



BPO INDUSTRY IN INDIA: AN ANALYSIS OF ITS IMPACT ON INDIAN ECONOMY AND SOCIETY

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Abstract

The Indian Business Process Outsourcing industry is persistently growing. The industry has demonstrated an add value and created large impact in economic growth and employability. Looking at the growth and government's support to it, BPO is being recognized as one of the most noteworthy growth catalysts for the country's economy. The aim of this article is to extend a conceptual understanding of BPOs contribution in fuelling India's economy and its pronounced role in transforming India from a rural and agriculture-based economy to a service based economy. Efforts have also been made to discuss the sector's influence on the lives of the people and contribution to the various socio-economic parameters namely- growth, employment, standard of living and diversity among others. The later part of the article deals with an analysis that highlights BPO's impact on its employees and on Indian society.

Keywords: *Business Process Outsourcing, Economic Liberalization, Employment, Service Sector, Indian Economy.*

Introduction

Business Process Outsourcing or BPO is the contracting of a business to a third party service provider. It is a type of outsourcing in which a company outsources non-core business processes to another company. BPO is the most flexible form of outsourcing, involving a close relationship between the customers and outsourcing provider. A BPO service provider usually administers and manages a particular business process for another company. It can be defined as the act of utilizing the services of a third party by a company in order to perform its back office operations. The focus in BPO is on reducing transaction costs, optimizing process efficiency and providing size and scale to handle a large volume of transaction processing engagements (Miryala and Aluvala, 2015:30).

The BPO Industry in India

One of the major forces of globalization in India has been in the growth of outsourced IT and BPO services. Outsourcing BPO services to the country is one of the popular business practices in today's competitive environment. BPO is the fastest growing segment of the ITES industry of India. International enterprises utilizing global information and communications technologies, namely email, internet, voice-over IP and most importantly taking the advantage of India's lower cost but educated and English-speaking resources, have been able to lower their cost base by establishing outsourced knowledge-worker operations in the country.

India has won its spurs as the world's outsourcing destination of choice. Currently the country has a commanding share of the global outsourcing market (ibid). It is now the world's favoured market for BPO companies. The sector has moved from being only voice-based call centres to data processing and management units, to the current phase; where it is mostly about knowledge gaining and transfer. A research conducted by Nasscom, imparted that India's unique geographic location, quality orientation among ruling BPO companies, the investor friendly tax structure and 24/7 service have made the BPO sector favoured.

Impact of It-BPO Industry in Indian Economy

The three-decade-old Indian IT-BPO industry has had great impact on the Indian economy and society, more than any other sector, and within a much shorter time frame. Not only has the industry helped India to emerge as a global force, it has also given a major fillip to the country's growth, helping it to narrow down the several 'divides' that separate its society. In order to understand the extent of the impact that the IT-BPO sector has had on India's growth story, NASSCOM has worked on a special study that explores the transformational nature of its role. Broadly speaking, the study shows that India's IT-BPO industry has made a lasting, sustainable, phenomenal and multi-fold contribution to the country's economy over the last decade (Nasscom, 2012). It has not only driven balanced regional development, the sector has empowered the country's diverse human resources, created an innovation platform and most importantly, put India on the global map. Going forward, India expects the IT-BPO sector to play an even bigger role in creating balanced, socially responsible and inclusive growth for the country (Vedashree, 2012 and Nasscom, 2012).

According to the Nasscom report, the Indian IT-BPO industry has undergone a rapid evolution, as it has kept abreast of what the global markets require in terms of products and services. Having learnt the ropes quickly in the technology sector, which was traditionally never ever a stronghold for India, the country has now positioned itself as an IT hub, a sourcing destination for IT-BPO products and services that spell trust, high quality, and cost-effectiveness. IT-BPO industry has shaped itself into a process-oriented, Best Practices-focused and skill-rich entity that has found favour with global customers (Naidu et.al, 2015: 3).



While the industry's value proposition in the late 80s and mid-90s was more about providing scalability and lower operating costs to clients, today it has to do with domain expertise that drives end-to-end services as well as research and development. The industry is creating more and more value for customers, having achieved scale and complexity in its offerings (Nasscom, 2012).

