

# Offshoring to India: Managing Talent in a Transforming Environment

What's Now? What's Next?

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# Offshoring to India: Managing Talent in a Transforming Industry.

## What's Now? What's Next?

### Executive Summary

Offshoring largely covers Manufacturing, IT, and IT enabled Services (ITeS). While India is now a favoured and growing destination for all these activities, IT and ITeS comprise about 65% of offshoring work done in this country. Of these, the ITeS sector, also labelled as Business Process Outsourcing (BPO), is the fastest growing.

With globalisation and evolution of the Internet, contracting to remote BPO centres half way across the globe has become the most efficient, cost efficient model that ensures benefits to both business partners.

Offshoring of ITeS processes to India has its roots in the early 1990s with companies like American Express and GE setting up captive customer support and transaction processing units here. The country responded with its vast pool of English speaking graduates, strong management capabilities and entrepreneurship to emerge as a global player in the ITeS as well as IT segments.

The reason for this is that over a period of time, the advantages of offshoring go beyond pure bottom line considerations. It also results in enhanced top line. There is a lowered threshold for product development and corporates can leverage economies of scale to expand service offerings to their clients. Besides this there are other benefits - consolidated activities serving larger footprints in shared locations, increased organisational flexibility, and a much stronger focus on core business activities.

With the increased availability of suitable and affordable telecommunications, it became easier for companies to scan and use appropriate technical skills globally in order to optimise the use of talent, especially in domains where there is a perceived shortage of skills in the domestic market. A Forrester Research predicts that around 3.3 million US jobs in the services sector and US\$ 136 billion in wages are likely to move to countries like India, Russia, China and the Philippines by 2015.

India leads the pack, as the gap between India and China, the second largest ranked offshoring market, is larger than the gap between the next nine countries combined, according to the Manpower Hay Group study on Offshoring to India released recently.

Logging an impressive GDP growth rate of around 8% per annum, India has emerged as an offshoring destination of choice for services ranging from customer service to transaction processing, R& D to design, legal aid to equity research, prosecuting patents to clinical trial monitoring. **The forecast is that by 2010 India will have a potential workforce of 83 million** and growth and diversification will continue as the country moves up the value chain to segments where the value and economic benefits are even higher.

Given the focus on maximization of return on investment and reduction in costs, the choice for most global organisations is no longer whether to outsource and offshore or not, but rather when, what and how to do so in order to retain competitive advantage. This is compelling companies to focus on long term strategic offshoring goals rather than on short to medium term initiatives.

Despite the concern in many parts of the developed world about the loss of jobs, such countries are indeed facing a Hobson's choice: they have to either cut costs by moving services offshore or lose market share to competitors from other countries.

Although offshoring has typically been used by large organizations to set up captive units or partner vendors in countries where the cost structure was lower, current trends clearly indicate that companies are increasingly offshoring even critical (though non-core) projects and processes for value that transcends just cost benefit.

Over the past 25 years, the array of business activities being offshored to countries such as India has changed considerably. While earlier the concentration was on manufacturing, software and basic processes such as customer care and data entry, increasing offshoring of more high end processes, known better as knowledge process outsourcing (KPO), is also gaining momentum.

The emergence of new service lines (underwriting, telemedicine, consultancy for example) is stepping up demand for new skill sets. It is estimated that by 2010, the IT and BPO sectors in India will employ over 2 million people .

This Paper on *Offshoring to India: Managing Talent in a Transforming Environment*, explores all the key trends in these industries, the rationale behind offshoring to India, the value added activities being offshored, new destinations within the country. Availability of skills, the talent crunch and means of addressing it, talent management and attrition, recruitment and retention issues, besides focussing on future trends for this industry.

In doing so, this Paper presents a view of the performance and progress of the BPO sector in India based on a recently conducted Manpower Hay Group research. The key point that comes across very clearly and strongly is that a concerted effort to increase the size of the employable talent pool in India will further strengthen India's advantage in the BPO space.

# Introduction: What's Now?

The offshoring and outsourcing model has, over a period of time, proved itself as an effective strategy for organisations wanting to remain focused on their core business activities. The proven and accepted management principle is that the stronger the core, the more opportunities there are to move into other profitable ventures. The key guiding factors in choosing a destination for offshoring are the availability of skilled human resources and infrastructure support as well as the ability to operate within the framework of the local culture and governance environment. The countries that US firms commonly offshore to are India, Philippines, Israel, Ireland and Australia, besides some European countries.

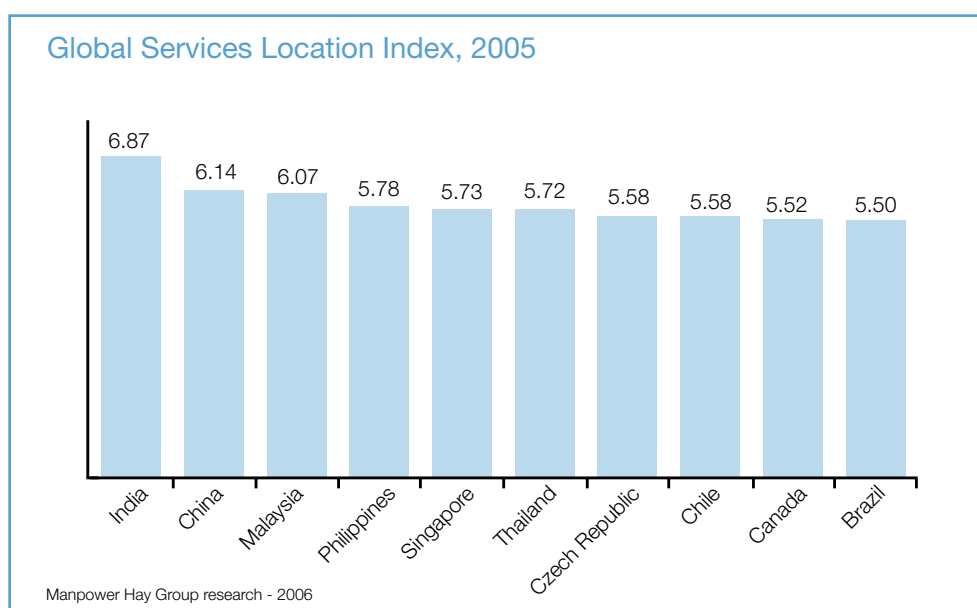
A recent survey by CIO Magazine clubs offshoring destinations under three categories:

- **Main destinations:** Ireland, India, Israel, Canada, Philippines and South Africa.
- **Upcoming:** Ukraine, Russia, Czech Republic, Poland, China, Pakistan Brazil, Argentina and Mexico.
- **Others:** Chile, Venezuela, Thailand, South Korea, Malaysia, Vietnam, Singapore and Romania.

