



## BPO World: An Analysis of the Emergence of BPO Industry in India

Mahapatra Swadesin<sup>1</sup> and Jena Kalindi<sup>2</sup>

<sup>1</sup>Department of Sociology, Ravenshaw University, Cuttack, Orissa, INDIA

<sup>2</sup>Department of Sociology, Ramadevi Women's Autonomous College, Bhubaneswar, Orissa, INDIA

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### Abstract

*BPO! One reads the word and myriad of well-groomed youth on calls, fast money, and phenomenal lifestyles seem to flash the mind in an instant. That's just the start. One reads it again, contemplates over it, gets into the unveiled afflictions, and gives it a second thought and a completely differing depiction ignites the mind. Lopsided working hours, unimaginable attrition rate, stress and burnout exhibit its ugly side. No matter how it balances the pros and cons, the fact remains conspicuous, loud and unchanged. BPO, Business Process Outsourcing, is the mantra of employment, the buzz of present, and the promise of future. Business process outsourcing ('BPO') has emerged as a key component of management strategy as a global supply-chain of information and expertise that stretches from Mumbai to Manhattan is etched. The paper tries to discuss about the IT-BPO industry in India which is creating a new growth opportunities and a widespread impact on the country. It is observed that the world is changing and the next ten years are likely to be different from what we have experienced over the past decade. As we enter the new decade, there is a realization that change, adaptability and flexibility will determine the strategic path for organizations. The palpable excitement around one of India's fastest -growing industries is infectious. The emergence of the information and high-tech economy has resulted in the expansion of the service sector and redefined notions of time, space, distances, boundaries and borders on the global stage.*

**Keywords:** BPO World, Analysis, Emergence, BPO Industry

### Introduction

**Right** from the early years of its existence, the Indian BPO industry has been wrought with these clichéd associations—night shifts, monotony of work, attrition, digestive disorders on the one hand—and a fun work environment and college like atmosphere at the other. While night shifts and the consequent health issues and attrition haven't gone away and continue to be among the biggest bother, there is beginning to emerge a new face of the Indian BPO industry—that it's a serious career and not a 'stopgap arrangement'. This, in turn, has pushed the satisfaction index up. Don't know for sure if God called on some BPO employees (like in Chetan Bhagat's 'One Night@ Call Center').

The idea of outsourcing is not new. It started way back in the 1700s when manufacturers started shifting the manufactured goods to countries with cheaper labor during the Industrial Revolution, following the precepts of Adam Smith in his book 'The Wealth of Nations'. The history of outsourcing to India is an interesting story. Even after over a decade of competitive global outsourcing, most of it still goes to India. Reaching this pinnacle in outsourcing has been a long journey. Services outsourcing to India started in the 1980s and rapidly accelerated in the '90s. In today's world, information technology has become critical to business and the meaning of outsourcing has undergone a drastic change over the years. Companies have started focusing on their core competencies and outsourcing

many non-core functions, for which they had no competence internally<sup>1</sup>.

First, some global airlines began outsourcing their back office work to India—and then IT companies followed. Some of the earliest players in the Indian outsourcing market were Texas Instruments, American Express, Swissair, British Airways and GE, who started captive units in India. Over the years, the industry has built robust processes to offer world class IT software and technology-related services.

For many, India's emergence as a player in the digital, interconnected global economy has come as surprise. Until the 1990s, India was a relatively closed global market economy, although it was and continues to be the largest democracy in world. The currency crisis of 1991 forced the Indian government to use most of the nation's gold reserves as collateral for an IMF loan and led to economic deregulation and the reduction of import tariffs. These changes attracted investment by multinational companies which realized the value of that segment of the Indian population that was educated, English-speaking, and technologically skilled. Developments in telephony, fiber optics and satellite communications made Internet-based communication and transfer of data possible, paving the path for outsourcing to India.

