

Demand Drivers, Potential Game Changers and the Changing role of Leadership styles in Indian ITES (BPO) Industry

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Abstract— the term 'Outsourcing' has currently become a Universal business phenomenon swaying the whole world. The 'IT Enabled Services, synonymous to 'BPO', has emerged as one of the key drivers of success as well as growth for the Indian economy. This industry is although barely two decades old but has placed India in a commanding position with optimistic future growth prospects in exports as well domestic markets. The success story of this industry can be attributed to several demand drivers and potential game changers. These are such as Vertical realignment of business, Technology solutions, Business process reengineering, globalization of service delivery & Business scalability. This along with the sustainable business practices having focus on Innovation and Technology forecast has gained more relevance in the present scenario as several new and previously untouched areas in outsourcing are emerging such as investment research support, GIS, data mining, remote education, market research, content development, data analytics etc. Moreover there are various formidable challenges to be overcome by the managers in this era of inorganic growth with rampant Mergers & Acquisitions such as combating high attrition level, rising cost, competition posed by other low cost nations, managing cross cultural differences etc. This has special significance in the current era of economic recession with constantly squeezing margins. The present research paper has focused on these demand drivers and potential game changers. Thus having proper knowledge about these new developments and adapting the leadership styles to changing circumstances with proper understanding of the psyche of subordinates has become a new 'Mool-mantra'. It will also lead to giving unprecedented fillip to this industry and ensure its long term success and growth.

Index Terms— Outsourcing, BPO, GIS, data Mining, data Analytics, Inorganic growth

I. INTRODUCTION

The Global IT Enabled Service Industry: The IT Enabled Service industry which is synonymous to Business process Outsourcing (BPO) (Nasscom, IDC estimates, 2009) has been transforming globally over the last few years. The offshore outsourcing has become a panacea for business firms encountering intense competition. The growth of this industry got a fillip globally due to various factors such as market place

maturity, speedy telecommunications & infrastructure development and advent of new off shoring destinations. Numerous gains have materialized for the companies which include easy accessibility to the global talent, economies of scale, Business process re-engineering, wage arbitrage, increased profit margins and improvements in quality. This phenomenon of Outsourcing to low-cost nations has gained momentum not only for reasons of cost and quality but also as a strategic business driver despite voices of opposition in the home country of MNCs. Currently the companies measure the advantages of outsourcing with parameters such as reliability, faster market access, new market opportunities, lesser working capital requirement, reduction in defects, higher customer satisfaction and emphasis on core competencies which help them to improve quality and productivity.

The Indian ITES-BPO Industry: IT Enabled Services (ITES) or Business Process Outsourcing (BPO) Industry's contribution to the national economic output has become 1.0347% per cent in FY 2010. It is currently one of the fastest growing industry in India registering a double digit growth. The sector's share in overall services exports from 5.5% in FY01 to 12.8% in FY09 is showing remarkable increase over the past few years. The Indian ITES-BPO exports with annual growth rate of around 18% is currently standing at more than 15 billion dollars (Nasscom estimates). This is alone providing employment to more than a million people, not including the indirect employment. The domestic industry growing at 22% is more than 2.29 billion USD. The potentially addressable global market size of more than 700 billion dollars with upcoming several new industry Verticals, Service lines and geographicals is providing a promising future for this industry. This sector has transformed India as the "Back-office of the world" by massively developing the overall economic and social landscape of the country. Several favorable factors have contributed to India's achieving this position such as (a) Easy and abundantly available English speaking talented manpower (b) Availability of the state of the Art technology comprising of latest statistical techniques (c) Expertise related to products (d) Service costs getting down (e) Wide geographical area coverage (f) Appropriate Time differential coverage and (g) key human resources availability for handling the outsourced programmes.

Demand drivers : India, confirming its' position as the most favoured global off-shoring destination, has been successfully facing the competition from other upcoming offshoring low cost destinations and is also constantly increasing its market share. Various factors have made it possible for India to multiply several times its value proposition. With the globally unbeatable cost advantage, India has the world's largest reservoir of billable talent &

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service performance system throughout the country along with a favourable government policy regime. (Sreemediaeducation.blogspot.com,2011) However, the Indian industry is no longer depending only on value parameters such as cost, talent, infrastructure and processes. Rather now they are becoming customers centric with more collaborative contracts & focusing on greater risk-reward sharing. The following factors are currently driving the Indian industry. They are leading to transforming their Clients business which is happening through:

i.) Business realignment along new Industry verticals – A number of organizations have followed business policy of restructuring themselves around new Industry verticals & Centers of Excellences thereby developing capabilities to deliver end to end services. This has been done keeping in view customer needs, creating products while focusing on growing emerging markets and devising a substantial revenue mechanism for them. These vertically realigned business units now act as a source of innovation.

