

## CHANGING TRACKS OF INDIA'S GROWTH ENGINE

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### Abstract

The mandate for change today is not merely for political leaders but, also for managers of businesses everywhere. These hard times have put business organization to focus on complex global systems now more than ever and we have had an important learning form engaging in these times. The current economic turmoil was supposed to play out to their advantage unlike IT services which are largely project based and discretionary in nature. IT/ITES sector once popularly known as India's growth engine and which made India as a worlds back office. This sector changed the focus from manufacturing sector to service sector has always been considered too critical to manage. Even in downturn it not lost its glory even the turnover of the organization is reduced. The sector which is well known for its innovation need to bring innovative changes to bring back the sector on tracks.

This paper mainly focused on what innovations taken place in the management styles of IT/ITES sector to run the business on lines of profit during the global recession. This also brings out the changing dimensions of doing the business also.

**Key words:** *IT/ITES, BPO, Corporate Innovation strategies, Recession, near sourcing,*

***"Innovate or Perish"***

### INTRODUCTION

This paper is basically focused on how the IT/ITES industry showed its impact on Indian economy. This is a study carried out to bring the truth of the IT/ITES industries past, present and future and at the same time it observed the future hurdles of growth of this industry in India.

The objectives of the study are as follows,

- To study the impact of IT/ITES on Indian economy
- IT/ITES industry past, present and future
- Survival of ITES during recession and beyond

The IT/ITES industry shown tremendous impact of the growth of one's country either it may be US or India. In India ITES sector has got huge amounts of foreign exchange and stand as the investor's paradise. In India ITES sector basically well known as business process outsourcing.

### Meaning of ITES/ Business Process Outsourcing [BPO]

Outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract. Business segments typically outsourced include information technology, human resources, facilities and real estate management, and accounting.

Many companies also outsource customer support and call center functions like telemarketing, customer services, market research, manufacturing and engineering. Outsourcing and off shoring are used interchangeably in public discourse despite important technical differences.

Outsourcing involves contracting with a supplier, which may or may not involve some degree of off shoring. Off shoring is the transfer of an organizational function to another country, regardless of whether the work is outsourced or stays within the same corporation.

### **TYPES OF OUTSOURCING**

Outsourcing/BPO is often divided into two categories; back office outsourcing, which includes internal business functions like billing etc and front office outsourcing, which includes external business functions like customer relates services such as marketing or technology support. Outsourcing is a trend that is becoming more common in information technology and other industries for services that have usually been regarded as intrinsic to managing a business.

History of Outsourcing: Looking at the history of human development, the history of outsourcing dates back to the industrial development that began in the late 17th century. For instance, the making of America's covered wagon covers and clipper ships' sails was a job outsourced to workers in Scotland, with raw material imported from India. Technology and Economics have already revolutionized manufacturing. The industrial complex that Henry Ford built in the early 20<sup>th</sup> Century in Dearborn, Michigan was the beginning of the saga.

The first **Ford Model -T** which rolled of the assembly lines had about 700 parts which are outsourced. Fast forward to the latter part of the 20<sup>th</sup> Century- the tool used to automate office work was the Computer. The entire office work has been atomized to do the work more efficiently and more quickly, but the complexity of the software, assembly mechanism made this task harder than usual. Then just as in manufacturing the solution to the growing complexity of office works (which are commonly known as White-collar jobs) was to outsource to companies who specialized in specific process.

Companies began outsourcing the work of their IT departments- from managing the physical hardware to maintaining and upgrading business software. Once companies became comfortable in outsourcing their business systems, they soon realized that they could do the same with the workers who operate them. Thus was born the phrase "Business Process Outsourcing [BPO]". Towards the beginning of the 21<sup>st</sup> Century, with the cost of telecommunications rapidly going down and the cheap availability of 'high bandwidth' internet connections for data transmission, some smart companies in the USA began to move some of their business services abroad.

### **INDIAN BPO INDUSTRY AND INDIAN ECONOMY**

As early we are discussed in the beginning of the 21<sup>st</sup> Century; some of the smart companies in the US began to move their business services to abroad. Since the onset of globalization in India during the early 1990s, successive Indian governments have pursued programs of economic reform committed to liberalization and privatization. Until the year 1994, the Indian telecom sector was under the control of the governmental. The state owned units in India enjoyed a monopoly in the market. In the year 1994, the government announced a policy under which the sector was liberalized and private participation was encouraged. The 'New Telecom Policy' of 1999 brought in further changes with the introduction of IP telephony and ended the state monopoly on international calling facilities. This brought about a drastic reduction heralded the golden era for the ITES/BPO industry.

