

# Overview of KPO and BPO Industry in Gurgaon

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## ARTICLE DETAILS

### Article History

Published Online: 10 December 2018

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### Keywords

Globalization, Outsourcing, Exports ,  
Economy

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## ABSTRACT

Globalization presents many challenges to the existing businesses throughout world. KPO and BPO industry realized that in order to survive and grow, they needed to have a sustainable competitive advantage and need to focus all their energies and resources on building this advantage. In the 1970's, the outsourcing of the Information Technology (IT) function started to happen on a wider scale due to the high cost of processing. In the late 1980', the information system trade press first coined the term outsourcing to describe the growing dependence by firms on outside providers for on-going IT support. Knowledge Process Outsourcing (KPO) describes the outsourcing of main information-related business activities which are competitively important or form an integral part of a company's value chain. The term IT enabled Services (ITeS) and Business Process Outsourcing (BPO) are often used inter-changeably. However, strictly speaking, ITeS primarily involves outsourcing of business processes (domestic or offshore) that can only be packaged with IT. These services are delivered through a platform of telecommunication or data network or other electronic media. This paper reflects overview of KPO and BPO industry in Gurgaon.

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## 1. Introduction

Globalization presents many challenges to the existing businesses throughout world. KPO and BPO industry realized that in order to survive and grow, they needed to have a sustainable competitive advantage and need to focus all their energies and resources on building this advantage. Prahalad and Hamel (1994) stated through their theory of core competence that companies should not try to be good at everything but should concentrate on their core competencies, leaving the rest to others who are best at doing that. Globalization also meant that companies had to be cost efficient. If you do not focus on costs, someone who is cost competitive will take away your customers by delivering the same value at a lower price.

## 2. Concept and Evolution of Outsourcing

In the 1970's, the outsourcing of the Information Technology (IT) function started to happen on a wider scale due to the high cost of processing. In the late 1980', the information system trade press first coined the term outsourcing to describe the growing dependence by firms on outside providers for on-going IT support. Today, the term is more widely defined as contracting for any of company's recurring internal functions with outside vendors. The crux is that the vendor rents his skills, knowledge, technology, service and manpower for an agreed price and period to perform functions that the client no longer finds it beneficial to perform it himself.

The term outsourcing is used when firms contract manufacturing or services to third party vendors, either with in the country borders or offshore, who offers specified service for a particular period of time at an agreed price.

Outsourcing covers both foreign and domestic contracting, and sometimes includes off shoring (relocating a business function to a distant country) or near shoring (transferring a business process to a nearby country). Outsourcing is often confused with off-shoring; however, they can be distinguished: a company can outsource (work with a service provider) and not offshore to a distant country.

**Knowledge Process Outsourcing (KPO)** describes the outsourcing of main information-related business activities which are competitively important or form an integral part of a company's value chain. KPO requires advanced analytical and technical skills as well as a high degree of specialist expertise.

KPO is a continuation of Business process outsourcing, yet with rather more of business complexity. To be successful in Knowledge process outsourcing, a lot of guide is required from interorganizational system

## 3. Perspective on Outsourcing

Outsourcing has long been viewed as a make versus buy decision. Traditionally, this was the relative benefit derived in economic terms on a decision of making a particular component or service, against buying it. Management theorists believed that the competitive advantage can be maintained by identifying core and non-core functions and transferring the non-core functions to a specialist. These discussions evolved across time and gave birth to the concept of virtual organization, which essentially meant that the organizations should transfer non-core functions to a specialist and focus on its core functions. The management literature has often argued that non-core functions of a firm should be outsourced (e.g., Hamel and Prahalad, (1990, 1994); Venkatesan (1992), Quinn and Hilmer (1994). An organization, it is argued, should primarily concentrate on its

core-competence areas, from which it benefits in terms of cost or a monopolistic advantage, and outsource the manufacture of other products. The words of Tom Peters, as quoted by Salvetti and Shell (1995) goes as "do what you do best, outsource the rest". Porter's value chain concept, drawing on industrial-organization economics, encouraged decision makers to shift their focus from the cost of component to the profit opportunity associated with the underlying activity and decide whether the user should be in the business of producing the part/service (Porter, 1980).

#### 4. KPO and BPO - Definition

The term IT enabled Services (ITeS) and Business Process Outsourcing (BPO) are often used interchangeably. However, strictly speaking, ITeS primarily involves outsourcing of business processes (domestic or offshore) that can only be packaged with IT. These services are delivered through a platform of telecommunication or data network or other electronic media. ITeS is therefore a subset of BPO. Although, usually BPO is associated with lower end call center work, there has been an evolution over the past few years in the outsourcing business to include higher end knowledge process outsourcing (KPO).

#### 5. Classification of KPO and BPO Services

KPO and BPO can be classified in terms of the geographical reach. *Offshore outsourcing* is when the specialist services are contracted outside the company's own country. *Near shore outsourcing* is when the services are contracted in the neighboring country and *onsite outsourcing* is when the services are contracted within the borders of the company's own country.

Call centers, which are an integral part of the KPO and BPO industry, has emerged as the India's new sunshine sector. These firms also handle a host of activities including responding to credit card enquiries, preparation of invoices, payrolls, cheques, reconciliation of daily accounts, medical transcriptions, processing applications, billing, and collections (Babu, 2004).

The KPO and BPO definition includes both voice – inbound and out-bound – and non-voice services, which can include data entry and analysis, payroll generation, benefit administration and accounting functions (Srivastava and Theodore, 2006).

