Chapter 11

Business Process Offshoring Services in India: Addressing Untapped Opportunities and Policy Implications

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ABSTRACT

India is a leading player in the rapidly growing Business Process Offshoring (BPO) services. The Indian BPO market has grown manifold. The Indian BPO industry faces a unique opportunity to enhance its role as a full-service provider. At the same time, there is urgent need to address untapped BPO market opportunities in India. With the above backdrop, this chapter is an attempt to analyse the drivers of BPO services and barriers to BPO services, the job losses and gains, the strengths and weaknesses of Indian companies in BPO services, to identify India’s competitors in offshoring business activities, and to draw policy implications to gain from the BPO market using available theoretical literature. The chapter provides a detailed account of the capabilities, opportunities, and growth imperatives for the BPO market in India with significant policy implications for the stakeholders.

INTRODUCTION

Offshoring outsourcing is the exporting of jobs from developed countries to overseas where labour and other costs are lower. Offshoring involves completing activities in locations that are external to a nation’s geographical boundaries (Kahai, Sara, & Kahai, 2011). In globalizing world, cheap telecommunications facilitate relocating of many jobs overseas. As globalization accelerates, the offshoring is likely to intensify as well. Outsourcing results in lower cost and greater efficiency in manufacturing and provisioning of better service to consumers (Sarkar & Reddy, 2006), thus, lowering the transaction costs (Coase, 1937), which serve as a “wedge” between the price that the selling firm receives and the price that the acquiring firm pays.

Offshoring in manufacturing has existed for some time, but offshoring in services is a relatively recent phenomenon. Offshoring involves replacing services produced domestically with imported services leading to job displacement at home.
The Business Process Offshoring (BPO) refers to the practice of moving ICT-enabled back-office business processes to offshore low cost locations (Dossani & Kenney, 2003) due to availability of pools of talents (Farrell, 2004). To begin with, the BPO services were “low end” services using minimal skills-sets and data transmission costs. Overtime, Knowledge Based Processing (KPO) services involving higher-level skill sets and education have grown significantly (Joshi & Mudigonda, 2008), which includes sophisticated product development, research and development, financial analysis, advanced legal research, etc. (Kuruvilla & Ranganathan, 2010) facilitated by the expansion of the capabilities of the Internet (Kahai et al., 2011).

Knowledge work can be produced anywhere in the world (Friedman, 2005), however, the endowment, human capital and policy still matter (World Bank, 2007). Knowledge itself is a unique factor of production and its value does not diminish. A great deal of knowledge is tacit. It is difficult to transfer and its reproduction can be extremely costly (Foray, 2006). It also needs an environment to be harnessed effectively. Firms have rapidly started offshoring knowledge-intensive activities (Dossani & Kenney, 2003, 2006; Lewin & Peeters, 2006a, 2006b) including product development activities. North American and Western European companies are responsible for most of the higher-skilled knowledge-intensive offshoring worldwide (Agrawal, Farrell, & Remes, 2003).

Offshore outsourcing is an important global cost based strategy, especially for U.S. organizations, to shift BPO services to offshore destinations like India (Ghemawat, 2007; Carmel & Agarwal, 2002) using value based partnerships (Williamson, 1985) to get benefit from improved technology service (Lee & Kim, 1999; Lee, Huynh, Kwok, & Pi, 2003). Firms also locate intangible production tasks like research, design, management, and IT support to different countries (Oldenski, 2012). Indian companies are offering numerous BPO services. Recently, big IT companies in India have integrated BPO in their business model.

The processes of economic globalisation can create winners and losers by accelerating structural change. One of the big political questions is how to address this seriously (Stiglitz, 2006). India has a relatively highly skilled workforce and low-cost offshore locations. Despite this, India still has a long way to go in creating a knowledge based economy through strong basic education systems. The pool of skilled labour is almost exhausted. India is at the bottom end of an index that measures the ability to create, absorb and diffuse knowledge (Dahlman & Utz, 2005). The availability of cheap labour will become less important in future as the emphasis will be more and more on the quality and variety of the services. Offering of a platter of services enables BPOs to get more profit and better contracts. With above back drop, the present study is an attempt to analyse the drivers of BPO services and barriers to BPO services, the job losses and gains there-from, the strengths and weaknesses of Indian companies in BPO services and to identify India’s competitors in offshoring business activities and to draw policy implications to gain from the BPO market using available theoretical literature. The study provides the detailed account of the capabilities, opportunities, and growth imperatives for the BPO market in India with significant policy implications for the stakeholders.

**DRIVERS OF BPO SERVICES**

Offshoring outsourcing services are the transfer of non-core business functions to outside firm in a country other than the one where the product or service will be sold or consumed. Offshoring is the exporting of jobs to countries where labour and other costs are lower. The business firms outsource services to reap the benefits of reduced costs, increased flexibility, higher quality, and access to new technology. Outsourcing enables
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