

# **HCIC-GEMDEV SEMINAR**

## **TRADE AND DEVELOPMENT**

**PARIS, 3<sup>RD</sup> & 4<sup>TH</sup> JUNE, 2004**

**WORKSHOP  
ON  
GEOGRAPHICAL OUTSOURCING OF SERVICES**

***OUTSOURCING OF SERVICES – THE CASE OF INDIA***  
***A Brief Note***

**By  
B.PRADEEP KUMAR  
GENERAL SECRETARY  
ALL INDIA FEDERATION OF TRADE UNIONS (AIFTU)**

## **OUTSOURCING OF SERVICES – THE CASE OF INDIA**

‘Out sourcing’ of production processes is not a new phenomenon in the world. Yet, when we talk of outsourcing in the contemporary global scenario, there is something very distinct about it. It is about outsourcing of services via the electronic route, which has occupied a special place in world trade and development and is a point of debate and contestation. This brief note is about outsourcing of services in relation to the Indian experience with reference to the position of labour in it. It is not an exhaustive exposition on the subject but is an attempt to chart out the broad contours of the IT sector in India, of the ITES/BPO segment, the nature of the IT sector and the position of labour.

### **A BRIEF PROFILE OF THE IT SECTOR**

It is this sector in India that has generated a lot of interest and has drawn attention worldwide. One main reason for this is because India has become a major center for IT software and services export and for drawing outsourcing business, ITES/BPO. If someone is talking about a ‘shining India’, it is, perhaps, on the strength of this sector, however fallacious that may be. What is significant is the fact that in the entire Indian economy it is this sector that has witnessed considerable growth in the recent past. The ITES/BPO segment in this sector in 2002-03 grew by 65% with revenues jumping from 71 billion rupees (₹1.3 billion) in 2001-02 to 117 (₹2.25 billion) in 2002-03. However, this should not undermine the fact that the large bulk of revenues in the IT sector accrue from the export-led software and services segment. It is estimated that exports have been growing at an annual rate of 54%. However, much of the exports are said to be low-end products and IT enabled services. While this is so in regard to software and ITES segment, one important factor should not be missed in understanding the IT sector. That is, the manufacturing segments of the IT. In the nineties, there were a few major native players like WIPRO in the manufacture of hardware along with a number of small producers. Given the dominance of global players like IBM, Compaq et al in hardware production and the Indian government lifting quantitative restrictions and reducing duties on hardware imports, some of the native players literally closed hardware shop and turned to software. Some became sales agents, like Wipro for MNC hardware production. Thus, the hardware segment of the IT Sector in the domestic market is mainly dominated by MNC’s.

Coming to the growth of the software and ITES/BPO segments, it was in the nineties, particularly in the latter half, that we see US corporations like GE Capital, Amex, Ford and Stanchart started captive units in India for customer care and back office operations. It was a period when US companies were trying to reduce debt and cut costs of production. Jobs were moved out from US to countries like India, China and Mexico in this exercise. This became more pronounced with the dawn of the 20<sup>th</sup> century. It is estimated that since 2000 about two million jobs moved into these countries facilitated as it were by the availability of cheap skilled labour in abundance, the premise upon which outsourcing businesses run. The educated skilled labour in India could work for a fraction of the wages paid to an American worker in US. In the initial period, jobs outsourced to

India were back-office operations such as payroll, record keeping etc. One estimate of the number of people employed in the outsourced centers in the country puts the figure at 171,100 and this is expected to grow in the next five years to well over a million. An interesting feature in this cycle of outsourcing is that when professional, white collar jobs were moving to India wage-cuts were effected in US companies where Indian IT professionals were also working resulting, to some extent, in the reverse migration of Indian IT personnel.

The BPO area is said to be the new 'Sunshine' sector wherein a range of activities of the MNC's are performed, which according to McKinsey-NASSCOM report of 2002, is touted as the fastest growing segment in the IT sector in India. A number of call centers initially in the cities of Mumbai, New Delhi and later in Bangalore, Hyderabad, Kochi etc., had mushroomed. These 'call centres' are involved in routine activities such as updating accounts, payroll preparation, billings, customer care etc. While there are call centers run by the major software companies like Infosys, Satyam involving more than hundred seats, there are many smaller ones too. These apart, there are some run by foreign companies like the HSBC, GE Capital. Several software parks have been established in the cities like Bangalore, Hyderabad. The Indian IT sector has big corporates like the Infosys, Wipro, Satyam etc, which employ more than 1000 employees, and do high end operations like banking and e-commerce. There are a number of small units employing about fifty and engaged in low-end operations. In totality, it is still the export of lower end products that dominate the sector.

