RECRUITMENT AND RETENTION OF HUMAN RESOURCES - A study on recruitment and retention activities of human resources with special reference to the IT$^{1}$/ ITES$^{2}$ – BPO$^{3}$ industries in Tamil Nadu state in India.

1.0 INTRODUCTION

All human enterprises work on the principle of complementarity. Nothing is possible except through co-operation and co-ordination. This is because man is basically a social animal. All beings are endowed with needs and the fulfilment of these needs requires joint enterprise. But in the endeavour to fulfil human wants, sometimes the components of the endeavour happen to be on opposite sides and therefore there are complications in such co-operative enterprises. Humanity has an instinct for possessions and the instinct for sharing is not equally strong. Thus it happens that social life is enmeshed in hostile interests. Down the ages, the opposed interests have been broadly ranged on the basis of physical strength which gives the power to dominate and the lack of it that leads to submissiveness: the possession of land and the lack of it, the access to capital-cash sources, and the intellectual and practical competence to organise and exploit capital on the one hand, and the lack of it, culminating in the entrepreneurial interests pitted against the interests of the work force or labour.

In the ancient days, possibly, there was a sense of justice but in course of time, the opposed interests naturally became mutually exploitative. It was only in much later times that men in general realised the need for compromise between the opposing interests and the realization.

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$^{1}$IT - Information Technology.
$^{2}$ITES - Information Technology Enabled Service.
$^{3}$BPO - Business Process Outsourcing. (The term IT, ITES, BPOs are closely related one another).
of the need for co-operation. Thus in the days when capitalism was rampant, a Karl Marx could prophesy that by the very logic of things capitalism would die out and communism would become the pervasive social system of the world. But it has not happened because capitalism has realized the need for co-operation and the enormous capital requirements of industrial enterprise have made an important innovation in the mobilization of capital that has changed the very concept of capitalism confined to a minority and has made it very broad-based: the innovation of the share market. The legendary opposition between capital and labour has given way to at least a grudging realization and conceding of the need for compromise and enlightened self-interest and accommodation of mutual interests. Communism has not been able to thrive equally because it seems to ignore the human instinct for possession and the reluctance to be altruistic at the cost of self-interest; “Everybody’s property is nobody’s responsibility” seems to be an axiom of human nature. The prominence of capital became pronounced with the Modern Industrial Revolution that got underway in Great Britain in the eighteenth century. Oliver Goldsmith, the great Irish poet, said that “Ill fares the land, to hastening ills a prey where wealth accumulates and men decay” (“The Deserted Village”).

In the early days of capitalism, governments were reluctant to interfere in trade and industry, and let the capitalist-entrepreneur have his way and in that laissez faire, the capitalist was the king and the labour had no rights. This development of the negotiating system of collective bargaining was very slow. But eventually trade unions became a reality and violent opposition to capitalist exploitation culminated in the dawn of good sense and moderation. Though there are conflicts still, they are not as murderous and one-sided now as they used to be in the distant past. In today’s world, industry which is one of the main stays of commerce is again a contentious field, with entrepreneurs and employees being very sensitive to their own advantages and claims and rights. Industry requires more and more informed and well trained work forces, and the personnel who have the necessary competence and training naturally want to be compensated generously. The enormous profits that the very nature of the modern industrial enterprise assumes lead to high wages and liberal labour rules and the work force now expects a larger and larger share of the profits. There is bound to be an imbalance between the expectations and the tendencies of the two forces. So for all the industries of
today, for all business undertakings, the securing of a competent work force and then the retaining it over stretches of time has become very vital. Though this phrasing seems to give the labour force- the top executives and the people down below bracketed as one category, the category of workers for wages (high and low)-the advantage, it has to contend with the possibility of a collapse in the structures in the absence of mutual understanding and co-operation.

The Information industry is one of the core industries of today, and modern technology and modern needs have together made it one of the most capital intensive industries of the world. Its scope expands constantly, and its need for personnel and other resources also expands enormously. So this thesis tries to study the issues of employee recruitment and retention activities of the IT/ITES-BPO industry in Tamil Nadu state in India.

1.1. EXECUTIVE SUMMARY OF THE RESEARCH

The Indian IT/ITES-BPO industries have major challenges (Mehta et al 2006, Sharma 2008 and NASSCOM-Report-20104) and in a broad sense it can be classified into internal and external challenges (Diagram-1).

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4 National Association of Software and Services Companies (India)
As per the pwC-CII\textsuperscript{5} Survey 2010, Chart - 1, many of the large tier companies\textsuperscript{6} showed growth similar to the growth witnessed by them prior to the slowdown. However in the case of mid tier companies\textsuperscript{7}, it is a mixed bag. The smaller companies were impacted more by the slower Euro zone recovery, currency fluctuations, rising employee costs, etc. Increasing cost of operations(40%), High employee attrition(20%), Employability - a term referring to the skills and educational readiness of fresh graduates(16%), competition from other countries(8%), slow recovery in developed markets(8%) and expiry of tax sops(4%) are the major challenges faced by the Indian Large tier and Mid tier IT/ITES-BPO companies. Other medium and small IT/ITES-BPO companies in India are facing this challenge in a huge manner, employees’ attrition in very huge.

\textsuperscript{5} Pricewaterhouse Cooper-Confederation of Indian Industry.

\textsuperscript{6} Large tier companies include TCS, WIPRO, Infosys, HCL, Tech Mahindra, Cognizant.

\textsuperscript{7} Mid tier companies include Patni, Mphasis, Mindtree, Sonata, polaris, 3iNfotech, Hexaware, NIIT.
Most research in the IT/ITES-BPO sector has addressed problems related to its environmental analysis like challenges, growth and opportunities, HRM systems, issues of job stress, job satisfaction, individual performance and the problem of employee attrition, etc. Research done in the area of employee motivation and satisfaction has discussed domains like education (Smerek and Peterson 2006, Sharma and Jyothi 2008) Private public employment (Demoussis and Giannakopoulos 2007) financial institutions (Kazemzadeh and Bashiri 2005) IT/ITES-BPO industry (Dash et al 2008) Oil industry (Okpara 2006) Government ministries (Al-Ajmi 2006) Labour market (Brown et al 2007) to name a few but not much inclusive and structured work has been done in the domain of IT/ITES-BPO sector in the recent past. Literature review has also shown how various researchers have identified a plethora of reasons behind the escalating problem of employee attrition and suggested recommendations (Joshi 2004, Chowdry 2004 and Misra 2007). Few researchers have also worked on various domains like the HRM systems and practices (Budhwar et al 2006), job satisfaction (E-sat survey 2005 and Sharma 2006) and prevention (Kanwar et al 2008). However no systematic and comprehensive work has been found that collaborates all the necessary variables/factors involved in this area. According to the industry, at the conceptual level it has one major issue-the employee attrition problem, rate of attrition said to be 35% in 2010. The senior HR managers say that, many IT/ITES-BPO companies in India hide or do not reveal the actual employee attrition rates due to the fear of further setbacks to the company.

In connection with employee attrition issue, this study has been conducted on big, medium and small sized industries of the IT/ITES – BPO segment. Chapter IV elaborately discusses the overall research methodology with the research objectives. This study, discussion and relevant activities were conducted in the years 2008, 2009 and 2010 with genuine materials and senior industrial experts and relevant industries located in Tamil Nadu state in India. The data have been obtained from the selected industries through a structured questionnaire in the year 2010.
It is very common in a majority of the organizations that large sums of money are being spent on technology upgradation and related activities. Recent research (2010) conducted by the ITAA\(^8\) reveals that in the USA every IT/ITES-BPO company spends 30% of funds on research and development/technology upgradation and only 15% for employee development programmes. In India, according to the NASSCOM report on IT/ITES-BPO-2009, 22% of the funds are spent on research and development/technology upgradation and only 10% for the employee’s training and development. But practically the backbone of any organization is its personnel.

The importance of retaining good employees is not a new thought it is an ancient concept and theory that technology makes up 10 percent of a business while business processes, employees and culture makes up 90 percent of a business. The human resource aspect has been given primal status right from the Industrial Revolution and most of the management experts strongly stress the point that good employees are very essential for an organization’s growth, development and success. Philosophies have varied from *laissez faire* to co-operative enterprises.

Most of the management experts stress the point that people (providers of finance, technical men who organise and competent men and women to execute the plans shaped) are essential for an organization’s growth, development and success. Many research studies prove that the best and suitable human resources always play a crucial role in the march towards the organizational goals in association with technology, material, machine, methods, minutes (time) and money. So it is essential that an organization has to recruit the most suitable human resources for the jobs using innovative methods and latest recruitment tools. But this does not end with recruitment—identification and hiring of competent people. Workers have to be told what exactly they are to do and how to do it. Their work has to be supervised, monitored and where necessary corrected. The proper atmosphere has to be provided for them to work and their welfare has to be ensured.

They have to be kept happy and satisfied so that they are in a fit state of mind to discharge their duties. The employer should be particular about good welfare measures through

\(^8\)ITAA- Information Technology Association of America (USA)
management concepts, particularly through theories of motivation, leadership, organisation culture and commitment/loyalty in order to motivate the recruited workforce. This always acts as an employee retention tool and contributes to realizing the organizational objectives. An organization has to follow result oriented methods regarding employee welfare, training and development.

