



Outsourcing of Information Technology Enabled Services: Problem or Solution?

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According to NASSCOM, the association representing the Indian IT sector, the value of Information Technology Enabled Services (ITES) outsourced to India was approximately US\$ 2.6 billion in 2002-03, 65% higher than in 2001-02. ITES represented 24% of the total IT exports from India.

Customer care and administration services represented 75% of the value outsourced. Future growth is expected in areas such as engineering design, biotech research, research outsourcing, customer analytics, market research, and equity research.

The advantages that India offers in ITES are very compelling: high availability of college educated, English speaking professionals at a very competitive cost. Until now, there was a mistaken impression in Europe and the United States that the only advantage India offered was cost. On the contrary, a very large percentage of employees in the ITES sector are very highly qualified, and provide a very high quality of service.

The United States and UK are the two leading markets for the Indian ITES sector. In recent months, the loss of jobs in the US and UK resulting from the outsourcing of ITES to India has been the focus of attention and debate. For example, estimates for the number of jobs at risk in the US range from 3 million to 14 million. Four US states have already introduced legislation that prohibits suppliers from outsourcing services outside the US for governmental contracts. This is happening at the same time as many US states are facing severe budgetary problems, and are looking for ways to cut costs. Many companies in the US are opposed to such measures, which may be in violation of WTO guidelines.

But is offshoring threatening the western IT workforce? A study by McKinsey asserts that a) outsourcing benefits both

Highlights

1 Offshore consists of outsourcing services to companies set in countries where the workforce is cheaper than in the country of the company that outsources such services. Although until recently only blue-collar jobs were outsourced, now they are also outsourcing high-paying white-collar jobs.

2 The main reason put forward for companies to practise offshore is cost cutting. According to the IDC, a company can save up to 50% contracting an IT services supplier.

3 Offshore is rising. The IDC estimates that, by the end of 2007, 23% of work in the US IT sector will be outsourced to countries where salaries are lower, compared to the current 5%.

4 India is one of the main countries where companies outsource services. It seems that China could be the next offshore focus. Although companies are still reluctant to contract services in that republic, Bearing Point experts state that problems cited (language and intellectual property) are the same as those in India just five years ago.

countries involved; b) for every dollar outsourced from the US to India, \$1.46 worth of value is created, out of which more than 75% flows back to the US; and c) that the US has gained \$ 50 billion in the last five years from outsourcing to countries like India. While there is undoubtedly a short term cost imposed on particular groups of workers of one country as a result of outsourcing, the medium to long term benefits to both countries could be quite considerable.