

# BPO: The Strategic Alternative for India

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In an era of change, restructuring and growing, business is becoming more competitive and demanding day by day. Utmost importance is given to profitability at every level and by all processes. If any business process or function is non-productive or non-profitable, that is, non-core but necessary business processes, then the better strategic alternative is to outsource that process to a firm that specializes in that function, ensuring better economical performance. India, with its cost and time differential advantages, backed by an educated workforce, could commit quality of service. India is fast emerging as a preferred destination for outsourcing. Business process outsourcing (BPO)/information technology enabled service (ITES) is emerging as the next big opportunity for India after collapse of the dot com bubble and the economic slowdown. The present study is an attempt to elucidate the evolutionary cycle of outsourcing. A SWOT analysis has been carried out to evaluate India's competitiveness to meet global standards and thereby emerge as a preferred destination for outsourcing.

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## 1. Introduction

As organizations around the world strive to improve the quality of their processes while managing their bottom lines, business process outsourcing (BPO) has

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become the new imperative. The collapse of the dot com bubble and economic recession changed business practices at the turn of the century. Manufacturing, distribution, accounting, whatever is subjected to simple test: Could the output of each be sold in the open market? If not, subcontract the work/function/process to a firm that specializes in it, resulting in a faster, more efficient and cost-saving outcome. Outsourcing non-core business processes to a third party or agency enables one to concentrate more on core process, increasing overall profitability of the business.

Outsourcing is not a new concept. It has been practised by MNCs for decades, but is the latest phenomenon to grip India. BPO is increasingly becoming the strategic choice of companies looking to achieve cost reductions while improving their service quality, increasing shareholder value and focusing on their core business capabilities. Citing its recently released report, 'BPO's Fragmented Future', Forrester Research<sup>1</sup> believes that the BPO market will grow up to \$146 billion in 2008. According to the NASSCOM McKinsey Report 2002,<sup>2</sup> outsourcing in India will grow significantly by 2008 to over \$24 billion from the earlier projected \$17 billion in 2000. Further, IT enabled services (ITES) would account for 37 per cent of total the IT software and service market by 2008. Typically, IT is leveraged extensively carrying out outsourcing function, and for this reason the terms ITES and BPO terms are used interchangeably.

Significant growth of software exports can be accounted for with initial body shopping, and later by the ITES sector. Export of the ITES sector grew by 73 per cent during 2001–2 and 78 per cent in 2002–3. India's BPO industry grew by 59 per cent in 2002–3 and is projected to grow 54 per cent in 2003–4 to \$3.6 billion Table 1 summarizes some important figures in support of the study.

**TABLE 1**  
**IT Software and Services in India**

<i>Years</i>	<i>1999–2000</i>	<i>2000–2001</i>	<i>2001–2</i>	<i>2002–3</i>
Total exports (Rs million)	171,500	283,500	365,000	475,000
IT general services (Rs million)	14,700	242,500	294,000	358,000
IT enabled services (Rs million)	24,000	41,000	71,000	117,000
Software exports as % of total	70	74	76	78
ITES as % of software exports	14	15	20	25
Growth of ITES (%)	–	71	73	75

*Source:* NASSCOM McKinsey Report, 2002. See Note 2.

The tremendous potential lured a large number of players in a very short span of time into this industry. Gradually, India is becoming the hub of BPO and ITES. The banking, financial services and insurance industry (BFSI) is globally competitive. Its costs are 7 to 10 per cent lower than its European counterparts.

<sup>1</sup> See <http://www.forrester.com/ER/Research/Report/Summary/0,1338.16620,00.html>.

<sup>2</sup> See [http://www.nasscom.org/artdisplay.asp?Art\\_id=1225](http://www.nasscom.org/artdisplay.asp?Art_id=1225).

American BFSI have saved \$6 billion in the last four years by offshoring to India. They have added 125,000 new jobs in the same period due to these savings and thus prevented lay offs. BFSI offshoring has resulted in quality and productivity gains of 15 to 20 per cent and customer satisfaction of almost 85 per cent.