The International Labour Organisation (ILO) points out that employees should not, probably can’t be treated as commodities; personal, cultural, emotional and social facets of the employees should also be taken in to consideration. Bonded labour and its related types are certainly not the civilized way to treat the human resources as “employee retention” strategies. It is very important in the present globalized competitive scenario that the organizations should keep their “good employees” with them for as long as possible.

According to the Corporate Advisory Board of Washington DC in USA, the cost of replacing staff can be anything between 50% and 150% of that person’s annual salary. It states that 38% of organizations in the USA produce no specific reports on recruitment activities. While in India according to the NASSCOM-McKINSEY\(^9\) report-2009, the cost of Indian IT/ITES-BPO is 1.5 times of the annual salary of that person and further it states that more than 60% of the industries are very flexible during recruitment and are concerned about ‘available manpower’, searching the ‘suitable manpower’.

But many of the Indian firms do not produce proper recruitment details either. Organizations have to recruit “the best and suitable human resources. Investment on the best suitable personnel is the most fruitful investment for the industry leading to “outstanding performance, cost control, increase in sales/service and maintenance of efficiency” resulting in the expected development and growth. Recruitment should be the first step in preparing the workforce for the specific kind of requirements of the firm. A lot of planning must go into this so that the investment on the personnel is fruitful and viable. Various internal and external factors of an individual influence the work tenure - how long he/she would be with a particular organization.

\(^9\)McKinsey- Global leading management consultancy service-head quarters at Chicago, in USA-having more than 100 offices over 45 countries throughout the world.
A study conducted by the Mumbai based A1 HR solution in the year 2007 reveals that 98 % of the employees belonging to all sectors are with a “serious self hidden agenda”, this is nothing but more monetary and non-monetary benefits with periodical upward mobility in their hierarchy. According to this survey only 2% of the employees are interested but not so serious about these issues or free of this obsession. So, when better prospects and facilities present themselves in fresh pastures, the employees are ready to switch over. According to a worldwide survey 2008 by Mckincy and Company, the top 200 executives in 77 worldwide companies, only 40% regularly measure retention of high performers. Interestingly, the Watson Wyatt Worldwide Strategic Rewards Survey - 2008 reveals that 85% of employees who leave a company do so because they believe that better opportunities exist elsewhere and only one third of employers report any formal strategies for retaining their employees.

Employee attrition is seen in all the industrial sectors throughout the world but the rate of the employee attrition is manageable. Whereas, in IT/ITES-BPO industries employees shift often, sometimes even en masse. The ‘Recruitment Process’ keeps going on one side and the ‘exodus’ goes on the other side. Thus the recruitment drive is constant because the exit process is relentless. Such departure causes serious problems to day-today activities such as production/service which will not only cause losses on recruitment and training costs but also seriously affects the organizational goals. Basically according to human resources experts “employee attrition is a result of a few known and a few unknown multiple factors affecting an individual to performing a job”. In a broad sense, there are two key components about the employees that every industry should provide more importance (Diagram-2). The first one is “employee recruitment process”, id est., “Whom the organizations choose to fill job vacancies?” The second one is “What the organizations do after the employee is hired.”?
In practical terms, sometimes, the non-availability of trained or skilled or expected manpower may force the HR managers to recruit the available manpower, at least for the time being and this may be one of the reasons for the high attrition in this sector.

The senior HR managers say that, many IT/ITES-BPO companies in India hide or do not reveal the actual employee attrition rates due to the fear of further setbacks to the company. After 2009, according to the senior HR persons of this sector almost 45% of the IT/ITES-BPO companies are continuously trying their best to reduce the employee attrition issues and said to be reduced a little, rest of the 55% (hundreds of IT/ITES-BPOs) are still looking for an amicable solution. The 45% of IT/ITES-BPO companies are said to be manage this issue through new strategies such as higher salary, promotion in the junior level itself, non-poaching agreements between the companies regarding employee recruitment, etc.(pwC-CII report-2010 on Indian IT sector).

For example the employees attrition rate in leading three ITES-BPO companies in India between 2006 and 2008 are as follows (Chart-2): Infosys attrition rate has said to have come down to 28% in the year 2008. But it was 39% in the year 2006. In WIPRO attrition rate is said to have come down to 18 % in the year 2008. But it was 32 % in the year 2006. In Tata Consultancy Services, attrition rate is said to have come down to 21% in the year 2008 but it was 35% in 2006. According to the NASSCOM report – 2008, “the overall attrition rate in IT/ITES-BPO companies in India was in the dangerous mark of more than 50%”
This study aims to collect key information’s regarding this issue through a structured questionnaire based on recruitment and retention activities from the employees working in IT/ITES-BPO industries in Tamil Nadu state in India(almost like an exit interview). The research methodology chapter (Chapter-IV) includes all the details such as list of variables, research objectives, samples, Questionnaire, sources of data, pilot study etc. Further, this study also tries to deal comprehensively with the Recruitment and retention activities of the IT/ITES-BPO industry. A Twenty point’s suggestions/solutions are also provided in the final chapter. Importantly, a step by step, thorough data analysis and interpretation has been done with factor analysis. Apart from the literature review, Rhynes (1991), Barber (1998) and Hackman and Oldham (1976) concepts and models are mainly discussed in the theoretical framework chapter. As the contribution of the study to the business administration, a structural equation model also proposed from the Hackman and Oldham (1976) job characteristic model.

A well trained manpower in a long run will supports quantitative and qualitative work leading the all times management objective id est., “minimize the production cost and maximize the profit or service”. So, “effective and innovative recruitment and employee retention strategies by the management” are very important aspects in today’s globalized competitive scenario in modern industries and the results obtained through this research are encouraging and positive.
1.2. RESEARCH BACKGROUND

The IT/ITES-BPO sector in India is contribute a 4.1 percent to the country’s GDP from the year 2004-05 with a projection of 50 percent and above continuance on annual growth and strongly emerging as an important sector for economy and employment. In India the average attrition rate in the IT/ITES-BPO sector is 35 percent. According to the experts of this sector, if a person leaves after the training it costs the company about Rs 60,000 normally. For example a 300 personal strength IT/ITES-BPO industry facing the normal 30% attrition this translates into Rs 60 lakh per annum. In IT/ITES-BPO companies the training cost is comparatively higher than the other sectors. Many experts believe that all these challenges can turn out to be a real dampener. This only raises the responsibility of “recruiting the right candidate” and building a “conducive work environment”.

The Indian IT/ITES-BPO industry is proud of the fact that it gets repeat orders from their employers. Attrition cost includes the cost incurred on recruiting, training, agency fees (either recruiting agencies and/or temporary agencies), cost of over time (this must be paid to existing agents while the industries look to replace open positions). This also includes the opportunity cost of things like lost customers due to lower service quality, decrease in productivity of all resources involved in recruiting, hiring, training and orienting new hires and lost opportunities because of diminished resources in the centre (abandoned calls, lost sales, etc.)The other indirect costs include the centre’s employee morale, culture and climate.

The hiring cost is associated with getting an employee on board; job postings through channels to the training part are involved in the recruiting process. The advertising cost to agency fee (in case the hiring is done through recruitment agencies) the salary of the HR team involved in the recruitment process, travel and relocation charges of the number of hires would incur in the hiring cost factor. On the other hand when an employee leaves the organisation, the turnover cost can start from the termination to filling the vacancy and training costs.

Employees have varied expectations and it is becoming difficult to understand them. The expectations keep changing in accordance with personal circumstances. For example, if a
friend leaves, close friend might also leave. Sometimes he/she will lure another 4 to 5 persons. Moving for higher salary, higher education and of course marriage are the usual reasons for leaving. Most of the women leave their job either after marriage or because of social pressures caused by irregular working hours in the industry.

All this translates into huge losses for the companies, which invest a lot of money in training them. According to senior HR managers tackling these will be almost impossible with any type of strategy and approach. The HR managers become the silent spectators and start another course of recruitment for new personnel. But most of the HR managers know/agrees that employee attrition cannot be wiped out 100% but selecting “the right candidates” and “maintaining the best retention strategies” can definitely reduce the employee attrition rate to a very low level.

1.3. EXPERTS’ PERSPECTIVES ON HOW DANGEROUS THE EMPLOYEE ATTRITION

The experts’ perspectives on employee attrition in this sector would be mixed feelings for concern and these opinions paves way for the better understanding of the problem.

A stability index indicates the retention rate of experienced employees as per the views of HR-managers. Like turnover rates, this can be used across an organization as a whole or for a particular part of it. The usual calculation for the stability index is, Number of leavers with more than one year service x 100 / total number of staff members in post an year ago.

Attrition is nothing but “reduction in workforce by means of resignations, retirements and death”. Whereas turnover is defined as a change in the workforce due to accessions, quits, discharges and layoffs. The difference is that attrition is a function of a declining workforce, whereas turnover is the function of a stable or expanding workforce.

The general measure of turnover is a percentage derived from the number of separations divided by the total number of workers on the payroll. Attrition in the IT/ITES-BPO industry is
two fold (Diagram-3). One part of the attrition is where the employee leaves the industry entirely. The other section of attrition is where the employee joins another firm in the industry.