#### 6. Rationale of KPO and BPO

KPO and BPO cover diverse areas like finance, HR, telecommunication, healthcare, administration, manufacturing etc. Equipped with technology and manpower, these services are provided from e-enabled locations. There is a substantial enhancement in service standards and radical reduction in costs. The KPO and BPO processes migrated to India bring about a saving of around 40-60% of the cost (NASSCOM, 2002, 2004, 2006). Cost saving may vary from industry to industry and country to country, but most expert estimates ranges between 30-60% (Pagadala, 2004). The key source of India's advantage lies in the labor cost differential (NASSCOM 2003) and the advancements in software technology along

with the availability of a large pool of well-trained professionals who can speak fluent English (Chengappa and Goyal, 2002; Ramchandran and Voleti, 2004; Saini and Budhwar, 2004). The developments in the supporting infrastructure like telecom and internet has facilitated the process and contributed to the growth. The promise of cost savings will always remain fundamental. However, two important factors namely; adverse currency movements and wage inflation in India have contributed to reducing the operating margins of vendors. The Indian currency has significantly appreciated compared to the US dollar since 2002 — a trend that is likely to continue in the near future. The inflationary pressures on operating cost are also unlikely to relent; therefore, it's prudent to conservatively estimate the effective savings to be in the range of 25-40 % (Nasscom-McKinsey, 2005).

#### 7. KPO and BPO -Value Adding Proposition

The organization's belief in value proposition provided by KPO and BPO is demonstrated by the increasing number of global contracts and alliances focusing on outsourced service delivery. KPO and BPO suppliers over and above reducing costs, provide expertise, assist in enhancing clients' services, and increase the profits. The parties involved in a BPO relationship i.e. the client and vendor organizations need to comprehend mutual goals, capabilities and values before entering into an outsourcing partnership in order to take advantage of the arrangement (Feeny et al., 2005).

The relational view of outsourcing (Dyer and Singh, 1998) emphasize that to achieve a win-win situation, there is a need to have shared goals and mutual understanding of processes and decisions between the client and vendor organizations. The key element of the partnership is in the client understanding the vendor's end of the BPO market. For example, issues such as HR, technology, and training may directly affect clients' operations. The client is in a better position to negotiate contracts, make strategic decision about ownership, handle competition and build long term relationship with vendors if he comprehends the offshore BPO markets. For example, when global companies' setup their own captive BPO centers at offshore locations, the understanding of the dynamics of the BPO industry in such locations may be immensely valuable.

#### 8. Framework of Indian KPO and BPO Industry and KPO Industry

The changes in the Indian economy had a critical role to play in the development and prospering of IT sector and eventual percolation to BPO industry and KPO industry. The mixed economy approach followed by India up to 1991 did not provide the right environment to nurture entrepreneurship and competitiveness. The Indian economy based on a centralized approach hit the bottom in the year 1991. During that time India experienced a double-digit rate of inflation, decelerated industrial production, a very high ratio of borrowing to the GNP, and a dismally low level of foreign exchange reserves. The foreign reserves were barely sufficient to cover the cost of three weeks' imports. The foreign exchange requirements of the Indian government were met by pledging gold to the Bank of England. The multilateral bodies like World Bank and the

International Monetary Fund (IMF) agreed to bail out India on the condition that it changed from a regulated regime to a free market economy. This dawned the new era of liberalization, where the government announced a series of changes in the economic policies starting with the devaluation of the rupee, followed by new industrial, fiscal, and trade policies. Control over the banking sector and foreign investments were eased and public sector underwent major reforms. After these reforms, the economy has become dynamic and vibrant, and foreign reserves have gone up significantly (Budhwar et al, 2006). The outsourcing industry had come to be viewed as the primary engine of the country's development over the next few decades, contributing broadly to GDP growth, employment growth, and poverty alleviation (Srinivasan, 2006).

These reforms provided the trajectory for India to launch itself as a superpower in the KPO and BPO industry in the early twenty-first century. The already established IT sector and availability of large number of technically literate English-Speaking people provided the right ingredients for this growth (Budhwar et. al, 2006). The large IT companies assisted the KPO and BPO industry in expanding its base. The IT giants were able to offer a wide spectrum of services primarily leveraging on the broad skill sets and global clientele. There has been a remarkable improvement in the type of services being offered by Indian companies from the simple beginnings.

According to NASSCOM Strategic Review 2011, KPO AND BPO is now the fastest growing industry in India. Today, India is considered as the electronic housekeeper of the world since most of the outsourcing services from India are typically provided by ITeS- BPO. The Indian KPO AND BPO industry has matured and grown across time (Babu, 2004). In just over two decades, the industry has grown to reach nearly US\$ 59 billion in export revenues, employs around two million employees, and account for approximately 55 percent of the worldwide BPO market (NASSCOM-2011, Strategic Review). There are around 784 Indian KPO and BPO companies registered with NASSCOM (Singh et al, 2009). The main activities or areas covered by the Indian KPO and BPO organizations include customer care, such as remote maintenance, help desk, and sales support; finance and administration, data analysis, medical transcription, insurance claim processing, and inventory management; HR and payment services including payroll, credit-card services, cheque processing, and employee leasing. In addition, the BPO industry has expanded into engineering and design, animation, market research, network consultancy and management, remote education, and content development (i.e., digital content, LAN networks, and application maintenance). BPO activities, where knowledge processing is required are on the increase. Some examples of KPO include intellectual property research, legal and medical research, R&D, analytical services like equity research, information security services such as risk assessment and management, bioinformatics (for example, genome sequencing, protein modeling, and toxicology studies) procurement and global trade (Ramachandran and Voleti, 2004; Singh, 2005a; Ravichandran, 2005; Christopher, 2005).

