CHAPTER II

Growth of ITES-BPO Industry in India and its HR Requirements
2.1 Introduction

The statement by Grossman and Helpman (2002) that we live in an age of outsourcing clearly indicates that outsourcing is now an accepted business strategy. It also signifies the extent and importance of outsourcing. Business Process Outsourcing is one of the important types of outsourcing. Business Process Outsourcing, in broad terms, is a transfer of some business functions or components of business processes to an outside contractor. The most widely accepted and usually quoted definition of Business Process Outsourcing (BPO) is given by the international research and consultancy firm, ‘Gartner’ which has defined business process outsourcing as “the delegation of one or more IT-intensive business processes to an external provider who in turn owns, administers and manages the selected processes based on defined and measurable performance criteria” (Gartner, 2000). Thus, business process outsourcing involves the transferring of certain value contributing activities, processes and/or services to an outside (or the agent’s) premises motivated primarily by cost saving considerations and/or a desire to focus on what one knows and does best on the part of the principal. The term ‘ITES’ stands for IT-Enabled Services. IT-Enabled services can be defined as “those outsourcing services that use information technology in the processing and delivery of service, and services are typically delivered through a telecommunication or data network or other electronic media” (Arouba, 2006). Today, the two terms namely, ‘IT-Enabled Services (ITES)’ and ‘Business Process Outsourcing (BPO)’ are used interchangeably.

Outsourcing is based on the business philosophy that you should contract out any business activity that is not a core competence. “Do what you do the best and
outsource the rest” is a simple, yet compelling quote attributed to management guru Tom Peters (ITCOT, 2002). The words of Jenster et al. (2005) sum up the philosophy of BPO: “If you are competing with the rest of the world, you better focus on what you are good at”. So, the rationale behind BPO is very specific, ‘do what you do the best and leave everything else to business service providers’.

### 2.2 Emergence of ITES-BPO Industry: The Global Context

Schniederjans et al. (2006) opine that outsourcing in an international context is a logical evolution for business organizations that originates from the concept of subcontracting. That is, it is not a revolution but an evolution of the business organization. In an interdependent socio-economic structure, outsourcing is natural. The extent to which it would happen, or the value links that need to be integrated in different degrees, varies (Rumelt, 1974; Porter, 1980; Barreyre, 1988; Prahalad and Hamel, 1994; Porter, 1996). The process of globalization with breakdown of regulatory and communication barriers across countries has generated innumerable options for value creating elements. Reduced international trade barriers and improved telecommunication and IT capability over the past decade has led to a situation where organizations across the world are increasingly interlinked with each other. This has resulted in intense global competition, challenging business managers across the world to find ways to reduce the cost of conducting business and accessing global resources in meeting the need of global markets. In such a context, the reorganization of business models to leverage benefits of outsourcing and focus on core competencies has become a key strategy pursued by large corporations across the world (Gupta, 2005).
The growth of ITES-BPO is the result of a combination of a number of factors. The principal growth drivers can be summarized as:

1. The Economic trends - comprising (a) globalization, industry consolidation, increasing competition, speed to market, shortage of skilled labour and the increasing importance of back-office operations (Chand, 2002; Sarkar & Shailendra, 2003), (b) the general economic recession (Prasuna, 2003; Nakkiran & Franklin, 2004; SenGupta et al., 2007), (c) the dotcom bust (SenGupta et al., 2007), (d) collapse of the US stock market, and (e) the domination of the service sector in the global economies;

2. The information and communication revolution (Patel & Aran, 2005; SenGupta et al., 2007; Sharma, 2010);

3. The internet revolution (Chand, 2002; Patel & Aran, 2005; Schniederjans, 2006);

4. Availability of new tools to facilitate the adoption of BPO (Chand, 2002; Ramachander, 2004);

5. Core competency theory (Prahlad and Hamel, 1990; Greaver, 1999); and

6. The concern over the ageing population of the west.

These factors have made significant contribution to the growth of BPO in the global context.
2.3 Emergence of ITES-BPO Industry: The Indian Context

