Title : **Indian Information Technology (IT) outsourcing industry in the era of global corporate village**

Prof. Prakash N. Chaudhary

Vice Principal, Associate Professor & Head, Dept. of Business Laws,

Ness Wadia College of Commerce, Pune – 411 001.

Email: pncwadia@gmail.com

Contact No.: +91 - 779 888 3419

Abstract:

The outsourcing has become one of the well-known strategies of businesses so as to have substantial financial gain, increased concentration on strategic issues, access to technology and specialized expertise, and save time. This paper emphasizes on the role, merit and demerits of the outsourcing in general and discusses the scope and way forward for the IT industry to succeed in the outsourcing business market. At international level also India has created good image and world is looking towards India as a major player in the Outsourcing of IT related business processes. The paper also highlights how outsourcing plays vital role in organizational performance and businesses' competitiveness in the global market.

Keywords: IT industry, outsourcing, business processes, off shoring, strategic outsourcing, organizational performance.

Introduction: Outsourcing is an allocation of specific business processes to a specialist external service provider. Many times companies cannot handle their business process internally. And it becomes practically difficult to do some processes internally by hiring in-house professionals to perform the tasks. Once the task is outsourced to the service provider, he will shoulder the responsibility of carrying out the functions assigned to him. Outsourcing is the process of delegating a company's business process to third parties or external agencies, leveraging benefits ranging from low cost labor, improved quality to product and service innovation. When outsourcing transgresses national boundaries and is managed by companies located in other countries, outsourcing takes the form of offshoring.

When businesses are inviting third-party vendor for getting your tasks done, it is imperative to understand the merits and demerits of outsourcing to the right service provider.

Merits of outsourcing:

1. Technical expertise: Outsourcing will normally be done to the vendor who has requisite expertise in the particular field and it helps to get your task done efficiently. Because of such expertisethe tasks can be completed quickly and qualitatively.

2. Focusing on core competencies: Outsourcing the incidental processes would help the companies to devote more time to focus their energy on their core business process and thereby strengthen the same.

3. Minimizing the risk: Outsourcing of certain business activity helps the companies to delegate certain responsibilities to the outsourced vendor. Having expertise in the field, the outsourced vendor can perform the task with care and caution finally minimizing the risk involved in such business process.

4. Cost effective: Due to outsourcing, hiring individuals in-house is not needed. Therefore recruitment and other incidental costs can be reasonably brought down. Lower operational and labour costs

5. Global knowledge base: Outsourcing and offshoring enables companies to get benefit of a global knowledge base, having access to world class capabilities

6. Utilising internal resources: By outsourcing companies can utilize their internal resources optimally for other business activities

7. Access to new markets: Some companies also outsource to help them expand and gain access to new market areas, by taking the point of production or service delivery closer to their end users

Demerits of outsourcing:

1. Confidentialityof information at stake: When an organization outsources its various functions like HR, marketing, Payroll and Recruitment services, it involves a risk if exposing confidential company information to a third-party

2. Enhancing risk by choosing wrong partner: One has to be very alert in choosing right partner for getting your work done through outsourcing. Delay in work, substandard quality output and inadequate monitoring system are the certain limitations in outsourcing he tasks.

3. Legal uncertainty: most of the times outsourcing is done in different countries and are required to comply with various legal compliances and any violations of the terms of contracts create potential threat of legal disputesand thereby enhancing the total cost of the business.

4. Compromise on quality: many times an outsourced vendor may be catering to the needs of various clients and there are chances of compromising on the quality of service provided to your organization .

5. Economic risk: Economic risk likely to create potential turbulence in inflation and exchange

rates, a possibility of restriction in profits repatriation, taxation policy changes, etc. Political

risk includes issues related to political instability, emergence of regional or international

conflicts, a likelihood of changes in labour market regulations, environmental laws, regulation

of international business and trade, etc.All such factors poses certain questions on the success of outsourcing.