India, with its large pool of talented professionals and specialized domain workers, is quickly becoming the central hub for what is known as Knowledge Process Outsourcing (KPO).

The Indian KPO sector offers global customers with a wide range of services among various industry verticals. Apart from IT/ ITES related services, the KPO industry provides several knowledge-based solutions such as Engineering Services, Web Application Development, CAD/ CAM Applications, Legal Processes, Intellectual Property and Patent Services, Business Research and Analytics, Legal Research, Clinical Research, Publishing and Market Research amongst others.

Gurgaon is a city just southwest of New Delhi in northern India. It's known as a financial and technology hub. The Kingdom of Dreams is a large complex for theatrical shows. Sheetala Mata Mandir is an orange-and-white-striped Hindu temple. The Vintage Camera Museum showcases cameras and prints spanning a century. West of the city, Sultanpur National Park is home to hundreds of bird species.

The difference between KPO and BPO is that KPO (Knowledge Process Outsourcing) is a subset of BPO. KPO involves outsourcing of core functions which may or may not give cost benefit to the parent company but surely helps in value addition. The processes which are outsourced to KPOs are usually more specialized and knowledge based as compared to BPOs.

KPO is a quick-money sector and provides long-term jobs as well. Well-educated, intelligent, knowledgeable, analytical and deserving candidates can make handsome money in this sector, far more than that is being paid in the BPO sector.

### **9. Contribution of KPO and BPO in the Economic Growth in India**

According to a NASSCOM study reviewing the impact of IT-BPO industry over a decade brought to light the multifold contribution made by the industry on the various social and economic parameters in India. The Indian KPO and BPO industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation (NASSCOM Impact Study, 2010). The intangible impact, which is equally significant, is the ripple effect created in the national and international economic space. The industry set the stage to unleash the hitherto untapped entrepreneurial potential of the middle class Indian and took Indian excellence to the global market.

### **10. Direct Contribution to the Indian Economy**

The emerging role of KPO and BPO industry in the Indian economy is well established. KPO and BPO is considered as the fastest growing segment among the services sector, which in turn fuels the key economic indicators of the country. Some of the indicators where there is a direct contribution are:

- I. **Growing Share of the Country's GDP:** The sectors contribution to the Indian GDP has continuously

increased. It grew from 1.2% in FY98 to an estimated H6.4 % in FY2011. The industry contributed almost INR 15,000 crores in direct taxes (NASSCOM, Strategic Review, 2011). Additionally, the cascading effect of the sector's operating and capital expenditure was estimated to be around USD 30 billion, while consumer spending effect from its employees amounted to INR 76,000 crores in FY2010.

**II. Growing Exports Boost the Foreign Exchange Reserves:** Exports comprise two third of Indian IT software and services revenue, with the KPO and BPO share nearly 24 percent. It is one of the most important channels for bringing foreign currency into the country and accounted for almost 14 percent of the total Indian exports in FY2010. Its contribution to Indian exports (merchandise plus services) grew from less than 4 percent in FY1998 to almost 26 percent in FY2011.

**III. Enhancing the Image of India In Global Market:** The KPO and BPO industry has played a key role in transforming the image of India from a slow-moving bureaucratic economy to a land of world class technology, business service providers and innovative entrepreneurs.

**IV. Generating Employment Opportunities:** Direct employment in the industry is expected to reach nearly 2.5 million in FY 2011 and indirect job creation is estimated to be at 8.3 million. The direct job provided by the industry has been growing at a CAGR of 26 percent making it the largest employer in the organized private sector of the country. (NASSCOM, Strategic review 2011).

#### 11. Indirect Contribution to the Indian Economy

The growth of the KPO and BPO industry has not only boosted the image of India in the global markets but also resulted in certain wider impacts and set the benchmarks for other sectors in the economy.

**I. Additional Employment Generation:** It is estimated that 4 additional jobs are created in the economy for every 1 job created in the IT-BPO industry creating indirect employment opportunities. The indirect workforce includes, people working in housekeeping, providing transportation, security personal, catering staff etc.

**II. Driving Growth of Other Sectors of the Economy:** KPO and BPO provides a multiplier effect of 2 to the other sectors of the economy through its non-wage operating expenses, capital expenditure and consumption spending by its professionals. According to a study by CRISIL in 2007 for every Re.1 spent by the IT-ITeS industry (on domestically sourced goods and services), translates into a total output of about Rs 2 in the economy. This is due to derived demand from capital and operating spends at firm-level and consumption spending by professionals employed in this industry, such as real estate, telecom and retail by creating demand for the output generated by these sectors.

**III. Encouraging Balanced Regional Development:** There has been a remarkable development in the social and physical infrastructure in the cities due to the spreading of operations by the KPO and BPO into these cities. This has also contributed towards building the talent pool in these cities. The industry has played a key role in regional development with KPO and BPO intensive states accounting for over 14 percent of respective state GDPs

**IV. Education:** There has been an increased spending on educational infrastructure to meet the ever-growing demand, by the government and private players. KPO and BPO majors are also undertaking training initiatives to improve student quality.

**V. Enabling Wealth Creation and Asset Building:** The industry has played an important role not only in wealth creation for individuals but has also helped in supporting and sustaining extended households. The NASSCOM-Evalueserve survey shows that 77 percent of employees support their extended families, while 56 percent are the primary bread earners of their households. It has also contributed to asset building with almost 62 percent of the employees owning an automobile, 84 percent spend a portion towards housing (7 percent invest in real estate) and 42 percent employees are able to save more than 10 percent of their salary.