The employee attrition in IT/ITES-BPOs is two fold

Attrition rate can be defined as “the rate of shrinkage in size or number of workforce”. It is however not easy for a HR manager in this sector to bridge the ever increasing demand and supply gap of professionals.

The high attrition rate in the IT/ITES-BPO industry has always been its greatest concern and a subject of much analysis and debate. Organisations use different methodologies for calculating their attrition rate. Many HR experts feel that it is a known factor that attrition calculation is a grey area which does not always depict the true picture. While a few techniques are common there are no proven theories yet.

Furthermore, the approach to this calculation might vary from organization to organization. Disclosure of the figure not only has a direct impact on the business but also affects employee morale and productivity. Significantly it might also trigger off a chain reaction a high attrition
rate will lead to more people leaving the organization while a lower rate will act as a retention strategy. It is not surprising that most industry observers are sceptical when organizations disclose their employee attrition rate. There is no uniform code or standard formula to calculate employee attrition. In many companies, they do not include attrition of freshers who leave for higher studies or leave the industries within three months of joining. In some companies those who leave for poor performance are not treated as attrition. Essentially the attrition number is also a PR or stock or analyst statement and is prone to dressing up.

Suhas Nerurkar President, TVA InfoTech states that “the attrition rate that is generally disclosed by most organizations does not always show the correct picture, because the attrition rate has direct impact on stock markets, employee morale, customer confidence and satisfaction. There is also a demand from this sector expert that GAAP\textsuperscript{10} in USA or SEBI\textsuperscript{11} in India may provide a particular way to calculate the attrition rate”

Kranti Munje, Senior Manager- HR, Bristlecone India, explains that Attrition rate has always been a sensitive issue for all the organizations as it can have major fallout on the bottom line. This is because the attrition rate is an indicator to many things intrinsic to the organizations and revealing it may affect it negatively. In fact at times, disclosing this data can be like a self-fulfilling prophecy if tell the fact that attrition is high it may actually become higher”.

Bijayinee Patnaik, Head, HR in Mahindra Special Services Group (MSSG), states that it is also not uncommon to find companies proclaiming an attrition rate that is much less than the others in the industry or their competitors turnover rate. Companies must be projecting their attrition rate incorrectly as it tends to affect their brand image both internally and externally. Further she states that companies do not realise that hiding their attrition rate is never a solution in reducing it.

According to Monisha Advani, CEO, Emmay HR that varied theories are applied as organizations like to brand them differently as far as their HR and recruitment strategy are concerned. “Each company positions itself uniquely in a common market place on account of having exceptional

\textsuperscript{10}GAAP – Generally Accepted Accounting Principle (USA)

\textsuperscript{11}SEBI – Securities and Exchange Board of India.
HR policies, procedures and management styles that directly impact retention or attrition hence, the absence of a homogenous system in scenarios.

Where a common attrition measurement formula is applied, companies find a way to justify their results to position their statistics differently from their peers on account of having differing operating practices”. Further she explains that high attrition reflects poorly on an organization’s ability to hold on to its people and unfortunately attrition is viewed as a management flaw, when in fact it could well be a recruitment error. In some cases it can be simply seen as an organization’s competitor appreciating its quality of hires and the output, post-training almost a backhanded compliment.

Ideally attrition should be calculated on a monthly basis for companies that have over 50 employees for the first five years of business. Subsequently a quarterly index should be applied till a company’s 10th anniversary. Post this, annual attrition figures should be measured and accounted for. This is optimal within the service industry as companies tend to have different challenges at different stages of their business life cycle and also maturity achieves stability around a company’s 10th anniversary.

Anil Noronha, Director, Human Resources, Indian sub continent, Onward Novell Software India P ltd, states that most would use a fairly standard method. i.e. “The number of employees left during the year is divided by the average number employed for that year”. Noronha, asserts that organizations would know what their real attrition rate is as this has a huge impact on business. With most data on attrition can be interpreted in different ways and it is up to each organization how and what it wishes to share. Organizations are generally much concerned about regretted voluntary attrition. These are people who leave at their own will and those whom the organization would have loved to retain.

Similarly organizations measure managed attrition. These are people made redundant laid off though managed attrition unregretted by the organization; the trend of managed attrition if on the higher side may show the organization in poor light and does have an impact on the organization’s health.
Harish Bhattiprolu, Director, Sales, Kenexa Technologies P Ltd, points out calculating employee attrition is not a matter of simple mathematical method. It is necessary to take into account the root of the problem by going back to the hiring stage.

Most organizations in practice don’t evolve robust measurements for calculating the cost of a bad hire or employee attrition. The details of information required and the measurement metrics are not common formulae, but have to be designed dependent on the nature of business and function. As a result most organizations don’t intend to mislead by disclosing statistics which may not be true. It is just that perhaps they believe those to be true imperatives to evolve the science of measurement before the measure itself. Munje asserts that attrition not only reflects the hiring policies of an organization, but also the induction and retention strategies, training methodologies, work culture and other factors as well. Attrition costs valuable time, money and often credibility, especially where employee develop relationships with customers.

Some companies just look at employee attrition in terms of the cost, based on the PWC Sartonga institute\textsuperscript{12} theory involved in the hiring and training of the individuals, while others look at the opportunity lost and the cost. Sometimes companies also use the figure between 50 \% and 200 \% of the annual salary. Organisations always aim to reduce voluntary attrition of productive employees and encourage unproductive staff to leave their fold and it makes way for career progression, new thinking and innovation.

Some HR managers feel that there are massive costs associated with attrition, while some of them are not visible to the management reporting or budget system. Further ‘the rule of thumb’ appears to be very inaccurate indeed and while it depends upon the category of staff, it is probably better to estimate around 80 \% of salary as a truer rule of thumb and this will be on the conservative side.

Actually it means that attrition is \( = (Total \text{ staff} \times \text{attrition rate } \%) \times (\text{annual salary} \times 80 \%)\). The on cost to the overall salary bill is 8 \%. Indeed saving 8 \% of salary costs would make the average

\textsuperscript{12} PWC Sartonga Institute- Price Waterhouse Coopers Sartonga Institute – is a global leader in human capital management-providing a unique comprehensive approach to the study through its work force diagnostic system.
HR manager a hero. In terms of numbers, attrition means (total number of resignations per month (whether voluntary or forced) divided by (total number of employees at the beginning of the month plus total number of new employees minus total number of resignation multiplied by 100.

Finally, according to Sharma-2010, elaborates the massive costs associated with attrition and a simple employee attrition calculation. 100 employees at 35% attrition means 35 employees leave and replaced each year.

A replacement cost of 80% of a salary of Rs 25,000 means the cost of each replacement is Rs 20,000. The cost of turnover is therefore 35 x Rs 20000 or Rs 7,00,000 for a year.

**IT/ITES-BPO INDUSTRIES-A GLANCE**

IT/ITES-BPO industries are considered as the modern and rapidly developing industry in terms of economy and employment aspects (*Shah 2006, Sharma 2006, Budhwar et al. 2006, Dash et al 2008*). The following few pages analysing the various aspects of IT/ITES-BPO industries such as size, growth, out sourcing market, services offered, recession, foreign exchange, SWOT analysis and its important impact such as employment opportunity and employee attrition at global, India and Tamil Nadu state level.

**A. Information Technology (IT)**

Today the term “information” has ballooned to encompass many aspects of computer and technology and the term has become very recognizable. Generally Information Technology is defined as “the study, design, development, application, implementation, support or management of computer and information systems particularly software application and computer hardware”. According to the ITAA of USA, Information technology deals with the use of electronic computers and computer software to securities convert, store, protect, process, transmit, input, output and retrieve information. Computer technology and its applications
used in business and services are commonly called information technology. The revenue of world wide IT services totalled more than $763 US billions in 2009.

B. Information Technology Enabled services (ITES)

ITES is a form of outsourced service which has emerged due to the involvement of Information technology (IT) in various fields such as banking, finance, telecommunication, insurance etc., Some of the examples of ITES are medical transcription, back-office accounting, insurance claim, credit card processing, etc.

C. Business Process Outsourcing (BPO)

Business process outsourcing is broad term referring to outsourcing in all fields. A BPO differentiates itself by either putting in new technology or applying existing technology in a new way to improve a process. Indeed, business process outsourcing is the delegation of one or more Information technology intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria. Business process outsourcing is one of the fastest growing segments of the Information Technology Enabled Services (ITES). BPO is a part of the outsourcing industry. It is dependent on Information Technology. Hence it is also referred to as Information Technology Enabled Services or ITES. Generally outsourcing can be defined as an organization entering into a contract with another organization to operate and manage one or more of its business processes due to Factor cost advantage / economy of scale /business risk mitigation / superior competency / utilization improvement. Most commonly BPO is the contracting of a specific business task such as payroll to a third party service provider. Usually BPO is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain its position in the market place.

In a broad sense ITES-BPO is often divided into two categories:

I) Back office outsourcing which includes internal business functions such as HR, finance, accounting, billing, purchasing, etc.  II) Front office outsourcing which includes customer–
related services such as marketing or technical/customer support or contact centre services, etc.