ii.) Cloud Computing as Solution provider – Development of Cloud computing based products as a new technology solution is getting preference. It is leading to business intelligence Integration & creation of application development tools which are proving to be real new game changers for increasing the number of business Clients.. The increased inclination of customers is now towards OPEX(Operational Expenditure) from CAPEX (Capital Expenditure) based models

iii.) Business process Re-engineering (BPR)– Increased use of BPR in processes radical redesigning along with increased automation is in vogue. This together with use of Six sigma skills for quality enhancement along with follow up of best practices in service delivery has also resulted in creating wide ranging transformation & solutions for clients.

iv.) Globalization of Service Delivery– India has transformed itself into a most matured outsourcing market, with numerous service providers having capabilities to provide end to end service delivery to global clients around all verticals. Further, there is increased globalization of service delivery with more cross border collaborations and partnerships in vogue to enhance the quality of service offerings and reshaping the talent pool for greater productivity and efficiency.

v.) Scalability of Business Offers– India's scale as well as flexibility in business offers is quite unique. This is seen in the currently available vast labor pool along with upcoming large network of Tier II/III cities thereby providing further cost reduction and increased infrastructure spend. It has led to advantageous position for India over other destinations. The demand side is also maturing gradually with time., It is tilting towards higher end solutions with measurable business value. The availability of a provider base with both competency & economy is again scoring high for India over other low cost locations.

vi.) Focus on Sustainable business practices– Industry is focusing on sustainable business practices which is inclusive of diversity, green and Corporate social responsibility. According to **Nasscom review**, India needs to nurture as well as sustain six competitive advantages such as growing well educated English speaking base of workforce with the required technical and people skills, Cost competitiveness despite the rising wage and training costs, proper

management of data security risks, Enthusiastic embracing of quality standards, Adoption of World class IT infrastructure, Continued Government support and Tax Sop for ITES industry so as to remain ahead of the competition. The Indian ITES industry is to continue its growth march in future as well and is likely to gain further specialization in the KPO, EPO and LPO arena. The BPO sector was the driving force behind the Indian ITES-BPO industry during its advent days. Currently the KPO sector is going to become the driving force for the industry because of the high analytical services it offers to its global clients. The EPO and LPO segments are touted as the growth drivers of the next wave of outsourcing.

vii.) Global economic and social Tsunamis: The world is fast changing and the coming decade is likely to be different from what we have experienced up till now. Driven by global economic and social tsunamis, governments, individuals and businesses are expected to change the way they work and interact. The ITES industry in India was a dream runner over the last decade. It transformed India into the back office of the world, setting up new growth targets and considerably influencing the country. As we now enter the new decade, there is paradigm shift with increased inclination towards change, adaptability and flexibility as the harbinger for the success of the organizations & the Industry. These will be new drivers ruling in the coming decade and their impact on business will be providing for transformation of the countries, businesses and individuals.

viii.) Innovation as future driver of ITES -BPO sector Innovation is the need of the hour. It will continually emerge as an important driver for the ITES industry over the next 10 years. The Research & development which is the heart of innovation, can play a leading role in helping the country in 'Out-of-the-box.' thinking. It will also help the sector to mature and move up the value chain. The government has already positioned the present decade as a decade of innovation for the country. This is also the requirement of the changing business dynamics, global customers and the newly emerging markets. They are pushing organizations to develop 'local' products for specific client needs. Fuelled by the economic recession, the increased focus of global organizations is towards 'doing more with less', It is leading to increased customer delight with new product development at an affordable cost, through effective Technology changes. These factors are also leading the global business organizations to create partnerships for R&D, innovation and business transformation.

The **Potential game changers** which can help reshape this industry tomorrow are as follows:

i.) Shift(Change) in Demographics :According to industry analysts there is an imminent demographic shift in the coming decade with most of continental Europe having Aging population and declining labor force while India, Indonesia, Malaysia, and the Philippines will all have young, growing populations and work forces. Also the growth rates of population will be less than in the past. This will change the rules of the game as Innovative HR initiatives, which better engage young people, will be needed for global business firms to grow faster. This will also improve the productivity and efficiency in the workplace.

ii.) Restructuring of Global Trade pattern: Another potential game changer for the coming decade will be restructuring of the global trade pattern . The rising of the