The evolution of the BPO industry can be traced back to the following significant events in the macro-economic policies of the country and certain other factors which have contributed to the emergence and growth of ITES-BPO industry in India:

1. BPO entered India with LPG - BPO growth in India can be considered as the direct result of globalization;
2. New telecom policies of 1994 and 1999;
3. Stable economic policies being pursued by the successive Indian governments;
4. The proactive Indian government(s) involving a large number of both central and state government initiatives;
5. The NASSCOM initiatives and its acting as an 'advisor, consultant and coordinating body' for the ITES - BPO industry and liaison between the central and state government committees and the industry;
6. Adoption of global industry standards SEI-CMM, ISO, TQM, Six Sigma Quality and COPC, and the emphasis on a secured environment with the adoption of standards such as ISO 17799, BS7799, COBIT and ITSM; and
7. The other factors like the large skilled workforce of India, role of English language, Information Technology support, cost-effectiveness; time differentials, India being the world’s youngest nation and the role of new breed of entrepreneurs have all contributed to the growth of ITES-BPO industry in the Indian context (Chand, 2002; Bansal, 2004; Nakkiran & Franklin, 2004; Bijoor, 2005; Jha & dixit, 2006; Seetha, 2006).
2.4 Evolution of ITES-BPO Industry in India: The Phases

The evolution of the Indian ITES-BPO industry can be divided into the following distinct phases:


Drivers of offshore, in this phase, are the pioneers and size-driven factors. This phase is also called the first wave of outsourcing in the Indian context wherein the company-owned (captive) units pioneered BPO in India (pwc, 2005). This may also be considered as ‘the birth stage’ in the chronology of the Indian BPO industry (Sengupta et al., 2007). The company-owned (captive) units such as British Airways (BA), American Express (AMEX), General Electric (GE), etc. triggered the trend of outsourcing back office operations and call center services to India. Since then several banks, insurance companies, airlines and manufacturing companies have set up back office service centers in India. Main characteristics of this phase are: (i) operational cultures previously seen only in western shared-service centers were developed (ii) large operations with high-quality infrastructure were built (iii) precedent was set for legal shift of work for both men and women, and (iv) pioneers demonstrated that UK and US regulations and other major stakeholders would not prevent processing work from being moved offshore (Nasscom, 2005; Gangadhar and Reddy, 2005)
Phase II (2000-2002)

Drivers of offshore, in this phase, are increasing adopters and strategy factors. This phase is also called the second wave of outsourcing in the Indian context wherein a number of experienced professionals set up start-up operations in India (pwc, 2005). Generally such start-ups were funded by venture capital funds. Examples are Spectramind, CustomerAsset and 24/7 Customer, etc. The captive units of Dell, HSBC, Standard Chartered, AOL and HP started operations in India. This period is also considered as the period of 'the gold rush' in the chronology of the Indian BPO industry (Sengupta et al., 2007). The main characteristics of this phase are (i) risk profile improved dramatically, though the supply market was still perceived as immature (ii) companies started setting up new operations as part of other strategic initiatives. For example, government discussions regarding the opening of the Indian insurance market to partial foreign competition gave global insurance companies a vested interest in building offshore processing centers in India- they hoped to position themselves for the domestic market, if and when it opened up (iii) the early risk takers demonstrated the advantage of size, and (iv) credibility of the business model was reinforced and perceived risks were dealt satisfactorily. These included some complex issues, such as how to apply the European Data Protection Act, how to move highly skilled work offshore and how to manage media in the home market (Nasscom, 2005; Gangadhar and Reddy, 2005)
Phase III (2002-2008)