The chart below shows the rating of various Asia Pacific countries on their attractiveness as offshoring destinations (McKinsey & Co). The rating scale is between 1 to 3, where 1 denotes low, 2 average and 3 a high rating:

Country	Workforce	Market Access	Local market	Infrastructure	Cosmopolitan	Cost Base
New Zealand	2	2	-	2	3	2
Malasiya	1	2	-	2	2	2
Japan	1	2	1	3	1	3
Hong Kong	1	2	2	2	2	2
India	3	2	2	2	3	1

A.T. Kearney has also pegged India as the number one destination in their *Offshore Location Attractiveness Index* report for two consecutive years (2004, 2005). India has been ranked number one among 40 countries.



The Manpower Hay Group research underwrites these findings. India scores highest on financial structure, and people and skills availability – two of the three main parameters for consideration – while the score on business environment is somewhat lower.

# Advantage India

The Manpower Hay Group research focuses on the IT and BPO sectors while analysing the India advantage. The key findings are a pointer to why this advantage is sustainable:

- The services sector will continue to drive the growth of the Indian economy and the contribution of IT and BPO industries will play a major role in this.
- Revenues from IT/BPO services have been growing at over 20% annually and the rate of growth is expected to improve further in the future. Employee productivity is also forecast to rise appreciably.

