CHAPTER-1

INTRODUCTION
1 INTRODUCTION, PURPOSE AND OBJECTIVE

1.1 Background

Globalization presents many challenges to existing businesses worldwide. Organizations realized that in order to survive and grow, they needed to have a sustainable competitive advantage and need to focus all their energies and resources on building this advantage. Prahalad and Hamel (1994) stated through their theory of core competence that companies should not try to be good at everything but should concentrate on their core competencies, leaving the rest to others who are best at doing that. Globalization also meant that companies had to be cost efficient. If you do not focus on costs, someone who is cost competitive will take away your customers by delivering the same value at a lower price. Thus, companies began to restructure their businesses in such a way to focus on their capabilities and make the process more cost efficient. As a measure to remain globally competitive, companies started outsourcing. Outsourcing has become the mainstay of today’s business reality. Employee skill sets and their consistent delivery capability is the corner stone of successful outsourcing setup. Along with the dynamic growth comes the challenge of keeping up the momentum and motivation among its employees. Human Resource Management plays a key role in the success of an outsourcing setup. This study aims to look at the various challenges and prevalent Human Resource practice in the outsourcing (ITeS-BPO) industry in India.

1.1.1 Concept and Evolution of Outsourcing

In the 1970’s, the outsourcing of the Information Technology (IT) function started to happen on a wider scale due to the high cost of processing. In the late 1980’, the information system ‘trade press’ first coined the term “outsourcing” to describe the growing dependence by firms on outside providers for on-going IT support. Today, the term is more widely defined as contracting for any of company’s recurring internal functions with outside vendors. The crux is that the vendor rents his skills, knowledge, technology, service and manpower for an agreed price and period to perform functions that the client no longer finds it beneficial to perform it himself.
The term outsourcing is used when firms contract manufacturing or services to third party vendors, either with in the country borders or offshore, who offers specified service for a particular period of time at an agreed price.

Outsourcing has existed for many decades in manufacturing sector, though outsourcing in services is a recent phenomenon. Services outsourcing occurs when organizations contract out services to a third party vendor either domestically or offshore. This is also widely known as Business Process Outsourcing (BPO), which in essence means the delegation of ownership, administration and operation of a business process or processes to a external service provider. The external service provider in turn manages and administers the process or processes in adherence to some measurable performance metrics. These services can be delivered domestically or from abroad. Outsourcing benefits from the key advantage of specialization. If a service or component can be more effectively provided by specialist than it can be handled in-house, then both the entities can focus on what they do best and continuously enhance performance (Adler, 2003).

1.1.2 Perspective on Outsourcing

Outsourcing has long been viewed as a “make versus buy” decision. Traditionally, this was the relative benefit derived in economic terms on a decision of making a particular component or service, against buying it. Management theorists believed that the competitive advantage can be maintained by identifying core and non-core functions and transferring the non-core functions to a specialist. These discussions evolved across time and gave birth to the concept of virtual organization, which essentially meant that the organizations should transfer non-core functions to a specialist and focus on its core functions. The management literature has often argued that non-core functions of a firm should be outsourced (e.g., Hamel and Prahalad, (1990, 1994); Venkatesan (1992), Quinn and Hilmer (1994). An organization, it is argued, should primarily concentrate on its core-competence areas, from which it benefits in terms of cost or a monopolistic advantage, and outsource the manufacture of other products. The words of Tom Peters, as quoted by Salvetti and Shell (1995) goes as "do what you do best, outsource the rest". Porter’s “value chain” concept, drawing on industrial-organization economics, encouraged decision makers to shift their focus from the cost of component to the profit
opportunity associated with the underlying activity and decide whether the user should be in the business of producing the part/service (Porter, 1980).

1.1.3 ITeS-BPO- Definition

The term IT enabled Services (ITeS) and Business Process Outsourcing (BPO) are often used interchangeably. However, strictly speaking, ITeS primarily involves outsourcing of business processes (domestic or offshore) that can only be packaged with IT. These services are delivered through a platform of telecommunication or data network or other electronic media. ITeS is therefore a subset of BPO. Although, usually BPO is associated with lower end call center work, there has been an evolution over the past few years in the outsourcing business to include higher end knowledge process outsourcing (KPO). This study for convenience uses ITeS as a broad term to include ITeS, BPO outsourcing and off shoring.

1.1.4 Classification of ITeS-BPO Services

ITeS-BPO can be classified in terms of the geographical reach. Offshore outsourcing is when the specialist services are contracted outside the company’s own country. Nearshore outsourcing is when the services are contracted in the neighboring country and onshore outsourcing is when the services are contracted within the borders of the company’s own country.

Yet another trend is on moving the work to the rural areas, where the overheads and costs are much reduced as compared to cities; this phenomenon is called rural outsourcing. Rural Outsourcing is the concept of utilizing the talent of professional people who choose to live in rural areas. By using rural outsourcing, company’s costs are reduced as people work for lesser wages, because the cost of living for them is lesser than the people who live in urban areas, or big cities. This is a great alternative to offshoring as the projects remain in one’s own country and still overall spending is reduced.

Call centers, which are an integral part of the ITeS-BPO industry, has emerged as the India’s new sunshine sector. These firms also handle a host of activities including responding to credit card enquiries, preparation of invoices, payrolls, cheques,
reconciliation of daily accounts, medical transcriptions, processing applications, billing, and collections (Babu, 2004).

The ITeS-BPO definition includes both voice – in-bound and out-bound – and non-voice services, which can include data entry and analysis, payroll generation, benefit administration and accounting functions (Srivastava and Theodore, 2006).