A survey of chief information officers (CIOs) by Merill Lynch in 2001 indicated that over 70 per cent of respondents currently outsource less than 5 per cent to Indian companies. However, merely 70 per cent also indicated that they plan to ramp up outsourcing to the tune of 15 per cent in the medium term. According to one of the chief executives, IT and ITES, as BPO is called today, are industries that have the potential for immense growth over the short, medium and long term, and would be blue chip industries in times to come. All these facts further strengthen BPO as the next wave of growth for India. Various authors, including Andrea (2003), Datar and Chohan (2002), Dumblekar (2002), Furniss and Janssen (2003), Hegde (2003), McCracken (2003), Ngwenyama and Bryson (1999) and Singh (2003) have discussed the Indian BPO industry.

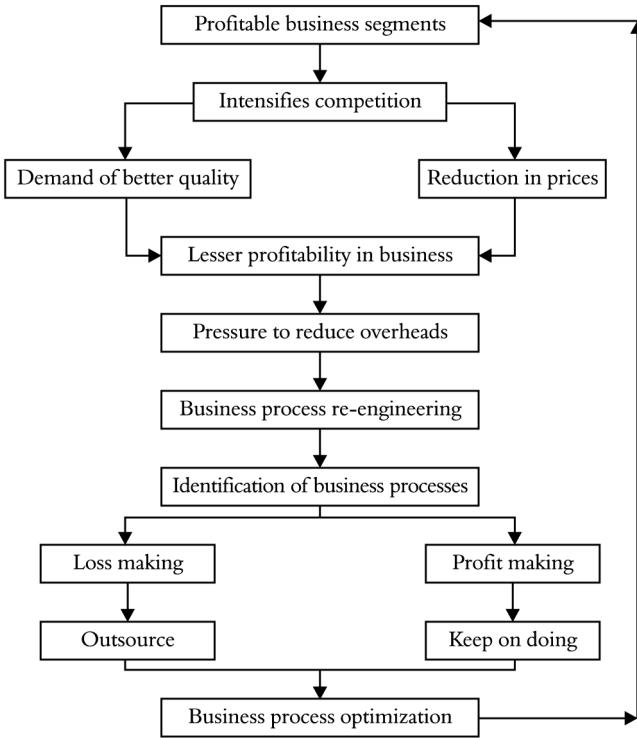
## **2. BPO: Emerging Strategically**

The globally prevailing practices of LPG (liberalisation, privatisation and globalisation) have escalated the level of competition in the market. Increasing competitiveness had a dual impact on organizational stability (see Figure 1). First, the market demanded better quality products; and second, succumbing to market pressure, companies had to reduce prices, which means higher operational cost or depleting profit reserves.

'Survival for the fittest' is the law of the land. In order to be in business, the corporate sector was forced to reduce overheads in the initial years of the nineties. This initiated the search of suitable strategic alternatives. In order to increase profitability per business process, corporate houses tried 'business process re-engineering' in and around 1994–96 for bringing in operational excellence to re-engineer their business processes for optimal service, quality and cost.

Re-engineering initiated with introspection of business processes assisted the management to standardize few processes. Organizational efforts for standardization helped in benchmarking few processes for which the organization possessed core competency (Figure 2). Re-engineering helped in benchmarking, but the major outcome of the exercise was processes that could not be standardized either due to lack of core competency or scale of economies. If a company possesses core competency for any business process but lacks in volume (scale of economies), it ought to look for a strategic partner who has the volume for that process but lacks core competency. Merger of such companies can be profitable for both. This analysis created a very strong wave of mergers and acquisitions around 1996–99. Initially it appeared as a win-win strategic alternative. The race for mergers and acquisitions slowed down with the realization of a few processes that still could not be made profitable. With the objective of business process

**FIGURE 1**  
**Evolutionary Cycle of BPO**



optimization, the next search cycle is initiated. All the business processes are tested on two parameters—core competency and profitability (Figure 2). If a process is profitable (contribution to net profit per business process) but the organization does not have core competency for that process, it opts for internal outsourcing, for instance, Ford, Volvo, Samsung, Tracmail, HCL Technologies, Daksh and Msource.

