Information Technology Offshoring to India:

Pitfalls, Opportunities and Trends

Sriram Narayanan
Eli Broad School of Business
Michigan State University
East Lansing, MI- 48834
sriram@msu.edu

Jayashankar M. Swaminathan
Kenan-Flagler Business School
University of North Carolina
Chapel Hill, NC-27599
msj@unc.edu

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1. Introduction

Offshoring has become a popular trend in the service industry to the extent that some people are calling this a ‘stampede’ as firms try to be the first in the run towards offshoring (Overby 2003). The International Data Corporation (IDC) – a premier market research analysis firm – estimates the global demand of information technology (IT) services at $847 billion. This demand is expected to reach over a $1 trillion within this decade. The National Association of Indian Software and Service Companies (Nasscom) predicts that the offshore component of global IT services is expected to rise from $39.6 billion to $70 billion in the same time (Nasscom 2005). In this trend related to offshoring of business and technology services, India has emerged to be one of the important destinations taking the top spot as a technology offshore destination among US businesses (McDougall 2005). This has led to tremendous growth in the Information Technology (IT) and Information Technology Enabled Service sectors (ITES) in India. While the ITES sector has grown from $0.6 billion in 2000 to $8.4 billion in 2007, the software services sector (a major part of IT industry) has grown from $5.3 billion in the 2000 to $31.4 billion in 2007. Further, the combined growth in terms of CAGR in the IT and ITES sectors has been 28% (Nasscom 2005).

In the last decade, the IT/ITES sector has been one of the key drivers of the stellar economic growth in India that has averaged over 7%. Nasscom estimates that the industry directly employs more than 2.2 million people and provides indirect employment to almost three times the number of people (Srivastava 2006). Current estimates are that this sector will grow to $60 billion by 2010. This growth in the IT and ITES sectors has been accomplished due to increased scale of existing activities as well as foray in new types of engagement. A recently released strategic review by Nasscom of the IT/ITES industry quotes: “over time off-shoring software has grown from one off, project based engagements involved in low end activities to
longer term engagements often involving multiple, more complex tasks” (Nasscom 2005).

While the biggest share of IT services still comes from offshored custom application development and maintenance activities, the IT services market today includes several value added services such as packaged software implementation, systems integration, network consulting and integration, IT consulting, and IT support and training. Similarly, in the business process outsourcing (BPO) sector most of the initial work was in the area of offshored call centers dedicated for technical support. However, today the ITES sector also includes the Knowledge Process Outsourcing (KPO) activities that include several value added services such as mortgage processing, medical claims processing, investment banking analysis as well as research and development activities. The export of global R&D services and product development services from India is expected to grow rapidly from a current USD 2.3 billion to 8-11 billion by 2010 (Nasscom 2005).

Three main reasons that are often cited for picking India over other regions for offshoring activity are cost competitiveness, highly skilled labor pool, and high level of service maturity (McDougall 2005). It is true that a decade ago cost differential was relatively large between India and the western world for technical talent. However, over the last decade, that gap has been reduced substantially. It is also true that India possesses a large pool of technical talent. Based on Nasscom estimates, India graduates more than 2.3 million graduates and an additional 300,000 post graduates each year from its 347 institutes of higher education. 495,000 of these graduates are engineers. Despite this abundance of availability of educated workforce, only an estimated 10-15% of the graduating workforce is directly employable in a global platform. With the projected growth in the IT/ITES industry, a shortfall of 500,000 personnel is expected by the year 2010 (Nasscom 2007). Indian firms traditionally have been higher up on the service
maturity curve in this sector and we believe they will need to maintain this leadership in the short to medium term in order to compete effectively.

Based on our empirical research and extensive dialogue with firms, in this chapter, we provide an overview of the BPO and Software sectors in India and elaborate on the key challenges that players in this industry face today. In this process, we will also introduce alternative modes of operations for these activities and the pros and cons of those approaches from the provider and customer’s perspective. Finally, we discuss some of the current trends in this sector and provide concluding remarks on the future on this sector in India.

