Chapter- 1

BPO SECTOR IN INDIA

INTRODUCTION

Over the past few decades, organizations across the world have been facing increasingly de-regulated national economic conditions and a simultaneous rise in global competition. This has translated into tremendous pressure for maximizing productivity and profitability. In such a context, outsourcing offers a compelling advantage and has become a key strategy pursued by organizations worldwide. Outsourcing has therefore emerged as an imperative for competitive success and is one of the most powerful trends reshaping the management of contemporary organizations.

Defining business process outsourcing

Business process outsourcing (BPO) refers to the delegation of one, or more, information and communication technology intensive business processes to an external service provider who in turn manages these processes as per some pre-defined and measurable criteria (Ghosh & Scott, 2005; Stone, 2004). The organization pursuing the outsourcing of its business processes is referred to as the outsourcing client firm while the one operationalizing the process is called the outsourcing vendor.

Evolution of the Outsourcing Concept

Well known scholars (Domberger, 1998; Kern & Blois, 2002) see outsourcing as an evolution and natural continuance to Williamson's (1975, 1979, and 1981) and others work on contracting and transaction cost economics. Williamson argued that if using the markets resulted in lower transaction costs than performing an activity internally, it should be contracted out. These ideas date back as far as to Coase (1937), who suggested that transactions should be
organized within a firm when the cost of doing this was lower than the cost of using the market.

The ideas of Coase and Williamson on the transaction cost theory are often referred to as the key ideas behind outsourcing. While a number of researchers consider outsourcing as a development of transaction cost thinking and the consequent make-or-buy decision, some scholars (Embleton & Wright, 1998; Loh & Venkatraman, 1992) have argued that contracting out could not be used as a synonym for outsourcing because, outsourcing entailed a long-term relationship with a high degree of risk sharing, whereas contracting out referred more to work conducted by an outside supplier on a job-by-job basis, cost saving being the only criterion.

Outsourcing as a phenomenon is not new. It was used by manufacturing firms in the late 1970s and modern industrial history refers to it as “sub-contracting”. However, it was in the early 1990s when outsourcing really started gaining momentum as a result of some key contributing factors. The seminal article titled “The core competence of the corporation” by Prahalad & Hamel (1990) introduced a new management approach to replace the strategic business unit (SBU) thinking. As it increasingly became acceptable that core activities should stay in-house, while non-core activities are outsourced (Mullin, 1996; Prahalad & Hamel, 1990), the greater was the attention given by organizations for identifying their core competencies. As suggested by May (1998), the identification of core competencies required an assessment of the contribution of every activity to be undertaken in an organization to decide whether:

- it had a direct effect on satisfying customers’ needs;
- outsourcing would achieve comparable quality at a lower cost;
- re-allocation of resources to other activities would earn a superior return; and
- other benefits might arise from outsourcing, such as:
✓ Lower inventory cost,
✓ Reduced management time, and
✓ Improved production flow.

The management ideology of “focus on your core competence, and outsource the rest” (e.g. Porter, 1996) started gaining popularity in various industries. With a sharper focus on core competencies, companies started outsourcing functions that were not in the area of their expertise.

The emphasis on re-engineering was another development that brought management attention to the savings that could be achieved by re-organizing their business processes. Re-engineering involved embarking on a search for newer ways of organizing the various elements of work and helped decompose, examine and standardize the activities needed to complete a process (Hammer & Champy, 1993). This was often accompanied by digitization of at least some portions of the entire process. The electronic digitization of a business process increasingly permitted changing its geography of provision. As Orlíkowskí (1996) demonstrated, digitization induced work to be reorganized in the direction of dividing workflows into tasks that were separable in terms of technical skills and interactivity.

By the turn of the millennium, the popularity of outsourcing had led to the situation where outsourcing was no longer a competitive differentiator; it had become a norm rather than an exception (Lawton & Michaels, 2001). Global access to vendors, falling interaction costs, improved information technologies and communication links provided organizations a possibility to restructure their businesses (Doig, Ritter, Speckhals & Woolson, 2001). Achieving cost efficiency was no longer the sole motive of outsourcing. Rather companies started to seek external skills, competencies and knowledge to provide value to more complex and strategically important organizational processes. In contrast to traditional outsourcing, more strategic functions were now being outsourced. The global resource pool had become available for all companies, regardless of their size, industry or geographical location. Thus the objective of outsourcing has gradually
progressed from being a mere cost-saving initiative to one that is adopted for realizing process improvements, managing risk and enhancing efficiencies.

**Theoretical approaches to outsourcing decisions**

In general, three theoretical approaches have been used to explain why companies make outsourcing decisions: (1) Transaction-cost theory, (2) The competence-based view, and (3) The relational view.

**Transaction-Cost View:**

The transaction cost theory, introduced by Coase (1937) and developed by Williamson (1975), assumes that transactions are determined by production economics and organizations are economic actors using the most efficient mechanism for transactions. At the heart of the transaction cost economics (TCE) theory is the notion of “make-or-buy.” Should a firm carryout business activities in-house or should it outsource? In facing this decision, firms balance the savings made in production costs (“make” decision) against the transaction costs associated with outsourcing. Transactions occur during three stages: contact (e.g., search costs), contract (e.g., the cost of writing monitoring, and enforcing a contract), and control (Gurbaxani & Whang, 1991; Nooteboom, 1993). Further, transactions include three dimensions: frequency of transactions, uncertainty, and degree of asset specificity. A firm will outsource its business processes if all the three dimensions of transactions are low (Mahnke, Overby & Vang, 2005).

Thus from the Transaction Cost perspective, the primary objective of a firm is to economize on the transaction costs through the selection of appropriate governance structures for handling its transactions (Tsang, 2000). This approach advocates that the contracts between the client and vendor must be detailed and specific to avoid opportunism and performance measuring problems (Lacity & Willcocks, 1998; Poppo & Zenger, 2002). However such formal and highly specific contracts may lead to distrust and opportunism (Ghoshal & Moran, 1996). The transaction cost view has been criticized for its emphasis on over-specification that fosters rigidity and distrust among vendors.
**Competence-Based View:**

The competence perspective is based on the firm’s resources and capabilities. Barney (1991) specified that a firm’s competitive advantage is derived from those capabilities that are unique, valuable, inimitable, and non-substitutable. These capabilities constitute the core competencies of the firm (Prahalad & Hamel, 1990). According to the competence-based approach, a firm may outsource activities other than its core competencies (Quinn & Hilmer, 1994). For example, a firm should outsource its information technology activities if information technology is not part of its core competencies (Gilley & Rasheed, 2000). Recently, firms have started outsourcing even some of their core processes and activities in order to maintain a competitive edge. This is being done with the objective of accessing critical resources needed to improve organizational performance. In view of this, the competence based perspective of outsourcing is considered incomplete.

**Relational View:**

The inadequacies of the transaction-cost and competence-based views have brought about the relational view that draws from both the transaction cost and competence-based approaches. This relatively new perspective focuses on creating value through different forms of partnerships. According to Dyer and Singh (1998) “relational rents” are created when partners share, combine, or invest their assets, knowledge, or capabilities, or employ effective governance to lower their transaction costs or improve synergies. Thus, a firm will outsource only if the vendor-client relationship offers relational rents generated through inter-firm exchange or sharing of knowledge, capabilities, and assets. This view may be particularly relevant in case of Business Process Outsourcing where the firms may be mutually interdependent, and may have to share valuable knowledge with vendors to gain access to their knowledge bases (Mahnke, Overby & Vang, 2005).

Building on the above theoretical approaches, research (DiRomualdo & Gurbaxani, 1998, Heikkilä & Cordon, 2002; Kakabadse & Kakabadse, 2002;
Quélin & Duhamel, 2003) has identified the following three as the primary motives for outsourcing:

i. The first of these is cost savings, which includes the lowering and controlling of operational costs and freeing of resources for more profitable business units.

ii. The second relates to process improvement, and the need to concentrate on core competencies in order to gain flexibility through internal reorganization, to accelerate projects, reduce the time to market, gain access to a flexible workforce, and to sharpen the business focus.

iii. Capability enhancement is the third driving factor and includes obtaining access to resources unavailable internally (including highly skilled labour), compensating for the lack of a particular expertise and gaining access to new technology.

**Offshoring Business Models**

Offshoring business models can be classified into the following broad categories based on the dimensions of ownership and location.

**A. Based on ownership : Captive versus the Third party models**

The captive model refers to an offshore center that is owned and operated by the offshoring organization while the third-party units are those which serve the requirements of several organizations.

The captive model is chosen when a company decides to set up its own subsidiary abroad in order to retain complete management and operational control, greater integration with the parent organization along with the benefits of offshoring (e.g., access to cheap labour and human talent). For instance, when an American company establishes its subsidiary in India and sends its business processes to India, it is following the captive offshoring model. The typical firms
that choose this option are large multinational firms. Fidelity, Accenture, Convergys and Tesco are examples of organizations using the captive model.

Captive offshoring satisfies the persistent concerns about intellectual property (IP) and data security in outsourcing. It offers the opportunities for building domain knowledge globally and the prospects of driving standardization and re-engineering without potentially conflicting commercial interests. However, many captive units have not been able to achieve economies of scale for their shared and support services, nor could they spread fixed costs across multiple clients. Consequently captive units are reported to be 10-20% more expensive than outsourcing services to third-party companies.

B. Based on location: Onshore, Offshore and Near shore models

Onshore outsourcing refers to outsourcing to a domestic vendor whereas offshoring refers to the process of sourcing any business task, process, or function supporting domestic and global operations from abroad, in particular from lower cost emerging economies. The strategy behind an offshore outsourcing is based on creating value through low cost and freeing up capital that can be used for other critical areas. For an increasing number of organizations, reducing labour costs is no longer the only consideration behind offshoring decisions. Accessing pools of highly skilled talent around the world (Bunyaratavej, Hahn & Doh, 2007; Farrell et al., 2006; Lewin & Peeters, 2006) has emerged as a new key strategic driver. Although it requires practice to enhance this model, which includes effective management of relationships with offshore service providers, an offshore outsourcing can bring sustained cost savings. Companies such as Hewlett-Packard, Dell, and General Electric, to mention a few, were the early adopters of offshore outsourcing practices to India.

