The Dynamics of HRM Systems
in Indian BPO Firms*

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This paper highlights the context within which business process outsourcing (BPO) has rapidly grown in India and the critical need to investigate the dynamics of human resource management (HRM) practices and systems in this sector. Using a mixed-method approach involving both in-depth interviews and self-completing questionnaires, we analyze the nature of HRM systems in BPO organizations operating in India. The analysis is based on a sample of 51 BPO companies, a majority of which are located near the capital of New Delhi. The results focus on the nature and structure of work and organization of Indian BPOs, as well as the strategic role played by HRM in such organizations. Furthermore, the findings highlight the way specific HRM practices such as recruitment, performance appraisal, training and development, and compensations are implemented. Our study suggests the existence of formal, structured, and rationalized HRM systems in Indian BPOs. A number of insights related to HRM policies and practices are shared by the HR managers interviewed shedding more light on the inner workings of the Indian BPO companies and their challenges. The analysis provides original and useful information to both academics and practitioners and opens avenues for future research on the nature of HRM systems and practices in the Indian BPO industry.

I. *Introduction*

The Indian Business Process Outsourcing (BPO) sector has emerged rapidly, and its exports have grown from $565 million in 2000 to about $7.3 billion in 2005. These exports are projected to increase to $20 billion by 2007 and employment in the sector is expected to rise from its current level of 300,000 to over 1.1 million by 2008

(Chanda, 2005; NASSCOM, 2005a). There is also a clear upward trend regarding the Knowledge Process Outsourcing (KPO) of "high-end" or "up-the-value chain" jobs. Typical users of KPO to India are market research agencies, consulting firms, investment banks, legal firms, pharmaceuticals, automotive companies, and corporate planning departments. Globally, the KPO pie will reach about $25 billion by 2010, and India should command 60 percent of its market share (Singh, 2005a).

Many analysts are questioning the sustainability of such a rapid growth of the Indian BPO sector and fear it might burst like the dot.com bubble. A number of constraints are already emerging. For example, by 2008 the sector will experience a shortage of around 262,000 employees. Moreover, the BPO industry has a high turnover rate, and employers find it difficult to retain talented employees. A number of weak players in the business have gone bust (*Business Line*, 2005). Activities, such as mergers and acquisitions, which will lead to industry consolidation, are emerging. All such developments and trends have serious implications for the Human Resource Management (HRM) function given that the BPO industry is primarily people-driven. These are unique and major developments in India's economy and, therefore, policy makers realize that addressing labor needs and emerging human resource issues is critical. The existing literature, however, contains few empirical studies conducted in India that highlight the nature of human resource management (HRM) systems relevant to the BPO sector.

Herein, we provide an historical overview of the growth of the Indian BPO sector and the need to examine the HRM systems of these companies. A discussion of the literature in HRM on outsourcing centers, and specifically HRM practices in India, follows. We then describe the qualitative and quantitative methods adopted to carry out the empirical investigation in 51 Indian BPO units. Finally, we present our results and discuss their implications for the HRM practices in the Indian BPO industry.

II. *A Historical Overview of Developments in the Indian BPO Sector*

The changes in the Indian economy over the last 15 years or so have been responsible for the growth of the information technology sector and, after that, the BPO industry. From its independence in 1947 to 1991, India adopted a "mixed economy" approach (emphasizing both private and public enterprise) which effectively reduced entrepreneurship and global competitiveness—both necessary for national growth. Despite the formalities of much centralized planning for decades, the Indian economy failed to reach its potential and, in fact, hit bottom in 1991. India experienced a double-digit rate of inflation, decelerated industrial production, a very high ratio of borrowing to the GNP, and a dismally low level of foreign exchange reserves. Foreign reserves became so low that they were barely able to meet the cost of three weeks' imports. The Indian government pledged gold to the Bank of England to meet the country's foreign exchange requirements. The World Bank and the IMF agreed to bail out India on the condition that it changed from a regulated regime to a "free market economy." To meet these challenges, the government announced a series of economic policies beginning

with the devaluation of the rupee, followed by new industrial, fiscal, and trade policies. A number of reforms were made in the public sector, and controls over the banking sector and foreign investments were liberalized. Since these reforms, the economy has become dynamic and vibrant, and foreign investments have accelerated significantly. The World Bank forecasts that by 2020 India could become the world's fourth largest economy (Budhwar, 2001; Kapur and Ramamurti, 2001).

The liberal reforms implemented by the government set the stage for India to emerge as a superpower in the BPO industry in the early twenty-first century. The growth of the BPO sector was made possible by the already established information technology sector and the availability of a large number of technically literate English-speaking people in India. An analysis of the available information from secondary sources indicates that BPO is now the fastest growing industry in India, and India is considered the "electronic housekeeper" of the world. BPO services are typically provided by Information Technology enabled Services (ITeS). According to NASSCOM (National Association of Software and Service Companies), there are more than 450 Indian ITeS-BPO companies (Bhatnagar, 2005).

