Next Generation Outsourcing

Opportunities through Impact Sourcing
The data for this report was collected and analyzed over 2012-2013 and published in February 2014 by NASSCOM Foundation. The intent is to contribute to the growing bodies of work on Impact Sourcing as a means of scaling the space. A Creative Commons licensing has been chosen to proactively demonstrate sharing and collaboration.

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FOREWORD

The transformation of the Indian IT-BPM industry and its continued growth has created an opportunity to address poverty and inequity in an accelerated manner. The time is appropriate for companies to aggressively pursue the agenda of inclusive growth. Once the province of corporate social responsibility, the effort to bring India’s excluded communities into the mainstream of economic life is likely to become the most valuable business opportunity of the decade.

NASSCOM Foundation partners with the Information Technology and Business Process Management (IT-BPM) industry to leverage technology for underserved communities. The Foundation, in partnership with Rockefeller Foundation’s Poverty Reduction through Information and Digital Employment (PRIDE) initiative, is committed to encourage the creation of an ecosystem that promotes inclusiveness and delivers holistic benefits for excluded and low-income communities. The Foundations have sought to intervene in areas that will grow the Impact Sourcing industry and empower these communities to benefit from this growth. The objective of the partnership in India has been to create learning models that can influence Impact Sourcing globally.

“Next Generation Outsourcing: Opportunities through Impact Sourcing” reveals that Impact Sourcing Service Providers in India have the potential to add 80,000 people to its labor force between 2012 and 2017. We have focused our efforts to understand the factors affecting the pace of growth of ISSPs, concluding this huge scope for a scaled inclusive industry needs multi-stakeholder collaborations and ecosystem development.

Like the mainstream Business Process Management (BPM) industry, effective end-to-end skills development processes require improvement, especially given the geographic dispersion challenges. In order to keep the industry on a growth trajectory, there is a clear need for upskilling mid-management to enhance delivery capabilities and improve quality.

Although there is insufficient evidence that the ISSP-BPM sub-contracting relationship will be the dominant business model, there is a definite business-case for mainstream BPMs to outsource work to ISSPs. Bringing ISSPs to the forefront of discussions at NASSCOM’s business forums, we have tried to highlight the ISSP value proposition and have encouraged successful collaborations.

Our stakeholders - ISSPs, mainstream BPM companies, training organizations, buyers, impact investors, development agencies, researchers, and Governments - have responded positively to the formation of a consortium to facilitate an ecosystem for the creation of sustainable and mature ISSPs.

I am pleased to present the first detailed report by NASSCOM Foundation for inclusive growth, which provides in-depth insight into the progress made by Indian Impact Sourcing Service Providers and their collaborators. We hope this report will help stakeholders of the global Impact Sourcing industry take active steps towards scale and mainstreaming for a more inclusive planet.

Rita Soni
CEO, NASSCOM Foundation
Executive Summary

The current global outsourcing market is estimated at $512 billion. With the presence of more than 30 Impact Sourcing Service Providers (ISSPs) and annual revenue of approximately $19 million in 2011, India has been at the forefront of this industry’s growth story. To accelerate this further, NASSCOM Foundation carried out a study of the existing market and piloted several interventions through industry collaborations. The Foundation’s work, through extensive research, provides evidence of the growth of ISSPs in India, their business and operating models, subcontracting relationships, industry collaboration models, and insights to grow Impact Sourcing globally.

Globalization, web based delivery models and digitization are driving countries with relatively low infrastructure to harness existing connectivity and local digital capability to deliver small and medium scale services quickly and competitively. In response, destinations in Africa, South America and South East Asia are emerging as viable ISSP outsource destinations.

These countries are most likely to benefit economically and socially from sustainable job creation and growth. While there are distinct limitations to growth, there exist a definite business case for ISSPs to thrive as rising salaries, low workforce motivation, high overheads, and rising attrition are eroding the competitiveness of Tier I and Tier II destinations and mainstream models.

Through the “Poverty Reduction through Information and Digital Employment (PRIDE)” initiative, the Rockefeller Foundation has developed insights about the potential effect of the outsourcing sector in creating jobs for the poor and vulnerable worldwide, an industry which is now known as Impact Sourcing. NASSCOM Foundation, with support from Rockefeller Foundation, aims to create valuable learning models in India and to intervene in areas that would grow the Indian Impact Sourcing industry, and empower communities that would benefit from this growth.

This report offers a deep understanding on how to build capabilities and promote innovative models in identified areas that can be replicated and scaled up in the future. Further, it presents working ideas in creating stakeholder partnerships and deepening support within local institutions.

The report casts a spotlight on the lack of an enabling ecosystem that is inhibiting the Impact Sourcing (IS) industry from achieving an exponential growth in employment (80,000 people by 2017 from the current 6,000). The program captured five major gaps that require sustained interventions in order to accelerate the growth of Impact Sourcing industry in India and globally:
1. Low focus on mainstreaming of the Impact Sourcing industry
2. Lack of sustained support from governments in fostering Impact Sourcing
3. Appropriate skills development modes
4. Stringent quality management process
5. Appropriate technology adoption

While Impact Sourcing has evolved as one solution to utilize the growing talent and provides a strong business case, it is critical that the ecosystem stakeholders come together and give a much needed boost to the sector.

The following are the key findings of the study:

• Advocacy for mainstreaming is essential to provide ISSPs and social enterprises access to diverse funding mechanisms that shall enable these players to expand skills sets to compete for more varied businesses and clients.

• Government policies, in select states in India have focused on financial incentives and infrastructure development for the growth of Impact Sourcing. However, ISSPs require national level policy directions to promote infrastructural support to the field through easily available setups, quick approvals in terms of regulatory systems, and organizations to support in terms of advisory and financial needs.

• In the formative years of this Impact Sourcing industry, concrete advocacy for entrepreneur friendly policies and streamlining of the Industry would be more effectively delivered through a consortium led approach. A consortium consisting of ISSPs, skills training providers and think tanks can act as the mouthpiece and a platform to create the enabling ecosystems both at an industry and the ISSP level.

• It is essential that governmental intervention includes a skill development charter as well as a plan to explore new avenues for creating business for ISSPs.

• Providing appropriate regulations around capital gains to encourage easier exits for angel and early-stage investors would be highly beneficial to the industry.

• Championing the growing business viability of ISSPs as an alternate delivery model requires active acceptance and engagement in building talent development models, by the industry at large. Mainstreaming of ISSPs in business conversations will lead to further participation by the industry in enhancing the talent in ISSPs.

• There is a lack of shared understanding between the ISSPs and training organizations in terms of curricula and training techniques. To enhance the effectiveness of training programs, there is a need to develop collaborative models that effectively engage organizations specializing in modular skills training along with national level catalysts such as the National Skills Development Council, its partners and other training institutes. These kinds of collaborations will help in building common standards for skills training, find ways to bring training providers closer to ISSP’s current and potential workforce and develop low-cost collaborative training model, thereby reducing substantial training cost burden for the ISSPs.
• Middle management and domain specific trainings are needed to enhance delivery capabilities, improve quality and increase profitability. Training workshops in collaboration with mainstream BPM industry have a positive impact on the ISSPs, giving them an exposure to the best practices of the leading BPMs and specialized domain specific skills.

• A strong focus is needed on quality management in order to improve ISSP businesses. It often has a positive effect on delivery quality, productivity, sales growth, profitability, competitive advantage and avoidance of litigation.

• Due to limitation of capital and management capacity, it would be feasible to adopt a scaled down process of quality management and certifications. A positive development to this effect has been the current work under International Organization for Standardization (ISO), which aims to take into consideration the needs of ISSPs. For ISSPs that find ISO certification a challenge, a framework can be proposed that would consider the best practices from different quality and security modules, contextualized and customized to meet the requirements of these ISSPs. While there could be creation of a contextualized productivity and quality standardized framework, it should lead to the achievement of international standards that are in place or likely to come in the future.

• The delivery and training effectiveness can be improved by adoption of latest and cutting edge technology. Investment in project management and workflow management platforms can improve ISSPs’ performance. While ISSP level partnerships could create a cost burden given their limited IT budgets, a more practical approach could be to explore shared platforms or collaborations between an ISSP consortium and technology companies. Partnerships with new age cloud service providers could reap immense long-term benefits to ISSPs.

While the report is India focused, the changing dynamics and best practices have implications for the IS industry globally, and have critical lessons for ISSPs in geographies where Impact Sourcing is in its nascent stages.
Indian Impact Sourcing Service Providers (ISSPs) are in the throes of a rapid transformation. Being part of one of the leading Business Process Management (BPM, previously BPO) industries in the world, they have the potential to address a market opportunity of $7.6 billion by 2017 and can directly employ 80,000 people people from excluded and low-income communities.

Over the past few years, the industry has grown more strongly and has attained considerable stability. As of today, the Indian Impact Sourcing industry’s revenue is over $19 million annually and has created more than 6,000 direct jobs. However, to acquire a larger pie of 2017’s addressable market, ISSPs need to strategically rethink some fundamental issues like access to the right talent, attracting a larger pool of demand to scale up, replication of their business models, and a higher degree of collaboration between stakeholders.

Impact Sourcing (IS) can be defined as BPO activities that provide formal employment or supplementary income to individuals in low income areas of cities and rural towns with limited alternative employment opportunities. Impact Sourcing is context specific because it provides work in areas where it is otherwise scarce. The organizations carrying out these BPO activities are called Impact Sourcing Service Providers (ISSP’s). ISSPs have pursued an inclusive business model by integrating the geographically remote, marginalized, and underserved communities into the service value chain. In order to analyze the emergence of these inclusive business models, better understand the Indian Impact Sourcing space, and carry the learning to other spaces I geographies, five key intervention areas have been identified:

1. Rockefeller Foundation defines Impact Sourcing as the socially responsible arm of the Business Process Outsourcing (BPO) and Information Technology Outsourcing industry. Impact Sourcing intentionally employs people who have limited opportunity for sustainable employment—often in low-income areas.
a) Mainstream the concept of Impact Sourcing by creating forums and platforms to showcase industry potential and enhance stakeholder interactions
b) Address uneven support received by ISSPs from local, state and central governments.
c) Strengthen market aligned skills development in ISSPs to enhance their scalability and profitability.
d) Address the industry’s productivity and quality imperatives as they relate to buyers.
e) Scope for new service offerings, process improvements and virtual trainings, if ISSPs can introduce and utilize new technologies such as cloud computing, business analytics and the Internet of things.