Near shore outsourcing which is emerging as a significant option within the global outsourcing strategy involves outsourcing work to companies with the economic benefits of an offshore location, but a closer cultural, linguistic and geographic fit with the user organization. In this arrangement, the outsourcer expects to benefit from one or more of the following constructs of proximity:
geographic, cultural, linguistic, economic, political or historical linkages, education and people, infrastructure, security and time zones. Besides, local professionals are more in tune with geography-specific legislative and corporate issues, giving them an edge.

Indian organizations are also increasingly setting up their near shore delivery centers on foreign grounds. Infosys BPO has opened centers in Brno, Prague while Tata Consultancy Services has set up centers in Brazil, Uruguay, Hungary, Luxembourg, Chile, Singapore, Australia and Japan. Likewise, Wipro has set up fifteen overseas delivery centers.

**Types of processes being outsourced**

Gathered under the ITeS (Information technology-enabled services) or Business Process Outsourcing (BPO) acronym are both voice (inbound and outbound) and non-voice services, which can include for instance, data entry and data mining services; on-line and telemarketing services; back-office functions like accounting, payroll processing, billing, collections, benefits administration, travel, logistics, purchase and disbursement, and human resource management; technical support and help desk services like software code writing, Information Technology maintenance, and applications development; tax preparation, insurance claims processing, document management, securities underwriting and complex business processes such as content development, design, research, and analytical and advisory services.

**EVOLUTION AND FEATURES OF THE BUSINESS PROCESS OUTSOURCING SECTOR IN INDIA**

In the early 1990s, pioneering decisions were taken by organizations from the United States, notably GE Capital, British Airways and American Express, to migrate certain back-office processes to India (Nasscom, 2002; Taylor & Bain, 2003). The seeds of business process outsourcing industry were planted by these multi-national corporations by starting up their operations in India. The success of these models fueled other organizations to seriously explore this opportunity which catapulted India as the Business Process Outsourcing (BPO) destination of the world.
Key drivers of the business process outsourcing sector in India

The Indian business process outsourcing industry has grown at a rapid pace due to a set of driving factors that have converged to enable the shifting of work to its lowest cost and highest quality provider regardless of the providers’ physical location.

The key drivers of off-shoring to India have been:

1. Labour Arbitrage:

This is defined as the ability to pay one labour pool less than another for accomplishing the same work, typically by substituting labour in one geography for labour in a different locale (Simonson, 2002). Services are, by nature, highly labour intensive, making human capital their highest cost factor. Relocating part of their business process to low labour cost countries is thus financially very attractive for organizations.

The cost advantages of off-shoring to India are significant. As per the 2010 NASSCOM-Evalueserve report, companies in the United States of America and Europe saved $ 25 to $ 30 billion in 2009 alone on account of outsourcing their work to Indian companies. This is due to the fact that it costs less than US $ 7,500 per year to hire a call center agent in India (cost to company) as compared to US $ 19,000 in the United States. The potential savings in costs remain the single biggest attraction for offshoring processes to India. Data-Monitor’s 2004 report gives a perspective by furnishing a comparison of an inbound voice agent in the United States of America who was priced at the rate of $27 per hour and paid $10 an hour, whereas an equivalent Indian inbound voice agent was priced at the rate of $13.25 per hour and paid $1.20 an hour (Data Monitor’s report: DMTC 1036, August, 2004).

According to a McKinsey Study, if a bank shifts the work of one thousand people from the United States to India, about $18 million can be saved annually (Budhawar, Varma, Singh & Dhar, 2006).
Despite continuous wage inflation, Indian employees would continue to be more cost competitive than their counterparts in the western markets for the foreseeable future. Additionally, the quality of service from India is perceived to be better because of a higher educated workforce than in the United States or United Kingdom for a similar occupation.

The objective to cut costs and shift certain activities to outside suppliers has also been fuelled by the constraints imposed on organizations by the operation of their own internal labour markets. Internal equity considerations, for example, tend to limit the ability of organizations to revise wage differentials and introduce low paid activities into an established employment system without adversely affecting employee morale or inviting union opposition (Baron & Kreps, 1999; Pfeffer & Baron, 1988). Accordingly, moving work outside permits an organization to take advantage of low market wage rates without violating internal equity constraints (Abraham, 1990).

2. Enabling Technologies:

The internet has enabled the movement of value creation activities to remote low labour cost locations all over the globe. This has resulted in both transaction cost and production cost efficiencies.

The telecommunications infrastructure too has a major role to play in giving life to business process outsourcing. Fiber-optic cables span oceans and continents, low-earth orbit satellites provide streaming images, data and voice to the most remote locations. As a result, it costs just a little more to have a customer call India on a toll free number than it does to make the same call in the United States.

Digital technologies have helped loosen the spatial constraints and helped divide workflow into tasks that were separable in terms of technical skills and interactivity. Consequently, any activity not requiring a physical presence can be undertaken in almost any place that is connected. Today’s industrial strength scanners can digitize documents at the rate of 200 pages per minute, with digitization occurring through conversion into an image file. These digitized documents can be viewed anywhere in the world on a computer that has a high
speed telecommunication connection, eliminating the necessity of shipping the paper version.

Another technological development that has facilitated off-shoring is the increasing use of standard software platforms in corporate information systems. The success of software packages for database control on mainframes and workstations, such as IBM or Oracle for financial data, PeopleSoft for Human resource management, Siebel for customer relations, and Systems, Applications and Products in data processing (SAP) for the supply chain mean that firms offering outsourcing had to make less customer specific investments. This standardization was partially due to the concerns firms had about Y2K, which led them to replace their legacy systems with standardized packages.

One hazard of shifting work to a third party is the potential loss of organizational learning. When a process is executed internally, the organization’s employees handle the related transactions and over time are able to discern trends. When these transactions are no longer executed internally, there is a potential for this vital learning to be lost. With the elimination of barriers to data storage resulting in nearly infinite data storage capacity, each transaction that occurs remotely can be stored for independent analysis. Sophisticated analytic software can then be used to reveal customer or competitor patterns, thereby preserving and even enhancing organizational learning.

3. The English Speaking Talent Pool:

The talent pool with large levels of English language competence, expertise in mathematics, science and engineering and its unique demographic profile, with over 50% of the population being under 25 years of age is seen as offering a unique proposition in terms of levels of skills, knowledge, aptitude and attitude (Walsh & Deery, 2006). No other nation that offers offshore services can come close to India in terms of the scale of the available talent pool which comprised approximately 4.4 million graduates in the financial year 2011-2012 (NASSCOM Strategic Review, 2012). The majority of the employees of the business process outsourcing sector hold higher qualifications than their counterparts in the western domestic market.
4. Respect for “Brand India” due to Information Technology Success Story:

While potential savings and presence of technology are necessary, they alone would not have been sufficient to convince firms to move their business processes to India. For this they needed to be sure that the relocation of their processes would be possible with the minimum of disruption. This confidence was provided by India’s emergence in the mid 1980s as an offshore site for software production.

India’s proven success in managing outsourcing of information technology services has thus established the respect for Brand India.

The examples of large multinationals like General Electric and American Express which had successfully established large Indian operations much earlier also helped the confidence building process.

5. Time Arbitrage:

Time arbitrage can be defined as the exploitation of time discrepancies between geographical labour markets to make a profit. Sending work to Asian countries helps firms in the west provide 24/7 customer service due to the difference in the time zone. This facilitates companies to work round-the-clock, thus increasing their productivity.

India is geographically positioned to cover most of the global markets. Around 7 am, clients in Singapore, Australia and Hong Kong can be contacted. Between 12 and 4 pm, clients in the Middle East, Luxembourg and the UK can be covered, while clients in the USA can be serviced between 5 and 8 pm.

With the outsourcing of synchronous work such as customer service queries, western business timings are exported across the globe. In migrating asynchronous work, such as maintenance of information technology services, national timings are preferred as they allow organizations to root out unproductive timings and approach a twenty four hour work cycle.
6. Role played by the Government and National Association of Software and Service Companies (NASSCOM):

The Central Government formulated policies favourable to Foreign Direct Investment, de-regularized telecommunications policies and extended the same benefits to the business process outsourcing industry as were previously afforded to the software / information technology industry. The key policies included extension of tax incentives, removal of the SEZ Act anomalies and the introduction of progressive telecom policies that focused on work from home.

NASSCOM (National Association of Software and Service Companies), the employers’ organisation for the Information Technology Enabled Services-Business Process Outsourcing (ITeS-BPO) industry has also played a crucial role in promoting the industry, lobbying and liaising with government, establishing industry regulatory standards and pursuing policies that advanced the interests of business process outsourcing companies. It has formulated various initiatives to catalyze the expansion of India's English speaking manpower pool and ensure that the country's ITeS-BPO talent resources are equipped with industry relevant skill-sets. One such step has been the development of the NASSCOM Assessment of Competence (NAC) program for potential employees in the business process outsourcing industry. This is an industry standard assessment and certification program that aims to ensure the transformation of a “trainable” workforce into an “employable workforce”.

7. Quality Assurance and Data Security:

Many Indian organizations have taken steps for certification in one or more of the following areas:

- Total quality management aimed at reducing defects and cycle times
- BS 7799 and various ISO standards on information and data security management
Apart from these certifications, the data protection legislation in India has been strengthened with additional provisions incorporated under the Intellectual Property Act. The authorities in India have consulted with regulators and security advisors from the United States, United Kingdom and across the European Union in order to understand their requirements.

India thus remains the pre-eminent location for off-shored and outsourced business activities as it offers an unbeatable mix of low costs, deep technical and language skills, mature vendors and supportive government policies (Walker & Gott, 2007). This is reflected in the fact that India continued to lead the global outsourcing market with the overall share increased from 51% in 2009 to 58% in 2011.

**Growth Phases of the BPO Sector in India**

The growth of business process outsourcing in India can be classified into four distinct phases:

**The First Wave: Company Owned Units**

The early entrants were the subsidiaries of multi-national corporations, popularly known as “captives”. General Electric (GE), Citibank, American Express, AOL Inc. and the British Airways were amongst the companies that triggered the trend of outsourcing back office operations and call centre services to India.

