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Growth and Challenges of BPO Industries in India

Their role and contribution in the development.

ABSTRACT

In olden days only trade was considered the engine of economic growth but in recent years service sector has assumed unprecedented importance. In addition to traditional services like banking, insurance, and tourism Business Process Outsourcing (BPO) has been the latest attraction in India. It has emerged as a new dimension of business in India and has proved as the key source of income and employment. BPO is a long term contracting for non-core business activities to an outside provider. It helps the management to concentrate its attention on core business. India is emerging as a global outsourcing hub as it has a sound outsourcing potential specially in information technology services, programming and information technology enable services (ITES) viz. call centers, back office operations, communication and networking, media and entertainment, relationship management and medical transcription. Various developed countries like US, UK, Canada are turning toward the developing countries for outsourcing their non-core activities. India is the most preferred due to availability of large pool of English speaking population, less servicing cost of the qualified personnel, stable political environment, and sound reputation in international market due to quality services. But it is found that outsourcing activities are going unexpected complex and costing high instead of simplified operations it requires more attention and deeper management skills than anticipated. Present paper is highlighting the challenges and suggests the ways to face those challenges.

1. INTRODUCTION

In the process of globalization, which was started all over during the last decade of the outgoing century, India has made significant progress in improving its investment climate and is now rated among the 10 top reformers in the world. In olden days only trade was considered the engine of economic growth but in recent years service sector has assumed unprecedented importance. In addition to traditional services like banking, insurance, and tourism Business Process Outsourcing (BPO) has been the latest attraction in India. It has emerged as a new dimension of business in India and has proved as the key source of income and employment, the main reasons having

- limited resources, high operation cost of
- supervision, management and control,
- short supply of capital, technology, know-
- how, focus on core business operations,
- requirement of improved quality services
- that are not available in developed
- countries.

- Business process outsourcing is a
- long term contracting for non-core
- business activities to an outside provider.
- It helps the management to concentrate its
- attention on core business. India is
- emerging as a global outsourcing hub as it
- has a sound outsourcing potential specially
- in information technology services,
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- enable services (ITES) viz. call centers,
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- and networking, media and entertainment,
- relationship management and medical

transcription. Just like other inventions, the concepts of BPO has also arisen out of the need of an individual organization when it engages someone else to do a job which either it could not do or chose not to do. Adam Smith has rightly stated that, the maxim of every prudent master is never to attempt to make at home what it will cost him more to make than to buy. In fact, the concept of BPO is based on old economic principle of “Comparative advantage”.

In contemporary business scenario the power of BPO cannot be overlooked. Organizations having shortfall of time or lack of expertise, human resource can opt for outsourcing. Most of the business firms are willing to solve their business problems quickly and at a lower cost. Thus, BPO industry offers various services as a solution for their diverse business problems like customer service, finance and accounting services, legal services, project management and process migration, training and development etc. BPO sector has a specialized team of skilled personnel who can provide expert services at a very low cost for those business activities that are not within the scope of the expertise available at business houses. It then helps the management to concentrate on other business activities within its core competencies like organization design, training and development, motivation management etc.

BPO industry is playing a significant role in converting the globe into a village not only in supplying chair management, but also in customer relationship management. Now a new breed of high-end knowledge based BPO called Knowledge Process Outsourcing (KPO) has emerged. It includes health care-pharmaceuticals and biotechnology,

legal support – intellectual property research, design and development for automotive and aerospace industries, animation and retains services etc. In recent years BPO has delivered unprecedented growth of income, export revenue and employment due to low cost-skilled English speaking manpower with better knowledge of computer whereas other countries like Japan south Korea, China having comparatively high labour cost are lagging behind.

To reduce the said labour cost Chinese government has invested \$ 54 billion for the promotion of English language so that more skilled working hands can be prepared to grasp the opportunity of BPO in competitive environment at global level. Indian government vis-à-vis its Chinese counterpart has also liberalized the laws and rules - regulations so as to stand in globally competitive market.

2. REQUIREMENT FOR BPO OPERATION

Cost efficiency, availability of skilled and efficient manpower in India are the key factors which are kept in mind while taking decision for outsourcing activities by any foreign country. But before taking decision for outsourcing the companies need to satisfy themselves on the following grounds:

- Availability of appropriate operating structure;
- Procedure to be followed for setting up business operation, and
- Exit options.

Foreign companies can enrout for BPO by the following ways:

- Through FDI in pre- established BPO companies.
- To establish 100% owned subsidiary.
- Form a Joint Venture with a company.

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- Manage contract with pre-establish BPO service provider.

3. WHY INDIA IS PREFERRED?

Various developed countries like US, UK, Canada are turning toward the developing countries for outsourcing their non-core activities. Out of main service providers like India, China, Mexico etc., India is the most preferred due to following reasons:

- Availability of large pool of English speaking population after USA. Besides India have scientific, technical and computer experts.
- Servicing cost of the qualified personnel is lowest in the world. It is approximately 1/10 as compared to what it is overseas. About 1, 00,000 new IT engineering graduates are ready in India each year to cope with technical faults. That's why they are available at a lower salary as compared to other European and Asian countries.
- Stable Political environment favours the BPO sectors especially IT sector, because IT sector is at the supreme priority of Indian government. To improve the working of BPO sector government of India has set up single window facilities for attracting FDI.
- Indian companies have sound reputation in international market due to quality services as out of the 23 software companies in the world, 13 Indian companies have already achieved the prestigious SEI-CMM level 5.
- Indian software companies Infosys, Wipro and Satyam are listed with the Nasdaq exchange due to their excellent performance.