A BPO that is contracted outside a company’s own country is sometimes called “off-shore outsourcing”. A BPO that is contracted to a company’s neighbouring country is sometimes called “near-shore outsourcing” and A BPO that is contracted within the company’s own country is sometimes called “on-shore” outsourcing. Further BPO’s can be classified as Voice based BPO and Non-voice based BPO. Given the proximity of BPO to the information technology industry it is also categorized Information technology enabled service (ITES), Knowledge process outsourcing (KPO) and Legal process outsourcing (LPO) are some of the sub segments of BPO. The Government of India (Central Board of Direct Taxes-CBDT) has allowed total income tax exemption on the export of IT enabled outsourcing services under sections 10-A/10-B of the Income Tax Act 1961 and Foreign Direct Investment (FDI) for 100% of the equity has been permitted in BPO companies.

D. Following are some of the different types of services being offered by IT/ITES-BPO companies where the “employee attrition problem” is glaringly evident.

I) Customer support service: Customer service offerings create a virtual customer service centre to manage customer concerns and queries through multiple channels including voice, e-mail and chat on a 24/7 and 365 days basis. Service Example: Customers calling to check their order status, products and services, account status, reservation status, etc.

II) Technical support services: Technical support offerings include round-the-clock technical support and problem resolution for OEM\(^{13}\) customers and computer hardware, software, peripherals and Internet infrastructure manufacturing companies. These include installation and product support, up and running support, troubleshooting and Usage support. Service Example: Customers calling to resolve a problem with their home PC, software or hardware and how to dial up to their ISP\(^{14}\), etc,

\(^{13}\) OEM – Original Equipment Manufacturers.
\(^{14}\) ISP - Internet Service Provider.
III) Telemarketing services: Telesales and telemarketing outsourcing services target interaction with potential customers for prospecting like either for generating interest in products and services, or to up-sell / promote and cross sell to an existing customer base or to complete the sales process online. Service Example: Outbound calling to sell wireless services for a telecom provider, retail households to sell leisure holidays, calling to existing customers to sell a new rate card for a mobile service provider or to sell credit or debit cards, etc.

IV) Employee Information technology help-desk services: Employee IT help-desk services provide technical problem resolution and support for corporate employees. Service Example: This service includes levels 1 and 2 multi-channel support across a wide range of shrink wrapped and LOB\textsuperscript{15} applications, system problem resolutions related to desktop, notebooks, OS\textsuperscript{16}, connectivity etc., office productivity tools support including browsers and mail, new service requests, IT operational issues, product usage queries, routing specific requests to designated contacts and remote diagnostics etc.

V) Insurance processing: Insurance processing services provide specialized solutions to the insurance sector and support critical business processes applicable to the industry right from new business acquisition to policy maintenance to claims processing. Service Example: New Business / Promotion: Inbound/outbound sales, Initial Setup, Case Management, Underwriting, Risk assessment, Policy issuance etc. Policy Maintenance / Management: Record Changes like Name, Beneficiary, Nominee, Address; Collateral verification, Surrender Audits Accounts Receivable, Accounting, Claim Overpayment, and Customer care service via voice/email, etc.

VI) Data-entry services / data processing services: Data entry from Paper/Books with highest accuracy and fast Turnaround time (TAT) Data entry from Image file in any format. Service Example: Business Transaction Data entry like sales / purchase / payroll, Data entry of E-Books / Electronic Books, Data Entry : Yellow Pages / White Pages Keying, Data Entry and compilation from Web site, Data Capture / Collection, Business Card Data Entry into any Format, Data Entry from hardcopy/Printed Material into text or required format, Data Entry into Software Program and application, Receipt and Bill Data Entry, Catalog Data Entry, Data Entry for Mailing

\textsuperscript{15} \textbf{LOB} – Large Objects.

\textsuperscript{16} \textbf{OS} – Operative System.
List/Mailing Label, Manuscripting typing in to word, Taped Transcription in to word, Copy, Paste, Editing, Sorting, Indexing Data into required format, etc.

VII) Data conversion services: Conversion of data across various databases on different platforms. Service Example: Data Conversion via Input / Output for various media, Data Conversion for databases, word processors, spreadsheets, and many other standard and custom-made software packages as per requirement, Conversion from Page maker to PDF\textsuperscript{17} format, Conversion from MS Word to HTML\textsuperscript{18} format, Conversion from Text to Word Perfect, Conversion from Text to Word to HTML and Acrobat, Convert Raw Data into required MS Office formats, Text to PDF and PDF to Word / Text / Documents, Data Compilation in PDF from Several Sources, E-Book Conversion, etc.

VIII) Scanning, OCR with editing and indexing services. Service Example: High speed Image-Scanning and Data capture services, High speed large volume scanning, OCR\textsuperscript{19} Data from Scanned page / image, Scan & OCR paper Book in to CD, ADOBE PDF Conversion Services, and Conversion from paper or e-file to various formats.


X) Form processing service. Service Example: Insurance claim form, Medical Form / Medical billing, Online Form Processing, Payroll Processing, etc.

XI) Internet / online / web research: Service Example: Internet Search, Product Research, Market Research, Survey, Analysis, Web and Mailing list research, etc. Further in view of the latest developments in science, engineering and technology the following areas are vital in today’s ITES/BPO sector.

\textsuperscript{17}PDF- Portable Document Format.
\textsuperscript{18}HTML- Hyper Text Mark up Language.
\textsuperscript{19}OCR- Optical Character Recognition.
XII) Engineering/Software/hardware and design services. XIII) Geographic information system. XIV) Medical transcription. XV) Legal database. XVI) Human Resource, finance and accounting services, etc.

1.5. IT/ITES-BPO INDUSTRIES IN GLOBAL SCENARIO

Originally IT/ITES-BPO was associated with manufacturing firms. Four decades back the US based multinational company Coca-Cola had outsourced a large segment of its supply chain and since then many multinational companies have started this service. Currently, it is primarily used to outsourcing of services. Indeed, outsourcing has two key benefits. First it frees a firm to focus on where they best add value and secondly companies gain the benefits of working with the best in class partner focused on the outsourced activity.

Jack Welch, long time CEO of US based General Electric is often quoted as stating that “he is happy to turn over his back office activities to partners where it is a front office activity”. According to IDCs\(^20\)-2009 report, the IT/ITES-BPO industries growth rate is in excess of 50% every year in India. According to Mckincy, the global registered research firm estimates, the IT/ITES-BPO markets worth is 763 US $ billion in the year 2009 which includes retail, insurance, travel, hospitality, automobile, telecom, finance, pharmaceutical, accounting, human resource, etc.

The details and statistics of Global IT/ITES-BPO by industry (Chart-3), Global IT/ITES-BPO market by geography (Chart-4), Global outsourcing market (Chart-5) and Global call centre cost (Chart-6) shows the importance such as playing a vital role in country’s economy, employment etc, of this sector in the present scenario.

### A. Global IT/ITES-BPO market by industry as in 2009.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology (IT)</td>
<td>43%</td>
</tr>
</tbody>
</table>

\(^20\) IDCs – International Data Corporation Statistics - a USA based research firm. (Statistics specialist)
Financial Services (FS). 17%
Communication (TEL) 16%
Consumer goods / services (CON) 15%
Manufacturing (MANU). 9%

(Chart-3. Source: NASSCOM Annual report - 2009)

B. Global IT/ITES-BPO Market by Geography as in 2009.
COUNTRY. PERCENTAGE.
United States of America. 59%.
Europe 27%.
Asia-Pacific 9%.
Rest of the world. 5%.

Global IT/ITES-BPO Market by Geography-2009

(Chart-4. Source: NASSCOM annual report - 2009)

C. Size of Global Outsourcing Market as in 2009.
YEAR | SIZE (US DOLLORS IN BILLIONS.)
---|---
2000. | 119 billion $
2005. | 234 billion $
2008. | 310 billion $
2010. | 415 billion $

**US $ in Billion**

(Chart-5. Source: pwc survey on IT industry - 2010)

**D. Call Centre Employee Cost as in 2009.**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>COST (US DOLLORS PER YEAR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>19,000 US $</td>
</tr>
<tr>
<td>Australia</td>
<td>17,000 US $</td>
</tr>
<tr>
<td>Philippines</td>
<td>9,050 US $</td>
</tr>
<tr>
<td>India</td>
<td>9,500 US $</td>
</tr>
</tbody>
</table>

**Cost US $ Per Year**

(Chart-6. Source: pwc survey on IT industry – 2010)
IT/ITES-BPO Industry is the largest sector and USA is the largest market of this sector. Global IT/ITES-BPOs outsourcing market increasing rapidly and the call centre employee cost is comparatively less in India. Nearly, 75% of US and European multinational companies now use outsourcing or shared services to support their financial functions. 72% of the European multinational companies have out sourced financial functions in the year 2010. Additionally, 71% of European companies and 78% of US companies plan to use these services up to 2012. But however, Indian industrial experts feels that the pace of the growth of outsourcing work will be depend on the current USA policies headed by the present President of the USA Barack Obama. A significant amount of European BPO work is going to Eastern Europe where the effective cost does not vary much compared to India, but the productivity is higher and so is the quality. Also against the backdrop of the slowdown in the financial services market in the USA and the resultant impact on the demand, the employee attrition rate has come down.