2. Offshoring Landscape

Much of the initial IT offshoring industry started in the early to mid 1990’s when several US firms sought external resources to help in achieving Y2K compliance on time. Indian firms capitalized on the opportunity to deliver such services by placing many of their employees overseas. Subsequently, factors such as the development of the telecom infrastructure in the country, quality orientation of the firms, a time zone advantage that facilitates 24x7 work, a proactive and positive support from the government, friendly tax structure for the IT companies and a very large cost advantage in working from India has enabled the rapid growth of the offshore IT industry in India. The growth in the offshore IT/ITES market also has also resulted in multiple business models of engagements by firms. These business models fall into the following classes¹: (a) Third party outsourcing – that includes using independent Indian vendors, Indian subsidiaries that include Indian and non-captive MNC BPO firms, specialized Indian and MNC firms that work on specific domains (b) Pure captive centers – that include MNC owned outsourcing companies formed as a subsidiary in India, (c) hybrid of captive and third party –

¹ These classes are based on the taxonomy of Dossani and Kenny (2007)
joint ventures and finally (d) Build Operate Transfer model, in which, a third party Indian firm builds an offshore center, operates it on behalf of the client, and transfers the ownership to the MNC firm. Over time, Indian providers have grown from offering one off project oriented engagements to establishing dedicated offshore client specific centers in both the BPO and the software services industries.

In general, the key decision to choose an engagement model is strategic and relies on the overall costs of setting up and operating an offshore development center. For example, cost estimates suggest that clients setting up a development team of over 100 persons may save more money by setting up a captive center. However, with lower sized development teams, it may be better to work with a third party service provider (Wileman 2007). Many firms in India use a dual model of running a captive center and also a third party center.

A captive setup has advantages of the onsite team being able to exercise better control on the quality processes, have greater liberty in deciding the incentive patterns to the employees and passing on greater savings from offshoring to employees in the form of higher pay, leading them to have fewer turnovers. Further, a captive center also has the advantage of being able to plan better for hiring, training and managing the workforce because of better awareness of corporate needs and requirements. Captive centers can also better manage the allocation of complex work since outsourcing core activities to a captive is less risky as compared to outsourcing to a third party unit. This allows them more leeway to retain, train and nurture employees. Finally, employees in captive centers can adapt to the onsite culture with greater ease due to the time they spend in the firm. Motorola Software Center in Bangalore, Microsoft Software Center in Hyderabad, IBM Research in Delhi and GE Jack Welch Research Center in Bangalore are great examples of successful captive operations in India.
On the other hand, third party firms need to be more responsive to their client requirements and the pressure on their hiring and training organizations can be considerable. Third party firms need to worry about intellectual property issues and operational aspects of motivating the workforce from one project to another. In knowledge intensive environments, engineers typically graduate in the nature and type of work they undertake with experience. This can be a challenge for many firms whose work profile is limited. Others such as Wipro BPO – a successful firm that provides best of breed practices in its call centers for multiple clients – and Brickworks – a firm in the KPO sector that provides extensive services to multiple small clients with highly trained engineers, doctors and pharmacists – may be able to rotate their staff and offer varied work profiles. Finally, from a client perspective, the third party service providers have an important edge in terms of bench strength. This can be exploited to accommodate quick ramp ups if needed in any given project that may not be possible with a captive center. In the context of third party outsourcing, dedicated offshore centers closely resemble a captive center. In any dedicated offshore center, an engineer works for the same client since the client ensures a steady stream of incoming work. In case a project is terminated, engineers are employed on other continuing projects for the same client. Therefore, engineers function like other employees of the customer working offshore. In a majority of situations, employees often work on client network to enable faster response. There are two important benefits to such engagement types. First, the vendor’s employees gain greater client specific experience and the engineers have greater familiarity with the task and client specific processes. Second, engineers of the vendor become more familiar with the organizational culture and work environment of the client. These factors often lead to better communication over a period of time and may result in greater productivity.
and cost reduction. E-ValueServ in the KPO sector as well as firms such as Infosys and HCL provide extensive services in the dedicated offshore center mode.

