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## OUTSOURCING AND OFF-SHORING: AN EMERGING SECTOR FOR ECONOMIC DEVELOPMENT

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### Abstract

*In the last few decades, a trend has been noticed, with respect to the outsourcing and offshoring of business processes and activities, by big business houses. Outsourcing refers to the delegation of the routine or peripheral business processes to some external organization, so as to free up their resources i.e. money, time and manpower, for the core activities of the business. When the outsourcing of any business operation, at a place other than the business's origin, can be termed as off-shoring. The business organization can decide itself that how they want to use these practices, i.e. singly or in combination. Sometimes, offshoring can also be termed as a subset of outsourcing. . Lauded for its ability to put India on the map as a destination for high-quality, low-cost technology skills, and for being an engine of wealth and job creation, this industry stares at an uncertain future. India's share in the global outsourcing market rose from 51% in 2009 to 65% in 2016. India's \$150 billion outsourcing industry finds itself at a tipping point. This papers aimed is explore the role of outsourcing and off-shoring in present scenario of the process of Indian industrial development, also how it is helpful for qualitative development of entrepreneurship.*

**Keywords:** Outsourcing, off-shoring, Economic growth.

### Introduction

Outsourcing is no new phenomenon in the world of business management although, following the increased globalization, it has gained a significant focus in the past decade or so. The growing global competition has forced many organizations to cut cost where ever possible and as one consequence turned attention to outsourcing opportunities Outsourcing to India began after the country's economic liberalization in 1991. It came to centre stage with the Y2K problem, which established India's capability in IT services. This shows the importance of outsourcing in Indian economy. India's offshoring story began in 1985 when Texas Instruments set up its office in Bangalore. In the 1990s, many airlines and technology companies started their India operations. Present study makes an attempt to investigate the process of evolution of offshore and outsourcing in India. Outsourcing also regarded as subcontracting, is a process whereby the business organisations transfer or delegate their non-core or peripheral activities to the external organisations. Such outside parties are specialised in performing that operation and hence does it efficiently. The companies use this tool for the purpose of increasing focus on those activities in which it can do best. Therefore, the rest activities are outsourced by the big multinational corporations that include manufacturing, payroll, customer service, and maintenance of statutory records and so on. Outsourcing is not limited to the domestic country, but foreign contracting is also allowed. Outsourcing can be Business Process Outsourcing (BPO) or Knowledge Process Outsourcing (KPO). The company seeks to shift their business from a developed nation to a developing nation, in order to get the advantage of low labour costs, lenient laws, less government interference, cheap availability of resources, less tax rate and much more. For the past few years, it has been observed that offshoring has emerged as a developmental factor for the economically unsound countries as it increases the country's Gross Domestic Product (GDP), infrastructural development and reduction in the rate of unemployment. This papers aimed is explore the role of outsourcing and off-shoring in present scenario of the process



of Indian industrial development, also how it is helpful for qualitative development of entrepreneurship.

#### **Objectives of study**

- To know the deference between outsourcing and off-shoring.
- To know the present scenario of outsourcing
- To know the advantages and disadvantages of outsourcing and off-shoring

#### **Hypothesis**

- Outsourcing and off-shoring is an emerging sector for economic development.
- Outsourcing and off-shoring is beneficial for Indian industry.
- 3. Outsourcing and off-shoring sector is capable for employment in India

#### **Collection of Data**

This research paper is based on secondary data like some working research papers published with respect to Outsourcing and off-shoring & extent literature available on various websites, text books, reference books etc.

#### **Research Methodology**

The researcher used the secondary data for interpretation through tabulation, also used various websites, which providing details about outsourcing and off-shoring and their advantages and disadvantages. The specific method that has been used to tackle the problem is a literature review. Many articles and journals are used to analyze this, also relies on secondary data from available literature. To collect reliable and useful data, the databases and search engines.

#### **Portfolio of outsourcing in India**

India provides the widest array of services (IT, BPO, KPO, R&D, Engineering services etc.) and the most mature service providers. India also has the widest range of options for ownership models for sourcing of services. India continues to be the major destination for outsourcing because it has been able to evolve with changing needs. NASSCOM, (National Association of Software & Service Companies) the apex body of India's premier IT software and service (IT & BPO) companies. India's share in the global outsourcing market rose from 51% in 2009 to 65% in 2016. India's \$150 billion outsourcing industry finds itself at a tipping point. Lauded for its ability to put India on the map as a destination for high-quality, low-cost technology skills, and for being an engine of wealth and job creation, this industry stares at an uncertain future. Rapidly shifting technology needs, Brexit, changes in immigration and visa norms and the ascension of protectionist Donald Trump as US president could slam the brakes on the industry with the latest growth projection from industry body Nasscom slumping to 10% for 2016-17 from 12% for 2014-15. Hiring too has slowed to a crawl, with fewer people required in a sector embracing automation and robotics to revitalise itself. In the past five years, revenue and profit growth for the top five companies listed on the BSE have halved. Infosys, once the industry's bellwether, is feeling the full force of this headwind. In August last year, the company suffered a jolt when a contract from the Royal Bank of Scotland was nixed following the Brexit referendum. That resulted in some 3,000 jobs being lost at the Bengaluru-based company.

