Chapter 1

Overview of Indian Outsourcing Industry

1.1 Introduction

Outsourcing is one of the fastest growing industries on the global platform. Outsourcing involves both foreign and domestic contracting to the external service providers. It covers a wide range of products & processes depending upon the strategy of the company like focusing on its core competencies or any other requirements of the outsourcer. A company can outsource various verticals like information technology, human resource, customer service, finance & accounting, BFSI (Banking, Financial Services & Insurance), engineering, knowledge services, legal, research & development, medical trials, etc.

India has emerged as the twenty-first century's software destination, offering many advantages as a global sourcing hub, especially for IT Enabled Services (ITES) and Business Process Outsourcing (BPO). Outsourcing allows a company to invest more time, money and human assets in core items maintaining the quality & brand name. In the initial stage, call centres had mushroomed in India serving various foreign airlines, banks & insurance companies. India continues to dominate global outsourcing market but outsourcing industry has been facing major challenges like competition, shortages of skilled manpower, investment in infrastructure, maintenance of world class quality standards, high employee turnover, work life balance etc.

Having grown manifold in size and established as a ‘destination of choice’ over the past decade, Indian BPO industry is now at an inflexion point facing hurdles & maximizing opportunities to enhance its role as a value-added end to end business partner. Also, Indian BPO industry has expanded globally through its global delivery capabilities. The coming years (Vision2020) are very crucial for the industry & the right choices made could affect a fivefold growth.
Outsourcing is not a new phenomenon. It has been used by different people from various industries in different contexts. Various terms are used interchangeably to describe the phenomenon of outsourcing. The following section defines all these terms of outsourcing.

1.2 Terms

Outsourcing is the contracting out of a business process to a third-party. The term ‘Outsourcing’ became popular in the United States near the turn of the twenty-first century. Outsourcing sometimes involves transferring employees and assets from one firm to another, but not always. Outsourcing includes both foreign and domestic contracting, and sometimes includes offshoring or relocating a business function to another country. Financial savings from lower international labour rates is a big motivation for outsourcing/offshoring.

The opposite of outsourcing is ‘Insourcing’, which entails bringing processes handled by third-party firms in-house. However, a business can provide a contract service to another business without necessarily insourcing that business process.

Two organizations may enter into a contractual agreement involving an exchange of services and payments. Outsourcing is said to help firms to perform well in their core competencies and mitigate shortage of skill or expertise in the areas where they want to outsource. In the early twenty-first century, businesses increasingly outsourced to suppliers outside their own country, sometimes referred to as ‘offshoring’ or ‘offshore outsourcing’. Several related terms have emerged to refer to various aspects of the complex relationship between economic organizations or networks, such as ‘Nearshoring’, ‘Crowdsourcing’, ‘Multisourcing’ and ‘Strategic Outsourcing’.

Outsourcing can offer greater budget flexibility and control. Outsourcing lets organizations pay for only the services they need, when they need them. It also reduces the need to hire and train specialized staff, brings in fresh engineering expertise, reduces capital and operating expenses.
‘Nearshoring’ is a form of outsourcing in which functions are relocated to cheaper yet geographically close locations. In the case of the United States, the most obvious near shore jurisdictions are Canada and Mexico.

‘Out-tasking’ refers to turning over a narrowly-defined segment of business to another business, typically on an annual contract, or sometimes a shorter one. This usually involves continued direct or indirect management and decision-making by the client of the out-tasking business.

‘Co-sourcing’ is a business practice where a service is performed by staff from inside an organization and also by an external service provider. It can be a service performed in concert with a client's existing internal audit department. The scope of work may focus on one or more aspects of the internal audit function. Co-sourcing can serve to minimize sourcing risks, increase transparency, clarity and lend toward better control over the processes outsourced.

‘Multisourcing’ refers to large outsourcing agreements. Multisourcing is a framework to enable different parts of the client business to be sourced from different suppliers. This requires a governance model that communicates strategy, clearly defines responsibility and has end-to-end integration. The process begins with the firm identifying the activity to be outsourced and generally using a make-buy analysis to justify the decision.

‘Offshore Outsourcing’ is the practice of hiring an external organization to perform some or all business functions in a country other than the one where the product or service will be sold or consumed. This can be contrasted with Offshoring, in which the functions are typically performed by a foreign division or subsidiary of the parent company. To be consistent, outsourcing in corporate context represents an organizational practice that involves the transfer of an organizational function to a third party. When this third party is located in another country the term offshore outsourcing makes more sense. Offshoring in contrast, represents the transfer of an organizational function to another country, regardless of whether the work stays in the corporation or not.
Though all the above mentioned terms describe various types of outsourcing and the respective practices, but the core reason for outsourcing remains the same.

1.3 Reasons for Outsourcing

There are several reasons for outsourcing. However the main motivation behind outsourcing always starts with reduction of cost. Earth Institute at Columbia had conducted a survey which has mentioned that about 70 per cent firms outsource to cut cost (Smith, 2006). Other major drivers of offshore outsourcing include access to global talent resources; focus on core competencies and acquiring global market shares. Improving service quality and to exploit specific advantage of selected countries are also worth mentioning (Ghodeswar & Vaidyanathan, 2008; Sharma & Loh, 2009; Aird & Sappenfield 2009). Also outsourcing enables meeting the key financial metrics (Kumar & Eickhof 2006). The main reasons for outsourcing are discussed in the following sections:

1.3.1 Cost Reduction & Economies of Scale

Economies of scale and cost reduction are among the major reasons to outsource (Kakabadse & Kakabadse 2005). There are number of other drivers described by BPO researchers but achieving operational cost efficiency is the most important factor considered so far. Majority of Fortune 500 companies have outsourced to Indian service providers for instance, Infosys, Wipro, Tata Consultancy Services, Genpact, Aegis, IBM and many others. A large number of American companies have already outsourced to India, especially Information Systems to keep the maintenance and development costs down.

