CHAPTER 1

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Nothing can stop an idea whose time has come.
- Chinese proverb

The welfare of an economy is conventionally judged by the amount of goods and services it produces in a given year. However, this perspective is limited to the area of economic analysis and does not venture to consider non-quantifiable measures of welfare that mankind can attain. The fact that production of Services is quantifiable is in itself not too old in the subject of Economics or National Accounting. In fact till the forties of the last century, Services were excluded from the calculations of National production as they referred to 'intangibles' and were looked upon as representing only' domestic services'. The credit of including ‘Services’ as a third Sector in the Economy other than the ‘Primary sector’ and ‘Secondary sector’ and calling it the ‘Tertiary sector’ goes to Collin Clark and A.G.B. Fisher. With the inclusion of Services the calculation of National Income Accounting has become more complete and all encompassing. It has also added a new dimension to the subject, namely the dynamics and relevance of the changing contributions of this sector along with other sectors to National Income and employment.

Though the Service sector had been formally introduced, the relative changes in the sectoral contributions happened so discretely, that it had never been formally declared as a ‘Service Revolution’ unlike the ‘Industrial Revolution’ of the seventieth century, which had then changed the history of the world.

Over the past several decades, in different countries, the relative shares of the three Sectors have undergone a change both due to a variety of factors. These changes have also been brought about by the process of development. As the Economy progresses, the significance of agricultural sector takes a back seat and the role of the industrial sector becomes predominant. Moving ahead, history has shown the role of the Service Sector overtaking that of the Industrial Sector. Statistically it has been seen in the Developed countries that the share of the Secondary sector stabilizes at around 20-25 % of the National Income and that of the Tertiary Sector at around 65-70% while that
of the Primary Sector reducing to as low as 5%. In most Developed countries, the share of these Sectors in employment has also undergone changes in similar proportions. However, in case of India, the pattern of development has not taken place in the same way. Although, the economy has witnessed a phenomenal surge in the role of the Service Sector with respect to the National Income, the changes in the Employment structure are much slower.

Today, the world seems to be driven very strongly by knowledge and technology. This transformation of Industrial economies of yesteryears into Service economies of today has made economists coin the term ‘Queen of Hearts’ with reference to the Service Sector. Some have also referred to this phase as ‘De-industrialization’. Within the Service revolution, the changes that have evolved with the change in technology have been so marked, that today the Service revolution can be seen as akin to ‘Information revolution’.

It is in this context that this study makes an attempt to understand and probe deeply into some important aspects of this ‘Service revolution’ that the Indian economy has witnessed and continues to witness since the 1990s. In particular, it attempts to study the growth of the Information Technology Industry with specific reference to the Information Technology Enabled Services or Business Process Outsourcing Industry, or simply the ITES-BPO Industry. The importance of ITES-BPO sector has risen due to growing importance of the Service sector in the Indian economy which is indicated by its share in GDP is depicted in Table 1.

**TABLE 1.1: SHARE OF GDP BY INDUSTRY OF ORIGIN (at constant prices)**

(Percentage Distribution)

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Agriculture and allied activities</th>
<th>Manufacturing and construction etc</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950-51</td>
<td>56.5</td>
<td>13.6</td>
<td>29.9</td>
</tr>
<tr>
<td>1990-91</td>
<td>34.0</td>
<td>23.2</td>
<td>42.8</td>
</tr>
<tr>
<td>2000-2001</td>
<td>26.1</td>
<td>23.5</td>
<td>50.5</td>
</tr>
<tr>
<td>2004-2005</td>
<td>22.4</td>
<td>24.0</td>
<td>53.6</td>
</tr>
<tr>
<td>2006-2007</td>
<td>20.5</td>
<td>24.7</td>
<td>54.8</td>
</tr>
</tbody>
</table>

The share of service sector in India’s GDP at constant prices increased from 29.9% in 1950-51 to 42.8% in 1990-91. The corresponding share in 2006-2007 was 54.8%. The growing significance of services in Indian economy appears to be consistent with structural change in the composition of output as a country develops. The growth of Services sector in India suggests a sudden jump of the Indian economy to pass on to the stage of a post-industrial service economy without completing the phase of industrialization. In the words of Prasad “The hare need not sleep, so that the tortoise may overtake”.\(^5\) This remark on the growth of service sector should not divert the attention from the main theme of this work. His growth of service sector is reflected in the growing share of exports of services in India’s exports.