3. Outsourced Activities – Misplaced Expectations

Despite the high growth in IT outsourcing, client firms have faced a considerable amount of dissatisfaction with their providers in recent years. This is not only related to offshoring to India but outsourcing in general. For example, a practitioner survey reported that the overall satisfaction index of outsourcers fell to 6.4 on a scale of 10 in 2004, as compared to 7.1 in 2003 (McDougall 2004). Another study found that only 62% of the respondents were satisfied with their outsourcing partners in 2004 as compared to 79% a year ago in 2003 (McEachern 2005). In particular, offshored projects were cited as difficult to manage because of the complexity in managing the relationship, and problems of cultural adjustment between teams working in different countries (Mcdougall 2004). Another study found that 51% of the clients wanted to terminate their outsourcing contracts due to lack of satisfaction with outsourced software projects, citing poor quality, reduced operational effectiveness and greater management complexity as the primary reasons (McEachern 2005). These studies also indicate that the problems lie with both the service provider and clients alike.

From a customers’ perspective, dissatisfaction could be due to systemic problems with managing offshore processes, having wrong or unreasonable expectations, and lack of awareness of how to make offshore outsourcing to succeed. For example, Gartner – a leading market research agency – found that one of the top 5 reasons for failure of offshore projects was the general tendency of firms to rush offshore, and enter into deals too hastily (Huntley 2005). Other key reasons for failure of offshore projects include unrealized cost savings, loss of productivity,
poor commitment and communications, cultural differences, lack of expertise and organizational readiness (Huntley 2005).

From a service provider’s perspective, problems lie in lack of capabilities such as effective project management, communication, and improving productivity of employees. These capabilities have a significant impact on the ability of the service provider to deliver effective services. Further, developing these capabilities can be challenging given the competitive environment which is characterized by high employee turnover, shortage of talent, and demanding customers. In this next section, we discuss some of the key operational challenges that firms in the IT/ITES offshore services sector in India have to deal with.

4. Key Operational Challenges for Indian Firms

In this section we outline some of the key operational challenges for the Indian offshore firms related to (a) Hiring (b) Training (c) Turnover (d) Quality (e) Project Management and Communication and (f) Intellectual Property Management.

4.1. Hiring

India has been repeatedly cited to have an abundant and educated workforce. However several recent reports have observed the labor market is tightening. The growing economy and the pressure on hiring in the IT/ITES industries also has a cascading effect on the traditional industries such as construction, automobile, textile and engineering services (Kriplani 2005). Nasscom predicts a shortfall of close to 500,000 people by the year 2010 (Nasscom 2007). To understand the intensity of competition for labor in this industry, consider the following facts, the largest 5 companies in this sector in India namely Infosys, Wipro, Tata Consulting Services,
HCL and Satyam are planning to hire more than 100,000 employees the upcoming year. In this environment, firms need to have effective hiring strategies in place to manage the rapid growth. Given that a very limited number of new engineers are coming to the labor pool every year, many of the major Indian firms have established an extensive infrastructure to hire and train fresh recruits. For example, Wipro, a leading Indian software services company overcomes their problems by hiring science graduates and training them into software engineers. These fresh recruits gain on the job training while getting a masters degree from other Indian institutions with whom the company has collaboration. Such hiring programs allow the firm to mix the level of experience in projects.

To compound the hiring problem, many clients expect that the service provider will be able to ramp up the headcounts on their engagement very quickly. Our research identifies that rapid hiring can become an important bottleneck in executing projects slowing down productivity of engineers who are currently working in projects (Narayanan et al. 2006b). One of the fundamental methods of learning in these projects is by “doing”. Employees who enter a project tend to consume the bandwidth of their peers and superiors in learning the work that is being performed. To enable smooth transition of employees into the project, companies need different strategies in startup training that include ways and means to bring the project environment into the training and an immersion in a live project environment (Narayanan et al. 2006b). Firms having such programs are more likely to be successful in making employees productive from day one and cutting down the lead time needed to achieve to peak productivity.