1.3.2 Technology Advancements

Globalization and technology advancements created a global workforce, with a blend of different cultures & nationalities working for the common objective across the world (Sahgal & Malhotra...
2005). However, risks posed by vendors must be taken into consideration for the success of the projects (Leavy 2004). Outsourcing is widely spread now-a-days i.e. from government to NGOs to Banks to Financial Institutions to health care sectors.

Advancement in technology & dynamic business scenarios necessitates firms to adopt new technology without falling behind the competition (Sparrow 2005). The companies understand the new systems and technologies provided by vendors which are later made in-house after developing the required level of skills and expertise.

### 1.3.3 Focus on Core Competencies

The recent trend to outsource non-core business is motivated by the competence based view (Kakabadse & Kakabadse 2005; Sparrow 2005; Mehta et al. 2006; and Wu & Park 2009). Successfully identified core competences, like Dell identified Research & Development (R&D) and Tesco identified Online Shopping as core competences have respectively outsourced buying process of customer and online banking (Windrum et al. 2009). The research also indicates that poorly defined core competences have been re-insourced when realized at later stages. A recent trend in outsourcing is to outsource the non-core businesses and emphasize on the core competencies (Mehta et al., 2006). However, the argument is that core competencies of the firm cannot be static over a certain period of time and even in the toughest times, the core competencies can create problem for the firms (Johnson 2006).

### 1.3.4 Access to Global Talent

Some researchers think that ‘Global Talent’ motivates firms to gain & maintain competitive advantage (Ghodeswar & Vaidyanathan 2008). Some of them also agree that firms aggressively seek global talent (Sharma & Loh 2009). For example, American Online (AOL) employed top university graduates in its contact centre based in Bangalore India. It was further added that offshore companies hire even more selectively (Sharma & Loh 2009). For example, Infosys
received 1.3 million applications and the company hired 36,700 from such a massive number of applicants. India, China & Philippines have been attractive destination for multinational companies as far as outsourcing is concerned. There are 22 million graduates available in India for both public and private companies (Rao & Varghese 2009).

Traditionally, companies have outsourced for tactic reasons like reduction of costs, improving performance & accessing resources not available internally. Outsourcing some functions can shift costs from fixed to variable, thus managing companies’ costs more effectively. It is difficult to quarrel with cost savings, and the companies that approach outsourcing with careful planning save money. In a survey of 19 companies that outsourced their information technology, it was found that the average savings was 15.4 per cent, with a range from 0 - 40 per cent (Saunders, Gebelt, & Hu 1997).

Organizations today use outsourcing as business strategy. Organizations function at a high level & they get world-class capabilities without the risks involved in developing all of them. Other strategic reasons include long-term flexibility, good access to best practices, and acquisition of new skills. If a company selects service providers with outstanding technical capabilities, it can leverage the skills and knowledge to enhance their competitive advantage and achieve technical supremacy. Some service providers may be internal, and some may be external. However, they all require the same high level of planning and management.

Various companies have adopted outsourcing as strategy for various reasons. But like all other phenomenon, outsourcing also has its own pros & cons. The advantages & disadvantages of outsourcing are mentioned in the next section.

1.4. Advantages and Disadvantages of Outsourcing

There are number of advantages of outsourcing along with potential risks and disadvantages. About 65 per cent American companies have outsourced their Information Technologies (IT)
operation to an offshore location, not only to benefit from the low cost but also accessing the world class resources (Simon et al. 2009). Presented below in a summarized form both advantages & disadvantages with cited references:

Table 1.1: Advantages of Outsourcing: Literature Review References

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Literature Review References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost reduction</td>
<td>Hirschheim (2009), Manning et al. (2008), Sen &amp; Shiel (2006), Sharma &amp; Loh (2009), Sparrow (2005), Herath &amp; Kishore (2009)</td>
</tr>
<tr>
<td>Focus on customer relationship</td>
<td>Owens (2010)</td>
</tr>
<tr>
<td>Increase in Operating Cash Flow</td>
<td>Narayanan (2009)</td>
</tr>
<tr>
<td>Advantage of the Global Sources</td>
<td>Sharma &amp; Loh (2009)</td>
</tr>
<tr>
<td>Access to global talent</td>
<td>Ghodeswar &amp; Vaidyanathan (2008) and Simon et al. (2009)</td>
</tr>
<tr>
<td>Bringing value of the Global Sources</td>
<td>Kumar et al. (2005)</td>
</tr>
<tr>
<td>Proximity of Markets</td>
<td>Aird &amp; Sappenfield (2009)</td>
</tr>
<tr>
<td>Focus on customer relationship</td>
<td>Owens (2010)</td>
</tr>
<tr>
<td>Access to new Technology</td>
<td>Herath &amp; Kishore (2009)</td>
</tr>
</tbody>
</table>

As we discussed the benefits of outsourcing, we cannot deny the risk associated with it. Various disadvantages / risks of outsourcing include social reasons, cultural gaps & security issues. Table 1.2 has summarized the disadvantages / risks cited by various BPO researchers in various literature reviews.
### Table 1.2: Disadvantages/Risks of outsourcing: Literature Review References

<table>
<thead>
<tr>
<th>Disadvantages/Risks</th>
<th>Literature Review References</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social cost in term of job losses</td>
<td>Aron et al. (2005)</td>
</tr>
<tr>
<td>Loss of control and Security issues</td>
<td>Wu &amp; Park (2009), Hahn et al. (2009), Kakumanu &amp; Portanova (2006)</td>
</tr>
<tr>
<td>Cultural issues</td>
<td>Simon et al. (2009)</td>
</tr>
<tr>
<td>Transferring knowledge to vendor</td>
<td>Kremic et al. (2006)</td>
</tr>
<tr>
<td>Increase lead time in supply chain</td>
<td>Wu &amp; Park (2009)</td>
</tr>
<tr>
<td>Possible creation of competitors</td>
<td>Ang &amp; Inkpen (2008)</td>
</tr>
</tbody>
</table>