1.1 Ecosystem Deep Dive

NASSCOM Foundation’s research indicates that the growth of the ISSP industry can be segregated into three distinct stages of growth. The first wave (2006-2010) was marked by the proof of concept by industry veterans and efforts by Government to promote inclusive growth. The second wave (2011-2014), on currently, is a consolidation phase, witnessing new ISSP ventures, flow of investments, experimenting with new business models, offering new processes and establishment of delivery infrastructure. The next wave (2015 onwards) is expected to see scale and greater collaboration between ISSPs and mainstream BPMs, leading to changed business dynamics and emergence of engagement structures such as sub-contracting and joint bidding for projects.

With their current delivery arrangements and skills, ISSPs have been able to offer some traditional BPM services such as customer interaction services, finance and accounting (F&A), and human resources (HR). They have also successfully tapped web-based services market, notably in digital publishing and various crowd-sourcing and new age technology services such as image tagging, photo gallery creation, data digitization, gaming and online tutoring.

There are a number of barriers due to which ISSPs have not been able to offer the full spectrum of BPM services, and are struggling to realize the economic potential of new age service lines. In traditional BPM services, availability of domain skills, stringent governance and regulatory aspects are often a constraint. In new age services, lack of delivery processes and scaling capability is holding back profitability and growth. In the cases of sub-contracting, poor or insufficient infrastructure is a big hindrance.

Some key challenges being faced by the Impact Sourcing are:

- There has been limited awareness about the growth journey of ISSPs across the country, resulting in very little institution backed efforts to raise awareness about capabilities of ISSPs in the buyer market.
• Inadequate supply of middle management resources is creating a delay in establishing standard delivery and operating processes that are essential in order to ensure consistent delivery quality, data security and replication of business and operating models, hence, impacting profitability of the business.

• Contractual obligations and lack of high quality last mile infrastructure makes it difficult for ISSPs to source business from the mainstream BPM industry.

• The growing CSR mandate of BPM companies has led to a myopic view of ISSPs, emphasizing only on the social impact. There was low visibility and knowledge dissemination amongst BPM players on the ISSP service offerings and capabilities, and their business/operating models, despite some early business experiments.

• Lack of research on end-client demand and engagement with end clients led to limited movement of these efforts. It is critical to introduce the industry to the IS concept and to ISSPs, and find ways to minimize any perceived risks.

• One of the factors for the unprecedented growth seen by Indian IT-BPM was the pro-industry policies of the Government. However, with the industry maturing, the policies and incentives are not being renewed at a matching pace, leaving the upcoming SMBs and organizations like ISSPs in a tough spot. Impact Sourcing, which is still in its formative years, needs active support from the Government to realize its potential for inclusive growth.

• In the context of Indian Impact Sourcing, where more than 50% of the employees are women from marginalized and excluded communities that have had limited exposure to formal education, skill development is a crucial factor in maintaining delivery quality. The NASSCOM Foundation-Castling study estimates that female participation will continue to be on the rise during the next few years, but this will not be enough to bridge the gap between skills demand and supply.

• There is a critical need for a standard operating process for ISSPs in order to ensure consistent delivery quality, data security and replication of business and operating models.

• There is a scope for new service offerings, process improvisation and virtual training, if ISSPs can utilize technologies such as cloud computing, business analytics, social media platforms and process automation software. Presently, the adoption of these technologies and platforms is very low due to limited availability of funds. These technologies and platforms can enable ISSPs to lower operating costs and be more effective.
1.2 Methodology

The objective of this report is to build a shared understanding of the Impact Sourcing sector and its current market size as well as to share results from activities undertaken by NASSCOM Foundation to grow the sector. In addition, the report presents a quality and security certification framework that may be of global significance. And finally, the report aims to inform various stakeholders about possible collaboration models that can nurture the sector.

The research team Castling Consultants and NASSCOM Foundation conducted a comprehensive market analysis for more than six months, encompassing various stakeholders in India to understand the various enablers and inhibitors for the growth of the impact sourcing sector. This included primary structured and semi-structured interviews, and in-depth surveys of 27 ISSPs across India (Bangalore, Chennai, Delhi, Kolkata, Rajasthan, Punjab, etc.), 15 industry experts, 10 mainstream BPNs, and five impact investors.

The ISSP interviews focused on specific broad themes. Apart from the basic information about ISSPs (including location, set-up, employees) the interviews focused on both qualitative and quantitative themes like delivery infrastructure, employee distribution and policies, delivery process maturity, training and people development infrastructure, organization structure and social impact created by the organization. This method helped the researchers understand the motivations behind ISSP’s choices and behavior, their attitudes and beliefs, and the impacts of their decisions on the growth of the sector.
This section outlines the current global BPM industry and India’s share of global sourcing and has attempted to analyze how BPM trends in a country drive the growth of ISSPs and form the key drivers of growth of Impact Sourcing in India. This section also includes a deep dive into the Impact Sourcing market in India and factors that help ISSPs in India sustain and compete with the mainstream BPMs in the global BPM market.

2.1 IT-BPM Industry Overview

With the growth in the global market, the Indian IT-BPM industry has rapidly expanded their vertical and geographical reach, and continued to grow, though at a slower pace due to economic uncertainties across the globe. Domestic BPM is expected to grow by 12.7 per cent in FY2013, to reach INR 167 billion ($3.1 billion) in terms of domestic market revenue and INR 958 billion ($17.8 billion) from exports. The growth will be driven by hosted services and increased uptake by traditional and emerging verticals, including Government and new customer segments. Aggregate revenues for the industry are estimated at $108 billion for FY2013, with revenues from BPM contributing 20% to this figure. Direct employment in the sector in India is reaching nearly three million, while indirect job creation is estimated at 9.5 million.
India is maintaining its leadership position in global sourcing, with a 52% share of the global market. Customers are increasingly engaging service providers as a ‘strategic partner’, rather than a ‘technology service provider’, and global customers continue to value the Indian market for strong cost management, developed skills, efficient scalability and highly mature client delivery capabilities. Indian service providers are also expanding to leading Tier II, III locations to counter any potential threats from emerging sourcing locations. India is thriving on the well-established Global Delivery Model (GDM). Service providers are tapping low-cost destinations for expanding their delivery networks along with acquiring talent from non-Tier I cities to have a tighter control over operational costs.

**Cost Competitive**
- Optimum cost
- Operational efficiencies, efficiencies

**Human Capital**
- Largest employable pool
- Diverse background

**Scalability and Security**
- Mature global delivery network
- Business continuity, security governance

**Customer Focus**
- Customer-centric business outcomes
- End-to-end services
- Niche and domain capabilities

**Strong Ecosystem**
- Competitive infrastructure
- Focus on untapped potential locations
- Industry presence across entire spectrum

*Source: Everest Research, NASSCOM*

**Fig. 4. Value Proposition of Indian IT-BPM Industry**

With higher Internet penetration, increasing broadband connections in rural and semi-urban areas of India, and availability of graduates across the country, the BPM domestic market has expanded to these areas, leading to the growth of small BMPS. There are other factors which have slowly catalyzed the growth rate of small/rural BMPS as well, which are discussed in subsequent sections.

**2.2 Evolution of Impact Sourcing in India**

**2.2.1 BPM market in India**

Indian BMPS have been traditionally recognized for global 24x7 delivery models, relationships with 75% of the Fortune 500 companies, consistently delivering a low-cost value proposition to their US and European clients (many of which have benefited from 40 – 60% savings as non-core functions were outsourced to India, allowing them to be more profitable and to focus on their core areas of innovation and delivery), and promoting a strong focus on quality (65% of all CMM Level 5 firms are in India).

**BPM industry’s inclusion Programs**

The BPM industry in India has been on the forefront of providing employment opportunities to the people. The Indian IT-BPM Industry is expected to provide direct employment to nearly 3 million people, an addition of 188,300 employees, while indirect job creation is estimated at 9.5 million in FY 2013. In addition, the industry has started to act as a catalyst in ensuring that the excluded communities are included in the work force by effectuating more inclusive policies and mandating inclusive hiring.
Indian BPM market, both domestic and exports, largely provides customer interaction, finance and accounting and knowledge services in the current environment. With evolution in the global industry, models of operations for BPM industry in India is highly centered around customer impact, costeffectiveness, and process best practices. Process benchmarking and vendor sub-process factories are being taken up to ensure growth in the new era of BPM.

Prioritise segments like Business Financial Services and Insurance (BFSI) and public services are catching up with respect to technology services, while contact centers, non-voice BFSI and finance & accounting are evolving to be the prime focus for business services.

Some of these changes in the industry, discussed in the next section, are, directly or indirectly, encouraging the growth of an effective support structure from excluded communities in the form of Impact Sourcing.

2.2.2 Macro BPM trends favor the growth of Impact Sourcing in India
The business case for ISSPs in India is driven by three key macro BPM industry trends:

- Upgrading of service offerings by established mainstream BPMs, because of shrinking margins on low-end, vanilla BPM tasks.

For the BPM industry of India, the decade of over 35% growth is over. In 2010 and 2011, the BPM industry's growth hovered between 12 - 17%. Locations like Philippines have overtaken India in voice delivery and there are an increasing number of competitors challenging the pole position of the Indian industry. Simpler tasks which were the early wins for our BPM industry are being commoditized and automated. Indian BPMs would be
expanding their suite of offerings, providing clients “end-to-end” services and graduating from being just a business process service provider, to a more knowledge-oriented partner kind of role.

For example, from doing simple payroll processing, BPMs are now helping their clients design and manage large parts of their human resource functions remotely and cost-effectively. Today, investments are being directed towards up-skilling, expensive, experienced, and hard-to-retain personnel to perform more complex processes. However, as even clients favor an end-to-end BPM provider, there remains a need to still deliver low-margin, low-end services as well as create a set of innovative offerings. Indian BPMs are therefore increasingly open to further outsourcing these less complex tasks to a low-cost provider like an ISSP while focusing their internal resources on high-end work.

- **Growing domestic demand for BPM services**

  Within the BPM sector, a higher growth of about 17% has been forecasted for the domestic market, as compared to the export segments, which is estimated to grow at 12% for FY2013. The domestic market is primarily driven by increased demand for:
  
  i. regional voice services from telecom operators who have experienced rapid growth;

  ii. increasing adoption by new verticals like the Government, legal process outsourcing, e-commerce firms, publishing and media; and

  iii. new buyers in existing verticals, for example microfinance organizations from the financial services industry.