1.1.5 Rationale of ITeS-BPO

ITeS-BPO covers diverse areas like finance, HR, telecommunication, healthcare, administration, manufacturing etc. Equipped with technology and manpower, these services are provided from e-enabled locations. There is a substantial enhancement in service standards and radical reduction in costs. The ITeS-BPO processes migrated to India brings about a saving of around 40-60% of the cost (NASSCOM, 2002, 2004, 2006). Cost saving may vary from industry to industry and country to country, but most expert estimates ranges between 30-60% (Pagadala, 2004). The key source of India’s advantage lies in the labor cost differential (NASSCOM 2003) and the advancements in software technology along with the availability of a large pool of well-trained professionals who can speak fluent English (Chengappa and Goyal, 2002; Ramchandran and Voleti, 2004; Saini and Budhwar, 2004). The developments in the supporting infrastructure like telecom and internet has facilitated the process and contributed to the growth. The promise of cost savings will always remain fundamental. However, two important factors namely; adverse currency movements and wage inflation in India have contributed to reducing the operating margins of vendors. The Indian currency has significantly appreciated compared to the US dollar since 2002 — a trend that is likely to continue in the near future. The inflationary pressures on operating cost are also unlikely to relent; therefore it’s prudent to conservatively estimate the effective savings to be in the range of 25-40 % (Nasscom-McKinsey, 2005).

Although corporations continued to purchase non IT- enabled BPO services, in the last decade, the IT-enabled services in general and the ITeS-BPO services offshoring in particular, have witnessed the highest growth and attracted the most attention. IT enabled Services is thus a revolutionary IT offshoot which can look after a diverse range of outsourcing needs IT-enabled service has made it possible to carry out services and business process at a different geographical location other than where the actual
market or demand for such services exists. Due to the rapid progress in the field of internet and telecommunications infrastructure as well as data processing, these services can now be offered to clients from an offshore facility as well.

1.1.6 The ITeS-BPO as a Value Adding Proposition

The organization’s belief in value proposition provided by ITeS-BPO is demonstrated by the increasing number of global contracts and alliances focusing on outsourced service delivery. ITeS-BPO suppliers over and above reducing costs, provide expertise, assist in enhancing clients’ services, and increase the’ profits. The parties involved in a BPO relationship i.e. the client and vendor organizations need to comprehend mutual goals, capabilities and values before entering into an outsourcing partnership in order to take advantage of the arrangement (Feeny et al., 2005).

The relational view of outsourcing (Dyer and Singh, 1998) emphasize that to achieve a win-win situation, there is a need to have shared goals and mutual understanding of processes and decisions between the client and vendor organizations. The key element of the partnership is in the client understanding the vendor’s end of the BPO market. For example, issues such as HR, technology, and training may directly affect clients’ operations. The client is in a better position to negotiate contracts, make strategic decision about ownership, handle competition and build long term relationship with vendors if he comprehends the offshore BPO markets. For example, when global companies setup their own ‘captive BPO centers’ at offshore locations, the understanding of the dynamics of the BPO industry in such locations may be immensely valuable.

1.2 Contextual Framework of the Indian ITeS-BPO Industry

The changes in the Indian economy had a critical role to play in the development and prospering of IT sector and eventual percolation to BPO industry. The mixed economy approach followed by India up to 1991 did not provide the right environment to nurture entrepreneurship and competitiveness. The Indian economy based on a centralized approach hit the bottom in the year 1991. During that time India experienced a double-digit rate of inflation, decelerated industrial production, a very high ratio of borrowing to the GNP, and a dismally low level of foreign exchange reserves. The foreign reserves
were barely sufficient to cover the cost of three weeks’ imports. The foreign exchange requirements of the Indian government were met by pledging gold to the Bank of England. The multilateral bodies like World Bank and the International Monetary Fund (IMF) agreed to bail out India on the condition that it changed from a regulated regime to a “free market economy.” This dawned the new era of liberalization, where the government announced a series of changes in the economic policies starting with the devaluation of the rupee, followed by new industrial, fiscal, and trade policies. Control over the banking sector and foreign investments were eased and public sector underwent major reforms. After these reforms, the economy has become dynamic and vibrant, and foreign reserves have gone up significantly (Budhwar et al, 2006). The “outsourcing industry” had come to be viewed as the “primary engine of the country’s development over the next few decades, contributing broadly to GDP growth, employment growth, and poverty alleviation” (Srinivasan, 2006).

These reforms provided the trajectory for India to launch itself as a superpower in the ITeS-BPO industry in the early twenty-first century. The already established IT sector and availability of large number of technically literate English speaking people provided the right ingredients for this growth (Budhwar et. al, 2006). The large IT companies assisted the ITeS-BPO industry in expanding its base. The IT giants were able to offer a wide spectrum of services primarily leveraging on the broad skill sets and global clientele. There has been a remarkable improvement in the type of services being offered by Indian companies from the simple beginnings.

Presently, Indian companies are offering a range of services including customer care, medical transcription, medical billing services and database marketing, to Web/sales marketing, accounting, tax processing, transaction document management, telesales/telemarketing, HR hiring and biotech research.

According to NASSCOM Strategic Review 2011, ITeS-BPO is now the fastest growing industry in India. Today, India is considered as the “electronic housekeeper” of the world since most of the outsourcing services from India are typically provided by ITeS-BPO. The Indian ITeS-BPO industry has matured and grown across time (Babu, 2004). In just over two decades, the industry has grown to reach nearly US$ 59 billion in export revenues, employs around two million employees, and accounts for approximately 55 percent of the worldwide BPO market (NASSCOM-2011, Strategic
Review). There are around 784 Indian ITeS-BPO companies registered with NASSCOM (Singh et al, 2009). The main activities or areas covered by the Indian ITeS-BPO organizations include customer care, such as remote maintenance, help desk, and sales support; finance and administration, data analysis, medical transcription, insurance claim processing, and inventory management; HR and payment services including payroll, credit-card services, cheque processing, and employee leasing. In addition, the BPO industry has expanded into engineering and design, animation, market research, network consultancy and management, remote education, and content development (i.e., digital content, LAN networks, and application maintenance). BPO activities, where knowledge processing is required are on the increase. Some examples of KPO include intellectual property research, legal and medical research, R&D, analytical services like equity research, information security services such as risk assessment and management, bioinformatics (for example, genome sequencing, protein modeling, and toxicology studies) procurement and global trade (Ramachandran and Voleti, 2004; Singh, 2005a; Ravichandran, 2005; Christopher, 2005).