**VI. Infrastructure and Other Amenities:** IT parks and townships are being built, keeping in line with the expansion/entry plans of major KPO and BPO companies. The associated infrastructure roads, housing, retail and entertainment facilities are being improved or built.

**VII. (vii) Fuelling Growth of PE/VC Fund:** The information technology sector kick started the Venture Capital (VC) activity in India and many India-centric funds have been created. Various other sectors, such as healthcare, manufacturing and financial services have also benefited as they are able to access this funding source. The KPO and BPO continue to be the favorite sector and has attracted more than 10 percent of the FDI flowing into India. VC/PE firms have made investments of over 8 billion in India in 700 plus deals (NASSCOM, Strategic Review, 2011).

**VIII. Spurring First Generation Entrepreneurship:** First generation entrepreneur was a rarity in Corporate India as most of the business was controlled by large families or multinationals. There was paradigm shift in this after the advent and growth of ITeS- BPO industry. The shift of focus from physical capital to intellectual capital and the advent of the PE/VC funding enabled a large number of first-generation entrepreneurs with no capital to try their hand at starting new enterprises. The demonstrated success of these entrepreneurs gave confidence to the middle class and spurred them to exploit their potential with confidence. As per Software Technology Parks of India (STPI) data, 8455 units were operative as on March 09, (STPI Annual Report 2008-09) most of which are set up by first generation entrepreneurs.

There were a lot of first- generation entrepreneurs who became billionaires in the process and the wealth created was distributed to stakeholders through stock option schemes.

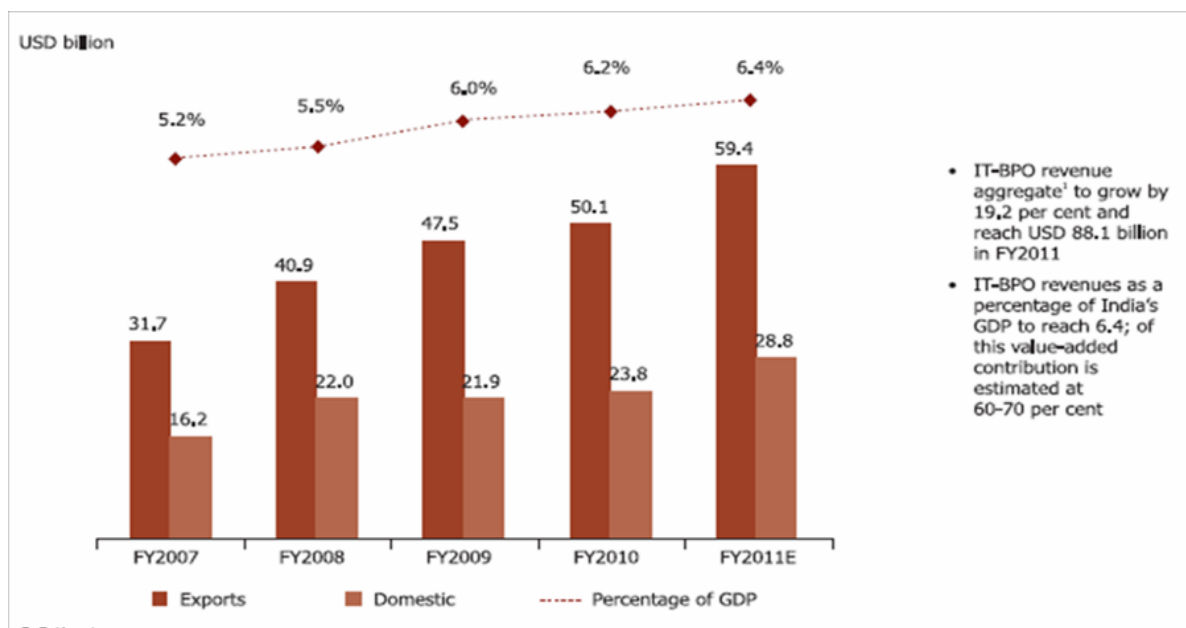
**IX. Improving the Product/Service Quality Level:** As the KPO and BPO companies were catering to and competing with global players required them to adopt quality standards. This high quality of services and products has been the drivers and sustainers of growth in the industry and has helped in improving the image of India from the typical low quality –mediocre II typecast. This has also raised the bar for other industries as well. Traditionally, India has been exporting low end, low-technology oriented products like gems, jewelries and garments/apparels. With the advent of KPO and BPO industry the world began to recognize that Indian products and services could also compete and win against global competitors on quality parameters.

**X. Impact on Employment Practices:** The KPO and BPO industry also consciously follows a diverse employment practice and encourages diversity in the work place in terms of qualification, abilities, gender

and skill sets. KPO and BPO industry helps create employment opportunities in smaller towns/cities, promotes women empowerment and provides employment for differently- abled and non-technical persons thus creating higher growth opportunities for youth and the out-of-the-mainstream candidate

**12. Growth Story of ITES –BPO Industry**

The Indian IT-BPO industry has evolved significantly over the past few years and has been a significant growth catalyst for the Indian economy. According to the recent estimates the Indian IT-BPO industry revenue is expected to reach USD 88.1 billion in FY2011 up from USD 73.9 billion in FY2010, registering an aggregate growth of 19.2 percent. Export revenues for the Indian IT-BPO industry is expected to grow by 18.7 percent and reach of USD 59.4 billion in FY2011 up from USD 50.1 billion in FY2010. The domestic segment grew by 21 percent to register revenues of USD 28.8 billion in FY2011 from USD 23.8 in FY2010 (NASSCOM, Strategic Review 2011).