1.6. IT/ITES-BPO INDUSTRIES IN INDIA

In the early 1980s several European airlines started using New Delhi as a base for back office operations, British Airways being one among them. The British Airways captive was finally spun off as a separate organization called WNS in the current millennium. In the second half of the 1980s the American Express consolidated its JAPAC (Japan and Asia Pacific) back office operations in New Delhi. This centre was headed by Raman Roy and has been a source of several leading names in the Indian BPO industry. In the 1990s, Jack Weich, CEO of General Electric, was influenced by K.P.Singh (a Delhi based realtor) to look at Gurgaon in the NCR\(^{21}\) region as a base for back office operations. Promod Bhasin, the Indian head of the General electric hired Raman Roy and several of his management from the American Express to start this enterprise called the GECIS\(^{22}\). Raman for the first time tried out voice operations out of India. Meanwhile in 1985, the USA based Texas instruments has set up the first multinational technical design centre in Bangalore and the Indian based Information technology Major Infosys won the first international client in 1987.

\(^{21}\) NCR – National Capital Region. Gurgaon is one of the Metropolitan areas of Delhi, the Capital of India.
\(^{22}\) GECIS – General Electric Capital International Service.
The Indian operations also were the beta site for the General Electric’s six sigma enterprises. The results made General Electric ramp up their Indian presence and look at other locations. In the year 2004 General Electric Capital International Services was spun off as a separate legal entity by General Electric called Genpact. GE has retained a 40% stake and sold a 60% stake for $500 million to two equity companies called Oak Hill Capital Partners and General Atlantic Partners. Till GE most of the work was done by Captives.\(^2\) In the year 2000 an organization called the EXL started in Noida and the Efunds were started in Greater Mumbai. However, recently most of the Indian BPOs, even the smaller and mid-sized ones are actually setting up on shore presence. In 2002 Spectra Mind was brought by software major Wipro and BPO by then had become a mainstream line like the IT industry in India. The team set up by the Spectra Mind went on to start Quattrro in 2006, a BPO specialising in high end BPO/KPO services.

By 2002 all Indian software organizations were into BPO including Infosys (PROGEON), Infrolinx, HCL, Sathyam (NIPUNA) and Patni. By 2003 Daksh was brought out by the IBM and later in 2006 Mphasis was acquired by EDS. Even international third party BPO players like the Convergys and the Sistel set up their units in India and huge development of the IT/ITES-BPO movement took place in India which includes the advent of organizations like Accenture, IBM, Hewlett Packard and Dell.

The industrial and employment scenario in India has been changed after the liberalization policy came into being, when Narashima Rao was the Prime Minister of India and Dr. Manmohan Singh was the Finance Minister of India in the year 1991. Since then private and multinational companies and their employment opportunities become more in indeed. A glimmer of hope has emerged in the last decade: A new industry that economic experts say will transform India into a global superpower. This industry, known as Information technology or more commonly called IT/ITES-BPO that has given birth to the sky scrapers now anchoring the Indian cities and becoming one of the largest sectors in Indian economy. India has emerged as the world’s most attractive destination for IT/ITES-BPO industries. The variables of Location attractiveness are low investment in infrastructure, liberalised telecom sector, friendly

\(^2\) Captives—a term used for in house work done for the parent organization.
regulatory environment and a large and low cost pool of English speaking workforce in the country. The people factor is evaluated on the lines of the size of the job market, workforce, level of education, language barrier, past outsourcing experience and employee retention. This sector has the advantage of cost effective solutions as there exists a huge gap in the salaries in comparison to other competitive countries such as Philippines, South Africa, Indonesia, Brazil and Ireland. India is the only country where we have a balance between the cost involved and the quality provided. India has a large pool of entry level employees whereas a huge gap exists in the middle and senior levels. The NASSCOM studies point the following factors as the major reasons behind India’s success in the IT/ITES-BPO industries. Abundant skilled English speaking manpower, which is being harnessed even by ITES hubs such as Singapore and Ireland, high end telecom and infrastructure which is on par with global standards, strong quality orientation among players and their focus on measuring and monitoring quality targets.

Further fast turnaround times and the ability to offer 24x7 services based on the country’s unique geographic location that allows for leveraging time zone differences. Moreover, proactive and positive policy environment, simplified rules, procedures and friendly tax structure also encourage the rapid growth in the IT/ITES-BPO segment.

1.7. A BRIEF HISTORY OF IT/ITES-BPOs IN INDIA.

The idea of outsourcing has its roots in the ‘competitive advantage' theory propagated by Adam Smith in his book The Wealth of Nations which was published in the year 1776. Over the years, the meaning of the term 'outsourcing' has undergone a sea-change. What started off as the shifting of manufacturing goods to countries providing cheap labour during the Industrial Revolution has taken a new connotation in today's scenario. In a world, where information technology has become the backbone of businesses worldwide, outsourcing is the process through which one company hands over part of its work to another company, making it responsible for the design and implementation of certain business processes under the requirements and specifications of the outsourcing company. This outsourcing process is beneficial to both the outsourcing company and the outsourcing service provider. In an outsourcing relationship, the outsourcing service provider enables the outsourcer to reduce operating costs, increase quality in non core areas of business, save on effort and increase
productivity. Outsource to India, a pioneer in outsourcing since the year 1999, provides ten distinct services which cater to a wide range of industries. Since the onset of globalization in India during the early 1990s, successive Indian governments have pursued programs of economic reforms committed to liberalization and privatization. Until the year 1994, the Indian telecom sector was under the control of the government, the state owned units in India enjoyed a monopoly in the market. In the year 1994, the government announced a policy under which the sector was liberalized and private participation was encouraged. The New Telecom Policy of 1999 brought in further changes with the introduction of IP telephony and ended the state monopoly on international calling facilities. This brought about a drastic reduction which heralded the golden era for the IT/ITES-BPO industry. This in turn ushered in a slew of inbound call centers/telemarketing services and data processing centers.

Although the IT industry in India has existed since the early 1980s, it was the early and mid 1990s that saw the emergence as a growing industry. One of the first outsourced services was medical transcription, but outsourcing of business processes like data processing, medical billing, and customer support began towards the end of the 1990s when MNCs established wholly owned subsidiaries which catered to the off shoring requirements of their parent companies. Some of the earliest players in the Indian outsourcing market were American Express, GE Capital and British Airways. At Outsource to India, The Indian IT/ITES-BPO industries provide call centre services, data entry services, engineering services, financial services, creative services, web analytics services, healthcare services, photo editing services, software development, research and analysis services and a host of other additional services. The IT/ITES-BPO industry is a sector in India that has been in existence for a little more than ten years. Despite its recent arrival on the Indian scene, was grown phenomenally 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 service organizations and other third party service providers. The IT/ITES-BPO market expanded its base with the entry of Indian IT companies. The ITES 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 offer a variety of outsourced services ranging from customer care, medical transcription, medical billing services and database marketing, to Web sales/marketing, accounting, tax processing, transaction document management, telesales/telemarketing, HR hiring and biotech research. Joining the success of India’s IT industry, the central government identified the IT/ITES-BPO sector as a key contributor to the economic growth that prioritized the attraction of FDI (Foreign Direct Investment) in this segment by establishing 'Software Technology Parks and 'Export Enterprise Zones'. Benefits like tax-holidays generally enjoyed by the software industry were also made available to the IT/ITES-BPO sector. The National Telecom Policy (NTP) was introduced in the year 1999 and the deregulation of the telecom industry opened national, long distance, and international connectivity to competition.

The governments of various states also provided assistance to companies to overcome the recruitment, retention, and training challenges, in order to attract investments to their regions. The National Association of Software and Service Companies (NASSCOM) have created platforms for the dissemination of knowledge and research in the industry through its surveys and conferences. The NASSCOM acts as an advisor, consultant and coordinating body for the IT/ITES-BPO industry and liaisons between the central and state government committees and the industry. The ardent advocacy of the IT/ITES-BPO industry has led to the inclusion of call centres in the 'Business Auxiliary Services' segment, thereby ensuring exemption from service tax under the Finance Bill.

These measures have led to a steady inflow of investments by large foreign companies such as Reuters, for establishing large captive IT/ITES-BPO facilities across India. Moreover, the existing IT/ITES-BPO operations of major multi-nationals are also being ramped up to cater to the ever increasing demand for better and speedier services. Almost all of India’s top IT/ITES-BPO giants have announced some form of expansion and are in the process of hiring manpower to fill in the additional seats. India’s competitive advantage lies in its ability to provide huge cost savings
thereby enabling productivity gains and this has given India an edge in the global IT/ITES-BPO marketplace.

Outsourcing to India offers significant improvements in quality and productivity for overseas companies on crucial parameters such as number of correct transactions, number of total transactions, total satisfaction factor, number of transactions/hours and the average speed of answers. Surveys by NASSCOM also revealed that Indian companies are better focused on maintaining quality and performance standards. Indian IT/ITES-BPO companies are on an ascending curve as far as the quality standards are concerned. Organizations that have achieved ISO 9000 certification are migrating to the ISO 9000:2000 standards and companies on the CMM\(^24\) framework are realigning themselves to the CMMI\(^25\) model. Apart from investing in upgrading their CRM\(^26\) and ERP\(^27\) initiatives, many Indian IT/ITES-BPO companies are beginning to acknowledge the COPC\(^28\) certifications for quality and are working towards achieving COPC licenses. Despite being a fledgling in the global IT/ITES-BPO industry, the Indian IT/ITES-BPO industry recorded a growth rate in excess of 50% in the years 2002-03. Industry experts consider this a positive indication of the times to come and a look at the ranking and the revenue and headcount statistics show the potential of the industry.