Asian tigers and the upcoming of India and China along with Russia, Brazil & South Africa as emerging economies (BRICS) are going to cause a shift in balance of power as well as trade. Today Asia (without Japan) and Western Europe are having 15 per cent and 25 per cent of the global GDP. It is expected that with in next 20 years, they will converge. The contribution of developing countries may increase immensely in the coming decade with advent of around a billion new customers. Further the middle class expansion with more than US\$5,000 household annual earnings are going to becoming part of the world market. This along with the emergence of new trade blocks such as MENA (Middle East and North Africa) & IBSA (India, Brazil, and South Africa) will lead to more equitable distribution of world trade. The Indian ITES industry will also not remain unaffected as these emerging trading blocks may also require this industry to adopt new business models. Also a deep understanding of these markets will be needed by the Industry with the transition in business philosophy from 'Global to Glocal'. The industry must develop newer insights concerning facilitating movement of skilled workforce thereby adding more value.

iii.) **Inorganic growth for Competitive Advantage:** 'Inorganic growth' through more Mergers & Acquisitions is going to be another important game changer in the coming decade to stay ahead of the competition. The whole world will be getting transformed into a global village with the disappearing of the geographical boundaries. This along with more Collaborations and co-optition will become the prerequisite.

iv.) **Inclusive & equitable growth:** The word 'Inclusive & equitable growth' will become yet another growth catalyst in the coming decade. The focus area for economies, both developed and developing, will be to create growth opportunities for both the privileged as well as the underprivileged people. It is a global problem with India being no exception. There are several challenges faced by government as well as industry in this area as this problem with several dimensions such as urban-rural divide, rich-poor divide, gender and digital divide, is multifaceted.

Leadership Styles in ITES Industry - The Changing role in the digital age: The role of Leadership is quite crucial in promoting the ITES Industry in India. Leadership as we all know is a continuous process of behavior. The leaders guide the action of their subordinates & others to accomplish the goals of the organization. But with the advent of Digital Age the Managerial leadership in this industry has assumed newer dimensions as well as meaning. **Leading in the Digital Age** is the biggest opportunity as well as challenge This is especially true when a new society is taking shape which is also popularly known as Information society. It is effectively leading through inculcation of various factors such as computing, communications and the content. The type of work force it is dealing with comprises mainly of **Millennial boomers** who are in their late teens & early twenties. They are an entirely unconventional or radical workforce and also called **Gen-Y workforce**. Being Internet savvy Netizens & having radical thought process regarding the work culture & timings, job perception & satisfaction, they believe more in socializing, smart work & making fast buck and tendency to vanish with 'Eat, drink & Be-merry' attitude in in life. The alarming attrition rate in this industry of around 35% is a living testimony to this fact. Thus a paradigm shift in leading

by managers is the need of the hour so as to smoothly run this industry. The factors such as E-Governance and increasing role of women as a leader needs immediate attention. This along with the need for re-establishing business Ethics as a topmost priority for the Industry has gained importance due to increasing incidences of Customer data diddling, theft and Job hopping.

The Leadership styles adopted by Managers while dealing with their Subordinates or facing Issues and Challenges can either make or mar the image of India as a preferred outsourcing destination. As rightly said by Peter F. Drucker, **"Good Leadership is a must for the success of a business but the business leaders are the scarcest resources of the enterprises."** This industry is also in constant transition with composition now focusing more on new and previously untouched areas such as investment research support, medical transcription, GIS, data mining, remote education, market research, content development, data analytics etc. Their revenue contribution is expected to reach about 40% and the traditional services going down to 60%. All these developments require new types of leadership dimensions to be included in the leadership styles such as inculcation of soft skills while leading the subordinate & interacting with peers and clients. A leader needs to adopt different styles and roles in different situations to become successful. It is thereby an ongoing and perpetual process of self improvement.

i.) **Role of Ethics** in this industry is being increasing felt. Currently not only achieving economic excellence is mandatory while performing ethically while working is also becoming a top priority for business firms. It has become a biggest social challenge for business as in this digital age it is very easy to break the rules. The increasing cases of 'Industrial Espionage' using pressure tactics for getting competitors information has become a rampant practice. Also the dissemination of information technology (IT) has redefined 'Ethics' and made it more of a 'relative term' rather than absolute. Certain things are becoming unethical in one culture but considered ethical in another one. They have led to more subjectivity on the part of big & professional organizations while defining their own codes of ethics. The specific threats concerning the data corruption (loss) or theft of data, its Manipulation and inappropriate use, errors while making entries, processing or transferring data. This along with the destructions from viruses along with Data Tempering (or Diddling) and attacking the computer system through use of programming techniques are also becoming rampant. The NSR (National Skills Registry) implementation while carefully hiring the employees has become the need of the hour.

ii.) **Role of E-Governance** : The term "E-governance" synonymous with **E-CRM** or **"Electronic Customer Relationship Management"** denotes a paradigm shift in the functioning style of the government and its interactions with citizens, businesses, and even within government departments. Information & Communications Technology (ICT) has facilitated the government functioning while providing services to business firms. The government needs to change its role to become more as a "facilitator and regulator" rather than simply implementer. It has quite a significance as a new society is shaping up which is predominantly called knowledge society or the networked society. The establishment of SWANS (State Wide Area

