Indian ITES Industry Going Rural: The Road Ahead

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Abstract

Indian ITES industry has witnessed huge growth over the last decade. Now the need of the hour is to sustain its leadership position and cost competitiveness. BPO services in metro cities now seem to be focused more on high-end knowledge based services while there has been a silent shift happening to Tier II, Tier III cities and rural areas. Rural Outsourcing as the new buzz in the ITES industry in India, can be a potential solution to sustain cost competitiveness of India. One of the biggest benefits that rural BPO services bring is employment to villages and small towns. They also mitigate the risk of BPO jobs moving to alternate locations like Philippines, South American countries etc., thus ensuring the growth of BPO in India. A huge chunk of the local population also gets employment in a hi-tech sector that is otherwise not present in big numbers in rural locations currently. This paper tries to study the opportunities and challenges of Rural outsourcing. The authors have used both primary & secondary sources of data to analyze the current status of Rural outsourcing in India.

Keywords: Business Process Outsourcing, ITES, Rural Outsourcing, Tier II & III Cities, Village BPOs

1. Introduction

India is enjoying the status of the 'most preferred location' for Business Process Outsourcing (BPO) for quite some time. Availability of skilled manpower at low cost, a huge English speaking population, and appropriate infrastructure have been the key reasons behind this success. The rapid expansion of BPO companies in Tier I cities caused intense competition for available talent and this led to frequent poaching of staff. High attrition, increase in salary costs and pressure on sustaining the cost saving potential prompted companies to look at rural locations as an attractive alternative for outsourcing BPO services. Rural BPO is one of the few avenues of employment for rural India and an attempt to combine entrepreneurship and social empowerment ensuring a better synergy between urban & rural divide.

According to NASSCOM "Strategic Review 2011" the IT-BPO firms in India are set to increase the number of employees in the rural BPOs in the next 3 years. NASSCOM has also projected that by 2015 about 1,000 centres and 150,000 employees will be a part of rural outsourcing. If rural BPOs flourish in this manner, they will create about 10-12 lakh jobs directly and indirectly. Leading BPO companies have already started hiring resources from small cities in India to achieve cost efficiency. According to Ernst &Young, already there are more than 50 rural BPOs serving both domestic and global clients. In rural BPOs the attrition rate is only 3-5% compared to urban BPOs where this figure stands at 50%. The operational expenses are 30-40% lower than the major cities. The salary levels in rural BPO is also low wherein a person working in rural BPO is paid 30-40% less than what is paid in urban areas. The rural BPO space is dominated by women employees and sometimes it forms 65% of the total headcount in certain companies.

2. Literature Review

Dharmendra Mehta, Jitendra K. Sharma & Naveen K. Mehta (2011) in their article 'An Empirical Study on Job Prospects in BPO: Indian Perspective' concluded that rural aspirants in India have started giving serious consideration to BPO sector while planning their career. It has been indicated that there is significant preference of rural youth aspirants towards BPO as a career prospect.

Dibyendu Choudhury and Dr. Sasmita Mishra (2010) in their article 'Compensation-satisfaction correlation at workplace: A study on BPOs at Orissa' stated that Indian BPOs have been in news for certain contradictory issues. While this industry is able to create more employment, on the other hand, is facing the problem of attrition. Although these issues have been addressed from different perspectives, more and more researches are required to understand the employment trends, employee expectation and satisfaction etc. may be at the local level.

The low cost of operations and lower employee attrition levels are the key benefits that these companies derive from their rural operations. However, the main challenges that the rural BPOs face are under-developed infrastructure facilities, lack of power, poor telecommunication, transportation, education, and other support facilities. Upgrading the relevant skills of rural BPO staff is also a critical factor for improving service quality levels. To bridge this gap by initiating development at the village level, and to put rural India on a par with major cities, the Government of India has partnered with private institutions. **NASSCOM** prefers the term 'non-urban' to 'village' or 'rural' because prospective clients may associate rural with 'backward'.

Rural BPO is becoming popular because of the cost advantages. **Saloni Malhotra and others (2007)** find rural BPO model provides cost cutting alternatives to urban clients and new sources of income and employment to the villagers, by leveraging internet technology through a case study on a Rural BPO Company in India. While in a study (2011) conducted on 200 youth aspirants in Madhya Pradesh, it is very revealing that so far the youth of rural areas have not identified BPOs as a lucrative career option.

Due to lack of clarity & research work, an attempt is made to study the growth of Rural BPOs and understanding the challenges.

3. Objectives & Methodology

The researchers had the following two objectives for the study: i) To study the growth in the Rural BPOs in India and ii) To study the drivers & challenges of Rural BPOs in India. This study is based on primary as well as secondary data. The main objective of primary data is to ascertain managerial perception towards Rural BPOs. The secondary data presents growth of Rural BPO in India and the challenges faced by the industry.

