CHALLENGES AND OPPORTUNITIES OF BUSINESS PROCESS OUTSOURCING IN INDIA

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ABSTRACT

India has emerged as a top choice for companies looking to outsource their business, knowledge, research, legal, and other high-level processes. This not only enhances exports, raises national income, and generates more job opportunities, but also boosts tax revenues, supports the development of other interconnected sectors like infrastructure and catering. India has already attained significant success in the Business Process Outsourcing (BPO) domain, yielding high export earnings. The Indian BPO industry has developed a solid reputation for its superior service quality and information security, recognized globally and contributing to increased buyer confidence. However, in recent years, the sector has encountered strong competition from the Philippines and China. This document seeks to pinpoint several major issues and challenges facing the Indian BPO sector, analyze its strengths, weaknesses, opportunities, and threats, and provides recommendations to transform India into the most desirable BPO destination globally.

Keywords: BPO, Issues and Challenges.

INTRODUCTION

India has emerged as a highly desirable location for firms looking to outsource their business, knowledge, research, legal, and other advanced processes. This not only enhances exports, raises national income, and generates more job opportunities, but also improves tax revenues, supports the expansion of related sectors such as infrastructure and catering, among others. The firms engaged in outsourcing often generate significant profits from this, enabling them to provide their employees with attractive and competitive salary packages, in addition to various appealing employee perks.

India has achieved significant successes in Business Process Outsourcing (BPO), generating substantial export income. The Indian BPO industry has established a solid reputation for its exceptional service quality and information security, recognized globally and contributing to increased buyer confidence. The sector is advancing this trend by merging provider and industry-wide initiatives while increasing awareness and promoting broader implementation of standards and best practices. It is beneficial to offer high-quality services to its clients instead of merely cutting or reducing expenses. However, to successfully manage a stable BPO, it is necessary to address the challenges that arise.

DEFINITION OF BPO

Business process outsourcing (BPO) is the leveraging of technology vendors to provide and manage a company's critical and/or non-critical enterprise applications. Through the business transformation process of service-oriented transformation, which leverages the technologies and standards of service oriented architecture, companies can increasingly leverage third party companies that act as business service providers. Business process outsourcing can use off-shore resources, but is not required.

Business process outsourcing (BPO) is the act of giving a third-party the responsibility of running what would otherwise be an internal system or service.

Issues and Challenges before the Indian BPO industry

The Indian BPO industry has been on a strong growth trajectory for the last decade. The industry has achieved several milestones in the past and is well placed to bank on emerging opportunities. However, the industry needs to tackle various issues and challenges. Today, the key issues and challenges facing the BPO industry are:

1. High attrition rate

High attrition rates in the BPO segment is a major concern for companies. With attrition rates ranging between 25-40 per cent, attrition is a big challenge. It has been observed that an average Indian call centre employee works with a company for 11 months, whereas an average UK call centre employee stays in a company for three years! Apart from a loss of skill sets, the cost of recruitment and training represent an additional expenditure for Indian BPO firms.

2. Emergence of Philippines and China

The emergence of Philippines and China is also a challenge. The Philippines has already overtaken India in terms of 'voice' revenues and China, with its cost and infrastructure benefits, is emerging as a favourable outsourcing destination.

3. Appreciating Rupee

The appreciating rupee against dollar is denting the earnings of the BPO industry in India. This might provide an opportunity for other emerging countries like China and Philippines to gain shares in the global market. The continuous rupee appreciation would impact BPO industry earnings. It is estimated that every one per cent rupee appreciation against the US Dollar hits the BPO companies operating margins by 20-30 basis points.

4. Others

The other several important issues facing the Indian BPO companies today are:

➢ Shortage of quality and employable talent and rising costs in the major IT hubs.

➢ Slackening of demand from major markets, reduction in larger contracts, stiff work permit regulations in some critical regions and competition from other emerging economies on trained resources.

➢ Rising inflation, a falling growth rate, delays in much needed reforms and the attendant waning of investor confidence.