The main activities or areas covered by the BPOs include customer care, such as remote maintenance, help desk, and sales support; finance and administration, examples of which are data analysis, medical transcription, insurance claims, and inventory management; and HR and payment services including payroll, credit-card services, check processing, and employee leasing. In addition, the BPO industry has expanded into engineering and design, animation, market research, network consultancy and management, remote education, and content development (i.e., digital content, LAN networks, and application maintenance). BPO activities wherever knowledge processing is required are all on the increase. Examples of KPO include intellectual property research, legal and medical research, R&D, analytical services like equity research, information security services such as risk assessment and management, bioinformatics (for example, genome sequencing, protein modelling, and toxicology studies), and procurement and global trade (Ramachandran and Voleti, 2004; Singh, 2005a; Ravichandran, 2005; Christopher, 2005).

Broadly speaking the Indian BPO industry can be divided into six categories.

1. *Captive Units* set up by global companies that outsource their back-office operations from India.

2. *Indian Third-Party Vendors* that execute transactions and processes for international clients.

3. *Joint Ventures* between international BPO companies and Indian partners.

4. *Indian IT Software Companies* that have added BPO to their service portfolio.

5. *Global BPO Players* who set up call centers in India (for example, Convergys).

6. *Global Consultancies* (such as Accenture) who have been advising their clients on outsourcing and are now leveraging this experience into providing actual BPO service (*Economist Intelligence Unit*, 2002).

The most prevalent form of BPOs operating in India is that of either *Captive Units* or the *Third-Party Vendors*.

III. *Main Factors in the Explosive Growth of the Indian BPO Industry*

The Indian BPO industry's initial focus was on creating a strong and reliable platform, using technology as a selling point, thus building on the success of the Indian software industry of the late 1990s. Then it moved to the level of infrastructure development where technology is increasingly used as a differentiator and for bettering the quality of service delivery. This evolution in offering quality of service has been possible for two main reasons.

First, India has what is known as "people attractiveness." India produces over two million English-speaking graduates every year who are ready to work for salaries that are as much as 80 percent lower than those paid to their Western counterparts. This availability of technical and computer-literate human resources who can offer lower response time with efficient and effective service makes India a magnet for multinational corporations (MNCs). Second, India presently enjoys the advantage of "location attractiveness." Enormous savings are possible for foreign firms by outsourcing their processes to India because of the availability of a relatively inexpensive but strong and established infrastructure that offers telecom services, improved international bandwidth, technology parks, a well-developed software industry, and an existing base of blue-chip companies already operating there.

In addition, many Indian BPOs have successfully adopted several global industry standards such as SEI-CMM, ISO, TQM, Six Sigma Quality, and COPC. Furthermore, with an emphasis on a secured environment, Indian BPOs are adopting standards such as ISO 17799, BS7799, COBIT, and ITSM. The government now provides a more conducive regulatory environment for global corporations with incentives like the ten-year tax holiday and rebates in custom duties. Of course, the round-the-clock advantage for western companies due to the huge time difference between India and United States/United Kingdom offers them a competitive advantage over their rivals. At present, the United States and United Kingdom together account for nearly 80 percent of the existing IT and BPO offshoring in India.

What is really a revelation for top managers in Western MNCs is that employees of similar talent and skills cost much less in India than in the United States or Europe. For example, an Indian entry-level staff member earns between $150 and $250 per month, which results in annual savings of $30,000 for every BPO employee. According to McKinsey, if a bank shifts the work of 1,000 people from the United States to India, about $18 million is saved annually. Similarly, giant U.S. pharmaceutical firms can reduce the cost of new drug development, currently estimated at between $600 million and $900 million, by as much as $200 million if the work is outsourced to India.

Such cost savings are evidenced from the cost of a recently built new center for Standard Chartered Bank in Chennai (Madras), which was $33 million—a fraction of what a similar building would cost in the western world (Merrell, 2003; Chengappa and Goyal, 2002).

India also enjoys various advantages over its nearest competitors, Ireland and the Philippines, in the BPO industry. For example, in comparison to Indian centers recruiting over 100,000 employees, only about 18,000 and 8,000–10,000 people are recruited by Ireland and the Philippines, respectively. Ireland and the Philippines have 150 and 70 centers, respectively. Accordingly, the revenue earned by the Irish and Philippines centers is very little compared to those in India which has over 450 BPO companies. The annual salaries of graduates in the United States, Ireland, Singapore, and the Philippines are $28,000; $19,500; $16,000; $2,900, respectively. In India, the average annual salary is around $2,400. Interestingly, in China, salaries are even lower at around $2,000 a year. However, China does not have the same number of English-speaking graduates available. Moreover, in comparison to India, which produces over 2,100,000 graduates annually, China, the Philippines, Ireland, and Singapore produce 950,000; 380,000; 42,200; and 12,500 graduates, respectively (Chengappa and Goyal, 2002; Punch, 2004; Shastri, 2004). India's "people" and "location" advantages have made it more attractive to global corporations, and it currently has a dominant position in the BPO industry. The Indian BPO sector has been forecasted to grow at an annual rate of fifty percent and employ as many as one million people by 2008 (McKinsey, 1999; NASSCOM, 2001; 2005b; *The Economist*, 2004; Sifynews, 2005; Prahalad, 2005).

