

## **Strategic competency building by Indian BPM sector to leverage the emerging business scenario**

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**Abstract :** The Business Process Outsourcing Services industry has undergone a rigorous transformation; it has effectively grown to provide strategic partnership for clients today. It has surely left an indelible impact on the Indian BPO industry. The sector has rapidly evolved, in terms of expanding its verticals and geographic markets, attracting new customers, transforming from a technology partner to a strategic partner, thus cementing India's position as the premier global sourcing destination. The fact that the gamut of services has seen a significant change with BPOs managing end-to-end services indicates the growing maturity of the industry. The industry has already begun moving from enterprise services to providing 'enterprising solutions' incorporating SMAC (Social, Mobile, Analytics and the Cloud) to create client impact, not only on cost, but revenues, profit margins and cash flows. Growing adoption of outsourcing services by companies to even manage their core management process is giving a new perspective to the global sourcing industry

**Keywords:** *BPM, SMAC, Tier I, II and III cities, highend value services, knowledge economy*

### **1. Introduction**

BPO is what India used to do, and continues to do so. This is where the biggest USP India enjoyed was price and the cost of transactions. It was labour arbitrage whereas BPM, however, is about climbing the value chain. It depends less on labour arbitrage. It focusses more on creating value for clients, often in ways never imagined before. Today, India is Numero Uno in the global sourcing landscape, accounting for almost 36% of the global BPM market. The country has some 500 odd BPM players which have collectively and cumulatively generated revenues of US\$ 23 billion over the past decade. This figure is expected to grow to USD 50 billion by 2020. Today its business comes from 78 countries are serviced from India in 35 languages. It contributes to more than one-fourth of

the industry's exports and employs over 1 million professionals directly and another 3 million indirectly. The

figure for direct employment is expected to swell to 3 million (direct employment) in 2020.

Indian Outsourcing industry in the last 20, 25 years, since the creation of the industry has undergone two different cycles and the start of the next big cycle is BPM, which will result in tremendous growth, big opportunities for young talent pool, huge opportunities obviously in terms of enabling the life of ordinary citizens, significant ability for global client companies to dramatically transform themselves by leveraging this model and, more importantly, for talent to be groomed in a completely new model that will be driven around digital initiatives, around analytics, around higher-end value services.

This next model is going to be about how are we going to leverage the new models of social media, mobility, analytics, cloud, to enable clients to deliver a completely new and transformed model to their own end customers.

BPO employment is 1 million people directly, 3 million people indirectly; and by 2020, get to at least 3 million directly consequently the effect of that across our economy will be huge because not only will we be driving the old model of Tier 1 and Tier 2 cities, but we will actually be driving employment in Tier 3, Tier 4 locations in this country, which is the big opportunity for all of us

### **2. Emerging Business Challenges**

The challenges are multifaceted. One is the visa restrictions that are prevalent in the USA since till now the USA continues to be our largest market for Indian outsourcing companies. About 58% to 60% of revenues come from USA and the current regime of visas is not helping us create a very healthy environment. There were some submissions to USA government too for special visas – temporary visas for one year.

Secondly the challenge in terms of the social security and Medicaid benefits. Medicaid taxes that are being paid by our associates who go on temporary assignments to the USA basically part of what is called a totalisation treaty which gives us some flexibility that is if one pays social security, they can claim it back after say 40 quarters, which is effectively 10 years. But, currently, the rules do not allow an individual to be there for 10 years. And there the USA already has totalisation treaties with a number of countries. India to have totalisation treaties with other countries. If USA and India can do a totalisation treaty it will become easier for our engineers not to lose their money, because that money is then paid into India that will get reflected back in India

The diverse skill base to be available for BPM sector is in a little precarious situation because the needs themselves are changing continuously and as the industry keeps moving higher and higher on the value chain and providing all kinds of high value services. The kind of skills one needs and the mixes are continuously and constantly changing. So we need to have not just a mechanism of identifying people rapidly and that too in large numbers but also of continuously changing those parameters based on what the industry actually needs.

BPM industry has three broad segments. The low-end segment consisting of traditional BPOs and call centers. The other is the middle level of the BPM segment, which is again the traditional IT service companies, very large -- our entire IT industry has been built with this middle level as such. And the third level which is the emerging area, which is actually the high end level which is where strategy, BPM in the sense of consulting knowledge-based sectors, come in. And this is where there's a tremendous opportunity for Indian organizations.