Outsourcing became one of the most widely used contemporary business practices. However, it has both advantages and disadvantages. From various literature reviews it is obvious that outsourcing practices are not similar for all companies. If a company is small and has limited resources, then it needs to outsource. However, outsourcing practices cannot always ensure such common advantage such as cost reduction. Since study and practice of outsourcing are very popular among today’s businesses it can be developed further in order to provide with new and deeper results. Like all other phenomenon, the advantages associated with outsourcing have superseded the disadvantages / risks. Various industries & companies have identified the benefits of outsourcing and evolved through various stages to cater to the global business environment. In the next section, we will discuss the various phases of evolution that the Global outsourcing industry as well as Indian outsourcing industry have been gone though.

### 1.5. Evolution of Outsourcing

#### 1.5.1 Evolution of Global Outsourcing

Offshoring has been a feature of the US economy since the Ford Motor Company began assembling Model T’s at a plant in Trafford Park, England in 1911. The initial purpose of such
early offshore investments was to reduce transportation costs. Later, the motivation for offshore investment in manufacturing shifted to overcome tariff barriers and meeting local content requirements in the many countries that instituted them. In the 1960s and 1970s American companies began to move labour-intensive processes to offshore locations to reduce the costs of goods and services intended for the US market.

Although outsourcing only became dominant trend in the 1990s, it is not an entirely new phenomenon. IT development projects, for example, have been relying on outside sources since 1980s. Large facilities management contracts in the late 1980s signalled a timely convergence of supply and demand. On the other hand major vendors (e.g. Arthur Andersen, IBM, AT&T Inc., EDS [Electronic Data Systems], Sabre Group Holding) offered facilities management and other services. In the early 1980s, the computer revolution overtook the manufacturing sector and advanced economies such as the United States became more service-based. Outsourcing has grown at an extraordinary dynamism in the 1990s. The development of the internet is the prerequisite condition, mediator and motivator of outsourcing transactions all over the world.

Companies started relocating functions to countries such as India, China, Philippines, Malaysia & Ireland, where IT resources are cheap and plentiful. Access to training and skills for new networking technology and programming techniques are key for outsourcing contracts, because in many parts of the United States and throughout the world, trained IT staff was getting harder to find.

Outsourcing is strongly linked to another global trend i.e. ‘Globalization’. Outsourcing denotes relocation outside the country. The outsourcing of lucrative information technology and high end manufacturing work is not new at least companies based out of US & UK. EDS, IBM & Accenture built their businesses on outsourcing. In 1989, Kodak outsourced all IT related work to IBM. Xerox outsourced it to EDS in 1994. The motivation for outsourcers was always the same i.e. reducing capital expenditures and operating costs, accessing competence, and focusing on their core activities.
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Chapter 1

The 1st wave of Global Outsourcing

- Led by US, closely followed by UK
- Corporations originally looked for cost reductions
- Management and development limited by tools and bandwidth
- New finance vehicles
- Free flow of capital
- Typical 10 year deals

The 2nd wave of Global Outsourcing

- Move into Western Europe
- Individual country agreements
- Rise of call centres
- World Trade Organization rules changed, allowing increases in ITO / BPO

The 3rd wave of Global Outsourcing

- Extension of EU i.e. European Union (Poland, Czech Republic, Hungary etc.)
- Integration of EU tax breaks in Ireland, Slovenia etc. soon to add Bulgaria and Romania
- Created additional direct competition with India, China and other offshore destinations
- Improved centralized control and bandwidth
- Changing nature of contracts i.e. renegotiation, termination, competitive re-bidding
- Improved Customer Relationship Management (CRM)


When global outsourcing industry evolved & progressed, the same evolution started happening in India and slowly India became the preferred destination of outsourcing for all companies across the globe. Various stages of evolution of Indian outsourcing industry is presented in the next section.
1.5.2 Evolution of Indian Outsourcing

Since the commencement of globalization in India during 1990s, Indian government has pursued programs of economic reform committed to liberalization and privatization. Also until 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 1994, Indian government announced a policy under which the sector was liberalized and private participation was encouraged. In the year 1999, ‘New Telecom Policy’ brought in further changes with the introduction of IP (Internet Protocol) telephony and ended the state monopoly on international calling facilities. This brought about a drastic reduction indicated the golden era for Indian ITES/BPO industry. This in turn ushered the growth of inbound call centre, telemarketing services, transaction processing and data processing centres.

Although the software industry in India has existed since the early 1980s, it was the early and mid 1990s that saw the emergence of outsourcing. India started with medical transcription and slowly moved to business processes like data processing, medical billing, and customer support. Towards the end of 1990s, due to huge market opportunities, various MNCs established wholly owned subsidiaries which catered to the offshoring requirements of their parent companies. American Express, GE Capital and British Airways are amongst the pioneers to capture the Indian BPO market.

BPO industry in India has grown rapidly as compared to software industry as the advantages offered by the country were well known and several. Most of the infrastructure requirement was already there and companies just needed to set the processes right to get BPO industry going in India. According to Mohanbir Sawhney, Professor, Kellogg School of Management, evolution of BPO in India has witnessed three prominent phases. These waves are:

1. Large multinational companies set up their captive centres in the country. American Express, General Electric, British Airways & Citibank were amongst the pioneers followed by numerous banks, financial services & manufacturing companies. These companies
performed their back-office operations and customer services through these offshore captive centres.