<sup>1</sup> Annual revenue aggregate estimates for the IT-BPO sector comprising of exports (IT services, software product, engineering services and R&D, BPO and Hardware) and the domestic market (hardware, IT services (including engineering services), software products and BPO)

Source: NASSCOM

**Figure 1.1: Indian IT-BPO Revenue Break-Up**

According to NASSCOM the key drivers of the growth of the Indian KPO and BPO industry is discussed below.

**Abundant Talent:** The demographics are in favor of India as there is large pool of young population, complemented by an educational infrastructure which churns out large numbers of English-speaking talent. India's graduate outturn has doubled in the last decade and the talent pool is expected to increase by almost 4 million in FY2011. The technical graduate outturn is expected to number

around 7 lacs while non-technical graduate outturn is expected to cross 3.3 million. While India is ranked second in terms of the total number of graduates available annually, it has the largest number of ready-to-hire graduate pool.

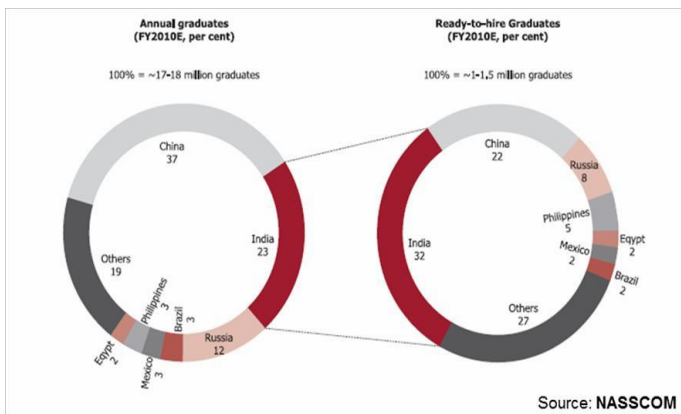


Figure 1.2: Indian Talent Pool Available

- I. **Continued Focus on Quality** – India's leadership has been sustained by demonstrated process quality and expertise in service delivery. Moreover, many Indian KPO and BPO organizations have successfully adopted several global industry standards such as SEI-CMM, ISO, TQM, Six Sigma Quality, and COPC. Furthermore, with an increasing requirement for a secured environment, Indian KPO and BPO s are adopting standards such as ISO 17799, BS7799, COBIT, and ITSM.
- II. **Sustained Cost Competitiveness (cost of labor, infrastructure cost and currency exchange rates):** According to some Everest study clients have reported significant cost savings in lines of about 65-80 percent as compared to source location. India is capable of achieving this primarily because it has access to highly skilled and English-speaking labor at relatively lower costs. The productivity levels of the Indian employee base are also significantly higher. The advantage in cost competitiveness is further reinforced by having a competitive infrastructure (e.g. Telecom). This is also when you compare with other competing low-cost countries such as Philippines, China, East European countries etc.
- III. **Continued Focus on Quality:** India's leadership has been sustained by demonstrated process quality and expertise in service delivery. Moreover, many Indian KPO and BPO organizations have successfully adopted several global industry standards such as SEI-CMM, ISO, TQM, Six Sigma Quality, and COPC.
- IV. Furthermore, with an increasing requirement for a secured environment, Indian KPO and BPO s are adopting standards such as ISO 17799, BS7799, COBIT, and ITSM.
- V. **World Class Information Security Environment:** India provides an info- secure environment to the clients. This is achieved by individual firm level efforts and complemented by a comprehensive policy framework established by Indian authorities. Some of the efforts done in this direction include strengthening the regulatory framework through amendments to the IT Act 2000, reinforcing the cyber law initiative, scaling up the National Skills Registry (NSR) and establishing a self-regulatory organization.

**VI. Rapid Growth in Key Business Infrastructure:** The reduced cost of international connectivity and increased service standards has helped the ITeS-BPO industry significantly. With critical business infrastructure such as telecom and commercial real estate well in place, the government needed to improve the other supporting infrastructure. STPI infrastructure available across the country played a dominant role in the emergence and development of the KPO and BPO industry. The 100 percent tax holiday extended by the government under the STPI scheme also supported the extensive growth of this industry.

**VII. Enabling Business Policy and Regulatory Environment:** The Indian government provided an enabling policy environment in the initial years which acted as the catalyst for growth. Post liberalization, the government encouraged foreign investments in this industry which not only provided the fill up in capital but also facilitated the transfer of knowledge and technology. The software technology parks of India (STPI) policy was established for promoting the export of software and services from India. Further in 2005, the Special Economic Zone (SEZ) Act made special provisions for the IT-BPO industry in order to aid the continuing growth of the industry. Due to this approach by policy makers the Indian KPO and BPO industry has benefited by enjoying minimal regulatory and policy restrictions coupled with a broad range of fiscal and procedural incentives.

### 13. Operational Structure of Indian KPO and BPO Industry

The Indian KPO and BPO industry can be divided in six broad categories.

- **Captive Units:** These are units set up by MNCs and domestic companies to undertake work for the parent company.
- **Third-Party Vendors:** These are independently owned units that execute transactions and processes for multiple clients.
- **Joint Ventures:** This unit is setup in collaboration between an international BPO Company and Indian BPO company partner.
- **Indian IT Software Companies owned:** These units are created and added to the service portfolio of Indian software companies (Progeon and Spectra mind)
- **Global BPO Players:** These are global companies who have set up operations in India (for example, Convergys, EDS, Accenture, Aegis, EXL, Genpact and WNS).
- **Global Consultancies:** Global companies (such as Accenture), who have been advising their clients on outsourcing are now leveraging this experience into providing actual BPO service (Economist Intelligence Unit, 2002).