In such circumstances, it is always better for the companies to consider the benefits and limitations of outsourcing before actually handing over the task of outsourcing.

There are many tasks in the businesses which could be commonly outsourced. Some of them are as under:

1. IT outsourcing, 2.Legal outsourcing, 3.Content Development, 4.Web Design Maintenance, 5.Recruitment, 6.Logistics, 7.Manufacturing, 8.Customer Support

Reasons for outsourcing:

1. Lack of expert-labour in some portions of the business process

2. Availability low cost labour without compromising on quality

3. Enhancing the capability to concentrate on the important business process

These aspects have been considered by the companies while deciding to outsource their tasks. Expertise in communication capabilities, technical expertise and favorable financial packages are the most important advantages of outsourcing to India. Indian human resource is very apt for many international companies to cater their requirement in the IT industry.

In short, companies undertake outsourcing for various reasons depending upon their vision and purpose of the exercise. Being well known concept in the modern world, the outsourcing and offshoring have become one of the important business strategies.

Business outsourcing in India: Business outsourcing in India has become one of the well settled business activity in the country. The economic liberalization policies of the government and the globalization are mainly responsible for the growth of this industry. To cater to the growing demand of rising markets, many foreign companies have started outsourcing to India.

The availability of skilled manpower and low cost labour are predominantly responsible for growth of the outsourcing business in India. The outsourcing business has created ample employment for the young generation. As per one of the recent surveys, around 0.7 million people work in the business outsourcing sector with an average wage growth of around 10 to 15 % annually. Around 82 of the major US companies have said that India is their first choice for outsourcing. With the development of the economy, the number is expected to rise. Renowned entrepreneurs like Bill Gates have hailed India as an IT superpower with immense expertise and competence.

Many multinational companies consider India as an outsourcing destination due to various reasons such as flexibility, technological competence, quality output, cost control facilities, time-to-market etc.

IT outsourcing in India: There are many reputed companies outsourcing to India. Well known global banks and financial organizations like CITIBANK, JP Morgan, GE Capital etc. are outsourcing their products and services to India. In case of software solutions, IT giants like IBM, Microsoft and others provide outsourcing solutions. These companies even have their offices in various cities of India. Some of the main domestic players in the industry of outsourcing are Wipro, Infosys and so on.

Some more well-known companies which outsource to India are: 1.Oracle ,2. Dell Computer Support, 3. Hewlett Packard, 4.Schlumberger, 5. ATT Wireless 6.Texas Electronics , 7.TransUnion 8. Rand McNally

All these companies have tie ups with renowned BPOs in the country or have their own offices from where the outsourcing work is done.

Future of the Indian IT outsourcing industry : the future of the Indian IT outsourcing industry is not that uncertain, and in all probability the industry would retain its competitive standing in the global market and make promising strides ahead.

Way ahead for IT Outsourcing:

 1.Hybrid cloud and bimodal IT are set to transform the global IT outsourcing space, with leading companies such as HP and IBM offering IT services based on these frameworks.

2.IT suppliers will have to focus on centralizing their IT delivery systems to reduce costs and improve productivity, as well as focus on the standardization of services to enable scalability and increase automation in the IT system.

Centralization and Standardization IT services: This trend of centralization is likely to involve standardization of services, allowing scalability and increasing automation in the system. For example, according to Capgemini, standardized services accounted for 90% infrastructure outsourcing solutions delivered by the company over 2014–2015. Further, as part of this trend, user companies will consider consolidating their data centers to save costs while reducing their use of energy.

A hybrid cloud is an integrated cloud service that uses both private and public clouds (e.g., Google Cloud) to perform distinct functions within the same organization. This kind of infrastructure allows user companies instant access to standard business capabilities via the public cloud, as well as a regular but more secure access via the customized private cloud.