One of the biggest contributions of the Indian IT-BPO industry is its creation of the bravenew world of global outsourcing. A 'unique' industry has been crafted by Indian IT-BPOs, which has found global recognition and draws huge foreign investment. The sector in fact, accounted for over 10 per cent of India's total FDI in the last decade. Around USD 8 billion have been invested by PE/VCS over the last 10 years, with 700 deals getting signed (ibid).

Multinational firms continue to prefer setting up global captives, or global in-house centres, in India. According to a report, in the past two years, 70 companies set up GICs in India, taking the number to more than 1,448, with a headcount of 74,500. GICs are an integral part of the Indian IT-BPO sector. GICs have been viewed as cost-saving centres for parent organisations. But, with the growth of the global sourcing sector, GICs in India are evolving into centers of excellence, profit centres, and program management offices (Business standard, 2015).

Going global has meant that Indian IT-BPO companies are also helping boost the economies of the countries where they play, by participating in the development of the local ecosystem. The Nasscom study indicates that the sector employed around 3 per cent foreign nationals, and created savings of USD 25-30 billion in source economies in FY2009 (Nasscom, 2012). It also generated quality employment and infrastructure. The high standards of the industry in the areas of governance and quality are reflected in the fact that it has 35 per cent of all Capability Maturity Model Integration 5 registered companies, the highest proportion in the Standard & Poor's Financial Services LLC, Environmental, Social and Governance index. Indian IT-BPOs have invested in over 200 million sq ft of space for employees and facilities (Naidu et.al, 2015).

The industry has also emerged as a global hub for Engineering Research & Development, an area it will continue to lead in the years to come. Today, India houses over 750 captives, including the world's six largest software corporations that employ nearly 20 per cent of the workforce in the country. Over 200 cross-border acquisitions between FY2005-09 have enhanced the global presence of Indian IT-BPOs (ibid).

The ITeS industry can be credited with leading India's transformation from an agrarian to a services economy, repositioning the country as a knowledge hub and helping drive economic growth (Singh and Majumdar, 2016). As Subroto Bagchi, founder and former chairman of Mindtree, an Indian multinational IT and outsourcing company, says, "What makes me really proud of the ITeS industry is the number of jobs it has created. Now, millions of people in India earn more than Rs.5 lakh per annum—often much higher than their parental incomes" (ibid). Industry's contribution in transformation of 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 (Nasscom, 2010) is remarkable. Due to the open market and the demand for outsourcing, more and more BPO companies in India are setting up bases in various parts of the country (MapsofIndia, 2015). The sector has dominated this domain by accounting for nearly 10 per cent of India's service sector revenues and evolving a unique 'service directed' export-oriented model. IT-BPO industry is currently contributing 9 per cent of India's incremental GDP and the per capita GDP contribution of IT-BPO employees is over 80 times that of agriculture (Nasscom, 2012). By 2020, industry body Nasscom forecasts the IT-BPO industry to account for 10% of India's GDP, almost a fifth of its exports and about 30 million direct and indirect jobs (Singh and Majumdar, 2016).

IT-BPO Industry has made significant contribution to GDP which has increased from 1.2% in FY1998 to 7.5% in FY2012 (Vedashree, 2012). It is on the exports side however, that the sector has had the highest impact. IT-BPO industry accounts for 14 per cent of the country's total exports. Having grown twice as fast as India's total exports over the last 10 years, it has modified the country's export mix, from traditional commodities to services. By 2020, nearly 18-20 per cent of India's exports are expected to come from the IT-BPO industry (Naidu et.al, 2015).

Indian IT-ITES industry revenue is estimated at USD 119.1 billion in FY2014-15 as compare to USD 106.3 billion in FY2013-14, registering an increase of around 12.0% (Government of India, 2016). Revenue of IT and ITES industry is estimated about USD 129.5 billion in the year 2015-16 that is rose upto 9% as compared to last year which was USD 118.8 billion (Meenu, 2016: 17).