#### **The major differences between outsourcing and offshoring are explained below**

1. Outsourcing refers to the transfer of non-core business activities to another organization who got specialization in that work. Offshoring refers to the moving of the company's business to any other country, where the cost of running such business is lower than the home country.



2. Outsourcing involves shifting business operations to external parties. Conversely, Offshoring involves shifting of activities and offices.
3. The objective of outsourcing business activities is to focus on the core activities of the company. On the other hand, offshoring is performed to minimize the cost.
4. Outsourcing is performed by non-employees, but Offshoring is performed by employees of the business entity.
5. Outsourcing may be performed within or outside the country. Although, in offshoring, the shifting of business to another country is a must.

### **Advantages of Outsourcing**

Advantages of outsourcing can explain following way;

#### **1. Decreases the Cost of transactions**

The expenditure of hiring an external agency or a third party service provider is lower than setting up in-house operations for a two reasons: first, an external agency is a separate entity; it is an enterprise that is responsible for its own cost of operations. Second, an external agency has the experience to get the job done according to expectation.

#### **2. Improves Productivity**

By outsourcing select business processes you can improve productivity because, company can focus its resources on its core functions. The cost savings from outsourcing can be repurposed to fund revenue- generating programs of the company. For example, the cost savings can be used to improve business infrastructure or enhance its marketing and promotional program.

#### **3. Increases Flexibility**

A company can increase its flexibility with outsourcing by taking advantage of time zone differentials. By simply adjusting work shifts, it is possible to have your business managed for 16 hours by an external agency.

### **Disadvantages of outsourcing**

Disadvantages of outsourcing can explain following way;

#### **1. Traditional differences**

There will be a period of adjustment needed for your company to accommodate certain cultural and social practices of the third party service provider. For example, if you contract an agency from the Philippines or India you will have to develop an understanding of their deeply rooted spiritual beliefs the dates of which may conflict with your work schedule.

#### **2. Lack of communication**

Hand- in- hand with cultural and social differences are communication problems. There arise because of differences in perspectives. For example, North American companies tend to do business in a straight- forward manner. On the other hand, service providers from the Philippines are more introverted. They tend not to say much and keep to themselves. For the North American client it may be taken as a sign of aloofness, uncertainty or incompetence. But in reality, it is just part of their nature as a soft- spoken people.

#### **3. Security issues**

Despite the promulgation of the Data Protection Act in several popular outsourcing destinations, security breach and data integrity will remain serious issues. Even with tight IT networking protocols



**Advantages of Off-shoring**

Advantages of off-shoring can explain following way;

**1. Economies of scale**

When a company sets up office or a factory abroad, it is not just capitalizing on comparative cost advantages on labour but also on existing economies of scale. Other cost items such as power, Internet connectivity, rent may be lower in the host country than the country of origin. In fact, the expectation of most companies that offshore is to realize at least a cost savings of 70%. A company can also take advantage of the comparative cost advantages by diversifying positions or negotiating for volume discounts when purchasing assets or services.

**2. Closed collaboration**

Offshoring gives the company greater control through closer physical collaboration. Shared space collaboration has the advantage of overseeing the conduct of work without the filters or delays associated with technology. While there are software programs that allow clients to view the work of its outsourcing partner, latency issues with the terminating carrier can compromise the benefits of real time analytics.

**3. Relaxable policies**

There are some governments that grant special exemptions and incentives to companies that invest in their economy. These include tax exemptions and access to cheap credit which could improve the bottom-line of the business.

**Disadvantages of off-shoring**

Disadvantages of off-shoring can explain following way;

**1. Creation the problem of unemployment**

The biggest criticism versus companies that offshore is that it increases the level of unemployment of the local economy. The aforementioned companies Caterpillar and Nike have been accused of taking away jobs from Americans and displacing their existing work force in favour of other nationalities. These companies argue that by offshoring they are able to improve profitability by lowering costs and increasing revenue. Thus, the increased profits can be used to improve facilities and programs of the principal company.

**2. Cultural and social differences**

The client will be immersed in the culture and social practices of the host country. This may have an effect on productivity and communication. Unlike outsourcing, time zone differentials may work against the offshoring company because production could end up being delayed due to changes in manpower availability.

**3. Misusing the data**

Whenever you are sharing, transmitting data to another party, you are always at risk of security breach and compromised data integrity. There will always be transfer issues when it comes to data even when there is shared space collaboration. The decision on whether you should outsource or offshore will depend on the size and complexity of your operations, the scope of work that you need transferred and of course, your resources.

**Conclusion**

Outsourcing is a decision to save cost and improve competitiveness of firms. Cost saving was the main motive for offshore out-sourcing in its early stage. With the development of offshoring work and increased cap-ability and maturity of service providers, complex, value-added works and sometimes even works related to core competencies of firms are also offshored. Relationship between clients and vendors are becoming closer, and buyer and seller kind of relationships are difficult to find. Using outsourcing and even offshoring activities for a call center is in vogue since last decade.



India dominates knowledge-intensive service sectors in offshoring, but faces new competition from new entrants'

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