According to industry experts, by 2018, at least 50% global IT spending is forecast to be cloud-based, with over 50% enterprises expected to create and/or partner with industry cloud platforms. Further, during 2013–2018, the global cloud market is estimated to grow at ~19% CAGR to $139 billion, including a $70 billion contribution by private cloud.

Since early 2015, a few user companies, including Lowe's (a US-based retail chain of home improvement and appliance stores that has IT outsourcing contracts with Infosys, Wipro and Cognizant), have announced plans to shift from outsourcing toward in-house delivery of IT solutions to save costs, reduce complexity and improve flexibility in IT delivery systems. This approach is likely to pick up in future, with companies such as AIG, AstraZeneca and Deutsche Bank joining the bandwagon, having insourced a part of their software development projects to their own captive centers.

Bimodal IT: Bimodal IT is the practice of simultaneously managing two separate, coherent modes of IT delivery. The first mode which emphasizes safety and accuracy, the second mode focuses on speed and agility which is exploratory in nature and centers on new development projects.

This new approach is set to become big in the IT space, with leading IT suppliers such as HP, IBM etc.

In such circumstances, it is necessary that companies must align their IT strategies with their business strategies to stay ahead in today's dynamic and competitive business world.

It is expected in this year that there will be development and innovation with trends specifically related to cloud technology, social responsibility, and data security.

It is also necessary to increasing automation and scalability with an emphasis on the development of reusable platforms to deliver efficient tech support for IoT.

Robotic Process Automation(RPA) will ensure increased productivity at reduced costs through a quality process execution, using software robots to replace humans for repetitive tasks.

Buyer-Oriented Integrated Cloud Platforms: Cloud technology is set to become the next trendsetter for the outsourcing market, with more businesses moving to cloud this year. This will enable outsourcing companies to deliver improved and innovative services

Socially Responsible Outsourcing: A new social responsibility based model for business process delivery is also expected to get momentum. This will help deliver quality services at low costs.

India's future outsourcing market : it is estimated that India will be world's fastest growing information technology (IT) market in 2016-17 as it is expected to spend more than $72 billion on IT services, products and hardware, up from 7.2% from the current year, according to research firm Gartner Inc.

There will be growth in the outsourcing businesses India due to the digitization wave catching up with Indian companies and the growing number of connected devices that form the Internet of Things (IoT).

India's IT market is projected to grow annually at a rate of 4.95% between 2015 and 2019—the fastest globally—to touch $85.3 billion by the end of 2019.

 Aman Munglani, research director at Gartner is of the opinion that the robust growth will help India overtake Australia to become the second largest IT market in the Asia-Pacific by 2019, behind China,

Devices, which include mobile phones, personal computers and tablets, will account for almost 33% of the overall IT spend in India, growing at 9.3% in 2016. While data centre systems will grow 3.9% in 2016, IT services, which accounts for 18.1% of the overall IT spend. It was estimated that there would be the fastest growing segment in 2016 with 13.8% growth year on year, predicts Gartner.

Software, which accounts for nearly 7% of IT revenue in India, will grow 12.7%. Communications services will continue to account for the largest share of IT spend: 39.2% of revenue in 2016. However, this will also be the slowest growing segment, with a 2.1% rise in revenue in 2016, according to Gartner.

As per the findings of a research, Indian IT budget growth of 11.7% is one of the highest in the world, while global average is 1%.

Gartner predicts spending on Internet of Things (IoT) hardware to exceed $2.5 million per minute in 2016. IoT, usually defined as a network of things that can communicate and exchange information over the Internet. These interconnections, relationships, and algorithms are defining the future of business, according to Harris.

Gartner india further predicts that In five years, 1 million new devices will come online every hour. These interconnections are creating billions of new relationships. These relationships are not driven solely by data, but algorithms. However, it is necessary to take care of security system in this area of businesses.

Gartner predicts that by 2017, the typical IT organization will spend up to 30% of its budget on risk, security and compliance, and will allocate 10% of its people to these security functions. That's triple the levels of 2014.