One of the causes for this growth in the share of the Service Sector is the growth of the IT/ITES-BPO Sector. Within the Service Sector, the ITES-BPO Sector has grown at the highest Compound Average Growth rate of 56.4% between 2000 and 2005. This is higher than the growth of the entire IT Industry of which ITES-BPO is a component. The IT Sector as a whole had a CAGR of 28% during this period, while the other components Hardware and Software services had growth rates of 20.6% and 25.7% respectively. Infact the growth of the IT Sector has also been led to its steadily increasing share in the GDP from 1.2% in 1997-98 to 5.2% in 2007. The growth of India’s IT/ITES-BPO Sector since the last decade has been remarkable enough to warrant special attention. This is evident from Figure 1.1.

**Figure 1.1 SHARE OF IT-BPO SECTOR IN GDP (Percentage)**

![Graph showing share of IT-BPO sector in GDP from FY98 to FY07.]

*Source: Compiled from Nasscom Strategic Review 2006 and 2008.*
It is against this backdrop, that this study has attempted to understand the profile of this nascent Sector from different dimensions. It has focused on how the BPO Sector initiated in India and also how it has spread over the years. Further, the study examines some of the dampeners to the growth of this Sector and offers some suggestions to check the same. This in turn could augment the Indian BPO Sector's staying ahead in the global Outsourcing business scenario.

Here, it is pertinent to note that India has been identified as the most attractive service provider across almost all verticals, by Developed Countries. Developed countries have been keenly outsourcing several processes or services to lower cost locations in the world like India. Several reasons have been cited for choosing India as the most favourable location to outsource services to. The most important of these are the availability of talented, English speaking, educated and cheap manpower, lower telecom tariffs and a conducive environment for Foreign Investments since the initiation of reforms from 1991 onwards. In view of the important role that India’s BPO Sector plays in the Service sector, in the generation of export earnings, domestic earnings, direct and indirect employment, the present study has focused on certain problems of this Sector.

1.1 THE PROBLEM AND THE OBJECTIVE OF THE PRESENT STUDY

The BPO Industry has defied the laws of gravity in terms of growth. Its performance in terms of revenue and employment deserve special mention. Yet, all this cannot be taken for granted, as a lot of low cost economies such as Philippines, Vietnam and China are gearing up to get ahead in the competition. There is a fear that if India becomes complacent, the advantages of outsourcing to India would dwindle slowly and eventually lead to an outward flight of business. Among the various bottlenecks that the Industry faces such as data security issues, inadequate infrastructure, rising real estate costs, attrition and shortfall of employable human resource, the much talked about problems are that of ‘attrition’ and ‘inadequate availability of suitable human resource’.

In terms of the Global Services Location Index designed by A.T.Kearney, India has been rated the best destination for Outsourcing year after year since 2004. However, other countries, particularly the closest competitor China, have been able to improve
the index on the ‘human resource’ aspect. This necessitates greater focus on the human resource problems that the BPO Sector faces in India. These problems need to be understood better and dealt with at the appropriate levels.

It is in this connection, that the objective of the present study is to address the following questions:

1. Does the BPO Sector face the problem of attrition?

2. If yes, what are the causes of attrition?

3. What are the efforts made by the Industry to deal with attrition?

4. Is the human resource available suitable for employment in this Sector?

Here, it is necessary to acknowledge that smart steps not just from within the Industry, but from other quarters too are needed to tackle attrition head on. The Government, Educational Institutions, media and the public all have their respective roles to play in helping the sustenance of a booming, job spinning Industry.

Further, the trickledown effect of employment generated by both the IT and ITES Industries is so high that it is observed that every job created directly, generates almost five jobs indirectly. As is often said ‘people come here for cost, but stay here for quality’. This study is an attempt to that can take us a few steps ahead in that direction.