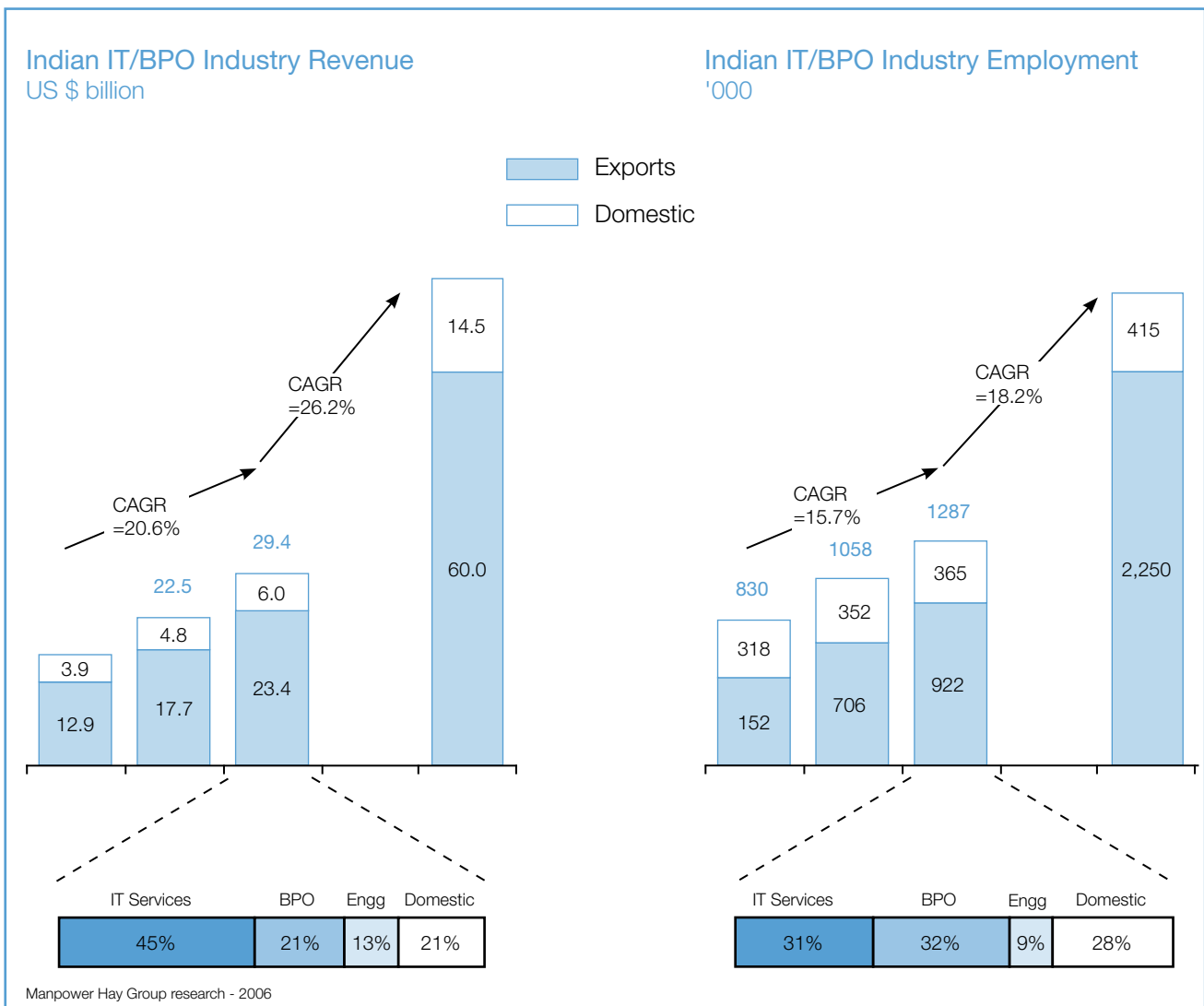
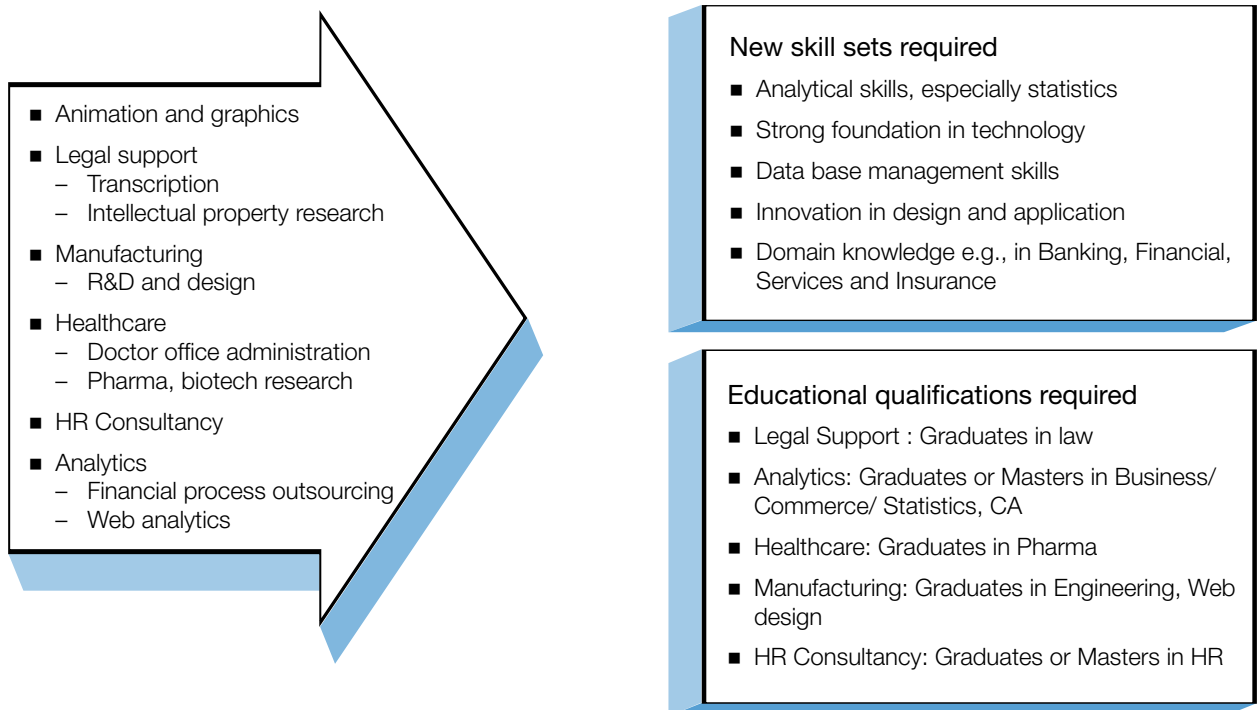
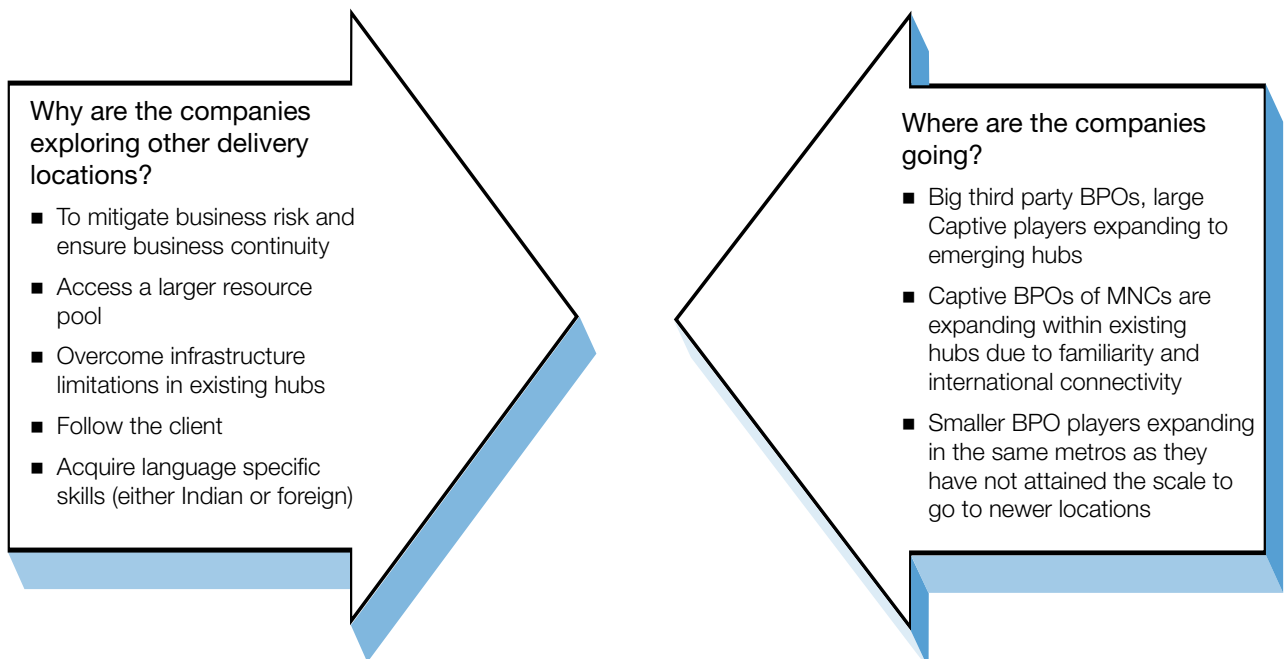