Export of IT and ITES industry is estimated about USD 107.8 billion in the year 2015-16 that is rose upto 9% as compared to last year which was USD 97.8 billion (Meenu, 2016). IT-ITES exports is estimated to gross USD 98.1 billion in FY2014-15, growing by 12.4% over FY 2013-14 and contributing nearly 82% of the total IT-ITES revenues (excluding hardware). A combination of solutions around disruptive technologies such as SMAC (Social media, mobility, analytics and cloud), artificial intelligence, embedded systems etc. have become the life-force of the industry (Government of India, 2016).



During FY 2015-16, IT services exports (excludes BPO, Engineering, R&D and Software products) is expected to register an y-o-y growth of over 10.3%, generating exports of USD 61.0 billion, driven by collaboration, communication, business intelligence projects, and integration of SMAC services with traditional offerings. During FY 2015-16, ITES/BPO exports are likely to be USD 24.4 billion with a growth rate of ~8.4% over FY2014-15. Software products and ER&D segment is estimated to generate exports of US\$ 22.4 billion in FY 2015-16 with y-o-y growth rate of ~12%. The domain specific solutions focusing on convergence, customization, efficiencies and localization, machine to machine technology and newer technologies around SMAC are playing a significant role in driving the growth of ER&D and software products. With over 3,100 firms, India is emerging as a hotbed for software products with SMAC and a supportive ecosystem creating successful stories (Government of India, 2016).

As per the Fact Sheet of IT & BPO Industry presented by Ministry of Electronics and Information Technology, Government of India, the IT- BPO sector has become one of the most significant growth catalysts for the Indian economy, contributing immensely to the country's GDP (9.3%) and public welfare (Government of India, 2017). India has captured a sizeable portion of the global technology sourcing business. The Indian IT industry's (including hardware) share in the global market stands at 7% and growth has been largely due to exports. The Fact Sheet says, 60% firms use India for testing services before taking software products global. As per the report, cost Leadership – savings of USD 200bn for clients in the past 5 years and expected growth is 10.7% over FY2016. India has a rapidly growing urban Infrastructure fostering several IT centres in the country; 50 cities for service delivery, the report added (ibid).

As per India Brand Equity Foundation, total exports from the IT-BPO sector (including hardware) were estimated to have been USD108 billion during FY16; exports rose at a CAGR of 13.5 per cent during FY09–16 despite of weak global economic growth scenario and is estimated to expand at a CAGR of 9.1 per cent to USD350 billion by 2025 (IBEF, 2017). As of 2015, India is a prominent sourcing destination across the world, accounting for approximately 56 per cent market share in the global services sourcing business. India acquired a share of around 38 per cent in the overall Business Process Management sourcing market (ibid). The sector ranks fourth in India's total FDI share and accounts for approximately 37 per cent of total Private Equity and Venture investments in the country (ibid). In FY16, revenues of Indian IT-BPO market is estimated to touch USD160 billion (ibid).

BPO sector's contribution in creating employment for young India is large and impressive. The sector is changing aspirations of India's youth by creating high paying jobs and emerging as a "Skill Factory". Now, the country is able to face the major challenge of 'unemployment' with the help of exploding BPO industry. With a multicultural, large and highly ambitious workforce of over 3.1 million employees, the industry today is the largest private sector employer in India. India continues to lead in cost competitiveness. Flat entry level salaries, flattening employee pyramid, Tier II/III service delivery, alternate talent pool hiring and fast career growth helping India stay 7-8X cheaper than source locations and 30 per cent cheaper than the next nearest low-cost country. India is the world largest supplier of employable human capital –5.3 million graduates in FY2014, second highest number of English speakers in the world, and a large workforce enabling versatility and agility for customers (Nasscom, 2014). IT-BPO sector gave employment to 61,000 additional people in the second quarter of 2013-14, second only to textile industry (Business Standard, 2014). The industry has given the opportunities and global platform to the talented youngsters beyond Engineering, Medical, CA, CS, Teaching etc. by setting new standards of work environment. A major chunk of students and Indian youngsters from the humanities background and miscellaneous education streams, have got a bright prospect, career option and hence a better future. The industry provides the fastest growth path for the people with multiple domain expertise. Starting with a job to sustain personal expenses, they can convert it into a professional career.

The employment generation figures of the sector are equally impressive. The BPO industry added direct employment of 2.8 million; indirect employment 9 million and 45% of total incremental urban employment in the last decade (Vedashree, 2012). As per Nasscom, there is 10X increase in direct employment in the industry from FY2000 to FY2012 (ibid).