The most common form of KPO and BPO operating in India is that of either Captive Units or the Third-Party Vendors (Budhwar et. al., 2006).

#### **14. The HR Issues of KPO and BPO Industry in India**

About 200 personnel are hired every working day of the year by the Indian KPO and BPO industry (NASSCOM, Indian IT-ITES Industry Report, 2014). The sheer numbers being added has resulted into huge challenges for the HR managers. Initially the demand supply scenario was in favor of the companies, but intense competition has changed this scenario. From the approach of hiring anyone and everyone (due to shortage of manpower), the requirement presently is for professionals with more domain-specific skill sets and business analysts with programming skills

The growing bulk of manpower has also brought in the set of human resource challenges, which needs to be addressed on an urgent basis. This is critical from business strategy point of view as 60%-70% of the total cost in a typical KPO and BPO Company is spent on labor. (TNO, 2001)

The Indian ITES/BPO industry has been consistently growing over the past few years, in spite of rising competition from countries like Philippines, China, Brazil and Ireland. Further, riding on the boom, its contribution to the service sector and eventually to the country's GDP has also been on the rise. The industry has come a long way, from just offering traditional outsourced data entry work, to providing high end knowledge services to global clients. Yet there is a vast universe which is not yet tapped by the Indian ITES/BPO industry. This represents tremendous growth opportunities for the industry players.

The Indian Information Technology Enabled Services (ITES)-Business Process Outsourcing (BPO) industry has rapidly opened up, expanded, matured and with a wave of consolidation has scripted new initiatives. With substantial evolution being witnessed, India has become the ideal and most preferred offshore destination (The NASSCOM - McKinsey Study 2002). The blazing growth of ITES industry is a result of huge inflows of investment by foreign companies that have set up large facilities across India in step with the entry of Indian IT industry majors into the KPO AND BPO domain. A number of leading Indian industrial groups from the non-IT sector have also arrived on this turf with a view to participate in this emerging sector. Numerous factors such as supply of skilled manpower, global standard telecom infrastructure, proactive and positive policy environment and friendly corporate tax policies have given India an edge in the global marketplace.

As a result of this unmatched value proposition, there are currently over 200 companies participating in the KPO AND BPO segment and is expected to have sizeable growth in the future signifying a positive indication of the times to come. With over 30% growth in the FY 2006-07 and rising contribution to Indian GDP, the industry has seen a tremendous progress with a greater degree of depth, specialization and competition. In spite of offering distinct advantages such as cost competitiveness, highly skilled labor

and a high level of service maturity, the industry witnessed certain unique challenges specific to this new landscape (Mercer, 2006). A number of significant and pressing issues emerged and took center stage, especially, in the area of Human Resources (HR).

#### **15. Major HR Issues and Challenges Confronted by Indian ITES- BPO and KPO Companies**

Listed below are the major HR issues and challenges that the Indian KPO and BPO companies face today in their operations:

##### **16. High Level of Attrition**

Even though India enjoys a large talent pool in terms of students passing out from graduation and engineering schools, they are not typically 'industry ready' and not equipped with the skill sets that can be useful to the companies. This means that while there is plenty of supply at the entry level (voice processes), but there is huge demand-supply gaps in the middle management and senior management levels. This has led to increased levels of poaching and attrition cases. Presently, the average attrition rate faced by this industry is somewhere around 30-35%, as stated by NASSCOM. An employee in the BPO industry generally ends up changing four to five jobs in a period of four to five years. The attrition rate in non-voice processes is significantly lower than voice processes.

##### **17. Lack of Career Commitment**

The other area of concern for HR managers is that most employees working in a call centers or KPO and BPO setup do not see this industry as a serious or long-term career option. This was the outcome of a recent study conducted by NFO India, part of NFO World Group, and People Equity Consulting, a Bangalore-based HR consultancy.

##### **18. Nature of the Job**

The work processes are monotonous and do not provide a- challenging work environment making it difficult to sustain interest in the long term. Employees work in isolation where work is de-skilled and allocated automatically using scheduling systems and is monitored and controlled by the management.

##### **19. Mismatch of Expectations**

Expectations mismatch leads to higher attrition, this is partly due to the perceptions created in the general public with respect to the career growth, type of work, compensations offered, competition, etc.

##### **20. Communication Issue**

Experts say that lack of effective communication is another contentious issue and this problem emerges due to large number of employees being part of the company. The absence of regular and effective two-way communication between agents, their immediate team managers and the senior management is one of the reasons for high attrition rates in the industry.

## 21. Generating Motivation and Increasing Efficiency

It becomes difficult to keep the motivation level of the employees considering the fact that the job is repetitive and routine in many KPO and BPO operations. This is a huge challenge for HR managers. This is particularly important considering the fact that an important part of India's value proposition as the outsourcing destination is based on productivity and quality - factors that critically depend on motivation.

## 22. High Training Costs

The KPO and BPO companies usually impart three types of training; soft skills training, Pre-process training, Product, process and Helpdesk training. Start-ups will face a higher training cost initially as they need to outsource the voice/accent and soft skills training. The Process training in the start-ups is usually done by process trainers from the customers' side and the BPO Company bears the expenses. However, on reaching a stable growth stage, companies are able to build up a resource base and avoid outsourcing. The training cost has grown by 45 percent as against total cost of one employee, which has grown by 190 percent according to NASSCOM reports. The Indian IT-BPO companies spend nearly INR 6,450 crore on training their employees. (NASSCOM, Impact Study, 2010).