Figure 1: Emerging Service Lines and Demands for New Skills



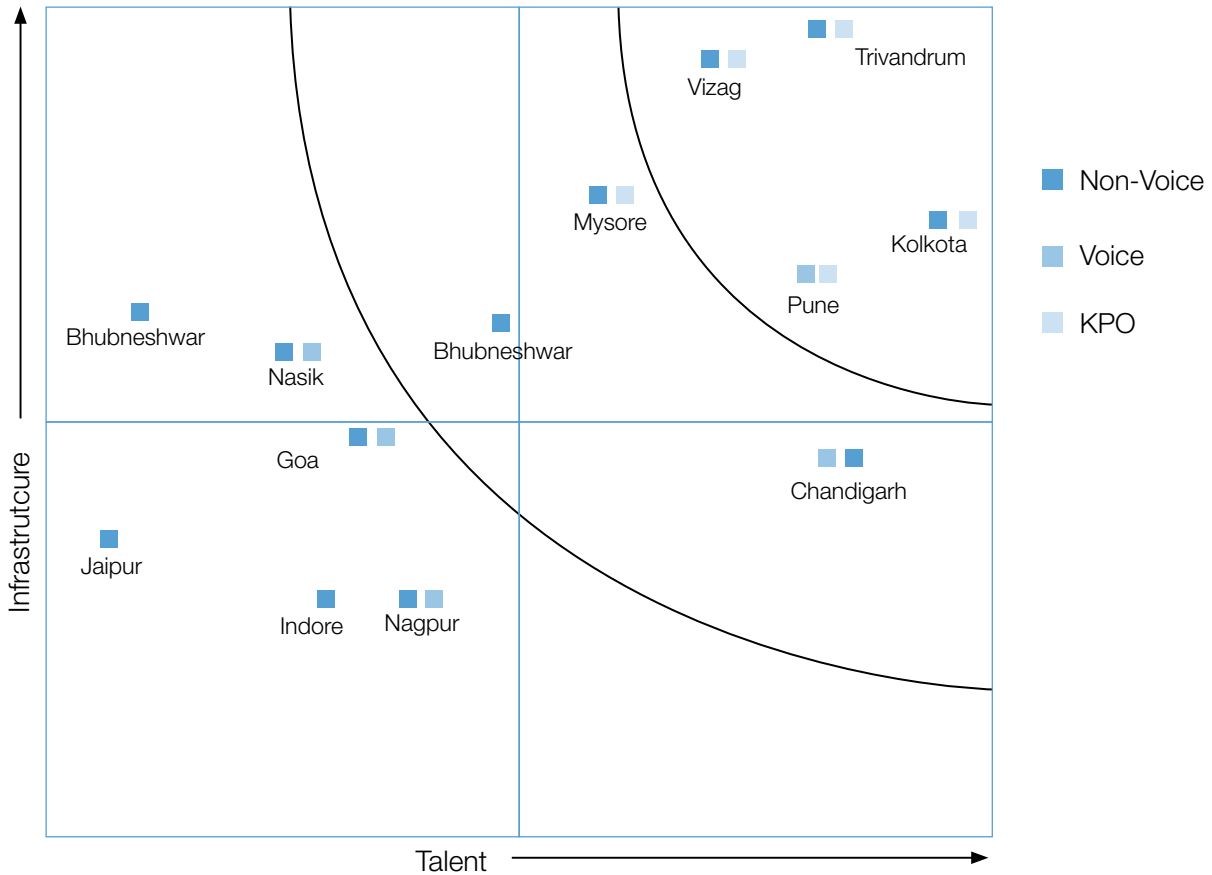
- While India based Tier I companies dominate IT services, the BPO sector's growth is being driven by captive units which account for close to 50% of BPO revenues. ( Source: Manpower Hay Group research 2006)
- Although both competitive costs and depth of human resources make India an attractive destination for offshoring, the benefits go well beyond cost.
- While current BPO activity is clustered around 5 main hubs which will continue to remain significant, larger IT/BPO companies are exploring other locations for a variety of reasons.

Figure 2: IT/BPO Companies are Exploring Newer Business Locations



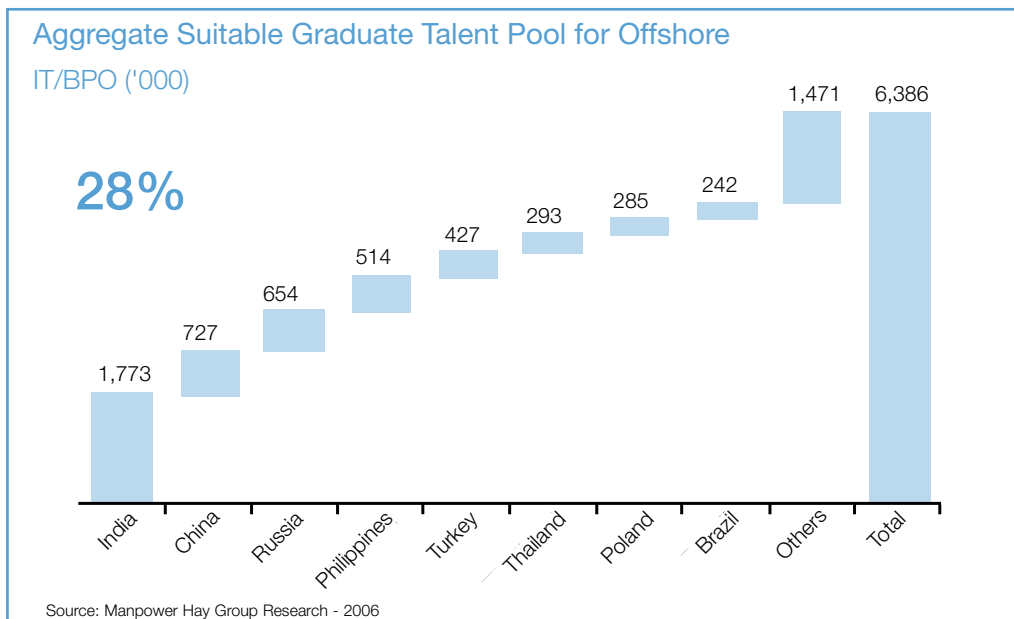
- A number of cities across India are emerging as likely future hubs for IT/BPO activity. Talent availability is the key factor in determining readiness of emerging hubs.

