ROLE OF BPO AND ITS IMPACT ON INDIAN ECONOMY

S.Nagalakshmi, Asst. Professor, IFIM College, Bangalore.
Email ID: lukshmi1414@gmail.com

Abstract

India developed as a target destination for outsourcing in the information technology (IT) services in the 1990’s, but India’s information technology-enabled services (ITES) and business process outsourcing (BPO) industry has grown rapidly in comparison to IT in the last decade. IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. In addition to fuelling India’s economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to the various socio-economic parameters such as employment, standard of living and diversity among others. The industry has played a significant role in transforming India’s image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services. The industry has helped India transform from a rural and agriculture-based economy to a knowledge based economy.

This paper is attempted to make an analysis of FDI in BPO in India and its impact on growth. It also focuses on the threats and challenges as well as future outlook of BPO in India.

Keywords: ITES, BPO, Bureaucratic economy

Introduction

Business Process Outsourcing (BPO) is a buzzword among the corporate in the world today. Gone are the days when service functions were developed by the corporate in-house for captive use. Today corporate benefit significantly from outsourcing of business processes almost everywhere on the planet. Looking to the growth and government's support to it, BPO is being recognized as a specialized sector in India.

Research Methodology

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, India stat etc. The study is based on the time period from 2008-2012. Simple percentages have been used to defect the growth rate of India and world GDP and to draw further comparison between the two. Graphs and tables have also been used where ever required.

Objectives

1. To study the growth of BPO sector in India and its impact on Indian Economy
2. To study the steps taken by Government to support BPO sector.
3. To know the threats and challenges of BPO
4. To analyze the future outlook and competitive strategies to be adopted to overcome the competitors
BPO in India
India became familiar with ‘Business Process Outsourcing’ only in the early and mid 1990’s, but now the entire country seems to be quivering with the ‘BPO fever’. In spite of its fresh arrival on the Indian picture, the industry has grown-up and become a very significant part of the export-oriented IT services and services model. While it originally began as a facility targeted at multinational companies, today it has developed into a broad based business stage backed by leading Indian IT software and service organizations and third party service providers. The foreign direct investment (FDI) in the country owes a lot to this sector, which is progressing at a break-neck speed. The different kinds of services offered by BPO’s include Customer Support, Technical Support, Telemarketing, Insurance Processing, Data Processing, Internet/Online/Web Research and so on. The cheap labor costs and the pool of skilled, English-speaking Indians have always been the two foremost factors contributing to the BPO boom in the country. As the National Association of Software Services and Companies (NASSCOM) points out, the other equally motivating factors include strong quality orientation among players, ability to offer round-the-clock services based on the country’s unique geographic location, positive policy environment which encourages investments and a friendly tax structure, which places the ITES/BPO industry on almost equal footing with IT services companies.

Part of the growth in the ITES/BPO industry is due to the National Telecom Policy (NTP), which was introduced in 1999, which deregulated the telecom industry and opened the industry to national and international competition. The governments of various states also provided help to companies to overcome recruitment, retention, and training challenges in order to attract reserves to their region.

Seeing the success of India’s IT industry, the central government recognized the ITES/BPO sector as a key provider to the economic growth and prioritized FDI attraction into this segment by establishing ‘Software Technology Parks’ and ‘Export Enterprise Zones’. Incentives previously enjoyed by the software industry, such as tax holidays, have also been made available to the ITES/BPO sector.

Additionally, the National Association of Software and Service Companies (NASSCOM), which acts as an “advisor, consultant and coordinating body” for the ITES/BPO industry and liaison between the industry and central and state government committees, has provided keen support of the ITES/BPO industry has led to the addition of call centers in the ‘Business Auxiliary Services’ segment, thereby ensuring exception from service tax under the Finance Bill. The national business development goal for 2020 includes constructing a US$225 billion ITES/BPO industry.

