies in the West started facing.

**Source of cost reduction**

Cost reduction dominated the mind space of companies outsourcing in the last decade. But with passage of time the concept of professional execution of transactional activities by lower cost countries started contributing to an improvement in the efficiency and the economy of managing work. Thus what started off with the motive of capitalizing on “cost arbitrage” started being analyzed for other non-cost advantages – the most significant of which is an “improved focus” on the activities that are being outsourced.

**Improving quality of services**

This increased focus in turn led to improved efficiency and quality of the output. India as a provider had all the qualities that made it the most happening ground for outsourcing. The ability and the educational level of the workforce handling assignments have contributed significantly towards the efficiency of handling work. The availability of large numbers of qualified people meant an improved productivity, shrinking turnaround times and above all tremendous scalability.

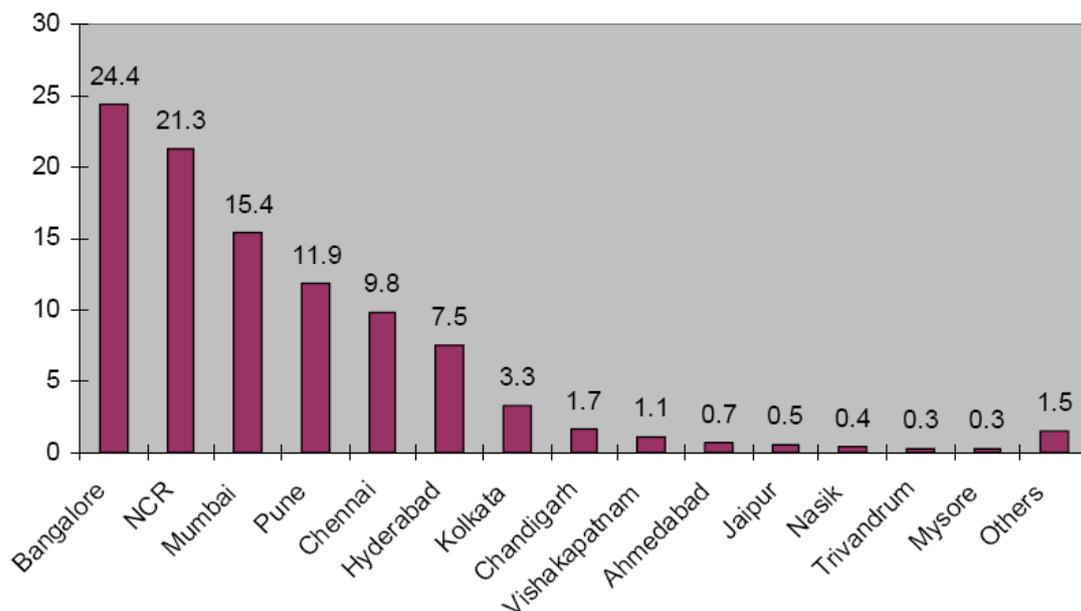
**Source of employment**

While the employment in BPO sector was initially in thousands, there has been significant increase in the number of jobs created by this sector. The compound average growth rate between 2003 and 2008 is at 31 %. No other sector than the IT/BPO-ITeS sector has shown such a growth in jobs within such a short span of time in India.

According to the Nasscom Strategic Review 2008, between the IT and BPO sectors, the total direct employment in India stands at 2 million and the indirect employment at 7-8 million. The fast growth of BPO have led to growth in demand for a number of employees who support the skilled employees. With the improvement in salaries, there is greater need for more maids, drivers, janitors, security staff, cafeteria services etc. Apart from these jobs, you can observe that the pattern of consumption of people in these Sectors has undergone a change. There is a tendency to spend more on consumer goods such as mobiles, laptops, clothes, accessories, vehicles, frequent visits to restaurants, movies and the like. This increase in spending has given a boost to the Retail Sector too. Similarly, more frequent travel by employees within the country and more clients visiting India have benefited the Hospitality and Aviation Sector immensely. Hence it is estimated that there is a substantial rise in the indirect employment too.

Figure 1. Employees Distribution trends in India

#### **DISTRIBUTION OF EMPLOYEES BY INDIAN CITIES (2007)**



Source:- Nasscom Strategic Review 2008

A very typical trend seen with reference to employee distribution is that, most of the BPO Companies have concentrated predominantly in the metros in India. As seen above in the figure 1, seven cities i.e. Bangalore, National Capital Region (Noida , Delhi, Gurgaon),

Mumbai, Pune, Chennai, Hyderabad and Kolkata alone constitute more than 90% of the employees. This only means that the BPO companies have been concentrating mainly on the bigger cities, called Tier 1 and Tier 2 cities.