1.3 Contribution of ITeS-BPO to the Economic Growth in India

According to a NASSCOM study reviewing the impact of IT-BPO industry over a decade brought to light the multifold contribution made by the industry on the various social and economic parameters in India. The Indian ITeS-BPO industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation”(NASSCOM Impact Study, 2010). The intangible impact, which is equally significant, is the ripple effect created in the national and international economic space. The industry set the stage to unleash the hitherto untapped entrepreneurial potential of the middle class Indian and took Indian excellence to the global market.

1.3.1 Direct Contribution to the Indian Economy

The emerging role of ITeS-BPO industry in the Indian economy is well established. ITeS-BPO is considered as the fastest growing segment among the services sector, which in turn fuels the key economic indicators of the country. Some of the indicators where there is a direct contribution are:
(i) **Growing Share of the Country’s GDP:** The sector’s contribution to the Indian GDP has continuously increased. It grew from 1.2% in FY98 to an estimated 6.4% in FY2011. The industry contributed almost INR 15,000 crores in direct taxes (NASSCOM, Strategic Review, 2011). Additionally, the cascading effect of the sector’s operating and capital expenditure was estimated to be around USD 30 billion, while consumer spending effect from its employees amounted to INR 76,000 crores in FY2010.

(ii) **Growing Exports Boost the Foreign Exchange Reserves:** Exports comprise two third of Indian IT software and services revenue, with the ITeS-BPO share nearly 24 percent. It is one of the most important channels for bringing foreign currency into the country and accounted for almost 14 percent of the total Indian exports in FY2010. Its contribution to Indian exports (merchandise plus services) grew from less than 4 percent in FY1998 to almost 26 percent in FY2011.

(iii) **Enhancing The Image Of India In Global Market:** The ITeS-BPO industry has played a key role in transforming the image of India from a slow moving bureaucratic economy to a land of world class technology, business service providers and innovative entrepreneurs.

(iv) **Generating Employment Opportunities:** Direct employment in the industry is expected to reach nearly 2.5 million in FY 2011 and indirect job creation is estimated to be at 8.3 million. The direct jobs provided by the industry has been growing at a CAGR of 26 percent making it the largest employer in the organized private sector of the country. (NASSCOM, Strategic review 2011). The industry has played an important role in empowering a wide spectrum of human assets. – Out of the total employed in the industry 76 percent are less than 30 years of age, 4 percent come from economically backward section, over 45 percent of total employee constitute women, 60 percent of companies offer employment to differently-abled people and 58 percent of total employed are originally from Tier-2/3 cities (NASSCOM Strategic Review 2010).
1.3.2 Indirect Contribution to the Indian Economy

The growth of the ITeS-BPO industry has not only boosted the image of India in the global markets but also resulted in certain wider impacts and set the benchmarks for other sectors in the economy.

(i) Additional Employment Generation: It is estimated that 4 additional jobs are created in the economy for every 1 job created in the IT-BPO industry creating indirect employment opportunities. The indirect workforce include people working in housekeeping, providing transportation, security personal, catering staff etc. The employment created in the industry has social significance as nearly three-fourths of the workforce employed by major service providers to ITeS-BPO are SSC/ HSC or less educated.

(ii) Driving Growth of Other Sectors of the Economy: ITeS-BPO provides a multiplier effect of 2 to the other sectors of the economy through its non-wage operating expenses, capital expenditure and consumption spending by its professionals. According to a study by CRISIL in 2007 for every Re.1 spent by the IT-ITeS industry (on domestically sourced goods and services), translates into a total output of about Rs 2 in the economy. This is due to derived demand from capital and operating spends at firm-level and consumption spending by professionals employed in this industry, such as real estate, telecom and retail by creating demand for the output generated by these sectors. The IT-BPO employees spent almost INR 76,000 crore in different areas such as telecom, healthcare, textiles, media and entertainment, and consumer durables( NASSCOM, 2010)

(iii) Encouraging Balanced Regional Development: There has been a remarkable development in the social and physical infrastructure in the Tier 2/3 cities due to the spreading of operations by the ITeS-BPO into these cities. This has also contributed towards building the talent pool in these cities. The industry has played a key role in regional development with ITeS-BPO intensive states accounting for over 14 percent of respective state GDPs There is a 100 percent higher broadband penetration and 50 percent higher tele-density in ITeS-BPO friendly states, than the overall India average. The Tier 2/3 locations account
for 23 percent of all operational STPIs, along with 30 percent of all operational IT SEZs (NASSCOM Strategic Review 2010, 2011).

(iv) **Education**: There has been an increased spending on educational infrastructure to meet the ever growing demand, by the government and private players. ITeS-BPO majors are also undertaking training initiatives to improve student quality.

(v) **Enabling Wealth Creation and Asset Building**: The industry has played an important role not only in wealth creation for individuals but has also helped in supporting and sustaining extended households. The NASSCOM-Evalueserve survey shows that 77 percent of employees support their extended families, while 56 percent are the primary bread earners of their households. It has also contributed to asset building with almost 62 percent of the employees owning an automobile, 84 percent spend a portion towards housing (7 percent invest in real estate) and 42 percent employees are able to save more than 10 percent of their salary.

(vi) **Infrastructure and Other Amenities**: IT parks and townships are being built, keeping in line with the expansion/entry plans of major ITeS-BPO companies. The associated infrastructure roads, housing, retail and entertainment facilities are being improved or built.

(vii) **Fuelling Growth of PE/VC Fund**: The information technology sector kick started the Venture Capital (VC) activity in India and many India-centric funds have been created. Various other sectors, such as healthcare, manufacturing and financial services have also benefited as they are able to access this funding source. The ITeS-BPO continues to be the favorite sector and has attracted more than 10 percent of the FDI flowing into India. VC/PE firms have made investments of over 8 billion in India in 700 plus deals (NASSCOM, Strategic Review, 2011).