The global IT/ITES-BPO, according to the estimates by the International Data Corporation Worldwide report-2007, it is expected to grow at a CAGR\(^29\) of 9% in the future. The NASSCOM lists the major indicators of the high growth potential of the IT/ITES-BPO industry in India as the following. During the year 2003-04, the IT/ITES-BPO segment achieved a 54 percent growth in revenues as compared to the previous years. IT/ITES-BPO exports accounted for US$ 3.6 billion in revenues, up from US$ 2.5 billion during the year 2002-03.

The IT/ITES-BPO segment also proved to be a major opportunity for job seekers, creating employment for around 74,400 additional personnel in India during the year 2003-04. The number of Indians working for the IT/ITES-BPO sector has risen to 245,500 in the year 2004.

\(^{24}\)CMM – Capability Maturity Model.  
\(^{25}\)CMMI – Capability Maturity Model Integration.  
\(^{26}\)CRM – Customer Relationship Management.  
\(^{27}\)ERP – Enterprise Resource Planning.  
\(^{28}\)COPC – Customers Operations Performance Centre.  
\(^{29}\)CAGR – Compounded Annual Growth Rate.
the future, the IT/ITES-BPO segment is expected to employ over 1.1 million Indians, according to studies conducted by the NASSCOM and the leading business Intelligence Company, McKinsey & Co. Market research shows that in terms of job creation, the IT/ITES-BPO industry is growing at over 50 percent.

As per the CRISIL report – 2010 (Chart-7) the export revenue of the Indian IT services emerging as huge and very important and geographically 61% of the export revenue is with USA, 18% with the UK, 12% with the Continental Europe, 7% with the Asia Pacific and 2% with the rest of the world.

(Chart-7. Source: CRISIL\textsuperscript{30} report on Indian IT sector-2010)

C. Size and growth of IT/ITES-BPO in India

<table>
<thead>
<tr>
<th>YEAR</th>
<th>SIZE (US DOLLARS IN BILLION)</th>
<th>GROWTH RATE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003.</td>
<td>2.8 billion US $</td>
<td>59.0%</td>
</tr>
<tr>
<td>2004.</td>
<td>3.9 billion US $</td>
<td>45.3%</td>
</tr>
<tr>
<td>2005.</td>
<td>5.7 billion US $</td>
<td>44.4%</td>
</tr>
<tr>
<td>2006.</td>
<td>7.3 billion US $</td>
<td>41.2%</td>
</tr>
<tr>
<td>2007.</td>
<td>9.1 billion US $</td>
<td>41.7%</td>
</tr>
<tr>
<td>2008.</td>
<td>11.0 billion US $</td>
<td>43.1%</td>
</tr>
<tr>
<td>2009.</td>
<td>12.0 billion US $</td>
<td>40.4%</td>
</tr>
<tr>
<td>2010.</td>
<td>13.9 billion US $</td>
<td>43.7%</td>
</tr>
</tbody>
</table>

\textsuperscript{30} Credit Rating and Information Services of India Ltd
As per the NASSCOM report-2009 and Chart-8, the yearly growth rate of this sector is between 40% and 60% for the last decade and more than 1.5 millions are directly working in IT/ITES-BPO industries on various capacities throughout the Indian Sub continent and the employment forecast for the next couple of years, id est. by 2012, as per the current trend, would be another 0.6 million.

1.8. IT/ITES-BPOs PROGRESS IN INDIA

According to NASSCOM–Mckincy studies -2009, there are about “1500 addressable” IT/ITES -BPO companies in India. More than hundred of fortune five hundred IT/ITES-BPOs are now present in India compared to only 33 in China. According to “NASSCOM and Dataquest Ratings 2009”, the following are the top ten ITES-BPO companies in India. 1. Genpact. 2. WNS Global Services 3. IBM Daksh.4. Aditya Birla Minacs Worldwide. 5. Tata Consultancy Services. 6. Wipro 7. First Source.

In these ten companies the employee attrition is said to be less when compared with the average employee attrition rate in this sector. The top five ITES-BPO exporters for 2009-2010 are 1.Genpact. 2. Tata Consultancy Services 3. WNS global services. 4. Wipro. 5. Aegis ltd.

According to the research firm Gartner’s Report 2010 India’s domestic IT/ITES-BPO services segment is expected to perform almost five times compared to 2009 performance. Sudin Apte, Principal analyst from the Forrester Research Firm, reveals that small Indian outsourcers
become more attractive to customers. Second tier outsourcers in India can provide specialized services and domain expertise in areas which their large competitors such as Tata Consultancy Services (TCS) and Infosys Technologies (INFY) may find too niche to address.

Som Mittal, president NASSCOM reported in August 2010 that India’s IT/ITES-BPO industries, account for 6% of the GDP\(^{31}\), up from 1% a decade ago. Indian states Karnataka, Tamilnadu, Andra Pradesh, Maharashtra, Gujarat and Delhi are significant and their share in the state GDP is much higher at 14%. The impact of global financial crisis is less in India when compared with European and US nations.

In India the National Association of Software and Service Companies (NASSCOM) has created platforms for the dissemination of knowledge and research in the industry through its nonstop services such as periodical surveys, research, workshops, seminars and conferences. Further NASSCOM acts as an advisor, promoter, consultant and coordinating body of Indian IT/ITES-BPO and liaisons between central and state government committees and the industries. Based on the following key parameters the important locations for IT/ITES-BPO have been identified in India.

The key parameters are

a) Knowledge pool availability and skill set assessment.  
b) Social, economic and living environment.  
c) Infrastructure.  
d) Enabling entrepreneurial and business environment.  
e) Government support and f) Operating cost.

As per the above parameters the following are the top ten cities for IT/ITES-BPO works in India as on 2010 1. Bangalore.  2. Mumbai.  3. Chennai.  4. Hyderabad.  5. NCR\(^{32}\)  6. Kolkata.  7. Pune.  8. Ahmedabad.  9. Chandigarh and  10. Coimbatore. Again, based on these key parameters at least 50 Indian cities are found to be well equipped or eligible to handle or upcoming location for IT/ITES-BPO companies.

\(^{31}\) GDP – Gross Domestic Product.  
\(^{32}\) NCR – National Capital Region. Metropolitan area of Delhi which encompasses satellite cities like Faridabad, Gurgaon, Ghaziabad and Noida.
THE BEST 50 INDIAN LOCATION FOR IT/ITES-BPO WORKS.

In a broad sense based on these criteria the 50 Indian IT/ITES-BPO locations have been categorized into 4 divisions. Viz, 1. Leaders. 2. Challengers. 3. Followers and 4. Aspirants.

Leaders: A Majority of the tier I cities of India such as Bengaluru, kolkata, Pune, Chennai, Mumbai, Hyderabad, NCR are the leading cities rather leaders of this segment in India. These locations have all kind of world class infrastructure and technical facilities but these cities have to develop long term plans to promote radial infrastructure, periodical technology upgradation, focus on issues of increased employee attrition, rising real estate and labour costs.

Challengers: Most of the tier II cities of India with huge growth potential and development such as Ahmedabad, Bhubaneswvar, Chandigarh, Coimbatore, Indore, Jaipur, Kochi, Lucknow, Mangalore, Nagpur, Thiruvananthapuram, Vadodara, and Vizakhapatnam are the challenging cities of this sector. At present these cities have sufficient infrastructure and are capable to operate the IT/ITES-BPO companies but if these cities want to become leaders, they have to build an Information technology environment system to scale up the employment in the IT/ITES-BPO sector by supporting Information technology Special Economic Zones (IT SEZs) and attracting major companies. Further even though these cities have the advantages of sufficient academic and educational institutions for talent pool and reverse migration, also keep upgrading the best infrastructure facilities.

Followers: Distinguished cites such as Aurangabad, Bhopal, Goa, Gwalior, Hubli-Dharwad, Kanpur, Mysore, Madurai, Nashik, Pudhucherry, Surat, Salem, Trichirappalli, Vijayawada are upcoming cities of this sector. If the existing infrastructure develops to a better extent, these cities can operate IT/ITES-BPO companies. Further these cities have to aggressively focus on establishing a core set of companies and improve infrastructure to the levels of challenger / leader locations and should provide greater focus on academic and technical institutions for suitable human resources.

Aspirants: Growing cities such as Allahabad, Dehradun, Durgapur, Ganktok, Guwahati, Ludhiana, Patna, Rajput, Ranchi, Shimla, Silliguri and Srinagar are the aspirant cities of India.
The cities should enhance awareness of IT/ITES-BPO, develop a knowledge base, improve infrastructures and establish sufficient academic and educational institutions. At present top ITES/BPO companies and its branches are located in few Indian cities only.

Experts of this sector feel that it is difficult to start companies and its branches throughout India mainly due to the availability of suitable manpower. But they agree that good distribution of IT/ITES-BPO companies throughout Indian sub continent at major towns and cities will provide more development and growth to this sector and also more employment opportunities to the Indian youths. This is one of the biggest employment opportunities generating sector in India. If an IT/ITES-BPO company suffers because of employee attrition it would spoil the growth and development of this sector.