In view of the issues raised above, the main objective of the present study is to focus on ‘attrition’ and ‘human resources issues’. This study also attempts to offer some suggestions so that India can remain a global leader in the Outsourcing business.

1.2 HYPOTHESES OF THE STUDY

The present study hypothesizes the following:

1. Attrition in the BPO Sector has been caused mainly due to intra-Industry movement of employees.

2. Attrition has compelled the BPO Sector to introduce innovative rewards programmes.
3. Human resources and skills availability is a bottleneck to the growth of the Sector.

4. The expansion the BPO Sector has led to the growth of Income and employment in India.

1.3 **SOURCES OF DATA AND METHODOLOGY**

1.3.1. **DATA**

For the purpose of this study, the source of information used is both primary as well as secondary data. For primary data collection, The Dun and Bradstreet Directory of 2005 have been used to identify BPO Companies. An Online Questionnaire was designed and the website www.surveymonkey.com was used to gather the relevant information to be collected. This has been supplemented with personal interviews and wherever necessary physical form of the questionnaire was also used.


The above two sets of data have been collated to analyse the problem of the study.

1.3.2 **ANALYSIS**

Analysis of the data collected for the purpose of this study has been done with the help of statistical tools like Principle Component Analysis, Chi-square Independence test, correlation, and other simple tools like percentages and ratios.

Each methodology pertains to a different hypothesis with respect to the BPO Industry and has been explained in detail in the respective chapters.

1.4 **TIME PERIOD OF THE STUDY:**

Wherever, secondary data pertaining to the Industry has been used, the time period covered is from 1999 to 2007. For the primary data collection through the online questionnaire, the time period pertains to 2005 to 2007.
The time period chosen for the study is from 1999 to 2007 mainly because prior to 2000, the BPO Industry was at a very nascent stage. The number of Companies in the Industry and manpower employed was very few. There were only a few verticals where outsourcing in this Industry existed. However, with the turn of the Century, there was a mushroom growth of Companies entering into BPO services. Slowly, the performance metrics and business practices in the Industry gained a distinct identity becoming clearly separable from pure IT services. The scale of business as well as human resource absorption expanded in leaps and bounds.

1.5 LIMITATIONS OF THE STUDY

The major limitation of this study has been the hesitation and apprehension of this Sector to share information particular in the case of financial information. The high degree of internal competition has been one of the delimiting factors for the Industry to participate in a primary research survey of this kind. Another limitation of the study has been in terms of getting time from the employees of this Sector. As the pace of action in this Sector is very fast, it was difficult to get appointments with senior executives for personal interviews. Rigorous follow ups through phone calls and mails were essential for fixing meetings and also to get complete responses.

Further, due to the spread of the Industry, it was not possible to cover all BPO Companies in the Country. Also as there was a need to travel widely to invite responses or take interviews, a good amount of time had to be devoted for the purpose.

With respect to Secondary data, the major difficulty lay in identifying the macro level statistics of BPO Sector separately. The data of the IT and ITES-BPO Industry have both been clubbed in most cases at the macro level and hence conclusions could be drawn accordingly.

1.6 CONCEPTS RELATED TO THE BPO INDUSTRY:

Any Industry that is new relative to the others warrants a set a jargon and concepts which are typical to the Industry. The major concepts that need to be clarified are:
1. OUTSOURCING: This refers to the case when an Organisation enters into a contract with another organization to operate and manage one or more of its business processes. Usually these contracts get established between companies across countries. In simple terms outsourcing helps a Company ‘buy’ instead of ‘make’.

2. ON SHORING: When an Organisation outsources its work to another Organisation in the same country.

3. NEAR SHORING: When an Organisation outsources its work to another Organisation / Service provider in a neighboring country.

4. OFFSHORING: When an Organisation outsources its work to a producer/service provider located away from it or in a country which is far off

5. ITES: ITES stands for IT-enabled services. IT-enabled outsourcing can be defined as, those outsourcing services that use information technology in the processing and delivery of the service. Services are typically delivered through a telecommunications or data network, or other electronic media

6. BPO: BPO is the acronym for the term Business Process Outsourcing which refers to Outsourcing of all aspects of the work. BPO is the delegation of one or more IT-intensive business processes to an external provider that in turn owns, administers and manages the selected process based on defined and measurable performance criteria.