Clients evaluating the vendor’s ability to ramp up also need to consider the bench strength or utilization levels of the employees currently with the service provider. Many Indian vendors – particularly the top ones such as TCS (employee strength of 94702 and utilization of
76%) (TCS 2007), Infosys (employee strength of 75000 and utilization of 70.5%) (Infosys 2007), Satyam (employee strength of 38,386 and a utilization of 76.54%) (Satyam 2007) and HCL Technologies (employee strength of 42000 and utilization of 71.1%) (HCL 2007) carry a good percentage of their staff in bench. This level of bench strength may be critical to ramping up projects at a faster pace. Further, the overall skill levels and the level of training of the bench workforce is an important consideration.

Finally, while the effective bench strength may reflect the ability of the firm to ramp up engineering staff, one also needs to consider and monitor the level of project management staff that supports the engineering projects. Several anecdotal references have pointed to shortage of middle management in IT and BPO projects in India (Chohan and Marriott, 2005). From a client’s perspective, investigating the management strength and in particular the middle management of the service provider may thus be critical.

4.2. Training

Many of the larger companies operating out of India spend a considerable amount of resources in training entry level engineers for projects. The limited availability of staffing at an experienced level and in particular the rising wages for the more experienced staff requires firms to invest in strong training infrastructure. For example Infosys, spent almost $125 million on training of fresh entrants. Wipro runs a successful program called the Wipro Academy of Software Excellence (WASE). This program aims to train engineers in application software environments. Each employee that joins the WASE program earns a masters degree while working with the firm. In contrast, several other smaller IT firms have limited training budgets and rely on poaching of the employees from such larger firms (Mamgain 2007). In addition,
several of these IT firms have started intensive collaboration with universities or set up their own institutions to gain R&D based learning and building a healthy partnership with the universities with the aim of enhancing the goodwill and brand among the current college graduates. For example, HCL Technologies recently announced research initiatives in an engineering institution that has been established by the promoter Shiv Nadar. (Hindu 2006).

Our research points out that an infrastructure for extensive technical training may not be enough to staff competent employees in various projects. Not only are the basic technical skills training important, but holistic training that involves the ability of the engineers to engage in conference calls and communicate to the client in a clear and concise manner makes a big difference in successful project execution (Narayanan et al. 2006a).

Further, organizations should strive to make the trainees work in simulated environments resembling real life projects. Our interactions with managers have revealed that many of the engineers learn on the job, and from the perspective of improving productivity and getting engineers to the peak of their learning curve rapidly, exposure of project environment in startup training can be a big advantage.

From a client perspective, adequate training infrastructure is critical for several reasons. Effective training infrastructure can aid in faster ramp up of their projects and provide greater confidence to the client that the project may be executed as planned. Firms with large training infrastructure may have a considerable percentage of bench strength that also helps in mitigating turnover related problems as we will discuss next.

4.3. Turnover
Most firms in India are today experiencing a considerable amount of turnover (also called attrition). The percentage of turnover typically can vary from 15% of the team turning over to an extreme possibility of an entire team turning over in a year (Schwartz 2007). While the competition to hire better talent is an important component of turnover, it can be combated with better human resource practices and other strategies that include team better management practices. In terms of human resource practices, firms try to ensure ample career movement and job satisfaction to their employees. Particularly, knowledge workers with their desire to seek more challenging tasks may quit firms in search of jobs that have a challenging work profile (Reed 2005). To combat these problems, from a client perspective, it may be imperative to have an effective plan for outsourcing work that may be graded in the level of challenge. Therefore, raising the level of technical competence needed over time from the offshore team. This is imperative to avoid discontentment within the offshore teams of being given a “second citizen” treatment that some of the manager’s referred to during our field visit.