This in turn ushered in a slew of inbound/outbound call centers and data processing centers. Although the IT industry in India has existed since the early 1980s, it was the early and mid 1990s that saw the emergence of outsourcing. One of the first outsourced services was medical transcription, but outsourcing of business processes like data processing, medical billing, and customer support began towards the end of the 1990s when MNCs established wholly owned subsidiaries which catered to the off shoring requirements of their parent companies. Some of the earliest players in the Indian outsourcing market were American Express, GE Capital and British Airways. In that the first organization to do this is **General Electrical [GE]**.

GE pioneered the trend of outsourcing to India when it setup its subsidiary – GECIS (presently renamed as GENPACT) in Gurgaon, near Delhi in the mid 1990's. It applied the 'Six Sigma method' of quality improvement to its 'Service Business'. Later companies like American Express and British Airways operating back offices in India since the mid- 1990's. The reason outsourcing stayed out of the news in early stages because it used to happen on a small scale and was concentrated in some specific regions like the USA, Europe. But now outsourcing is a \$400 billion a year industry and the world cannot afford to ignore it.

Globalization, explosive growth of internet and the development of information society in every region of the world has made outsourcing an integral part of the world economy. India is one of the countries which made its presence felt in the world economy by becoming the BPO hub of the world just like the China becoming manufacturing hub. India basically started supporting front office outsourcing in early 1990's. Its impact on Indian economy is discussed below.

1. From having mere call center operation, the sector today provides a whole range of deliverables in the areas of transaction services; process management, business transformation and other analytical services
2. Global shift towards process outsourcing backed by low cost local talent pool are the reasons for the Indian BPO industry to go at an impressive pace. The data is given in In the past three years, the BPO industry grew at 39% globally, where the Indian BPO has taken major share of it.
3. Indian ITES-BPO exports grew from US\$ 6.3 bn in Financial Year 2005-2006 to US\$ 8.4 bn in Financial Year 2006-07.
4. Today this sector provides huge employment for talented graduates in India. ITES-BPO employee base has grown to 553,000 in Financial Year 2007 from 415,000 in Financial Year 2006.
5. The rapid expansion in the scope of ITES-BPO has been accompanied by an equally rapid adoption across a range of vertical industries.
6. This wide range of services may be summarized into four broad categories comprising Finance & Accounting (F&A), Customer Interaction Services (CIS), Human Resource Administration (HRA) and Other Business services. With the above figures one can say that the "BPO Showed positive impact on Indian economy" will be considered as reality. As the Indian economy becomes more globally integrated, businesses in India are beginning to face increasing levels of global competition and being pushed to deliver world class levels of product and service quality. BPO has emerged as an effective means of entrusting specialists with the task of consistently delivering the desired high levels of quality leaving the client organizations to focus on their core businesses. These all are one side of the coin but we need to dare to accept the cautious reality of future of Indian BPO-ITES industry.

### **RECESSION: IS AN HURDLE OR OPPORTUNITY FOR IT/ITES SECTOR**

The current global economic slowdown has made it a roller coaster ride for the world economies. Asia / Pacific are experiencing a deferred impact due to the "domino effect" of the current crisis. With the expectations of a sluggish GDP growth and consequent reduction in IT spending, countries / markets which have a higher dependency on the export markets are expected to be affected more than other countries / markets with stronger domestic demand. India being one of the world's fastest-growing tech markets, thriving mainly on exports is also experiencing the tremors of the global economic crisis. These could see marginal decline as companies will tend to hold spends on new IT deployments. India's much-vaunted IT services sector has been no exception, and is already showing signs of having caught the virus. Earnings projections have been lowered, IT budgets are getting cut, vendor rationalization seems a certainty, hiring is down...the symptoms are there for all to see.

IT spending as a percentage of revenue normally varies from 3.5% in manufacturing companies, 5-6% in global retail chains to about 9.5% in the banking industry. It ends the dreams of the aspiring IT students who got offer letters with them or awaiting for the bright future in IT sector. Virtually no jobs for new engineers in the IT sector in recent future. The Recession completely changed the view of the looking at once booming industry which is popularly known as **“INDIA’S GROWTH ENGINE”**.