2. The captive centres were followed by the establishment of start-up BPO operations by experienced professionals. Such companies were often backed by venture capital.

3. IT majors such as IBM ventured into Indian BPO market to tap the opportunity. These companies had experience in managing offshore IT operations which helped them in gaining an easy entry into the BPO market.

The ITES or BPO industry is a sector in India has been in existence for approximately 15 years. Since then, the industry has grown phenomenally and now has become a very important part of the IT software and services export industry. It initially began as an activity confined to multinational companies, but today it has developed into a broad based business platform backed by leading Indian IT software and services organizations and other third party service providers. In less than a decade, the BPO industry has already seen three generations of change.

**Generation 0.8 BPO:** In its early days, BPO struggled for acceptance. This initial phase referred to as Generation 0.8 or the ‘prove it to me’ phase which was undoubtedly challenging. This was a time when the concept of BPO was new, and the technology infrastructure was still evolving. Customers were not comfortable with the concept of offshoring a business process. However, as a result of the relentless competitive global market and a few early successes, decision makers and buyers began to adapt and adopt this new offshoring opportunity.

**Generation 1.0 BPO:** Liberalization of Indian telecom sector was not only propelling the industry forward but also driven a complete socio-cultural transformation. With a stronger technology infrastructure in place, the industry moved into Generation 1.0, also known as ‘scale it for me’ phase. During this time, the focus was on building stronger industry specific competencies and delivering higher value & knowledge intensive processes.
Generation 2.0 BPO: At this phase, entrepreneurs began to anticipate future trends in the evolution of BPO. They saw that scale and global delivery could undoubtedly unleash incremental value for customers. Companies pondered ways to leverage BPOs for the creation of competitive advantage for customers, and it became abundantly evident that the way to accomplish this goal was to holistically integrate BPO with all other aspects of the customer’s business, including technology, applications and ultimately business process transformation. Generation 2.0 BPO is a quantum leap beyond Generations 1.0 and 0.8 because BPOs have now made the transition from a fragmented services to an entirely new level of service, in which the service provider manages the customer’s entire business processes or functions as a business partner.

With evolution the industry has progressed with aggression & to cope up with different stages of global competition & expansion, various companies in various locations have come up with different forms through various innovative business models. Discussed below are some of the major forms & models practice by various companies at different stages of outsourcing.

1.6 Forms & Models of Outsourcing

1.6.1 Forms of Outsourcing

Business Process Outsourcing (BPO) is a form of outsourcing that involves the contracting of the operations and responsibilities of a specific business functions or processes to a third party service provider. It is primarily used to refer to the outsourcing of services. This type of process is typically categorized into back office outsourcing, which includes internal business functions such as Human Resources, Finance & Accounting, Banking Financial Services & Insurance (BFSI) and Customer Care Services. When business process outsourcing is contracted outside the country is called offshore outsourcing. It is also categorized as an Information Technology Enabled Service (ITES).
**Knowledge Process Outsourcing (KPO)** is another form of outsourcing, in which knowledge and information related work is carried out by knowledge workers in a different company or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. KPO typically involves high value work carried out by highly skilled staff.

**Legal Process Outsourcing (LPO)** refers to the practices of law firms or corporations to obtain legal support services from an outside law firm or legal support services company. When the outsourced entity is based in another country the practice is called legal process offshoring. However, in recent years the ‘near shore’, ‘back-door’, ‘specialized legal firms’ have geared up to satisfy law firms and corporations that demand quality and confidentiality.

**Recruitment Process Outsourcing (RPO)** is a form of business process outsourcing where an employer outsources all or part of its recruitment activities to an external service provider i.e. when a provider acts as a company's internal recruitment function for a portion or all of its functions. Recruitment process outsourcing providers manage the entire recruiting/hiring process from job profiling through the on-boarding of the new hire, including staff and reporting. A properly managed recruitment process outsourcing helps improving company's time to hire, increase the quality of the candidate pool, reduce cost and improve compliance.

**Engineering Process Outsourcing (EPO)** for the architecture, engineering and constructions industry is a vertical domain for the industries of the built environment. It is playing crucial role in efficiently supporting dynamic architecture, engineering and construction industries worldwide. While at the other end it has opened up huge market for developing nations.

**Co-sourcing** is an outsourcing practice where a service is performed from inside an organization and also by an external service provider. Examples of co-sourcing services are supplementing the in-house internal audit staff with specialized skill such as information risk management, integrity services, fraud investigation or plant investment appraisals. Another example of co-sourcing is outsourcing part of software development activities to an external organizations, while keeping part of the development in-house.
Crowdsourcing means taking a task traditionally performed by an employee or contractor, and outsourcing it to an undefined, generally large group of people or community in the form of an open call. The public may be invited to develop a new technology, carry out a design task, refine or carry out the steps of an algorithm, or help capture, systematize or analyze large amounts of data.

1.6.2 Outsourcing Models

Selecting an appropriate outsourcing model is a crucial aspect of company's outsourcing business strategy. The process involves several important factors, including various aspects of international business strategy, selecting the destination, scanning the environment and deciding on the strategy. Three most important models practiced by business leaders are joint venture offshoring, subsidiary/captive development centres and outsourcing to a third party service provider.

Joint Venture Offshoring

In a joint venture (JV), an organization ties up with a local firm or company either by taking an equity stake or forming an independent company in which each company contributes resources. The goal is generally to work towards a ‘win-win’ agreement or deal where both organizations hope to benefit from each other's strengths. By capitalizing on the strengths of a local player, the client organization can mitigate some of the major risks of internalization. At the same time, the local player can benefit from partnering with a global company or strong player and thus scaling up the value chain.