IV. *Emerging HRM Problems in the BPO Industry in India*

Despite the growing success of Indian BPO industry, analysts and media reports have started to focus on problems and challenges facing the sector. According to the global management consulting firm, DiamondKluster International's 2005 "Global IT Outsourcing Study," the number of clients prematurely terminating an outsourcing relationship has doubled to 51 percent, while the number of clients satisfied with their offshoring providers has decreased from 79 percent to 62 percent. The issues related to poor infrastructure of reckless start-ups as a source of dissatisfaction in India have also been discussed (Pande, 2005; Christopher, 2005). Although outsourcing continues to help Western firms save significant sums of money despite such concerns (*The Hindu*, 2005; Read, 2001), these problems are real and growing and have the potential to make India less attractive for BPO. Hence, there is a critical need to address such issues effectively. Many troubles facing the Indian BPO industry relate directly to the management of human capital. For example, the 2005 "global offshoring outsourcing summit" of the Indo-American Chamber of Commerce noted several trends which will shape the future of Indian BPO industry. Some of the challenges include annual turnover rates ranging from 20 to 80 percent and an imbalance in the demand and supply of a skilled and talented workforce. There is also an emerging shortage of manpower at the mid-management level. The basic "cost-effective" model of Indian BPOs appears to be weakening as the wages continue to rise annually by 10–20 percent,

and in some cases, revenues are declining. There is an increasing scarcity of the appropriate skills gained through the education system, which is low on quality and relevance. Because of shortages, hiring new talent has become more expensive. In 1999, the average pay packet of an entry-level agent was $160–$180; now it is $300–$350.

Due to high attrition rates, every employee who quits costs the company another $900–$1,100 to recruit and train a replacement. Finding the right candidate is now becoming a problem. At present for every 100 applicants in Mumbai, just one or two make the cut. Four years ago, the success rate was 20 percent (Rediff.com, 2005a, 2005b; Sangameshwaran and Rai, 2005). Apart from this, BPO employees are experiencing problems related to stress, sexual and racial abuse, and dissatisfaction at work (Walletwatch, 2003; Cacanas, 2004; Singh, 2005b; Witt et al., 2004; Rose and Wright, 2005; Houlihan, 2002). The literature on HRM practices in the Indian BPO industry is scant and offers little guidance on how to remedy such problems by effectively managing human resources.

V. *Paying Attention to HRM Systems in India*

Many Indian entrepreneurs, and gradually the Indian government, are realizing the importance of the boom created by the country's BPO sector and are taking steps to foster it. India has a new IT law that aligns it with 11 other countries in compliance with common e-commerce rules that allow for legally valid paperless transactions and legal transfers. The government has ended its monopolies on long distance and Internet bandwidth. Such facilities and resources are encouraging firms to create BPOs in India (*The Economist*, 2004). In the midst of such economic developments, the nature and role of the HR function is also changing and evolving (Saini and Budhwar, 2004).

The personnel function in India originated in the 1920s, when concern for labor welfare in factories resulted in the Trade Union Act of 1926 that gave formal recognition to workers' unions. The Royal Commission of 1932 recommended the appointment of labor officers, and the Factories Act of 1948 laid down the duties and qualifications of labor welfare officers. Such developments formed the foundation of the personnel function in India (Saini and Budhwar, 2004). However, the influence of social contacts, caste, relationships, and politics on Indian HRM policies and practices remains prominent (Sparrow and Budhwar, 1997). This creates an interesting tussle between existing strong social traditions (such as the importance of social contacts and one's affiliation to a particular group) and the pressure to move to modern professionalism (i.e., pressure to formalize and rationalize management systems).

HRM practices need to be consistent with a systematic and rationalized employment system. For example, the adoption of formal testing of job applicants, job evaluation, training needs analysis, training evaluation, and performance-related pay are activities associated with highly structured systems. To a great extent, such an approach is clearly observable in outsource contact centers (OCCs) operating in developed nations. Batt and Moynihan (2002) summarize OCC work under three categories,

namely, mass production, professional services, and hybrid mass customization. Such a categorization seems to be valid for BPOs operating in India as well.

However, less research evidence exists regarding structured employment systems in Indian organizations where rules about practices such as recruitment, training, promotions, and lay-offs are *ad hoc* and are subject to easy manipulation by employers (Venkata Ratnam, 1995; Sparrow and Budhwar, 1997). Furthermore, social, cultural, economic, and political factors exert a strong influence on Indian HRM policies and practices (Budhwar and Sparrow, 2002). At times, selection, promotion, and transfer are based on ascribed status and social and political connections, so there is a strong emphasis on collectivism—family and group attainments take precedence over work outcomes (Budhwar and Khatri, 2001; Kanungo and Mendonca, 1994). Similarly, Sharma (1984) reported that staffing is primarily governed by familial, communal, and political considerations. Motivational tools are more likely to be social, interpersonal, and even spiritual. In such conditions, the employees' orientation emphasizes personalized relationships rather than performance (Kanungo and Mendonca, 1994). These matters suggest that Indian HRM systems are less formal and rationalized. On the other hand, multinational companies, for many reasons (such as control and coordination), may adopt global standardized policies and practices in their subsidiaries around the world (Bjorkman, 2004). Given the sector's rapid growth and the involvement of a large number of both national and multinational firms, and a significant impact of Indian BPOs on the global economy, understanding the nature of the HRM systems of Indian BPOs is crucial. Our research thus seeks to assess the status of HRM practices of Indian BPOs, and we sample from both *Captive* as well as *Third-Party* units— the most prevalent types of Indian BPOs.