Next, while the turnover of the engineers or associates is important, the level of turnover at the management level is also crucial for successful execution of such offshore projects. Recently the head of Nasscom – an umbrella organization of Indian IT service providers – cited in an interview that turnover at the middle management was a problem and was being addressed by sourcing managers from other non-IT based industries. This is because the project managers play a crucial role in the effective execution of the projects, formation of communication lines and coordinating the change management within a team. To mitigate such effects, it is important to have effective policies that may adhere to project management best practices over time.

Further, other strategies like on-site placement to the United States for a short period of time on a particular project may also be important (Schwartz 2007). More recently firms such as
HCL have launched an innovative Employee First program. This program emphasizes that employees are first in the company and customers are next only to employees (Banker 2006). This program enables the employees to raise important concerns about the company including small problems such as malfunctioning air conditioner to bonus payment issues. Such programs enable the firm to cut attrition levels. From a client perspective, it is critical to understand employee programs at the service provider that may enable the client to get greater productivity in dynamic environments.

While the overall turnover can be addressed from the human resources perspective, the impact of turnover can also be minimized by certain operational practices. Our research finds that larger teams have lesser impact of turnover as compared to smaller teams (Narayanan et al. 2006b). One of the key reasons is the larger teams have greater room to enable effective cross training so that problems of work disruption due to turnover can be managed. Firms that are sending work offshore can proactively plan for the quantum of work that will allow consistent cross training practices.

We have found some effective practices in our interactions with managers. First, a few client firms had a policy of giving incentives to the offshore project teams to reward better performance. These incentives included giving offshore staff recognition within their company with special awards, providing monetary incentives, providing them with additional work that involved more advanced process or technology, and organizing overseas training programs for employees. One metric for judging this could be performance parameters such as meeting delivery deadlines or the overall customer satisfaction with projects delivered. Second, recently firms are covering the risks of turnover by incorporating threshold turnover numbers that they can tolerate by drafting service level agreements (Schwartz 2007). These agreements typically
specify that the additional costs of retraining staff will be covered by the service provider. Such retraining costs can include onsite training on client specific technologies. Finally, turnover can also be tackled by effective workforce management policies. To elaborate, several offshore service companies operate at a utilization level of 60-70% and tend to keep large bench strength. Effective management and utilization of bench strength can mitigate the vagaries of turnover. One such example in the offshore context is the policy of “Shadow engineers.” Our research revealed that several teams had the policy of planning for turnover upfront by including shadow engineers within a team. These engineers focus on learning and retaining knowledge of critical project issues that may otherwise cause serious disruption for activities. Further, an effective bench monitoring program and a program that continually monitors the availability and presence of skill levels may be required to manage turnover related problems. From a client perspective several of these issues can be negotiated by planning upfront for these eventualities.

4.4. Quality

The operational challenges of maintaining and improving quality are considerable in both the software and the BPO sectors. Several Indian software service providers improved the level of their quality by undertaking an assessment of the level of their quality processes based on the levels suggested by the Software Engineering Institute at the Carnegie Mellon University (SEI-CMM levels). In the software sphere, the focus on quality of services of Indian vendors has been an important element of the growth of the Industry. that the Nasscom website quotes: “as of December 2005, over 400 Indian companies had acquired quality certifications with 82 companies certified at SEI-CMM Level 52” (Nasscom 2006). This number is the highest amongst

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2 This is the highest level of process assessment by the Software Engineering Institute.
any country in the world. In the context of software industry, several companies go for dual certifications of ISO 9001 and SEI-CMM.

It is important to note that while the ISO certification requires that a firm undertake a recertification exercise by an independent third party auditor every 2 years, the SEI-CMM does not require mandatory recertification (Arora and Asundi 1999). Thus, for the client, the presence or absence of the SEI-CMM certification may not necessarily imply high quality processes since firms may not have opted for a re-assessment of their processes after initial certification. It is important to know when a particular service provider was assessed at any particular CMM level.