  However, serving the domestic market will require mainstream BPMs to be even more cost competitive, as Indian companies demand lower price points than their foreign counterparts. For these new buyers of outsourcing services with limited budgets, cost is the biggest consideration when considering a BPM provider. For established BPMs, the margins and the volume of business offered by most of these buyers is too low (telecom and Government are an exception). This creates an opening for ISSPs to step in and fill the gaps in the market. ISSPs can provide approximate cost savings of 35%-40% (Monitor study) compared to traditional urban BPMs. Much of these savings are derived from lower real estate, manpower and operating costs in rural India.

- **Increasing crunch for human capital**

  Key factors impacting the competitiveness of the Indian BPM industry are increasing costs and scarcity of human resources. The BPM industry would add around 188,000 jobs in FY 2013. However, the question plaguing most BPMs is where will this talent come from? Urban BPM centers like Bangalore, Gurgaon, and Hyderabad have been fully tapped. Furthermore, the high levels of attrition (estimated at ~55% in 2011) particularly amongst
less experienced employees (less than 5 years of work experience) and rapid wage inflation is making these locations increasingly cost-ineffective for low level BPM services.

2.3 ISSPs in India - the ecosystem

Growth of the ISSP market in India

The macro trends discussed in the previous section, point towards an evolving BPM industry landscape in India, one that is open to new, alternative delivery models. Increasing reach of telecommunications, continuing demand of innovation amid huge cost pressures, increasing attrition from the mainstream industry, and Government’s focus towards job creation, are the key factors responsible for the growth for ISSPs in the previous years.

2.3.1 Indian ISSP capabilities match BPM industry needs

The growth of ISSPs in India can be linked directly to the fact that ISSPs address some of the major challenges faced by the Indian BPM industry today. Some of these are listed below:

Access to an expanded, low cost talent pool for BPMs: Manpower is the biggest cost and challenge for the BPM industry today. Constantly increasing salaries, and high levels of attrition (40% – 60%) has led to growing people costs as firms have to constantly reinvest in training. ISSP employees in India are available at a fraction of the cost of their urban counterparts, and typically command ~30%-40% lower monthly salaries. Furthermore, attrition levels in ISSPs stands low at 5% - 10% making it attractive from an employee training and development perspective. (Source: Castling Consulting)

Increased margins from low operating costs: Given their location, the overall operating costs of ISSPs, are lower as rent and infrastructure are significantly cheaper. By outsourcing to an ISSP, BPMs can cut costs, and free trained resources to perform high end tasks.

Language skills advantage: Domestic firms in sectors like telecom, insurance and banks require services in regional Indian languages. ISSP employees are fluent and educated in local languages making them a natural fit to provide such services. A successful example of this is the Major Telecom- Firstsource - Rural Shores partnership.

Exposure to new markets: ISSPs present tremendous potential for strategic partnerships that allow BPMs to deliver services from new locations which are critical to their domestic clients (e.g. Large Telecom Provider - Firstsource-RuralShores partnership). Furthermore, as Indian firms expand their markets beyond urban India (metros, Tier I, and II cities) having a presence or a tie-up in Tier III down city can become a long term advantage, as it can provide the firm access to new talent and manpower.
There is a strong business case today for ISSPs to become significant players in the BPM industry. In addition to the business and economic impact, ISSPs can create significant social impact by potentially generating ~80,000 direct jobs over the next 5 years a sharp rise from the ~6,000 jobs it provides today. Additionally, the economic growth in ISSP locations can potentially result in the creation of 200,000 indirect jobs (Source: NASSCOM Strategic Review).

2.4 Impact of ISSPs on socio economic development

**Individual Impact:** Employment ensures that an individual earns a steady income. Our research has identified an average increase of income from INR 2500 to INR 4500, due to the growth of ISSPs. With steady income and increasing self-esteem, there is a growth in responsibility, personality, behavior and decision making abilities. This is followed with upward mobility in terms of family relationships, self-perception, and community perception. In case of women employees, ISSPs provide a means to gain independence and alternate livelihoods.

<table>
<thead>
<tr>
<th>Community impact</th>
<th>Overall development with time</th>
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<tr>
<td>Family impact</td>
<td>Social Status</td>
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<tr>
<td>Individual impact</td>
<td>Increase in income</td>
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*Fig. 6: Social Impact of ISSP*

**Family Impact:** With better decision making abilities, decrease in trends like early marriages, early motherhood, etc., is imminent. ISSPs working with rural, semi-rural communities provide a change in social status for the families. A steady income changes family situations like continuation of education of younger children at home, better health facilities, more nutritious food, and savings for the future.

**Community Impact:** The community goes through phases of impact from the presence of an ISSP. From a situation of none or very little employment, ISSPs’ presence provides youth an opportunity of gainful employment, reducing risks of youth deviating to petty crime and notoriety.

iMerit’s integrated business model mobilized women from an impoverished, semi-urban Muslim community in the south of Kolkata, and trained them on market aligned IT skills, English and work place readiness. One of the girls from this community enrolled for a training program for three months by paying INR 500 ($8.29). After a successful training she joined the local iMerit Center with a salary of INR 3000 ($49.77) per month and after completion of her probation period, started drawing a salary of INR 5500 ($91.3) per month. With an excellent track record, she is now a QC specialist at a salary of INR 7500 ($124.4) per month. Beyond offering a 200% increase in salary for its employees, iMerit has been able to create a greater impact by giving a sense of confidence, empowerment and decision making ability to the women, who previously had little opportunity for training or employment.
However, growth of employment opportunities created by ISSPs in rural / semi-urban areas in India is possible only if there is total acceptance by the community of the advantages and the positive impact the ISSPs bring at all levels – individual, family and community. With a majority of people being unaware of the BPM industry and their operational modes, coupled with negative ideas around employment of women, it takes a lot of counseling sessions within the communities to advocate ISSPs. However, the growth accelerates when local communities experience the benefits and actively participate in the ISSP ecosystem.

“I am Shobha Bisht, and I am an employee with B2R since the past 2 years. I believe that my future is secured in B2R because I am very happy and satisfied with all the ways of teaching, learning and working. I got immense help and support from the values followed in B2R to mold and achieve my goals. I am a very simple girl and come from a poor family, my village “Gadgao” is just 2 km away.

It’s all because of me working with B2R today, that I can support my family economically. I had never ever imagined that I will one day work for a BPO, but after joining B2R, I realized that I have the ability to do many things. When I joined B2R, I had just studied till class 12th and I got a lot of help from B2R to further my studies. I got sufficient exam leaves and also got time to study at home.

I had no knowledge of computer before joining B2R but slowly I was able to understand how this works. Now I have started working on different processes. Initially, I used to get very nervous just to sit in front of a computer but today I work on it with ease and comfort.

I am able to work comfortably even on complex processes today. My English was not very good, but with the support of my colleagues, I have improved a lot. I am very happy and pleased that in B2R, I got an opportunity to work in an environment which I wanted to work in.”

- Shobha Bisht, Employee B2R
  Uttarakhal, India
3 THE ISSP LANDSCAPE IN INDIA

India is maintaining its leadership position in global sourcing, with a 52% share of the market. Added to this, if the Impact Sourcing industry were to receive proper impetus, the country’s position in the BPM industry would be further cemented.

It is important to understand the nature of the Impact Sourcing service providers in India and how they have grown. This chapter outlines their main locations in India and the reasons for concentration in these geographies, available and addressable markets for the still nascent industry, business models, operating models, and projected growth trajectories.

3.1 Geography of ISSPs

Even though India is a leading player in the ISSP market, research has ascertained that there exists a stark variation in the geographical distribution of ISSPs across various Indian states, according to income levels and availability of infrastructure. For example, there are more ISSPs present in middle income states like Karnataka than other middle and low income states, primarily due to relatively easy access to power, telecommunication, transport as well as favorable state government policies. From Figure 8 it is evident that ISSPs have scaling potential in the middle and low income states due to availability of resource pool. However, significant investment in basic and domain specific skills development is required to make the available resource pool employable. The local job creation can also limit the migration of resources to the neighboring cities.

ISSPs in India look out for talent across all categories of educational levels like school dropouts, graduates of high school under graduation and post-graduation, as well those who have undergone relevant vocational training. In addition, ISSPs also prefer to employ housewives and persons with disabilities, who have been unable to commute to urban areas to seek employment. ISSPs consider them as a good sources of talent and manpower trainable and are better retained.

1Middle income state: GDP per capita is between $1000 to $1500
2Low income state: GDP per capita is between $300 to $1000
Fig. 7. ISSP distribution according to states income level
Figure 9 explains the comparison between ISSPs and the urban BPM players in the various employment zones across India. Apart from the direct financial parameters such as salaries and billing rates, ISSPs experience major cost savings due to lowest attrition rate.

<table>
<thead>
<tr>
<th>High income states</th>
<th>Salary range/month</th>
<th>Attrition rate</th>
<th>Billing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>$350-$400</td>
<td>~30%-35%</td>
<td>$11-$15/hr</td>
</tr>
<tr>
<td>Rural</td>
<td>$60-$100</td>
<td>15%-20%</td>
<td>$12-$15/day</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Middle Income states</th>
<th>Salary range/month</th>
<th>Attrition rate</th>
<th>Billing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPO Industry present</td>
<td>Urban</td>
<td>$180-$250</td>
<td>~20%-30%</td>
</tr>
<tr>
<td>Rural</td>
<td>$60-$100</td>
<td>6%-8%</td>
<td>$12-$15/day</td>
</tr>
<tr>
<td>BPO Industry not present</td>
<td>Urban</td>
<td>$150-$200</td>
<td>~30%-35%</td>
</tr>
<tr>
<td>Rural</td>
<td>$70-$90</td>
<td>6%-8%</td>
<td>$12-$15/day</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low income states</th>
<th>Salary range/month</th>
<th>Attrition rate</th>
<th>Billing rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>$150-$200</td>
<td>2-3%</td>
<td>$8-$15/day</td>
</tr>
<tr>
<td>Rural</td>
<td>$40-$70</td>
<td>2-3%</td>
<td>$6-$10/day</td>
</tr>
</tbody>
</table>

Fig. 8. Key comparative parameters for BPM services

<table>
<thead>
<tr>
<th>High income states</th>
<th>No high school</th>
<th>High school</th>
<th>Normal graduation</th>
<th>Professional course graduation</th>
</tr>
</thead>
<tbody>
<tr>
<td>High employment area</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Low employment area</td>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
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<table>
<thead>
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<th>High school</th>
<th>Normal graduation</th>
<th>Professional course graduation</th>
</tr>
</thead>
<tbody>
<tr>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>High employment area</td>
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<tr>
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<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
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<td>Urban</td>
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<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Rural</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Fig. 9. Probability to scale ISSPs based on different education levels in different
In the Indian market, even in areas where there is a high BPM spending in energy and manufacturing, ISSPs have a low penetration as they cannot cater to end-to-end requirements. This is primarily because of the specific skill sets and resources that ISSPs bring to the board. To work on non-traditional high-end service lines, even though, the market opportunity is huge, ISSPs need to invest considerably on infrastructure capabilities and domain expertise, which is extremely difficult, given the current maturity levels of the ISSPs. Some of the conscious decisions to work on the low end services like data entry and processing, forms and basic analytics, in the domain of government, healthcare, publishing, insurance, etc by the ISSPs are driven by the demand availability and the resource scalability.