India is also looking for growth in an innovative and vibrant startup and will continued its dominance in the global outsourcing market in future too.

According to National Association of Software and Services Companies (Nasscom), the voice of the Indian IT industry, the sector also continues to be one of the largest employers in the country directly employing nearly 3.5 million professionals, adding over 230,000 employees during the year. The global outsourcing industry recorded a growth of about 8.5 percent in the recent year. India accounted for 56 percent of the global outsourcing market last year compared with 52 percent in 2012.

"India is performing well IT-BPM exports as it was doubled in last six years. This is due to the digital technologies, growth of startups. India is emerging as a global digital hub rapidly building up capabilities

and offerings. There is special focus on creating skill sets around Big Data, Internet of Things (IoT), Cloud, Social Media, and Mobility, in addition to developing solutions that emphasise design, creativity, agility, and customer experience. There was good growth in the technology startup in the country, which has more than 4,200 startups as of today. India is ranked third in the world, after the US and UK. *The IT-BPM Sector in India: Strategic review 2015*: as per this report of Nasscom it is said that India remained an excellent business delivery centre for the sector. It will continue its dominance in the global outsourcing market in future too.

Even Tier-I cities in India like Bengaluru continue to be between eight to 10 times cheaper than source countries and significantly cheaper than other low-cost destinations," the report said.

The report further states, "The Indian IT-BPM industry is expected to continue to partner and handhold clients to enable business success in the digital era, and is well set on its goal to reach revenues of $300 billion by 2020. At the same time, challenges around economic volatility, protectionism, competition, and customer understanding will need to be addressed by concerned stakeholders,"

Impact of demonitisation on IT industry: After declaration of demonetization, the government is promoting digital transactions and alternative payments. The banks are also encouraging people to use mobile wallets and electronic payments through their baking apps. The government's move will definitely bring many businesses to be more organized pushing up the volumes of digital transactions. But it appears prima-facie that this has not been well planned strategy to boost the IT enabled industry.

This would probably result into increase in demand for IT adoption. IT industry stands the chance to be positively affected by this change and is likely to see a huge boost. As the country moves towards more cashless way of transacting – new-age payments like Paytm and Mobikwik, online banking and e-commerce platforms will see an increased demand in the near future as people will show willingness to move away from cash. This particularly will benefit IT startups and in long run for the companies outsourcing their tasks to India.

Conclusion: India has made concrete position in the outsourcing market at global level. With skilled manpower and recent boost to startup India move will have positive impact in harnessing the benefits of Outsourcing. India is gradually moving ahead in IT outsourcing and will continued its dominance in the global outsourcing market in future too. According to research firm Gartner Inc., it is estimated that India will be world's fastest growing information technology (IT) market in 2016-17 as it is expected to spend more than $72 billion on IT services, products and hardware, up from 7.2% from the current year. Recent demonitisation in India would make positive impact on IT enabled service and thereby boost outsourcing in India finally making India globally competitive.

References:-

1. http://www.asecu.gr/files/RomaniaProceedings/02.pdf.

2. http://blog.e-zest.com/demonetization-impact-on-it-industry

3. https://www.quora.com/What-are-the-2017-trends-in-outsourcing

4. http://business.mapsofindia.com/india-company/outsourcing.html#sthash.Kz1GBy6f.dpuf

5. http://business.mapsofindia.com/india-company/outsourcing.html

6. http://www.zdnet.com/article/india-continues-to-dominate-global-outsourcing-industry/

7. https://www.flatworldsolutions.com/articles/top-ten-reasons-to-outsource.php

8. http://www.zdnet.com/article/india-continues-to-dominate-global-outsourcing-industry/

9. https://www.flatworldsolutions.com/articles/advantages-disadvantages-outsourcing.php

10. http://www.livemint.com/Industry/9PT1hYOIFqSH0NgkjLG0LL/