



OUTSOURCING: PROSPECTS AND CHALLENGES

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Introduction

The new millennium had witnessed exponential growth of a new type of business that predominantly depends on utilizing the recent advances in knowledge. Of which the new initiative of government of India in terms *Digital India* shows a huge paradigm shift to technological utility in the process of development. Which roughly has a chunk of 1.5 lakhs digitally skilled employed people in the country, set herculean task of making Digital India has lot of relevance with the prospects of 'outsourcing' taking place across India. The growth of this 'knowledge society' has enabled the rise of new practices in the sphere of economic organization. The most famous of these new practices in the economic sphere is the rise of 'outsourcing'. The term became a part of the popular lexicon after various political controversies that have come to be associated with outsourcing. However, outsourcing is not new and has been around, in different forms, for at least two centuries. Before 1947, it was common for the British companies to procure material from India as it was often cheaper in India. They were also outsourcing Indian personnel for the British army and for the requirements of unskilled labour in their colonies in countries like Sri Lanka and South East Asia. In recent times, outsourcing has largely been accompanied by technological developments and it is primarily associated with the technology sector. It has since spread to various other forms of economic activities, largely those based on knowledge processes, or those that are often referred to as Knowledge Process Outsourcing.

Though outsourcing is largely associated with the establishment of call centers in India by overseas companies, it is far more widespread and deep rooted. It was estimated by Gartner Inc, an information technology consultancy firm, that in 2003 the global revenues generated from outsourcing were more than US\$298 billion. It is estimated that by 2015, as many as 3.3 million jobs in USA would move to various countries. NASSCOM estimates that India will become the hub of outsourcing in the IT sector for various western countries. According to it, India earned \$195 million in 2006 and this is expected to increase to \$647 million by 2010 in the Information Technology sector alone. At present, the sector employs about 18,000 people and this is expected to increase to 52,000 people. It is needed by all sectors across the globe.

Outsourcing: Origins and Uses

Very broadly, outsourcing is the practice by which services or processes of a business activity that are normally undertaken in-house are tasked out to companies or organizations outside the firm. This rearranging of tasks is undertaken for a number of reasons, the predominant one being economic. India has become the main centre



for service-related outsourcing, while China has become the magnet for manufacturing- related outsourcing activities.

Every business organization undertakes a number of activities as a part of its functioning. Some of these tasks are highly specialized and central to its profitability. These central functions (or activities) are often thought to comprise not the 'core' functions of a business organization. But a company also has to undertake a number of other mundane routine activities in its day-to-day quest for survival and profitability. The latter variety of activities is often termed as 'non-core' functions of the company. These may include activities like customer service, product information, responding to various queries from different sections, payroll management, among others. These non-core functions are often the activities that are outsourced by a company.

Providing outsourcing services is concentrated and limited to some cities only. The top four cities where outsourcing activities are based are Delhi, Mumbai, Bangalore, Chennai and to a limited extent Hyderabad. In 2007, India emerged as the major beneficiary of outsourcing deals in the world. The total value of outsourcing to India was US\$5.4 billion, about one hundred percent increase over the same period in the previous year. The range of activities that have been or are being outsourced have increased in content and scope. In recent times, the testing of pharmaceutical drugs during various stages of preparation of drugs (referred to as clinical trials) are being outsourced to various non-western and non-US countries as they are cheaper. Consultancy firm, AT Kearney has pointed out that roughly half of the 1200 US clinical trials in 2005 made use of an international site. In India it is estimated that the income earned from clinical trials was between US\$100-120 million in 2005.

Justification & Issues in Outsourcing

Among the major issues that one needs to consider while discussing about outsourcing include (a) political issues, (b) economic issues, and (c) regulatory issues, including issues related to privacy and security.

Political Issues

Outsourcing has become politically controversial in the USA and Europe because of the supposed job losses and retrenchment that accompany when work is being transferred to areas such as India. This has created a controversy with a number of legislators, unions and pressure groups attempting to lobby their respective governments to curb the practice of outsourcing jobs offshore (out of their country). However, it needs to be realized that outsourcing is common in western countries when faced with the need to conserve resources. A recent article had pointed out the some local governments in the USA were even outsourcing the maintenance of public libraries to private parties in order to conserve financial resources, which can be used elsewhere.