However, there are smaller clients who outsource to ISSPs, mostly due to cost pressures. Verticals like Banking and Financial Service and telecom that do not always need highly skilled resources in process management; have a higher ISSP penetration in their outsourcing pie.

Non-traditional service lines
- Digital publishing
- Games and mobility
- Photo gallery creation
- Online tutoring
- Image & video tagging

Fig. 11. New and Traditional service lines for ISSPs
According to our studies around maturity and billing rates of various service lines prevalent in the Indian impact sourcing space, while traditional services are not gaining momentum, the market is shifting mostly towards specialized non-traditional service lines. These include processes such as digital publishing, photo-gallery creation, tutoring, legal documentation, data reduction, games and mobile application testing, sentiment analysis, election support, etc. Some of the conscious decisions of ISSPs to work in the low end services space are driven by demand availability and the resource scalability, even though billing rates are considerably lower.

Fig. 12. SSP vertical wise client penetration

Fig. 13. Maturity, pricing and scalability according to current ISSP service offering
However, with increasing maturity of processes ISSPs have to evolve their current operating models to accommodate massive enhancement that buyer market will demand in their delivery capabilities and skills repository. For high end traditional and non traditional client services, client will demand ISSPs to establish robust process and security management systems to cater this demand ISSPs might need to invest in operating models similar to Build Operate Transfer.

3.2 Addressable Market for Impact Sourcing Service Providers

In 2012, worldwide BPM spending grew by 4.3% to reach $156 billion. Due to government intervention, internal support teams and captive centers, 45% of the global BPM spend is non-outsourceable, restricting the total outsourceable market to $100 Billion.

ISSPs in India are striving to be a part of the outsourceable BPM market. Customer support center, finance and accounting and knowledge services contribute ~81% of the total Indian BPM services market ISSPs have failed to capture a pie of this market due to lack of delivery infrastructure, domain skills availability and capabilities to offer end-to-end BPM services like mainstream BPM players. This has made approximately 95% of the domestic and 98% of the export market non-addressable for ISSPs and they are still perceived as low-end service providers. Currently, ISSP’s total addressable market potential is $2.4 billion, out of which $735 million is from the domestic market. Our market mapping study has indicated that only 1% of the total addressable market is captured by ISSPs. ISSPs in India are currently generating approximately $19 million in revenue and have managed to create 6,000 direct jobs.

Our research suggests that with the current growth in the global outsourcing market, coupled with the developments in the domestic Impact Sourcing space to build niche capabilities, would help accelerate the Impact Sourcing market growth. While the global market is expected to grow at a CAGR of 4%, a 14% CAGR can be expected for the domestic BPM market. However, building end-to-end BPM service offerings would still take considerable time, and hence the ISSPs would still struggle to bite into a major share of the BPM market.
We put the ISSP addressable market at $7.6 billion, almost 3x of the current scenario. With a 100x potential to grow in the current market, most ISSPs, are currently strengthening their expertise, offerings and infrastructure for traditional verticals like customer care, Finance and accounting, HR services, etc. A lot of the emerging ISSPs are focusing on developing expertise on a few non-traditional service lines of operation, like digital publishing, photo-gallery creation, etc., discussed in a later section. Only mature players are investing in the latest technologies which will accelerate their growth and build capabilities.
3.3 Traditional business models evolving to newer forms

Differences in the business model followed conventionally by various Impact Sourcing Service Providers are determined by the up-channels through which outsourced projects reach the ISSPs. The operating model, on the other hand, is governed primarily by the structure of the down-channel in the way the projects are completed and delivered back to the clients.

![Diagram of Direct, Subcontracting, and Aggregator ISSP models](image)

**India ISP Operating Models**

*Out of the ISSPs visited by NASSCOM*

While the three models discussed above are the most commonly used ones by the ISSPs evaluated, our research states that the Build-Operate-Transfer (BOT) model in India is gaining a lot of traction with time. In this particular model, the ISSPs interact with the client directly for the projects, build the entire process with a set of employees, and run the process for some period of time before transferring it to entrepreneurs or and run the process for some period of time before transferring it to entrepreneurs or sometimes, the client, for future operations. With BOT, ISSPs get the liberty to venture out in multiple terrains as well as provide greater impact through multiple dimensions of service.
3.4 Operating models

The outsourcing model has undergone several changes over the past few decades. With increasing complexity and competitiveness in the IT-BPM industry, outsourcing models have witnessed transformation in order to better deliver value to clients.

Based on our evaluation, most of the ISSP’s tend to operate in any one of the following three operating models:

**Hub and Spoke Model**

This model is used in the context of multi-location sourcing, wherein a central consolidator or the ‘Hub’, provides a single face to the customer while seamless extensions called ‘Spokes’, distributed across multiple locations, are leveraged to provide the services. In a wider role, the Hub is expected to take on management responsibilities including those of the customer, quality, risk and performance management, training & development, manpower management and regulatory compliance. The typical responsibilities of a Spoke include meeting a Hub’s performance expectations, adding to its manpower needs, local project management, supporting the Hub on legal & tax issues and operating as an extension of delivery or competence center.

**Distributed Delivery Model**

In this model, Delivery centers are owned and operated by entrepreneurs who work under the affiliation of the ISSP. The delivery center is backed by robust, optimized, and repeatable project management processes and methodologies that enable seamless communication and execution with the clients. As a client facing single point of contact, the account Manager is responsible for managing and coordinating all resources. These centers typically become experts in one or two process and graduate to provide end-to-end solutions. The leadership team of the ISSP hires entrepreneurs with experience in the BPM industry who are willing to set up and run a rural BPM. The sales function and other processes are developed by founders and their delivery is taken care of by the entrepreneur.
Presence of entrepreneurial spirit coupled with domain expertise enhances the process of creating a ‘Center of Excellence’ and mobilizing the local talent of ISSPs. However, the selection of a suitable entrepreneur is the biggest challenge here.

**Center Management Model**

In this model, the work is divided among the delivery centers. Each center can do every process and the output of one center can be an input to the other. While the delivery centers are owned and managed by center partners, delivery and employees are managed by the ISSP or the head office center.

Based on the selection criteria, partners are identified and are given the ownership to develop infrastructure and create awareness in the local community. Partners are responsible for infrastructure and technology, and Head office is responsible for billing rates.

While most of the ISSPs use the center management model, all the ISSPs use either one or a mix of the operating models described above. Most of the ISSPs, irrespective of the kind of models used, face challenges in choosing the right set of middle management / partners / entrepreneurs to work with. Center Management is the most commonly used model deployed by a lot of service providers due to the control it provides on the delivery centers as well as the partner evaluation process.

**Challenges and Opportunities for the IS models**

Research carried out by NASSCOM Foundation and Castling suggests accelerators and inhibitors in all the three operating models. These are discussed in *Fig. 21.*

---

**Hub and Spoke**

Hub acts as business distributor and typically located at Taluk level.

**Accelerators**

- Creates an integrated network of delivery centers capable of hosting multiple processes – minimizes the risk of downtime, disaster recovery

**Inhibitors**

- Mid level management
- Difficulty in identifying right Hub location
- Higher overhead cost and working capital requirement

**Distributed Delivery Model/ Center of Excellence**

Leadership team of an ISSP hires entrepreneurs experienced in BPO industry and willing to setup/run a rural BPO. Sales/ processes are developed by founders and delivery is taken care by the entrepreneur

**Accelerators**

- Presence of entrepreneurial spirit, coupled with domain expertise accelerates the process of creating center of excellence and mobilizing the local talent for ISSP’s

**Inhibitors**

- Difficult to choose the right entrepreneur

**Center Management/ Franchisee**

Based on selection criteria partners are identified and they take ownership to develop the infrastructure and create awareness in the local community

**Accelerators**

- As partners act as an infrastructure facilitator the core team’s only responsibility is to focus on superior service delivery and standardizing the processes

**Inhibitors**

- Mid level management
- Difficult to choose the right center partner

*Fig. 21. Accelerators and inhibitors for different business models*
However, our research indicates that in order to align with future growth and client requirements, ISSP’s present operating models need a lot more focus on standardized processes and a robust delivery management. A lot of these specific focus areas would also depend on the categories the ISSPs fall in, which is discussed in the next section.

### 3.5 Categories of ISSPs

We evaluated 27 ISSPs on business maturity and business scalability to understand the performance, efficiency and effectiveness in their operations. As the result of this exercise, the ISSP’s were categorized into 3 different clusters - Leaders, Challengers and Emerging ISSPs.

#### Leaders

Leaders are the ones performing well. They have a clear vision in terms of the market direction; they generally have very good market understanding and a decent client base. They have an extensive network and well-distributed and highly populated delivery centers.

#### Challengers

Challengers execute reasonably well, but they are yet to have clarity in terms of market direction, they need to focus on sales and marketing aspects to improve the alignment with the existing clients and target new clients.

#### Emerging

Emerging are starters, who have entered into the market with a clear vision and are preparing themselves with new technology and methods. They are focusing on how to execute and deliver the plans.

![Fig. 22. Categories of ISSPs](image)

Business maturity was evaluated on three categories: people and policies, organization and governance, and process quality; while business scalability was determined by the ISSP’s growth and size as well as the delivery infrastructure.

#### Appétite for Investment

<table>
<thead>
<tr>
<th>Leaders</th>
<th>Investment Areas</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>High end technology, mid level management, process and quality initiatives, BD/sales</td>
<td>Increasing</td>
<td></td>
</tr>
<tr>
<td>Software and Infrastructure, training, working capital</td>
<td>Incremental</td>
<td></td>
</tr>
<tr>
<td>Basic hardware, software, delivery team, training, working capital</td>
<td>Variable</td>
<td></td>
</tr>
</tbody>
</table>

![Fig. 23. SSP categories based on investment appetite, focus investment areas and cost](image)
Interviews with various organizations suggested that currently, the leaders are investing in high technology, and are focusing on training middle level management, while also taking initiatives to enhance process quality. However, challengers are more focused on investing in software, infrastructure and working capital. Emerging ISSPs are investing in basic hardware and software, building up a delivery team, training and working capital.

