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BPO INDUSTRY IN INDIA: TRENDS AND CHALLENGES

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ABSTRACT

Business Process Outsourcing has become an important strategic tool in today's competitive business environment. It can offer great opportunities to both buyer and supplier when used wisely. This paper provides insights into the rationale of Business Process Outsourcing (BPO), its evolution in India, contribution of this sector to the national economy and challenges faced by this sector in India. It was found that Business Process Outsourcing in India is growing significantly because it is offering cost effective solutions with world class quality and high reliability. India still maintains the lion's share of the IT-BPO service market. But India should be on its guard to maintain its position intact.

KEYWORDS

Business processes, Business process outsourcing, Organisation, Outsourcing, Service providers.

INTRODUCTION

Globalisation in recent years has removed international trade barriers and has resulted in an increasingly interlinked economy and intense world-wide competition. This development has put pressure on business managers across the world to reduce costs of operations. Concurrent to globalisation, improvements in telecommunication and data capabilities have also opened up new opportunities for outsourcing business processes to locations that offer significant cost and quality advantages. As a result, a trend emerged in the early nineties in the corporate sector to outsource a number of non-core business processes to outside vendors. This has resulted in the emergence of an industry that is commonly referred to as Business Process Outsourcing (BPO) industry.

Gartner has defined Business Process Outsourcing as "the delegation of one or more IT-intensive business processes to an external provider that, in turn owns, administers and manages the selected processes based on defined and measurable performance metrics." In other words, it is the transfer of direct managerial responsibility but not accountability, to a third party service provider who perform services previously done by internal staff and management. It helps an organisation to focus on its core competencies. It harnesses the unique capabilities of more talented outside service providers for handling the non-core activities. Moreover, the company need not invest in land, building and equipments to carry the non-core processes, thereby sparing funds that can be used elsewhere.

Significant cost savings also led to the growth of outsourcing. BPO saves precious management time and resources. In times of recession, cost savings is a key driver and outsourcing becomes imperative. During growth, organisations need to focus their resources on growth and core competencies, and therefore need to outsource the non-core activities. By collaborating with a outside service provider, companies can have access to latest technology, infrastructure and best practices. As service providers specialise in the task, they give better quality than if the functions were performed in-house.

Outsourcing also helps to provide uninterrupted services to the organisation when any particular location is disabled for some reason. Thus, BPO strengthen the business continuity of an organisation in a big way. BPO helps in utilising state-of-the-art technologies and expertise of service providers, which helps a company to begin operations in weeks rather than months. It also allows client firms to scale quickly in response to the increased demand or new services and products.

Thus, BPO gives tremendous help to the companies to concentrate more on the core areas of their business thereby reducing the cost involved. Once outsourcing of certain processes take place it becomes easier for the company to evaluate the efficiency and effectiveness of services that are being delivered from outside and inside. BPO thus, enhances the efficiency, productivity, quality and the shareholders value.

EVOLUTION OF BPO IN INDIA

Over the last two decades, outsourcing of business processes has gained popularity as firms all over the world have been enjoying much success by adopting this strategy. BPO started in India in early 1990's with Swiss air and American Express. Large global corporates such as General Electric, HSBC, Standard Chartered, Citi group, British Airways, Dell Computers, Hewlett Packard have started their own captive centers in India for their back office processing requirements. The primary reason was the significant cost savings achieved through the relocation of processes to India.

Given the high growth potential of the BPO industry, a number of Indian entrepreneurs also started setting up their BPO operations. In 2000, a number of players such as EXL, Spectramind and Daksh entered the BPO market. These players act as third party providers of services to global and domestic clients. They have primarily been funded by venture capitalists and over the years have increased their presence across processes.

In 2002, the Indian BPO industry witnessed its first phase of consolidation with Customer Asset being acquired by ICICI OneSource and Spectramind was bought by software major Wipro. By then, BPO had become mainstream like the IT Industry in India. By 2002 all major Indian software organisations have entered the BPO space. Most of them have entered the industry by setting up joint ventures, in-house divisions and subsidiaries namely, Infosys (Progeon), Inforlinx, HCL, Satyam (Nipuna), TCS and Patni. However, since the entire dynamics of the BPO business is different vis-à-vis the software services industry, some companies took the inorganic route. In 2003, Daksh was bought out by IBM and later in 2006 Mphasis was acquired by EDS.