VI. *Methods*

Given the exploratory nature of the research, we adopted a mixed-method approach (comprising in-depth interviews of managers, self-completing questionnaires, and secondary sources). Our direct sources of information were the HR managers of Indian BPOs who agreed to be interviewed. Access to the BPO units was secured through two of the researchers' previous research undertakings and other contacts, and from networking techniques. The interviews were conducted and the data were collected from late 2004 to July 2005 from a total of 51 (30 *Captive* and 21 *Third-Party*) Indian BPO units. These are located in several locations with a majority being in northern India near Delhi. Summary statistics of the BPOs included in this research are presented in Table 1.

During the interviews, the managers provided qualitative data on the firm's HRM practices and elaborated on their experiences with these practices. Apart from the qualitative information, the participants also completed a questionnaire related to a number of HR practices and policies. In total, the data collection meetings lasted between 45 and 90 minutes. Typically, the most senior HR specialist of the unit or someone with a good understanding of the company's HR functions provided data. Although speaking to other employees could have provided a more comprehensive picture of the HR

Table 1

Sample Profile

Sample size ($n = 51$)	Captive Units $= 59\%$ Third-Party Service Providers $= 41\%$
Nationality of captive units	USA $= 73\%$ UK $= 13\%$ Others $= 14\%$
Year when companies setup in India	Before 2000 $= 10\%$ 2000–2002 $= 31\%$ 2002 Onwards $= 59\%$
Client base	USA $= 36\%$ Europe $= 18\%$ Global $= 46\%$
Number of employees	$<100 = 21\%$ $100 < 500 = 48\%$ $500 < 1000 = 14\%$ $1000 \leq 17\%$
Industry	IT and Software Services $= 24\%$ Finance and Accounting $= 18\%$ Consulting $= 16\%$ Telecommunications $= 11\%$ Insurance $= 11\%$ Health $= 5\%$ Energy $= 5\%$ Travel $= 2\%$ Others $= 8\%$

role, given the limitations of time and the nature of research, we focused on the "subject matter experts." Senior HR managers were the best informed. In some cases, the interviews were allowed to be tape recorded, which were transcribed and later content analyzed, and quotes from the interviews are provided in our analysis.

The interview schedule consists of a number of sections. The first section has 15 questions on the demographic details of both the interviewees and their companies. The next section examines the nature of the HR department and the organizational structure of the firm. This is followed by a series of subsections on HRM practices including recruitment, training and development, compensation, appraisal/assessment, career management, attrition/employee turnover and retention, and the types of challenges facing the HRM department. In addition, a 23-item, self-completing questionnaire on various aspects of procurement, employee involvement, and employee turnover was completed by the HR managers.

The most commonly used job designations of the respondents were HR/HRM/ HRD manager/director and general manager. The average work experience of the respondents was 8.2 years. Basic demographic details of the sample show that 42 percent of the firms are each U.S.- and India-based, followed by the United Kingdom at 8 percent, Germany at 4 percent, and Finland, Switzerland, and French-based at 2 percent each. Sixty percent of the research firms established their operations in India after 2002. Almost all the sample firms (98 percent) serve overseas clients.

VII. *Results and Discussion*

Work and Organization of Indian BPOs. The sample firms, as seen in Table 1, are spread over various sectors, such as IT and software services, accounting and finance, consulting, telecommunications, banking and insurance, health, pharmaceuticals, energy, and travel. A range of both inbound and outbound activities such as customer care, remote maintenance, data conversion, inventory management, web development, personal loans, HR (recruitment, training, MIS, Six Sigma), health care, network consultancy, animation, knowledge services, analytics, software and content development, supply chain, R&D, and risk management are carried out by the research firms.

Generally, BPO operators (especially those working in call centers) work in large offices on workstations placed in cubicles and are connected to a telephone/computer system. They wear headphones in order to talk for long periods, and most of the information needed during a conversation is displayed on their computer screens. The operators must interact with the customers in a specific format. They must follow the required instructions and are under constant observation. All the BPOs adopt strict quality control mechanisms such as call monitoring, testing calls for accent and language, conversation content, and client satisfaction. Some organizations have Six-Sigma control charts, and most have regular audits. The BPOs use both remote call listening-in and team leaders and supervisors on the floor to check and monitor every operator's performance.

On average, the ratio of operators to supervisors is 12 to 1. The usual work shift is eight hours, during which each operator gets a one-hour or one-hour-and-fifteen minute break, which includes lunch/dinner and two tea breaks. Their log-in time is also monitored. Sixty-eight percent of the sample firms do not provide much flexibility at the workplace except for arranging work in different shifts, or changing shifts on request in a few cases, and giving a week off. Clear targets, long sittings, monotonous work, and, at times, abusive clients make the operators' work very challenging.

The emerging picture of Indian BPO operators is similar to their OCCs counterparts in developed countries. They seem to be adopting a tightly controlled structure that is cost efficient, bureaucratic, and has a customer-oriented philosophy which results in monotonous activities carried out by operators on "graveyard shifts" (to serve UK/U.S. clients at late hours) with usually timed bathroom breaks. Media reports denote such BPOs as the "new-age sweatshops," and people working in them as "cyber coolies" who are fresh graduates, lack core competencies, and have little chance of climbing the corporate ladder (George, 2005).