**FIGURE 2**  
**Profitability–Competency Strategic Matrix**

<b>Profitability</b>	High	Internal outsourcing	Benchmarking
	Low	External outsourcing	Mergers and acquisitions
		Low	High

If the process is not profitable and the organization and neither does it possess core competency, then external outsourcing emerges as a strategic alternative

for the present time. If company identifies any process that is less profitable or not profitable for the company and decides to outsource such process, then that benefits the company multidimensionally. It can save resources from the less profitable process and deploy resources (man, money, material and machine) to others that generate more revenue for the company.

Business process outsourcing once had a clear place in the executive's toolkit—it was used to achieve cost savings in transaction-intensive, back-office business processes. That has all changed. BPO is emerging as a flexible and powerful approach that business leaders can use to achieve a wide range of tactical and strategic aims. A new piece of thought leadership, published in conjunction with Accenture's Institute for Strategic Change in August 2002,<sup>3</sup> is a global study that assesses the big opportunities associated with BPO. Using the idea of a 'relationship compass', the paper takes a holistic look at the complexity of business process relationships and how companies can form effective ones.

### **3. SWOT Analysis of the Indian BPO Industry**

Outsourcing is not about low cost and managing short-term relationships, but is about adding value and building long-term relationships. The Indian BPO industry is at a crossroads. No doubt, it has shown great performance for many years with a phenomenal rise in BPO/ITES. The US slowdown might, however, influence industry potential. A SWOT (strengths, weaknesses, opportunities, threats) analysis helps elucidate India's strategic advantage.

#### **3.1 Strengths**

The concept of a BPO typically conjures up images of outsourcing. That picture is now changing with a BPO going beyond routine outsourcing activities like call centres, data crunching and medical transcription. The main factors that contribute to India's success are discussed.

##### **3.1.1 Rich Talent Pool**

India has always been recognized as a rich pool of talent meeting global norms. The following further strengthened India's standing at the international level:

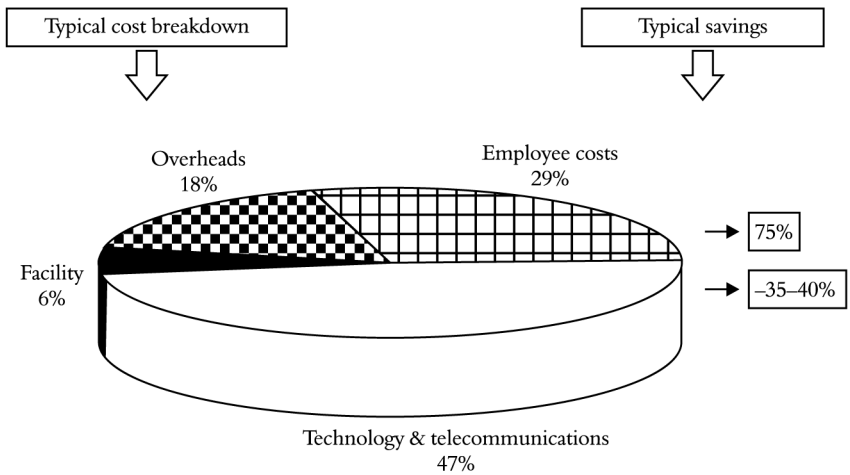
1. A population with good computer skills and English-speaking capabilities—among the highest in the world. This can be attributed to the importance of education in Indian families.
2. More than 2 million graduates, including over 20 per cent engineers, annually.
3. More than 0.3 million postgraduates passing out every year.

<sup>3</sup> See [http://www.line56.com/research/download/accenture\\_bpo\\_big\\_bang.pdf](http://www.line56.com/research/download/accenture_bpo_big_bang.pdf).

