The Industry Of Outsourcing Information Technology Enabled Services And Business Process Outsourcing In India

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ABSTRACT

This case study was written using a variety of documentary sources which are all cited throughout the document. The content of this study is a result of the synthesis of information collected and is presented to be used for academic purposes. This document was translated from the original in September, 2008 by Lenise L. Butler, International Cultural Center.

INTRODUCTION

During the last decade, the IT Industry (Information Technology Enabled Services), and BPO (Business Process Outsourcing), have significantly increased. India has had a fundamental role in this growth as a principal destination of Outsourcing/Off shoring for the World and the country that holds close to 65% of the total IT industry in Off shoring and 46% of the total BPO industry. The global outsourcing market is currently growing at a rapid pace due to the benefits that it offers, and it is projected that during the upcoming years India will continue to be one of the principal destinations for outsourcing given the variety of factors that have made it an ideal place for this industry.

BRIEF HISTORY AND INFORMATION ABOUT INDIA

India is located in the South of Asia and borders Bangladesh, Bhutan, Burma, China, Nepal and Pakistan. India is home to one of the oldest and most extensive cultures of the world. In the 19th century, Great Britain took control of the Indian territories. By 1947, India gained its independence from the British under the leadership and non-violent resistance of Gandhi. In 1971 a war erupted that saw the separation of Bangladesh from India. In recent years, India has had several aggressive Wars with Pakistan which have caused the loss of thousands of lives. Apart from these conflicts, India suffers from overpopulation, extreme poverty and environmental degradation.

Government control over International commerce and investment has been reduced in recent years and the privatization of domestic production has slowly been embraced. Since 1990, the Indian economy has seen excellent growth of around 6% annual average, which has led to a 10% reduction in poverty. In recent years, Indian citizens have taken advantage of their excellent level of education and their knowledge of the English language to convert their country into one of the major exporters of software on a global level, as well as being a leader in the Outsourcing industry of ITES and BPO, which will be discussed further in this case study.

It is important to mention that even with these improvements, India continues to be one of the poorest countries of the World and its economy is based mainly on agriculture and in other industries such as handicrafts, textile, Chemicals, metals, transportation equipment, petroleum, machinery etc.

DIFFERENCES BETWEEN OUTSOURCING AND OFFSHORING

Before continuing, it is important to explain the differences between the distinct terminologies used in this industry. Generally the terms “Outsourcing” and “Off shoring” are used as synonyms; however, it is important to mention differences between them.

To begin, the term outsourcing refers to the cheap manual labor that manufacturing countries offered during the Industrial Revolution. Today however, this term has acquired a new connotation and can be defined as “the process through which a company can transfer part of its work to another company, making this counterpart responsible for the design and implementation of or the process of the business under strict regulations aligned to requirements and specifications of the company hiring the outsourcing services”.

Another definition, according to the World Commerce Organization is “the act of transferring some recurring activities and rights to decision making of one company to external providers, having established for these services a contract”.

On the other hand, the term “offshoring” is one type of outsourcing and involves the transfer of activities to another country without being important if these activities are transferred to a branch of the same company or to a different company. To help clarify these terms, below is an explanation for the four different types of “outsourcing”:

1. **Local Captive Outsourcing**: Activities are transferred to an affiliated firm within the same country. For example, if Microsoft decides to open a company in the United States that would operate as the Call Center for customer service.
2. **Local Outsourcing**: Activities are transferred to a non-affiliated firm within the same country. Example: If Microsoft decides to use another separate company established in the United States through their Call Center to provide customer service.
3. **Captive Offshoring**: Activities are transferred to an affiliated firm in another country. For example, if Microsoft establishes a company in India that functions as the Call Center for customer service.
4. **Offshoring**: Activities are transferred to a non-affiliated firm in another country. For example, Microsoft uses an Indian company for customer service through their Call Center.

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4 Idem
Table 2
Types of outsourcing based on the transferring of activities.