A joint venture agreement may sometimes include Build-Operate-Transfer (BOT) clauses to motivate both parties to work towards a clearly defined exit strategy. Build-Own-Operate-Transfer (BOOT), which is a variation of BOT, gives option to the domestic companies to sell its stake to the foreign company after a stipulated period or after agreed upon milestones and targets.
Subsidiary/Captive Development Centre Offshoring

Companies may decide to bypass the JV model altogether and go directly for a subsidiary or local office if the management is comfortable in dealing with the nitty-gritty of internationalization and local market operations. Other popular terms used to describe the model includes Offshore Development Centre (ODC), Captive Development Centre or in some cases simply branch or local office.

Subsidiaries operate as independent business units executing programs and projects for onsite teams. From this perspective, the mode of managing a subsidiary is similar to managing projects and programs in a Global Delivery Centre (GDC) model. The key challenges in a subsidiary model, apart from internationalization and localization of business management are management of expatriate staff, line workers, technical experts & line managers from multicultural backgrounds.

Outsourcing to Third Party Service Provider

The JV and subsidiary/captive models of outsourcing may involve deep commitment on the part of the client. To counter the risks of these models and to capitalize on the benefits of offshoring, companies resort to outsourcing projects, programs and individual work orders to offshore third party vendors. Outsourcing to service providers is also the most visible offshore outsourcing model as it encompasses a wide variety of work, from small projects to multi-year contracts amounting to millions of dollars.

Offshore outsourcing is growing rapidly. Despite the challenges, offshoring can provide huge benefits in terms of productivity, prices, profits and wages, which is an irresistible combination in a highly competitive world. Offshore outsourcing brings with it a wide variation in costs from country to country, as well as significant risks, infrastructure and competency. Various outsourcing models have emerged to keep pace with global competition. In the next section, we will see the market opportunities and how the global outsourcing industry has shaped up in terms of locational advantages, country attractiveness & emerging economics.
1.7 Global Outsourcing Industry

Offshoring is pushing the world beyond the information & transaction based economy towards a global knowledge based economy. These trends are conspiring to bring further changes to the global BPO market in the next decade or so. As per NASSCOM, the global IT-BPM (Business Process Management: as same as Business Process Outsourcing) spend grew by 4.5% from FY2012 to FY2013. The Global BPM (BPO) Market has shown a steady growth of 5.6% at the same period (Figure 1.1). This proves the huge opportunities lies in the Global BPO market.

**Figure 1.1: Global IT-BPM Spends FY2012 v/s 13**

![Pie chart showing IT Services, BPM, Packaged Software, Hardware and ER&D spending in USD 2.2 trillion for 2012 and 2013](source)

First of all, consumer demand and spending power in the emerging economies is growing more quickly than expected. And as they grow in strength and stability, the risks of outsourcing can be...
spread further as companies have a wider variety of geographic locations to choose from. Companies are aiming to partner with large multinational service providers with access to variety of resources and expertise across the globe and the ability to spread risk. This will help them gaining significant competitive advantage & positioning strongly in the market.

The industry has grown significantly and in many cases exceeded expectations from the early days. At the same time, the geography of offshore delivery has expanded to include a large number of countries specializing in different parts of the service production ecosystem.

**Global Outsourcing Attractiveness Index**

In terms of broader macroeconomic environment, nothing much has changed recently as the world is still recovering from economic slowdown. The hope today is for renewed growth, but the situation is still fragile. The IMF’s recent Global Financial Stability Report 2013-14 offers a similar caveat: ‘The global financial system is still in a period of significant uncertainty and remains the Achilles' heel of the economic recovery’.

A.T. Kearney Global Services Location Index™ 2011 indicated that the world of services offshoring has changed dramatically since the first report published in 2003. In this macroeconomic environment, the Index continues to track the outline of the global outsourcing landscape in 25 countries and their potential across three major categories i.e. financial attractiveness, people skills & availability, and business environment. AT Kearney considered 39 metrics to identify the top countries for delivering Information Technology (IT), Business Process Outsourcing (BPO) and call centre services.
Table 1.3: A.T. Kearney Global Services Location Index™ 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Financial attractiveness</th>
<th>People skills &amp; availability</th>
<th>Business environment</th>
<th>Total score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>3.11</td>
<td>2.76</td>
<td>1.14</td>
<td>7.01</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>2.62</td>
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<td>1.31</td>
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<td>3</td>
<td>Malaysia</td>
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<td>Indonesia</td>
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<td>6</td>
<td>Mexico</td>
<td>2.68</td>
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<td>7</td>
<td>Thailand</td>
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<td>8</td>
<td>Vietnam</td>
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</tr>
<tr>
<td>12</td>
<td>Brazil</td>
<td>2.02</td>
<td>2.07</td>
<td>1.38</td>
<td>5.47</td>
</tr>
<tr>
<td>13</td>
<td>Latvia</td>
<td>2.56</td>
<td>0.93</td>
<td>1.96</td>
<td>5.45</td>
</tr>
<tr>
<td>14</td>
<td>Lithuania</td>
<td>2.48</td>
<td>0.93</td>
<td>2.02</td>
<td>5.43</td>
</tr>
<tr>
<td>15</td>
<td>UK</td>
<td>0.91</td>
<td>2.26</td>
<td>2.23</td>
<td>5.40</td>
</tr>
<tr>
<td>16</td>
<td>Bulgaria</td>
<td>2.82</td>
<td>0.88</td>
<td>1.67</td>
<td>5.37</td>
</tr>
<tr>
<td>17</td>
<td>United States</td>
<td>0.45</td>
<td>2.88</td>
<td>2.01</td>
<td>5.34</td>
</tr>
<tr>
<td>18</td>
<td>Costa Rica</td>
<td>2.84</td>
<td>0.94</td>
<td>1.56</td>
<td>5.34</td>
</tr>
<tr>
<td>19</td>
<td>Russia</td>
<td>2.48</td>
<td>1.79</td>
<td>1.07</td>
<td>5.34</td>
</tr>
<tr>
<td>20</td>
<td>Sri Lanka</td>
<td>3.20</td>
<td>0.95</td>
<td>1.11</td>
<td>5.26</td>
</tr>
<tr>
<td>21</td>
<td>Jordan</td>
<td>2.97</td>
<td>0.77</td>
<td>1.49</td>
<td>5.23</td>
</tr>
<tr>
<td>22</td>
<td>Tunisia</td>
<td>3.05</td>
<td>0.81</td>
<td>1.37</td>
<td>5.23</td>
</tr>
<tr>
<td>23</td>
<td>Poland</td>
<td>2.14</td>
<td>1.27</td>
<td>1.81</td>
<td>5.22</td>
</tr>
<tr>
<td>24</td>
<td>Romania</td>
<td>2.54</td>
<td>1.03</td>
<td>1.65</td>
<td>5.22</td>
</tr>
</tbody>
</table>