Study#1: To study the growth in the Rural BPOs in India

Personal interview technique has been used for data collection to understand managerial perception towards domestic outsourcing & especially on different drivers & challenges faced by Rural BPOs. Data collected from 63 decision takers of various BPOs are analyzed with the help of qualitative analysis tools. To explore the option of Domestic Outsourcing we framed the following hypothesis:

Hypothesis #1

H0: India's outsourcing opportunity is independent of within or outside country

Table 1A: Number of Responses: Outsourcing opportunity within India

Outsourcing Opportunity within India	N	%
In Favour	58	92
Not In Favour	5	8
Total	**63**	**100**

Table 1B: Tabulated Statistics on Outsourcing Opportunity within India

	Agreement	Disagreement	All
India should explore within country	58	5	63
	31.50	31.50	
India should not explore within country	5	58	63
	31.50	31.50	
All	63	63	126

Pearson Chi-Square = 89.175, DF = 1, P-Value = 0.000
Likelihood Ratio Chi-Square = 104.815, DF = 1, P-Value = 0.000

From Table 1A we can infer that 92% of the respondents are in favor of exploring the outsourcing opportunity within India. In Table 1B, the Chi Square test showing P value as 0.000. P value <0.05 implies null hypothesis is rejected. This means India's outsourcing opportunity is dependent on exploring the opportunity within or outside country. As 92% respondents are in favour of exploring the outsourcing opportunity within the country, India should definitely explore the outsourcing opportunities within i.e. focusing more on domestic outsourcing.

Hypothesis #2:

H0: In the context of domestic outsourcing, there is no significant difference between various outsourcing opportunities

Table 2A: Various domestic outsourcing opportunities available to Indian BPOs

Various Domestic Outsourcing	N	%
Small Towns / Rural Outsourcing	26	35
Shared Services	14	18
Tapping Domestic Companies	17	23
Captive Set ups	12	16
Others*	6	8
Total	**75**	**100**
*Subcontracting to small vendors & Consulting Services		

Table 2B: Tabulated Statistics on Various Domestic Outsourcing

	Agreement	Disagreement	All
Small Towns / Rural Outsourcing	26	40	66
	15	51	
Shared Services	14	52	66
	15	51	
Tapping Domestic Companies	17	49	66
	15	51	
Captive Set ups	12	54	66
	15	51	
Others	6	60	66
	15	51	
All	75	255	330

Pearson Chi-Square = 18.635, DF = 4, P-Value = 0.001
Likelihood Ratio Chi-Square = 18.914, DF = 4, P-Value = 0.001

In the context of domestic outsourcing (as per table 2A), 35% of the respondents see opportunity in small town / rural outsourcing followed by 18% for shared services. In Table 2B, the Chi Square test is showing P value as 0.001. P value <0.05 implies null hypothesis is rejected; means there is a significant difference between various outsourcing opportunities. Since 35% respondents are in favour, it can be concluded that moving to small towns / Rural Outsourcing is gaining more importance. The secondary research done reveals that there are various types of Rural BPOs in India**:** BPOs in small towns (Tier II, Tier III cities) and Village BPOs.

We studied various innovative strategies & business models adopted by various companies in setting up BPOs in small towns & villages. Based on various business models and the responses from them, four broad types of rural BPOs are prevalent in India: Domestic Captives, Service Providers operating in villages using Hub and Spoke Model, Large Service Providers operating with smaller service operators in rural areas & e-Governance service centres through Rural BPOs.

Most companies setting up BPO operations in rural India operate as third-party service providers to multiple clients. A few are captive back-office centers for big companies. But typically rural BPO outlets are small (25 to 50 seats). Some ambitious business models definitely prove that rural business process outsourcing will explore new horizons & add new dimensions in Indian outsourcing industry. Some notable examples are as under:

1. **Atlas Documentary Facilitators:** Set up by HDFC Bank in Andhra Pradesh through its subsidiary. 550 employees are involved in non-core operations, such as data capturing and indexing of customer details that was previously handled by more than 1,000 employees in Mumbai and Chennai.
2. **Uday:** Tata Group aiming to hire 5,000 people as an initiative of the community services.
3. **DesiCrew:** Tamil Nadu state-based BPO was incubated by IIT Chennai. They used the network created by the Indian government's Common Service Center initiative which aims to set up one computer in each village across the country. Due to security and reliable infrastructure issues the project could not shape up properly. So they moved to franchise arrangement under which a franchisee was responsible for the infrastructure while DesiCrew brought in the work.
4. **SourcePilani:** Aiming to increase headcount and then sell the franchise to a village cooperative.