<table>
<thead>
<tr>
<th>Non-Affiliated Firm</th>
<th>Located In Country Of Origin</th>
<th>Located Outside Country Of Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Outsourcing</td>
<td>Offshore Outsourcing =Offshoring</td>
<td></td>
</tr>
<tr>
<td>Captive Local Outsourcing</td>
<td>Captive Offshoring</td>
<td></td>
</tr>
</tbody>
</table>

It is important to mention that for this case study the focus will be on “offshore outsourcing” (offshoring), this due to the fact that majority of companies in India in this industry (ITES y BPO) provide services to companies in other countries. Nonetheless, it is important to mention that many multinational companies do engage in “Captive Offshoring” in India, in this way maintaining control and ownership over the critical business processes used in outsourcing. Among the multinational companies that engage in “captive offshoring” in India we find American Express, British Airways, Dell and GE Capital.  

HISTORY OF OUTSOURCING IN INDIA

Outsourcing as we know it today began to take share in the early 1980’s as organizations began delegating their secondary activities to external organizations specializing in certain products, services and specific functions. Though the IT industry existed in India in the 1980’s, outsourcing services began to emerge and take on more importance in the 1990’s when the government began economic reform programs concerning liberalization and privatization in distinct sectors. One example of these programs is the telecommunications sector, which was under state control until 1994 when it then began the process of liberalization and privatization. A few years later, in 1999, with the new politics in place this sector suffered a profound transformation thanks to the introduction of the IP telephone system which brought with it the end of a state monopoly in International call centers. In this way, the ITES and BPO industries in India began to show enormous growth and the Call Centers y data processing were rapidly multiplying.

One of the first outsourcing services India offered was medical transcription. Shortly after began the business processes like data processing, customer service and medical billing. All of these services were born from the establishment of subsidiary properties of multinational companies which filled the necessities and services required by large companies. Among the multinational companies that were pioneers in using outsourcing in India are highlighted American Express, GE Capital and British Airways.

In this way, the Outsourcing industry in India has evolved with the passing of the years and today offers more complex services that require competency in analytical thinking and judgment, as well as a wider dominance of competency fields and not just specific functions based on established parameters. In other words, the field has moved beyond services where employees function as robots doing a limited number of functions that did not pas established parameters to creating a labor force that carries out complex functions of analysis and investigation.

OFFSHORING ACTIVITIES IN INDIA

Currently a large number of multinational companies transfer their Business activities to an external company, generally located in India. These activities can be divided into two categories: Back-office and Front-office. Back-office functions include internal Business functions such as accounting, finances, human resources, etc. On the other hand, Front-office activities include business functions directly related to the clients, like marketing and sales. Front-office can also be defined as the CRM activities (Customer Relationship Management), that is to say, all activities that involve direct interaction with the clients.

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6 Nota: IP se refiere a Internet Protocol.
8 Idem.
The principal objective of companies that do offshoring in India is the reduction of transaction costs, optimization of efficiency in processes and to give the necessary support to manage large numbers of transactions.

### Table 3

**Types of offshoring in India according to their functions**

<table>
<thead>
<tr>
<th>Description</th>
<th>Back-Office</th>
<th>Front-Office</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples</strong></td>
<td>Internal Business functions</td>
<td>Business functions directly related to clients</td>
</tr>
<tr>
<td></td>
<td>Billing, Invoices, payment processing, inventory,</td>
<td>Order processing, customer service, technical</td>
</tr>
<tr>
<td></td>
<td>administration of supplying chains, acquisitions,</td>
<td>support, campaign Management, etc.</td>
</tr>
<tr>
<td></td>
<td>payroll, administration of human resources and</td>
<td></td>
</tr>
<tr>
<td></td>
<td>training, hardware repairing etc.</td>
<td></td>
</tr>
</tbody>
</table>

Currently in India service providers exist in nearly all areas of Business. These are generally divided by specialty into horizontal or vertical offshoring. Providers with the horizontal offshoring model specialize in specific functions and these may extend to different industries. Examples of horizontal offshoring are payroll processing, data processing services et. On the other hand, providers with the vertical offshoring model are concentrated on servicing specific industries. Examples of vertical offshoring are the automotive industry, financial services industry, the telecommunications industry and the petroleum industry, etc.