To encourage FDI, the Indian government permits full (100 percent) equity foreign direct investment (FDI) in ITES/BPO companies and allows ITES/BPO companies duty-free import of capital goods (under the Export Promotion of Capital Goods scheme). Such incentives in this sector have led to a stable investment inflow by large overseas companies such as Reuters to establish large captive ITES/BPO facilities across India.

The existing ITES/BPO operations of major multi-nationals are also being shaped up to provide to the ever increasing requirement for improved and speedier services. Approximately all of India’s biggest ITES/BPO giants have announced some form of growth and are fast tracking recruitment to plug in the extra vacancies.
According to NASSCOM, if India maintains its current global offshore IT/ITES market status, the IT/ITES/BPO exports from India will exceed US$330 billion by 2020 (nearly 14 per cent of the anticipated global expenditures in this sector). Presently the ITES sector exports, valued at US$47.3 billion, are moving away from dependence on the U.S. market and moving towards fresh and rising markets such as those in Australia and the Middle East.

India-based service providers are respected globally, while most Fortune 500 and Fortune 1000 companies have set up their own BPO units or have outsourced to Indian firms to gather the return of this all around business. The domestic BPO market (in verticals such as, banking, retail, insurance, media, telecom and government) provides an additional US$20 billion in revenues for the services sector as a whole.

According to current estimates, India is the primary ITES/BPO destination in the Asia-Pacific. The ITES/BPO tier, with a current base of 96,000 call centre seats, is expected to grow by 85 percent over the next 12 months to reach a capacity of 1,77,000 seats. Foreign investors would be wise to consider entering the Indian market to take advantage of the developments this industry is generating.

**Call centers are a part of life**

For today’s youngsters, the call centers are a welcome addiction. The industry has woven such magic around the entire nation that these days a city without a call centre would be hard to find. Call centers contribute a fair share to the revenue of the Indian BPO industry. About 70% of the BPO industry’s revenue comes from call-centers, 20% from high-volume, low-value data work and the remaining 10% from higher-value information work.

The average Indian’s attitude towards life has undergone a drastic change in the last few years. Call centers are a major turn on for young graduates. In addition to providing employment, the call centers offer excellent benefits, good working environment and attractive remuneration packages.

**Market growth of BPO sector in India**

According to the recent surveys, the BPO industry provides employment to around 0.7 million people across the country. The yearly revenue amounts to around $11 billion with a share of around 1 % of the annual Gross Domestic Product (GDP). The BPO industry is also a lucrative option for both graduates and fresher’s as one can get good salary. The growth rate of the wages and salaries in the sector range from 10-15 % every year.
Due to the development in infrastructure, more and more foreign BPO companies are setting up bases in India. Apart from these, there are also well known domestic BPO companies which cater to the national as well as the international market. Some of the cities where the business processing industry is popular are Chennai, Bangalore, Hyderabad, Kolkata, New Delhi, and Mumbai and so on. To cater to the growing demand, more BPO companies are also setting up bases in other cities across the country like Pune, Gurgaon, Coimbatore, Kochi, Chandigarh, Bhubaneshwar, and Lucknow and so on.

**BPO Role in India’s economic growth**

It is set towards making a significant impact in the time to come as well. The driving forces that account for the increase in foreign investments through the BPOs in India are:

1. Emphasis on quality services
2. Skilled sets and workers
3. Cost effectiveness
4. Quality products
5. English speaking manpower

These features of the Indian BPO industry attract long-term contracts and as a result, there are high earnings which in turn result in major contribution to economic growth.

Service providers are effectively utilizing India’s talent pool by designing large scale talent re-engineering initiatives and employee engagement activities. This is enabling the industry to provide both end-to-end and high-end value-added services across sectors.