Economic Issues

Economic issues are a major reason for outsourcing or offshoring. A company often attempts to outsource its non-core activities as it believes that there are multiple benefits in the process of outsourcing. The foremost benefit is thought to be economic. An outsourcing company believes that by outsourcing non-core activities it can reduce costs of operation and hence improve its profitability. It is also believed that outsourcing non-core functions would enable the company to concentrate its resources on its core strengths. The logic of outsourcing springs from the belief that by outsourcing various non-essential, non-strategic functions, a company would be able to utilize available resources in a more judicious manner. It is thought that a company that specializes in certain functions can create economies of scale that a company that does not outsource these functions. The economies of scale means that the cost of providing these services by a specialized company will be far lower than the cost of such activities undertaken by a company itself. It is imperative to point out that one of the fundamental causes for outsourcing is the lack of an abundant supply of skilled manpower in countries like USA and Western Europe. This has meant that the scarce resources (in this case skilled manpower) is better utilized in other more productive areas while the less strategic activities can be outsourced in a mutually profitable manner. India is at an obvious advantage because it produces about 4,00,000 engineering graduates a year. The criticism against outsourcing of an economic nature is that it leads to a downward pressure on wages and therefore reduces the bargaining power of the workers in developed countries. Secondly, when the work is transferred it would reduce employment itself in the country concerned.

Regulatory Issues

There are a number of regulatory issues that need to be looked into while discussing outsourcing, especially offshoring. When the process of outsourcing started in early 1999, a number of governments (including the USA) actively encouraged the process as it was thought to be vital to deal with the issues related to Y2K problem. Once offshoring acquired political overtures, governments have tried to balance political needs with the promise not to interfere in business decisions. At the same time, it is important for governments in different parts of the world to create a proper regulatory framework so that issues related to security and protecting the privacy of clients is not compromised. The fact that the growth of internet and other communication technologies has led to a situation which call for simultaneous policing measures from different parts of the world is itself a challenge.

Dynamics of Outsourcing

In the initial years, after the present pattern of outsourcing was inaugurated around 1999, thousands of jobs were offered in the information technology sector, especially those related to the changing millions of lines of computer code for what came to be known as the 'Y2K' bug. After 2001, outsourcing took the form of establishment of Business Process Outsourcing centers, mostly call centers in India by various multinational corporations. These call centers were established on the logic that the low cost of English-speaking human resources in India would enable



companies to reduce costs and improve profitability. This improvement in profitability in a competitive environment became vital for most companies based in the western world due to the worsening economic conditions in the aftermath of the collapse of the technology sector-led growth after 2000.

It is important to note that despite the hype about ‘huge’ amounts of work being outsourced, the actual amount of work that may accrue to India is not very high. The case of Outsourcing is indicative of this. The total offshore engineering spending is expected to touch US\$150-225 billion by 2020 and India will be able to garner a maximum of about 25 per cent of the total opportunity. This gave impetus to establish lot of diversity by employing more women which contributing nearly 1.2 million in various sectors.

Types of Outsourcing

It needs to be pointed out that there are different types of outsourcing. Each form of outsourcing varies fundamentally and structurally.

Business Process Outsourcing

Business process outsourcing has come to occupy a central part in the outsourcing model. A large number of companies have begun to either outsource their non-core functions to third-parties or have established their units in low cost countries such as India, Phillipines, and some Latin American countries. The nature of work outsourced includes customer services, basic product information, data entry, and at times basic clerical work. In India the multitude of call centers come under this category. According to NASSCOM, India earned US\$8.4 billion in 2006-07 as against US\$6.3 billion in 2005-06 from Information Technology enabled services or BPO industry. This is an increase of about 33%. (Indian ITES Fact sheet August, 2007.

When compared from 2009 to 2014 the estimates show that there is a considerable increase from 45% to 55% in India and globally it amounts more than 55% share.