While the SEI-CMM framework offers several guidelines to design and implement a quality system in a software setting, the BPO industry faces considerable challenges in scaling up quality primarily due to the diverse range of tasks that are performed. In the context of the BPO industry, firms undertake a ISO certification for process mapping, COPC (certification provided by the Customer Contact Performance Inc.) certification, six sigma and the e-sourcing capability model (developed by Carnegie Mellon and is administered by a consortium –ITsqc – of practicing managers and researchers) that has been specifically developed for improving sourcing relationships in the internet economy. Currently about 6 of the top 25 Indian ITES providers have the COPC certification.

Based on our interviews with managers, we found that an important challenge in the context of the ITES firms is the issue of scalability. Several firms that undertake knowledge intensive processing services face the challenge of scaling up their quality. For example in the context of a KPO, the size of the engagements is typically small - of the order of $100,000. Thus organizational growth comes at the expense of increasing operational complexity and
correspondingly serving many more processes for clients within the firm. Thus the necessity of effective quality processes is a crucial element in a BPO environment.

Clients in both the software and the BPO setting typically ensure quality by signing service level agreements that specifies the defect tolerance for process. To understand the quality capability of the service provider clients should take a first hand look at the various practices followed within the service provider and adequately assess the quality infrastructure of the firm.

4.5. Communication and Project Management

The importance of effective communication in the offshore context has been recognized by many managers. In one of the interviews, Kiran Karnik – the head of Nasscom – cites the importance of the ability of engineers to clearly communicate problem definition to onsite engineers (Thibodeau 2006). One of the article in trade press quotes, “the primary challenges facing U.S. organizations are cultural and geographical distance, as well as time-zone difference. Communicating with your service provider can be an added challenge. “You have to have processes to resolve issues,” he says. “It’s never face-to-face.” (Wright 2005).

Research suggests that communication in the offshore context has multiple facets. Communication skills include both the ability of engineers to communicate effectively with clients over email, and the ability of the engineers to communicate over conference calls verbally. This can be referred to as communication quality (Narayanan et al. 2006a). Further, communication also has a second component that includes the overall frequency of communication (Narayanan et al. 2006a). Effective communication is a mix of both of these components.
Our research finds that leading Indian firms that deliver projects successfully outlined a formal communication plan. These plans were reviewed periodically for updates. The typical content of the communication plan would include the nature and type of reports, the frequency of communication, problem escalation hierarchy for both service provider and the client, preferred communication initiator, preferred methods and timing of communication and finally the periodicity of communication plan review.

Better execution of projects also requires competencies such as strengths in project management and communication. The requirement of project management competency among the offshore service providers has been widely recognized (Gopal et al. 2002; Ethiraj et al. 2005; Narayanan et al. 2006a). However, project management competency holds greater importance particularly when clients are planning to outsource full scale development activities. Finally, from a customer’s perspective, one should note that issues like communication and project management capabilities for a service provider evolve over time during the course of the project.

4.6. Managing Intellectual Property

Recently there have been a number of press articles citing concerns over the data privacy with outsourcing to India or other countries. Clients in US and Europe are equally liable for data theft under what is called the theory of negligent entrustment (Rustad and Koenig 2007). This issue is of critical importance in particular to the BPO industry that may directly deal with customer data. Some of the events that have led to negative impression about Indian outsourcing firms include (a) employees of a firm in Pune, India misappropriated close to $426000 by manipulating customers to divulge passwords and pin numbers; (b) a more famous case of that of a British reporter who allegedly operated undercover to gain data on credit card information
from employees of an Indian back office (Ribero 2006; Rustad and Koenig 2007). In the last couple of years Indian firms are taking measures for protection of client privacy at multiple levels.