- India’s talent base expanding rapidly with an annual addition of nearly 4.4 million graduates and postgraduates in FY2012
- India retains its dominant position as the leading country to churn out ‘Ready-to-hire’ pool of graduates, 400,000-500,000
- Industry-NASSCOM-Government initiatives to enhance long-term employability through finishing schools, mentorship programmes, setting up industry benchmark (NASSCOM Assessment of Competence) and IT-BPO Sector Skill Council (SSC) initiative
- Internally, supply side is taking several employee engagement initiatives to retain human capital – retention/performance-based bonuses, rewards & recognitions, career development plans, up/cross-skilling, CSR initiatives, etc.
Leading BPO companies in India

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<tr>
<th>S.No</th>
<th>Company Name</th>
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<tr>
<td>1</td>
<td>Genpact India Pvt. Ltd.</td>
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<td>2</td>
<td>Tata Consultancy Services BPO</td>
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<td>3</td>
<td>Aegis Ltd</td>
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<td>4</td>
<td>Wipro BPO</td>
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<td>5</td>
<td>Firstsource Solutions Ltd.</td>
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<td>6</td>
<td>Aditya Birla Minacs Worldwide Ltd.</td>
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<td>7</td>
<td>WNS Global Services (P) Ltd</td>
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<td>8</td>
<td>Infosys BPO</td>
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<td>9</td>
<td>Serco Global Services Ltd</td>
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<td>10</td>
<td>EXL Services</td>
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<td>Hinduja Global Solutions Ltd</td>
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<td>12</td>
<td>HCL Technologies Ltd. - Business Services</td>
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<td>13</td>
<td>Hero Management Service Ltd</td>
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<td>Mphasis Ltd</td>
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<td>15</td>
<td>Syntel Ltd</td>
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**Note:** This list does not include some companies whose corporate headquarters are located outside India, but have significant India-based delivery capabilities, and have not shared their India-based revenue figures. Had they been ranked based on their India revenues, companies such as Convergys, IBM Daksh and Sutherland Global Services would have also appeared in this list.

The BPO companies are judged according to the clients they cater to, their work and the output and also the employee welfare and satisfaction.

**Government's Supportive Measures**

recognizing the growing importance of the business process outsourcing, the Government of India has introduced various policy concessions and initiatives to accelerate the growth of the IT-enabled outsourcing market. Spearheaded by associations such as National Association of
Software and Service Companies (NASSCOM), the Indian software and services industry has also taken various steps to ensure that India becomes the global hub for IT-enabled outsourcing in the future. Some of the steps taken by the Government and industry for the ITES/BPO sectors are as follows:

1. In May 2002, the Government of India has accepted the recommendations of NASSCOM and removed certain procedural bottlenecks that were hampering the growth of the Indian call center industry.
2. The Government of India (Central Board of Direct Taxes - CBDT) has allowed total income tax exemption on the export of IT enabled outsourcing services under Sections 10A/10B of the Income Tax Act, 1961. These IT enabled products or services are:
   a. Back-office Operations
   b. Call Centers
   c. Content Development or Animation
   d. Data Processing
   e. Engineering & Design services
   f. Geographic Information System Services
   g. Human Resource Services
   h. Insurance Claim Processing
   i. Legal Database
   j. Medical Transcription
   k. Payroll
   l. Remote Maintenance
   m. Revenue Accounting
   n. Support Centers; and
   o. Web-site services
3. Foreign Direct Investment (FDI) for 100 percent of the equity has been permitted in BPO companies.
4. Permission of duty-free imports of capital goods (under the Export Promotion of Capital Goods scheme) for BPO companies.
5. The Government has promoted several Software Technology Parks (STPs) which provide ready-to-plug IT and telecom infrastructure. STPs also allow single-window clearance for all regulatory compliance issues. Currently, several STPs have been established across India covering most of the major towns/cities.