Unlike the IT services industry, the BPO sector has also witnessed the entry of global BPO majors such as Convergys and Sitel Corporation. These companies were either focused BPO providers or have been spin off of large global corporates. Some of these providers have adopted the joint venture route to set up their presence in India like Sitel Corporation entered into a joint venture with the Tata Group. However, other global BPO providers such as Convergys had set up 100 percent subsidiary in India.

As of today, BPO in India is growing significantly. This is mainly due to the continuing global economic downturn. High quality and success with Fortune 500 clients in the past is also fueling the BPO segment in India.

CONTRIBUTION OF BPO TO NATIONAL ECONOMY

The Indian BPO industry has become the country's premier growth engine crossing significant milestones in terms of growth of revenue, employment generation and value creation in addition to becoming the global brand ambassador for India.

As per NASSCOM Strategic Review 2013, FY 2013 has been a year of transition and transformation for the Indian IT-BPO industry. The industry is estimated to reach aggregate revenues of USD 108 billion in FY 2013 with the IT-software and service sector (excluding hardware) accounting for USD 95 billion of revenues. The direct employment is expected to reach nearly 3 million, an addition of 1,88,300 employees, while indirect job creation is estimated at 9.5 million. As a proportion of national GDP, the sector revenues have grown from 1.2 percent in FY 1998 to nearly 8 percent in FY 2013. Its share of total Indian exports increased from less than 4 percent in FY 1998 to about 23-25 percent in FY 2013.

In addition to this the export revenue (excluding hardware) during FY 2013 is likely to reach USD 75.8 billion, accounted for by about a 2.3 million workforce. This represents a growth of 10.2 percent over FY 2012. These exports also account for over 80.0 percent share in aggregate IT-BPO revenue. The BPO segment that has been reinventing itself in the past few years is expected to grow by 12.2 percent to reach USD 17.8 billion in FY 2013. The year was characterised by healthy growth in Europe (including UK). US, the biggest market for IT-BPO exports also continued its growth momentum albeit at a slower pace. As the European market is becoming more amenable to offshoring, growth in this region is expected to firm up further.

Moreover, as far as domestic market is concerned the domestic IT-BPO revenue (excluding hardware) is expected to grow at almost 14.1 percent to reach Rs1047 billion in FY 2013. The domestic BPO segment is expected to grow by 12.7 percent in FY 2013, to reach Rs167 billion.

The Indian BPO sector with its two decade-long experience, mature service capabilities, global footprint, presence in almost all verticals and an abundant talent pool has ventured moves into new and emerging services. It is believed that BPO services will be instrumental in the economic and social rise of India in the coming decade. As a result the domestic BPO market is expected to grow in parallel with growth of the Indian economy.

Despite the turbulent economic conditions, BPO industry is expected to regain its growth momentum as the year progresses. There are a set of opportunities such as untapped markets and customer segments which can boost the industry revenue to USD 225 billion by 2020. However, these opportunities will also bring along certain risks in terms of increased protectionism, regulatory control and increased competition from emerging countries. In order to realise the emerging opportunity, all stakeholders will have to address various challenges in an organised way to drive transformation, innovation and inclusivity in business and India.

INDIA'S VALUE PROPOSITION

India has reached an apex position of information technology and web based services within a short period of time. Globalisation and initiation of various reforms have resulted in the development of basic infrastructure. It enjoys competitive advantage in the software business by virtue of which it has emerged as one of the front-runners in the BPO market. India is taking the lead in this environment on account of numerous factors.