As formerly mentioned, offshoring in India has evolved and no longer are services offered limited to basic functions like technical support or other voice-oriented functions. Currently, Offshoring and BPO providers in India offer a wide variety of business services, including complex functions like engineering design and pharmaceutical investigation, to mention a couple.\(^9\)

I is important to mention that BPO providers in India are increasing taking on more responsibility in complex business processes to give better value, which has resulted in a partnership between the client (the company contracting the outsourcing service), and the Indian outsourcing provider, making the arrangement more attractive as both companies share both benefits and risks.

**Objectives of the offshoring activities in India**

Reduction of cost is one of the principal objectives of offshoring in India. However, it is important to mention that the results and acquisition of this advantage are not seen immediately as it is necessary to develop a solid understanding relationship between both parts.\(^10\)

Today, companies that contract offshoring services in India are looking for more than just cost reduction, but other benefits as well, among which are:

- Improvement in processes and efficiency.
- Quality improvement.
- More market presence.
- More focus on central activities (for example, development of new products and services).
- Creation of business value and differentiation strategies.
- Reduction in the numbers of employees.\(^11\)

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FACTORS THAT HAVE CONTRIBUTED TO THE SUCCESS OF OUTSOURCING IN INDIA

The success of the outsourcing industry in India is due to the combination of various factors that have made this country the principal destination for these activities. These factors are more deeply explained below.

**Low cost**

Low costs are the principal reason that companies all around the world choose India for their offshoring activities. It is estimated that companies can save between 25% and 50% in costs if they contract offshoring services in India. It’s important to mention that the capacity to offer services at low cost is due mainly to the large quantity of qualified talent that can be contracted at a low cost. This, along with other elements in the cost structure (For example, telecommunications), have made India highly competitive in relation to other countries offering outsourcing.

**High quality**

Currently, companies that choose India for their offshoring activities are doing it more due to the question of quality rather than cost, because Indian offshoring providers offer added value to their clients. Various companies in China and in Russia offer better prices than do the companies in India, however, in the majority of cases do not offer the high quality and experience that Indian companies do. This is due to the fact that Indian companies are constantly updating in order to comply with the high standards of international quality using advanced systems of constant improvement. It is important to mention that close to 90% of the Indian companies that offer offshoring in ITES and BPO have specialized departments for quality control. Also, 50% of Indian companies offering offshoring have implemented distinct levels of ISO and 45% of the same have Six Sigma certification.

As notified by Nandan Nilekani, CEO of Infosys, one of the largest and most important ITES and BPO companies in India, the way in which business is carried out has changed over the years, and companies now need to offer solutions to clients and not just services. Another example that proves many companies are now contracting offshoring services in India for quality reasons and not for cost, is the opening of a new research center and development of Google in Bangalore, a city located in the southeastern part of the country known as the “Silicon Valley of India”.

**Preparation of the labor force**

Another factor contributing to high quality of offshoring services in India is the preparation and intellectual and technical capacity of the labor force. Each year in India there are about 300,000 graduates in IT engineering, a high number compared to the 50,000 that graduate in the United States. 90,000 MBA graduates are received each year from the business schools at Indian Universities.

ITES and BPO companies like Infosys have large modern campuses in distinct regions in India, principally in Bangalore, where employees receive high-level training to improve the quality of services offered. It is important to mention that Infosys has the largest corporate training facility in the work, with a capacity for 4,000 students.
A stable government that has generated an environment appropriate for the development of ITES and BPO

India has had a democratic government for over 60 years, one that is distinguished as being one of the most stable in the world. Because of the importance the government gives to the ITES and BPO sector in the development of the country, the IT Ministry was created that is in charge of the regulation of processes and the quick adoption and implementation of projects, thus removing the obstacles for the development of this industry. In this way, with government support, Indian IT and BPO companies have been able to develop industrial parks with excellent infrastructure permitting the development of technology.