Threats
Despite the boom and support that BPO sector has fetched, there are certain grass-root level setbacks too. They are as follows:
1. Lack of maturity in service line, increasing competition among e-logistics providers and management resistance are the main deterrents to the outsourcing in the logistics sector.
2. Discretionary cuts in budgets, low growth due to industry maturity and decentralized nature of facilities management are the main deterrents to the outsourcing in the facility & operations.
3. Privacy concerns and technical nature of subject matter are the main deterrents to the outsourcing of legal services in India.
4. If all above is not enough, the companies which are outsourcing non-core processes from third party service providers are literally placing their fate in the hands of another company, which appears to be a normal setback of BPO at the outset.
5. Some companies which jumped BPO market in India are now looking to sell their assets being unable to scale operations up to the required level. As per the NASSCOM report, recently there were about 200 Indian companies offering BPO and related services looking for buyers.
6. Companies rush into BPO market without understanding the kind of operational and marketing issues they would have to cope with, and the kind of gestation periods to be expected before profits can start flowing in consistently. As a result, many facilities that were set up are lying vacant, and the failed enterprises have to either close down or get acquired, as they have neither funds nor clients.

7. The rapid growth of India's ITES-BPO industry has not been taken too well in developed countries from where jobs are coming to India. Recently, in the US, bills have been tabled in five states namely; New Jersey, Maryland, Connecticut, Washington and Missouri that sought to ban the transfer of state data processing contracts to developing nations. In the UK, three of the country's biggest trade unions have come together to fight the loss of jobs to India.

Challenges

The countries competing with India are Mexico, Philippines, Malaysia, China, Canada, Poland, Egypt and Malaysia. These countries have obviously placed several challenges before BPOs in India, since the competing countries have several advantages over India. It's not that India cannot or does not provide these advantages, but are still at a nascent stage. These include

1. Infrastructure for providing good telecom facilities
2. Finding workers who are aware of the American culture
3. Setting up new service lines
4. Finding skilled workers for BPO jobs
   * Improving operating processes
5. Further cost reduction
6. Political reasons concerning markets of Europe and North America
India accounts for less than 5 per cent of global technology spending – tremendous untapped potential for growth of Indian IT-BPO sector, in both core as well as emerging opportunities.

To achieve this growth, the sector has to continue to re-invent itself – through new business models, global delivery, partnerships and transformative focus.

Prevailing global megatrends presents new opportunities and risks for the industry, which will shape the technology industry landscape.

IT-BPO sector will need to build on its strengths and address challenges around competition, talent, security and business environment.

In the future, the industry to drive transformation, innovation and inclusivity in business and India.
The key action themes for the IT-BPO industry to remain competitive and profitable in the future are:

- To increase operational efficiencies, reinvent and embrace new business models which will offer customers a transformed business proposition. For example, based on the customer requirement shift to transaction-based pricing which facilitates revenue-generating projects.
- Drive concerted initiatives to strengthen the innovation capacity and research capabilities through specific domain focus and by encouraging R&D collaborations and public-private partnerships. Pursue continued efforts to further build a high-caliber R&D pool, not only from an educational perspective, but also by instilling the relevant research aptitudes and capabilities.
- Continue to strengthen the long-term entrepreneurial environment.
- Enhance the skilled talent pool in the country and focus on specialization.
- Continue the use of ICT for inclusive growth. Ensure that the basic necessities like education for masses, quality healthcare and employment and skill generation is benefited by ICT.
Conclusion

As per the estimates, India is poised to become a No. 1 BPO destination in the Asia-Pacific overwhelming all the so-called odds. Particularly, when it comes to ITES-BPO tier, with a current base of 96,000 call centre seats, India is supposed to grow by 85 per cent to reach a capacity of 1,77,000 seats over the next 12 months to become the biggest BPO hub in the region. Newspaper and magazine articles and analysts' briefings throughout the globe are reporting the projected strong growth of the BPO market in India. The Indian IT-BPO industry has proved to be a premier source of mass employment across the country. However, to attain ‘industry-ready’ status, organizations were required to equip their employees with a new set of skills – foreign language capabilities, global business process knowledge, sales and marketing skills, research (business, market, financial) and business analytics.

Thus, let us keep our figures crossed and see that how does the BPO strategy install perfection into the Indian corporate to help them achieve efficiency in their core businesses and reduce costs related to the non-core business activities and further, how does it add new hue to various professions involved in this paparazzi to make the BPO a fertile business strategy.

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