LOCATION MAP OF 50 CITIES FOR IT/ITES-BPO COMPANIES IN INDIA.
As per the data of October 2010, ‘leaders’ locations (Bangalore, Kolkata, Mumbai, Hyderabad, Chennai, NCR and Pune) have the **80%** of the total IT/ITES-BPO companies in India.

- **Leaders** – IT/ITES-BPO companies first choice of location to start new companies.
- **Challengers** – IT/ITES-BPO companies second choice of location to start and already have some companies and branches.
- **Followers** – IT/ITES-BPO companies are having few branches already and thinking to start branches if infrastructure of the locations improves.
- **Aspirants** – IT/ITES-BPO companies last choice to start branches and have few branches already.
1.9. IT/ITES-BPOs IN TAMIL NADU STATE IN INDIA

Tamil Nadu state is located in the southern part of peninsular India with many urbanised cities and towns. Tamil Nadu state is a pioneering state for the growth and development of modern agriculture, science, engineering, technology, medicine. Importantly, this state has good infrastructure facilities with thousands of educational institutions and thousands of industries of different sectors. Confederation of Indian Industry (CII) report 2010 states that Tamil Nadu is one among the top four Indian states for any kind of domestic and foreign investment. As on now in 2010, regarding the IT/ITES-BPO industry, Chennai city, the capital of Tamil Nadu state, is one among the top 100 cities in the world with metropolitan status, rapidly emerging as one of the important and top IT/ITES-BPO destinations with hundreds of companies in this segment. Tamil Nadu state has the highest in bandwidth\(^3^7\) availability in India with 13.5 terabit\(^3^8\) facility, thus becoming a lucrative destination for IT/ITES-BPO companies.

According to the State Government’s news magazine Tamil Arasu, April-2008, there are 150 large, medium and small IT/ITES-BPO addressable companies in Tamil Nadu state. The government of Tamil Nadu state and its agencies such as TIDCO\(^3^9\), ELCOT\(^4^0\) are working to make “Chennai as a global capital for the IT/ITES-BPO sector”. Apart from Chennai city, Coimbatore city, located in western Tamil Nadu state in India is also developing towards a major IT/ITES-BPO hub with names like Cognizant, Robert Bosch, Nous Infosystems, KG Design Services, CG-Vak Software and Export, KG information System, Pricol Technologies, Sharp Info Solutions and Tata Consultancy Services already operate from the city. The TIDEL\(^4^1\) park of Coimbatore opened on 05-08-2010 and could accommodate more companies in this sector. Other cites in Tamil Nadu state in India such as Trichirappalli, Madurai, Salem, Tirunelveli and Hosur also have a few IT/ITES-BPO companies at present and through the forthcoming TIDEL parks are expected

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37 Bandwidth – capacity – the average rate of successful data transfer through a communication path.
38 TERABIT – Measuring data transmission speed. The terabit is a multiple of the unit bit for digital information or computer storage. One terabit = one trillion binary digit or 1 000 000 000 000 bits or 1000 gigabits.
39 TIDCO – Tamil Nadu Industrial Development Corporation.
40 ELCOT – Electronics Corporation of Tamil Nadu.
41 TIDEL – The word TIDEL is neither an acronym nor abbreviation. TIDEL is Portmanteau. TIDEL = TIDCO + ELCOT.
to operate more IT/ITES-BPO companies in the near future. It is obvious that Tamil Nadu state in India is a good place to start any industry of a domestic and foreign nature.

**IT/ITES-BPO COMPANIES LOCATION MAP OF TAMIL NADU STATE IN INDIA.**

Leaders

Challengers

Followers

Aspirants

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**Leaders** - CHENNAI city is the leader with 82% of the total IT/ITES-BPOs in Tamil Nadu state and growing rapidly.
As per the data of October-2010, Chennai have **82%**, Coimbatore have **10%** and other cities have **8%** of IT/ITES-BPO Companies in Tamil Nadu state. Future growth will depend on infrastructure improvements.

Tamil Nadu government’s IT/ITES-BPO policy 2005 provides motivating facilities to start new companies pertaining to this sector in association with the Confederation of Indian industry (CII), The Associated Chamber of Commerce and Industry, the FICCI⁴⁶, the NASSCOM and the Ministry of Communication and Information Technology of the Government of India. The IT/ITES-BPO segment of Tamil Nadu state contributes 14% of the state’s GDP in the year 2010. Further it has been providing direct and indirect employment to more than 4.5 lakh in small, medium and large sized companies. As a part of its policy to take the IT sector to rural areas, the government of Tamil Nadu is holding talks with various companies and colleges for setting up rural business process outsourcing centres and unveiling an incentive based approach to encourage establishment of IT/ITES-BPOs in rural areas which will boost the economy and provide employment opportunities to a considerable extent. The IT/ITES-BPO companies in Tamil Nadu state will be expected to accommodate another 6 lakh job opportunities directly and indirectly in the next couple of years.

1.10. IMPACT OF RECESSION ON IT/ITES-BPO SECTOR AND HUMAN RESOURCES IN INDIA

According to the experts of this sector, the only positive aspect due to recession is the employee attrition rate. It has come down marginally as there was a fear among the workers to switchover to another company (Priya 2008). The Consequences of the US recession on the Indian job market: the Worst affected by the US recession will be the service industry of India. BPO, KPO, IT, ITES, etc. comes under service industries in India. Service industry contributes about 52% to India's GDP growth. Now if that is going to get hurt then it will also hurt India's overall growth but very slightly. India is not going to face a major impact due to the US recession. People may say that there is going to be a huge job loss due to recession and will cite the example of the TCS sending about 500 employees but these were employees who did not

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⁴³ **Challengers**- COIMBATORE city emerged as the challenger with 10% of IT/ITES-BPO companies.
⁴⁴ **Followers**- TRICHIRAPPALLI and MADURAI cities are the followers with have few companies and branches.
⁴⁵ **Aspirants**- SALEM, HOSUR and TIRUNELVELI cities are aspirants with have few branches already.
⁴⁶ **FICCI** - Federation of Indian Chambers of Commerce and Industry.
perform and for cost cutting one has to reduce Non performing asset and that is exactly what has been done. There is no threat to the skilled people. According to NASSCOM India will have a shortage of about 5 million skilled people in IT/ITES-BPO. So there are lots of opportunities. 75 per cent of its revenues come from the USA. Low demand for services may force most Indian Fortune 500 companies to slash their IT budgets. Zinnov Consulting, a research and offshore advisory, says that besides companies from IT/ITES and BPO, automotive components will be affected. During a full recession, USA companies in health care, financial services and all consumers demand driven firms are likely to cut down on their spending. Among other sectors, manufacturing and financial institutions are moderately vulnerable. If the service sector takes a serious hit, India may have to revise its GDP to about 8 to 8.5 per cent or even less.

According to Raman Roy, Father of the Indian BPO industry, recession is not a decrease in consumption. It is just that the rate of growth has changed. Recession actually provides the opportunity to create value for customers at different price points. According to Lokendra Tomar, Senior Vice-president, Integreon, an ITES-BPO firm, says recession is likely to have a dual impact on the outsourcing industry. Appreciating rupee along with poor performance of US companies will affect the bottom line of the outsourcing industry. Small ITES-BPOs, which are operating at a net margin of 7-8 per cent, will find it difficult to survive. According to Dharmakirti Joshi, Director and principal economist of CRISIL, a long and severe recession will seriously affect the portfolio and fixed investment flows. Corporates will also suffer from volatility in foreign exchange rates. The export sector will have to devise new strategies to enhance productivity.

1.11. SWOT\textsuperscript{47} ANALYSIS OF INDIAN IT/ITES-BPO SECTOR:

**STRENGTHS OF THE IT/ITES-BPO SECTOR:**

Regarding personnel/human resource, Education level doesn't matter so much. But good Computer knowledge/communication skills are essential to work in an IT company. A higher secondary level education with good English communication skills for voice based ITES-BPO works and computer knowledge and typing skills for non-voice based ITES-BPO works is the minimum basic qualification. Good work environment. A good monetary and non-monetary benefit to all its employees, Time flexibility, Attractive life style, Transportation facility and handsome salary play a crucial role in IT/ITES-BPO employment in India and attracts considerable percentage of Indian youths pertaining to any diploma/degree. The NASSCOM says that the IT/ITES-BPO sector is expected to grow in a
WEAKNESSES OF THE IT/ITES-BPO SECTOR:

One of the weaknesses is increasing employee attrition and operating cost. Political socio-economic conditions, Government bureaucracy, Poor physical infrastructure, Weak enforcement of legal system and prevalent corruption are also considered weaknesses of this sector. Industry is moving towards mitigating data privacy and security concerns. However, there is an urgent need to tighten cyber laws and enforce data protection and privacy laws in all IT applications. Expanding on the importance of infrastructure, it would be difficult to shift IT/ITES-BPO business to the small cities/towns in India, as is being talked about now, unless physical access to them became easy. Foreign clients would prefer to move fast from one destination to another. However, it is still a fair game if Indian vendors counteract with global expansion and leverage their past reputation. However, Indian third party vendors have a long way to go when it comes to competing for business with the captive off shoring facilities in India of their foreign clients. This is because of the huge gap in domain expertise between the Indian vendor and the captive facility. Security concerns are more in the IT/ITES-BPO sector. Security breaches in Indian IT/ITES-BPO firms are a serious concern for their clients.