Subsequently, several banks, insurance companies, airlines and manufacturing companies set up back office service centers in India.

**The Second Wave: Venture Funded New Companies**

During the next phase, a number of experienced professionals initiated start-up operations in India. Generally such start-ups like Spectramind were funded by venture capital funds.
The Third Wave: Leading Information Technology Services
Companies enter business process outsourcing

Given the magnitude of the business process outsourcing opportunity, natural synergies with the software services business, the ability to leverage their experience of having successfully handled Information Technology outsourcing, their high-end physical infrastructure and management bandwidth, most large Information Technology services companies like Infosys Technologies, TCS, Wipro, HCL, Patni Computers ventured into ITES/ BPO domain. Business Process Outsourcing by then had become mainstream like the Information Technology Industry in India. International third party business process outsourcing players like Convergys and SITEL set up operations in India, strengthening the business process outsourcing movement to India. This was followed by the service arms of organizations like Accenture, IBM, Hewlett Packard and Dell setting up operations in India.

A consolidation of the market has been taking place with the smaller players merging with or being taken over by larger companies. The size of these acquisitions has been steadily increasing. For instance during the year 2011, Genpact acquired Headstrong for about $ 550 million while UK-based international services firm Serco acquired Indian BPO company Intelenet for about $ 600 million (approx Rs 2,772 crore), making it the largest acquisition in the Indian BPO space.

Acquisitions in the business process outsourcing space give the acquiring company the opportunity to strengthen its position in terms of vertical expertise, an established client base, greater geographical reach and also skilled and trained manpower. Some of the key mergers and acquisitions are furnished in Table1.1:
### TABLE 1.1

**Key mergers and acquisitions in the BPO sector**

<table>
<thead>
<tr>
<th>Target</th>
<th>Buyer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citi Global</td>
<td>TCS</td>
</tr>
<tr>
<td>Aviva Global Services</td>
<td>WNS</td>
</tr>
<tr>
<td>Daksh</td>
<td>IBM</td>
</tr>
<tr>
<td>Spectramind</td>
<td>Wipro</td>
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<tr>
<td>Mphasis</td>
<td>EDS</td>
</tr>
<tr>
<td>UBS</td>
<td>Cognizant</td>
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<tr>
<td>Symphony</td>
<td>Genpact</td>
</tr>
<tr>
<td>Apollo Contact Centre</td>
<td>HCL technologies</td>
</tr>
<tr>
<td>Trans works</td>
<td>AV Birla Group</td>
</tr>
<tr>
<td>Zenta</td>
<td>Accenture</td>
</tr>
<tr>
<td>On-line support</td>
<td>Hinduja Global Solutions</td>
</tr>
<tr>
<td>Headstrong</td>
<td>Genpact</td>
</tr>
<tr>
<td>Intelenet</td>
<td>Serco</td>
</tr>
</tbody>
</table>

**Geographical spread**

The key factors influencing the choice of a city for setting up a business process outsourcing facility are:

1. Established connectivity to international and domestic locations
2. Well-established physical infrastructure e.g. power, water, telecom etc.
3. Availability of well-qualified, adequate and low-cost manpower
4. Well-developed social infrastructure to support the residing population
5. Well defined real estate laws, regulations on ownership and transfer of property
Initially, the Business Process Outsourcing industry emerged in the Tier 1 locations of the National Capital Region (NCR), Bangalore, Hyderabad, Mumbai and Chennai. Dense clusters emerged within these conurbations; in Gurgaon and Noida (NCR), just outside the New Delhi city boundaries, in High Tech City on the outskirts of Hyderabad, and in Electronic City on the Hosur Road in Bangalore. The dynamics of growth, recruitment and attrition in these concentrations produced conditions of overheating that contributed towards the movement to newer locations in Tier 2 and Tier 3 cities.

Pune was the first Tier 2 city to emerge as a major business process outsourcing location as companies including Convergys, WNS, Progeon (Infosys BPO), EXL and Mphasis established their operations. Examples of newer locations and the companies who started their operations include: Mangalore (Mphasis); Vishakhapatnam/ Vizag (Satyam, Wipro, TCS, HSBC); Madurai (Honeywell); Nagpur (Krishna Group); Chandigarh (Infosys, IBM-Daksh); Jaipur (GE); Kochi (Wipro, Outsource Partners International); Thiruvananthapuram (Infosys); Chandigarh (Dell). Even cities such as Kolkata, earlier regarded as an un-attractive location in view of the Communist state government of West Bengal and the reported frequency of bandhs (strikes), became a destination following the state government’s decision to welcome foreign direct investment and develop the industry.

Within India, the delivery footprint of the BPO industry now extends to more than 30 cities across the country, and covers many Tier 2 and 3 cities.

The key reasons for companies choosing to open facilities in the Tier 2 and Tier 3 cities were to offset the supply gap and to tap the talent available outside the traditional hubs of IT-ITES activity. Besides the access to a supplemental talent pool, these ‘Tier 2’ cities also enabled the setting up of operations with lower personnel and facility costs which comprise nearly 60% of the cost base.
During the boom period, Tier 1 cities reported to have witnessed high attrition rates. Although officially running at 30-40% p.a. (Budhwar et al, 2006; NASSCOM, 2006), the real rate was reportedly around 65-75% p.a. This was a cause for serious concern as it translated into increased recruitment and training costs apart from impacting service quality and posing a significant data security threat. In comparison, smaller towns were reported to have relatively lower employee attrition rates of around 10-15 %, making them an attractive destination, especially for transactional off-shoring. In addition, location specific sops (like tax holidays) from state governments enhanced the investment attractiveness of the Tier 2 cities. However, the decision to move to Tier 2 cities was not without its limitations. Higher training costs and lack of infrastructure (e.g. frequent power shortages) were amongst the salient deterrents to companies planning to set up their facilities.

**Categories of services offered by the Indian BPO industry**

The Indian business process outsourcing sector has matured significantly in terms of its service offerings, segments served and the service delivery models. Consequently, the scope has expanded beyond traditional back-office processes to engage in performing high-end, knowledge-intensive services in areas such as banking, finance, taxation, law, logistics, consulting, and healthcare.

As per NASSCOM, this phase of its evolution is referred to as BPO 3.0 which is characterized by greater breadth and depth of services such as business analytics and other knowledge based services which are transforming clients’ businesses through a mix of re-engineering skills, technology enabled platforms and new operating models.

Table 1.2 summarizes the key business processes currently being outsourced to India.
## TABLE 1.2

### Key business processes being outsourced to India

<table>
<thead>
<tr>
<th>Segment</th>
<th>Processes Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer care</td>
<td>Call centers, telesales and telemarketing, help desks (electronic and voice), data entry, word processing, mass emailing, IT and technical support, help desks, collections, customer phone support, warranty registration, catalog sales, order fulfillment, up-selling and cross-selling, customer relationship management.</td>
</tr>
<tr>
<td>Finance</td>
<td>Accounting and accountancy services, billing and payment services, back-office finance processing, banking processing, financial reporting, customer supplier processing, document management, transaction processing, equity research support, accounts receivable, accounts payable, cost accounting, stock market research, mortgage processing.</td>
</tr>
<tr>
<td>Human resources</td>
<td>Recruiting, training and education, payroll services, health benefits administration, 401(k) administration, pension fund administration.</td>
</tr>
<tr>
<td>Payment services</td>
<td>Credit card and debit card services, cheque processing services, loan processing, electronic data interchange.</td>
</tr>
<tr>
<td>Retail and Investment Banking</td>
<td>Accounts opening, documentation, reconciliation, trade processing, credit analysis, industry and company analysis, presentation support and analytics.</td>
</tr>
<tr>
<td>Legal</td>
<td>Contract drafting and management, litigation and document analysis, legal and patent research, analysis and prosecution-related services.</td>
</tr>
<tr>
<td>Content Development</td>
<td>Engineering and design services, digitization, animation, network management, biotech research, web and multimedia content development, e-commerce.</td>
</tr>
<tr>
<td>Health Care</td>
<td>Medical transcription, medical billing and coding, healthcare services, medical animation, tele-radiology, clinical services.</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>Pre-clinical studies, bioavailability, bio-equivalence, clinical data management.</td>
</tr>
<tr>
<td>Research &amp; Analytics</td>
<td>Business research, market research, Intellectual Property research, financial and data analytics, investment research.</td>
</tr>
</tbody>
</table>

*Source: Compiled from Greene (2006) and secondary sources*
The broad nature of processes being handled can be categorized into voice and non-voice. The Indian business process outsourcing industry is slowly, but steadily changing its mix of services to reduce voice based services and to increase the transaction processing activities. As outsourcing becomes ever more prolific, the complexity of the work being undertaken is increasing. Outsource service providers are competing to run entire processes for their clients, rather than merely the voice based call center part. The fact that they are able to win this kind of work is an evidence of the efforts that have been placed on assuring quality control.

There is also a gradual shift in revenue composition towards more sophisticated and higher end services in India’s outsourcing industry, often called knowledge process outsourcing (KPO) activities. Examples of knowledge process outsourcing services include activities such as risk analysis, business research, equity research, balance sheet analysis and risk modeling for firms, contract research in the development of new molecules, clinical research trials, medical image processing and diagnostics, and editorial selection and publishing, to name a few. This trend towards knowledge process outsourcing (KPO) services is being driven by the setting up of Research and development centers by multi-national corporations like IBM, General Electric, Motorola, Texas Instruments and Cisco Technologies.

The depth of service offerings in India is also improving. As an example, Accenture in its Life Sciences Centre of Excellence in Bangalore employs medical doctors, PhDs, pharmacists, mathematicians, and statisticians to plan and handle pharmaceutical clinical trials. Software programmers in Accenture, India design databases and algorithms for storing and analyzing clinical data. They distribute electronic forms to physicians in developed nations conducting the trials and then review the data to spot errors. The data is thereafter analyzed for safety and effectiveness and reports are generated. This movement of the Indian subsidiary to higher value-added work suggests that
capabilities in India are improving rapidly, and that this is recognized at the corporate headquarters.

**Significance of the BPO industry for India**

The business process outsourcing sector has been a boon for the country in manifold ways. However the unique significance of Indian growth is that for the first time in history, a developing nation is becoming a factor in the global economy, not through the production and export of physical goods, but rather through the export of the output of services (Dossani & Kenny, 2003).