Figure 3: Emerging Hubs



Source: Manpower Hay Group Research - 2006

- India accounts for 28% of total suitable talent available across all offshore destinations.



Source: Manpower Hay Group Research - 2006

- The depth and size of the talent pool, as also the initiatives being taken to attract and develop this pool, including private-public participation, will help increase employability and strengthen India's position further over the coming years.

# Talent: The Critical Success Factor

India offers a sustainable competitive advantage in terms of the potential qualified talent pool. India produces more university graduates (2 million each year) than the United States, around 40 per cent of who have degrees in science and engineering.

“The real benefit of India turned out to be its vast intellectual capability and the enthusiasm of its people. We found terrific scientific, engineering, and administrative talent that today serves almost every business at GE,” Jack Welch, *Straight from the Gut*, p.310.

The aggressive, sustained growth and diversification has led to the need for more talent – not only in terms of numbers but also with new, varied and superior skills. The challenge of finding, attracting, developing and retaining the right talent is taking up a major part of management time and thought in the BPO industry.

There are three clear areas of focus:

- attracting the right talent
- developing talent
- retaining talent

## Attracting the Right Talent

**India currently accounts for 28% of total suitable talent pool available across all offshore destinations, according to the Manpower Hay Group research.** The most significant finding of the research is that India's talent pool is growing at a staggering 5.5 percent per annum compared to around 1 percent in the developed countries.

There is Government and Institutional recognition of the need to increase the size of employable talent pool and a number of public – private partnership initiatives are being undertaken:

- The **Institute of IT Enabled Services Training (IITEST)** has come up in the state of Andhra Pradesh. The Institute has tieups with local degree colleges in a number of centres.
- Vocational training workshops, such as the CTOSS (Chandigarh Training on Soft Skills) initiated by the Chandigarh Administration, are being held to meet short term requirements.
- NASSCOM has set up National Assessment Centres for skills assessment and certification programs for entry and middle management levels
- Microsoft India and the Andhra Pradesh state government have signed an MoU for an initiative in the state to make every student IT literate and ensure an IT proficient next generation
- More Indian Institutes of Information Technology (IIITs) on the lines of the well known Indian Institutes of Technology are being set up to provide quality IT professionals to the sector

Apart from these institutional and partnership initiatives, the BPO sector is taking several steps to attract talent, widen the pipeline and increase the potential pool into a larger employable one.

# Widening The Talent Pipeline

## New sources of same profile

- Job fairs – platforms where companies and potential employees come together and find a fit for each other (used by some employers as a brand building exercise)
- Career launch pads – brick and mortar stores set up in new recruitment spokes (tier II/III cities within 200-250 kms from hubs) to source talent from such locations