Most firms under study had more or less similar organizational structures consisting of four to seven vertical levels of management with different designations. As shown in Table 2, 90 percent of the sample firms have an HR department, and the average HR department has 20 employees. HR Manager is the most used designation in the sample firms (37 percent), followed by GM and HR Director. The top HR personnel are given an average of 20 days training annually (for more details, see Table 2). Most HR departments have roughly three layers: Vice President, HR Manager, and Executives. Information related to HRM is regularly communicated to the top director who can be CEO, COO, or CMD of the firm. Most companies hold a regular fortnightly or monthly meeting between the top HR manager and top directors in which information related to recruitment, HR targets, key HR metrics, attrition, satisfaction, surveys, and market trends is shared.

Against the established norms of traditional Indian companies where HR still plays a very reactive role (Budhwar and Sparrow, 1997), our results herein show a clear emphasis on allowing the HR function in the sampled BPO firms to play a strategic role. As shown in Table 3, most firms have an HR strategy (written or unwritten)

Table 2

Details for HR Department and HR Managers

Presence of HR department/HR manager	90%
Name of HR department	HRM = 39% Personnel = 2% HRD = 37% Others = 22%
Title of senior HR personnel	HR Manager = 37% HR Director = 16% General Manager = 20% Others = 27%
Total number of people employed in HR department	Up to 5 = 37% 6–10 = 24% 11–15 = 8% 16–20 = 14 % 21 and above = 17%
Recruitment of HR/Personnel manager	Indian Company = 27% Indian University = 33% From a MNC = 40%
Average annual training received by senior HR manger	Up to 10 days = 55% 11–20 days = 21% 21–30 days = 15 % 31 days and above = 9%

Table 3

Scenario of Strategic HRM in BPOs Operating in India

Presence of HR at board level	84%
HR manager reporting directly to CEO or equivalent	94%
HRM considerations built into organizational strategy	At the outset = 76%
	At consultation level = 14%
	At implementation level = 10%
Presence of HR strategy	Written = 82%
	Unwritten = 18%
HR strategy translated in to clear work programs	94%
HR function became proactive over the last three years	77%
Firms having corporate policy for HRM practices	94%
Explicit efforts made by firm to align business and HR/Personnel strategies	69%
Involvement of HR department in strategic planning process	75%
HR manager viewed as business partners and agents of change	58%

and a corporate policy for HRM (94 percent). Furthermore, HRM is represented at the board level and integrated into the corporate strategy from the outset, and the contents of the HR strategy are translated into clear work programs (94 percent). A majority of the firms report that their HRM function has become more proactive over the last three years (77 percent). These results are comparable to those firms operating in western nations, especially in Europe (Brewster and Hegewisch, 1994; Brewster et al., 2004) and confirm the growing strategic nature of HRM (Schuler and Jackson, 1999). The following quote by the HR manager of a U.S.-based captive unit summarizes the growing strategic nature and proactive role of HRM in Indian BPOs.

> Yes, I feel that HR of my organization is more proactive than what it was four years ago. Now it is concerned more for employees, which may be because retention is a big problem countrywide. The HR function now has been given special emphasis while planning, recruiting, projecting requirements, quality check, training, and growth of manpower.

Perhaps due to the nature of the BPO industry or the Indian context, none of the sample firms has any part-time employees. All the employees in our sample were permanent except for some contractual employees for housekeeping and other types of cleaning activities. The percentage of female employees at the junior management level is higher in the research units (54:46) as compared to the senior managerial levels, which are dominated by men. This is similar to operations in Western countries (Bain and Taylor, 1999; Taylor and Bain, 1999). The average age of employees at different levels of management was also similar in all the research companies. The

average age at the junior management level ranged between 20 to 26 years, at middle level between 24 to 32 years, and at senior levels, the average age is 45 years.

Considering the strong demands of the BPO industry for women employees, the Factories Act of 1946 in India has been amended to allow women on late night shifts (Sifynews, 2005; Saini and Budhwar, 2004). The next issue to be tackled by both the government and employers is to safeguard the employees, women in particular, from sexual and racial abuse received from overseas clients. This is emerging as an important factor as some employees are quitting. Some BPOs have started to develop a "black list" of abusive clients and put them on their "do not call list" (Baliga, 2005).

Recruitment. The results highlight the adoption of a formal and structured approach to recruitment in most of the sampled BPO units. Typically, employees are recruited both from within and outside the organization at all levels using a mixture of approaches including consultants, job advertisements, campus interviews, employee referrals, and walk-ins. The responsibility for the recruitment process is shared by both the HR manager and the operations manager. A number of interviewees remarked that not only were there no part-time employees, but also the employment system does not seem to be changing in this direction.

The BPOs want new employees to have specific skills including good command of the English language, even tone of voice, persuasiveness, positive approach, communication skills, accent, attitude, energy level, computer knowledge, and voice modulation. Similarly, various criteria, e.g., previous experience, identification of relevant skills, aptitude, and personality, and methods, e.g., a systematic, formal, and a thorough approach involving different tests and a number of levels of interviews, are adopted to select new employees. Most research firms have a probation period of up to six months. The survey results show that in 90 percent of the sampled BPOs, new hires were analyzed for desired personal skills and competencies prior to the selection decision. Similarly, 79 percent of all new hires were given a selection test of some type. Furthermore, on average, a candidate goes through four levels of interviews before a final hiring decision is made.