➢ US subprime crisis and possible slowdown in the US economy may hit Indian BPO industry as the US contributes a lion's share to the Indian BPO export revenue.

➢ Declining profit margin due to rise in operating cost coupled with rise in real estate prices in Tier I and II cities, wage inflation etc.

➢ Lack of adequate physical infrastructure in Tier III cities such as roads, airports, high speed voice and data communication telecom links etc.

➢ Anti Outsourcing laws in the US and UK could dent robust growth of Indian BPO industry.

➢ Threat of competition from other emerging countries like Philippines, Ireland,

Mexico and Brazil among others.

➢ Poor quality of services may also prove shift of contracts against Indian companies.

SWOT ANALYSIS ON INDIAN BPO SECTOR

Strengths

1. Large pool of highly skilled, English speaking workforce

2. Availability of huge pool of low cost workforce compared to western counterparts. According to NASSCOM, the wage difference is as high as 70-80 percent when compared to their Western parts.

3. Lower training cost of man power.

4. Dedicated workforce aiming at making a long term career in the field.

5. Round-the-clock advantage for Western companies due to the huge time difference.

6. Lower response time with efficient and effective service.

7. Operational excellence.

8. Conducive business environment.

Weaknesses

1. High attrition rates than in the West.

2. The cost of telecom and network infrastructure is much higher in India than in the US.

3. Lack of infrastructure facilities.

4. Political influence.

5. Tendency of the manpower not to pursue BPO sector as a full time career.

Opportunities

1. India can exhibit to the world, the hard work and nature and skilled Phillipines and manpower.

2. India can be a strong brand as a BPO destination rather than a low cost destination.

3. The services that require advanced English, like KPO, LPO, Content and Medicine, India will continue to excel. NASSCOM predicts that India will emerge as a global hub for knowledge services by 2015.

4. India has a large pool of English-speaking lawyers with expertise in foreign legal systems who can offer legal support and patent services. A few Indian companies are already affiliated with American legal firms and they have captured a small part of the American market.

Threats

1. The industry is growing rapidly and requires corresponding growth in infrastructure as well, an area where India is lacking—this needs to be addressed.

2. Due to the rise in labor costs in Indian metro cities, companies are moving towards smaller Tier II cities.

3. Heavy competition from other BPO nations such as China, Indonesia, Malaysia, Philippines, Singapore, Vietnam and Thailand, which are improving their positioning as an alternative off-shore location.

4. India's competitiveness is being challenged by countries like Indonesia, which offer cheaper labor in IT and business process skills, while India is experiencing increased labor costs and high attrition, which are of concern, and need to be addressed.

5. Workers in the West have protest against outsourcing of work to Indian BPO companies.

6. Lack of security laws to the data bases.

Suggestions

Based on the above key issues and challenges the Indian BPO industry is facing at present, the following suggestions are proposed:

1. The BPO industry must take measures such as providing incentives, educational support, accommodation benefits, career counseling, mediclaim insurance schemes, etc., to employees to reduce the attrition rate.

2. In order to minimise threats from other countries, the Indian BPO industry needs to innovate and start offering high-end services along with varied skill sets, apart from building domain knowledge.

3. The rising costs in Tier I cities can be addressed by investing in Tier II cities, which will also bring in holistic growth for India.

4. The industry should come together and redefine the training models to keep the costs low and make fresh talent productive faster.

5. The Indian BPO industry, to be a superior outsourcing destination, must improve the quality of its skills. This may involve a change in the education pattern, focus on grooming, building multiple skills and embracing a global ethos and cultural practices.

6. The telecom and training infrastructure should be developed.

CONCLUSION

The Indian BPO industry has grown exponentially and is further expected to see significant changes in the coming years. Most of the BPO activities in India are non- core. There is a growing potential in core activities such as pharmaceutical, health care, Bio-technology, legal outsourcing and R&D outsourcing. If India wants to compete with international firms, it should gain expertise in specific domains besides cost advantage and infrastructure.

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