(A) PEOPLE FACTORS

- (a) *Lower salary levels* – Salary levels in India are lower than most salary levels in other countries that are providing outsourcing services. Since cost cutting is one of the primary reasons for outsourcing, the cost advantage offered by India makes it the most favored destination. However, of late, there have been concerns that rising pay packages of BPO professionals may harm the industry's competitiveness but that should not be a major problem because the overall operating costs are still way below the normal levels of developed countries such as the US and the UK. India continues to be the most cost-competitive provider of IT-BPO services. Cost efficiencies are further maintained through various internal control process and productivity improvement initiatives including stable entry level salaries, widening the pyramid and faster career growth.
- (b) *Abundant skilled manpower* – India's abundant skilled manpower is drawing the corporates to outsource their operations to India. India has a wide network of colleges, universities and private institutes that churn out industry ready professionals every year. India churned out an estimated 4.7 million graduates and post graduates in FY 2013, retaining its position as the largest source of employable talent in the world. Easy availability of the requisite skills and talents make it easier for BPO companies to undertake new projects and successfully deliver the objectives as demanded by the clients. Moreover, sourcing managerial talent and skill sets is not a problem for India because the country has some of the best management schools. This is enabling the industry to provide both end-to-end and high-end value-added services across sectors.
- (c) *English-speaking skills* – Furthermore, India has the second largest English-speaking population in the world after US. Being a British colony for around two hundred years may have its drawbacks back then, but presently it is proving to be a blessing in disguise. The educated people in India easily find jobs in the outsourcing industry because they are proficient in both spoken and written English. Moreover, a significant percentage of schools and colleges all across the country use English as the main language of instruction that aids English language proficiency amongst students. As compared to other competing countries such as Indonesia, Malaysia, China, Mexico, Brazil & others, India has the largest number of English speaking professionals.
- (d) *Work ethics* – It is believed that BPO service providers in the developed countries employ undergraduates which in turn affects the quality of service provided and the work ethics. However, the labor force in the BPO sector in India mostly comprises of graduates and professionals with renowned degrees, excellent talent and English speaking skills. This results in a significant improvement in the quality of services delivered from the country and a strong work ethics.
- (e) *Client culture fit* – Moreover, the client companies are familiar with the Indian organisational culture and vice-versa, which is also an important factor in choosing India as an outsourcing destination.

(B) LOCATIONAL FACTORS

- (a) *Infrastructure* – The quality of India's infrastructure has been improving. The liberalisation of telecommunication sector has resulted in several competing players, which has led to a decrease in the cost of telecommunication services. The government has permitted private companies to set up international gateways and has also permitted internet telephony. Companies have been establishing their presence in satellite townships in which the land prices are lower and some state governments have relaxed certain stamp duties for ITES companies. The government is actively improving the transportation systems in India by building new highways, metro-trains and undertaking other infrastructure development projects. States have set up telecommunication / BPO parks thereby enabling companies to have access to telecom, bandwidth power and other infrastructure required for smoother operations. India's infrastructure development landscape is expected to transform to the next level in the coming years, driven by the government's massive thrust on over USD 1 trillion in investments on infrastructure development during the twelfth plan period (2013-17).
- (b) *Time zone attractiveness* – India has a 8-12 hour time difference with respect to the US and other developed markets. India's unique geographic position enables it to offer a 24x7 service and reduction in turnaround times by leveraging the time zone differences. India offers services around the clock. Its position make this possible since processing services are performed during the nights hours of developed countries. This time zone difference benefits not only these clients but also the Indians. It helps in better utilisation of their resources because Indian companies can utilize the same resources to serve other clients in India during the day.
- (c) *Liberalised economy* - As a result of the policies adopted by successive government of India, it is one of the dominant players in the BPO segment. The Indian government and several state governments have worked effectively from time to time to overcome, both bureaucratic and infrastructural bottlenecks which were hampering the growth of Indian BPO industry.
- (d) *Stable political environment* – One of the key advantages that India has is that it has been a stable and secular democracy. There have not been any major political, economic or social upheavals. Successive governments of India have ensured stable economic growth. With political or economic stability, major service providers in India have managed to further de-risk their delivery approach by expanding their global delivery network in addition to robust disaster recovery model.
- (e) *Incentives by government* – The Government of India has recognised the potential of BPO industry and has taken positive steps by providing numerous incentives not only for IT and BPO companies but also for other industries that are interrelated. Presently there is a ten year tax holiday for any company engaged in the development, operation or maintenance of an infrastructure facility. Low cost infrastructure development services indirectly aid BPO companies, most of which require plenty of office space as well as equipment for rendering their services. Moreover, a ten year tax holiday is applicable for power generation and distribution companies as well. Affordable power costs naturally benefit BPO companies. Also, a ten year tax holiday is applicable for any company engaged in the development, operation and maintenance of Special Economic Zones (SEZs). A five year tax holiday is also available for any company that creates industrial units in backward states and districts.