Table 3: Projections of Rural BPO in India by 2013 – 2015

	Customers	Current Centres	Employees	Centres	Employees
ADF*	1	2	550	NA	NA
B2R	3	2	100	100	6,000
DesiCrew	12	5	225	50	5,000
Drishtee	6 -7	2	30	NA	NA
eGramIT	15	4	700	30	3,000
Harva	5	3	30	70-100	10,000
NextWealth	NA	2	200	40	1,000
RuralShores	12	6	500	500	100,000
Source For Change	4	1	70	200	10,000
SourcePilani	7	1	60	5	500
Tata Group**	4	NA	2000	——	10,00
Total		26	4,465	925	145,5000

The above List includes only those Companies that have has rural BPO's for at least a year
*a large domestic bank's back office located near Tirupati
**for needs of group companies, about 2,000 of the 7,000 employees are in rural areas
(Source: www.bpmwatch.com)

Study#2: **To Study the drivers & challenges of Rural BPOs in India**

Though achieving extreme cost benefits has been the underlying force driving businesses to set up BPOs in rural India, there are other crucial factors mentioned by the respondents which have augmented this BPO trend. The same have been discussed as under:

a) **Rising Costs in Cities:** With India emerging as world's leading service provider, the cost of living, infrastructure, medical care, etc. has seen a sharp rise in the cities. Costs have shot up in the urban areas like rentals are up by 15-20% and salaries by 20-30%. Capital expenditure (Bandwidth, Computers) is the same for Rural and Urban centers, while the operating expenditure in rural areas is 30-40% lesser.

b) **Low Attrition:** Compared to BPOs in urban areas, rural BPOs do not suffer attrition problems. Clients from overseas are open to outsourcing anywhere as long as the service and quality is maintained. Low-end work like data entry is easy to do.

c) **Social Cause:** Access to female employees is an important reason. Not only are women equally adept at handling IT tasks but they have proved to be more loyal employees. Through job creation in villages and semi-urban areas, migration to cities can be reduced. As a result, disposable income among lower income group increases and villages are provided a means of sustainable development.

d) **Government Incentives:** Both the national and state governments are supporting and providing incentives for setting up Rural BPOs. Some State Governments have come out with rural BPO Policy to promote BPO in rural areas.

e) **Participation from Non-government Organizations (NGOs):** Promoting rural BPO is more viewed as a corporate social responsibility as the same provides great opportunity to uplift the rural population. Various non-profit organizations and NGOs work with BPO companies and the local community to establish BPOs in various rural areas.

f) **Third Party Support:** Banks and Telecom companies want to penetrate the interiors of India to sell their products. Rural BPOs can provide a viable service support infrastructure for these companies.

Setting up a rural BPO operation looks lucrative. But the challenges posed by rural BPOs in India seem extremely difficult and at times impossible too. Factors which do not portray favorable picture of Rural BPOs are related to hiring right talent, training, infrastructure challenges and the community acceptance.

Getting the right people and overcoming market skepticism are most difficult to solve but they are more critical to BPO success. Managers at rural BPO centers acknowledge that recruitment is a much bigger deal for them than it is for their urban competitors. Most rural BPOs require basic educational qualifications, usually high school graduation.

As the education levels are low, companies spend much time, resources and money in getting them trained and be ready to work. BPOs in rural areas suffer from obstacles like poor infrastructural facilities, lack of internet connectivity and electricity. Some villages in India are still awaiting power connections. So any prospective BPO needs to budget for a heavy-duty diesel generator. This can be tackled relatively easily if BPO firms partner with NGOs and local government departments familiar with an area.

Conclusion & Recommendation

Rural BPOs have motivated the entrepreneurial spirit of many in India and surely created a buzz in the outsourcing industry. However, only time can tell if rural BPOs can bring in bigger growth to thousands of smaller towns in India. The challenges mentioned above are surmountable and can be carefully addressed to make greater inroads.

Innovation has become the key mantra for the rise of BPOs in India, e.g. "Source for Change" - an initiative of the Mumbai-based Piramal Foundation. So the future of rural BPO in India shows promise. Setting up of rural BPOs is perceived as corporate social responsibility. It is a viable business opportunity combined with focused and integrated approach. What is needed is identification and promotion of select rural destinations for development, similar to China & Japan. Even if just one location per district is identified for promotion and development, there is tremendous scope for accelerated growth. It will be easier for the Government to set up and run the infrastructure instead of individual entrepreneurs starting the Rural BPOs in a location which require building of new infrastructure. Recently Kerala Government has come out with a Hub-and-Spoke Model, whereby Tier II cities will work as a hub for Tier III or village locations.

More than 72% of our population is living in rural India. Now there is a great opportunity on hand to tap into the talent pool that thrives in rural areas and ensure balanced growth across the country. This will also ensure that India is in a position to dominate as the "Back Office of the World".

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