### 3.1.2 Lower Attrition Rates

Higher unemployment in India further lowers attrition rates to as low as 1:7 in comparison to developed countries. Curtailing operational expense is a primary concern to making processes profitable. This positive cost differential advantage always lures the corporate sector into outsourcing business processes in India. Cost of non-technical manpower in a developed country, which is around \$2500 to \$3000, could be reduced to as low as 10 per cent, that is, \$200 to \$300, in India. Outsourcing to India thus saves cost directly (see Figure 3).

**FIGURE 3**  
**Factor Cost Advantage**



### 3.1.3 Technological Competency

Earlier the technology gap has been identified and abridged at a faster pace. Now the technology adopted in India is equally competitive to global standards. Mention may be made of the banking and, insurance sector, CRM, HR and software development, and to an extent even manufacturing in this regard. All these higher-end technological developments can be attributed to development in the IT and telecom sectors. Technological advancement in India has witnessed rapid progress in last decade mainly due to privatization or reducing governmental control. This state-of-the-art technology has enabled India to improve the quality of service at a reasonably reduced cost (see Figure 3).

### 3.1.4 Geographical Benefit

The time differential advantage of 12 hours to the US provides a good opportunity for companies to provide round-the-clock service to their customers, and meeting deadlines.

### 3.1.5 *Economical Advantage*

BPO was adopted in India to provide globally viable solutions with a economic business model due to the inherent strategic advantage of corporate houses like Tata, Reliance, the Bharti group and the Hero group, which back BPO in India. The management of these groups have proud efficient over time. Their rich managerial experience controls and ensures higher productivity. Apart from big corporates, there are other companies established by professionals and backed by venture capitalists like Customer@asset.com and www.24/7customer.com. Further, low cost of educated workforce increases profitability of the project.

### 3.2 *Weaknesses*

Not everything in the Indian BPO industry is rosy. Many large companies are wary of a number of factors. The scattered BPO market is a major hitch for outsourcing companies; IT-related jobs are restricted in and around Bangalore, whereas head offices of major corporates are in Mumbai. It is one of the most important considerations that determine favourable destination of BPOs. Some other responsible factors are discussed.

#### 3.2.1 *Feeble Infrastructure*

Despite of more than five decades of independence, India's reliability is at stake especially in segments like power and telecom, thanks to half-hearted bureaucratic measures. Any company intending to have a base in India has to provide for an alternative source of power generation in case of power failure and scheduled power cuts. This increases the cost of production. Even the cost of communication in India is comparatively dearer than other neighbouring or competing countries, which accounts for their garnering a number of orders instead of India.

However, the bandwidth situation has improved dramatically over the last three years with the laying of India's first private undersea cable. Moreover, considerable bandwidth is also available to companies through the state-owned Videsh Sanchar Nigam Limited (VSNL) (partially owned by India's largest business conglomerate). VSNL has strategic stakes and has negotiated contracts to use parts of several international cables like SEA-ME-WE II, SEA-ME-WE III (40 GBPS capacity), FLAG (10 GBPS capacity) and SAFE (40 GBPS capacity), offering connectivity to most locations around the world. Other private operators in India also have aggressive plans to build undersea cable networks with considerable bandwidth over the next two to three years. Besides, the privatization of NLD operations within India has resulted in the emergence of new players. The privatization of the telecom industry has resulted in significant drop in telecom rates. Continuing competition in the industry with the recent entry of newer players will see a further drop in prices. As a result, telecom costs have fallen by 85 per cent in three years.

### 3.2.2 *Cultural Diversity*

The productivity of India was never questioned, but cultural diversity posed questions due to the number of festival holidays. The corporate clock ticks 24×7; in fact, it never stops. In India festivals or other occasions affect regularity, resulting in absenteeism and in turn hamper productivity. Festivals are not restricted to specific periods, but fall throughout the year. In case of other competing countries with single cultural identities, there are few festivals in a year and that too seasonal. In India organizations hire extra manpower to manage work in case of festival-induced absenteeism. Though absenteeism is temporary in nature, the cost of extra manpower is permanent. That in turn reduces productivity per person.