Thus, India is in a position to offer cost effective solutions with world class quality and high reliability. This is because of the fact that it has skilled manpower in abundance, telecom and physical infrastructure of international standards and unique capabilities of Indian companies for setting, measuring and monitoring quality targets. The country's unmatched value proposition based on its scale and maturity have given India an edge in the global BPO market place.

CHALLENGES FACED BY THE INDIAN BPO INDUSTRY

It is clear from earlier discussion that the high growth in the BPO sector has been led by the increased preference among global companies to outsource their processes to India. Despite the boom and support that Indian BPO industry has enjoyed, there are certain threats to the future success of operations in India.

One major threat to growth has emerged in the form of increasing competition from other low-cost outsourcing destinations. Countries such as Malaysia, Brazil, Egypt, Philippines, Mexico and Indonesia pose a serious challenge to India's low-cost competitive advantage, with China emerging as the major threat. Another serious factor that will contribute to Indian BPO firms' competitive disadvantage vis-à-vis its global peers is the withdrawal of tax exemptions by the Indian government. Withdrawal of these exemptions thus will not only prove to be a substantial cost to the outsourcing industry and render it uncompetitive with regard to global competitors, but it will threaten the very survival of smaller players and edge them out of existence.

The BPO industry also faces a lot of resistance from country like US because outsourcing appears to have an impact on local employment. Intense lobbying and public pressure has forced many state governments in US to introduce legislation that bans private contractors as well as state contractors from outsourcing jobs to India. The issue of data security has become extremely important to the Indian BPO industry since BPO work involves the transfer of data related to various processes from global clients to Indian locations. As data security is a complex and serious concern, it must be addressed at all three levels: process, people and technology. Though the Indian government has taken various initiatives from time to time to ensure data protection and security, still more has to be done in this area for sustained long-term growth.

Moreover, BPO firms face an internal problem of very high attrition rates that is more immediate and critical. Due to the monotonous nature of the work involved, the attrition rates in the BPO industry is quite high. In India, despite of the lucrative pay packages, attrition levels have reached alarming proportions. Even mutual non-poaching agreements between companies have not been able to reduce this trend. Furthermore, the global economic conditions are still unclear. Reduced spending by US businesses and lingering uncertainties in European markets are impacting the Indian BPO industry significantly.

CONCLUSION

Despite of these challenges and threats, India retains its position as the world's leading global sourcing destination for IT-BPO services with a share of 52 percent in 2012. However, the Indian BPO industry should consolidate its position by strengthening its domain knowledge and becoming more specialised in terms of the services offered. It should aim to go up the value chain and not restrict itself to low-skilled jobs. It has to continuously strive to maintain its position of competitive advantage over other countries in the race, in terms of low costs, talented people and conducive environment. It should also realise that unhealthy practices within the Indian industry can affect its competitiveness in the global BPO arena and therefore curb such practices.

Moreover, in order to achieve the next level of growth, it is imperative for industry stakeholders to work together that will enable India to retain and enhance its status as the world's most favoured outsourcing destination. Efforts must be made to improve the industry ecosystem in terms of establishing world-class infrastructure, enhancing India's corporate governance and risk / security network, thus, enhancing confidence in India as a business destination. The government should make it a top-most priority to significantly improve the quality of education. A very strong and robust funding system to finance various start-ups must be there. Hence, India should be on its guard to maintain its position intact.

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