Despite the large number of graduates from Indian universities, BPOs have started to experience problems in finding personnel. The majority of HR managers interviewed reported some bad recruiting experiences. Advertising openings in newspapers or magazines tends to result in too many applications with little potential, and selecting candidates from a large candidate pool is both time-consuming and costly. Another serious problem is that of acquiring a new employee after a formal job offer has been made. At times, after getting the appointment letter, the candidates do not accept but instead use the offer as leverage to get a different job or higher compensation in their preferred organization. Due to the similarity of popular Indian names, another dilemma arises when the same candidate's name and profile comes to an organization from two or three different consultants. In such a case, the HR manager has difficulties determining if these are different candidates with the same name or the same candidate who has been making the rounds at different placement agencies.

The literature on Indian HRM practices (Budhwar and Sparrow, 2002) suggests a strong influence of social relations, informal networks, and one's caste and religion on recruitment practices. However, our investigation shows that this does not seem to be the case in the Indian BPO industry. In fact, companies are looking for referrals from present employees. Moreover, they use rigorous procedures to select the most appropriate and qualified candidate from the referred applicants. This approach is helping BPO firms to acquire more competent employees.

Training and Development. Like the recruitment practices, training and development activities are also both formal and structured in our BPO sample. Apart from in-house training facilities, external training consultants are also used. The main areas of training identified by BPOs are the entry-level voice training, entry-level process training, interpersonal skills, and products and work systems training. In addition, induction process and an emphasis on voice and accent are other key training areas. The time devoted to on-the-job and off-the-job training given to agents varies dramatically in our sample firms from a few days to two months. In addition, poor performers are given a regular update. A similar approach is adopted in outsourcing centers operating in the United Kingdom (Callaghan and Thompson, 2002).

Typically, the employee's training needs are systematically analyzed. A needs assessment is conducted as part of the quarterly performance appraisal. Methods identified for assessing training needs include supervisor requests based on performance and quality feedback, appraisal results, and the monitoring by the training department; training audits; and supervisor requests based on analysis of projected business. Training effectiveness is evaluated through systematic performance tests and informal feedback from managers. Some centers conduct weekly skills tests and tend to rely on trainers from both inside and outside the company.

A number of captive units send selected personnel from different functional areas overseas for training (mainly to the United Kingdom and the United States). The goal is to train and make the staff aware about the culture, philosophy, values, and the "way of doing things" of their BPO. Despite the formal approach to employee development, the interviewed HR managers report some problems with the training programs. First, some companies do not have a sufficient training budget. Second, HR managers also report the scarcity of training experts in some specific areas (such as quality control and new interventions). Third, some employees are highly selective about training programs and will take into account whether a particular training program will enhance their résumé and market value. Accordingly, either they find some way to avoid training or, if they are required to go, they do not attend seriously. At times HR managers are under pressure to train a specific number of employees in a given time period. However, on a particular day they might not be able to meet their target as the employees needing training may be on a different shift or not available. The comments of an HR manager from a UK-based BPO sums up the training scenario of BPOs operating in India.

I think overall our basic approach is very pragmatic, more based on ground realities, but somewhere a less than satisfactory experience exists in terms of post-training

effectiveness, because professionally, purely from an HR point of view, I would like to see a very strong link between the need identification, offering the training, and the most effective solutions in place for a person to be effectively doing that. This is an aspect that you may not be able to get all the time. There is very little which can be offered in terms of what may be tools or methods or techniques to measure post-training effectiveness and in any case most of the time the operational pressures are there.

Furthermore, the interviewed HR managers report that with the growing shortage of skilled workers in foreign languages, training in foreign languages must become a priority of Indian BPOs. There is a potential demand for over 160,000 foreign language professionals in Indian BPOs by 2010, but only 40,000 Indians will qualify. This will create a supply-side constraint (Jayachandran, 2005)—something to be seriously considered by both trainers and relevant institutes.

Performance Appraisal and Compensation. A formal and structured approach to the performance appraisal system is common in most of the Indian BPOs under study. BPO firms typically have a monthly or a quarterly appraisal system. All the firms have a structured format and a clear set of parameters for appraisals. Performance appraisal in all the call centers emphasizes results. The general trend is that the immediate supervisor appraises the employee and gives his/her report to the employee. After the employee reads the appraisal, it must be signed before submission to the section head. If required, adjustments are made by involving the section head. At times, the section head also appraises his section employees. A number of issues related to future movement or cross-functional movement within the company as well as training needs identification, key performance areas, and possible targets to be achieved are analyzed. The comments of an HR manager from a UK-based BPO sums up the appraisal system in Indian BPOs.

It is formal and target-based, you have a generic appraisal form and you then have slip-ins for every target and every level, you have a job description which is given to you at a join-up. You have key result areas which are measurable for a given period of time.

Most BPOs have an individual-based performance appraisal system, though some also go for a group-based system. Almost all the firms use some kind of rating scales, grading, or ranking system and set targets for appraisals. For managers, many firms use techniques such as the 360-degree method. This appraisal system, which is quite comprehensive, has some drawbacks. The comments of the HR manager from a U.S.-based software company summarizes this.