(viii) **Spurring First Generation Entrepreneurship**: First generation entrepreneur was a rarity in Corporate India as most of the business was controlled by large
families or multinationals. There was paradigm shift in this after the advent and growth of ITeS-BPO industry. The shift of focus from physical capital to intellectual capital and the advent of the PE/VC funding enabled a large number of first generation entrepreneurs with no capital to try their hand at starting new enterprises. The demonstrated success of these entrepreneurs gave confidence to the middle class and spurred them to exploit their potential with confidence. As per Software Technology Parks of India (STPI) data, 8455 units were operative as on March 09,(STPI Annual Report 2008-09) most of which are set up by first generation entrepreneurs. There were a lot of first-generation entrepreneurs who became billionaires in the process and the wealth created was distributed to stakeholders through stock option schemes. The practice of Employee Stock Option Plan (ESOP), started by the ITeS-BPO industry became popular in other industries as well. This process led to distribution of wealth among employees and created lot of salaried millionaires.

(ix) **Improving the Product/Service Quality Level:** As the ITeS-BPO companies were catering to and competing with global players required them to adopt quality standards. This high quality of services and products has been the drivers and sustainers of growth in the industry and has helped in improving the image of India from the typical low quality “mediocre” typecast. This has also raised the bar for other industries as well. Traditionally, India has been exporting low end, low-technology oriented products like gems, jewellerys and garments/apparels. With the advent of ITeS-BPO industry the world began to recognize that Indian products and services could also compete and win against global competitors on quality parameters. India is now also emerging as a research and development center for some of the large ITeS-BPO companies in the world, which is an acknowledgement of Indian quality. It is worthwhile to note that 30% of companies worldwide who have reached Level 5 of Capability Maturity Model Integration (CMMI) are Indian ITeS-BPO firms. Nearly, 75% of Fortune 500 and 50% of Global 2000 corporations source their technology related services from India with an increasing number of Multi-national Corporations (MNC) outlining their investment plans for setting up R&D operations in India (Palvia, 2010)
Impact on Employment Practices: The ITeS-BPO industry also consciously follows a diverse employment practice and encourages diversity in the workplace in terms of qualification, abilities, gender and skill sets. ITeS-BPO industry helps create employment opportunities in smaller towns/cities, promotes women empowerment and provides employment for differently-abled and non-technical persons thus creating higher growth opportunities for youth and the ‘out-of-the-mainstream’ candidate.

1.4 Growth of Indian ITeS –BPO Industry:

The Indian IT-BPO industry has evolved significantly over the past few years and has been a significant growth catalyst for the Indian economy. According to the recent estimates the Indian IT-BPO industry revenue is expected to reach USD 88.1 billion in FY2011 up from USD 73.9 billion in FY2010, registering an aggregate growth of 19.2 percent. Export revenues for the Indian IT-BPO industry is expected to grow by 18.7 percent and reach of USD 59.4 billion in FY2011 up from USD 50.1 billion in FY2010. The domestic segment grew by 21 percent to register revenues of USD 28.8 billion in FY2011 from USD 23.8 in FY2010 (NASSCOM, Strategic Review 2011).

Figure 1.1: Indian IT-BPO revenue break-up

According to NASSCOM the key drivers of the growth of the Indian ITeS-BPO industry are discussed below.
(i) **Abundant Talent:** The demographics are in favor of India as there is a large pool of young population, complemented by an educational infrastructure which churns out large numbers of English speaking talent. India’s graduate outturn has doubled in the last decade and the talent pool is expected to increase by almost 4 million in FY2011. The technical graduate outturn is expected to number around 7 lacs while non-technical graduate outturn is expected to cross 3.3 million. While India is ranked second in terms of the total number of graduates available annually, it has the largest number of ready-to-hire graduate pool.

![Indian Talent Pool available](image)

**Figure 1.2:** Indian Talent Pool available

(ii) **Continued Focus on Quality** – India’s leadership has been sustained by demonstrated process quality and expertise in service delivery. Moreover, many Indian ITes-BPO organizations have successfully adopted several global industry standards such as SEI-CMM, ISO, TQM, Six Sigma Quality, and COPC. Furthermore, with an increasing requirement for a secured environment, Indian ITes-BPOs are adopting standards such as ISO 17799, BS7799, COBIT, and ITSM.

(iii) **Sustained Cost Competitiveness (cost of labor, infrastructure cost and currency exchange rates):** According to an Everest study clients have reported significant cost savings in lines of about 65-80 percent as compared to
source location. India is capable of achieving this primarily because it has access to highly skilled and English speaking labor at relatively lower costs. The productivity levels of the Indian employee base are also significantly higher. The advantage in cost competitiveness is further reinforced by having a competitive infrastructure (e.g. Telecom). This is also when you compare with other competing low-cost countries such as Philippines, China, East European countries etc.

(iv) **Continued Focus on Quality**: India’s leadership has been sustained by demonstrated process quality and expertise in service delivery. Moreover, many Indian ITeS-BPO organizations have successfully adopted several global industry standards such as SEI-CMM, ISO, TQM, Six Sigma Quality, and COPC. Furthermore, with an increasing requirement for a secured environment, Indian ITeS-BPOs are adopting standards such as ISO 17799, BS7799, COBIT, and ITSM.

(v) **World Class Information Security Environment**: India provides an ‘info-secure’ environment to the clients. This is achieved by individual firm level efforts and complemented by a comprehensive policy framework established by Indian authorities. Some of the efforts done in this direction include strengthening the regulatory framework through amendments to the IT Act 2000, reinforcing the cyber law initiative, scaling up the National Skills Registry (NSR) and establishing a self regulatory organization.

(vi) **Rapid Growth in Key Business Infrastructure**: The reduced cost of international connectivity and increased service standards has helped the ITeS-BPO industry significantly. With critical business infrastructure such as telecom and commercial real estate well in place, the government needed to improve the other supporting infrastructure. STPI infrastructure available across the country played a dominant role in the emergence and development of the ITeS-BPO industry. The 100 percent tax holiday extended by the government under the STPI scheme also supported the extensive growth of this industry.
(vii) **Enabling Business Policy and Regulatory Environment:** The Indian government provided an enabling policy environment in the initial years which acted as the catalyst for growth. Post liberalization, the government encouraged foreign investments in this industry which not only provided the fill up in capital but also facilitated the transfer of knowledge and technology. The software technology parks of India (STPI) policy was established for promoting the export of software and services from India. Further in 2005, the Special Economic Zone (SEZ) Act made special provisions for the IT-BPO industry in order to aid the continuing growth of the industry. Due to this approach by policy makers the Indian ITeS-BPO industry has benefited by enjoying minimal regulatory and policy restrictions coupled with a broad range of fiscal and procedural incentives.