Medical transcription services is an integral part of the outsourcing business model. A large part of the work that is outsourced to countries such as India comes from USA. Hospitals in USA have a system of computerized records wherein the case histories, prescription dosage etc, are systematically catalogued and filed electronically. Specialists in their field often are not proficient in typing and the use of computers. Hence, it is common for medical professionals to record the patient case history, etc on tapes and submit it to the hospital administration. The hospital administration has the onerous task of converting these records into digital format. As there is a huge cost differential between India and USA, this work is outsourced. Indian transcriptionists listen to the tapes, and then type the record and send it back. This outsourcing from USA to India is aided by the fact that there is a time difference of about half a day. It so happens that the records are sent to India at the close of the day in USA (which happens to be early morning in India) and this work is completed



and sent back to the USA by the time the hospitals re-open the next day. The medical transcription business is drawing people from non-medical sector as well. That's because the income can be quite substantial. Transcriptionists are paid anywhere between 60 paise to Rs 2.0 per line.

The US Medical transcription market is estimated at US\$20 billion. This is estimated to grow by more than 50% in 2008. Nearly half of the US market size is outsourced to various countries like India.

Knowledge Process Outsourcing

Knowledge Process outsourcing has grown substantially over the past few years. In 2003, it was estimated at about US\$1.2 billion a year. By 2010 it is estimated that it will reach US\$14 billion in sales. The financial services knowledge process outsourcing industry is expected to be worth US\$5 billion by 2010, claimed a KPMG Study. India's share. In these services may be about 70 per cent. Unlike BPOs that are usually involved in providing process expertise (like human resource, customer care, transaction processing) across different industries, KPOs provide an array of services based on specialized knowledge of a certain industry. Among the type of KPO business that India has been attracting include evaluation, research and analysis related to the financial markets. The range of the work carried out by the KPOs also includes work in the arena of intellectual property, chartered accountancy, engineering services and others. It is important to point out that a number of Wall Street firms are now outsourcing a large part of their back-end clerical as well as more sophisticated financial analysis work to India. These companies include large Wall Street firms such as Citigroup, Deutsche Bank, Goldman Sachs, JP Morgan, Chase, Morgan Stanley and UBS among others. These companies would have to pay people anywhere between US \$2,90,000 to US \$5,80,000 a year. In India, these companies would pay a maximum of about US\$50,000. KPOs thus provide value added niche services that are far more advanced than the BPOs. The salaries in the KPOs are higher than the BPOs, and are usually three to four times higher than those in the BPOs. NASSCOM has estimated that the Indian IT-BPO industry will exhibit a 33.3 percent growth in revenues to reach US\$64 billion by the end of fiscal year 2008 as against the present US\$48 billion in 2007 fiscal year.

The number of people who work in some of the major companies throws fascinating insights into the number of people who gain employment in India, through this activity. Fidelity Investments, the world's largest mutual fund manager, employs about 5,000 people in India. The other large employers include Goldman Sachs (2,000), Citigroup (20,000), Morgan Stanley (2,000), JP Morgan (9,000) and UBS (3,000) among others. It further projected the delivery centres for these would grow more 27% than other regions of Europe, Latin America, Africa and rest of Asia by the end 2014.

Legal Process Outsourcing

A more recent trend has been legal outsourcing to India. Legal services refer to legal advisory and representation services, legal or juridical procedures and the



drawing up of legal instruments or documentation. It is estimated that the legal business is worth about US\$250 billion. Out of this about seventy percent of the revenues accrue from the USA while UK accounts for about twenty five percent. In the past India was the destination for the transcription part of this particular outsourcing.

Economics of Outsourcing

The importance of outsourcing lies in the fact that it is usually economically profitable for both the outsourcing company and the company that executes the contract. One of the primary justifications for outsourcing is the economic rationale itself. Outsourcing (or offshoring) is undertaken by countries that hope to take advantage of the wage differential that exists in countries where the cost of labour is quite high. It has been pointed out that the savings due to outsourcing can vary from twenty per cent to more than fifty per cent in certain instances and industries. An example would cite the wage differential that exists in USA and India. In the USA the minimum wage is US\$5.15 per hour (approximately rupees 215 per hour) for manual labour. In the case of the BPO industry it could be in the range of about US\$10 per hour (about rupees four hundred per hour). Thus, a week's pay could be sufficient to pay a month's salary as well as other benefits for an employee in India. Critics of outsourcing point out that the quality of work carried out in India as part of outsourcing is qualitatively lower than that carried out in the other Asian markets, not to speak of the western markets. They point out that the productivity of Indian workers is much lower than the Chinese or American or European workers.