The significant contributions of this sector are discussed below:

**1. Employment Generation:**

Nearly 1 million jobs were created in the organized sector in India during 2010-11, of which almost 70 percent were in the information technology and outsourcing sectors despite protectionism in the United States of America and few other developed countries (The Economic Times, 29th June, 2011). As the industry has grown from a zero base, it has absorbed a large variety of professionals, graduates, undergraduates, graphic designers, animation experts, data entry operators, paralegal assistants, analysts, equity research specialists etc.

Till the advent of the business process outsourcing sector, Indian Universities had been producing graduates in liberal arts and science streams, but since these degrees were not tailored towards making the students industry ready, they did not find many takers. However, the BPO sector ushered a new scenario offering job opportunities that were previously unavailable. Fresh graduates having limited openings in many technical and professional fields found the business process outsourcing sector to be an attractive career option.

The year wise growth in direct employment generated by business process outsourcing sector exports is furnished in Table 1.3.
TABLE 1.3

Direct employment generated by BPO exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees ('000s)</th>
<th>Year on year %increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>107</td>
<td>n/a</td>
</tr>
<tr>
<td>2002-03</td>
<td>171</td>
<td>60</td>
</tr>
<tr>
<td>2003-04</td>
<td>216</td>
<td>26</td>
</tr>
<tr>
<td>2004-05</td>
<td>316</td>
<td>46</td>
</tr>
<tr>
<td>2005-06</td>
<td>409</td>
<td>29</td>
</tr>
<tr>
<td>2006-07</td>
<td>553</td>
<td>35</td>
</tr>
<tr>
<td>2007-08</td>
<td>635</td>
<td>15</td>
</tr>
<tr>
<td>2008-09</td>
<td>738</td>
<td>16</td>
</tr>
<tr>
<td>2009-10</td>
<td>770</td>
<td>4</td>
</tr>
<tr>
<td>2010-11</td>
<td>835</td>
<td>8</td>
</tr>
</tbody>
</table>

As shown by the above figures, there has been an eightfold increase in direct employment created by BPO-exports during the decade from 2001 to 2011. This is the statistical expression of the remarkable creation of a new Indian workforce, which forms a part of international category of workforce. This is despite the global economic downturn during 2008-2009 which had a negative impact on employment generation.

Till the year 2012, the direct employment provided by the IT-BPO sector is expected to reach nearly 2.8 million, while the indirect job creation is estimated at 8.9 million. (NASSCOM Strategic Review, 2012). Further, this sector accounts for 15% of the employment in the organized private sector.

Employment in the Indian business process outsourcing sector must also be understood in comparison to other job opportunities for young graduates. In the United Kingdom, new agents undertaking call centre work are paid an average of £14,000 annually (Contact Babel, 2008), which is far less than the per capita income of £26,712 per annum (World Bank, 2009). In India, the BPO jobs pay considerably higher as compared to the other available employment opportunities.
A survey of call centre workers in India’s National Capital Region (James & Vira, 2010) found that the average entry-level wage for agents to be Rs. 9,272 per month, consistent with a figure of Rs. 10,087 per month for the ‘typical call centre worker’ as identified by Batt et al. (2005). While low by the standards of United Kingdom (£1520 per annum), Rs. 9,272 per month is about 3 times the monthly Indian per capita income of Rs. 3200 per month (World Bank, 2009), and twice the earnings of an entry-level high school teacher, accountant, or entry-level marketing professional with a graduate degree (UPI, 2005).

It has also been estimated that for every job in the Information Technology industry, the surround effect job multiplier is 2.4+. For the business process outsourcing industry, this effect is estimated to be 4+. This implies that for every person employed in the sector, there are four additional jobs created outside which include employment created for support staff, trainers, recruitment consultants etc. If it is assumed that each one of these supports a family of two, then for every job created in the business process outsourcing sector industry, there are eight lives being nurtured.

The Business Process Outsourcing revolution has thus helped change the employment landscape of India.

2. Contribution to GDP:

According to Nasscom’s Strategic Review 2011, the IT-BPO sector’s contribution to national Gross Domestic Product has grown from 1.2% in Financial Year 1998 to 6.4% in 2011 and is estimated to reach 7.5% in FY 2012. In the states where the presence of the IT-BPO sector is significant, the sector’s share in the respective state’s Gross Domestic Product is much higher at around 14% These include Karnataka, Tamil Nadu, Andhra Pradesh and Delhi.

3. Contribution to Exports:

The exports of the Business Process Outsourcing sector have shown a steady growth as indicated by the figures furnished in the Table 1.4.
### TABLE 1.4

Exports of the BPO sector in USD billion

<table>
<thead>
<tr>
<th>Financial Year (FY)</th>
<th>Exports in USD billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>6.3</td>
</tr>
<tr>
<td>2007</td>
<td>7.6</td>
</tr>
<tr>
<td>2008</td>
<td>9.9</td>
</tr>
<tr>
<td>2009</td>
<td>11.7</td>
</tr>
<tr>
<td>2010</td>
<td>12.4</td>
</tr>
<tr>
<td>2011</td>
<td>14.1</td>
</tr>
</tbody>
</table>

During 2010-11, the Banking, Financial Services and Insurance (BFSI) segment generated 50.3% of the total exports followed by Hi Tech / telecom accounting for 22% of the exports. This was followed by manufacturing and airlines/ transportation at 5.8% and 4.8% respectively. During 2011-12, exports of the BPO sector are expected to grow by 12 per cent to reach USD 16 billion.

### 4. Inclusive Growth:

Consequent to the emergence of the BPO sector, opportunities for employment are increasingly becoming available to citizens from diverse backgrounds which facilitates the integration of marginalized sections of the society into the mainstream. A significant portion of the employee base of this industry comes from tier two and three cities and the benefits received by these employees contribute to the development of their families back home.

The absorption of a large number of women in the workforce and setting up of outsourcing units in large villages and small towns are additional factors helping towards building a more inclusive society. Some of the organizations that have opened rural units are B2R, Desi Crew, Drishtee, eGramIT, Harva, Rural
Shores and Source for Change  Apart from various other contributions, the sector has spurred the growth in the number of schools and educational institutions as well as larger number of enrolments in view of the job opportunities available.

**Overall performance of the IT- BPO Sector and Key Areas of Impact:**

The overall performance of the IT-BPO sector for the financial year 2011 is shown in table 1.5.

**TABLE 1.5**

**Overall performance of the IT- BPO sector for the year 2011**

<table>
<thead>
<tr>
<th>Areas of Impact</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>USD 88.1 billion</td>
</tr>
<tr>
<td>Employment Creation</td>
<td>• Direct employment : 2.54 million comprised of :</td>
</tr>
<tr>
<td></td>
<td>IT-BPO domestic: 5,60,000</td>
</tr>
<tr>
<td></td>
<td>BPO exports : 8,35,000</td>
</tr>
<tr>
<td></td>
<td>IT service exports: 11,45,000</td>
</tr>
<tr>
<td></td>
<td>Created 8.2 million indirect jobs</td>
</tr>
<tr>
<td>Contribution to Education</td>
<td>6 to 7 fold increase in tertiary education in exporting states</td>
</tr>
<tr>
<td>Diversity and Global Exposure</td>
<td>• Women in the workforce: 30% (approx.)</td>
</tr>
<tr>
<td></td>
<td>• New entrants-45%</td>
</tr>
<tr>
<td></td>
<td>• 30% of delivery outside India</td>
</tr>
<tr>
<td>Export revenues</td>
<td>USD 59 billion</td>
</tr>
</tbody>
</table>

Thus the industry has had an unparalleled impact on the Indian economy.

**Relevant legislation and labour laws**

The Indian Constitution is strongly and explicitly protective of labour rights. Central laws in India provide for minimum wage levels, arrangements for payment of wages, hours of work, paid holidays and sick leave, maternity leave, termination of employment, workers' compensation, health insurance, provident
fund, gratuity, bonuses, freedom of trade union membership, and prohibition of unfair labour practices.

The extent to which employees are covered by central legislation depends upon their status, their location, their wage levels, and the conditions under which they work.

Specific legislations relating to employees in the Business Process Outsourcing sector are generally state-based, most commonly falling under a state’s Shops and Commercial Establishments Act. Such legislation lays out the provisions of employment in commercial establishments, which are sometimes specified, and sometimes simply assumed, to cover business process outsourcing establishments and the employees therein.

Laws pertaining to the state of Karnataka are an appropriate starting point when looking at the provisions of such legislation, as Bangalore, a well-known hub of information technology and business process outsourcing work lies within this state. Karnataka has been one of the front runners in establishing and adjusting its legislation to take account of the potential growth of this sector. In Karnataka, the Shops and Commercial Establishments Act 1962 (Karnataka) covers BPO/ITeS workers, except those occupying positions of management (Shops and Commercial Establishments Act 1962, s. 3(1) (h)). Consequently, the employing establishment must be registered under the Act (Shops and Commercial Establishments Act 1962, s. 4), and employees must receive a notice of appointment which sets out their designation, wage, and terms and conditions of employment (Shops and Commercial Establishments Act 1962, s. 6A). Maximum daily and weekly hours, and hours of overtime are prescribed by the Act (s. 7), as are penalty rates for overtime (s. 8), requirements for rest periods (s. 9), and limits on the spread of hours (s. 10). The Act allows a minimum of 13 days paid holiday (s.15 (1)) and 12 days paid sick leave per year (s. 15(3)).

The Act also provides a measure of job security. Although employees found guilty of misconduct may be summarily dismissed, without misconduct no employee who has worked for the employer continuously for six months shall be removed or dismissed 'except for a reasonable cause', and 'unless or until one month's notice or pay in lieu' has been given (Shops and Commercial
Establishments Act 1962, s. 39(1)). An employee may appeal against dismissal to an appellate authority, and again to a District Judge, on the ground that there was no reasonable cause for his or her dismissal (s. 39(2) and (4)). The above are minimum requirements only, and do not derogate from the protections offered by any other law, award, agreement or contract (s. 39(7)). It can be seen from the above discussion that the law does offer substantial protections to business process outsourcing sector employees.