What happens is that implementation of appraisal is something which nobody likes; it is almost like a necessary evil that everyone has to see. So we have to at times give the bad news or we have to be tough, which people do not like doing. So no matter how objective it becomes, how transparent it becomes, doing the tough part of evaluating a person is something that people do not like. That is the bad part of the whole thing.

However, considering the nature of the BPO industry, most HR managers are convinced that performance appraisal is essential and believe that over a short period of

time employees either accept it as a fact of life or quickly adapt. There certainly appears to be scope for improvement in the existing system within the Indian BPOs. For example, in the present system there is relatively little participation of individual employees regarding their goal setting (though few companies claim they are doing it). Perhaps a more participative approach could be beneficial. This has been the experience of some Indian BPO firms that have tried it.

All the call centers have a standard wage structure and provide a competitive compensation package to attract and retain employees. The pay and benefit scheme is attached to grade, total work experience, and employee performance and skills. The bonus schemes are individual-based at the junior management level in all the sample firms. However, it is level-based for middle and senior managers. Most BPOs base their compensation packages on market trends by getting information from regular surveys (by consultants and professional bodies) and by benchmarking their packages against the best payers. In addition, the performance appraisal results play an important role in deciding compensation and increments. Performance appraisal activities are quite similar to the Western outsourcing centers, as pointed out by an HR manager of an Indian-based third-party unit:

> Whether Indian or MNC, all the BPOs here follow similar performance appraisal methods as pioneered by GE Capital.

Employee Turnover and Retention. All the respondents report employee turnover as one of the major challenges facing the Indian BPO industry. They report somewhere between 15 to 50 percent attrition in their organizations. However, other sources indicate that turnover, in fact, is much higher, and is the most pressing problem for Indian BPOs (Singh, 2005b; Taylor and Bain, 2005). The main reasons for employees leaving include better career opportunities outside India, monotonous and stressful work, leaving for higher studies, strong job market, attracted to branded companies, health-related reasons, lack of career advancement, job security, and growth prospects elsewhere. The situation in Indian BPOs resembles the "electronic sweatshop image" highlighted by Frenkel et al. (1999). Sometimes people leave as they find the work not to their taste. An HR manager of an Indian BPO made an appropriate comment in this regard:

> Some employees leave due to dissatisfaction with the work culture; this usually happens with first timers in the call-center industry.

The participating managers interviewed further noted that the less than ideal quality of work-life balance is an important contributor to the high and increasing attrition level. For example, working during the night shifts creates health and social problems for workers. Amongst employers, however, there is a consensus that plenty of job candidates are available. To some extent, this is true. However, finding the right person is becoming more and more challenging over time, and future shortages of employees loom on the horizon.

Many BPOs are adopting some basic measures to retain employees, including salary surveys to stay abreast of the market, culture-building exercises for employees, exit surveys, counseling, employee development programs, rewards and recognition,

as well as increased pay and benefits. However, employees complain about favoritism by the management towards selected individuals regarding appraisals and promotions. Furthermore, management frequently is reported to act as a closed system, i.e., not ready to accept employee feedback, which leads to a sense of frustration and, ultimately, resignation.

To overcome concerns, some of the software and IT-based companies have taken specific steps to increase employee retention. As an HR manager of a U.S.-based software company states:

> We do have various schemes and incentives, etc. One is that we use "fast track programs." Here the potential performers, good performers, get moved on to a fast track, and fast track essentially means that you may jump levels, you may get higher responsibilities than many others. Another is what we call the "hot skills program." Here people with skills which are very much in demand in the market get paid better than others, and the list of the skills gets published every year, people can acquire those skills and move into that segment. These programs have helped us a great deal.

Employee involvement is a proven tool to motivate and retain employees and could be useful in the Indian BPOs. In the West, there has been continuing interest in getting workers more involved in various processes, such as decision-making and information sharing (Wilkinson, 1998). Employee participation may contribute to employees' growth needs and sense of achievement (Heller, 1998) through a better utilization of their skills and potential. During the questionnaire survey, the respondents were asked to rate the kind of emphasis their firms put on various aspects of employee involvement. Results in Table 4 summarize these findings.

When asked about the three main motivators for BPO employees, money (good salary), career opportunities, and work environment are rated higher than others such as benefits (including facilities), recognition at work, growth, company brand name, opportunities for personal growth, and better treatment from clients. The interviewed

Table 4

Employee Involvement Practices in BPOs Operating in India

1	Devolvement of task or operational decision-making to the lowest level	16%
2	Devolvement of responsibility for quality to the lowest level	59%
3	Autonomous work groups/Quality circles or groups	90%
4	Newsletters/In-House publications	43%
5	Corporate intranet	90%
6	Team Meetings	98%
7	Employee forums or focus groups	67%
8	Management presentations	61%
9	Suggestion schemes	88%
10	Employee opinion surveys	57%
11	Works councils or other consultative committees/Trade Union representation	15%

HR managers clearly believe that effective HRM systems in Indian BPOs are very important as the problem of obtaining, motivating, and retaining talent will be crucial for the survival of units in the ever-increasing and highly competitive national and international business environment.