Business Process Outsourcing (BPO) has emerged as India's new sunshine sector and the country is now one of the

prominent electronic housekeepers to the world, taking care of a host of routine activities for multinational firms. The firms here handle a host of back office work which includes responding to credit card enquiries, preparation of invoices, pay rolls, cheques, reconciliation of daily accounts, writing medical transcriptions, processing applications, billings and collections. The boom in BPO activities has prompted policy planners to view this sector as one of the potential avenues to absorb the growing mass of educated unemployed. The escalating possibilities of job creation along with the scope to provide 'decent employment' enabled the BPO sector to be showcased as the one, whose promotion is most appropriate, given the bleak factor-endowments of the economy. Today, India is the hottest destination for any company that wants to outsource its business processes. As per the NASSCOM-McKinsey Report 2002<sup>2</sup>, BPO is the fastest growing industry, which expanded at an impressive rate of 70 per cent during 2001-2002. According to the latest NASSCOM, 2010<sup>3</sup> estimate, outsourcing centers in India currently employ 1, 71,100 workers and it has the potential to generate direct employment for one million workers in the next five years.

According to National Association of Software and Service Companies (NASSCOM), the major reasons behind India's success in ITES/ BPO industry are: i. Abundant, skilled, English-speaking manpower, which is being harnessed even by ITES hubs such as Singapore and Ireland. ii. High-end telecom facilities and infrastructure which are on par with global standards. iii. Better focus on maintaining quality and performance standards. iv. Fast turnaround times, and the ability to offer 24x7 services based on the country's unique geographic locations that allow for leveraging time zone differences. v. A friendly tax structure, which places the ITES/BPO industry on par with IT services companies. vi. Proactive and positive policy environment which encourages ITES/BPO investments and simplifies rules and procedures.

The attractiveness of India as the most favored BPO destination can be contributed to three basic factors-cost, people and environment. India ranks first among a host of desirable nations in terms of cost (which includes employee cost, infrastructure cost, management cost and the tax structure). It beats all its competitors on the people front as well. The people factor is evaluated on the lines of size of the job market, workforce education level, language barriers, past outsourcing experience and employee retention. However, when it comes to environment (which includes country risk, infrastructure, cultural compatibility, proximity etc) India lags behind countries like Canada, Australia and Ireland. Contrary to the sunny side of the story, we have a dark side of the BPO too.

The list of IT related outsourcing options to India although not extensive, but will entice with the overwhelming potential and possibilities of outsourcing. With the advent of globalization, more and more jobs are being outsourced to India. The

outsourcing trend has brought with it a vast number of opportunities to India.

**Why is India a Hub for Outsourcing of Ites in the Global Market?:** India is set to become the most popular destination for BPO operations. A large number of multinational companies are outsourcing their business processes offshore to Indian BPO companies. Theoretical literature mentions several advantages of business process outsourcing.

**Geographic Distance:** Geographic distance is mentioned by several articles as one of the major drawbacks of offshore business process outsourcing<sup>3,4</sup>. With regard to outsourcing to Indian companies these different aspects are all influenced by three issues, namely time zone differences, a unreliable communications network and the English-speaking skills of both Indian and western workers.

**Time Zone Differences:** Time zone differences are a natural outgrowth of large geographical distance separating collaborating teams<sup>5</sup>. More and more global organizations have been outsourcing call centers to India, because of India's time zone advantages. India's twelve hour time difference enables global organizations to provide their customers with 24x7x365 days services. By taking advantage of India's time difference, companies in the U.S have been able to ensure that their customers receive round-the-clock customer support. By outsourcing call centers to India, one can take advantage of India's time zone advantage.

**Communications Network:** The ability to transfer knowledge and to coordinate and monitor the project, when involved parties are separated by thousands of miles, depends heavily on the quality and reliability of a country's communications network<sup>5</sup>. The global competitiveness report for 2009-2010 ranks India 103rd out of 133 countries with regard to the quality and availability of telephone lines. Furthermore, it has build submarine cable networks to improve bandwidth available for business process outsourcing vendors in India<sup>6</sup>.