Drivers of offshore, in this phase, are bandwagon and competition factors. This phase is also called the third wave of outsourcing in the Indian context wherein a number of leading IT services companies entered the BPO market (pwc, 2005). Given the magnitude of the opportunity, natural synergies with the software services business and the ability to leverage their high-end physical infrastructure and management bandwidth, most large IT services companies ventured into ITES. Consolidation of the market with the smaller players merging with each other/larger companies for economies of scale is also witnessed in this phase. That is why this phase is also termed as 'the consolidation' phase of the Indian BPO industry (Sengupta et al., 2007). Examples are Wipro Spectramind (now Wipro BPO), Progeon (now Infosys BPO), Nipuna (Satyam). The main characteristics are (i) the business model has been proven and the benefits look sustainable in the medium- and long-terms. Many of the obstacles from previous phases are overcome (ii) resolved issues include: (a) public relations- early players in Phase I and II showed that the public relations risks of moving jobs offshore are manageable (b) regulations – regulatory interferences in moving of processes and data offshore have not materialized, although it is crucial to be aware of US and UK financial service watchdogs' guidelines for outsourcing, supplier selection and data protection (c) labour costs-fear of rising labour costs offshore has been dampened by the relatively higher number of unemployed English-speaking graduates, along with the continuing supply every year as the Indian government focuses on education as a way of increasing the size of Indian middle class (d) data communication line costs- with the increasing liberalization of the telecommunication industry in India, these costs have fallen (e)
quality of third-party suppliers – the number of credible suppliers has increased dramatically. The risks were manageable when offshore outsourcing was beginning to realize the competitive disadvantage of not doing so (Nasscom, 2005; Gangadhar and Reddy, 2005).

Phase IV (2008 onwards)

Of late, the M & A – driven consolidation has led to emergence of four third-party camps: (a) Indian scale players with multiple service lines across the value chain – Genpact, Firstsource, EXL, WNS (b) MNC third-party players – Convergys, ADP, Hewitt (c) Integrated IT and BPO service offering – Infosys, Wipro, IBM, Accenture and (d) niche players in industry verticals or specific business processes that have set up BPO businesses – Evaluserve, OfficeTiger, Marketrx, Indecomm, etc. This phase is also called the fourth wave of outsourcing in the Indian context (pwc, 2005). SenGupta et al. (2007) term the period after 2005 as ‘the coming of age’ period in the chronology of Indian BPO industry. The captives continue to set up operations but are now looking at different models – BOT, hybrid (third party and captive). The generalized large BPO players are now focusing on “verticalizing” their competencies and structures.

The next phase of BPO will see players in all categories moving towards high-end, knowledge-based services like analytics, market research, etc. In fact, such a move has already begun, wherein a large number of BPO players have, slowly but surely, moved towards the high-end, knowledge-based services. The industry has termed it as Knowledge Process Outsourcing (KPO), and this segment is considered
as a different segment altogether. However, the BPO segment will continue to grow for many years down the line.

2.5 Manpower Requirements for ITES-BPO Industry in India

The demand for ITES-BPO manpower is going to be driven by their requirements in specific solution areas for ITES-BPO. Based on specific productivity estimates over time, it was estimated by a NASSCOM study that the growth of industry could translate into a direct employed manpower requirement of around 2.72 million for ITES - BPO by 2012. While demographic studies have suggested that India could be one of few countries with a surplus of personnel within the employable age group by 2020, NASSCOM expects that there is a possibility of a shortage or gap in terms of availability of skilled personnel for ITES-BPO. Addressing this gap is critical for India to achieve its target market share in the ITES-BPO services market. Considering the growth potential of over 25 per cent per annum, ITES-BPO could become a significant contributor to the economic growth of the country. This also implies that the share of revenues from off-shore services (including IT) to overall GDP could grow from 1.9 per cent in 2002 to ~12 per cent by 2012. Both the industry and academia suggest that the issue of manpower shortage or gap is not as much about institutional seat availability as about the nature of skills and training provided in these institutions (Chiamsiri, 2005; Farrel et al., 2005; Mankad, 2006; Hamm, 2007). The overall strategy to meet the human resource requirements, thus, rests on the ability to inculcate the right skill-sets, establishing a standard to certify the quality of skills provided and attracting people to get them certified and deployed in ITES-BPO. Addressing this gap requires an understanding of the specific qualifications and
skills required for different ITES-BPO work and the ability to change / supplement the education system to meet these requirements (Dept of IT, 2003).

