

# Impact Sourcing – Towards an inclusive society

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**Abstract**— IT Outsourcing industry leads the India growth story and is a major contributor (growing from 1.8% of GDP in 1998 to 9.5% of GDP in FY 2015) to the national GDP. Impact Sourcing is outsourcing of services with a motive of engaging underprivileged sections of the society through employment creating and sustaining a better livelihood. This paper describes the growth, opportunities and challenges for the Impact Sourcing Industry

**Keywords**— *Business Process Outsourcing (BPO), Business Process Management (BPM), Impact Sourcing, Impact Sourcing Service Provider (ISSP)*

## I. INTRODUCTION

Business process outsourcing (BPO) is the contracting of business tasks, such as payroll, human resources (HR) or accounting, to a third-party service provider. Usually, BPO is implemented as a cost-saving measure and allows the company to focus on their core business goals.

Nasscom reports indicate that the Indian BPO business segment revenues were USD 27 billion during 2015, around 85.19 per cent of revenue coming from the export market, serving 78 countries. It is also the largest segment and employed 3.5 million people accounting for 30% of total employees in IT-BPM space, delivering services in more than 35 languages (Refer Fig – 1)

When BPOs started operating in Rural or Semi-Urban areas successfully using local talent, they offered lower costs and lower attrition. They employed high school and Pre university passed students from agrarian and local artisan low-income families. They were tasked with the back office tasks needing lower level of skills. Refer Fig -1, which shows faster growing demand trends for higher skills in traditional BPO, which also implies that the services which need lower level of skills can be shifted to lower cost centers.

The BPO industry is gaining traction in Rural and Semi-Urban areas for the following reasons:

- Labor arbitrage, Reduced costs on facilities and real estate, favorable government regulations, tax breaks and Special Economic Zones (SEZ) schemes
- Evolution of Hub and spoke model, with cities acting as hubs and semi-urban and rural as network of spokes

The success of these rural BPOs in offering an alternative cost and skill leverage, as well as positively impacting the livelihood of the population around these BPO centers, lead to the concept of Impact Sourcing. This concept

addresses the underprivileged in Urban Slums as well as Rural area.

Impact Sourcing refers to Business Process Outsourcing industry that employs people from the underprivileged sections of the society, generally people at the base of the pyramid and is also reflected as Socially responsible outsourcing.

The Rockefeller Foundation has done pioneering work in structured definition and propagation of Impact Sourcing and defines Impact Sourcing as “employing individuals with limited opportunity for sustainable employment as principal workers in business process outsourcing centers to provide high-quality, information based services to domestic and international clients.”

## Indian BPM industry: Steadily growing

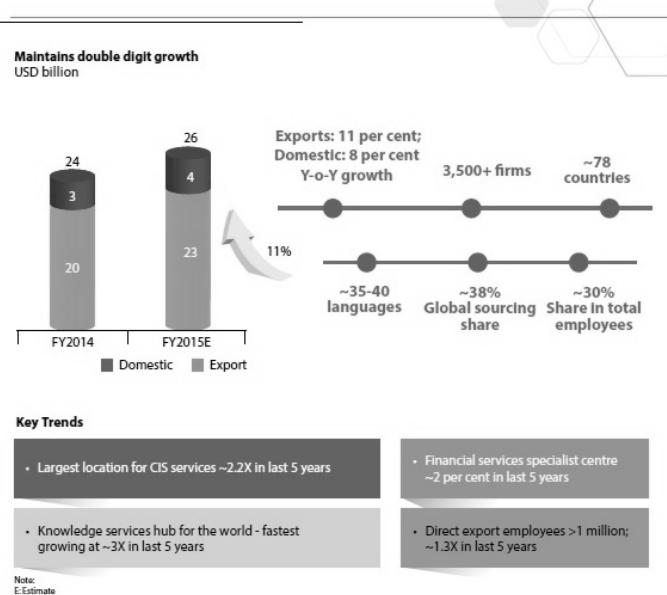


Figure – 1 (Source-[www.Nasscom.in](http://www.Nasscom.in))

Through its Poverty Reduction through Information and Digital Employment (PRIDE) work, the Rockefeller foundation has been exploring the potential effect of Impact Sourcing on the lives of the underprivileged worldwide. It supports research into the Impact Sourcing field aimed at scaling up Impact Sourcing as a preferred option within the outsourcing industry.

## II. OPPORTUNITIES IN IMPACT SOURCING

Nasscom estimates<sup>[6]</sup> suggest that 5000 people were employed in ISSPs in 2010 which grew to ~150,000 by 2015. With such a growth rate, ISSPs can be estimated to generate ~10-12 lakh jobs directly and indirectly by 2019.

- As of 2013, 43 new Semi urban and Rural centers were emerging as new IT/BPM destinations reducing pressure on current locations
- Cost in these new destinations are expected to be 28 per cent lower than that in current locations
- These new destinations have basic infrastructure and human resource to support the global sourcing and business services industry
- Some of the current locations are expected to emerge as regional hubs supporting domestic companies

A recent report by Everest Group (2014)<sup>[7]</sup> indicates that the impact sourcing global market is growing faster (~11% YoY) than the overall BPO market. Globally Impact Sourcing industry currently employs around 240,000 people globally with more than 90% of this workforce coming from India, Philippines and Africa.

Reports by Rockefeller foundation[4] indicate that by 2020, global BPO industry is estimated to employ four million people from Tier 2/3 locations. ISSPs' cost structures can be about 40 percent lower than those of mainstream BPO firms.