With the shift in the maturity and scalability of a lot of ISSPs, they are trying to resolve the impending concerns and challenges of an inexperienced middle management (due to lack of available resources, training opportunities and right compensation) and inefficient process quality. However, smaller firms and entrepreneurs are trying to focus more on business development rather than concentrating on the process challenges.

Fig. 24. Estimated revenue split by client type
3.6 Operational metrics

The ISSP clusters were further evaluated, during the interviews, on four operational metrics to understand their operations in a better manner. The key findings of the interviews are illustrated in Figure 25:

**Figure 25: Key success parameters for ISSPs**
A host of challenges are faced by ISSPs in different stages of maturity. While readiness varies across leaders, challengers and emerging ISSPs, a lot of challenges stem from vision / management drive / goals across categories. Hence, in a lot of cases, it is seen that while ISSPs have developed good inroads in resource mobilization and data security processes, they do not focus on getting a strong sales and business development team, a robust IT database / technology infrastructure or a process management system.

The growth of Impact Sourcing in India has been in pockets primarily due to the varying demographics across the country. The low-income states and the rural parts of the mid-income states offer conditions conducive for the growth of Impact Sourcing. A parallel can be drawn with Africa where the demographics offer a similar wide range with varying level of skills set and employment opportunities.

Low skills availability and scalability challenges restrict ISSPs to tapping less than 1% of the addressable market. These factors combined with lack of end-to-end capabilities and investment limit the competencies of the ISSPs in the traditional sectors like Energy, Manufacturing etc. ISSPs so far have focused on the non-traditional verticals, which allow them the first mover advantage, develop competencies and charge a higher billing rate as compared to the traditional ones. Once the ISSPs are established, they can go for the traditional sectors as well. This model is being used by the Indian ISSPs and can be replicated in different parts of the world.
While Impact Sourcing is at the threshold of growth, several factors pose challenges for the industry. Five such growth inhibitors are listed in this chapter.

4.1 Mainstreaming Impact Sourcing through advocacy

While ISSPs have grown in India over the past 10 years, aspects like knowledge sharing, dissemination and collaboration have remained restricted for a variety of reasons. The understanding of the sector has remained narrow, primarily because not many forums provided opportunities to discuss the business opportunities and trends in Impact Sourcing. Over the years, while the social impact of ISSPs has become a bigger focus, there has been little or no visibility and knowledge dissemination amongst the industry players on ISSPs’ operating models, and capabilities. Despite there being early experiments within the BPM industry to work with ISSPs, the industry at large has been moving slowly to develop a shared understanding of the best practices and learning from existing challenges. As the industry works towards innovative models for clients, it is also pertinent that there is a continuous interaction between all stakeholders to create new ideas of collaboration.

ISSPs in India look out for talent across all categories of educational levels like school dropouts, graduates of high school under graduation and post-graduation, as well those who have undergone relevant vocational training. In addition, ISSPs also prefer to employ housewives and persons with disabilities. Fig. 9. explains the comparison between ISSPs and the urban BPM players in the various employment zones across India. Apart from the direct financial parameters such as salaries and billing rates, ISSPs experience major costs savings due to lowest attrition rate.

4.1.1 Experiences and findings from the various advocacy efforts

The NASSCOM Foundation led an advocacy agenda on impact sourcing larger part of the advocacy agenda that the NASSCOM Foundation led was focused primarily on knowledge dissemination and building a comprehensive understanding about ISSPs in the country. The main objectives of such engagements were targeted at the industry as well as NASSCOM, ensuring that
there is a strategic inclusion of ISSPs within the body’s umbrella programs. The last two years of market mapping and research added critical information and knowledge on Impact Sourcing and rural BPM that helped to initiate the engagement and discussions at global conferences and regional initiatives. Since Impact Sourcing has been receiving global traction, thought leadership from global audience remained a prime focus.

Even as the 2013 NASSCOM India Leadership Forum conference moved on to discussing the potential for innovative models to scale and the changing client expectations from the Indian BPM industry, it became evident that for sustainable solutions to emerge, continuous intervention in space of policy advocacy and stakeholder collaboration was required. While curating the panel discussions that we organized at the Forum, it was clear that impact sourcing was slowly moving towards a business agenda, but needed more focused conversations on the avenues available for the industry. The three conferences saw industry leaders like Quattro Ltd, Procter & Gamble, FirstSource Solutions Ltd, Infosys BPO, Pangea3, Tata Business Solutions Services (TBSS) etc, share their experiences, expectations of industry and also led to interaction opportunities for more than 25 ISSPs from across the country. A snapshot of the discussions and challenges is provided in Figure 26.

<table>
<thead>
<tr>
<th>Event</th>
<th>About the Event</th>
<th>Discussion &amp; Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>NASSCOM India Leadership Forum, 2012, 2013</td>
<td>NASSCOM’s annual flagship international conference, held in India, which brings together the IT-BPM industry from across the globe</td>
<td>Discussion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sub-contracting is an innovative proposition for end clients.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Build and transfer model is a win-win for BPMs and ISSPs</td>
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<tr>
<td></td>
<td></td>
<td>• ISSPs an imperative integration for expansion plans of BPMs</td>
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<tr>
<td></td>
<td></td>
<td>Challenges</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• How do you engage training partners and manage quality of the training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Problems with mobilization and scalability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Stigma associated with ‘BPM’ jobs</td>
</tr>
<tr>
<td>NASSCOM’s Business Process Management Strategy Summit, 2012</td>
<td>NASSCOM’s annual BPM Summit</td>
<td>Discussion</td>
</tr>
<tr>
<td>IAOP Outsourcing World Summit, 2012</td>
<td>The International Association of Outsourcing Professionals annual global conference</td>
<td>• Sub-contracting is an innovative proposition for end clients</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Build and transfer model is a win-win for BPMs and ISSPs</td>
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<td></td>
<td>• Stigma associated with ‘BPM’ jobs</td>
</tr>
</tbody>
</table>

For sustainable solutions to emerge, continuous intervention in space of policy advocacy and stakeholder collaboration was required.
NASSCOM Foundation facilitated training collaboration between mainstream BPM and ISSP.

One of the pressing needs identified through consultations held by NASSCOM Foundation were up-skilling training programs for ISSP employees in collaboration with mainstream BPMs. A major outcome of the various advocacy efforts the Foundation led was the interest generated amongst both parties (BPMs and ISSPs) to forge partnerships in this respect. Two training sessions were subsequently held for ISSP managers, with support from Infosys and FirstSource. The training focused on people management skills as well as domain expertise in digital publishing. This model has created excitement in the industry as a win-win for both the mainstream industry and ISSPs. The model is replicable globally, and creates opportunities for trust building between the mainstream industry and ISSPs.

4.1.2 Advocacy for skills enhancement of ISSPs

National Consultation on skills development

Research carried out by NASSCOM Foundation highlighted the need for a more comprehensive plan of building skills for talent hired by ISSPs at the operator and mid-management levels. An early finding was that stakeholder collaboration is critical in understanding skill gaps and talent development models. Working on these aspects, the Foundation organized a national level consultation that brought together ISSPs, mainstream BPMs, and training organizations (non for profit, for profit and government) from across India. The consultation focused on:

i. identification of challenges in scaling up of skills development process
ii. discovery of solutions and interventions
iii. identification of engagement models for multiple stakeholders

The consultation led to setting up of collaboration model for training talent in ISSPs.

4.1.3 Advocacy though media: Thought leadership and outreach

While Impact Sourcing has received global traction, it is yet to find a place in mainstream business media discussions. The occasional coverage received has been limited to stories of social impact of ISSPs. There is still a need to inform and even build media’s understanding of this sector to influence their current thinking and writing. NASSCOM Foundation’s engagement with the media resulted in several op-ed pieces on IS in national print and online media, and video documentation and social media campaigns beyond social impact stories. Other engagements like regular and relevant market information to Indian and global stakeholders, to international universities to encourage global studies on IS helped in generating critical discussion and information on the industry. There is still a strong need for continuous research and data gathering to support advocacy through media outreach.

4.1.4 Platform for continuous discussion and engagement

NASSCOM Foundation felt the need for the creation of a platform where various stakeholders can interact, find latest information on the different players, and get access to the latest research and information in this emerging sector. While still at a very early stage the portal has spurred conversations between ISSPs on business challenges.
This portal objective is to become a virtual platform for all IS stakeholders globally as a one stop shop for information on Impact Sourcing, and for ISSPs and mainstream BPM and other clients to explore partnerships and collaborations. However the platform to achieve its objectives would require all key stakeholders to adopt an approach of open sharing and collaboration.

4.2 Government role for scaling Impact Sourcing

The Indian Government’s interventions when it comes to supporting the growth of the IT-BPM industry is mature in some respects. When NASSCOM Foundation started its intervention, it was fully aware of the potential of the Government to not only create policies to support the sector, but also to become anchor clients for ISSPs. While Government was engaged during the year to discuss the potential of the business opportunities as well as policy work, a strategic engagement with various government departments to create further collaboration possibilities is also on the anvil. Below is the summary of the Government’s involvement in India to grow the IT-BPM sector and specific policies for the ISSPs.

4.2.1 Government support to the mainstream IT/ITES sector

The IT-BPM industry has witnessed a gradual change in government policies in India, from neutral in the early days to being very pro-industry. The sector enjoyed a number of enabling policies that supported specially designated economic zones with high class infrastructure and tax benefits, like the Software Technology Parks of India (STPI) scheme offering 100% tax exemptions, Special Economic Zone (SEZ) scheme, Foreign Trade Policy (FTP), etc. However in the last 3-4 years many of these tax holidays have been lifted. This has put pressure on the SMBs as the revenue base for these players is small. Also, Government has introduced a MAT of 18.5% (plus surcharge and CESS) and dividend distribution tax of 15% to SEZ developers, which has adversely impacted the prospective investment in the SEZ scheme. 

Introduction of Advance Pricing Agreement under Transfer Pricing issues in the union budget this year (FY 2012-13) is a positive step but greater clarification is required for both Indian and foreign players to have a level playing field. These multiple regulatory issues are impacting the industry growth potential and would need attention from Government, so as to give the required boost and support to the industry.