Since the manpower costs in Metros like Bangalore, Chennai, Hyderabad, Gurgaon, NCR, Mumbai and Pune is exceeding profits, BPO companies are now shifting their operations to smaller towns and sub-urban areas like, Belgaum, Nashik, Mysore, Ahmedabad, Mangalore etc to attract cost-effective but quality talent to service global clients. This horizontal growth of BPO companies in sub-urban areas is not only providing employment opportunities to millions of unemployed youth, but also giving companies a competitive advantage to fuel the next level of growth.

At the same time, the industry has also played a major part in bridging India's gender divide, by providing equal work opportunities to the country's women. Of the IT-BPO industry's total workforce, 31 per cent was constituted by women in FY2009, accounting for 45 per cent of new intake (ibid). Nasscom's research shows that 26 per cent of the female employees were chief wage earners, while 20 per cent were at the managerial level or above. By 2020, five million women are expected to join the IT-BPO workforce (ibid).



Clearly, women are not the only beneficiaries. As an industry that is the 'youngest' in terms of demographic profile and employs the highest number of Indians in the 25-45 years age group, the sector has done a lot to empower the youth. According to the Nasscom study, today, 74 per cent employees are less than 30 years old and 35 per cent are less than 25 years of age! The industry is meeting the changing aspirations of India's youth by providing them high paying jobs. It is also setting new standards in terms of work environments (Nasscom, 2012).

IT-BPO industry is additionally creating a livelihood for the economically backward sections of the society, with 5 per cent of the workforce from these areas. The differently-abled have also benefited from the IT-BPO industry, gaining employment in the sector and joining the mainstream. 60 per cent of the companies provide employment to differently-abled people (ibid).

Future Outlook of the BPO Industry

Nasscom has set a goal of achieving \$50 billion in revenue from the business process outsourcing sector by 2020, an ambitious target for a segment that earned \$18 billion in the year to March (ET Bureau, 2013). "It is believed that the services industry will be able to notch up \$300 billion in revenue by the year 2020, and continue to contribute a big share to the country's GDP" as quoted by Sangeetha Gupta, senior vice president, Nasscom, traces the sector's trajectory in an interaction with D Govardan (Financial Chronicle, 2015). By 2020, India's IT-BPO sector total revenue is projected to reach USD 200-225 billion and between USD 350-400 billion by 2025. Digital technologies will continue to define the sector and revenue from these is likely to have a 23 per cent share by 2020 and 38 per cent by 2025. Indian service providers face a significant opportunity as digital technologies continue to be embedded in an ever widening range of products and services (Nasscom, 2017). A Nasscom Study "Indian IT-BPO industry: Driving India's Socio Economic Transformation" by Rama Vedashree in 2012, stated the Indian IT-BPO industry will have the following impact by 2020 (Vedashree, 2012):

- It will account for 10 per cent of India's GDP and 14 per cent of total services sector revenues.
- Nearly 18-20 per cent of India's exports are expected to come from the IT-BPO industry
- The sector will create direct employment for 10 million people and indirect employment for 20 million.
- Four million people will be directly employed by the IT-BPO industry from Tier 2/3 locations.
- The sector will employ five million women in its workforce. The sector will provide significant global career opportunities due to location-independent models.
- ICT can provide solutions at a fraction of the cost of traditional solutions and reduce public spend on these areas (healthcare, education, financial services and public services).
- BPO industry will account for additional revenues of USD 50 billion-80 billion through innovation, driving additional GDP contribution of 1.5-2% (Vedashree, 2012).

Social Impact of BPO Industry

The BPO industry in India started with the call centre business, with people taking on American names, speaking in American accents and trying to sell credit cards or insurance policies to Westerners. But now the sector is not only confined to call centre business; the industry has come a long way from being an employer of English-speaking undergrads to an end-to-end managed services provider. The industry has demonstrated an add value and created large impact in economic growth and employability, as we have discussed above; however, at the same time it is also very important to analyse the impact of the same on society. If we talk about Indian society, then definitely we can notice and observe the change brought by the Business Process Outsourcing to numerous young men and women in particular and on the society as a whole. Being world's second most populated country, our country is renowned for the large quantity and easy availability of its qualified and skilled professionals; who happen to be the key to success in several sectors particularly in BPO industry and hence this section of the society is impacted largely by the industry.