2.5.1 Qualifications typically required for various ITES-BPO work

The qualification required for a BPO job primarily depends on what kind of project they are recruiting for. While some companies follow a policy of hiring only graduates, others also accept those with 12th standard education. The companies usually prefer fresh graduates from the Arts, Science or Commerce streams and may even hire people who have studied only up to the 12th standard if their other skills are sufficient (Jagadish, 2004; Dang, 2005; Kohli, 2006; Seetha, 2006; Sengupta et al., 2007). Their main requirement, especially for voice projects, is fluency in English, so they target potential workers from the larger cities who come from English-medium educational backgrounds and who are already familiar with western culture. Upadhya and Vasavi (2006) report that although they recruit college graduates from any stream, they tend to hire many Commerce graduates (with B.Com. degree). While they visit degree colleges for recruitment, they do not usually go to engineering colleges because they believe that they will not stick to the job. Still there are some engineers working in the industry, especially in call centers that provide technical support services. Many engineering graduates have entered this industry during the IT slowdown. The more complex tasks under ITES-BPO are expected to require postgraduate qualification or other certification in addition to standard graduate degrees. However, people with specific graduate degree qualification may be better suited for specific functions (Nakkiran & Franklin, 2004; Dang, 2005). For example, a tech support job in a computer company might require those with MCA or BCA degrees, a
Chartered Accountant/ Chartered Financial Analyst may be better qualified to support remote accounting services or equity research support for a client. The person may also be required to undergo additional certification if required by the regulations in the country. (e.g. FSA in the UK.). Interestingly, Upadhya and Vasavi (2006) report that it is not unusual to find professionally qualified people, such as medical (MBBS) and law graduates, working in BPO jobs as ‘domain specialists’. That means the BPO jobs have attracted people from all the fields of education.

2.5.2 Skills required for various ITES-BPO work

In addition to standard qualifications, different functions under ITES-BPO often require certain specific skills related to language (comprehension, fluency), analytical (problem-solving, reasoning), computer proficiency (key board), customer service orientation (team-working, listening) and behaviour (confidence, integrity, drive). However, the importance of these could vary depending on the specific function (ITCOT, 2002; Padaki, 2002; Nakkiran & Franklin, 2004; Dang, 2005). For example, ‘listening skills’ are inherently more important to a customer contact function as compared to knowledge services support where ‘reasoning skills’ may be much more important (Jagadish, 2004; Bhagat, 2005; Ramachandran, 2006; Sengupta, et al., 2007).

While the formal education system provides some of the skills required by the ITES-BPO industry, this is limited to specific fields of study. The non-formal sector has also supplemented the development of these skills through specific courses and training. However, ITES-BPO services require a much broader range of skills and a lot of these are not available through the formal or non-formal system. Addressing
these would require efforts related to tailoring the curriculum to meet specific skill requirements, enhancing the IT infrastructure within the formal education system, training faculty to impart these skills and encouraging industry participation in terms of R&D and IT infrastructure support. Additionally, efforts would be required to establish a common certification system for some of the standard skills (Dept. of IT, 2003). It is estimated that this could save as much as 50 per cent of recruitment and training costs (directly, indirectly) for the ITES-BPO industry in India, making it more competitive globally. Skills for ITES-BPO could be divided into basic skills and candidate profile-related behaviours and these could be tested and certified in a number of ways. A common agency that is industry-approved and government recognized can handle the testing and certification at a national scale.

2.6 How to meet the HR Challenge for ITES-BPO

It is observed by KPMG (2003) that a significant portion of graduates (~35%) opts out of workforce participation due to various social and economic pressures, while another large chunk (~58%) get absorbed into other non-IT sectors. These non-IT personnel represent a significant source of manpower to meet specific requirements of the ITES-BPO industry. Again, a common database of skill-sets required and available for the ITES-BPO industry would also guide efforts on the scale and direction of human resource development efforts. As per the Department of Information Technology (2003), bridging the manpower requirement gap for ITES-BPO requires specific actions across three broad areas: i) widening the base of graduates and expanding the share of those entering the workforce; ii) generating awareness and employment preference amongst working graduates, even in Tier II and smaller towns; and iii) improving the recruitment conversion ratio through
changes in the education system as well as counseling related to ITES-BPO employment opportunities. As per the Department of IT (2003), this implies that actions are required across the entire development lifecycle of human resources with respect to the ITES-BPO industry.