### **Problems and challenges faced by BPO**

Along with the phenomenal increase in BPO to India there has been a backlash against outsourcing. The opposition and backlash is coming mainly from developed countries that are directly affected by outsourcing to India. An anti outsourcing movement has drawn wide support as layoffs continue to mount at such U.S. companies as IBM, which is cutting 13,000 jobs in Europe and the United States and adding 14,000 in India, according to the Washington Alliance of Technology Workers. Though this anti-outsourcing movement is gaining momentum but the pace at which the trend of outsourcing is continuing to India, this is going to double in a couple of years. It is because of numerous advantages that India enjoys in comparison to other countries. Fame comes at a price. And being the fastest-growing and most cost-competitive outsourcing destination could sometimes elicit such negative responses. The reality that India is fast emerging as the back office of the world and our BPO industry is estimated to grow at a rate of 65 per cent per year is not taken too well by most of the developed countries of the world, from where these jobs are coming to India. Even as investments in the ITES-BPO industry are increasing by the day, banners and slogans demanding a ban on outsourcing of jobs to India are increasingly noticeable. Some states in the US have tried to legislate banning the transfer of state data processing contracts to developing nations. Despite the bill being passed by the US senate barring the shifting of BPO work to India, the BPO supporters lobby in the US is working at changing the mindset and perceptions. In the UK, three of the country's biggest trade unions have come together to fight the loss of jobs to India, especially British Telecom's move to open a huge call center in Bangalore. These unions fear that the competitors of BT will emulate this act. German protesters have been running an unrelenting political campaign against the German green-card scheme for a while now. But one thing is sure. The trend of BPO is likely to continue under all circumstances, because firms have become habitual of moving the BPO work to India, it is now like an addiction, which they can't do without. The only thing that needs to be done now is resolving of cultural differences, which, crop up during the cross border shifting of BPO work.

### **Security issues**

NASSCOM has estimated that India may have lost out IT and ITES business opportunities worth about \$7 billion to \$8 billion because of security concerns among potential foreign clients. While global clients are convinced about the delivery capabilities of Indian IT and BPO companies, data security issues are a major concern in any discussion on off shoring services to India.

### **Attrition**

BPO outfits are a relatively new breed of employers that have sprung up over the past few years. On the surface, these companies seem to offer plumb jobs. The criteria for securing a job here include little more than a good command over the English language and a basic knowledge of computers. The pay goes into five figures in little or no time after joining.

However, these professions call for long as well as odd hours of work and incredibly high work targets to be achieved. Such working hours result in irregular sleep, unhealthy food habits, nausea, chronic fatigue, body ache, back pain, headaches, computer syndrome, dry eyes, etc. when these work hours get coupled with the stress brought on by stiff work targets, the result is a host of psychological problems like nervousness, insomnia, anxiety, hypertension, restlessness, irritability and even depression. Also the Indian call-center workers are increasingly facing particular abuse from Americans, whose tantrums are sometimes racist and often inspired by anger over outsourcing. Not surprisingly, the attrition rate in BPOs in India is high. The staff attrition rates within BPO centres in India average 22 per cent per annum, with attrition rates in voice based services hitting 30 percent. To combat these high attrition rates and ensure consistent service delivery quality to their clients, BPO companies are actively striving to raise the understanding and value of their company brand within the community, and introducing incentive-based pay structures and "quality of life" initiatives for workers. Pay cheques alone are not enough to retain employees. Management also needs to consider other aspects like secure career, benefits, perks and communication. The attrition battle could be won by focusing on retention, making work a fun place, having education and ongoing learning for the workforce and treating applicants and employees in the same way as one treats.

### **CONCLUSION**

Initially BPO industry began as an activity confined to multinational companies, but today it has developed into a broad based business platform backed by leading Indian IT software and services organization and other third party service providers. The BPO market expanded its base with the entry of Indian IT companies and the ITES (Information Technology Enabled Service) market of the present day is characterized by the existence of these IT giants who are able to leverage their broad skill-sets and global clientele to offer a wide spectrum of services. The spectrum of services offered by Indian companies has evolved substantially from its humble beginnings. Today, Indian companies are offering a variety of outsourced services ranging from customer, transcription, billing services and database marketing, to web sales/marketing, accounting, tax processing, transaction document management, telesales/telemarketing , HR hiring and biotech research .

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