Additionally, the government has established politics and fiscal incentives to attract foreign investment. India permits the establishment of companies with 100% foreign capital, this being different from Mexico where companies have to have majority ownership Mexican.

English fluency

India is the developing country with the highest number of people that dominate the English language. This language is taught in schools for Indian children who speak the language at very young ages. Also, due to the high number of languages that exist in India, English has become an important language to communicate between distinct regions of the country. This has shown an enormous advantage and has been a fundamental factor in the growth of the outsourcing industry in India.

Improvement of the Infrastructure.

Due to the requirement of the ITES and BPO industry, the growing infrastructure of business in India has accelerated. Also, the industry has been benefited by the reduction in costs by international connectivity. On the other hand, improvement in the telecommunications and commercial real-estate infrastructures, both necessary for business development, has been significant in the last years and is a priority for the Indian government to continue with advances as there is still plenty to improve.

THE CURRENT SCENE OF THE ITES AND BPO INDUSTRY IN INDIA

The ITES and BPO outsourcing industry has grown consistently during the last few years. It is calculated that in 2007 the total profit of the industry was $9.5 million dollars, of which $8.4 million were exports.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Total gains in the IT industry during 2006 and 2007</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Amounts in millions of dollars)</td>
<td></td>
</tr>
<tr>
<td>IT Services</td>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Exportation</td>
<td></td>
<td>17.8</td>
</tr>
<tr>
<td>National</td>
<td></td>
<td>13.3</td>
</tr>
<tr>
<td>Engineering and research and development services</td>
<td></td>
<td>4.5</td>
</tr>
<tr>
<td>Exportation</td>
<td></td>
<td>5.3</td>
</tr>
<tr>
<td>National</td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>ITES-BPO</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Exportation</td>
<td></td>
<td>7.2</td>
</tr>
<tr>
<td>National</td>
<td></td>
<td>6.3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Exportation</td>
<td></td>
<td>30.3</td>
</tr>
<tr>
<td>National</td>
<td></td>
<td>23.6</td>
</tr>
<tr>
<td>Hardware</td>
<td></td>
<td>6.7</td>
</tr>
<tr>
<td>Total for the IT industry (including hardware)</td>
<td></td>
<td>7</td>
</tr>
</tbody>
</table>

Source: **Indian IT Industry: NASSCOM Analysis (2007)**, Indian IT Industry. NASSCOM
The ITES and BPO industry is also an important source of employment for India. During 2007, this industry employed around 553 thousand people, 148 thousand more than in 2006.

**Graphic 1**  
Number of employees in the ITES and BPO industry in India in 2005 to 2007  
(Numbers in thousands)

![Chart showing the number of employees in the ITES and BPO industry in India from 2005 to 2007](chart.png)


In terms of the exports in this industry, the United States being the principal destination of the exports followed by the United Kingdom. It is important to mention that nearly 70% of the exports of ITES and BPO are sent to the United States although little by little Europe has begun to gain importance.

**Table 5**  
Principal destination of exports of the Indian ITES and BPO industry from 2004 to 2006

<table>
<thead>
<tr>
<th>MARKET</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>69.40%</td>
<td>68.30%</td>
<td>67.18%</td>
</tr>
<tr>
<td>Europe</td>
<td>22.60%</td>
<td>23.10%</td>
<td>25.13%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>8.00%</td>
<td>8.60%</td>
<td>7.69%</td>
</tr>
</tbody>
</table>

Source: *Indian IT Industry: NASSCOM Analysis* (2007), Indian IT Industry. NASSCOM

In terms of the industries or verticals that contract most services of ITES and BPO offshoring in India are Banking services, Financial Services and Insurance (known by its initials BFSI-Banking, Financial Services and Insurance), which occupies close to 40% of the market. The BFSI industry is followed by technology and communications, manufacturing and various others.
CHALLENGES OF THE OUTSOURCING INDUSTRY IN INDIA

Though there are several factors that have contributed to the success of the outsourcing industry in India, there are also several challenges that have had to be confronted, several of them generated by the rapid growth the industry has had.