First, the government, on its part, recently approved the amendments to the Information Technology Act (2000). This law imposes strict penalty on individuals and firms that fail to control data theft. These laws are in line with the privacy laws in the USA, though they fall short of the privacy laws that currently exist in Europe (Rustad and Koenig 2007). Second, Nasscom as a part of its ‘4E Framework’ – Engagement, Education, Enactment and Enforcement framework – conducted training of around 1800 police officials in handling of cyber crime with a view to tighten enforcement in case of a repeat event (Karnik 2006). Finally, firms themselves are addressing this issue at multiple levels. First, several call centers in India are today implementing monitoring systems for employees that include close circuit television, recording of conversations of the employees, PC’s that directly accesses client servers with no possibility of data storage such as CD-ROM’s, disks or even prohibiting employees to carry equipment such as “cell phones, PDA’s and pens and notebooks” (Engiardo 2004) into the call center premises. Many of the call centers have access control restrictions into individual client specific call centers that only employees assigned to those call centers can access. Other measures that companies such as Mphasis BFL practice include locking off the employee from access to the systems within three minutes of the resignation of the employee (Engiardo 2004).

At the process level, many Indian firms including software are implementing practices best practices recommended by standards such as the ISO 17799 (formerly BS7799-1) – that are “a comprehensive set of controls comprising best practices in information security” (ISO 17799 website), Control Objectives for Information and related Technology (COBIT) – that are a set of
IT governance best practices recommended by the Information Systems Audit and Control Association (ISACA), and the IT Governance Institute (ITGI) in 1992.

5. Trends in this Sector

5.1. Moving up the Value Chain

The firms in the IT and the ITES services industry in India have been consistently moving to perform more value added tasks. One of the key reasons for this shift in the role of work profile is the fast increasing wage rates in India. The growth rate in wages of Indian employees at the entry level has been to the tune of 10% - 12% per year. While the middle management wage rates grew at the rate of 15% - 20% per year (Thibodeau 2006). Other estimates point the increase in wages paid to Java programmers from around $22 per hour in one year to $40 per hour the very next (Thibodeau 2007). Firms are combating the rising wage costs by moving higher on the value chain of services. Several larger Indian firms are turning down call center contracts that are on the lower end of the value chain – except for strategic reasons – and moving to “better-paying deals for processing mortgages, handling insurance claims, overseeing payrolls, and more” (Kriplani et al. 2006).

5.2. Gaining Synergies

Until recently the trend for the firms in India was for the BPO and the software development firms to operate separately. However, as the business process arms of different firms move up the value chain to handle more complex processes such as insurance claims handling, medical claim processing, research and development applications and other value
added processes, they are realizing that considerable synergies exist in cross selling, and sharing employees.

First, there has been a considerable push towards process innovation in industries that work on complex processes (Kriplani et al. 2006). Not only can employees working in the BPO organizations contribute to improving client processes, but from a service provider’s perspective, they can cross sell application development services for any process innovation that the BPO arm might have performed for the client. Second, both process outsourcing and application development requires strong expertise in the domain of activity. The expertise gained by the employees on process management can be leveraged for application development. Third, merging the two organizations enables the use of the same sales force that has the potential of cross selling services and provides a single point of contact for the client.

Several Indian firms have recently merged their BPO arms that were independently managed earlier. For example Progeon, the wholly owned subsidiary of Infosys was merged with the parent company and is now called the Infosys BPO. Further, Wipro merged its software operations with Spectramind – the wholly owned subsidiary undertaking BPO operations. Similarly, HCL Technologies, Mphasis BFL and Satyam also merged the BPO operations with the parent firm.