Some of the organizations in Impact Sourcing, like, Rural Shores are driven as much by social zeal as by commercial sense and have significant market share, along with other players like Desicrew, Samasource, Exchanging. Revenue, however, is growing at about 150-200%, though from a small base, which indicates it's potential.

The steep and stupendous growth of Indian BPO industry while bringing cheer on the GDP and exports front, also brought multiple challenges.

A few observations on how these challenges turned out to be opportunities for the impact sourcing sector are given below:

- *Increasingly routine Tasks*

Metros and Tier 1 cities have started to cater to demands in knowledge or intellectual intensive jobs like Knowledge Process Outsourcing (KPO) and Legal Process Outsourcing (LPO) which need higher levels of skills. As such tasks like Data Entry and Data Processing Services are being looked at as non-challenging and non-satisfying to the better qualified resources in these cities.

This has resulted in a steady movement of such jobs to smaller tier-2 and tier-3 cities, and rural centers. Some of the jobs which do not need understanding of English language,

jobs which don't need much of software skills have accelerated rural outsourcing.

- *Rising Costs in Cities*

The kind of stupendous growth in the BPO sector lead to shortage and in turn poaching of resources between BPO players, which lead to steep increase in manpower costs, infrastructure etc. This was turning Indian BPOs less competitive compared to peers on other emerging destinations in Asia, Europe and Africa. As such reducing cost through movement of work to lower cost Tier 2 and 3 cities, towns and rural area helps BPO's survive in the competitive Global BPO landscape.

## III. CURRENT STATE OF THE IS SPACE

Impact Sourcing is a nascent business stream, a small part of the overall BPO Industry, but growing at a fast pace

BPO Tasks shared with ISSPs: 90 percent of the tasks shared with ISSPs involve data entry, transcription, digitization, and video and image-tagging. Basic voice work constitutes the remaining 10 percent.

### *Mitigating Challenges for Mainstream BPOs which work with ISSPs:*

BPO service providers can serve as clients for ISSPs, as they can outsource a portion of their work to ISSP partners. In such a scenario there are significant and complex challenges for the BPOs:

- Lack of necessary infrastructure in rural areas - like Power and Telecommunication in Tier 3/4 cities and rural areas.
  - Governments of India is already addressing these issues through programs like Power for all villages by 2019 and National Fiber backbone connecting all Grama panchayats in India
- Service level agreements (SLAs): The SLAs that govern outsourcing relationships for BPOs with their clients often have stringent requirements that prevent BPOs from subcontracting work to third party service providers.
  - The Learning curves in ISSPs is a little longer than city based BPOs. As a service line achieves stability and maturity, the ISSP can take more stringent SLAs in such service lines, and the BPO's should be able to sign off back to back contracts with flow downs of SLA clauses
- Disaster recovery provisions normally have stringent SLAs on recovery.
  - Disaster recovery can be remotely managed by the BPOs or implement their best practices at ISSPs so that Disaster recovery needs are addressed
- Learning curves of Bottom of Pyramid (BoP) workers potentially impact turnaround times - BoP workers, in general have a longer learning curve in comparison to their city counterparts. From a BPO company perspective, in addition to doubts surrounding the quality of work, ability to meet Turnaround time is also a suspect

- The Government of India has taken up nationwide SKILL INDIA initiative assisted by NASSCOM to impart and enhance Skills required for BPO industry in the rural population. This is expected to help address resource quality issues

#### *Mitigating Challenges for ISSPs:*

The current size of the IS space appears to be relatively small. Research till date has identified some of the challenges hindering the ISSPs:

- Most BPO providers look for a substantial track record from ISSPs, and are risk-averse when considering whether to partner with ISSPs if they cannot showcase a substantial portfolio of completed contracts. However, ISSPs on their own lack investments.
- Since ISSPs are of commercial relevance to BPOs as well, BPOs can treat new ISSPs as their captives, handhold them until they become stable. This will help BPOs address their Corporate Social Responsibility (CSR) objectives as well
- A must for ISSPs to demonstrate that BoP workers are capable of completing contracted tasks with high quality and on time.
- The Government of India sponsored SKILL INDIA initiative to impart and enhance Skills required for BPO industry in the rural population is expected to help address resource quality issues
- The lack of adequate infrastructure (e.g., power and telecommunications) is still an issue
  - Government is already addressing these issues through pan India initiatives.

#### IV. CONCLUSION

To summarize, though Impact Sourcing is in its early stages it holds a lot of promise and is expected to fast emerge as the new dimension of the business process management industry.

Impact Sourcing promises benefits such as cost competitiveness, cheap real estate, excellent infrastructure and abundant availability of talent, thus helping Indian BPOs stay competitive amidst ever increasing global competition.

Investments from major BPO players as CSR and Capital support or subsidies from Government could accelerate investments, thus helping bridge the rural-urban divide.

Reports by Rockefeller foundation<sup>[4]</sup> and Accenture indicate that promoting ISSPs could not only improve the livelihood of its employees, but the benefits percolate to a much larger section of the under privileged, thus improving the overall lifestyle in rural India.

- Improved disposable income and family economic security
- Increased employment and income opportunities for women
- Community development activities performed by ISSPs

Thus the BPO industry and Government need to continue their focus on ensuring ISSPs prosper and grow faster than the traditional BPO industry so that benefits accrue and impact the population better and faster.

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