**English Language Skills:** Communication in business process outsourcing projects will mostly be done in English, due to the fact that client and vendor are based in different countries and mostly have different native languages. There is some misperception with regard to the English speaking capabilities of Indian workers, which, if not taken into account, can cause the outsourcing project to not have the expected outcomes. Meenakshi and Vani<sup>7</sup>, mention that although India has a large number of graduates who supposedly possess good English language skills.

**Cultural Differences:** Gupta et al<sup>8</sup> provide an in-depth understanding of the culture of countries in the southern Asian cluster, including India. It is important to take into account Indian culture, when deciding upon business process outsourcing, as cultural differences need to be recognized and

discussed before entering into a relationship with a vendor. Indian workers are very much relying on guidance and orders from superiors and clients<sup>9</sup>.

Indian employees dare not ask questions, even if this is required to not frustrate the Lower-level managers will avoid decision making and are reluctant to take on responsibility.

**Large and Educated Workforce:** Call centers in India have a largest number of qualified, tech-savvy, IT literate, trained, skilled and experienced professionals. India has the largest English-speaking population after the USA. India's large and well-educated workforce has been one of India's main advantages over other countries. India will continue to have a well-educated and large workforce, because India has an ever increasing number of college graduates and a large number of successful training industries. These factors ensure that India's resources will keep increasing year after year.

This thesis focuses upon outsourcing of business processes, supported intensively by technology, such as human resources, finance and accounting, procurement, supply chain management, and customer care. One of the factors, that drive global outsourcing of business processes to India, is the availability of skilled labor. According to Sharma et al<sup>6</sup>, it is estimated that India has about 2 million college graduates, and 0.3 million postgraduates. These figures are impressive, but Kirkegaard<sup>10</sup> mentions a potential 500,000 shortfall in qualified Indian employees by the end of 2010, if current growth rate continues. This is mostly caused by the fact that only about 25% of Indian university graduates are suitable, and geographically available, for work in a multinational environment<sup>10</sup>. Workers should have the needed technological skills and content knowledge on the topic that has been outsourced. Students which graduated in finance, procurement, and IT are needed.

India's large manpower is willing to work for a lesser price. In a call center operation, manpower typically accounts for 55 to 60 percent of the total cost. In India, manpower is available at a fraction of the cost overseas. Initial investment in infrastructure and training can be expensive and make one believe that the promise of cost reduction is false. However, there will be savings and the fact that several global giants continue to set up call centers in India is proof of this.

**Specialized Call Center Outsourcing Services:** Call centers in India have experience in offering a number of call center outsourcing services, such as, inbound call center, telemarketing services, technical helpdesk services, CATI services, disaster recovery services, email support services and chat support services amongst others. Call centers in India can also provide a host of IT enabled services, such as, helpdesk services, accounting services, transaction processing services, remote network management and end-to-end processing amongst others. Call centers in India can offer expert product specific solutions, such as risk modeling, data mining, actuarial services

and underwriting variation analysis. Call centers in India offer cost-effective call center outsourcing services without compromising on quality. Call centers in India also have the best of technology, people, processes, resources, operational expertise.

**India's Policies: Government Supports to the bpo Sector in India:** The Indian government has extended its support to the outsourcing and IT industry. The government of India has allowed duty free exports of capital goods and has provided tax exemption on the export of ITES. The Indian government has also aided the Indians in building software technology parks that have the latest in telecom facilities and infrastructure. This support from the Indian government has gone a long way in making India the world's most preferred outsourcing location.

Government attitude, towards markets and freedom, is very important for a country's competitiveness. India is ranked 95th of 133 companies reviewed in global competitiveness report 2009-2010 with regard to the burden of government regulation. Bureaucracy is mentioned as the most important issue for companies doing business in India. Access to government offices, too many cumbersome forms to fill, lack of coordination between government departments in processing forms and long periods of waiting for approvals after filling forms are examples of bureaucratic issues<sup>11</sup>.