VIII. *Summary*

The main messages emerging from our empirical investigation and the analysis of existing literature are that the work set-up of Indian BPOs is highly structured, tightly controlling, bureaucratic, formalized, monitored, and scripted, though aiming for a "total customer satisfaction" philosophy. Most HR practices of recruitment, training, compensation, and performance appraisal are formal and structured. These activities are similar to outsourcing centers operating in developed countries. The emphasis on career development and training appears to be somewhat less in the Indian BPOs compared to their Western counterparts, perhaps because India's BPO industry is still evolving, and management does not feel the need to invest in employee career development, mainly due to the presence of a large number of available graduates.

However, farsighted managers and policymakers are realizing that there are many human issues in the Indian BPO industry which need serious attention if the industry is to continue enjoying its current success, including increasing attrition rates, psychological health and stress-related problems of employees, developing career-related policies, provision of more workplace flexibility, and creating a more interesting and enhanced work environment.

A good first step would be for India's BPO industry to begin to address the emerging and critical issues. For example, outsourcing is an established phenomenon in the West where workplace stress has been acknowledged as undermining productivity. As a result, specific training is provided to employees related to job stress management. This is perhaps an approach for Indian BPOs as well, where less than 4 percent of the focus during training is on stress management issues (*Business Line*, 2003). In addition, all the Indian BPOs employ only full-time employees. For an industry growing at 50 percent yearly, even if millions of graduates are available, Indian BPOs are soon likely to face a shortage of skilled and trained labor. Therefore, considering part-time workers appears timely so that the vast resources of talented Indian women who may wish to work fewer, and more flexible, hours would be available.

The design of work systems in the BPOs under study was very formal and bureaucratic. Perhaps, to some extent, this is appropriate given the nature of the industry. However, in the long run, as already evidenced by an increasing attrition and other problems, the existing systems must be modified to provide flexibility and empower employees, helping them develop proper career progression. Moreover, there is a need to create open systems in which employees can give feedback to their managers and expect them to be responsive. A trend towards empowering via involvement has already been initiated by Indian BPOs (see Table 4). Nevertheless, serious efforts are needed to inculcate such phenomena into the core philosophy of Indian BPOs, where

employee involvement is relatively new. There is also a need to educate employers, especially those of Indian BPOs, about the long-term benefits of such initiatives that their Western counterparts enjoy.

With the increasing costs for hiring, training, and retaining employees in the Indian BPOs, the government could intervene and help by following the Singapore model where government supports training activities (Debrah et al., 2000). Although a number of training institutes have already been developed, there is a further need to make their facilities available at a reasonable cost. Identifying future skills requirements should be emphasized. For example, training is critically needed in the Indian BPO industry in foreign languages as well as security and risk-management issues. Moreover, consolidating activities such as merger and acquisitions are increasing in the sector, and such activities can lead to layoffs, change the structure of management, and thus, can have direct implications for HRM. Therefore, Indian policy makers and practitioners need to develop strategies to work with the emerging trends, which are likely to directly affect the utilization of human resources. However, at present, these issues are not being seriously considered in the Indian context (NASSCOM, 2005b).

One limitation of our study is that our results are based on a relatively small sample. However, considering that there are around 450 BPOs operating in India, getting access to senior HR managers in all of them and to interview them regarding their HRM practices is a major challenge. Overall, we believe that our sample is representative of the larger population of Indian BPOs because we drew from the *Captive* and *Third-Party* BPO units, which are the most prevalent. Therefore, information provided by this study helps to identify the nature of HR policies and practices in the growing Indian BPO sector and initiates a new path of research.

Another limitation of our study is that only senior HR managers and specialists provided primary data for the empirical investigation. Therefore, we may have missed some important perspectives that would have come to light from other levels of management. We should point out, however, that the HR managers interviewed were "subject matter experts," who could provide the required information accurately. In addition, in the large majority of the BPO units, HR is strategically involved in the company and so it is unlikely that views of other senior managers and CEOs would have been much different. Furthermore, information collected from various secondary sources supplemented and corroborated the findings of our empirical investigation. Nevertheless, further research should be conducted with a larger sample, and information should be collected from different levels of managers and employees to obtain a more complete picture of HRM systems and policies and their impact. Future studies should adopt other measures of labor turnover such as intention to quit, customer satisfaction, productivity, and overall performance of HRM and their correlation to firms' performance with more rigorous statistical analysis. There is also a need to examine differences in HRM systems and practices that are sector specific and take into account the country of origin of firms (i.e., Indian versus foreign).

The main implication of our study, especially within the Indian context, is that the rationalization of organization of work and HRM function in the BPO sector is crucial.

A well-structured and rationalized HRM approach can significantly improve employee relations with management and enhance overall organizational competitiveness and performance. This is crucial for organizations that must attract and retain talented employees and maintain good employee relations to remain globally competitive. However, along with strict structuring of the tasks, there is a need for flexibility, employee empowerment, and a healthy and stimulating work environment. The study contributes to the fields of HRM, business outsourcing, organization studies, and international management with a special reference to India. It also contributes to the understanding of the unique and context-specific nature of HR issues in the BPO industry.

The information developed herein should be beneficial to foreign firms operating in India or to firms planning to start operations in India regarding the nature of the HRM function suitable in that context. It highlights the nature of work dynamics of Indian BPOs. Policy makers can use our results to give feedback to their managers and develop future strategies and practices to more effectively utilize human resources and address the emerging problems in the Indian BPO industry.

NOTE

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