The role of the state in advancing the private led IT sector can be seen in a wide range of concessions given to it. Fiscal incentives, tax concessions, income tax exemptions from export profits are some of these. In addition, several state governments have created infrastructural facilities for the IT sector such as establishment of software parks.

## **NATURE OF THE GROWTH**

That the IT sector in India, in particular the BPO/ITES segment, has witnessed rapid growth in the last four years is a matter of fact. It is equally true that it has been able to absorb a proportion of the educated skilled workforce of the country, which otherwise would have joined the vast reserve of the unemployed. Outsourcing of services to Indian shores, no doubt, has played a role in both employment and revenue generation. But all these cannot be exaggerated as it normally happens with policy-makers. The question that is often asked is whether the present condition will sustain and grow further or is it a bubble that will burst sooner or later. There are two ways of responding to this issue. One would be the easier way of dismissing it as some kind of an unnecessary hypothetical question premised upon cynicism. The other way is to make an assessment of the nature of what exists as growth of the IT sector. It is the latter way that would be useful for any understanding of the IT sector in India.

Firstly, as said earlier, outsourcing of services is largely and obviously driven by foreign corporations, particularly the US, which means outside markets rather than the domestic markets are the major sources of revenue and employment generation. The danger in this

pattern is 'dependence' on outside forces and players thus making the situation rather fragile. In US, the state of Indiana cancelled a \$ 15 million contract to the Indian corporate, Tata Consultancy Services, and attempts are going on to effect a ban or limit outsourcing of government contracts which will have a definite adverse bearing on the ITES / BPO in India. The debate within the US continues on this issue. Secondly, the diffusion of information technology into the manufacturing areas of commodity production is more or less absent. Thus, productivity gains in the commodity producing sectors as a consequence of diffusion of IT cannot be expected. This seems to be an important character of the export –led growth of the IT sector in India.

Third, the spread and reach of IT in the country is very limited. A majority of the people of India is outside the pale of the communication and technology networks. Access to hardware to the majority of the people, particularly of the rural areas, is well nigh impossible given the economic, literacy and education levels. IT is confined to a cluster of major urban centers catering to the upper sections and the educated English knowing middle classes. IT is essentially elitist and if it has to deliver a variety of social services, it has to break this barrier.

Fourth the dominance of the private sector raises certain questions in regard to the delivery of social services. Access to information on policies, programs of the governments via the IT to the people, using IT for education should be ways to spread the reach and use of IT. The issue is, will the profit-centred private sector spread into areas of social services. In an era where trade of goods and services is increasingly concentrated in monopolies, where every advancement of technology has led to monopolies, a dichotomous relationship prevails between delivery of social services and private ownership.

“Friction-free capitalism” was what Bill Gates said about the info-super highway. But be that as it is, will there be a monopoly-free capitalism, more so in the digital era.

## **THE CYBER LABOUR**

With liberalization and privatisation policies initiated in 1991 in the country, in line with the policy prescriptions of the World Bank, several changes in the industrial sector have occurred. The changes in the industrial and trade policies by way of allowing free flow of foreign capital and goods and lifting restrictions on imports of a number of items hit hard an already crisis-ridden manufacturing industry. Thousands of large, medium and small scale units closed shop or fell sick. It is estimated that more than 400,000 units had been closed down since the last 13 years, which rendered hundreds of thousands of workers jobless. On the other hand, for the educated middle class, opportunities for any gainful employment became bleak as even the state-owned sectors were either being dismantled or being privatized. Downsizing was another feature in the state-owned enterprises.

It was in this grim scenario in the nineties, some opening for a career was found in the IT sector. Educated English speaking young persons joined some of the software companies and the BPO centers. The Government of India identified the IT industry as a sector that

could well be an important source for augmenting revenues and for creating employment opportunities. A special Task Force was established and it optimistically estimated that by the year 2008, about two million will be employed in this sector. Let us now examine the position of the workers in this sector.

A worker who performs duties in a call center would not like the use of the term 'worker' to denote him/her, since the business puts the "respectable" tag of 'executive'. The use of the term 'worker', does not go well with the neatly clad young men/women in their twenties working in cosy shops littered with computers and modern equipment that gives an ambience entirely different from the floors of a factory. They would rather like to be called IT professionals or knowledge professionals. Such a notion is reinforced with the absence of any trade union. Yet, all this does not obliterate the fact that they are skilled labour working for a firm, hired by the management to expend labour for some hours under a set of rules framed by the management.