Networks) with a total outlay of US \$740 million, setting up of around 10,000 rural common service centers to facilitate e-services delivery, Initiation of the Data Bank at National level and centers at the State Level with Start-up of Mission mode citizen & Business projects and increasing trend towards technical collaborations between governments & MNCs are certain government initiatives in this direction. The case of Oracle teaming with Hewlett-Packard India for starting an E-Governance Center of Excellence in Delhi-NCR, the 22 Indian e-government projects by Oracle and the MCA-21 programme initiated by the Ministry of Company Affairs partnering TCS having a BOOT model are certain prominent e-Governance initiatives examples in India.

iii.)Role of Women as a leader in ITES Industry is commendable & unprecedented with the employed men-women ratio reaching at 65:35. The winds of globalization and outsourcing in India have thrown open numerous opportunities for women. The trend towards women empowerment in the present knowledge era has silently led to a revolution. There is an immediate need to recognize the potential of women as a leader as they are getting the best access to information and communication technology (ICT) along with employment opportunities. A comprehensive strategy concerning solution to problems faced by women such as “**Glass ceiling effect**” with proper identification of factors preventing them from reaching the top, honing their skills while removing the inequalities, more involvement while making decision has become a new must. Thus the need of the hour is to provide more opportunities regarding training women to maximize their potential. More over the improvement of working conditions with in the business firms with equalities in salaries and promotions has also become mandatory and this requires removal of the mental barriers in both top management as well as staff .

iv.)Managing in Asian” High power distance” culture: The current style of managing in this industry needs to be changed. It needs to become more democratic rather than remaining autocratic with a one man show in the prevalent Asian Culture. The high power distance culture in Asia is to be understood in right perspective. As we are living in the ‘IT’ (Information Technology) Age the nurturing of the quality ‘workforce’ with adoption of a ‘**Virtual team culture**’ has become essential. Moreover the creation of less formalized and less centralized structure has become a prerequisite for fostering entrepreneurial abilities, Innovative skills’ and competence build-up among the subordinates. Certain other aspects such as ‘**Corporate Social responsibility**’ can lead to providing them sustained competitive advantage. The firms should not suffer from strategic myopia while formulating their business policies which can be in terms of narrow definition of their business and its various goals, wrong conviction concerning the product or service remaining permanent & the eternity of geographical markets, industry verticals or service lines.

Conclusion & Suggestions: The ITES (BPO) Industry has transformed India into the back-office of the world. Its success can be attributed to several demand drivers and potential game changers such as Vertical realignment of business, Technology solutions, Business process re-engineering, globalization of service delivery & business scalability. They have gained more relevance in the present scenario and are definitely going to provide a new direction to

this industry in future as several new and previously untouched areas in outsourcing are emerging such as investment research support, GIS, data mining, remote education, market research, content development, data analytics etc. Moreover a paradigm shift is required in the type of Leadership style being practiced as there are various formidable challenges to be overcome by the managers in this era of inorganic growth with rampant Mergers & Acquisitions. The vicious problems such as combating high attrition level, rising cost, competition posed by other low cost nations, managing cross cultural differences etc. need immediate attention and solution. Further the continued economic recession with constantly squeezing margins has forced the management to change their mindsets while leading. The increased role of Ethics, E-governance & Women in the workforce while leading in the high power distance culture prevalent in India has become the need of the hour. It is a well known fact that Leadership is a journey and leadership building is an ongoing process. The ITES-BPO being a client centered industry must be able to offer long term career possibilities to people rather than making it as a stop gap arrangement. It must inculcate in people the ability to cope up with the nature of the jobs in this industry keeping in view the factors such as managing the shift timing with high level of performance and consistently up-grading their knowledge. The necessity of inculcating adequate skills and the domain expertise in understanding the consumer behavior in various segments has become a prerequisite. A deep thought process in the industry experts must be initiated while formulating their plans considering both the revenue contribution of this industry and its share in the national GDP . The change process is eternal in this industry with the likely volume of change expected being enormous . The “**one size fits all**” strategy by the managers will not work as the need of the hour is both utter ‘Customization’ as well as ‘Customerization’. The focusing on process rather than mere functions is the prerequisite for this Industry. Most importantly it requires visionary leaders who can foresee future opportunities and threats and have more trust and faith on their subordinates. They must constantly give them a feel of the environment within as well as outside the organization as having trust in subordinates can lead to more innovative ideas and ways of doing things. It will result in breeding more loyalty towards the organization among the subordinates and help reduce the attrition level which is a menace to this Industry.

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