**Latest Technology and High-End Infrastructure:** Call centers in India employ the use of the latest technology, the best software and high-end infrastructure to provide high-quality customer support services. India has also experienced privatization and reduction in the tariff of internet services, telecom, cellular services and paging services. This has given India an advantage over other locations, in terms of infrastructure. India has the largest number of state-of-the-art call centers in the world. The Government of India has recognized the potential of IT-enabled services and has taken positive steps by providing numerous incentives. It seems contradictory to say that the migration of jobs from one country to another actually creates jobs in the former.

**Cost-Effective Call Center Services:** Another important factor why global organizations prefer outsourcing call centers to India is because call centers in India offer cost-effective customer support services without compromising on quality. With the low cost of manpower available in India, Indian call centers have been able to provide high-quality call center outsourcing services on a 24x7x365 days basis, at a cost which is more than 50% less if performed in the U.S or U.K. These reasons have encouraged more global corporations to outsource call center services to India, because they can get access to quality call center outsourcing services at a cost-effective price.

Traditionally, outsourcing was a means of lowering cost of production and processes<sup>12</sup>. Customers being more cost-conscious is causing a major shift in business process

outsourcing adaptation and quickly increasing spend on business process outsourcing by companies worldwide<sup>13</sup>.

The cost reduction opportunity is, in contrast to what has been found from literature review, the most important reason to consider business process outsourcing. The interviewees mentioned labor arbitrage and scalability, as the most important reason to consider Indian companies as partners in their business process outsourcing initiatives. Indian wages are about 20% of western wages, when including additional costs a final cost advantage of 20 – 40% is expected by western companies outsourcing to Indian companies. Next to this it is mentioned that Indian workers are used to long working hours, which will lead to faster (and thus cheaper) delivery.

**India Enjoys the Confidence and Trust of Global Organizations:** India has been one of the first nations to step into the call center outsourcing industry. Global organizations have already outsourced call centers to India and have found India to be an ideal outsourcing provider. Today, some of the world's global giants have a base in India, from where they provide customer support services to their worldwide customers on a 24x7x365 days basis.

Outsource to India (O2I), a pioneer in outsourcing has been providing a wide range of services to global organizations. The following are a list of call center services that Outsource to India offers. i. Inbound call center services, ii. Outbound telemarketing services, iii. Technical helpdesk services, iv. CATI services, v. Disaster recovery services, vi. Email support services, vii. Chat support services, viii. Value Addition

**Long Term Benefits:** Amidst the mounting furor against outsourcing one has to examine things more objectively. In the short term, cost benefits and value addition may not be apparent because of the initial investment involved in training and infrastructure. Also outcries against migration of jobs seem to cement the argument. However, as the NASSCOM report shows, the long term benefits are very powerful. Not only does BPO India allow global companies to avail of some of the best talent and expertise at competitive rates, but it also allows the company to actually save several jobs, which it might have had to lay off otherwise.

## Conclusion

Despite, the growing attention on the employment potential of the booming sector, the conceptualization of its long-term implications is still in a nascent stage. Indian companies engaged in business process outsourcing have a lot of potential and India is considered to be the preferred country of origin by many western companies desiring to outsource their business processes. India has a lot of potential, mostly due to the low wage costs, long working hours, the availability of educated resources and English speaking capabilities. However, for western companies to secure these benefits, and for Indian

companies to remain the preferred choice, they should both be aware of the risks of business process outsourcing and possible geographical, cultural and institutional influences on the advantages and disadvantages of outsourcing business processes, and act upon resolution of these influences.

But today it is clear that Business Process Outsourcing can lead to a situation where the organizations are totally digitized in nature and their complete virtualization happens. BPO can lead to a world where the parent company is at one place and the work is being outsourced to various other countries while the output product or service is being sent to distant lands for delivery. Virtualization is not far from today but definitely the presence of human resources cannot be ruled out.

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