Benefits of Outsourcing

There are a number of benefits of outsourcing. Outsourcing is part of the process that takes advantage of the concept of specialization of labour and its attendant benefits. Outsourcing enables business to hive off or even get rid of the non-core business processes and concentrate on their areas of core competence. This has the opportunity to enable a company to improve their focus and provide better services in the area of core competence. Importantly outsourcing enables a company to streamline its business operations and enables it to reduce costs while simultaneously allowing it to gain access to highly professionalised services in the form of the BPO. The BPO or the offshoring entity can provide services, often at a low cost, because it can build economies of scale and improve efficiencies in the long-run in the areas of its core competency. Outsourcing to a specialized firm also means that a company will not have to spend scarce resources, including those for upgradation, etc on non-core areas. An added advantage is that outsourcing enables a company to re-deploy freed-up human resources to other core activities. This, in turn, frees up cash flow as it will not be tied up providing ancillary services that are not central to a business. Outsourcing has its share of advantages to countries that are the destination of such outsourcing of work, like India. It not only provides direct employment not only to people who work in the BPOs, but also provides a cascading effect, especially to those companies and individuals that provide support services to the thousands employed in these 'knowledge factories'. Outsourcing also enables a country to earn valuable foreign exchange that is vital to the health of a economy.



Besides, exposure of the BPO company to new and specialized areas of work would enable capacity building in employees and organizations. In the long-run, it would also benefit the domestic economy as well.

Disadvantages of Outsourcing

It would be naïve to think that outsourcing is an activity that has only advantages and that there is no downside to that industry. Like all other business activities, outsourcing has its own share of criticisms. The primary criticism is that it deflates the cost of labour in many countries. The fact that there are cheaper destinations where this work can be carried out means that it forces employees who were providing these services to either accept wage reductions or lose their jobs. Another important criticism has been the lack of long-term stability in this business. The only competitive advantage and the logic on which this business functions is the low cost and the easy availability of less expensive qualified human resources. It means that these businesses can shift their businesses at short notice in case there is a new destination (or country) that fits this profile. Therefore, one could say that these businesses lack the long-term commitment to any society or country and that they are dictated by the needs of the market. Economic fluctuations resulting in mergers or closure of business or a product change in the patron country would adversely affect companies/ employees in the country from which services are outsourced.

Outsourcing: Changing Trends

Outsourcing has itself become far more complex than what it is to be in its earliest form. It has grown from mere outsourcing for low-end functions for a pure-economic consideration to outsourcing functions for creating strategic depth in the company. In the early days, outsourcing was one that consisted of only those types of work which would enable the high cost providers of various services to take advantage of low cost service providers in countries such as India. This has now expanded in its scope to include more complicated activities such as research and development in more advanced activities.

Conclusion

The post-reform period has brought tremendous changes in the area of new public management. To adapt to the emerging changes in the field of information technology, personal efficacy and efficiency a new process of outsourcing came into the forefront whereby the public delivery system can yield positive results in meeting the organizational objectives.

The concept of outsourcing has been showing a greater positive contribution in earning foreign exchange improving employment in sector s/ services unheard of in earlier decades. It has created a wind fall to the entrepreneurs well as semiskilled and skilled employees. Given the employment prospects in this sector, the country's youth have been picking up the skills in a flash. Day in and day out new outfits' crop up, offering training modules in innumerable new areas. Job melas have been held to attract youth with potential. Outsourcing has injected dynamism into the Indian economy in several ways, this further need to be strengthened by engaging with



traditional knowledge systems by enhancing the capabilities of people without the dangers of disappearance of those systems.

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