Looking at all these three segments, at the low-end segment, there's a lot of competition from even emerging countries, like Vietnam, like Philippines, many South Asian countries. In the middle level sector, the traditional software development, East European block competing with us now. who are traditionally very good in mathematics, science. In the high-end sector, on the other hand, there are very few countries, which do compete with us. Obviously no specific country which has strengthens in all three areas. And this is one area where India is in a unique position to have a tremendous competitive advantage. So, in a high-end services, like remote healthcare diagnostics, or very high-end business process transformation educational talent pool in India can pitch in trying to redevelop curriculum to build people, to build managers who will actually take that strenuous role.

The fastest-growing BPO/BPM markets within Asia/Pacific will continue to be led by China and India. By vertical industry, banking and financial services, communications, government (both local and federal), technology, retail, and travel and transportation continue to be the largest consumers of BPO services in the region. Asia/Pacific continues to present service providers with lucrative high-growth and profitable markets that are still relatively underdeveloped and untapped. Even during these trying economic times - the U.S. and European economic malaise - buyers in Asia/Pacific are still grappling with issues such as revenue growth, market share gains, scalability, quality of service and better cost management. Some negative impacts may surface as BPO grows across the region, including higher wage inflation and attrition, as demand for talent in the domestic market competes with offshore demand from the U.S. and Europe. The Asia/Pacific BPO market is still relatively underdeveloped and underexploited (with the exception of Australia and New Zealand) when compared with other markets or regions.

BPO industry accounts only 1% of the India's GDP and less than 2% of its annual job creation. According to the Gartner Research, India at present accounts 39% of the world share in outsourcing business. Whereas India generates 40% revenue from the software and accounts, 70% of its total business exports services. Language constraints and competitive talent in other countries are resulting in India's BPO industry already started losing out to the Philippines, Canada and Poland. The \$13.3-billion Philippines BPO industry grew 15.6% in 2013, compared with the 8.9% clocked by India's \$20-billion BPO space.

According to industry body NASSCOM, in the last five years, India has lost about 10% market share to the rest of the world in the BPO space, most of which is in the voice contract segment. However, India is still the global leader when it comes to non-voice services. The Philippines' voice industry stands at \$8.5 billion while India's is around \$7.5 billion. Countries such as the Philippines, Malaysia and China in Asia, Egypt and Morocco in North Africa, Brazil, Mexico, Chile and Columbia in Latin America, and Poland and Ireland in Europe are emerging as attractive destinations for voice contracts. India's challenges lies in the language front as, apart from English, the country doesn't have much talent to support services in German, French, Spanish, and Portuguese and Nordic languages.

### 3. SEM Analysis

SEM was conducted by using AMOS 21.0 to assess fitness of the path model based on the proposed hypothesis. SEM is a combination of factor analysis and path analysis, and allows a more 'causal' explanation of findings (Byrne

2001). There are several criterion set by the SEM researchers to assess and identify the fitness of a model. Hu and Bentler (1999) suggest provocatively that for a model to have a good fit, the Comparative Fit Index (CFI) and the Tucker-Lewis Index (TLI) should be greater than 0.95, and the Root Mean Square Error of Approximation (RMSEA) should be less than 0.06. The RMSEA examines the probability of close model fit and is considered a more appropriate test, as it has been shown to be less affected by sample size (Byrne 2001; Floyd and Widaman 1995). The lower the discrepancy measured by the RMSEA the better, with RMSEA = 0.0 indicating a perfect fit.

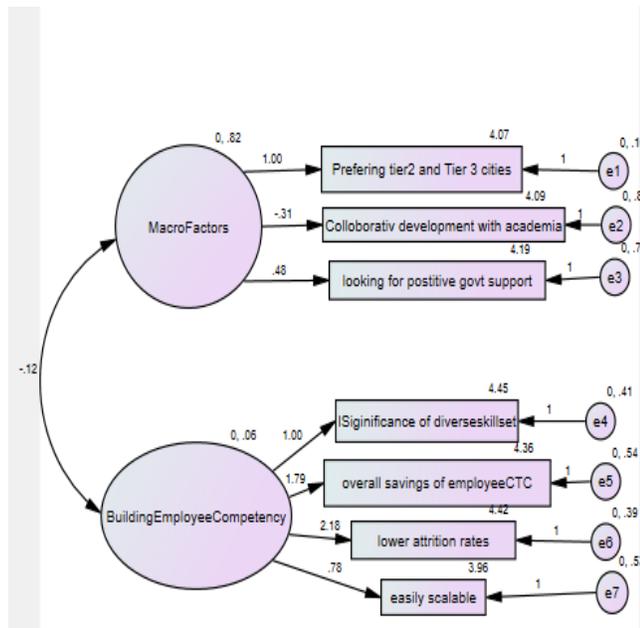


Fig 1 Path Diagram of employee competency

From the SEM analysis the findings are listed below indicating moderately a good fit on the chosen variables and the Fitness Indices are indicated in Table 1