1.4.1 **Operational Structure of India ITeS-BPO Industry**

The Indian ITeS-BPO industry can be divided in six broad categories.

- **Captive Units:** These are units set up by MNCs and domestic companies to undertake work for the parent company.

- **Third-Party Vendors:** These are independently owned units that execute transactions and processes for multiple clients.

- **Joint Ventures:** This unit is setup in collaboration between an international BPO company and Indian BPO company partner.

- **Indian IT Software Companies owned:** These units are created and added to the service portfolio of Indian software companies (Progeon and Spectramind).

- **Global BPO Players:** These are global companies who have set up operations in India (for example, Convergys, EDS, Accenture, Aegis, EXL, Genpact and WNS).

- **Global Consultancies:** Global companies (such as Accenture), who have been advising their clients on outsourcing are now leveraging this experience into providing actual BPO service (Economist Intelligence Unit, 2002).

The most common form of ITeS-BPO operating in India is that of either Captive Units or the Third-Party Vendors (Budhwar et. al., 2006).
As proposed by Deery and Kinnie (2004) three ITeS-BPO working models can be identified — the highly Taylorized, mass production model which prioritizes call volumes, the professional services model which seeks to provide high quality individualized services and, in between, the hybrid mass customization model sharing features of both.

1.5 The HR Issues of ITeS-BPO Industry in India

About 200 personnel are hired every working day of the year by the Indian ITeS-BPO industry (NASSCOM, Indian IT-ITeS Industry Report, 2009). The sheer numbers being added has resulted into huge challenges for the HR managers. Initially the demand supply scenario was in favor of the companies, but intense competition has changed this scenario. From the approach of hiring anyone and everyone (due to shortage of manpower), the requirement presently is for professionals with more domain-specific skill sets and business analysts with programming skills.

The growing bulk of manpower has also brought in the set of human resource challenges, which needs to be addressed on an urgent basis. This is critical from business strategy point of view as 60%-70% of the total cost in a typical ITeS-BPO company is spent on labor. (TNO, 2001)

1.6 Major HR Issues and Challenges Confronted by Indian ITeS-BPO Companies

Listed below are the major HR issues and challenges that the Indian ITeS-BPO companies face today in their operations.

1.6.1 High Level of Attrition

Even though India enjoys a large talent pool in terms of students passing out from graduation and engineering schools, they are not typically ‘industry ready’ and not equipped with the skill sets that can be useful to the companies. This means that while there is plenty of supply at the entry level (voice processes), but there are huge demand-supply gaps in the middle management and senior management levels. This has lead to increased levels of poaching and attrition cases. Presently, the average attrition rate faced by this industry is somewhere around 30-35% as stated by NASSCOM. An
employee in the BPO industry generally ends up changing four to five jobs in a period of four to five years. The attrition rate in non-voice processes is significantly lower than voice processes. In the voice segment it is somewhere around 35-40 percent and in case of non-voice or data based activity is around 10% (Phukan, 2007).

### 1.6.2 Lack of Career Commitment

The other area of concern for HR managers is that most employees working in a call centers or ITeS-BPO setup do not see this industry as a serious or long-term career option. This was the outcome of a recent study conducted by NFO India, part of NFO World Group, and People Equity Consulting, a Bangalore-based HR consultancy.

### 1.6.3 Nature of the Job

The work processes are monotonous and do not provide a challenging work environment making it difficult to sustain interest in the long term. Employees work in isolation where work is de-skilled and allocated automatically using scheduling systems and is monitored and controlled by the management. The jobs in ITeS-BPO are typically characterized as 'dead-end' and offer few career prospects (Deery and Kinnie, 2004).

### 1.6.4 Mismatch of Expectations

Expectations mismatch leads to higher attrition, this is partly due to the perceptions created in the general public with respect to the career growth, type of work, compensations offered, competition, etc.

### 1.6.5 Communication Issue

Experts say that lack of effective communication is another contentious issue and this problem emerges due to large number of employees being part of the company. The absence of regular and effective two-way communication between agents, their immediate team managers and the senior management is one of the reasons for high attrition rates in the industry.
1.6.6 Generating Motivation and Increasing Efficiency

It becomes difficult to keep the motivation level of the employees considering the fact that the job is repetitive and routine in many ITeS-BPO operations. This is a huge challenge for HR managers. This is particularly important considering the fact that an important part of India’s value proposition as the outsourcing destination is based on productivity and quality - factors that critically depend on motivation.

1.6.7 High Training Costs

The ITeS-BPO companies usually impart three types of training: soft skills training, Pre-process training, Product, process and Helpdesk training. Start-ups will face a higher training cost initially as they need to outsource the voice/accent and soft skills training. The Process training in the start-ups is usually done by process trainers from the customers’ side and the BPO Company bears the expenses. However, on reaching a stable growth stage, companies are able to build up a resource base and avoid outsourcing. The training cost has grown by 45 percent as against total cost of one employee, which has grown by 190 percent according to NASSCOM reports. The Indian IT-BPO companies spend nearly INR 6,450 crore on training their employees. (NASSCOM, Impact Study, 2010). The HR managers have to continuously evolve career paths, motivate their employees and create a culture of oneness, which will act as a retention tool in future.

1.7 Significance and Need for Study

The importance of Human Resource Management (HRM) has increased in today’s ever dynamic and competitive business environment. Human Resource Management today has to play a more strategic and business partnership role. Every organization controls a portfolio of powerful tools, through which it can influence or seek to influence employee attitude and behavior. The Human Resource Management practices constitute an important subset of the above portfolio. According to Balaji (1984) the characteristics of the Human Resource mechanism have two roles to perform. First, they enable an organization to maintain its HR soundly. Second, organizations by and large, related with their employees through HRM mechanisms. Such relationship is direct and continuous during one’s tenure in the organization and career. Hence, the characteristics
of the HRM mechanism/practices are likely to affect the quality of an employees’ life in the organization.