One of the major concerns of the workforce in BPOs and even in some small export-based software firms is the contractual nature of jobs. It could be for a period of one or two years and the contract can be terminated if the managements decide to do so. Since IT firms are exempted from many of the provisions of the labour laws of the land, job security of the workforce would be entirely in the hands of the managements. According to a survey conducted at the V.V. Giri National Labour Institute, of some call centers in Noida (near New Delhi), the attrition rates are as high as 40 to 60 %. The survey also says that the upward mobility of a worker in a call center is more linked to the healthy relationship with the management rather than on performance ratings.

The odd working hours in these call centers also negatively impacts upon the workers and causes physical stress. Working hours stretch from eight to ten hours and the change inflicted on the routine day and night body responses, with regular work in the nights causes many physical ill effects that also lead to a lot of mental strain. In the aforementioned survey it was found that many workers even went into depression. The survey further said that the atypical work was highly individualized and there was absence of collectivity. Due to the stress and strain the workers experience in the workplace and also because of lack of chances of moving upward many opt out themselves from the jobs. Another cause of concern in these units is the arbitrary nature of relationship between the management and the worker wherein the management can easily effect the separation of the worker without any legal hindrances.

Yet another feature relating to the workers in the call centers is the cultural aspect. In places like Hyderabad, these workers, before recruitment are given some 8 weeks training in English language, accent and are shown American films, videos and serials. All this in order to better communicate to the American customer in the American way. A process by which the worker imbibes the American tongue that must be put to good use over the telephone in the nights. By the time he/she goes back home in the day, he/she should be transforming into what he/she is. As one writer put it "American by the night and Indian by the day". In the realm of consciousness and culture, these professionals tend to live more as Americans as the psyche is so groomed that the "good life" and "American life"

have become synonymous. And, we have Coca Cola, Pepsi Cola, US Pizza, et al to drink, to eat.

While the gender composition in the IT sector is male dominated, it is in the call centers that women are equally in number or outnumber men. Since these women have to work in the nights, otherwise prohibited by law, the specific issue of security also assumes significance. Wages of the workers in the call centers are very low when compared with the wages of those in the software segment.

Social background of the work force in the software and ITES/BPO segment is a vital feature. If we keep in mind the hierarchical caste-based division of Indian society, the workers in this sector predominantly belong to the upper castes. This sector is, perhaps, one sector where we will not find people from the schedule castes, schedule tribes and backward castes. From top to bottom it is the upper caste people who are engaged in the sector. That is why we see in the recent past, voices demanding reservations or positive discrimination in employment in the private sector. The above adds to the elitist nature of the IT sector.

Lastly, let us see the approach of the State to the work force in the sector. While the State has granted a variety of concessions, it has also exempted the application of laws governing labour and establishments to this sector. For instance, the provincial government of Andhra Pradesh, which (in)famously assumed the role of a close ally of the World Bank, exempted the IT Sector from the purview of certain provisions of a law called the AP Shops and Establishments Act, that have the effect of depriving a worker of fair enquiry in the event of allegation of misconduct, notice before termination, payment of service compensation in the event of separation etc. Such a condition aggravates the sense of insecurity in which an IT employee cannot take the shelter of law in safeguarding rights. Needless to say this goes against the principles of natural justice.

The International Labour Organisation (ILO) in its 1999 “ Report on Decent Work” stated “The primary goal of the ILO today is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity.” Freedom, equity, security – these are too far from the outsourcing centers of the country.

## **CONCLUSION**

In the era of globalisation, it is said that the world economy will become an integrated whole in terms of free flow of capital and labour. While it is true that the flow of capital is eroding national barriers, the same is not the case in regard to the free flow of labour. International trade relations have increasingly become unequal under the WTO regime and tilt in favour of the developed North, in particular the US. It is in this context, the tendency to corner global wealth by a monopoly caucus becomes an impeding factor in ushering in new trade relations based on equality and mutual respect. That the developing countries like India are placed at a disadvantageous position under the present trade regime is a matter of concern. Trade which should be an effective instrument in genuine

development, has unfortunately become an anathema to development. Viewed in this context global trade in services today is equally unequal where, restrictions are placed on exports from developing countries to the north and restrictions on exports to developing countries are sought to be dismantled. This pattern must change and trade should become a means to uplift the lives of the peoples of the world, for if only growth rates are shown as indicators of development, then the world will continue to live with jobless economic growth, with hunger and economic growth, with increasing marginalisation of vast sections of people and economic growth.

References:

- 1) NASSCOM (National Association of Service & Software Companies) Report, 2002
- 2) Cybercoolies in BPO, Babu P. Ramesh, Economic & Political Weekly, January 31, 2004
- 3) Information & Communications Technology – The India Experience – C.P. Chandrashekhara