Issues related to employees

While the majority of employees in this sector of India should be satisfied with their salary, this due to it being a elevated compared to the rest of Indian inhabitants, it is also understandable that once the employee realizes it is low compared to what someone doing the same job earns in other countries like the United States they feel unsatisfied. On the other hand, with a large amount of talent available, its difficult for many employees of the sector to achieve accelerated growth in their career, which creates dissatisfaction and lack of motivation.

Another factor that has created dissatisfaction among employees is the working Schedule. With the large difference in hours between India and the United States, many employees need to work nighttime hours, something to which many never become accustomed or which creates problems with their families and lifestyles.

Not all graduates have the ability and preparation that is necessary

As mentioned earlier, in India there is a large number of students who graduate each year with undergraduate degrees as well as graduate degrees, nevertheless, not all have the ability to work in the ITES and BPO industry. Large companies compete for the graduates of the most important universities of the country which are a relatively low number compared to the total number of graduates, which occasionally then is insufficient to cover the demands of the industry.

Introduction of other destinations for offshoring

India is still a solid leader in this industry on a global level with 80% of the low-cost offshoring market, but countries like China, the Philippines and other countries of Oriental Europe have begun to be attractive for
offshoring. Companies like GE, Siemens and Nokia have begun to contract offshoring service for research and manufacturing in China. It is important to mention that China currently produces more IT engineers that India, converting it into the principal rival. Other than China, other Asian countries like the Philippines, Malaysia and Vietnam have grown significantly in the ITES and BPO industry.

With respect to Oriental Europe, countries like Russia, Hungary, the Ukraine and Belorussia count with very qualified IT engineers for the advancement of the ITES and BPO offshoring industry in the last years, though they are still disorganized and dispersed as compared to India, as well as the manual labor still being more expensive than in India.

*Improvement in infrastructure*

Though the Indian economy has improved over the years, the country is still one of the poorest of the work and its infrastructure still leaves much to be desired. In order to maintain its leadership in ITES and BPO offshoring with respect to China and Russia, improvement in infrastructure will have a lot of importance. It is necessary to improve highways, airports, hotels, schools, energy sources among other as, as said by Narayana Murthy, CEO of Infosys, “the moment of truth comes when the foreigner lands in India. They need to feel comfortable”.

**FUTURE OF THE OFFSHORING INDUSTRY IN INDIA AND THE WORLD**

Below is presented a list of some of the offshoring tendencies in the world that according to Outsource2India will be introduced in the next few years:

- The level of outsourcing contracts will increment on a worldwide level.
- The countries of the European Union will follow the United States and Great Britain in contracting more offshoring services. This tendency also applies to Japan, which will find in China its principal destination for offshoring.
- While participating in offshoring between various regions of the world, a bipolar world will be created in which the large multinational companies will use offshoring to pressure governments to avoid wars and conflicts that can interfere with their business dealings.
- The continuous increment in prices of petroleum will pressure companies to look for reduced costs making offshoring, principally in India and China, a great option.
- India will offer high-quality offshoring services which will require an advanced level of English, such as research and medical analysis.
- Regional offshoring centers, like Bangalore for example, will function as companies who use strategies to minimize risks and maximize benefits taking advantage of similarities in culture and linguistics.
- Large Indian companies specializing in various offshoring services will find competition in small companies specializing in certain service niches.

**BANGALORE, THE “SILICON VALLEY OF INDIA”**

Bangalore is the capital of Karnataka, a state located in the southwest of India. Currently, this city is the base of several software companies, telecommunications, machinery and heavy equipment, aerospace industries and defense companies, among others. Thanks to its predominance in the IT industry it is known as “Silicon Valley of India”.

In Bangalore is centered the major part of human resources and talent, educational institutions, infrastructure and investment in the ITES and BPO sector in India. This success is due to several factors, among which stand out:

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19 Idem
Modern industrial parks.
Advanced Infrastructure (including the construction of an international airport worth $245 million dollars).
Good connectivity and excellent telecommunications systems.
Excellent educational centers and corporate training.
High quality research and development institutions.
Better politics to attract investment by the state government (100% foreign capital is permitted in establishing companies, there are corporate reductions in taxes of up to 90% and imports are free of tax).
Good external perceptions.
Good labor relations.
Moderate climate, not as extreme as in other parts of India.  