Though these policies might not be a necessity for the IT industry, which is over 30 years old, they are crucial for the BPM industry, which is young at about 10 years of age. The SMBs are the worst hit, as they are still establishing themselves and need policy support. The Indian Government’s approach to the IT-BPM policies has changed with the state of the industry in the country. A decade-wise summary of policy focus areas is given below.
## Government Initiatives for Impact Sourcing

In India, state governments of Karnataka, Tamil Nadu and Kerala are the front-runners in taking a proactive approach to create an enabling environment for rural BPMs to grow. However, these initiatives are yet to take a nation-wide form. The policies of the states vary from each other, leading to a scattered development of the industry. A description of some of the subsidies offered by the Governments of Karnataka and Tamil Nadu are presented below.

<table>
<thead>
<tr>
<th>Karnataka</th>
<th>Tamil Nadu</th>
</tr>
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<tbody>
<tr>
<td><strong>Infrastructures</strong>: INR 20 lakhs ($32000) non-recurring financial support for setting up a 100-seater BPM center + Recurring financial support of INR 5,000 ($80) / employee / month as subsidy to meet cost of rentals + Internet connectivity.</td>
<td><strong>Capital Subsidy</strong>: Subsidy of 20% provided on capital investments such as cost of hardware, equipment, etc. up to a maximum of INR 5 lakhs ($8000) to any ISSP that directly employs / has 50 seats.</td>
</tr>
<tr>
<td><strong>Training</strong>: INR 10,000 ($160) /employee as training incentive</td>
<td><strong>Training Subsidy</strong>: An amount of Rs. 1500 ($25) / month / person for three months is disbursed to the ISSP after one year of operation (i.e. three months training + nine months of continuous employment)</td>
</tr>
<tr>
<td><strong>Implementation status</strong>: Of the 25 BPMs that were set up, 20 are still in operation with seven demonstrating good business fundamentals. All these ISSPs have good infrastructure, however, they face challenge in scaling up to 100 employees.</td>
<td><strong>Transport Facility</strong>: Govt of TN ensures that necessary public transport is made available for ISSP employees.</td>
</tr>
<tr>
<td><strong>Exemption from Payment of Security Deposit/Earnest Money Deposit and cost of tender document</strong>.</td>
<td><strong>Exemption from Payment of Security Deposit/Earnest Money Deposit and cost of tender document</strong>.</td>
</tr>
</tbody>
</table>
4.2.3 Triggers in skill development initiatives

The year 2011-12 witnessed a major trigger in the skill development arena led by the Government of India. There have been four big developments, marking the beginning of exciting times in building human capital in India.

- **Private sector participation in skills development**
  
The Union Budget of 2012-13 doubled its allocation of funds for skills development under National Skills Development Fund (NSDF) to INR 1,000 crores ($165 million), raising the corpus to INR 2,500 crores ($410 million). Rural Self Employment Training Institutes are being developed by the Ministry of Rural Development for creation of such institutes in all districts to impart skills and employment training to rural youth. A total of 526 such institutes were operational by May 2012.

- **Reforms in higher secondary education**
  
The Ministry of Human Resource Development in India has launched the revised, centrally sponsored scheme of encouraging vocational streams in higher secondary education. The scheme would bridge the skill gap between curricula and the industry needs. The National Occupational Standards, developed by NSDC, will govern activities in vocational education.

- **Livelihood creation programs being tied to skills**
  
Programs like National Rural Employment Guarantee Act (NREGA) from the Government of India, is now being expanded to include skilled labor from just manual labor. Similarly, special projects under Aajeevika provide job placements through training in placement linked, market driven skills to rural, poor youth. Between 2005-06 and 2011-12, more than 400,000 youth have benefited from this program.

- **Job creation target**
  
National Manufacturing Policy (NMP) comes as a cheer for India as it promises to create a 100 million more jobs and contribute 25 per cent to country’s GDP in a decade (*Source: Deccan Herald*). However, GOI had set an ambitious target of 60 million jobs in 11th five-year plan while in the 12th five year plan, it has set for an additional 10 million in non-farm job opportunities (*Source: Government of India*)
4.3 Market aligned skills development

ISSPs have created 6,000 direct employments by 2012. Since the ISSP market is gaining traction, it can capture as high as 6% of the total addressable market and has the potential to generate 80,000 direct employment opportunities in the rural and marginalized areas by 2017, in the scenario of ISSPs capturing 5.5% of the addressable market. However, to generate the required volume of direct employment opportunities, efforts should be put in to develop skill availability at all stages of employment.

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Leaders</th>
<th>Challengers</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>10th &amp; 12th Passed</td>
<td>~50% to 60%</td>
<td>~60% to 70%</td>
<td>~50% to 60%</td>
</tr>
<tr>
<td>Graduates</td>
<td>~20% to 25%</td>
<td>~30% to 35%</td>
<td>~20% to 25%</td>
</tr>
<tr>
<td>Engineering Graduates/PG</td>
<td>~10% to 20%</td>
<td>~5%</td>
<td>~1% to 2%</td>
</tr>
<tr>
<td>Specialists</td>
<td>~5% (need based)</td>
<td>~0%</td>
<td>None</td>
</tr>
</tbody>
</table>

Fig. 29. Educational level as per the ISSP categories

The skilling process is spread over four-six months and involves a high cost, ranging from INR 6,000 to 8,000 ($80-100) per student. Cost and time requirements shoot up for development of advanced / specialized skills. Further, a large proportion of the ISSP workforce (over 50 to 60%) is at high school level while graduates and engineers comprise a mere 10 to 20%. With an expected addressable market of 5.5% of the global BPM market in 2017, the projected workforce is around 80,000 employees. Out of this 70 to 80% would be at the entry level or middle level streams. To reach such a massive number, modularized skill building at different levels is required.

ISSPs can be imparted skills trainings according to the different levels of skills required at three different stages:

i) Entry Level (0-3 years of experience):
Basic communication, computer skills, listening and comprehension, industry awareness

ii) Middle Management
(3-5 years of experience): People management skills, quality Control, BPM operations management, customer expectations management

iii) Senior Management (5-7 years of experience): Leadership, in-depth domain expertise, BPM operations management, managing complete customer expectation

Of the projected workforce of 80,000 employees, 70%-80% would be at the entry level or middle level streams.

Fig. 30. Estimated talent requirement for 2017
Active support from the Government and industry bodies is also required to help ISSPs be skill-ready to acquire up to 5.5% of the addressable market by 2017, compared to the current 1%. NASSCOM Foundation and Castling believe that in order to develop a robust talent development program, the key stakeholders in the process of skill development must be gathered on a common platform, in addition to improving and developing market aligned and domain specific training models. Through proper management of investment and infrastructure, proper value proposition can be created for social funds / impact investors as well, who can be roped into the process.

4.3.1 Understanding skill gaps

With the growth of the ISSP market, the demand-supply equation will be impacted by the amount of domain, process and customer management expertise at various levels of the ISSP workforce and hence the critical nature of this issue. Further, clients will expect a certain standard of quality, delivery, communications, information security and process compliance. With the maximum growth expected in the number of entry level employees with limited experience, a yawning gap in basic skills would present a massive challenge for the industry. In addition, with limited availability of middle management workforce, and the expected meteoric rise in the need of the same, creating a ready workforce should be a high priority. Figure 32 presents the essential skill gaps at each level in the industry vis-a-vis work force requirement in 2017. The figures take into account three different scenarios depending on the involvement of the different stakeholders in the industry.

<table>
<thead>
<tr>
<th>Level</th>
<th>Essentials Skills Gap</th>
<th>Estimated Manpower Requirement by 2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entry Level</td>
<td>- Inadequate process Compliance&lt;br&gt;- Lack of attention to Details&lt;br&gt;- Lack of understanding of basic quality initiatives&lt;br&gt;- Lack of understanding of information security and privacy issues, &lt;br&gt;- Inadequate communication skills&lt;br&gt;- Lack of aptitude for multi-skilling</td>
<td>21,111&lt;br&gt;42,503&lt;br&gt;61,342</td>
</tr>
<tr>
<td>Middle Management</td>
<td>- Inadequate business and process knowledge&lt;br&gt;- Inadequate sensitivity to compliance and information security issues&lt;br&gt;- Lack of customer orientation, Lack of empathy</td>
<td>5,630&lt;br&gt;11,541&lt;br&gt;16,546</td>
</tr>
<tr>
<td>Senior Management</td>
<td>- Inadequate domain knowledge&lt;br&gt;- Inadequate understanding of business perspective</td>
<td>1,407&lt;br&gt;2,252&lt;br&gt;2,823</td>
</tr>
</tbody>
</table>

* scenarios
- Scenario 1: little support by the government, industry bodies, NGOs and Impact Investors - ISSPs capture 2% of the addressable market
- Scenario 2: basic support from the government, industry bodies, NGOs and Impact Investors - ISSPs capture 4% of the addressable market
- Scenario 3: active support from the government, industry bodies, NGOs and Impact Investors - ISSPs capture 5.5% of the addressable market

Fig. 32. Skills gap analysis
4.4 Process and quality certifications

The BPM industry's growth in India has witnessed various phases of adoption of global standards and certifications, in order to provide proof of competencies to international clients. Early adopters, who had the first mover advantage, were able to set up business relationships based on clear understanding of processes and quality standardizations. The Indian BPM growth story is the perfect narration of how standardization led to client confidence and in turn, revenue growth for the industry.

The Monitor Inclusive Markets Marketsts "Job Creation through building the Field of Impact Sourcing" white paper emphasizes that a shared platform can be leveraged to define not only minimum measurable standards around fair labor and recruitment, but also around quality. The Foundation's engagement with relevant stakeholders, including ISSPs, mainstream BPMs, impact investment firms as well as end-clients threw up mixed reactions around the area of certifications. For the mainstream BPMs, getting a standard certification instills more confidence in the ISSPs' competencies and yet, they would still do a round of due diligence if they decide to do business with an ISSP. To ensure a consistency in delivery quality and data protection, ISSPs have seen an increase in the number of clients asking them to adhere to quality and security standards. However, these certifications need considerable investment and capacity of the leadership team. The ISSPs, which are typically founder driven with a small leadership team and limited capital, face difficulties in investing (money and time) in these certifications. There is a real need for a shorter version of standardization processes, with best practices from different quality and security modules, contextualized and customized to meet the requirements of the ISSPs and the clients.