### 3.2.3 *Legal Lacuna*

Security of information and data is the prime concern for companies before outsourcing their business processes. India has still not taken a major initiative towards data protection and privacy, especially for cyber crimes. Legal control on e-practice is still in its nascent stage. MNCs have security concerns regarding their data. In fact, it is the most important consideration that determines the destination of a BPO. Companies like Progeon and, Spectramind sign non-disclosure agreements with their workers, but it is still a concern for the country as a whole that it is yet to meet customer expectations for security.

## 3.3 *Opportunities*

BPOs translate into an enormous business opportunity for India. With many companies looking for the chance to outsource, the global BPO market is bound to grow. India is positioned to capture a sizeable chunk of the global pie in outsourcing due to a number of factors.

### 3.3.1 *People*

Till the late eighties the major factor for establishing a business was infrastructure, that is, the that location should be where infrastructure was available quite economically as it consumes a major part of equity. Nowadays there is a paradigm shift to locations where people are available easily. Here, India has a number of advantages because of its quality manpower. This helps India project itself and its services as tradeable rather than just high skilled.

### 3.3.2 *Information Technology*

India has proved its supremacy to the rest of the world in having a rich reservoir of IT companies. These IT companies are providing solutions to a majority of

Fortune-500 companies. This is evident from existing client base of IT companies in India. Now the same or existing client base is outsourcing their processes. Here, India could further strengthen its position by capitalizing on this phenomenon.

### **3.3.3 Market Potential**

The current conservative estimate is that as of now it has only been a testing phase of the BPO industry where just 6 to 10 per cent of industry potential has been tested. This elucidates the tremendous potential of the industry. India has proved to be a preferred destination. Even the World Bank has opted for India as their first base out of their home country. India has fair chances to encash on actual potential. Many companies intend to extend outsourcing to more areas than routine ones, even US multinationals, including HP, Whirlpool and GE.

## **3.4 Threats**

Globally, companies are exploring the possibilities of outsourcing the functions of their financial and accounting departments. Hence, total revenue collection of the Indian BPO industry is growing. US clients slashed billing rates, so Indian companies are doing so at a much slower rate. The Indian industry has felt the heat earlier with the dotcom burst and closure of Internet service providers (due to excessive dependence on the US). Due to the uneven profile of the sector, its growth rate becomes susceptible to turnaround in the US.

### **3.4.1 The Anti-outsourcing Bill**

The anti-outsourcing movement has been slowly gathering steam as the US grapples with its worst unemployment rate (of 6 per cent) in the last four years. In order to curb the flight of jobs out of the US, state senators moved Bills in their respective senates. As much as 71 per cent of Indian IT export revenue comes from the US. Any movement against outsourcing in the US will have a dual impact on the Indian economy—that is, on outsourcing contracts as well as through Indians placed on-site (US). The situation could worsen if the slow growth of the US economy continues. Then social pressure could prompt it to seek excuses to curtail outsourcing. But US companies like GE, Citigroup and American Express are setting up operations here in India. The case of offshoring is pretty strong.

### **3.4.2 Competition**

BPO has been established as a win-win alternative to both the company/country that outsources and the company/country that accepts. This further intensifies competition. Earlier, the Phillipines, Ireland, Malaysia and a other few countries

were competing where India had quite a sustainable strategic advantage. Now other countries like China have emerged as strong competitors. At the moment language is one positive factor benefiting India, but gradually China is trying to overcome that shortcoming by adopting international languages like English as mode of their global business. In order to take the strategic lead, India has to gain other advantages.

### 3.4.3 Billing Rates

For the last four to five years BPO has taken the shape of an industry and therefore cost per unit of process plays vital role for business negotiation, for example, cost per man-hour, cost per unit of production, cost per transaction and cost per month. Their nature creates a constant pressure on rates. Earlier quality was the major criterion, whereas nowadays quality at a reasonable price is it. This results in price-based negotiations and 'L1' (least quote) is likely to rule over a period of time. It might reduce the profitability and then the interest of people.