Exemptions: Specific exemptions have been provided to the sector from the application of certain provisions of the legislation. For example, under the Karnataka Shops and Commercial Establishments Act, all shops and establishments must remain closed on one day per week (Shops and Commercial Establishments Act 1962 s. 12), and the government may fix the opening hours of shops and establishments (s. 11). The legislation, however, specifically provides that IT establishments, and IT-enabled services or establishments, are exempt from these provisions, and can thus open seven days a week, and for any number of hours. Further, IT and IT-enabled services have been exempted from prohibitions in the Act against night work for women and young people (Shops and Commercial Establishments Act 1962, s. 25), subject to employers providing transport and security for those working at night.

Some pertinent points about the labour laws in other states are as follows:

In addition to relaxing restrictions on opening hours, weekly closures, and women's work hours, West Bengal's IT Policy allows employers of the Business Process Outsourcing sector to 'self-certify' their compliance with legislation such as the Payment of Wages Act, Minimum Wages Act, Shops and Commercial Establishments Act, Workers Compensation Act, and Employees State Insurance Act (Department of Information and Technology, Government of West Bengal 2003).

The IT Policy of Uttar Pradesh exempts ITeS businesses, as 'constituents of the knowledge industry', from routine inspections such as those for excise, labour and pollution compliance (Department of Information Technology and Electronics, Government of Uttar Pradesh 2004).
Business process outsourcing organizations and employee welfare

Business process outsourcing organizations characteristically project themselves as fun and trendy places to work, symbolizing an extension of college life into the workplace. They have attempted to create a westernized youth culture that is designed to attract and retain staff. The jobs are given attractive designations like customer support executive, process associate, and technical support executive and so on. The fact that it is a ‘global’ industry catering to clients in the West is also a selling point. In addition to their ease of availability, the jobs also offer the opportunities to develop skills in specialized domains viz dealing in financial products like derivatives. Among other attractions, youngsters with a graduate or even an undergraduate degree are enabled to be financially independent or save for their higher education.

The workforce, though engaged in an equivalent of a conventional service job such as clerical work or sales, is distinguished from other service workers by its socio-economic and demographic characteristics (Ramesh, 2004).

Good infrastructural facilities in the form of ergonomically designed work stations, spacious and air-conditioned offices are being provided by most organizations. For instance Infosys’s campus houses a state-of-the-art gym, golf course, sauna, swimming pool, lake with paddling boats, pool tables and ping pong tables. Recreational facilities as reported by the respondents were the conduct of games, online tambola, quizzes, ethnic day celebrations and competitions like best decorated bay. These have been viewed by researchers as superficial as the underlying causes like poor job design and low trust management practices remain unaddressed.

Other industry specific benefits include cafeterias, gym facility, stress counsellors, diet counsellors and banking facilities. A majority of outsourcing organizations provide group health insurance schemes (for employees as well as their spouse, non-earning parents and children), personal accident insurance scheme, free or subsidized food and transportation. Some even provide company
leased (shared) accommodation for out-station employees, corporate credit card facilities, cellular phones, medical check-ups, loans and educational benefits.

Challenges facing the Business Process Outsourcing Sector

The business process outsourcing sector has been posing a set of concerns to the various stakeholders, namely the employees, the society and the organizations. Each of these sets of challenges is discussed herein below.

A. Challenges faced by the employees

Despite the attractive working conditions that take care of the hygiene needs of employees (Herzberg, 1968), the employees of this sector face a host of challenges. The key challenges faced by them are as follows:

Routinization of Work:

In his landmark book, “The Wealth of Nations”, Adam Smith (1723-1790), one of the earliest classical economists noted that the production of straight pins could be dramatically increased if each worker was assigned a small, routine, repetitive task rather than manufacturing the entire pin by himself. Thus one individual held the job of “wire straightener”, and the second of a “wire cutter”, a third the job of sharpening the pin head, and so forth. The result of this division of labour in Adam Smith’s example resulted in productivity increasing by a staggering 24,000 percent and set the stage for scientific management movement that began in early 1900s.

Fredrick Taylor, the Father of Scientific Management was one of the strongest advocates of job specialization and simplification. Taylorism is regarded as a management approach which seeks to scientifically determine, the best methods for performing a task, of breaking down jobs into narrow tasks and the removal of employees’ decision making responsibilities in an attempt to enhance efficiency and control (Wagner & Hollenbeck, 2002). A significant component of Taylor’s approach for a centralized control of the labour process is that work is done in accordance with a plan that prescribes every job operation to the last detail.
Taylorism initially resulted in productivity gains, but the accompanying authoritarianism and fragmentation of jobs resulted in unhappiness and resistance, and the principles of Taylorism were ultimately condemned as being inhumane. At a time when many manufacturing enterprises have moved away from strict adherence to a mass production model towards adopting high involvement work practices, the business process outsourcing industry has moved in the opposite direction (Batt & Moynihan, 2002). Critics point out that a form of organization that was earlier restricted to jobs involving manual labour has rapidly diffused within industries that were previously associated with white collar workers and the exercise of “mental” labour. The business imperatives that led to the adoption of assembly line working and other new forms of industrial organisation in the first half of the twentieth century have re-surfaced in the process of designing work of service industries towards the century's end (Poynter, 2000).

The pressures of market competition which led to the business process outsourcing revolution have also necessitated the complete endorsement of the principles of economic rationalism. Work processes are standardized and embedded in an “Information and Communication Technology” (ICT) architecture that is highly structured. A careful and clinical scrutinizing of the labour process has been carried out to the point where work roles are modified to minimize costs to business outcomes without consideration of their impact on the employees who fulfill them (Bijlsma-Frankema & Koopman, 2004; Isaksson et al., 2000; Sparks & Schenk, 2001).

The routinization and simplification of the business process outsourcing sector labour process has led to it being viewed as being progressively similar to assembly line work (Bain, Watson, Mulvey, Taylor & Gall, 2002; Taylor & Bain, 1999). Evidence suggests that the business process outsourcing sector industry as a whole, whether captive or third-party, call-centre or non-customer facing, tends to deliver largely standardized and routinised services of lower complexity, despite moves up the value chain. As a result, the breadth of the work tasks within work roles get narrowed in order to include only those that are tangible and measurable. For example, Batt et al., (2005) reported 71% of managers stating that their employees had little or no discretion over daily tasks and 76% stating that their employees had little or no discretion over work procedures.
High Level of Management Control:

During the working hours, the employees are directed to observe punctuality in taking the admissible breaks, which are tracked through computers. Computers, which are meant to help them do the work more efficiently, are also extremely merciless monitoring tools (Peaucelle, 2000). One of the practices which are being followed is to record the “idle time” of each computer. If the idle time on any working day exceeds ten minutes, the employee is required to work extra for offsetting the same.

Productivity benchmarks are guided by service level agreements and enforced through extensive monitoring, surveillance and a plethora of quantitative and qualitative controls (Datta, 2004; D’Cruz & Noronha, 2006; Ramesh, 2004; Taylor & Bain, 2005) which minimize employee discretion. Organizations in this sector have therefore adopted newer and stricter controls for monitoring the output and movements of their employees resulting in a work environment perceived as constrained and restrictive.

Lack of Trade Unions:

The fatigue, stress, as well as physical and mental strains that result from aggressive managerial surveillance and demanding conditions of work make the employees of the business process outsourcing sector receptive to attempts by union activists to organize and represent them (Fisher, 2004; Bain & Taylor, 2000).

However, unionization in the Indian outsourcing industry has been kept at bay because firms have used conscious strategies by organizing the work in a manner that deliberately prevents employees from having the time to consort collectively or to entertain the notion of trade union organizing (Ramesh, 2004). By minimizing social interaction at work or outside of company-sanctioned events, the capacity for organizing is curtailed. By deeming the information technology sector an essential service, some state governments have also banned strikes in the industry.
NASSCOM has also consistently dismissed trade unions as being unnecessary in the outsourcing industry on the grounds that pay levels and working conditions are excellent and that the very few workers’ grievances that do arise are resolved promptly by employers.

While the Union for Information Technology Enabled Services Professionals (UNITES Pro) has emerged as a new organizing initiative, it has not been able to get a stronghold in the industry. One reason could be due to the short-term approach of the associates towards the jobs in this sector. This could be resulting in considering their career as transient, making organizing irrelevant.

The absence of unions results in the non-availability of an avenue for voicing any concerns that the employees of this sector may have. Amongst others, Taylor and Bain’s (2005) have portrayed employees in Indian call centres as victims who are denied ‘opportunities to channel grievances and improve working conditions’ (p. 273).

**Working with Computers and Visual Display Terminals:**

The employees of the business process outsourcing sector are subject to physical demands of intensive and sedentary work along with prolonged exposure to visual display terminal (VDT). Working with computers may lead to higher demands on cognitive resources e.g. the working memory and attentiveness compared to more traditional work methods.

Several studies have demonstrated that long periods of constrained sitting or computer work are associated with musculoskeletal symptoms. Musculoskeletal disorders affect the quality and duration of employees’ working life, as is evident from the fact that in the United States they are reported to be the third most frequent reason for disability and early retirement (Brenner & Ahern, 2000). Pain, cramps, stiffness and numbness in the shoulders, back and neck, wrists, fingers, buttocks and lower legs have been reported for workers who use visual display terminals for many hours at a time (Taylor & Bain, 2003).

Some other physical manifestations of extended visual display terminal use include eye and vision problems (Bramwell & Cooper, 1995), heightened light
sensitivity, burning & reddening around the eyes and sluggishness in adjusting focus from close to distance vision (Taylor & Bain, 2003).

Using visual display terminals for four hours per day was linked to an increased prevalence of pain and numbness in the shoulder in a large sample of Swedish white collar workers (Hanse, 2002). Compared to this, employees in the business process outsourcing sector work at visual display terminals for a large part of their eight hour shifts and are therefore at high risks of physical problems resulting from their use.