It would be interesting to study the impact of the HRM practices in the people intensive ITeS-BPO industry in India, which is prone by several people related issues and a high attrition rate. This is more so relevant because ITeS-BPO industry is a people intensive industry as much as technology enabled and the employee is an organizations basic resource.

A number of constraints and challenges are already emerging such as there are questions being raised on the sustainability of the rapid growth demonstrated by the industry in the past, projected shortage of employees, high turnover rates and increasing mergers and acquisitions that is leading to industry consolidation.

ITeS-BPO firms are inherently more unstable than other manufacturing or services sector, because so much of the service or technology is embedded in the people, rather than in the processes or systems. As Noyelle (1991) notes the inventory of human resources goes home every night and may not turn up the next day leaving the firm with a major headache. It is therefore vitally important to have a committed and motivated workforce to be able to deliver on the targets and timelines agreed in the Service Level Agreements (SLAs) and contracts. This will enable the organization to become competitive in the marketplace.

Human Resource Practices can satisfy an employee’s need to feel comfortable in the work-relationship with the organization and can make him/her feel comfortable in the work environment. Through the HR Practices the organizations could convey to the employee that, every employee is vital to the organization and the employees’ commitment is solicited and valued.

The above mentioned issues are some of the unique and major challenges facing the Indian ITeS-BPO industry. Therefore, policy makers realize that addressing the emerging human resource issues is critical. The existing literature contains a few empirical studies conducted in India that highlight the nature of human resource management (HRM) systems relevant to the ITeS-BPO industry. Studying the available literature in public domain as well as in academic journals, the following employee related issues come to the forefront. They are;
• Lack of employee commitment seems to be an important problem for the ITeS-BPO industry in India.

• HR practices and policies contribute significantly in communicating the value an organization places on its people.

• Mismatch of employee and management expectations with regard to measures on performance, rewards and motivation

Organizations can support and implement initiatives that will directly contribute to increased satisfaction levels and commitment from the employees, while positively influencing the organizations and financial results of the company. In fact, Ostroff (1992) investigated the links between employee satisfaction and organizational performance and concluded that increased employee satisfaction heightens effectiveness. Many businesses are focusing on attracting, motivating and retaining their talent to remain competitive.

Companies should evaluate and understand what employees are looking for in an employer. It is important for organizations to understand the changes within the modern workforce and respond quickly with creative and applicable policies and programs in order to attract and retain top talent.

The rationale of this study is to explore the current workforce preferences on various workplace characteristics such as recruitment and selection practices, training and development trends, amenities, benefits and rewards in the ITeS-BPO segment in order to gain a better insight into today’s employee workplace priorities and to explore and highlight the kind of people management policies and practices adopted in these firms to address these challenges.

Such a study assumes significance due to the following reasons. They are;

• There have been few studies in the Indian context, which have examined the overall HRM practices. The few which have been undertaken have mainly examined one or few facets like recruitment, training, attrition etc.
Even in the West, the studies have been mainly focused on the organizational dynamics such as cyber sweatshops of Taylorized labor process, managerial dilemmas and resistance (Fernie and Metcalf, 1998, Taylor and Bain, 1999) stress, burnout and emotional labour (Deery, Iverson & Walsh, 2002), Control dimensions (Callaghan and Thompson, 2001), dichotomy of quantity or quality (Bain and Taylor, 2000) gender (Belt, 2002; Mullholland, 2002), monitoring and surveillance (Barnes, 2004) and training and development (Townsend, 2007).

The study will bring forth some of the people challenges faced by the Indian ITeS-BPO companies and identify the prevalent practices in HR such as recruitment, training, rewards etc. It will help practitioners to address specific practices to improve the work experience for the employees and academicians can identify further scope of research.

1.8 Conclusion

There is limited research evidence regarding HR practices in the Indian ITeS-BPO organizations. The rules about practices such as recruitment, training, promotions, and lay-offs are ad hoc and are subject to easy manipulation by employers (Venkata Ratnam, 1995; Sparrow and Budhwar, 1997). It is also important to note that social, cultural, economic, and political factors exert a strong influence on Indian HRM policies and practices (Budhwar and Sparrow, 2002). It can be observed that at times, selection, promotion, and transfer are based on ascribed status and social and political connections, so there is a strong emphasis on collectivism—family and group attainments take precedence over work outcomes (Budhwar and Khatri, 2001; Kanungo and Mendonca, 1994). Motivational tools are more likely to be social, interpersonal, and even spiritual. In such conditions, the employees’ orientation emphasizes personalized relationships rather than performance (Kanungo and Mendonca, 1994). All the matters discussed above suggest that Indian HRM systems are less formal and rationalized. On the other hand, multinational companies, adopt standardized global policies and practices in their subsidiaries around the world (Bjorkman, 2004). Given the industry’s rapid growth and the involvement of a large number of both national and multinational firms, and the significant impact of Indian ITeS-BPOs on the global economy, understanding the nature of the HRM systems of Indian ITeS-BPOs is critical.
Herein, we examine some issues germane to Indian ITeS-BPO firms, thus seeking to assess the status of HRM practices of Indian ITeS-BPO organizations. Specifically, we investigate the managerial and human resource challenges. We will also explore organizational changes that can be initiated to address those challenges and exploit those opportunities.

1.9 **Doctrine of Human Resource Management and Outsourcing**

This section defines the different terms and concept used in the present study

1.9.1 **Human Resources**

Bohlander and Snell (2004) describe human resources as a key resource like any natural resource. It does mean that management can get and use the skill, knowledge, ability etc. through the development of skills, tapping and utilizing them again and again by developing a positive attitude among employees.