OPPORTUNITIES IN THE IT/ITES-BPO SECTOR:

Worldwide spending on IT/ITES-BPO services totalled approximately US$ 1.6 trillion in 2009. The International Data Corporation (IDC) projects that by 2011, the potential IT/ITES-BPO market may increase too many times, with an overall Compounded Annual Growth Rate (CAGR) of 11 percent. Further it projects that this becomes almost six times more by the year 2011.
THREATS IN THE IT/ITES-BPO SECTOR:

India which has been an unrivalled force in the IT/ITES-BPO domain will face stiff global competition. Russia, China, Australia, South Africa, New Zealand, Mauritius, Fiji, Malaysia, Philippines and Ghana are the countries that top the list as potential threats to the Indian IT/ITES-BPO market. IT services, software products, IT enabled services and e-business areas are facing universal competition. These setbacks are threats resulting in the backlash to the IT/ITES-BPO activity in India. Lack of maturity in service line, increasing competition among e-logistics providers and management resistance are the main deterrents to the outsourcing in the logistics sector. Discretionary cuts in budgets, low growth due to industry maturity and decentralized nature of facilities management are the main deterrents to the outsourcing in the facility and operations management sector. Privacy concerns and technical nature of subject matter are the main deterrents to the outsourcing of legal services. As if this is not enough, the companies which are outsourcing non-core processes from third party service providers literally place themselves in the hands of another company, which appears to be a normal setback to the IT/ITES-BPO at the outset.

Some companies which jumped into the IT/ITES-BPO market in India are now looking to sell their assets being unable to scale operations up to the required level. As per the NASSCOM report-2009, recently there were about 200 Indian companies offering IT/ITES-BPO and related services looking for buyers. Companies rush into IT/ITES-BPO market without understanding the kind of operational and marketing issues they would have to cope with and the kind of gestation period to be expected before profits can start flowing in consistently. As a result, many facilities that were set up are lying vacant, and the failed enterprises have to either close down or get acquired, as they have neither funds nor
1.12. THE NEED, LOGIC AND RATIONALE OF THE STUDY

India has an employee attrition rate which is less than the global average in general/overall but regarding IT/ITES-BPO it is dangerous. In India, with the global financial meltdown, it appears employees prefer to stick to their current jobs as much as possible. Interestingly, according to the senior persons of this segment, employee attrition has fallen to less than 35% in the IT/ITES-BPO industry against the 2006-2007 attrition rate of about 50 -55%. In the year 2009 India had more than 1500 addressable IT/ITES-BPO industries across the country and the employee attrition in the IT/ITES-BPO companies is higher than in the other sectors (NASSCOM report 2009). While the overall employee attrition in India stood at 18%, at IT/ITES-BPO companies the attrition is the country’s highest followed by communication (22%) and retail (18%). The high attrition cost increases the costs to the organization considerably. They have to combat the amount of disruption due to unplanned exits. The more the people leave an organization, the more it is a drain on the company’s resources like recruitment expenses, training and orientation resources and time. According to Times News of New York, USA Report-2009, the “general/overall employee attrition rates” in different nations are as follows,

<table>
<thead>
<tr>
<th>NAME OF THE COUNTRY</th>
<th>GENERAL/OVERALL EMPLOYEE ATTRITION RATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>42%</td>
</tr>
</tbody>
</table>
Australia.  29%.
Europe.  24%.
India.  18%.

**GENERAL EMPLOYEE ATTRITION RATES IN DIFFERENT NATIONS**

![Bar chart showing employee attrition rates in different nations](chart9.png)


The global general/overall employee average attrition rate is 24%. India’s general/overall employee attrition rate is 18%. But in IT/ITES-BPOs attrition rate is almost double that is 35%. India is having the highest employee attrition rate in IT/ITES-BPO sector among the top six competitive countries of this sector which is a notable point.

**The employee attrition rates in IT/ITES-BPO sector in top six countries.**

According to CISTM-2009-Conference on information system technology and management-Portugal-Europe, employee attrition rate in IT/ITES-BPO Sector is high in India among the top six countries followed by Philippines, Brazil, Russia, Argentina and China (Chart-10).

**NAME OF THE COUNTRY** | **EMPLOYEE ATTRITION RATE IN IT/ITES-BPO**
--- | ---
CHINA | 19%
ARGENTINA | 20%
RUSSIA | 21%
BRAZIL | 22%
PHILIPPINES | 26%
INDIA | 35%
Attrition cost is *(Scholl et al 2005 and Neale 2004)* approximately 10% of the annual revenue in Indian IT/ITES-BPO industries. Most of the industrial experts feel that the estimates of the IT/ITES-BPO industries attrition rates are not correct and they are hiding their attrition rates to avoid further setbacks *(Sharma and Jyothi 2008)*. Some analysts say that the remuneration design is not attractive when compared to other industries in India, leading to higher employee churn in IT/ITES-BPO companies. Some feel and state that the overall compensation structure design is not competitive when compared to the general market practices. This compounds existing issues such as working shifts, lack of career development initiatives and at times monotonous tasks. Contrary to belief, adjusting pay need not automatically lead to higher operating costs for IT/ITES-BPO, by creatively designing the total reward package they could move towards more short term incentives and benefits, linking the package to performance. Companies can ensure that they get higher productivity without hefty increases in salary costs and minimize attrition costs and issues at the same time by planning a more robust combination of short and long term incentives such as performance bonus, ESOP, deferred and retention bonus that meets the aspirations and needs of the young employees so as to derive performance and productivity. But anyhow employee attrition is high when compared

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48 ESOP – Employee Stock Option Plans.
with other sectors and senior human resource experts strongly feel that this can be reduced considerably if the companies follow ‘good recruitment and retention strategies’.

As per the views of experts in this sector anyone who has good computer knowledge and English communication skill can get employment opportunity with a decent salary package. The new employment opportunities arise or created in public and private sectors in Indian industries are very less when compared with the huge outcome of the graduates every year. The Indian IT/ITES-BPO industries provide employment opportunities to many of the degree and diploma holders and this sector has become a panacea\(^49\) for unemployed youth. At present majority of the institutions which conducted campus recruitment drives or employment fairs for Diploma/Arts and Science degree/Engineering graduates are IT/ITES-BPO companies. A recent study reveals that 60% of our Indian engineering graduates and 55% of other graduates are working in these industries as their first job (timesjob.com-2009). Many experts at the NASSCOM-2009 summit took a serious view on issues such as price wars, poor infrastructure and lack of data production norms and laws. They also stress the danger of high employee attrition which could derail India’s booming IT/ITES-BPO industry. Further the NASSCOM IT/ITES-BPO forum has identified Human Resource as one of the very vital challenges of this segment and has formed a special task force to address short term challenges such as employee attrition and long term challenges such as ensuring the availability of a skilled talent pool. As per the 2010 pwC-CII-IT/ITES-BPO survey, companies have already started focusing the following areas to retain the employees and Chart-11 shows the key areas focused with the percentage.

\(^{49}\) Panacea – cure/ answer/solution, here, immediate employment opportunities to the Indian unemployed youths.
Employee retention measures taken by IT/ITES-BPO providers

(Chart-11. Source: pwC-CII IT/ITES-BPO survey-2010)

R1=Providing professional training and development/personal growth (58%) R2=Competitive rewards-retention bonus, perks, salary hike, medical benefits, ESOPs, etc (46%) R3=Employee empowerment (42%) R4=Initiative around performance recognition (27%) R5=Improving leadership skills in the middle management level (27%) R6=Fun at work-Birthday/festival celebrations, team outing, weekend getaways, etc. (19%) R7=Promoting work-life balance (19%) R8=Flexible work hours- work from home, flexible work timings, etc (19%) R9=Office infrastructure-cafeteria/pantry, gym, day care centre, library, etc. (15%) R10=performance feedback program (15%) R11=Global career opportunities (8%) R12=Higher study opportunities (4%). It is clear from the Chart-12 that even after this strategy in progress to retain, the employee attrition rates of IT/ITES-BPO companies during the period of September 2010 Vs September 2009 shows no major changes or positive signs, seems to increase.
(Chart-12. Source: Company results compiled by pwc-CII survey-2010)

1.13 CONCLUSION

There exists a strong logic and rationale for this research study that tries to address the various issues connected to best recruitment and retention practices in IT/ITES-BPO sector in Tamil Nadu state. The challenge before all the organizations throughout the world particularly in the IT/ITES-BPO industries in India, in the year 2012 is obviously “How does a company select the right candidates and retain talented staff”?
Review of literature

Few Studies on Indian IT/ITES-BPO domain

List of articles cited/reviewed. Further reference

Hackman and Oldham (1976) Job characteristics model.

General strategies

Organization culture

Work/Job satisfaction

Commitment and loyalty

The best employee recruitment

Career development opportunities

Promotional and personal growth

Career mapping

Motivation and Training

Company Policies and procedures

All monetary benefits

All Non-monetary benefits

Work life balance