A recent study [Forrester] reveals that 43% of Western companies are cutting back their IT spend and nearly 30% are scrutinizing IT projects for better returns. Some of this can lead to off shoring, but the impact of overall reduction in discretionary IT spends, including offshore work, cannot be denied

- The slowing U.S. economy has seen 70% of firms negotiating lower rates with suppliers and nearly 60% cutting back on contractors. With budgets squeezed, just over 40% of companies plan to increase their use of offshore vendors
- The IT services and outsourcing market is currently undergoing a structural transformation that will have a profound effect on how IT service providers will have to conduct their business. Customers have started to reduce project scope and / or postpone new development. However, they are also trying to move more work to lower cost offsite locations, which could increase IT budgets towards tangible cost saving measures.

The impact is likely to be higher for discretionary outsourcing expenditures rather than for critical, ongoing Application Development and Maintenance (ADM) services. Indian IT companies which are focused more on providing basic ADM services, and with long term outsourcing contracts, could exhibit more stable earnings in this environment. Fitch expects IT services companies to report marginally positive revenue growth (in dollar terms) over 2009. With decisions on IT budgets being deferred and sales cycles having elongated from 3-6 months to 6-9 months, companies are seeing a significant drop in client additions. Moreover, the number of targeted large deals has more or less dried up. The current US-led crisis parallels the 2001-2002 Dotcom Bubble burst especially for India’s IT (export) sector.

Approximately 61% of the Indian IT export’s revenues are from US clients. If we consider the top five India players who account for 46% of the IT industry’s revenues, the revenue contribution from US clients is approximately 58%. This clearly indicates the adverse effect that the US recession is likely to have on the Indian IT sector. The industry has been constantly seeking to diversify its markets to offset its reliance on the US, which remains the largest outlet for India’s software sector. The impact has been more severe in the case of the Banking, Financial Services and Insurance (BFSI), which accounts for around 40% of the industry’s export revenues, and in retail and certain manufacturing sectors.

But still Healthcare industry is likely to witness increased IT investments due to increased focus on public health. Other industries that will see growth include telecom, retail and utilities like unique identity card which is recently been announced by the government of India. Some vendors who have a greater exposure to BFSI segment will be more impacted when compared to their counterparts with less significant exposure. The effect of this crisis would be more evident in the coming quarters. The overall revenue impact on the IT and ITES industry, as a result of the BFSI meltdown, could be anywhere between \$750 million and \$1 billion.

#### **FUTURE COURSE OF ACTION**

As we rightly quoted at the beginning of this paper that “innovate or perish” is the art of the day. This becomes an important feature for the sectors to sustain in the recession, especially for a sector whose foundation laid on innovation services. Many of the authors and business analysts sees the recession as a challenge instead of constraint. The achievements to date of Indian BPO industry are impressive. However, there is significant headroom to tap the addressable market opportunity from exports and from serving the domestic market.

A bottom-up analysis of NASSCOM shows a total export BPO market opportunity of US\$ 220-280 billion by 2012. The domestic Business Process Outsourcing market provides an additional US\$ 15-20 billion opportunity for the industry by 2012. This brings out the importance of the domestic market, which the Indian IT/ITES sector has neglected in the past. The recession made the industry people to think a new dimension to concentrate on the verticals which they are not aware of. The following are few suggestions given in the NASSCOM in their annual report for the sustainability of the sector in future:

