Chapter 1

INTRODUCTION

This chapter deals with the various aspects of the study, which is being undertaken and covers topics like the background of the study and important definitions used in this study.

1.1 Background of the study:

1.1.1 Introduction to Indian Economy:

In 1990s, India came to the forefront as the fastest growing economy. The credit for this growth goes to the emerging Service Sector of India. The growth of service sector has contributed in a major way to the liberalisation and reform policies of 1990. (1) From 2004 to 2011, the Indian Service Sector has shown a growth of 10% on an average, it slowed to 8.2 % in 2011-2012 and further to 7.1 % in 2012-2013. But even so it was much better than other two sectors, agriculture and Industry. It is contributing to about 60 % of Indian GDP. (2) The phenomenal growth in India’s IT software and services sector and India’s leading position as an outsourcing destination, has remained one of the major components of the Indian Services Sector Growth.

1.1.2 IT and ITES Industry in India:

The IT and ITES industry has changed India’s Image on the international stage. It has stimulated the higher education sector and is the main contributor for economic growth. By employing more than 10 million people the sector has fuelled social transformation in India. Indian firms from various sectors have made their business processes effective and efficient with help from companies working in IT and ITES sector in India. (3)

IT services, ITES-BPM and Hardware Segments are the three main categories of Indian IT and ITES industry. (1) According to Confederation of Industry report titled “THE SMAC Code – Embracing New Technology for Future Business”, the Indian ITES- Business Process Outsourcing (BPO) industry is expected to cross US $225 billion by 2020. But still India’s share of the total
IT industry’s share (including Hardware) in the global market is only 7%. In pure IT services it is 4 percent while in ITES it is 2 percent.\(^{(3)}\)

**Fig. 1: Evolution of India’s IT sector:**

![Evolution of India’s IT sector](image)

**1.2 Introduction to the Outsourcing:**

**1.2.1 History:**

Till 1800 and the early 1900, industries across the world were running on the principle of self-sufficiency. The complete work was done in the company itself. In the late 1900s, subcontracting of smaller parts to specialists was started by companies. By 1970 the trend of outsourcing of non-core services like accounting, payroll, billing and word processing was established. This trend was more common in the western world.\(^{(4)}\)

The new millennium brought in improved technology and revolution in the communication. It is now very easy to communicate rapidly over long distances with great efficiency. As a result of this Information Technology,
Design Engineering and Call Centers became the newest items to get outsourced.\(^{(4)}\)

### 1.2.2 IT Services Outsourcing:

There were two main reasons for the rise of IT services outsourcing in 1990s. The first one was the availability of competent manpower at comparatively lower rate and the second was the shift in the strategy of business by companies to focus on Core Competency. Eastman Kodak was the first company to shift complete Information Systems (IS) function to IBM, DEC and Business land in 1989. It created a lot of excitement in the IT industry, as this was the first time that such a big organisation have outsourced a strategic function to a third party. This has become famous as “Kodak Effect”. After this lot of small and big organisations started outsourcing the IS functions. \(^{(5}\) pg.2)

### 1.2.3 Business Process Outsourcing:

IT services outsourcing gave confidence to other companies to outsource few more business processes. These processes were IT-enabled and could be delivered through IT infrastructure. So it was possible to offshore outsource these processes to low cost destinations like India. So the late 1990s experienced another wave of outsourcing Business Process Outsourcing. It provided numerous advantages to the client companies like cutting down the cost by outsourcing the work to low cost destinations and increasing the operations without risking the quality of work. The outsourcing of processes also involved the risks like losing control over service provider, losing control over the business process outsourced, measuring the performance of the service provider and keeping up the morale of the employees when a few services were getting outsourced. Some organisations also had to experience the failure in the outsourcing of business processes. But over a period of time the client organisations as well as service providers become more mature and the Business Process Outsourcing (BPO) become the routine part for companies \(^{(5}\) pg.3)
1.2.4 Moving Up the Value Chain:

After looking at the success of outsourcing of Business processes companies started to think of moving up the value chain. It gave rise to outsourcing of knowledge processes. The Knowledge Process Outsourcing (KPO) Industry started flourishing by 2000. The BPOs have process expertise whereas the KPOs have a business Expertise. KPOs carry out highly complex and customised processes which demand domain expertise and advanced analytical skills. The value and knowledge provided by the experts at low cost was the main attraction for KPOs. The KPOs offered sustainable advantage to its clients by providing the complete business knowledge. Thus over a period of time outsourcing has become part of the overall business strategy of organisation. \(^{(7)}\)