In other words BPO refers to transfer of business processes of non value-added functions such as accounting, human resource etc to an outside service provider, so that the Organization can focus on their core competencies and strategic activities that are critical to the Company’s success.

It is to be noted that BPO and ITES have been used interchangeably in the present study.

7. VERTICALS: Broad classification of the economic activities which get outsourced from a client company to a service providing company. Eg: Banking, Insurance, Healthcare services and Telecommunications.
8. **HORIZONTALS**: Processes that maybe common to one or more Verticals and are outsourced easily as they are not the core competency of an Organization. Eg: Finance and accounting (F&A), Customer relationship management (CRM), Human resource management (HRM).

9. **DESTINATION**: Location/Country to which work is outsourced.

10. **VENDOR**: Suppliers of services are often referred to in this business as Vendors.

11. **COST ARBITRAGE**: The advantage of saving on costs by outsourcing a service or a process.

12. **CAPTIVE**: A Company that sets up its Office in another Country which is usually a low cost Country in terms of labour. It does so without losing the major control of its operations and opts for outsourcing using the Captive Model. Usually Captive BPO’s cater to clients of their parent Company.

13. **THIRD PARTY**: In Company which sources services to another Company within a country or from another country but whose ownership is in the country of origin, is a Third party BPO.

14. **ATTRITION**: A reduction in the number of employees through retirement, resignation or death is called attrition. The BPO Sector uses the attrition rate as a tool to plan for its manpower needs.

A list of other terms used typically with reference to the BPO Sector is explained in Chapter 3 of the study which discusses the profile of the Industry.

1.7 **CHAPTER SCHEME**

The rest of the study is divided into the following chapters:

Chapter 2 is titled Outsourcing: A Theoretical base. This Chapter traces the theoretical basis of outsourcing in the study of international trade between different countries. It looks into the various changing perceptions and interpretations of trade between countries and eventually highlights how these theories can be extended to
trade in services, other than manufacturing sector alone. As outsourcing is one form of trade in services, this chapter draws a theoretical basis for outsourcing.

Chapter 3 is the Review of Literature on Outsourcing. This chapter is a description of the literature which covers different dimensions of the subject of study from the 'role of the service sector' till the 'challenges faced by the India in the outsourcing business'. The literature review covers several reports, white papers, articles and books which have been the result of some qualitative research on the subject. This chapter focuses on the area of research that has remained uncovered or has not been covered adequately, thereby leaving a gap in the field of knowledge. This chapter also highlights that the purpose of pursuing the present study is an effort to cover this gap within the given limitations of the researcher.

Chapter 4 titled Profile of the BPO Sector and concepts is descriptive in nature. It throws light on the politico-economic background of the development of the BPO industry in India since the eighties of the last Century. It also lists the Policy measures introduced in India during that period and thence, that have provided the foundation of the IT and ITES Industries.

Further, this Chapter gives a detailed description of the various verticals and horizontal classification of activities within each vertical that together constitute the BPO Sector. The different Ownership models prevalent in this Industry are also reviewed in some detail. A detailed list of Certifications that qualify a Service provider to be part of the BPO business is enlisted with description of their need. This chapter also highlights the place of the BPO Sector in the backdrop of India's macroeconomic indicators of growth.

Chapter 5 entitled 'Attrition – An empirical perspective', deals with the problem of attrition. It probes into and analyses the 'why' and 'how' of attrition.

Chapter 6 titled Human resource and BPO - An Analysis looks into the issue of human resource from different dimensions. It also reviews the relevance of 'Training' in the BPO Sector.

The last Chapter - Chapter 7, encompasses the entire study and concludes the study.
ENDNOTES

1 See Seth, 2006
4 Mattoo, 2004, here the Services sector has been reviewed from a sustainability perspective.
5 Prasad HAC, 2007.
6 This aspect has been discussed at length in Chapter 6.
7 A.T. Kearney’s 2004 Off-Shore Location Attractiveness Index. www.atkearney.com
9 Permission has been taken for publication where necessary.