## 23. Significance and Need for Study

The importance of Human Resource Management (HRM) has increased in today's ever dynamic and competitive business environment. Human Resource Management today has to play a more strategic and business partnership role. Every organization controls a portfolio of powerful tools, through which it can influence or seek to influence employee attitude and behavior. The Human Resource Management practices constitute an important subset of the above portfolio.

Number of constraints and challenges are already emerging such as there are questions being raised on the sustainability of the rapid growth demonstrated by the industry in the past, projected shortage of employees, high turnover rates and increasing mergers and acquisitions that is leading to industry consolidation.

Human Resource Practices can satisfy an employee's need to feel comfortable in the work-relationship with the organization and can make him/her feel comfortable in the work environment. Through the HR Practices the organizations could convey to the employee that, every employee is vital to the organization and the employees' commitment is solicited and valued.

Companies should evaluate and understand what employees are looking for in an employer. It is important for organizations to understand the changes within the modern workforce and respond quickly with creative and applicable policies and programs in order to attract and retain top talent.

## 24. Doctrine of Human Resource Management and Outsourcing

This section defines the different terms and concept used in the present study

## 25. Human Resources

Bohlander and Snell (2004) describe human resources as a key resource like any natural resource. It does mean that management can get and use the skill, knowledge, ability etc. through the development of skills, tapping and utilizing them again and again by developing a positive attitude among employees.

## 26. Human Resource Management (HRM)

Sarma (2003) describes Human Resource Management as an approach to the management of people, based on four fundamental principles. First, Human Resources are the most important assets an organization has and their effective management is a way to its success. Second, this success is most likely to be achieved if the personnel policies and procedures of the enterprise are closely linked with, and make a major contribution to, the achievement of corporate objectives and strategic plans. Third, the corporate culture and the values, organizational climate and managerial behavior that emanate from the culture will exert a major influence on the achievement of excellence. This culture must, therefore, be managed which means that organizational values may need to be changed or reinforced, and that continuous effort, starting from the top, will be required to get them accepted and acted upon. Finally, HRM is concerned with integration, getting all the members of the organization involved and working together with a sense of common purpose. While Price (2003) defines Human Resource Management as a philosophy of people management which is based on the belief that human resources are uniquely important in sustained business success. An organization gains competitive advantage by using its people effectively, drawing on their expertise and ingenuity to meet clearly defined objectives. Human Resource Management is aimed at recruiting capable, flexible and committed people, managing and rewarding their performance, and developing key competencies. According to Michael Armstrong (2003) Human Resource Management is a strategic and coherent approach to manage the organization's most valued asset: people working there who individually and collectively contribute to the achievement of its objectives. However, Ashwathappa (2004) puts Human Resource Management as management functions that helps managers' recruit, select, train and develop members for an organization. Another perspective presented by Ferrsi et.al (1995) on HRM is that it is a science and the practice that deals with the nature of the employment relationship and all of the decisions, actions and issues that relate to the relationship. In practice, it involves an organization's acquisition, development and utilization of employees, as well as that employee's relationship to an organization and its performance.

## 27. Outsourcing

Oxford Concise Dictionary of English, describes, Outsourcing as 'Obtaining goods etc. by contract from outside source; contract (work) out. It highlights that one business firm is taking the service of the other either in acquisition of goods

or services as may be to fulfill its needs without much efforts and developing its own physical facilities and without delay in process. A needy firm approaches the suitable firm and enters into contract for a work. The vendor firm renders services in the form of supplying goods and services by producing within its own source and supplies to the buyer firm. In return the buyer pays the agreed consideration and thus the contract is performed.

Likewise, the World Bank defines —outsourcing as —the contracting of a service provider to completely manage, deliver and operate one or more of a client's functions (e.g. data centers, networks, desktop computing and software applications) (World Bank E-Commerce Development Report, 2003). Similarly, Evans (2006) refers to Outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. It is a strategy by which an organization contracts out, on a long-term basis, major functions to specialized and efficient service providers who become valued business partners. It is often defined as the delegation of non-core operations or jobs from internal production within a business to an external entity (such as a subcontractor) that specializes in that operation. It also includes management and/or day-to-day execution of an entire business function by a third-party service provider. A common misconception about outsourcing is that it involves little more than a relocation of jobs. More than jobs, however, are affected by a company's decision to outsource. Competencies get outsourced, and for any organization, competencies are a combination of processes, people and attitudes. A related term, Offshoring, means transferring work to another country, typically overseas. Offshoring is similar to outsourcing when companies hire overseas subcontractors but differs when companies transfer work to the same company in another country. Offshoring can be defined as relocation of business processes to another country, especially a country overseas.

### 28. Business Process Outsourcing (BPO)

BPO comprises of three different words, namely Business, Process and Outsourcing. Oxford Dictionary of English defines process as a continuous and regular action or succession of actions, taking place or carried on in a definite manner, and leading to the accomplishment of some results, continuous operation or series of operations. A process, truly speaking, transforms, converts, or takes care of inputs and finally delivers the output. Outsourcing is obtaining goods/ services by contract from an outside source.

The outside source may be whither onshore (within the territory) or offshore (between countries). BPO involves the management of one or more business process or functions in a wide variety of areas such as, procurement, accounting, human resources, asset or property management by a third party, together with the information technology (IT) that supports the process or function. Outsourcing is nothing but allowing someone else to do your work for you so that you are able to devote your time to more important jobs. The work of the company is done by others on contract basis. Once the contract work is over, the agreement ceases to operate. For

the service rendered, the contractor is getting consideration for its work.