**Working in Night Shifts:**

Information and communication technology has enabled the collapsing of time and space and facilitated the movement of service work to different geographical locations. Due to these developments, work has increasingly become free from traditional temporal controls. Consequently Indian workforce in the business process outsourcing sector is being compelled to conform to American / Western standards, both culturally and temporally. The adverse effects of shift working on physical and mental health, sleep, job performance and psychosocial well-being have been well documented. While working in non-conventional timings like the night shift (to serve western clients in real time) facilitates youngsters to combine work and studies, it poses health hazards by impacting their biological rhythms. Some of the negative consequences include sleep disturbance and deprivation, loss of appetite, digestive disorders, fatigue, emotional problems and increase in sickness absence. The International Labour Organization (ILO) book titled “Offshoring and working conditions in remote work” states that nearly half (47.7 percent) of surveyed employees of the business process outsourcing sector reported suffering from sleeping problems or insomnia.

Human beings are diurnal organisms who are active during the day and passive at night, their bodies being governed by an internal clock known as the circadian rhythm which is linked to the light-darkness cycle. The conflict between the day-oriented circadian physiology and the requirement for work and sleep at the “wrong” biologic time of day causes havoc with employee health. Darkness signals the human body to secrete melatonin, a hormone that is crucial for the proper functioning of the circadian rhythm. When surrounded by artificial light at
night the human body gets confused into believing that it is still daytime affecting the secretion of melatonin. This results in an irregular functioning of the circadian rhythm which could lead to hypertension, cardiac problems, diabetes and hormonal problems. Frequent occurrences of gastro-intestinal disorders, development of poor eating habits, chronic fatigue, insomnia, nausea are being reported by employees of the business process outsourcing sector which could be linked to working in the night shifts.

Social de-synchronization resulting in social isolation is another outcome of working in the night. Employees can participate in only limited domestic and leisure activities due to a mismatch of timings with friends and family.

In addition to these factors, there is a lot of anxiety that Indian families and Indian society have towards women going out at night. This has led to serious concerns about the safety of women employees of this sector. Some of the instances that sharply focused attention on this issue are the rape and murder of HP Global Soft employee Pratibha Srikantamurthy by a taxi driver in Bangalore on December 13, 2005. A similar heinous act was conducted in the outskirts of Pune by the driver of the pickup car in 2007 exposing the vulnerability and lack of safety of women employees working in business process outsourcing organizations. Though the industry took immediate actions for safeguarding their women employees, the public perception of business process outsourcing organizations as being unsafe places for women got strengthened. While it may be noted that business process outsourcing is not the only sector with post-sunset shifts, it has received considerable media attention and negative publicity.

**Working in open offices:**

Workstations in business process outsourcing organization are typically located in open offices with work areas separated with low partitions. Research suggests that open-plan office occupants may experience a lack of both visual and acoustical privacy and an increase in the amount of unwanted distractions and interruptions. In such work environments sudden sounds, movements and human voices in the field of vision attract the focus of attention, interfering with the work activity (Brennan, Chugh & Kline, 2002; Sundstrom, Town, Rice, Osborn & Brill, 2002).
In addition; there are no possibilities of adjusting the indoor temperature and lighting to suit individual requirements. This could lead to negative effects like tiredness and discomfort.

**High Levels of Employee Stress:**

The typical business models are based on stringent service level agreements, with data handling being time-critical and errors having serious financial and legal implications. For instance while processing a telegraphic transfer of a bank, sending money across the globe with the right exchange rate, currency value, date and destination becomes extremely critical. Any delay or errors would attract interest and losses due to exchange rate fluctuations. Similarly in an organization processing insurance claims, if a claim is wrongly processed or reconciled, it could lead to liability claims and related losses.

The voice based business process outsourcing work in India has also been criticized as ‘culturally imperialist’ as it is perceived to be eroding the traditional Indian identities. Many agents in international-facing call centers are compelled to use anglicized pseudonyms as part of a locational masking strategy to encourage client confidence (e.g. Singh & Pandey, 2005). Using a different name, copying a foreign accent, and adopting an alien persona for a prolonged period of time can have a negative impact on a person’s psyche. Further, clients dissatisfied at having to deal with a non-native speaker, or else resentful of job losses due to offshoring have been reported to verbally abuse agents, often with racial overtones (Mirchandani, 2004). Pradhan and Abraham (2005) have documented websites providing callers with phone numbers of Indian call centers and swear words in Hindi.

Insufficient autonomy, tight workplace monitoring, limited social support, demanding performance targets, and the rigid structure or lack of time away from the job (e.g., breaks and rest periods) create a pressurized and stressful environment. Additional factors that add to employee stress are high psychosocial demands (cognitive and time pressure), travel time, changing duty shifts, insufficient holidays and long working hours (Cooper, Dewe & O’Driscoll, 2001;

All the above factors lead to stress and burnout for the employees of this sector. There have been numerous reports of employees experiencing physical and emotional problems like panic attacks, anxiety, restlessness, irritability and even depression (Ofreneo & Samonte, 2005; Pradhan & Abraham, 2005).

**B. Cultural and social challenges**

The business process outsourcing sector has opened up vast career opportunities for young adults, but at the same time employment in the sector has had a profound cultural and social impact, placing a strain on the society and the individuals associated with it. Studies have highlighted the importance of close parental interaction for the healthy development of youth (Laird, Pettit & Dodge, 2003). However, several young employees of this sector have had to relocate to outsourcing hubs and live independently resulting in the absence of parental interaction and guidance. Higher disposable incomes combined with the absence of parental supervision have led to lifestyle changes which include a perceptible move towards consumerism (Phukan, 2006) and developing unhealthy habits that include smoking, drinking and substance abuse.

During the discussions with the respondents, some of them pointed out that since smoking and drinking were not looked down upon among the colleagues, many employees did get to experiment with these and some got addicted to these habits. Other factors which facilitated getting addicted to these harmful habits were financial independence combined with lesser interaction with their parents (resulting in reduced censure). What was of concern was the revelation that many women employees of the sector had also started to smoke. The inhibition that women in India typically exhibit is gradually being lost and it is not so uncommon to see young women standing outside their offices during break time, smoking in full public view with a “couldn’t care less” attitude. This is despite the government ban on smoking in public places.
The growing incidence of smoking among women working in the business process outsourcing sector was substantiated by a study conducted by Dr. Gauravi Mishra of the Tata Memorial Hospital during a period of one year and involving more than 800 employees from four business process outsourcing organizations (The Indian Express, May 28, 2010). This study found that 8% of call center women employees were smokers. It also established that smoking occurred during break time where smokers and non-smokers intermingled. The average age of respondents was between 20-25 years.

Working in the night, smoking, drinking, and pub culture, are in complete contrast to the value systems, traditions and beliefs still nurtured by the urban middle-class Indians and causes a lot of anguish to parents and family members.

Limited social interactions with family members, relatives or friends, alienates the employees from their family and friends and diminishes the social support from these avenues which can be of tremendous value in building and sustaining their psychological well-being.

Thus the social costs of the business process outsourcing industry and the price paid for the erosion of Indian culture are sizeable.

C. Challenges faced by the organizations

The organizations of the business process outsourcing sector are also grappling with several contentious issues. Chief amongst these are:

Intense Global Competition:

The scenario facing the business process outsourcing sector is highly volatile in terms of increasing number of players worldwide, posing a challenge for the Indian companies for competing and sustaining in this domain. Other developing countries in Asia and Eastern Europe see the advancement of offshoring services as a strategy of national development. 2010 was the first year when an entire batch of English speaking employable youth graduated in China. Philippines has set up a working group that is insisting on making English compulsory in all its academic courses. These efforts seem to have borne fruit as
Philippines has recently overtaken India in voice based processes and emerged as the “Call Center Capital” of the world. It is estimated that India could have lost around 100,000 call centre jobs to the Philippines along with annual revenues of $11 billion.

Apart from China and Philippines which are posing a stiff competition, other countries like Malaysia, Russia, Hungary, the Czech Republic and Israel are also aggressively competing for offshored work. Falling wage rates in the United States of America and an increased availability of unemployed professionals is helping several locations in the US and Mexico to emerge as competitive “near shore” destinations for outsourcing of back-office work. Annual wages in Albuquerque, New Mexico for bilingual associate staff delivering business support services range from $20,000-$35,000 per annum, which is almost at par with costs in most locations in Latin America and only a small percentage greater than locations such as India & Philippines.

As per NASSCOM’s perspective, India’s market share in the global sourcing opportunity can decline by 10% by 2020 and be lost to other aspiring nations. This has been taken note of and at the NASSCOM BPO Summit held in Bangalore in June, 2010, there was a unanimous call from across the industry that India’s dominance in the global business process outsourcing landscape should be taken stock of, the risks identified and effectively managed.

**Anti-Outsourcing Wave:**

A key impact of recession has been the rise of protectionist sentiments in major markets of the industry. British Telecom had reportedly moved back jobs to United Kingdom in order to ensure more employment opportunities for British workers.

The anti-outsourcing wave aims at discouraging outsourcing from the west to countries like India by a range of measures which include the denial of tax concessions. This anti-outsourcing wave in the United States of America which continues to be the largest market for India has been a source of anxiety for the business process outsourcing organizations. During 2010, an anti-outsourcing bill that would have denied tax breaks to companies which move jobs overseas was
blocked by the Republicans. However, the visa fees for H1 / L1 visas have been increased. This has been viewed by the industry as a concrete action against outsourcers.

The business process outsourcing sector needs to be prepared for increased protectionism and regulatory control from sourcing markets since factors like an ageing population and a sagging economy in the United States of America will put pressure on their job markets.

**Withdrawal of Fiscal Incentives:**

The withdrawal of tax exemption under Section 10A/10B in the 2011-12 budget and frequent changes in fiscal regulations are making the business environment of the business process outsourcing sector more challenging.

**Increasing Client Expectations:**

From the client side there is increasing pressure with delivery, privacy, quality and cost clauses being extremely well defined and stringent. According to a KPMG’s report, over two-thirds of the 450 chief information officers surveyed globally indicated that they wanted to get more out of their outsourcing contracts in terms of the price-to-quality ratio (The Economic Times, 23rd June, 2010). As America's top outsourcing customers aim to restore profits amid rising oil prices and weak consumer demand, they are asking Indian firms to do more with less. Consequently billing rates for back office projects are down by up to 15 % (The Economic Times, July 11, 2011). As a result, margins in business process outsourcing sector have been stagnating at 18% for the past years even as revenues declined in 2011(The Economic Times, 3rd August, 2011).