1.2.5 Outsourcing and India:

The success of India’s ITES- BPO revolution is hidden in the modern management history. During the 1990s, the western corporate world was motivated by C.K Prahalad’s Core Competency Theory. The theory argued that the companies should focus on their core competencies and have a competitive advantage. The theory was very simple and attractive. Large corporations could see positive results of the same in their operational efficiencies. This fuelled the idea of outsourcing in a big ways. Also outsourcing to developing economies offered a big savings option without compromising on the quality of work. \(^{(6)}\)

This triggered the outsourcing of IT and ITES to India, a country with abundant skilled manpower at a comparatively cheap cost. The BPO trend started with few multinationals like GE, British Airways and Citibank setting up their offices for Back Office operations and customer interactions processes in India. These Captive centers have balanced the risk of outsourcing with the cost reduction advantage. The world started looking at India as low cost outsourcing destination after the success of these few captive units. Over a period of time the BPO segment growth happened because of the entry of Third Party Outsourcing companies offering services to external clients. This was followed by the entry of large international BPO companies. In the recent
years IT majors like Infosys and Wipro also started their own BPO operations. India can dominate the BPO domain due to its sustained cost advantage and the value proposition offered. Today India has moved up the value chain to become the preferred destination for KPO industry also. (5 pg.3)

1.3 Definitions of Key Terms Used in the study:

1.3.1 Process:
- As per the Oxford Dictionary, “Process means a series of actions or steps towards achieving a particular end.” (Tenth edition Pg. 1139)

1.3.2 Business Process:
- In the book, “Global Service Outsourcing”, Ronan McIvor defines Business Process as “A collection of activities that takes number of inputs and creates an output”.
- Davenport (1993) defines business process as, “A structured, measured set of activities designed to produce a specific output for a particular customer market.
- Jacobson (1995) describes business process as, “The set of internal activities performed to serve the customers.”

1.3.3 Knowledge Process:
- Definition proposed by the researcher: A business process which is non-codified and complex in nature requiring domain experts to perform it is a knowledge process. In this process the output for the same set of input will be dependent on interpretation and judgment of the person performing it.
- As per KPO experts, knowledge process can be defined as, “A high value added processes chain where the achievement of objectives is highly dependent on the skills, domain knowledge and experience of the people carrying out the activity.”

1.3.4 Outsourcing:
- As per the Oxford Dictionary, Outsource means, “Obtain by contract from an outside supplier” (Tenth edition, Pg. 1013)
• In the book Global Service Outsourcing, Ronan McIvor defines Outsourcing as, “The use of external vendor to provide products or services previously provided by internal business functions”.

1.3.5 Business Process Outsourcing:
• In the book Global Service Outsourcing, Ronan McIvor defines Business Process Outsourcing as, “It involves the vendor taking responsibility for executing business process and delivering it to the client as a service”.

1.3.6 Knowledge Process Outsourcing:
• Definition proposed by the researcher: “KPO involves the vendor taking responsibility for executing a knowledge process and delivering it to the client as a service through trained resources.”
• As per Larkey (2006), “Knowledge process outsourcing refers to performing high end knowledge or judgment services.”
• Knowledge Processing Outsourcing (popularly known as a KPO), calls for the application of specialized domain pertinent knowledge of a high level.

1.3.7 Growth Potential:
• In this thesis the term, “Growth Potential” is considered as Market Potential. As per Kotler “Total market potential is the maximum amount of sale that might be available to all the firms in an industry during a given period under a given level of industry marketing effort and given environmental conditions.”

1.3.8 Economy:
• As per the Oxford Dictionary, Economy means, “the state of the country or region in terms of the production and consumption of goods and services and supply of money.” (Tenth edition, Pg. 453)

1.3.9 Technology:
• As per the Oxford Dictionary, Technology means, “Application of scientific knowledge for practical purpose.” (Tenth edition, Pg. 1471)
In the book, “Global Services: Moving to a level playing field”, Mark Kobayashi Hillary and Dr. Richard Sykes states “Within business and corporate structure, technology normally refers to the process of taking something into the company and generating an output.”

1.3.10 Simple technology:
- **Definition proposed by the researcher:** A simple process based on basic platform requiring basic business competency and used for normal data support analysis.

1.3.11 High Technology:
- **Definition proposed by the researcher:** A more complex process based on advance technology platforms requiring domain or technical competency and related to advanced decision making analytics or analysis.

**References:**
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11. Indian Knowledge Services Outsourcing Industry, Creating Global Impact, A report by Nasscom and CRISIL.