The new global offshoring paradigm is based on the selection of appropriate and strategic technologies, skills & resources, innovation, locations etc. The driving forces for this new paradigm include:

- Availability of low cost & high quality resources with expertise in specific technologies and skills
• Additional and unique international/regional funding & economic development centres initiated by MNCs, Non Governmental Organizations (NGOs), Local Development Organizations and Governments around the world

• Investment by global organizations and multinationals designed for business process outsourcing in various regions of the world to expand and grow

• Recent years have seen tremendous growth in the number of IT companies and technology parks in emerging markets

• Technology parks have begun to specialize for various types of companies, technologies and industries

• Geographic locations are slowly evaporating and emerging working locations are more flexible, adaptable and virtual due to technology advancements

When the global BPO market has grown in manifold, the Indian BPO market took the opportunity to expand in leaps bounds as well. Slowly & steadily the industry has grown and India has become the first choice for all countries across the global as a ‘preferred outsourcing destination’. Hence it’s worth visiting the ‘Indian Growth Story’ as a part of our research study.

1.8 Indian Business Process Outsourcing

The Indian Business Process Outsourcing (BPO) industry has experienced key transformations over the past few years, gained experience and maturity towards higher-end services and global competitiveness. The industry has seen a steady movement from cost, quality, and productivity in early 2000 to specialization, process reengineering and technology-enabled platforms in 2012. The industry now provides a business outcome based revenue model instead of Service Level Agreements (SLAs). The industry has become matured and providing 360 degree services. The current multifaceted offerings, which include data analysis and real-time processing and more end-to-end services like consulting, business transformation and optimization. The industry is
also providing value-added, domain centric solutions on IT-enabled platforms like cloud computing, social media, mobility, etc.

1.8.1 BPO to BPM

As per NASSCOM IT-BPM Report FY2013, NASSCOM has decided to rebrand & shift subtly from Business Process Outsourcing (BPO) to Business Process Management (BPM). As per NASSCOM, the re-branding of the industry will give it the identity of being an end to end full-service value provider rather than an industry that plays only in the lower-end of the services spectrum. Simultaneously, the Indian industry needs to leverage the low-end skills available in other emerging destinations, while itself moving up the value chain.

1.8.2 Indian IT-BPM Industry Market Size

When the global outsourcing market grew by $11-12 billion, India accounted for over 90 per cent of the incremental growth, significantly increasing its market share from 52 per cent in 2012 to 55 per cent in 2013. Overall industry revenues estimated to touch $118 billion in FY2014, growing by 8.8 per cent over FY2013. The sector is expected to provide direct employment to over 3.1 million people directly and an additional 10 million indirectly. As a proportion of national Gross Domestic Product (GDP), sector revenues have grown from 1.2 per cent in FY1998 to over 8.1 per cent in FY2014. As per Figure 1.2, IT-BPM exports are estimated to cross $86 billion in FY2014, growing at 13 per cent. While US continues to be the largest geographic market for India, which is approximately 62 per cent, the highlight for the year was increasing demand from Europe, which grew at approximately 14 per cent in FY2014. Banking Financial Services & Insurance (BFSI) continues to be the largest vertical segment contributing approx 41 per cent of industry exports. BPM exports today are likely to be a $20 billion industry. BPM services growth is expected at 11.9 per cent in FY2014. At an estimated Rs 1,910 billion, the IT-BPM domestic market is likely to grow by 9.7 per cent in FY2014, low in last 12 years.
India is expected to maintain the leadership position in the global outsourcing arena. Key to India’s dominance is the fact that the industry has never stayed stationary. India is constantly expanding its service offerings and adding capabilities, evolving innovative business models, exerting tight control over operational parameters to ensure high customer satisfaction. India is also expected to lead in cost competitiveness. Flat entry level salaries, flattening employee pyramid, Tier II/III destinations, alternate talent pool hiring and fast career growth helping India stay 7-8 times cheaper than other locations. India is the world largest supplier of employable human capital i.e. 5.3 million graduates in FY2014, second highest number of English speakers in the world, and a large multicultural and highly aspirational workforce enabling versatility and agility for customers.

Indian Business Process Management (BPM) market has shown double digit growth year on year specially the knowledge services driven by analytics & vertical-specific services driving faster
growth. Out of more than 500 players in the market, knowledge services have shown fastest year on year growth at 15 per cent. Data Analytics & Legal Services have also shown fastest growing at more than 18 per cent. As per figure 1.3, the top three verticals ruling the Indian IT-BPM market are: Customer Services (41% share) followed by Finance & Accounting (23% shares) & Knowledge Services (19% share).