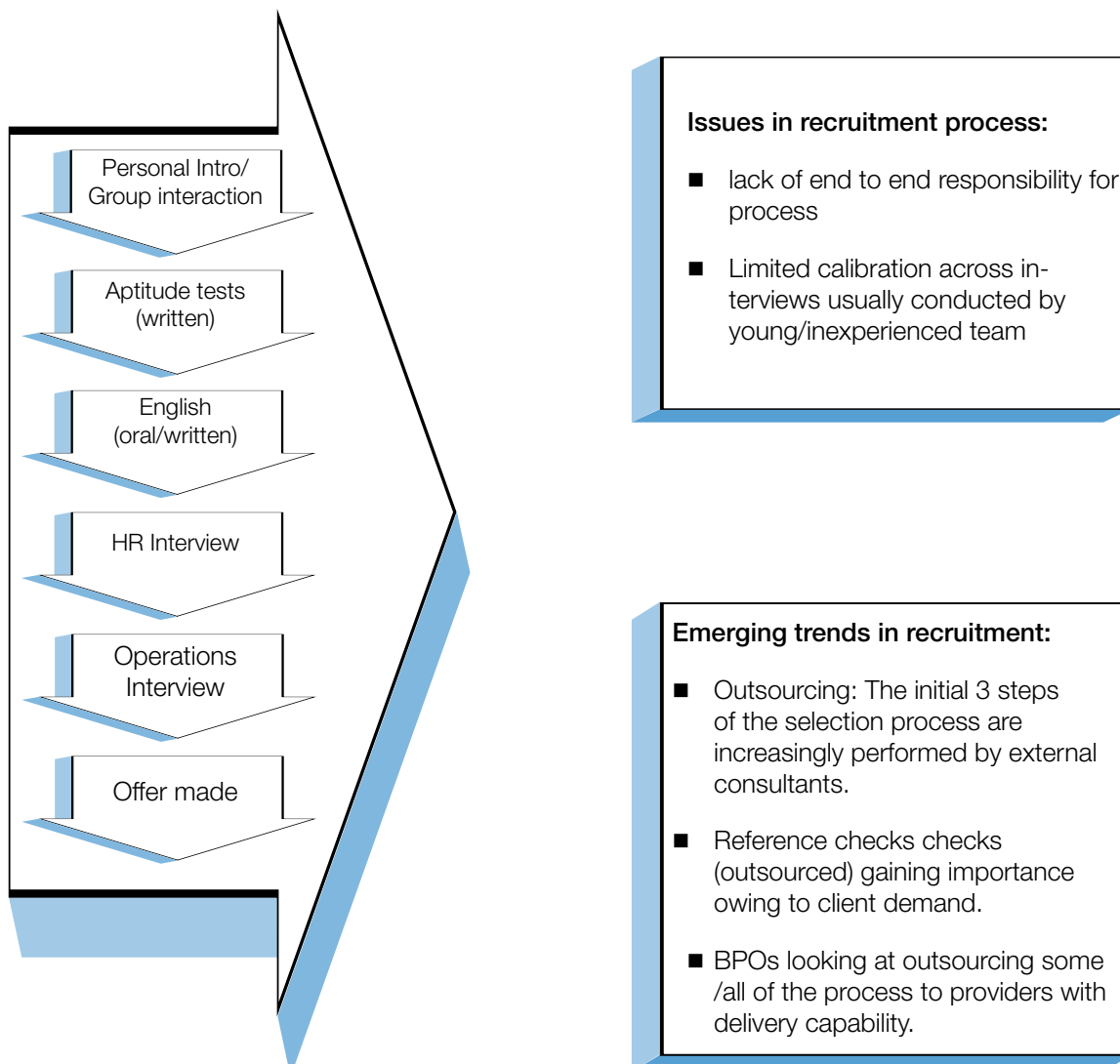
## Referrals

- Recent increase in proportion of employees coming through internal referral schemes
  - Good financial incentive for existing staff
  - Candidates knowing what they are getting into

This is over and above the use of advertising, visits to campuses, use of multiple recruitment companies and scanning of jobsites.

The recruitment process is receiving close attention towards making it more seamless, effective and efficient.

Figure 4: The Recruitment Process

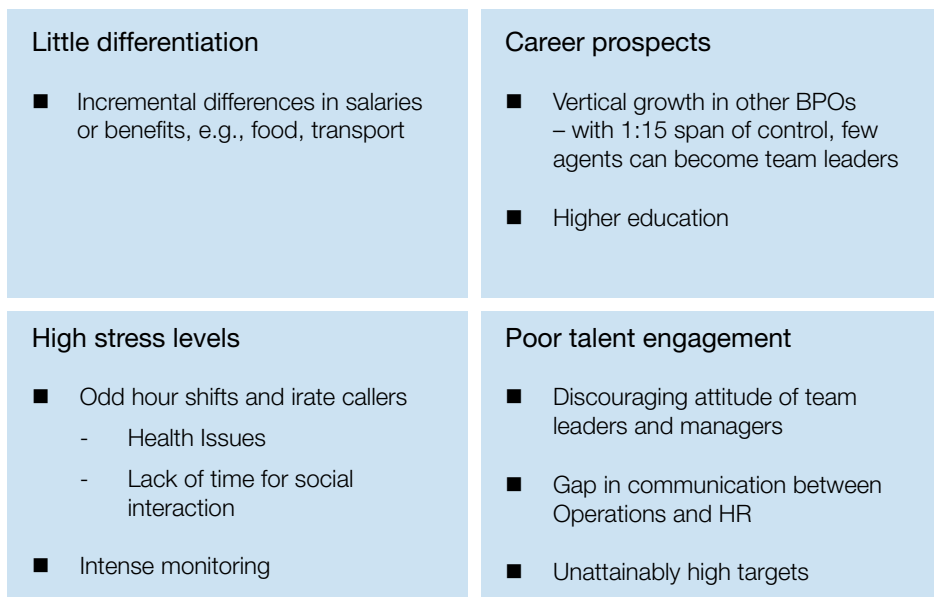


# Developing Talent

High attrition is the singular challenge facing BPO operations in India. The level is most severe at the lowest rung and reduces at more senior positions. For instance, **according to the Manpower Hay Group research, based on interviews with Heads of HR at BPOs, the attrition rate at the Team Leader level is almost half that at the agent level.** While attrition in this industry is an international phenomenon, it is the most critical management challenge.

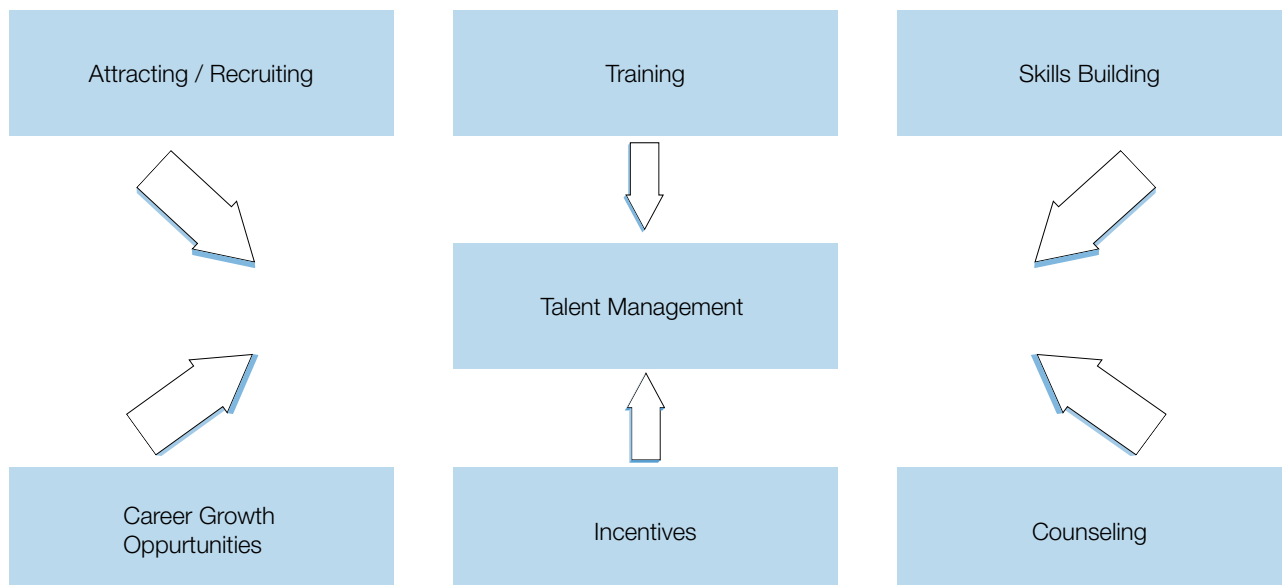
The reasons for such attrition are varied though expectation mismatch little differentiation across the industry contribute quite substantially to attrition.