In this way Bangalore has attracted a large number of multinational companies. It should be mentioned that close to 100 companies from all different places in the world like Dell, GE, HSBC and Microsoft have offices in Bangalore. Also, the majority of the large ITES and BPO Indian companies, among them Infosys, Wipro and Microland, have their base in this city.

Diverse and modern industrial parks are also located in this city, among them Electronics City. This park of 330 acres houses, in its majority, companies related to IT and electronics. Some of the companies established in this industrial park are Infosys, ITI, Motorola, Siemens and Wipro.

Thanks to all this, Bangalore is the leader in ITES and BPO offshoring in India and has been named as “the best place to do business in the world”, according to CNN.

NASSCOM

NASSCOM is the chamber of industry in ITES in India and was founded in 1988 as a non-profit organization that facilitated commercial exchange as well as promoting the research and development of the sector. NASSCOM has been important in the development of the IT industry in India and currently has over 1,200 members, among which are transnational companies from the United Stated, United Kingdom, Europe and Asia. A large part of these companies are related to development, production, products and software services, as well as consulting, e-commerce services, engineering services, animation, videogame development, etc.

On the world stage, NASSCOM is one of the most important exponents of global free trade and works so that its members adopt administrative practices that are appropriate for international standards, as well as actively promoting improvement in quality, security and innovation.

In order to remain part of this organization, companies should be incorporated or registered in India and have to demonstrate they can provide positive contributions to the IT industry in India. It is also important to mention that once becoming a part of this organization, companies have to comply with a rigid code of conduct.

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ANNEX 1
Some Outsourcing services that can be contracted in India

Call centers
- Help Desks.
- Data entry, word processing, mass emailing.
- Email Services.
- Telephone servicing.
- Telemarketing.

Business Process Outsourcing (BPO)
- Business Administration.
- Supply Chain Management – SCM.
- Customer Relationship Management – CRM.

Back-Office Operations
- Accounting.
- Payroll.
- Hardware Maintenance.
- Internal Auditing.
- Management of benefits.
- Human Resources.

Infrastructure
- Communications and courier service.
- E-business operations.
- Systems Maintenance and Integration.
- Creation and operation of XML strategies.
- Communications Monitoring.
- Improvements.
- Backup.
- Disaster Relief.

Communications and networks
- Telecommunications.
- Online telephone services.
- Computerized telephone services.

Media and entertainment
- Publicity
- Cinematography.
- Animation.
- Printing.
- Consulting services.
- Photography.

Web development services
- Portals.
- E-commerce consultations.
- Domain registration.
- Design and redesign of web pages.
- Website promotion.
- Website maintenance.
- Website housing.
Operations
- Web applications.
- XML Operations.
- Assistance for installing.
- Security administration.
- Data trafficking monitoring.
- Generating activity reports.
- Systems support.
- Creation of necessary mapping.

Relationship administration
- Customer service.
- Client acquisition.
- Client activation.
- Client retention.
- Internal sales.
- Surveys.

Medical services
- Patient reporting and histories.
- Clinical notes.
- Consulting notes.
- Letters.
- Psychiatric evaluations.
- Lab reports, x rays and pathologies.

IT and Software services
- Software development services.
- Development and management of applications.
- Reengineering.
- Conversion and migration (through platforms, languages and/or versions).
- Data storage.
- E-commerce applications
- Product development.
- Software testing.
- Maintenance services.

Data
- Auditing controls.
- Working systems reports.
- Software for data registry and validation tables.

Programming
- C, C++, Visual C++, Java, JavaScript, Java Beans, JSP, EJB, ASP.
- Visual Basic.
- Microsoft Access.
- Novell Networking
- EDI.
- Bar codes.
- DOS, Windows, Windows NT.
- Business and Industrial systems.
- PC and hardware systems.