Processes that are especially suitable for BPO have certain characteristic attributes; in summary, it is commonly asserted that BPO processes should:

- not belong to the company's core processes;
- not be of strategic relevance;
- provide minimal contributions to value creation;
- represent large transaction volumes;
- be easily standardized; and
- be performed in a similar way across different industries

And finally, Sharma (2004) defines 'Business Process Outsourcing' (BPO) as a broad term referring to outsourcing in all fields. It can be defined as 'an organization entering into a contract with another organization to operate and manage one or more of its business processes.

### 29. Call Center

Call Center Association (1998) define a call center as a physical or virtual operation within an organization in which a managed group of people spend most of their time doing business by telephone, usually working in a computer-automated environment. Further, Taylor and Bain (1999) define call centers as a dedicated operation in which computer-utilizing employees receive inbound or make outbound telephone calls with those calls processed and controlled either by an automatic call distribution (ACD) or predictive dialing system. While Call Center.net (2003) defines it as a physical environment dedicated to servicing and interacting with customers or potential customers. It is comprised of agents whose primary function is to handle inbound and outbound traffic via the telephone and other available channels.

Despite the use of multiple theoretical perspectives to study call centers, the services marketing approach has been dominant.

### 30. Recruitment

Sarma (2003) describes 'Recruitment' as the development and maintenance of adequate manpower sources. It involves the creation of a pool of available human resources from which the organization can draw when it needs additional employees. In a similar vein Bohlander and Snell (2004) have defined recruitment as the process of locating potential applicants and encouraging them to apply for an existing or anticipated job openings. Further Rao (2000) defines recruitment as a process to discover the sources of manpower to meet the requirements of the staffing schedule and to employ effective measures for attracting the manpower in adequate number to facilitate effective selection of an efficient workforce. Finally, a very tactical definition coined by Ashwattappa (2004) defines recruitment as a process of finding and attracting capable applicants for employment. The process begins when new recruits are sought and ends when

their applicants are submitted. It results in a pool of applicants from which new employees are selected.

### 31. Performance Appraisal

Heigel (1973) defines performance appraisal as a formal, structured system of measuring and evaluating an employee's job related behavior and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization and society will benefit. Similarly, Schuler (1982) defines performance appraisal as a formal, structured system of measuring and evaluating an employee's job related behavior and outcomes to discover how and why the employee is presently performing on the job and how the employee can perform more effectively in the future so that the employee, organization and society will benefit. In another definition provided by Monappa and Saiyadain (2000) performance appraisal is described as a systematic and objective way of judging the relative worth or ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned task well and those who are not and the reasons for such performance. Further on Rao (2000) describes performance appraisal as a method of evaluating the behavior of employees in the work spot, normally including both the quantitative and qualitative aspects of job performance.

### 32. Compensation

In one of the earliest descriptions of compensation, compensation as a particularly important recruitment tool because (1) it is a vehicle of satisfying a wide array of human needs, (2) salary offers are expressed in clear and comparable terms, (3) starting salaries have implications for future salary progression and (4) pay systems communicate so much about an organization's philosophy, values and practices. Further Leap and Crino describe compensation as a broad term pertaining to the financial rewards received by persons through their employment relationship with an organization. Generally speaking, compensation is financial in nature because a monetary outlay is made by the employer. Linda Stroh, Gregory B., and AnnNeale Margret define compensation as the financial reward structures organizations use to compensate individuals for the work, they perform for the organization

### 33. Benefits

Benefits are supplements to wages given to employees. They may include health insurance, life insurance, vacations, pension, profit sharing, education plans, discounts on products etc.

### 34. Stress

Lazarus and Folkman (1984) define stress as a particular relationship between the person and environment that is appraised by the person as taxing or exceeding his or her resources and endangering his or her wellbeing. From a different perspective Debra Nelson and James Quick (2002) describe stress or the stress response, as the unconscious preparation to fight or flee that a person experiences when faced with any demand. Finally, Greenberg and Baron (2008) describes stress as any demand, either physical or psychological in nature, encountered during the course of living.

### 35. Conclusion

Outsourcing of routine or peripheral business functions is in vogue. It implies contracting with the third-party service provider, with respect to operations and responsibilities of business processes. At present, there is hardly any multinational company which is left untouched from outsourcing its business operations. Over the time, Business Process Outsourcing (BPO) has gained ample importance, by providing services related to marketing, human resources, customer support, technical support, etc.

Almost all the companies' especially transnational companies, today, outsource non-core activities, for paying attention to their primary business. These two forms of outsourcing work in a B2B environment where the service provider and buyer of services both are engaged in business activities.

KPO is an extended version of BPO. Over the time, it has been observed that with the expansion of KPO, the BPO is losing its existence gradually. Now, the service provider companies provide both BPO and KPO services simultaneously to the organization. Knowledge Process Outsourcing (KPO) describes the outsourcing of core information-related business activities which are significant or form an integral part of a company's value chain. KPO requires advanced analytical and technical skills as well as a high degree of specialist those who are expert in respective field.

Reasons behind KPO include an increase in specialized knowledge and expertise, additional value creation, potentiality for reducing cost, and shortfall of skilled labour. Regions in World, which are particularly prominent in Knowledge Process Outsourcing include India, Sri Lanka, and Eastern Europe, especially Poland, Romania, and the Baltic States.

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