- The liberal economic policies framed by the government also attract foreign companies for BPO services.

4. INDIAN ITES-BPO EXPORTS

A rising trend in BPO exports witnessed a growth of 44.5% in 2004-05 with revenue of US \$ 5.2 billion. In 2005-06 growth is expected to be 41 percent with exports touching \$ 7.3 billion. The basic reason of this increasing trend is the low manpower cost. In USA per agent cost is \$ 40,000 per annum while in India it is only \$ 5000. In UK, manpower cost ranges from 67 to 72 per cent while in India, it is 33 per cent to 40 per cent. The US share is two third of the total ITES-BPO exports from India and UK accounts for approximately 20 per cent.

India has grown as an exporter of knowledge intensive services in the world, and is enjoying a number of other spillover benefits such as creating new avenues of employment and new talent of entrepreneurship.

Table – 1: INDIAN ITES – BPO EXPORTS

Years	Revenues (US \$ Billion)
2000-01	0.93
2001-02	1.5
2002-03	2.5
2003-04	3.6
2004-05	5.2
2005-06 (Est.)	7.3
2016-17 (Est.)	21.0

Source: NASSCOM

5. INDIAN ITES - BPO EMPLOYMENT OPPORTUNITIES

A sharp increase in employment opportunities is witnessed in ITES-BPO. It registered a growth of 52.6 percent from 45000 in 2001-02 to 348000 in 2004-05. BPO segment also proved as the largest employment generating source thanks the provision of 100 per cent ownership in IT enabled services and the establishment of software technology parks. In addition, India is providing outsourcing services at comparatively low cost with latest technology (Table-2). India has already proved herself a talent-rich country in the world. Now India is strong in resources and is in a position to provide quality end products and services at competitive rates at global level.

Table – 2: EMPLOYMENT IN ITES – BPO

Years	Total (No. of persons)
2000-01	42000
2001-02	45000
2002-03	180000
2003-04	235500
2004-05	348000
2005-06 (Est.)	470000
2016-17 (Est.)	1000000

Source: NASSCOM

6. WORLDWIDE ITES-BPO SPENDING

An overall increase is shown in the spending amount on ITES-BPO sector by major regions. UNCTAD predicts global outsourcing will spend of US\$ 827 billion by 2008. In the changing business scenario BPO sector is gaining a paramount place due to cost factor – when a product or service is produced at

lower cost in another country, it makes sense to import it rather than to produce it domestically (J.W. Bush). According NASSCOM – Mickinsey, US companies are expected to save up to \$ 11 million through outsourcing activities in India (Table-3).

Table – 3: WORLDWIDE ITES – BPO SPENDING

Region	2002(In US \$ Million)	2006(In US \$ Million)
USA	484732	647427
EMEA	171303	237690
Asia/Pacific	117657	194228
Worldwide	773657	1079054

Source: Strategic Review 2004, NASSCOM

7. ISSUES AND CHALLENGES AHEAD

In the prevailing market scenario business is war and it has to be fought. Competition can only be met through developing strategies in terms of cost since cost is the central point of any decision-making. India is most preferred for outsourcing by US firms as India has a pool of skilled and cheap labour with updated knowledge and understanding of English.

The bylaws and regulations of India are much liberal as compared to those other developing countries like China. Even then some loopholes are also prevailing. They are adversely affecting the Indian BPO sector. Some of the emergent challenges are mentioned hereunder:

- Lack of security and control over the confidential data.

India is providing outsourcing services at comparatively low cost with latest technology. India has already proved herself a talent-rich country in the world.

BPO is like a sunrise and is going to happen whether it is politically opposed for getting their votes.

- The organization can leap over some of its problem by full strength while the outsourcing agencies do not take such interest in solving crucial issue due to lack of personal interest.
- Lack of regulatory agency in solving work related disputes between the parties.
- Role of bureaucracy involved in getting clearances.
- Difficulty in attracting and retaining the highly skilled workforce (H-factor).
- Adverse effect on work force due to working in night shift. They are suffered with S-Factors i.e. social stigma, safety, and stress especially sensitive for female employees.
- It is found that outsourcing activities are going unexpected complex and costing high instead of simplified operations it requires more attention and deeper management skills than anticipated.

8. SUGGESTIONS

BPO to India have positive impact and will prove still more beneficial. It will increase employment opportunities to skilled labour of India and also infuse sense of competition. But on the other hand FDI remains limited, as BPO do not tend to be large-scale projects.

BPO is like a sunrise and is going to happen whether it is politically opposed for getting their votes. These are some suggestions to take the full advantage of BPO:

- To draw an effective long-term plan for providing better and efficient services of world-class standard.
- Maintenance of good track record of high quality and high value added

- work at competitive price.
- Since BPO is a HR based service, companies should recognize the linkage between human capital and financial performance.
- To introduce a common ITES-BPO award to excellent working people engaged in the BPO sector.
- To evolve a stringent information security and privacy policy for the industry.
- To encourage multi-lingual capability.
- To develop a global service delivery network (a mixture of hi-tech and low-teach) to reap novate continuously.
- To build a culture of growth, empowerment, visibility and enjoyment to tackle the problem of attrition.
- To overcome the problem of S-Factor there should be proper arrangements for recreation of employees and safety norms established for working environment should strictly be followed.

All said BPO sector is a boon for India as it offers new avenues and employment opportunities. It has cheap and skilled English speaking manpower; with a democratic stable structure of government.

To win the confidence of foreign companies it is necessary to frame such bylaws that provide assurance for data protection. The Central Government should provide all possible encouragement and security to this fast emerging sector.

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