**Figure 1.3: Indian BPM Export Market FY2013 - Vertical Mix**

India has a presence in over 78 countries, and 600+ offshore delivery centres. India today demonstrates its scalability allowing clients to be closer to customers. India’s ecosystem has always been supportive, with rapidly improving infrastructure, and over 50 delivery locations ready for technology services delivery. In FY2015, the export market is projected to grow between 13-15 per cent and post political/governmental changes the domestic market is expected to revive and grow by 9-12 per cent (reference Figure 1.4).
By virtue of certain advantages India has been able to maintain its supremacy over its rivals in the BPO industry but there are a number of other countries, which can give India run for its money in Business Process Outsourcing. India’s competitive advantages are described below:

1.8.3 India’s Competitive Advantage

Cost Savings: Data monitor (a leading UK-based business information company) research indicates that 67-72 per cent of costs to call centres operating in the US/UK are directly linked to manpower costs. However, India spends only 33-40 per cent of costs on manpower. This includes training, benefits and other labour related incentives.

Abundant Human Resource: There is a huge computer literate population available in India which is required to establish the industry. In terms of talent, the industry added over 3 million people directly & ~10 million employment indirectly in the last decade (Figure 1.5). India as a
destination of World’s largest employable graduates, approx. 25 per cent of workforce domain specialists are CAs, Doctor, Lawyer, Statisticians, Mathematicians, etc. Amount of USD 1.6 billion spent annually on training workforce. The industry has also seen an increased demand for data scientists, user experience designers, platform engineering, SMAC specialists etc.

**Figure 1.5: Employment in Indian IT-BPM Sector FY2013 v/s FY2014E**

![Employment in Indian IT-BPM Sector](image)

- **Industry to have added 166,000 people in FY2014 (‘000 nos)**

<table>
<thead>
<tr>
<th></th>
<th>FY 2013</th>
<th>FY 2014E</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT services exports</td>
<td>637</td>
<td>676</td>
</tr>
<tr>
<td>IT-BPM domestic</td>
<td>1411</td>
<td>1500</td>
</tr>
<tr>
<td>BPM Export</td>
<td>918</td>
<td>956</td>
</tr>
</tbody>
</table>

Source: NASSCOM IT-BPM Report FY2014E

**Language Competence:** India has got good English speaking population and all the higher studies are being taught in English.

**Infrastructure:** Indian government is showing a great concern for the development of infrastructural facilities in all the major cities and this gives a greater connectivity between clients & service providers.
## Table 1.4: India’s Value Propositions

<table>
<thead>
<tr>
<th>Value Propositions</th>
<th>Facts</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Leadership</td>
<td>• 3-4 times cost effective than US</td>
<td>• Optimum Cost</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operational flexibilities, efficiencies</td>
</tr>
<tr>
<td>Scalability, Security,</td>
<td>• Presence in 78 countries</td>
<td>• Global delivery network</td>
</tr>
<tr>
<td>Leadership</td>
<td>• ~600 ODCs</td>
<td>• Best-in-class governance framework</td>
</tr>
<tr>
<td>Human Capital Leadership</td>
<td>• &gt;5 million graduates</td>
<td>• Largest employable pool</td>
</tr>
<tr>
<td></td>
<td>• &gt;3 million workforce</td>
<td>• Diverse background</td>
</tr>
<tr>
<td>Ecosystem Leadership</td>
<td>• 43 Tier II / III cities</td>
<td>• Competitive infrastructure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Emerging potential locations</td>
</tr>
<tr>
<td>Customer Focus Leadership</td>
<td>• 100% coverage of outsourcing engagements</td>
<td>• End-to-end services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Niche, domain capabilities</td>
</tr>
<tr>
<td>Maturity Leadership</td>
<td>• ~ USD 120 billion industry</td>
<td>• Depth of services: across IT-BPM</td>
</tr>
<tr>
<td></td>
<td>• 16,000 firms</td>
<td>• Vertical-Wide presence</td>
</tr>
</tbody>
</table>

Source: NASSCOM IT-BPM Report FY2013 & FY 2014E

There are approximately 500+ BPOs in India. However, the major BPO players who are ruling the industry are surely responsible for India’s tremendous growth. Mentioned below are the top 15 BPOs based on NASSCOM survey.
1.8.4 Top 15 Indian BPO Companies

NASSCOM since the past few years has been ranking the Top 15 BPO Export Companies based on a survey conducted annually, which is open to all NASSCOM members. Through this survey NASSCOM collects financial and other information from its member companies and the participating companies are ranked based on the data submitted.

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Genpact India Pvt. Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>Tata Consultancy Services Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>Serco Global Services</td>
</tr>
<tr>
<td>4</td>
<td>Aegis Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Wipro BPO</td>
</tr>
<tr>
<td>6</td>
<td>Infosys BPO</td>
</tr>
<tr>
<td>7</td>
<td>Firstsource Solutions Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>WNS Global Services (P) Ltd.</td>
</tr>
<tr>
<td>9</td>
<td>Aditya Birla Minacs Worldwide Ltd.</td>
</tr>
<tr>
<td>10</td>
<td>EXL</td>
</tr>
<tr>
<td>11</td>
<td>Hinduja Global Solutions Ltd</td>
</tr>
<tr>
<td>12</td>
<td>HCL Technologies Ltd.- Business Services</td>
</tr>
<tr>
<td>13</td>
<td>Tech Mahindra Limited</td>
</tr>
<tr>
<td>14</td>
<td>Hero Management Service Ltd</td>
</tr>
<tr>
<td>15</td>
<td>Mphasis Ltd</td>
</tr>
</tbody>
</table>

Source: www.nasscom.in accessed on 18th June 2014
FY2013 was another ground breaking year for BPO industry in India as well as globally. The BPO industry is all set to grow at a steady pace. BPO represents one of the highest potential industries for India’s economic growth and will continue to grow further to become larger than the software business itself. The opportunities lie ahead for India is tremendous & manifold.