- **Opportunity in New Verticals:** There is a large market opportunity not only for established industry verticals like Banking, Insurance and Manufacturing, which contributes almost 70 percent but also for buyers and providers in many other emerging verticals like Technology, Telecom and Travel & Transportation verticals also provide opportunities in excess US\$ 10 billion by 2012. Other verticals such as Media & Publishing, Pharmaceuticals & Life Sciences, and Energy & Utilities too represent significant untapped opportunity.
- **Opportunity in New Services:** There is a new way of look at the total export market opportunity is by providing new services as per industry demand. We can provide vertical-specific BPO services along with traditional BPO services. Over the next five years, vertical-specific BPO services provide larger market opportunity (i.e., 60 percent; US\$ 145-175 billion) compared to traditional BPO services. They can also concentrate on areas like CIS and F&A as well as emerging segments like HR, Knowledge Services, and Procurement Services. Many of the companies now looking at new verticals which they less heard of.
- **Changing the nature of work:** ITES people has to make them self free to concentrate not only on the high end jobs but also middle level and low level management operations. Like most of the industry majors like TCS, Infosys and Cognizant are concentrating mainly on BFSI services (see figure 4) because most of the traditional BPOs concentrating only on the high end level of services. Now it is the time concentrate on other areas also to sustain in the market. Now every company has to tap those levels where they previously not concentrated.
- **Opportunity by Source Geography:** There is significant opportunity for ITES people across geographic markets. While North America is expected to contribute roughly 70 percent of the total market opportunity for the Indian BPO industry, both providers and buyers should increasingly look at exploiting opportunities in the UK, Continental Europe and Asia Pacific. English-language based business processes from these geographies represent a huge market opportunity of US\$ 45-75 billion by 2012. Furthermore, domestic Business Process Outsourcing market (in verticals such as, Banking, Retail, Insurance, Media, Telecom, and Government) provides an additional US\$ 15-20 billion opportunity for the industry.
- **Innovating New Methods of Operations :** Traditionally most of the ITES/BPO people are concentrating on old fashioned way of operations. Now it is the time to innovate and restructure their way of business. There are new concepts like Near Sourcing, Rural BPO concepts which is giving not big but vital revenue for the sustaining their business and people.
- **Near Sourcing :** Near sourcing (also known as "near shore outsourcing" and "near shoring") means sourcing service activities to a foreign, lower-wage country that is relatively close in distance. Near shoring is becoming competitive with outsourcing to farther areas since the recent rise of fuel costs. The customer expects to benefit from one or more of the following constructs of proximity: geographic, temporal, cultural, linguistic, economic, political, or historical linkages. The service work that is being sourced may be a business process or software development. For the emerging markets like India it is best way of transforming the tracks of our traditional outsourcing.

## CONCLUSIONS

From the above study we have been proved that IT/ITES industry is rightly called as the India's growth engine. The past of the Indian BPO industry is been quite amazing and the fastness of its growth awesome. With the ripple effect of global slowdown the Indian IT/ITES sector got affected but its not a bubble burst what most of the people are considering as. There is a need of change in the outlook of the industry and try to innovate and remodel the way and style of business to sustain for future. NASSCOM report clearly says that over the next five years, right choices by stakeholders of the Indian BPO industry could effect a Fivefold growth. However, a need for concerted and collaborative action by various stakeholders to Create the enabling 'eco-system' for future growth of the industry. Indian economic system is reaping the benefit of its people's verdict in recent elections which has elected an eminent personality as its prime minister who is hading with stable government. But still few efforts are required across the industry to realize its potential and to maintain and accelerate its growth Indian economy :

- Protect India's cost advantage to ensure that buyer interest, adoption and growth are sustained Multiple levers can be used to protect Indian BPO industry's cost-advantage. It requires as diversification of actions. These could involve initiatives to 1) increase resource utilization, 2) manage wage cost Increases, 3) optimize internal SG&A expenses, and 4) de-risk revenue stream by diversifying the Client base and adopting currency hedging strategies.
- The Government also needs to maintain support to the industry through appropriate incentives and facilitate creation of infrastructure to ensure parity with other competing nations. These Incentives and support mechanisms could include fiscal incentives (e.g., continuation of the tax Benefits under the STPI scheme beyond 2009, stamp duty exemptions), infrastructure incentives or even changes to labour laws, Promotion of SMEs, and removal of some key telecom-related restrictions.
- Increase employability and access untapped talent pools by creating greater linkages between the Current education system and the needs of the ITES industry, and facilitating the development of ITES-specific education models Initiatives related to education are required to expand the employable talent pool in India. The government has to take few initiatives by involving the industry in modification of existing education system.
- Encourage the growth of domestic BPO market to enhance the competitiveness of Indian industry, create additional employment, and facilitate development In order to facilitate growth of the domestic BPO market, specific regulatory barriers need to be removed.
- Re-shape the Indian BPO industry to look beyond US to other countries, look at multifunctional business model which is essential in leading the current situations. India is often the nerve center of such business models.
- Develop the man power to meet the requirements of the clients of various nations where India is facing a problem the people attitude compare to other offshore locations offer unique advantages that may not be replicable in India. For example Philippines has superior English language and soft skills for customer service operations especially for US buyers, Eastern Europe offers language and time-zone advantages for European buyers.
- Communicate the true performance and potential of the industry to a broader set of stakeholders, including buyers, employees and Government

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