All this necessitates building greater efficiencies within the business models and service delivery which when combined with the rising labour costs increases the competitive pressure on the organizations.
Employee attrition:

High and chronic employee attrition is one of the most challenging issues facing the business process outsourcing organizations in India.

A range of estimates are available for the level of attrition faced by the industry, and it is often difficult to get precise and consistent figures for the same. For instance, Mitchell (2004) reported that the labour turnover in the sector varies from low estimate of 30 percent to the high estimate of 100 percent. A 2004 study by Ramesh in seven large ‘third-party’ call centres showed a wide variation in turnover rates, ranging from as low as 12 per cent to as high as 62 per cent, with a mean turnover of 30 per cent. Further only 13% of the agents were found to be continuing in their jobs for more than two years. Budhwar, Varma, Singh & Dhar. (2006) reported that annual turnover rates in the Indian Business Process Outsourcing firms ranged from 20 percent to 80 percent. According to an industry-specific analysis of the Associated Chamber of Commerce and Industry of India (ASSOCHAM), the attrition rate had reached a new record level of 65% during the previous two years (The Economic Times, 15th April, 2011). While turnover offers an opportunity to keep organizations dynamic by inducting employees with new ideas, new skills and personalities, the rate of attrition in the Indian business process outsourcing sector is considered to be disturbing by researchers as well as organizations (e.g. Batt, Doellgast, & Kwon, 2006; Budhwar & Malhotra, 2008; Ranganathan & Kuruvilla, 2008 ; Russell & Thite, 2008).

For the Indian organizations facing a formidable challenge of intense competition coupled with pressures on their margins, attrition is an issue of serious concern as it has direct and indirect, tangible and intangible costs and results in a loss of social capital which impacts an organization’s success and sustainability (Dess & Shaw, 2001). The direct costs include the cost of recruitment and selection and training new employees. Considerable organizational time is spent in inducting the new employees to the social, cultural and performance norms of the organization. High turnover can have an undesirable impact on other employees as it disrupts the social dynamics, causes a
decline in the overall employee confidence in the organization and highlights the alternative jobs that are available. These factors can trigger additional turnover.

It has been estimated that the costs associated for hiring, training and productivity loss alone can add up to more than 5% of an organization’s operating costs (Waldman, Kelly, Aurora & Smith, 2004). Additional costs are added on account of customers lost due to poor service quality and having to operate under optimum capacity. Reduced morale, loss of tacit organizational knowledge and hampered growth rates (Burchman & Schmitt, 2000) add to the above costs. Casio (2003) suggested that turnover costs can range from 1.5 to 2.5 times the annual salary of the incumbent job holder. Bordoloi (2004) estimated that on an average, the cost for each call was only USD10, while the cost to bring on a new agent worked out to more than USD 6000.

Another phenomenon aggravating the problems of organizations of the business process outsourcing sector is that of “job abandonment” which is often described as “no-call / no-show” (NCNS). This involves abrupt and un-informed departure of employees leading to serious challenges that render manpower planning almost redundant.

High attrition rates thus represent a major threat to the financial viability of the business process outsourcing industry and urgently need to be addressed.

**Stress and well-being studies in the BPO sector**

**Studies in the Voice Based Segment:**

The voice based or the call-center segment of the business process outsourcing workplace has been the focus of considerable research attention.

The review of literature presents a varied perception of this segment: as the Panopticon made manifest (Fernie & Metcalf, 1998), as part of the re-emergence of Taylorized labor processes (Taylor & Bain, 1999), as the setting for emotional labour (Belt, Richardson & Webster, 2002; Taylor, 1998; Zapf, Vogt, Seifert, Mertini & Isic, 1999) and as lean service environment (Sprigg & Jackson, 2006). The work in outsourced centers has been considered repetitive and intense, targets as stringent and supervisory control and monitoring tight (Bain, Watson, Mulvey,
Taylor & Gall, 2002; Callaghan & Thompson, 2001; Taylor & Bain, 1999, 2001; Taylor, Mulvey, Hyman & Bain, 2002). The work climate in call centers seems to emphasize quantity over quality, leading some researchers to label call centers as the production factories of the present era (Fernie, 1998; Varca, 2001). This has been attributed to managements finding it easier to measure the number of calls rather than the quality of calls (Gilmore, 2001). Batt et al., (2005) documented median work intensities in voice based business process outsourcing organizations serving international clients as ninety customers per employee per day and a hundred customers per day for domestic call centers. Every call is subject to a series of strict and detailed measurements which are statistically collated and compared with the conformance criteria laid down in the service level agreement. Towards this end, telephone surveillance has been extensively adopted as a quality assurance measure. Service encounters are recorded or “listened to” by supervisors with the motive of documenting the quality of customer interactions and providing data for continuous improvement. This practice has evoked considerable debate as it has been reported to add to the stress of the employees.

The book on the business process industry by the International Labour Organization (ILO) titled “Offshoring and Working Conditions in Remote work” brought out the stress-inducing factors as indicated by the survey of employees of this sector. These include harassment from irate clients (45.6 percent), excessive and tedious workload (41 percent), performance demands (37.4 percent), monotony (33.7 percent) and regular night work (33.4 percent).

Empirical studies give credence to the negative views expressed in the popular press. Some of the influential studies in the voice based segment are discussed below.

**Fernie and Metcalf (1998)** presented a scathing criticism of call centres, stating that they embodied the most extreme and negative features of modern workplaces. They described call centres as the new sweatshops or dark satanic mills.

**Frenkel, Korczynski and Shire (1998)** offered a framework to highlight the shift in the work, employment and contract relations in a study of Customer Service Representatives (CSRs) in six call centres. They have argued that in reality call
centres neither reflect the ‘deeply pessimistic’ view nor mirror the ‘strongly optimistic’ view that are prevalent in the literature. What they observed was a ‘complex hybrid form of work-organization’ where the work was complex, the selection criteria was rigorous and pay for performance was widely prevalent. The cross-national studies conducted by Frenkel et al. suggested quite high levels of overall job satisfaction, with nearly three-quarters of their respondents reporting satisfaction with their job. The greatest satisfaction appeared to be derived from ‘helping people’ and from the camaraderie and social support that developed in the work environment. Further, performance monitoring seemed to be generally accepted, although that acceptance was dependent on the style of supervision. More than half were satisfied or very satisfied with the methods of control used, and three-quarters said the controls helped them to work better.

However, the researchers failed to recognize the differences in call centre work settings and ended up categorizing them as one homogenous lot, that is, a mass customized bureaucracy.

**Wallace, Eagleson and Waldersee (2000)** carried out a multiple-case analysis of four Sydney-based call centres of around 100 staff each and found that such call centres had a deliberate policy to replace frontline staff when the stress of the job and constant interactions with customers had caused them to emotionally ‘burnout’. This strategy which simultaneously delivers efficiency and service by requiring the front-line employees to absorb the emotional costs was termed as “The sacrificial HR strategy”. The sacrificial HR strategy involves a misalignment between the task demands and the intrinsic motivation of employees that results in employee stress, burnout and turnover. As per Wallace and colleagues, this misalignment is deliberate and forms the solution for the organizations. The use of this strategy however required a large labour pool and a strong external market.

**Kinnie, Hutchinson and Purcell (2000)** in their in-depth case studies of two call centres document the use of high-commitment human resource management policies. Both the case studies exhibited elements like close monitoring and measurement of performance against targets. Employee behaviour, including leisure activities, was monitored and documented. The job was considered repetitive and stressful. Nevertheless, these potentially ‘demotivating’ factors
were countered by some enlightened human resource management practices. Employees, frequently part of teams, were encouraged to make suggestions on work practices. Rewards for high-performers and usage of personal coaches for training and as well as mentoring were introduced.

Hutchinson, Purcell and Kinnie (2000) in their study found evidence of high-commitment management practices in the case study of RAC Customer Services Centre in Bristol. Initiatives which included focussed training, two-way communication, performance linked pay and employment security not only mitigated the high control features of close monitoring, but contributed towards building commitment to organizational goals.

Taylor and Bain (2001) emphasized that there were two broad categories of call centres. The first category resembled ‘white collar factories’, and the second category in which work was multi-tasked, flexible and involved product knowledge. They characterized the former as quantity call centres and the latter as quality call centres. The major difference between these two types of call centres lay in the emphasis they placed on “hard”, quantitative aspects of employee tasks vs. “soft”, qualitative areas of employee-customer interaction. This categorization has its limitations since call centres do not focus solely on either quantitative or qualitative targets but rather “manage” both kinds of targets, and recognize that lending exclusive priority to one over the other does not translate into effective performance.

Baumgartner, Good, and Udris (2002) examined 242 call agents in 14 call centers in Switzerland and found high levels of turnover (annual rates between 8% and 50%) and absence. In this study, the most often cited reason for call agents’ turnover was experienced monotony.

Deery, Iverson and Walsh (2002) explored well-being within the call centre environment, using data from 480 call centre employees from five call centres in the telecommunications industry in Australia. Their findings showed that working as a call-handler was associated with higher job-related depression and anxiety, lower levels of overall job satisfaction, particularly intrinsic job satisfaction and higher levels of mental strain than other benchmark groups.
Holman (2002) in his study of the financial services call centers concluded that in terms of employee well-being, call centre work compared favourably with other forms of repetitive work such as shop-floor manufacturing and clerical jobs. This study investigated well-being using four measures, namely anxiety, depression, intrinsic and extrinsic job satisfaction. However, little insight was provided by this study into the factors that could predict well-being within a call centre.

Grebner, Semmer, Lo Faso, Gut, Kalin and Elfering (2003): made a comparison of 234 call centre agents from a company located in the French and German speaking area of Switzerland with 572 workers in traditional jobs. Their research revealed lower job control and task complexity/variety and higher uncertainty among call agents. However, time pressure, concentration demands, and work interruptions were lower for call centre employees. Within the call agent sample, controlling for negative affectivity and other working conditions, job control predicted intention to quit, and job variety predicted job satisfaction and affective commitment.