1.9.2 **Human Resource Management (HRM)**

Sarma (2003) describes Human Resource Management as an approach to the management of people, based on four fundamental principles. First, Human Resources are the most important assets an organization has and their effective management is a way to its success. Second, this success is most likely to be achieved if the personnel policies and procedures of the enterprise are closely linked with, and make a major contribution to, the achievement of corporate objectives and strategic plans. Third, the corporate culture and the values, organizational climate and managerial behavior that emanate from the culture will exert a major influence on the achievement of excellence. This culture must, therefore, be managed which means that organizational values may need to be changed or reinforced, and that continuous effort, starting from the top, will be required to get them accepted and acted upon. Finally, HRM is concerned with integration, getting all the members of the organization involved and working together with a sense of common purpose. While Price (2003) defines Human Resource Management as a philosophy of people management which is based on the belief that human resources are uniquely important in sustained business success. An organization gains competitive advantage by using its people effectively, drawing on their expertise and ingenuity to meet clearly defined objectives. Human Resource Management is
aimed at recruiting capable, flexible and committed people, managing and rewarding their performance, and developing key competencies. According to Michael Armstrong (2003) Human Resource Management is a strategic and coherent approach to manage the organization’s most valued asset: people working there who individually and collectively contribute to the achievement of its objectives. However, Ashwathappa (2004) puts Human Resource Management as management functions that helps managers’ recruit, select, train and develop members for an organization. Another perspective presented by Ferrsi et. al (1995) on HRM is that it is a science and the practice that deals with the nature of the employment relationship and all of the decisions, actions and issues that relate to the relationship. In practice, it involves an organization’s acquisition, development and utilization of employees, as well as that employee’s relationship to an organization and its performance.

All the above definitions emphasize the importance of Human Resource Management in today’s business context. It also highlights the relevance of appropriate people management practices which will help bring out the best performance from an employee and consequently affect the organizational performance. Guest (1997, 1999) found that senior executives responsible for Human Resources believed that a positive relationship exists between high performance work practices and firm financial performance and productivity. Organizations design their human resource management systems to achieve variety of goals. Not only do HRM systems and practices serve to attract, develop and retain employees, they serve other significant organizational objectives and achieve desirable organizational outcomes such as increased productivity, overall firm performance and alignment to firm’s competitive strategy.

1.9.3 Outsourcing

Oxford Concise Dictionary of English, describes, Outsourcing as 'Obtaining goods etc. by contract from outside source'; contract (work) out. It highlights that one business firm is taking the service of the other either in acquisition of goods or services as may be to fulfill its needs without much efforts and developing its own physical facilities and without delay in process. A needy firm approaches the suitable firm and enters into contract for a work. The vendor firm renders services in the form of supplying goods and services by producing within its own source and supplies to the buyer firm. In return the buyer pays the agreed consideration and thus the contract is performed.
Likewise the World Bank defines “outsourcing” as “the contracting of a service provider to completely manage, deliver and operate one or more of a client’s functions (e.g. data centers, networks, desktop computing and software applications)” (World Bank E-commerce Development Report, 2003). Similarly, Evans (2006) refers to ‘Outsourcing’ as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. It is a strategy by which an organization contracts out, on a long-term basis, major functions to specialized and efficient service providers who become valued business partners. It is often defined as the delegation of non-core operations or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. It also includes management and/or day-to-day execution of an entire business function by a third party service provider. A common misconception about outsourcing is that it involves little more than a relocation of jobs. More than jobs, however, are affected by a company's decision to outsource. Competencies get outsourced, and for any organization, competencies are a combination of processes, people and attitudes. A related term, ‘Offshoring’, means transferring work to another country, typically overseas. Offshoring is similar to outsourcing when companies hire overseas subcontractors, but differs when companies transfer work to the same company in another country. Offshoring can be defined as relocation of business processes to another country, especially a country overseas. Offshoring can be seen in the context of either production offshoring or services offshoring. The economic logic in offshoring is the same as in the division of labor. In similar lines Ramachandran and Voleti, (2004) have defined outsourcing as “transferring certain value contributing activities, processes and/or services to the premises of one’s own or of an agent primarily to save costs and/or for the principal to increasingly focus on its areas of key competence”

1.9.4 Business Process Outsourcing (BPO)

BPO comprises of three different words, namely Business, Process and Outsourcing. Oxford Dictionary of English defines process as a continuous and regular action or succession of actions, taking place or carried on in a definite manner, and leading to the accomplishment of some results, continuous operation or series of operations. A process, truly speaking, transforms, converts, or takes care of inputs and finally delivers the output. Outsourcing is obtaining goods/services by contract from an outside source.
The outside source may be whither onshore (within the territory) or offshore (between countries). BPO involves the management of one or more business process or functions in a wide variety of areas such as, procurement, accounting, human resources, asset or property management by a third party, together with the information technology (IT) that supports the process or function. Outsourcing is nothing but allowing someone else to do your work for you so that you are able to devote your time to more important jobs. The work of the company is done by others on contract basis. Once the contract work is over, the agreement ceases to operate. For the service rendered, the contractor is getting consideration for its work. By this way, the company is benefited by costs, specialization, expertise, quickness and others. Normally the company keeps the core business activities whereas other providers of services render the other non-core activities. Similarly Click and Duening, 2005; Wullenkord, Kiefer and Sure (2005) define 'Business process outsourcing' (BPO) as the transfer of one or more business processes or company’s functions to external service providers to increase the outsourcing company's efficiency and effectiveness. BPO is thus posited as a strategic concept that aims to achieve a stronger competitive position for the customer company.

This definition expands the traditional understanding of outsourcing in two respects. First, complete business processes are transferred (rather than narrowly defined sub-processes). Secondly, the definition includes specific reference to the objective of enhancing efficiency and effectiveness; that is, the objectives of BPO are not limited to cost-reduction, but include wider aims in terms of the customer company achieving a higher level of value creation (Clements et al., 2004; Dittrich and Braun, 2004). Another well accepted definition presented by the Gartner (2003) defines BPO as the delegation of one or more IT-intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics.