From a client perspective, this phenomenon is important. Since business processes and automation are tightly linked, firms that undertake process outsourcing and application development have greater incentive to innovate on processes and can also reduce the lead time to implementing such process innovations. Moreover, in complex IT services, exploiting these synergies may also ensure that the domain knowledge that the service provider gains through interaction with the client is effectively used in the client’s favor.
5.3. Leveraging the Globe

More recently a number of Indian vendors are moving to China and other countries. For example, Tata Consultancy Services recently announced a joint venture in China with Microsoft and other local firms. This operation is expected to scale up to 5000 people by 2010. There are three important reasons why Indian firms are expanding spread to other countries. First, in many countries, cost of hiring a programmer is lower than that of India. For example, programmer salaries in China (anywhere between $600 and $960) are almost half of those in India (McDougall 2006). Second, current customers of some of the Indian firms prefer their service providers to have a center in China since they may want to engage with the same service provider. Finally, in some cases, firms may also want to exploit near shore advantages. For example, HCL Technologies operates a call center at Belfast in Ireland that employs more than 2000 people. More recently the firm also started a contact center in Malaysia that can offer multi lingual support to clients. Both these offshore centers are designed to be closer to clients culturally (Dev 2004).

Given the competitive service environment, the global spread of the service provider raises important questions from a client’s perspective. First, the capability of the service provider to support the client requirements in multiple ways and in different countries becomes extremely important. Second, the geographical spread of the service providers adds new challenges for managing the outsourcing relationships for both the client and the service provider, particularly if the clients run several projects. For example, the service providers need to effectively integrate the culture of their near shore operations with the firm – as in the HCL example of having to integrate the culture at Belfast with that of the parent company. Further, the service providers
need additional ability and skill to set up the operational infrastructure in the new country such as hiring and training in addition to collaborative infrastructure between the centers operating in the different countries.

From a client perspective, such dispersion in project execution involves evaluation of coordination and communication issues between the multiple development centers. Also, complexity of monitoring the project increase manifold, particularly if the project is being executed from multiple centers with people who are from different cultures. Adequate disaster recovery plans are becoming a central part of Infrastructure planning for firms in such a dispersed environment.

5.4. Friendly Neighbors

A major threat to many of the Indian service providers is the increasing presence of international multinationals such as IBM, EDS and Accenture in India. For example, IBM today has 53,000 employees in India (will constitute 15% of its global workforce) and Accenture also has 35000 of the global employee base of 145,000 in India (Wileman 2007). The significant growth in the presence of the multinational firms in India has been because they want access to more of the same talent pool and the need to reduce the overall cost of their operations by giving their customers the option of nearshore vs offshore. One advantage that MNC’s have in this context is the ability to offer their employees the option of jobs in “eclectic corners of the world” to increase job satisfaction that many Indian firms may not be able to provide at this point in time (Gupta 2005).
6. Concluding Remarks

In this chapter, we discussed the offshore sector related to IT and ITES sectors in India. We outlined the key operational problems that service providers face today. Further, we also discussed the current market trends and outlined the key related issues that are essential for the survival of the service providers going forward.

As the Indian service providers lose their significant advantages related to cost and face tough competition from MNC in their own turf, they need to follow a three-pronged approach. First, they need to move up the value chain into work areas that may fetch higher prices in which the MNC firms already have considerable expertise and compete in those spheres effectively. Second, they need to compete with the MNC counterparts in their ability to scale up to deliver a truly globally distributed delivery model. Finally, as Indian firms move along the competition curve related to Cost, Quality, and Timeliness their final frontier will be in terms of Innovation. In addition to innovating on their processes to become more efficient and faster, they also need to focus on improving employee productivity, through several practices that may relate to hiring, retaining, work force management and developing effective engineering capabilities. Their success or failure going forward will depend on how they can develop an organizational DNA that would enable them to innovate rapidly to compete aggressively with other global players of the world.

From a client perspective, it is important to understand that offshoring to India has several advantages but also has shortcomings. It is important to not rush into offshoring decisions, perform due diligence, set the right expectations and contracts in place, develop appropriate protocols for communication and to be patient to realize the full potential of offshoring. Anecdotal references cite that it can take up to two years before projects stabilize in
the outsourced environment (Amoribata et al. 2001). While this may vary depending on the process in the context of a BPO or the nature of type of software work, clients need to consider the stabilization effort needed upfront to bring stability to the project. In the course of this time, expecting a project to yield immediate gains may be unreasonable and can lead to significant frustrations with offshoring.

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