Chi-square = 34.074  
 Degrees of freedom = 13  
 Probability level = .001  
 CMIN/DF- 2.62  
 RMSEA =0.023

Table 1 Fitness Indices

Model	NFI	RFI	IFI	TLI	CFI
Default model	.964	.957	.962	.977	.938

In the variance analysis of ANOVA all the variables show the influence statistically significant like (i) significance of diverse skillsets of employees (ii) preference in choosing tier II and tier III cities over Tier I cities by the vendors (iii) collaborative ventures with academia in developing the

requisite skillsets on campus recruits (iv) looking for government support in infrastructural development on this tier II and tier III even tier IV cities (v) resultant overall savings in CTC of recruits (vi) absolutely lower or nil attrition rates (vi) easily scalable options .

Table 2 Anova among Factors

	Cluster		Error		F	Sig.
	Mean Square	df	Mean Square	df		
Significance of diverseskilset	6.805	3	.291	105	23.381	.000
Prefering tier2 and Tier 3 cities	18.098	3	.506	105	35.775	.000
Colloborativ development with academia	17.262	3	.469	105	36.768	.000
looking for positive govt support	21.218	3	.412	105	51.453	.000
overall savings of employeeCTC	8.037	3	.523	105	15.360	.000
lower attrition rates	7.186	3	.486	105	14.786	.000
easily scalable	2.564	3	.516	105	4.972	.003

On top of this when confirmatory factor analysis is done on the above variables as shown in table 3 the three variables are significantly loading close to 65% nearly 2/3 of the decision making variables.

Table 3 Confirmatory Factor analysis

Component	Total Variance Explained								
	Initial Eigenvalues			Squared Loadings			Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	Variance	Cumulative %
Significance of diverseskilset	2.152	30.739	30.739	2.152	30.739	30.739	1.660	23.709	23.709
Prefering tier2 and Tier 3 cities	1.287	18.380	49.119	1.287	18.380	49.119	1.476	21.089	44.798
Colloborativ development with academia	1.121	16.014	65.133	1.121	16.014	65.133	1.423	20.335	65.133
looking for positive govt support	.764	10.912	76.045						
overall savings of employeeCTC	.653	9.325	85.370						
lower attrition rates	.610	8.711	94.081						
easily scalable	.414	5.919	100.000						

Future growth will come from a combination of high value services, increasing non-linear play and further extension of the sector's cost proposition. There will be increasing demand for domain based BPO services. The healthcare reforms in US will drive more business for BPO service providers engaged in offering insurance services, medical transcription services, IT services and compliance and regulatory services. Sourcing of BPO services from onshore and near-shore destination will increase. Flourishing verticals include retail, shopping, shipping and healthcare amongst others that will bring business to India. The F&A and HR verticals are expected to be two main drivers, while falling prices will inhibit growth in the CRM services sector

## Conclusions

During the last decade, there has been significant growth in terms of scale, reach, quality and increase in domestic business. The growing demand for goods particularly among the India middle class, rising incomes and standard of life has led to the growth in this sector. Tier II & III cities emerged as the new centers for delivery of services, in fact many new tier II & III cities are emerging as delivery locations. Global In-House Centers (GIC), also known as captive centers, were one of the major growth drivers in the country. The ongoing economic slowdown is having a fairly big impact on business sentiments and customer confidence, particularly in the main markets of US and Europe. India's competitiveness as the foremost outsourcing destination is being threatened by wage inflation, the rise of other locations, particularly the Philippines and China as alternative sourcing destinations. The changing market trends created more and more challenges to the global BPM sectors. Companies looking to build a satisfied and loyal customer base need to realize that only customer satisfaction does not drive customer delight, but by satisfying customers, companies can nurture long-term relationships and customer loyalty.

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