Ramesh (2004): based on the findings of a field study of 277 customer care agents from six call centres in NOIDA, India; his study discusses the insecurities and vulnerabilities of labour in the new economic order, which is characterized by atypical norms of work and work organization. These insecurities include increased stress at work and erosion of worker collectivity. The study brings out that despite the salaries and facilities which an ordinary graduate in India could never imagine at any other job, the average attrition rates in the industry are quite high with various estimates that suggesting them to be the range of 40-60 per cent.

D’Cruz and Noronha (2006) reported a vast range of parameters on which Indian agents are monitored. These include phone etiquette, average call handling time, adherence to script, documentation, knowledge of product, display of cordiality, clarity in the message transmitted, errors in speaking, pacification of irate customers, opening and closing and apologies.

Holman, Batt and Holtgrewe (2007) conducted a study across 2500 call centers in 17 countries covering 4, 75,000 employees. These countries were clustered into three categories:
i. Coordinated or ‘social market’ economies with relatively strong labour market regulations and relatively influential labour market institutions. These included Austria, Denmark, France, Germany, Israel, Netherlands, Spain and Sweden.

ii. Liberal market economies with more relaxed labour market regulations and less influential labour market institutions. These included Canada, Ireland, UK and USA.

iii. Recently industrialized or transitional economies which included Brazil, India, Poland, South Africa and South Korea.

Their study has revealed some interesting findings and comparisons which are summarized below.

**Workforce tenure:** Across all the countries included in the study, approximately one third of the call center workforce has less than one year of tenure at work. This varies markedly from less than 10% in countries like Austria or Sweden to almost 60% in India. From 16% in coordinated countries, to 21% in liberal, and 38% in industrializing countries.

**Job discretion:** Job discretion is generally low, but substantial differences exist across coordinated, liberal market, and recently industrialized economies. In liberal market economies, the proportion of call centers with low job discretion is 49%, as opposed to 29% in coordinated economies, and 34% in recently industrialized ones. In India, 75% of call centers have low job discretion.

**Job quality:** The primary indicator of job quality was the extent to which it promotes employee wellbeing. Further, the criteria of a high quality job was the one that combined high job discretion with low performance monitoring. Using this definition, job quality was found to be the highest in coordinated economies and lowest in industrializing economies.

The literature review thus presents a mixed view of the work experience in the call centre industry. While some employees find this form of service work greatly rewarding, enjoying the social interaction and peer support, for many others the work is a tiring, stressful and an emotionally exhausting experience.
Studies in the Non-Voice Segment:

In comparison to the voice based call centers or contact centers as they are referred to, empirical research in the non-voice segment of the business process outsourcing sector has been sparse. There have been a few studies pointing to the factory style methods of functioning and employee management that are being applied to the handling of business processes.

Batt and Moynihan (2002) distinguished business process outsourcing firms along four dimensions: the use of technology, the skill requirements of jobs, the organization of work and the use of incentives to reward effort. On the basis of these dimensions, they outlined three alternative models, which varied on a continuum in terms of investment in human capital and incentives. At the low end was the classic mass production model while at the high end was the professional service model. Between the two extremes were a range of hybrid models labelled by them as mass customization models.

Batt, Doellgast and Kwon (2006) drew attention to the factors that added to the picture of routine, de-skilled work. The business environment being highly competitive, organizations have been winning contracts on cost and performance criteria which necessitate quantitative assessment of output. All else being equal, outsourced work can be predicted to be less skilled than info-service work that is retained in-house. Typically the employees of the business process outsourcing sector engage in repetitive short cycling routine of well designed processes that narrows down the task diversity and the information space in which employees are expected to manoeuvre. In addition to the fact that the work process is rigidly and closely controlled, there is a need to work on night shifts, which creates high levels of stress, job dissatisfaction and attrition.

Wallace (2007) brought out a comparison between the unplanned absences by associates working in the business process outsourcing sector. This study revealed that Indian associates have statistically significant higher levels of sick leave or unplanned absences at 15 days per agent per annum which is higher than any other country in the region. As a point of comparison, Australian agents availed eight
days of unplanned leave per agent per annum while Chinese agents took eleven days.

Literature review brings out that knowledge about the impact of engaging in largely routine and repetitive type of work on employee attitudes and behaviour remain limited (Baron, 2000; Kessler, Coyle-Shapiro & Purcell, 1999; Walsh & Deery, 2006). While at a macro-level outsourcing arrangements have been described as providing both source and destination countries with opportunities for prosperity, flexibility, security and freedom (Friedman, 2005), at the micro level associates working in the business process outsourcing industry are perceived as “insecure”, “cyber coolies” and “vulnerable casualties” of the new economic order.

When the workplace demands exceed the resources of employees, they result in impaired health and well-being (Bakker, Demerouti, Taris, Schaufeli, & Schreurs, 2003) manifesting in the form of chronic fatigue, insomnia, anxiety, restlessness, irritability and even depression. Continuous exposure to high levels of stress and dissatisfaction with the work leads to absenteeism and ultimately to turnover. Both turnover and absenteeism can be seen as a form of ‘exit’ involving an effort to escape from working conditions that are viewed as unpleasant.

**Gaps in the literature and motivation for the research**

India continues to be the undisputed leader in the global sourcing domain having improved its combined share in the IT-BPO industry from 49 per cent in 2005 to 58 per cent in 2011. It accounts for over 34 percent of the worldwide BPO market and is the largest global destination for BPO service delivery (NASSCOM Strategic Review, 2012). For the Indian business process outsourcing sector to maintain the position that it has established in the global outsourcing arena, it is imperative that the challenges currently faced by the industry are effectively tackled. Chief among these are the management of voluntary employee attrition, eliciting employee commitment and discretionary work effort for effectively facing the ever increasing global competition.
Research evidence suggests that employees with a high level of psychological well-being demonstrate higher commitment and are significantly more productive than those with lower psychological well-being (Wright & Bonett, 2007; Wright & Cropanzano, 2004). Lower levels of well-being may result in increased absence and turnover rates. It also negatively impacts the quality of customer service and rate of errors. Job satisfaction, commitment, attrition and burnout are tremendous performance and productivity issues for the business process outsourcing sector and an understanding of the psychological well-being of employees can facilitate in addressing these. Understanding the factors contributing to the well-being of employees of the business process outsourcing sector can therefore be a promising paradigm for reducing the loss of human capital and for sustaining the leading position that India has gained in the global outsourcing domain.

The literature review reflects a paucity of empirical studies that provide a systematic evaluation of the factors that predict employee well-being in the business process outsourcing sector, with special reference to India (Godard & Delaney, 2000). Further, research conducted till date on the antecedents of the psychological well-being of employees in the outsourcing sector has been fragmented. Consequently no integrated framework is currently available for organisations to identify and promote the psychological well-being of employees.

Thus there is a need for a study to understand the psychological well-being of employees from an Indian context as the business process outsourcing sector represents a new occupational category, which is distinct in still largely unspecified ways from the job roles of the past. As detailed under the significance of this sector for the Indian economy, it has proved to be one of the most promising avenues for providing employment to large numbers apart from other noteworthy contributions to the Indian economy. To summarize, this review has identified the following gaps in the literature:

1. Lack of studies on employee well-being in the business process outsourcing sector.
2. Most of the studies done so far focus on stress and work intensification in voice based contact centers, based upon qualitative approaches
involving small number of employees (Budhwar et al., 2006; D’Cruz & Noronha, 2007; Mirchandani, 2004; Shah & Bandi, 2003; Taylor & Bain, 2005). The research in the non-voice sector is still at a nascent stage.

3. Survey research has been restricted to managerial surveys (Batt et al., 2006) pointing to a need for research that taps directly into employee perceptions of their work experience.

The present study is a modest attempt to bridge this gap.

**Definition of the problem and framing the research questions**

Given the significance of employee well-being for the sustainability and growth of the business process outsourcing sector, this study aims to address the research gaps identified in the previous sub-section and focuses on understanding the construct of psychological well-being of employees, identifying the factors that have a significant impact on the psychological well-being of employees and studying the organizational consequences of such well-being. The research question that forms the backbone of this study can be stated as:

“What are the antecedents and consequences of psychological well-being among employees in the business process outsourcing sector?”

Specifically, the study seeks to answer the following research questions:

1. Are job characteristics antecedents of psychological well-being of employees?
2. Are job demands antecedents of psychological well-being of employees?
3. Is support at work an antecedent of psychological well-being of employees?
4. Is organizational justice an antecedent of psychological well-being of employees?
5. Is job security an antecedent of psychological well-being of employees?
6. Is organizational commitment a consequence of psychological well-being of employees?

7. Is felt obligation a consequence of psychological well-being of employees?

8. Is projected tenure a consequence of psychological well-being of employees?

Chapterization

The entire study is arranged in seven chapters. The coverage under each chapter is as follows:

**Chapter 1** traces the history and growth of business process outsourcing (BPO) with special focus on the evolution and features of this sector in India. The significance of this sector for the Indian economy and society has been discussed along with the demands that working in this sector places on its employees. Thereafter the issues facing the organizations of the business process outsourcing sector have been highlighted, bringing out the key challenges of managing attrition and facing the ever increasing global competition. The need for this study was established in view of the critical role that psychological well-being of employees plays in ensuring the sustainability of this sector. Subsequently the specific research questions have been framed.

**Chapter 2** details the objectives, hypotheses, research design, selection of the sample, the scales used to measure the selected psychological well-being constructs, the plan of analysis and the limitations of the study.

**Chapter 3** presents a review of the literature on psychological well-being along with a comprehensive conceptual framework for its investigation. The theoretical background of the antecedents and consequences has been discussed thereafter.

**Chapter 4** details the results of testing the first five hypotheses which assess the strength of the relationship between the antecedents and indices of psychological well-being.
Chapter 5 presents the results of the last three hypotheses which test the relationship between psychological well-being of employees in the business process outsourcing sector and employee commitment, projected job stay and felt obligation to their employing organization.

Chapter 6 discusses the results of the qualitative data and the perceptions of team leaders, human resource managers, counsellors and employees working with various business process outsourcing organizations. These pertain to the factors that in their view could enhance the psychological well-being of employees.

Chapter 7 provides an overview of the study, a summary of its findings leading to suggestions for enhancing the psychological well-being of employees of this sector. The chapter concludes with suggestions for future research on the issues raised by the findings.
CHAPTER 1 – REFERENCES


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