Women especially in India have found out that, a BPO job help them to experience good earning, freedom and autonomy, self-efficiency and empowerment. The role of women has consistently changed and the sector is definitely helping them to get their due place, dignity and respect. They can now better take care of their finances, career and family in a sound manner; thus the scope provided by the sector help them in their liberation and liberalization.

Outsourcing makes incredible contribution by bringing more jobs, extensive career opportunities and acknowledgement about the external world with high salaries and attractive facilities. However at the same time, with the availability of higher disposable incomes, a strong move towards consumerism is quite clearly visible among youth BPO employees. Several young employees have had to relocate to outsourcing hubs and live independently. Naturally, this has led to the creation of a large section of the workforce; which is addicted to the western way of living and undertakes lifestyles that are environmentally unfriendly for their social and mental well-being.

A disadvantageous impact of the industry that needs to be addressed here is the health threat due to working in the night shifts particularly in reference to call centres employees. As a result of the time zone differential between our country and the



place from where the original project has been outsourcing; the employees need to stay awake all night to address their duties and sleep the whole day through; which is averse to the inborn flow. A change in the working timetable leads to health issues like sleep deprivation or disorders, disturbing the rhythm of the body, high blood pressure, cold and headache, indigestion etc. During the odd working hours in order to keep awake opposite to the biological clock, they start consuming more high-calorie sugary food, smoking and drink unnumbered cups of tea, coffee and cigarettes, which eventually become a root of their health complication. It is observed that smoking among the women in the BPO sector is increasing exponentially with a view that smoking is smart and fascinating or accepting smoking to be a hasty remedy to the demanding work environment. Considerable amount of pressure that the exclusively pure calling/voice process employees undergo in their professional life leads to voice problem, hearing problem, pain in neck, back, shoulder, wrist, eye strain, mental stress, psychological stress etc. Because of the night shift-timings the employees are unable to spend ample time with family, friends and relatives; hence socialisation process has comparatively lost and cut-off from their families and social-networks to some extent and leads almost unsociable life; which is again should not be taken for granted or overlooked.

Meanwhile, we must recognize the fact that almost all BPO organizations have provided the benefit of qualified medical personnel in office premises to deal with a health-emergency and to assist their employees in balancing a healthy work-life and to see that they do not ruin their health or become completely exhausted through overwork.

BPO employees are also losing on several cultural and traditional benefits. Because of professional need, the work culture, day-to-day dealings, the holidays calendar of the client's country, they are losing focus from the festivals of religious and social importance. Their preference is switching from Indian cultural and traditional value to client's cultural value. Generating such values is definitely not a good sign and a loss of our country and own social realm. Importantly, during our survey it is found that many BPOs are taking initiative to celebrate most of the Indian festivals like Navratri, Deepavali, Gudi Padwa, Ganesh Chaturthi, Holi, Makar Sankranti, Vijayadashami etc within the office premises and thus attempting to provide the employees an opportunity to celebrate and cherish their culture. There are also targeted initiatives to ensure fun at work, promote healthy living etc, which we believe missing in many other sectors.

Conclusion

BPO sector is one of the fastest growing sectors that has got lot of growth prospect in present-day as well as in coming times. If we compare today's India to 15 years back, it would not be untrue to refer the industry as 'Wonder' in our country. This industry paves the way for perfect utilization of millions of man-power, whose employment was a burning question few years back. The sector is not only reducing the unemployment issue to a large extent; but also offering great possibility, delivering better career option and the best platform to those who are competent, smart, having the right skills without higher formal educational qualification or market demanding course. The industry is a blessing to the large amount of low-cost English speaking talent who belong to Indian middle class family. For these sections of our country we would like to name BPO as 'Miracle'. They are getting a chance to prove their talent, learning new and exciting things at international level and at the same time adding revenue too. One major point needs to be mentioned here is that, the skill addition and the value adding work has shaped these employees self-reliant and pioneering and transformed them to very much professional workforce; who is ready to take up challenges of global level.

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