The graph indicates the growing maturity of ISSPs and their move towards standardization. It often has a positive effect on delivery quality, productivity,
4.4.1 Preferred approach for certification

NASSCOM, from its very inception, chose to not initiate or propose standards or certifications to the industry. However, it has supported evolving certifications for the IT-BPM industry and with this in mind they leveraged their engagements with various stakeholders to facilitate the creation of a framework for the Impact Sourcing industry derived from the principles of ISO. NASSCOM’s research clearly indicated that a blended approach would be the most suitable one, comprising aspects of ISO 9001 & 270001 to suit the requirements of ISSPs that are still in a start-up mode. The areas addressed range from customer focus, leadership, processes, and risk management systems.

This approach led to the creation of the IQMS framework and its objective is to help ISSPs introduce a basic system of standardized processes, improve the delivery quality and ensure data security. To meet the requirements of ISSPs of different sizes, the framework has different milestones for ISSPs at different stages of growth. It also takes into account the social impact compliance requirements, since ISSPs are focused on delivering social impact along with the economic development. Figure 35 indicates the blended approach that was adopted to create a framework that derived the best from available standards, and is applicable for ISSPs the world over.

Fig. 34. A blended approach to certification
IQMS is built on four main pillars - Organization, People, Customer and Vendor. It is important to understand that the IQMS is not a replacement for ISO certification, but a stepping-stone in that direction. Once the ISSPs have attained these minimum levels of standardization, it will be easier for them to move to an ISO certification. Since the IQMS framework has been prepared keeping in mind ISSPs, who are at a nascent stage in the industry, it can be replicated in other geographies too. However, contextualization would be needed to enhance its effectiveness.

![Fig. 35: The four pillars of IQMS](image)

### 4.5 Technology adoption

As the ISSPs hit initial growth hurdles, they have started to realize that one of the most important value propositions they can offer is agility. In the environment that ISSPs operate in, developing a nimble organization requires intensive effort from the entire enterprise, and aggressive leveraging of one of the key assets, technology.

Interactions with ISSPs in the course of this study and analysis of their operating models, suggest that technology with the kind of role it can play and the reach it has throughout the organization, is uniquely positioned to deliver the difference making degrees of agility at both individual and team level performance. This can happen through a focus on two key areas:

1. Delivery and productivity management
2. Leveraging technology for skills development

Technology with the kind of role it can play and the reach it has throughout the organization, is uniquely positioned to deliver the difference making degrees of agility at both individual and team level performance.
4.5.1 Delivery and productivity management

ISSPs operate in a geographically distributed model that requires them to allocate work among the centers or resources on the basis of their productivity. Output from one often goes as input to the next, as a part of the chain. A cloud based technology platform enabling this process could be instrumental in enhancing the team’s productivity. Automated software helps in dynamic distribution of work across resources, as per their efficiency, and maximizes their utilization. Most ISSPs, apart from some leading ones, do not have access to such technology platforms. For some projects, the client provides platforms but they are limited to only those projects. Moreover, these platforms are optimized to maximize clients’ benefits, and might not align with an ISSP’s organizational structure. In projects where the client does not provide such platforms, traditional methods such as spreadsheets and text editors are used to keep records, leaving the technology potential highly unutilized.

With evolution, ISSPs are engaging in transaction-based contracts with clients. In order to increase productivity and the desired billing rate, they rely on domain specific tools that enhance efficiency. For example, automation can be done using macro tools for a number of steps of PDF to XML conversion process in digital publishing. Effective usage of these tools helps increase productivity levels by over 100% in many cases.

Project management and sales management are the other two critical aspects of ISSP operations. Many of the ISSPs either use internally developed basic software or a simple ERP module. Others use project management software tools such as Primavera or MS Projects and cloud based collaborative tools like Asana, Salesforce, Huddle, Basecamp, Aceproject, Zoho Projects, etc.

A cloud based organization and delivery management software will lead to:

i. reduction in upfront investment requirement
ii. introduce global delivery best practices and secure data access
iii. accelerate IT adoption within the ISSPs
iv. align to customer requirements with increased agility
v. provide value-driven services, innovative solutions and streamline customer experience with a lower cost of ownership

Samahub

Samasource’s cloud based platform Samahub, is a very good example of dynamic and efficient distribution of workloads. The micro tasks are distributed to the delivery centers of Samasource, i.e. ISSPs across India. The allocation of the distribution depends upon capability and scaling potential of each ISSP. The platform allows ISSPs to further distribute the tasks amongst the operators, based on their capability. The tasks can be monitored and quality of each task can be measured through the tools available on Samahub. ISSPs can identify error rate, efficiency and productivity of each operator working on the task, using Samahub. This helps ISSPs to monitor and deliver best quality output.

Most ISSPs, apart from some leading ones, do not have access to such technology platforms. Client provides platforms but they are limited to only those projects and these platforms are optimized to maximize clients’ benefits, and might not align with an ISSP's organizational structure
4.5.2 Leveraging technology for skills development

Skills development typically forms one of the major components of the operating cost of an ISSP. Skilling and up-skilling processes as of now rely heavily on the classroom training model. ISSPs face several challenges in the replication of this model across centers and maintenance of quality across training sessions. This is an area which can see significant resource savings using technology.

Though the education industry has seen a range of technical innovations in education and skills development over the past few years, ISSPs have been to slow learn from them. The Foundation’s research indicates the need for low cost learning management systems (LMS), e-learning systems, digital curriculums and virtual training models that are customized to the industry’s requirements. In addition, ISSPs need to focus on identifying trainer characteristics that will help them adopt technology-training solutions and improve outcomes. Technology adoption, so far, has been more focused on using IT to gain immediate advantage, rather than investing time in building trainers’ capacity to use technologies to transform the learning experience. As a result, instructors and trainers are uncomfortable using technology tools in their classrooms, and they all too often revert to traditional teaching techniques.

Lack of e-learning, learning management systems or any other advanced technology to improve training, and thereby the delivery output, makes it difficult for ISSPs to move higher in the delivery value chain. ISSPs need skill development systems that are capable of setting learning objectives, standards, curricula, assessments, interventions, and professional development. Most LMS, e-learning systems and cloud-based systems today offer these capabilities. With some customization these can be leveraged for continuous improvement by new ISSPs. This singular approach provides tremendous cost savings, something inherent in the industry’s operating model, while also removing training management redundancies.

Cisco’s WebEx is one of the most widely used platforms for providing training across ISSP centers. This cloud-based platform allows ISSPs to get all their operators online at the same time for a training session. WebEx combines desktop sharing through a web browser with phone conferencing and video, so everyone engaged in the training session sees the same thing while the trainer leads the session. Many ISSP clients also use WebEx to conduct trainings. The Foundation’s interactions with clients and ISSPs suggest that ISSPs are fully equipped in terms of infrastructure to install WebEx, however, the high cost of WebEx, is a concern.

Fig. 38. Webex delivery structure
A special focus on subcontracting

When subcontracting was first identified as a potential model for ISSPs to scale, the expectation was that the end-clients would mostly be - foreign firms served by traditional BPMs. The key features of this model are as follows:

a. BPM identifies relevant end-client project/process for subcontracting to ISSP
b. BPM breaks down tasks of process for ISSP; this ISSP works exclusively with the BPM
c. BPM takes ownership for final output; therefore quality assurance risks are low

d. Sustained work flow and sustainability in business for the ISSP

Why are large BPMs reluctant to subcontract?

Large BPMs in India primarily work with international clients. From their perspective, introducing an ISSP partner into the mix would require them to renegotiate the Service Level Agreement (SLA) with the client, something which sales teams are often reluctant to do. MNC clients also often have location related and infrastructure related requirements that BPMs feel - ISSPs cannot meet.

Most importantly, given the size of most mainstream BPMs (revenues of $500mn-1 billion, and employing 50,000-100,000 employees), subcontracting a 100-200 seater size of work has little or no impact on their bottom lines. There is hence, no compelling business case for subcontracting international client work in the short term.

In the long term, large BPMs need to align ISSPs to their goals / vision as well as the brand. Hence, it is extremely important for BPMs to properly evaluate ISSPs and set standards of operations in terms of delivery timelines, quality and other benchmarks. To set up these parameters and track progress in the long run becomes an additional responsibility for the mainstream BPMs, and hence they are a little reluctant to affiliate with the concept of sub-contracting.

However, we have found that most of the ISSPs are engaged in subcontracting with large service providers of new-age service lines such as digital publishing. For these service lines, ISSPs offer a great value proposition in terms of agility, cost savings and scalability. Digital publishing service providers subcontract as low as 50 seats to ISSPs, and have potential to take the relationship to more than 500 seats. Subcontracting the work to ISSPs allows - Digital Publishing Outsources (DPOs) to focus on delivering specialized services to their clients.

In the long term to make sub-contracting a larger part of the market, large BPMs need to align ISSPs to their goals / vision as well as the brand. Hence, it is extremely important for BPMs to evaluate ISSPs and set standards of operations in terms of delivery timelines, quality and other benchmarks. To set up these parameters and track progress in the long run becomes an additional responsibility for the mainstream BPMs, and hence they are a little reluctant to affiliate with the concept of sub-contracting. In India, the mainstream industry in its early days - experimented with sub-contracting, and created learning models for the global market. The case studies presented in a separate document (Titled “The Case for Subcontracting in Impact Sourcing”) capture the growth journey of two sub-contracting relationships and learning’s gathered from them.

The Airtel-Firstsource-Rural Shores partnership case

RuralShores grew significantly through its sub-contracting partnership with Firstsource Solutions, one of the largest domestic urban BPMs in India. Major Telecom provider, a client of Firstsource, needed support with expanding their geographic reach into rural Madhya Pradesh. This led to the sub-contract with Rural Shores based on Firstsource’s earlier successful experiments in this respect. Some steps taken in the process:

i. Firstsource started by spending a significant amount of time at the Rural Shores center, bringing in their own subject matter expert to train the employees on the process.

ii. The BPM was also very specific early on in ensuring the quality of work, using dashboards to monitor and flag quality issues. Initially, there were be quality checks on 100% of the completed work; and as quality improved, Firstsource gradually moved to sample checks, proving the growing competency of the employees.

iii. The end-client was aware of the sub-contracting relationship right from the start and the relationship was strengthened by utilizing the BPMs competencies for process accuracy and assurances.
This report has identified the five major challenges impeding the growth of the Impact Sourcing industry in India. To ensure that the growth of ISSPs creates stable employment for a greater number of low-income groups globally, we have attempted to create a comprehensive overview of the industry in India, its evolution vis a vis the IT-BPM industry in the country, current challenges as well as future opportunities.