Figure 5: Factors Contributing to Attrition



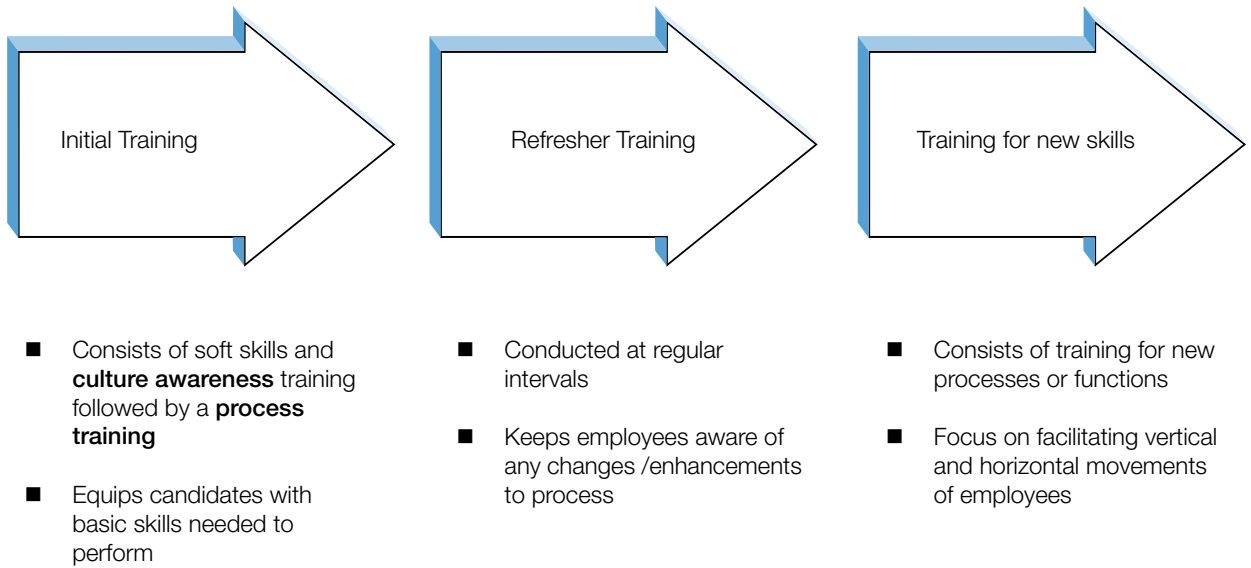
BPOs are increasingly taking a multi-pronged approach to develop and retain talent.

Figure 6: Multi-Pronged Approach to Talent Management



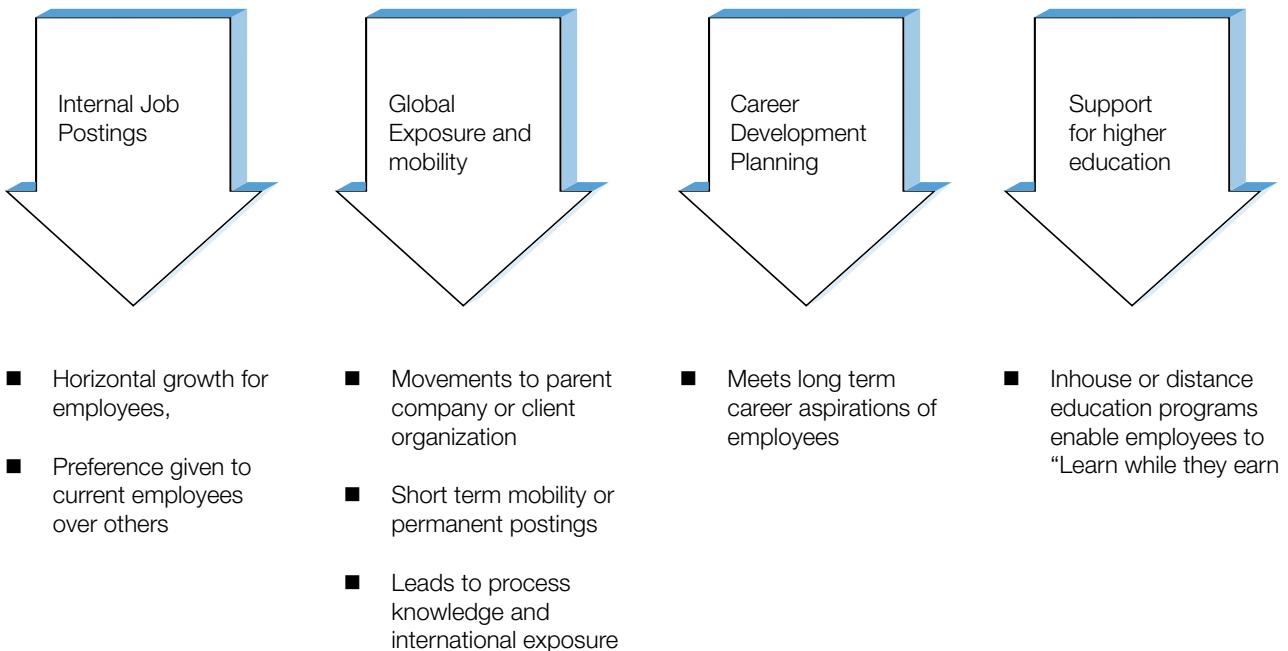
Most BPOs have a rigorous program to induct and continually train new entrants.

Figure 7: Training Programs at BPOs



Employees are helped to acquire other skills and capabilities for well rounded development.