Processes that are especially suitable for BPO have certain characteristic attributes; in summary, it is commonly asserted that BPO processes should:

- not belong to the company's core processes;
- not be of strategic relevance;
- provide minimal contributions to value creation;
represent large transaction volumes;

- be easily standardized; and

- be performed in a similar way across different industries

And finally Sharma (2004) defines ‘Business Process Outsourcing’ (BPO) as a broad term referring to outsourcing in all fields. It can be defined as ‘an organization entering into a contract with another organization to operate and manage one or more of its business processes.

1.9.5 Call Center

Call Center Association (1998) define a call center as a physical or virtual operation within an organization in which a managed group of people spend most of their time doing business by telephone, usually working in a computer-automated environment’. Further, Taylor and Bain (1999) define call centers as a dedicated operation in which computer-utilizing employees receive inbound or make outbound telephone calls with those calls processed and controlled either by an automatic call distribution (ACD) or predictive dialing system. While Call Center.net (2003) defines it as a physical environment dedicated to servicing and interacting with customers or potential customers. It is comprised of agents whose primary function is to handle inbound and outbound traffic via the telephone and other available channels.

Despite the use of multiple theoretical perspectives to study call centers, the services marketing approach has been dominant.

1.9.6 Recruitment

Sarma (2003) describes “Recruitment” as the development and maintenance of adequate manpower sources. It involves the creation of a pool of available human resources from which the organization can draw when it needs additional employees. In a similar vein Bohlander and Snell (2004) have defined recruitment as the process of locating potential applicants and encouraging them to apply for an existing or anticipated job openings. Further Rao (2000) defines recruitment as a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting the manpower in adequate number to facilitate effective
selection of an efficient workforce. Finally a very tactical definition coined by Ashwattappa (2004) defines recruitment as a process of finding and attracting capable applicants for employment. The process begins when new recruits are sought and ends when their applicants are submitted. It results in a pool of applicants from which new employees are selected.

1.9.7 Performance Appraisal

Heigel (1973) defines performance appraisal as a formal, structured system of measuring and evaluating an employee’s job related behavior and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization and society will benefit. Similarly Schuler (1982) defines performance appraisal as a formal, structured system of measuring and evaluating an employee’s job related behavior and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization and society will benefit. In another definition provided by Monappa and Saiyadaoin (2000) performance appraisal is described as a systematic and objective way of judging the relative worth or ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned task well and those who are not and the reasons for such performance. Further on Rao (2000) describes performance appraisal as a method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance. Performance here refers to the accomplishment of the tasks that make up an individual’s job. It indicates how well an individual is fulfilling the job demands. Often the term is confused with effort, but performance is always measures in terms of results and not efforts. Dessler (2002) definition of performance appraisal describes it as a procedure that involves (1) setting work standards; (2) assessing the employee’s actual performance relative to these standards; and (3) providing feedback to the employee with the aim of motivating that person to eliminate performance deficiencies or to continue to perform above par. A more recent definition presented by Sarma (2003) defines performance appraisal as a systematic evaluation of present and potential capabilities of personnel and employees by their superior’s or a professional firm from outside. It is a process of estimating or judging the value, excellent qualities
or status of a person or thing. It is a process of collecting, analyzing and evaluating data relative to job behavior and results of individuals. Likewise Aswathappa (2004) has defined performance appraisal as a systematic evaluation of the individual with respect to his or her performance on the job and his or her potential for development.

### 1.9.8 Compensation

In one of the earliest description of compensation Rynes (1987) presents compensation as a particularly important recruitment tool because (1) it is a vehicle of satisfying a wide array of human needs, (2) salary offers are expressed in clear and comparable terms, (3) starting salaries have implications for future salary progression and (4) pay systems” communicate so much about an organization’s philosophy, values and practices. Further Leap and Crino (1993) describe compensation as a broad term pertaining to the financial rewards received by persons through their employment relationship with an organization. Generally speaking, compensation is financial in nature because a monetary outlay is made by the employer. Linda Stroh, Gregory B., and Ann Neale Margret (2001) define compensation as the financial reward structures organizations use to compensate individuals for the work they perform for the organization. The above definitions were further made comprehensive by Gomez-Mejia et al. (2003) as he defines compensation as the “package of quantifiable rewards an employee receives for his or her labors. It includes three components; base pay, incentives and indirect compensation /benefits. And finally Deb (2009) defines compensation as the system of compensating individuals for the work they perform in such a way that the organization is able to attract, retain and motivate them to perform well keeping in view the organizational and market factors

### 1.9.9 Benefits

Dessler (2002) defines benefits as any supplements to wages given to employees. They may include health insurance, life insurance, vacations, pension, profit sharing, education plans, discounts on products etc.

### 1.9.10 Training and Development

Manpower Services Commission (1981) defines training as a planned process to modify attitude, knowledge or skill behavior through learning experience to achieve effective
performance in an activity or range of activities. Its purpose, in the work situation, is to
develop the abilities of the individual and to satisfy the current and future manpower
needs of the organization. Later Randall and Schuler (1989) described training and
development as any attempt to improve current or future employee performance by
increasing an employee’s ability to perform through learning, usually by changing the
employee’s attitude or increasing his or her skills and knowledge. The need for training
and development is determined by the employee’s performance deficiency, computed as
follows; Training and Development Need = Standard Performance – Actual
Performance.

Blanchard and Thacker ((2004) define Training as the systematic process of providing
an opportunity to learn (Knowledge, Skills and Attitudes) KSA’s for current and future
jobs; development refers to learning of KSA’s

1.9.11 Stress

Lazarus and Folkman (1984) define stress as a “particular relationship between the
person and environment that is appraised by the person as taxing or exceeding his or her
resources and endangering his or her well being”. From a different perspective Debra
Nelson and James Quick (2002) describe stress or the stress response, as the
unconscious preparation to fight or flee that a person experiences when faced with any
demand. Finally Greenberg and Baron (2008) describes stress as any demand, either
physical or psychological in nature, encountered during the course of living

The above definitions help to understand the standard and accepted description of
various HR practices in the business context. It helps establish a common understanding
of the HR processes and practices, which are studied and discussed in the context of the
Indian ITeS-BPO industry. The implication on each HR process and practice in this
industry is discussed in detail in the following chapters.