This section outlines the key imperatives for the growth and long-term success of Impact Sourcing, in particular relating to the criticality of market aligned skills development, adoption of technology, articulated need for industry specific certification framework, and the role of governments to accelerate growth of the sector. The report has also delved into the need for advocacy by industry bodies and policy makers to ensure that the promise of the Impact Sourcing industry turns to reality. While the journey so far has been fast paced, there is a need to stay focused and continue work towards growth and sustainability of the industry.

5.1 Facilitate ISSPs to realize their growth potential

Still in its formative years, the Impact Sourcing industry faces a number of challenges. At the organizational level, the ISSPs face challenges in acquiring skilled manpower in entry level and middle management. In addition, they grapple with an inadequate and unsustainable business environment in the start-up phase. Further, at the industry level, lack of infrastructure and tough regulatory requirements for starting and running a business, are restrictive to the growth of this sector. For the ISSPs to improve their performance, retain and grow clients and have the intended positive impact on local communities, the whole ecosystem needs to come together and look into the following aspects:

i. Enhancing employability through market aligned skills development
ii. Improving delivery productivity through technology adoption and delivery quality through certification
iii. Identifying and establishing new markets for ISSPs.
India is maintaining its leadership position in global sourcing, with a 52% share of the global market. Customers are increasingly engaging service providers as a ‘strategic partner’, rather than a ‘technology service provider’, and global customers continue to value the Indian market for strong cost management, developed skills, efficient scalability and highly mature client delivery capabilities. Indian service providers are also expanding to leading Tier II, III locations to counter any potential threats from emerging sourcing locations. India is thriving on the well-established Global Delivery Model (GDM). Service providers are tapping low-cost destinations for expanding their delivery networks along with acquiring talent from non-Tier I cities to have a tighter control over operational costs.

5.1.1 Market aligned skills development

- Skills availability is the biggest propeller as well as inhibitor in adding an estimated 80,000 employees in Indian ISSPs by 2017. Although methodologies and materials for development of skills are available with mainstream BPMs and private training institutes, the high cost of training acts as a deterrent for ISSPs.

- To bridge this gap and enhance the effectiveness of training programs, there is a need to develop collaboration models that effectively engage organizations specializing in modular skills training, with a national level catalyst like the National Skills Development Council and its partners, and other training institutes.

- These kinds of collaborations will help build common standards and framework for skills training and bring training providers closer to ISSPs’ current and potential workforce. They can also help in building low cost collaborative training models, thereby reducing substantial training cost burden for the ISSPs.

- ISSPs may miss the growth wagon without adequate support in terms of analysis of trends for the identification of emerging areas. Business intelligence about upcoming opportunities, along with skill set and infrastructure requirements will help them be better prepared for possible business scenarios.

5.1.2 Technology adoption and quality

- Service delivery and training effectiveness can be improved by adoption of suitable technology. Investments in project management and workflow management platforms can improve ISSPs’ performance.

A National Consultation and two mid-management training programs, conducted by NASSCOM Foundation brought together ISSPs and mainstream BPMs for a training collaboration, to provide ISSPs training from the industry leaders and an exposure world class training methodologies. Though of short duration, these workshops helped the participants develop advanced skills like leadership, quality and domain specific digital publishing skills.
The IQMS framework will help ISSPs to improve quality of services through better-managed processes. It will assist them in strengthening project management activities within specialized services, and improve SLAs through measured baselines.

- Collaboration with technology companies and new age cloud service providers to build these platforms and digital training curriculums can also prove to be cost effective.
- As the IS industry grows, it will see a marked increase in the complexity of operations. Especially, in services where ISSPs are dealing with accuracy rates of over 99.9%, it becomes even more vital to have robust systems in place. ISSPs should certainly plan to achieve quality and security certifications like ISO.
- The IQMS framework will help ISSPs to improve quality of services through better-managed processes. It will assist them in strengthening project management activities within specialized services, and improve SLAs through measured baselines. It will also improve readiness with respect to availability and capacity to meet changing customer demands.

5.1.3 Identifying and establishing new markets

- Support from state and national governments and industry bodies in getting business, at least in the initial years, will go a long way to support growth.
- Governments have a unique opportunity to become customers for ISSPs, especially with the numerous e-governance activities that have emerged over the past decade. Many ISSPs in India are already working for the state governments to execute data entry and management processes for different initiatives. Government departments can ensure that a certain portion
- Industry growth can be accelerated by providing incentives to ISSP leaders and mature sub-contractors which would percolate to smaller ISSPs resulting in work enhancements.
- Incentives for companies that outsource work to non-urban delivery centers can help create opportunities for ISSPs. Similarly, companies tapping non-urban manpower can be given an option of including the expense as a part of their CSR spending.

5.2 Collaborative Approach to Advocacy of Impact Sourcing

Growth in the field of Impact sourcing in any country would depend a lot on successful multi-stakeholder dialogue and cooperation. For this purpose, there needs to be an organization which can function as a governing body that can create a platform for players to network as well as liaison with government bodies and policy makers. This governing body can simultaneously facilitate and execute programs to meet challenges faced by the industry.
An international consortium bringing all the stakeholders, across different geographies on a common platform will help in catalyzing the sector’s growth. This forum can have the following mandate:

i) Advocacy for supporting infrastructure
ii) Foster social entrepreneurship
iii) Advocacy for supporting regulation
iv) Forum for knowledge sharing, best practice adoption and collaboration

5.2.1 Advocacy for supporting infrastructure

- In terms of the business set-up environment in India, setting up infrastructure and maintaining a motivated and dedicated workforce requires a lot of support in terms of regulatory framework. Government and industry bodies could promote infrastructural support to the field through easily available setups, quick approvals in terms of regulatory systems, and support organizations to assist ISSPs in terms of advisory and financial needs.

- The biggest hurdle faced by the industry in creation of a healthy ecosystem is infrastructure. Developing infrastructure across the country would not be feasible in the short and medium term. However, the Government can start by marking a few focus zones (district towns and tier IV towns) that can be developed in terms of core and supporting infrastructure.

5.2.2 Foster social entrepreneurship

- Fostering and incentivizing social entrepreneurship will act as a catalyst in the growth of the Impact Sourcing sector and creation of jobs in rural and peri-urban areas such as schemes offered by the Governments of Karnataka and Tamil Nadu.

- The horizon of government and industry bodies’ support, which in most of the cases is focused on financial incentives, can be broadened to help ISSPs get business in the formative years.

5.2.3 Advocacy for supporting regulation

- Providing appropriate regulations around capital gains to encourage easier exits for angel and early-stage investors would be highly beneficial to the industry.

- A central body or a consortium can work with the Government towards formulation of entrepreneur friendly policies like single window clearance, financial support such as soft loans, tax holidays, etc.
• The consortium, as a platform bringing together different stakeholders, can provide ISSPs access to diverse set of capital options like impact investors, Government funds, interested foundations, etc.

• Best practices of the Indian state governments need to be scaled in India and outside. Examples include the rural BPM policies, subsidies, and initiatives to develop and provide infrastructure.

5.2.4 Forum for knowledge sharing, best practice adoption and collaboration

• Creation of a forum (online and offline) that can encourage and support sharing of knowledge and experience among stakeholders, showcase capabilities to the prospective clients and enable discussions on latest trends

• This forum can be taken international with the consortium, which will bring global stakeholders together. Apart from providing a platform to showcase their capabilities and seek support, it can also work towards initiatives like forming strategic partnerships at the industry level. For example, a partnership with quality and security consulting firms will help ISSPs in designing their processes and going for ISO certifications in the future. The training given by these organizations will help ISSPs take a systematic approach to organizational process development.

• Advocacy and support on multiple fronts by the consortium will assist in accelerating the growth of the sector.
6. In Closing

The future of the BPM industry continues to look promising as is laid out by the NASSCOM-McKinsey research report ‘Perspective 2020: Transform Business, Transform India’. From a current $70 billion market (51% of the current IT-BPM market share), India could reach $375 billion by 2020. Given the current limitations of infrastructure and services, the report claims some of the key opportunities will be to build new capacities and explore new markets such as domestic BPM services which need to be explored further with innovative low cost models and local language capabilities.

Impact Sourcing as described in this report is outsourcing by specialized employers of excluded individuals, Impact Sourcing Service Providers (ISSPs). They employ those living in rural areas or in slums, those without access to secondary or tertiary education, the disabled, affirmative action groups like Scheduled Caste/Schedules Tribe, and educated individuals in areas of high unemployment.

A secondary part of Impact Sourcing is the employment of the excluded in mainstream BPMs, either in major urban cities or in remote centers. While “Next Generation Outsourcing: Opportunities through Impact Sourcing” identifies the major factors for growing ISSPs, a landscape study of mainstream BPMs’ employment of the excluded whether intentionally or otherwise may be an even larger opportunity. The business value proposition of Impact Sourcing (e.g., cost, quality, location identification, talent, attrition, diversity, CSR) may vary from ISSPs.

The IT-ITES Sector Skills Council under the National Skills Development Corporation (NSDC) program has identified BPM job roles for 10th and 12th school pass outs (high school only). Many of the skilling institutions across India have latched onto this opportunity and are training excluded youth to fill these openings. While companies like TBSS are hiring extensively under its affirmative action program most BPM companies are widening the scope of their diversity programs to hire talent from communities that need the employment opportunity to uplift their social and economic standards.
# PRIMARY INTERVIEWS

NASSCOM Foundation along with Castling Consulting conducted a series of primary interviews with key people from different stakeholders in the Impact Sourcing ecosystem. A list of the people the team spoke to is mentioned below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Contact</th>
<th>Website</th>
</tr>
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This report was prepared by the NASSCOM Foundation team: Brett Sedgewick, Megha Sharma Bhagat and Rumi Mallick Mitra. We especially call out the mentorship provided by KS Vishwanathan, VP, NASSCOM.
NASSCOM Foundation is driving technology for good from the unique position as a non-profit and sister concern of the Indian IT-BPM industry body NASSCOM (National Association of Software and Service Companies). The Foundation's work is just as expansive and evolutionary as the potential that technology and corporate India have for impacting development. Drawing strength from its strong association with its four major stakeholders: NASSCOM members, NGOs, emerging social enterprises and Government, the Foundation is #changingIndia Bit by Bit, a journey to foster a deep relationship between technology and development.

In the case of Impact Sourcing, NASSCOM Foundation has utilized the unique position to foster a productive “coopetition”, a nascent version of the role NASSCOM had at its start in 1988. Impact Sourcing Service Providers (ISSPs), mainstream BPM companies, training organizations, buyers, impact investors, development agencies, researchers, and Governments make up this ecosystem.

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