## 4. A Comparative Evaluation of BPO in India

The initial hype and hysteria of BPO was created by major players of the industry. The boom was observed due to a contribution of technical and non-technical factors. Many of these business processes depend on IT, and they are separate from core IT operations. Major industries where Indian companies were considered for outsourcing may be identified from Table 4.

**TABLE 4**  
**Sector-wise Analysis of BPO/ITES in India**

S. No.	Industry	Contribution (%)
1.	BFSI	35
2.	Telecom	12
3.	Retail	4
4.	Telecom service provider	3
5.	Health care	3
6.	HR	3
7.	Hospitality	2
8.	Utilities	2
9.	Transportation	1
10.	Government	1
11.	Others	22

Source: Nasscom.org.

For outsourcing, prima facie India seems to be a suitable and favourable destination for major companies. Though a number of states are quite suitable for outsourcing activities, if we consider the suitability of each state based on the

parameters like industry development, HR, telecommunications, power supply, transportation and governmental support, only few states match up (Table 5).

**TABLE 5**  
**State-wise Suitability Analysis for BPO Facilities**

<i>S. No.</i>	<i>State</i>
1.	Andhra Pradesh
2.	Chandigarh
3.	Delhi
4.	Goa
5.	Gujarat
6.	Karnataka
7.	Kerala
8.	Madhya Pradesh
9.	Maharashtra
10.	Punjab
11.	Tamil Nadu
12.	Uttar Pradesh
13.	West Bengal

Indian companies seem to have a dominant foothold in the outsourcing industry, but the major potential is yet to be utilized. Though some forms of BPO may include both IT management and business operations, the approach is primarily about turning over functions such as payroll, accounting, billing or even real estate management to a third party. Many areas are yet not explored to their fullest extent, including:

- engineering design services;
- bio-informatics;
- research- and knowledge-based services;
- insurance claims processing and document management;
- human resource services;
- legal databases; and
- digital media and animation content development

## **5. Conclusion**

Many people believe that money spent to buy services abroad is loss to the US economy, but such views are negated easily. Companies are in business for profits. Companies move their services offshore because they can make more money, which results in greater wealth to the US. In the long run, only outsourcing improves the competitive edge of business. Outsourcing helps companies to actually save several jobs, which it might have had to lay off otherwise. This is evident from live comparison of the steel industry, which did not support outsourcing

vis-à-vis that of automobile industry, which did. In the last two decades the US steel industry has seen huge a lay off—from approximately 0.6 million employees in 1974 to approximately 0.2 million in 2001—where as in the automobile industry there has been practically no lay offs.

Robust communication infrastructure, a large English-speaking workforce, low labour costs, appropriate time zone difference with the West and the brand equity built by the software services sector are compelling reasons for choosing India as a BPO destination. BPO is definitely a sunrise sector in India with bright prospects in the long term. But the challenge is to retain the competitive advantage as a preferred destination. The latest research by McKinsey reveals that India gets only 22 per cent of the BPO pie. By offshoring \$1 of US labour costs, \$1.45 to \$1.47 of value is created globally. The US captures \$1.12 to \$1.14 of additional value created by every dollar offshored, whereas a receiving country like India gains only 33 cents from an offshore of \$1 of US labour cost. Offshoring brings substantial benefits to the global economy and lion's share contributing to US economy. Even Nobel laureate Lawrence R. Klein has clearly established that raising barriers to worldwide sourcing will have adverse impacts on US workers and firms.<sup>4</sup> Outsourcing helps company and country in many ways—cost savings in wages, new revenues through capital assets, repatriated earnings and redeployed labour.

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<sup>4</sup> See [http://rspas.anu.edu.au/papers/asarc/klein\\_palanive.pdf](http://rspas.anu.edu.au/papers/asarc/klein_palanive.pdf).

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