Figure 8: Initiatives for Employee Development

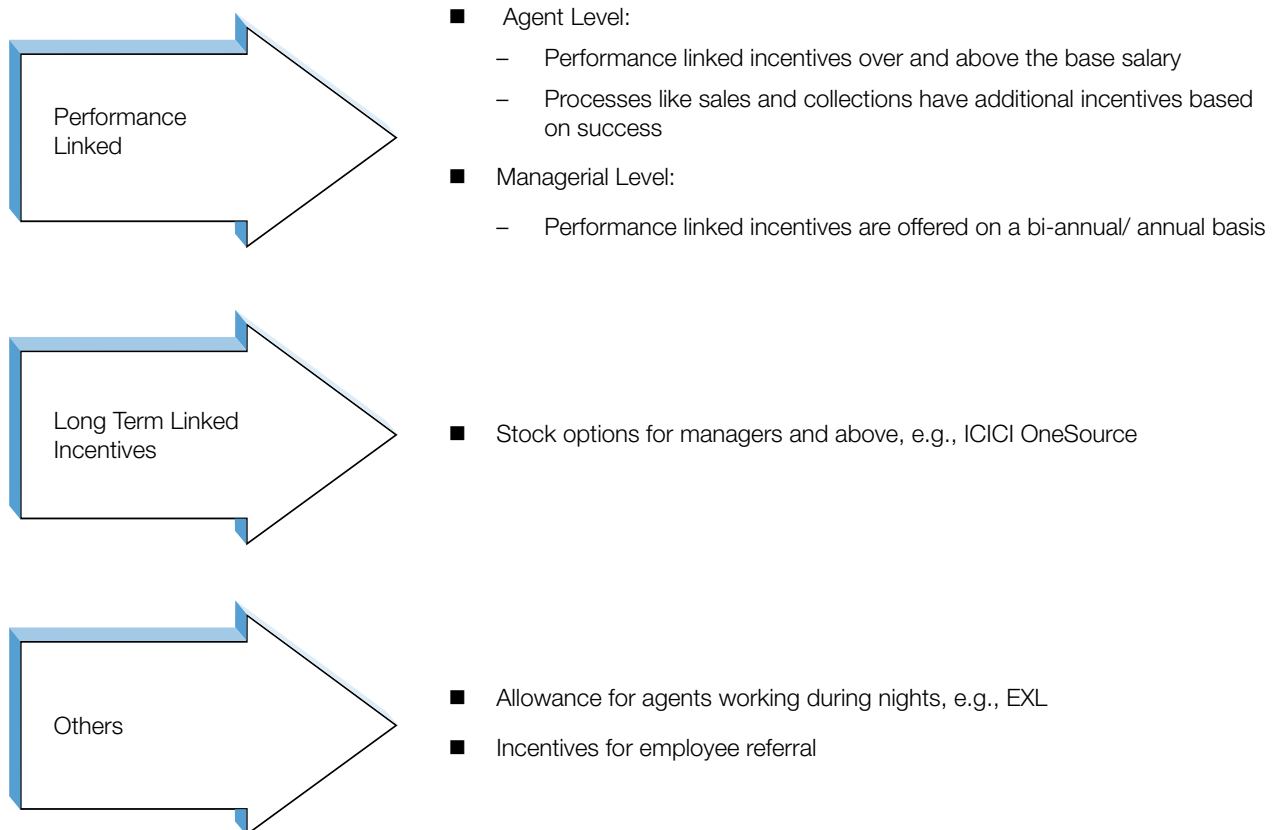


There is a growing realisation of the need for career development and for providing opportunities and the movement of high performing agents to management and leadership roles is increasing.

# Retaining Talent

While the right selection and development of talent go a long way to address the attrition factor, incentives – both financial and non-financial – are also important in helping to cope with the challenge of retention. However, these are increasingly becoming standard and what is an innovative practice when introduced very quickly gets replicated across the industry. Financial packages are becoming more performance linked and incentives are focusing on the long term.

Figure 9: Incentives for Employees



There is also an increasing focus on non-financial incentives towards coping with attrition. Employee recognition programs like “Performance Awards” work as motivators especially at the agent level. An open and transparent work environment goes a long way in opening communication channels at all levels, and this gives the employees a sense of belonging and ownership in the organisation. Social events are an excellent way to initiate informal interactions and help to build stronger teams.

To cope with increasing levels of stress, BPOs are investing in counselling and grievance handling. Counselling offered to employees address different needs at different times. Professional counselling to help employees cope with job related stress is increasingly becoming common. Another key area for counselling is career progression. Organisations are setting up specialised in house cells to identify and address the growth needs of young employees and aspiring team members. Training and development needs are identified during such sessions and employees are encouraged to sign up for various training programmes for skills development.

# Conclusion: What's next?

## Attracting and Managing the Right Talent will be the Key to Success in the BPO Sector

India is the leading offshoring destination and it has the potential to further strengthen this position. The India advantage is sustainable and the benefits of offshoring have moved well beyond just cost.

Offshoring is being done as much for strategic as for tactical reasons and organizations are increasingly looking for access to a wider global talent pool. There is a stronger realization of the need to have the advantage of being able to focus on core businesses while specialist providers take care of non core functions, even critical ones. New service lines have emerged in the BPO sector as the nature of work being offshored has moved from low end back office operations to higher end research based work. The demand for professionals with newer skills, and capabilities to support the increasing complexity in work and emerging service lines is increasing.

In addition to the shortage of employable talent, the industry is grappling with low conversion rates and high attrition levels. Most organizations are looking to the future and adopting multi pronged talent management strategies.

While India is making progress in developing its infrastructure to international standards and providing a more conducive business environment, more work needs to be done towards building the talent pool and harnessing this pool to its fullest potential.

The key differentiator for any offshoring destination in the long term will be the size, availability and employability of the talent pool. The players who will have a leading edge will be those who are able to attract and retain the right talent thereby focusing their energies in providing value to clients or parents.

Manpower Services India Pvt. Ltd.,  
Unit 3, GF, Tower A, Global Business Park,  
Mehrauli-Gurgaon Road, Gurgaon 122002  
Haryana India  
Tel: +91 (124) 2881000  
[www.manpower.co.in](http://www.manpower.co.in)

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