1.8.5 Opportunities for BPOs in India

Today outsourcing companies have created a niche for themselves, moving much ahead of simple voice based back office work to high-end knowledge and skill-based work. The industry today recruits Chartered Accountants, Engineers, Doctors and PhD holders, who hold the future of this business. The industry is no longer Business Process Outsourcing (BPO) as it has evolved into Business Process Management (BPM).

New emerging verticals like shipping & logistics, healthcare and retail will bring major business to Indian BPOs, owing to current capability in analytics, finance & accounting, and research. Apart from these, Indian BPO players still have an edge above others due to factors like cost arbitrage and scale of resources.

Figure 1.6: Domestic IT-BPM Market FY2013

<table>
<thead>
<tr>
<th>Rs in Billion</th>
<th>FY 2009</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>932</td>
<td>1741</td>
<td>1910</td>
</tr>
</tbody>
</table>

Source: NASSCOM IT-BPM Report FY2013
As far as domestic IT-BPM Market is concerned, a slowdown has been noticed due to economic uncertainties like Inflation, Rupee Volatility, Slowing GDP, 2014 Elections etc which are impacting the IT spend. Single digit growth projected in FY2014 which is 9.7 per cent (Figure 1.6). However, with 900+ million connected consumer base the domestic market has better prospect in the future. As per Figure 1.7, the main verticals in the domestic IT-BPM market are Manufacturing (32%), Energy (16%) & Government (15%).

**Figure 1.7: Domestic IT-BPM Market FY2013 - Vertical Mix**

![Pie chart showing the vertical mix of the domestic IT-BPM market FY2013](image)

Source: NASSCOM IT-BPM Report FY2013

In spite of having many advantages as a preferred BPO destination, India also faces a number of challenges to establish itself as a global BPO leader.
1.8.6  Challenges before BPOs in India

In the domain of Business Process Outsourcing (BPO), the main countries competing with India are China, Philippines, and Brazil. These countries have obviously placed several challenges before India. The challenges that India faces from these countries include availability of workers who are more skilled and educated. It is not that India cannot provide these advantages but it is sufficient to say that the followings in India are still at a nascent stage:

- Infrastructure for providing good telecom facilities
- Finding quality talent
- Setting up new service lines
- Improving operating processes
- Further cost reduction

The workers in Philippines are more conversant with foreign languages like Spanish, German, French, and Japanese and are used to the American culture too. It is also a challenge for India to continue maintaining its talented task force in the BPO sector because it is facing competition with China in this area. However, all Chinese workers cannot speak English as fluently as Indians. Challenges before BPOs in India include possibility of backlash from European and North American markets which are posing great threat to the Indian BPO industry. India is looking forward to take up huge offshoring ventures but it is challenging to set up the infrastructural requirements so quickly to meet the requirement. Other reason behind the slowing down of offshoring in India is due to the political reasons concerning markets of Europe and North America.

1.9  Summing Up

In this chapter we have given the overview of outsourcing industry specially elaborating on Indian outsourcing industry. We discussed the various important terms related to outsourcing and
we explained them for common understandings. Though various outsourcing terms are used interchangeably but the core reasons for outsourcing remains the same. Some of the main reasons are categorized under cost reduction, economies of scale, technological advancement, more focus on core competencies & access to global talent pool. Thus various companies have adopted outsourcing as strategy for various reasons. But like all other phenomenon, outsourcing also has its own pros & cons. Industries & companies have identified the benefits of outsourcing and evolved through various stages to cater to the global business environment. When global outsourcing industry evolved & progressed, the same evolution started happening in India and slowly India became the preferred destination of outsourcing for all companies across the globe. The industry has progressed rapidly & to cope up with different stages of global competition & expansion, various companies in various locations have come up with different forms (i.e. BPO, KPO, RPO, EPO, Co-sourcing, Crowd-sourcing etc) through various innovative business models (i.e. Joint Venture, Subsidiary Captives, Outsourcing to Third Party Provider).

Despite the challenges, offshore outsourcing provides huge benefits in terms of productivity, prices & profits resulting to expansion in Global as well as Indian market opportunities. Hence we discussed in details the market size, the market opportunities and how the global outsourcing industry has shaped up in terms of locational advantages, country attractiveness & emerging economies.

As the challenges are tough and the competition is fierce, India BPO companies are gearing up to occupy a strong position in the market. As a ‘destination of choice’ India has enjoyed its leadership position for a longer period of time. Now the time has come to sustain its leadership position. Indian BPOs have started adopting various innovative & out of the box strategic practices to expand in scope and scale. In the next chapter we will see the reflection of certain strategic practices adopted by various Indian BPOs to cope up with the dynamic global business environ
Chapter 2: Strategic Practices of BPOs in India

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2.2 Theoretical Framework on Strategic BPO Practices

2.3 Offshore Outsourcing and Global BPO Market

2.4 Issues in Offshore Outsourcing
  2.4.1 Tactic Goals
  2.4.2 Strategic Goals
  2.4.3 Work Culture
  2.4.4 Client-Service Provider Relationship

2.5 Current Strategies of BPOs in India
  2.5.1 Value beyond Cost Reduction Strategies
  2.5.2 Global Collaboration Strategies
  2.5.3 End-to-End Strategies
  2.5.4 Collaborative Governance Strategies
  2.5.5 Change Management Strategies
  2.5.6 Outcome Based Strategies
  2.5.7 Expertise Development Strategies
  2.5.8 Technology-based Strategies
  2.5.9 Employee Retention Strategies
  2.5.10 Global Expansion Strategies

2.6 Summing Up