The Department of Information Technology (2003) opines that a central body representing the industry (e.g. NASSCOM, CII, etc.) should be asked to create and manage a dedicated fund directed towards creation of greater awareness about ITES-BPO employment, especially in Tier II and Tier III cities, through advertisements, workshops, seminars and skills counseling sessions for different segments of the potential workforce. The fund could be set up through contributions from the ITES-BPO industry in the form of a 'cess' towards development of relevant skills. This would help direct industry efforts at a national level, towards specific Tier II and Tier III cities that can act as resource feeders to their operating facilities in specific locations.

A large number of job opportunities are available in the ITES-BPO industry for all types of people, whether non-graduates, undergraduates, post-graduates or even for the people with professional qualifications like law, engineering, CA, ICWA, MBBS (medicine), etc. (Jagadish, 2004; Kohli, 2006; Mehta, 2006). But, unfortunately, there has been no attempt, whatsoever, on the part of the industry, government or even educational institutions to educate general public in general and the educated people in particular on the different opportunities that are available for them (Also see Mishra, 2003; Prayag, 2004). The Department of Information Technology (2003) reports that one has to leverage universities / colleges and existing
vocational counseling centers in Tier II and smaller towns to provide career counseling on ITES-BPO opportunities and in its opinion, the formal education system with its strong infrastructure and interaction platform, especially in Tier II and Tier III cities, should be leveraged to disseminate career information and provide counseling on ITES-BPO employment opportunities based on educational background.

2.6.1. Educating / developing requisite skills for ITES-BPO industry

The Department of IT (2003) makes certain recommendations to bridge gaps in formal education system to provide specific skills related to ITES-BPO. These recommendations are: (a) The identified skills, related to the ITES-BPO industry, should be incorporated and strengthened in the current formal education system; (b) Updating curriculum under the formal education system more frequently to reflect industry developments; (c) Changing the evaluation system under the formal education system to encourage creativity and learning as compared to 'learning-by-rote'; (d) Developing specialized vocational courses for ITES-BPO under the formal and non-formal systems; (e) Establishing and encouraging global linkages and 'expert networks' within the formal education system; (f) Emphasizing and promoting the uptake of alternative languages; (g) Ensuring easy access to the IT systems and Internet facilities within the formal education system; and (h) Allocating specific funding support towards faculty training and development.
2.6.2 Certifying skill levels of resources for ITES-BPO

In terms of certifying the skill levels of resources for ITES-BPO, the Department of IT (2003) has made the following recommendations: (a) The efforts to develop a common, on-line test for ITES-BPO ('Indian ITES Certification Test' or IICT) should be properly co-ordinated; (b) Government should provide partial funding support for IICT certification; (c) A non-government, industry-approved national body should be appointed for administration of the IICT; and (d) Standards should be designed for the IICT based on industry requirements.

2.7 Conclusion

The ITES-BPO industry in India has the potential to make a significant contribution to the overall economic growth through addition of direct and indirect jobs by leveraging foreign investments. Maintaining India’s momentum and share of this global opportunity will depend on the ability to create and make available a growing and appropriately skilled pool of talent. While India is well-positioned today, high growth aspirations demand that adequate actions be taken to ensure that supply-side constraints do not prevent us from realizing the potential of the opportunity. Ensuring a steady supply of appropriately skilled human resources will require changes in the institutional infrastructure of the country (the formal and non-formal education systems), the certification mechanisms, manpower deployment and the skills up-gradation processes. Further a greater orientation towards industry requirements must pervade the entire education system.

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