
Reforms to Encourage Outsourcing to India

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Abstract: *The idea of outsourcing is not new. It started way back in the 1700s when manufacturers started shifting the production of goods to countries with cheaper workforce during the Industrial Revolution, following the edicts of Adam Smith in his book 'The Wealth of Nations'. The outsourcing of any products is relatively easy as the product normally has a shape, size, texture. Realising the benefits of product outsourcing practices. Organisations especially in the western world turn their focus on some of the non-core services they were performing in various departments. Why do companies actually outsource? In earlier times, cost and headcount reductions were the most common reasons to outsource. Today, the drivers are often more tactical, such as how a company can best utilize its own fundamental competencies. Though the outsourcing of manufacturing is an old story, outsourcing to services is a relatively new phenomenon. Services outsourcing to India started in the 1980s and rapidly accelerated in the '90s. In today's world where information technology has become critical to business, the meaning of outsourcing has undergone a drastic change over the years. The researcher wants to state that encouragement of Outsourcing to India is a need of an hour as keeping in to consideration of the present situation of our Economy reforms like these are much required.^[1]*

INDIA'S HISTORY ON OUTSOURCING

Although the IT industry in India has existed since the early 1980s, it was the early '90s which saw the emergence of outsourcing. First, some global airlines began outsourcing their back office work to India—and then IT companies followed. Some of the earliest players in the Indian outsourcing market were Texas Instruments, American Express, Swissair, British Airways and GE, who started incarcerated units in India. Over the years, the industry has built robust processes to offer world class IT software and technology-related services.

India offers a unique combination of attributes that have established it as the preferred destination for IT-BPO. Advances in technology and communication have allowed transnational companies to rapidly globalize at a very low cost. The cost of managing employees in a distant location had fallen drastically, and the need to outsource became stronger. Significantly, India

also began efforts to open up its economy to the world. Since the commencement of globalization in the early 1990s, successive governments have pursued programs of economic reform committed to liberalization and privatization. The government started simplifying restrictions and liberalizing the economy, which has helped the country see rapid economic development.

Developments in telephony, fibre optics and satellite communications made Internet-based communication and transfer of data possible, paving the path for outsourcing to India. The telecom industry in India used to be a government-controlled domination and the market was small. By 1999, the government announced policies which played a key role in reshaping the structure and size of the telecom Industry, allowing Commercial units to participate in almost every industry segment. [2] The new telecom policy brought in further changes with the introduction of IP telephony and ended the state monopoly on international calling facilities. The government's slackened investment policies have resulted in several foreign companies entering Indian markets, which has been a major contributor to the growth of the Indian economy.

In addition to the central government's intervention, state governments are also competing with each other to offer more favourable business environments in order to attract IT/ITES companies to set up development units in their states. This kind of competition is helping the industry grow at an astronomical rate.

Indian companies are enhancing their global service delivery capabilities through a combination of Greenfield initiatives, cross-border mergers and acquisitions, partnerships and alliances with local players. Global software giants like Microsoft, Oracle, SAP and many others have established captive development centres in India over the years. Indian authorities have made efforts to further strengthen the information security environment in the country, and special initiatives have been taken to enhance the legal framework. Many companies in India have already aligned their internal processes and practices to international standards such as ISO, CMM, Six Sigma, etc. which have helped establish India as a credible outsourcing destination.

The IT & BPO sector has been a key beneficiary in India's growth, with the cost of international connectivity declining rapidly and quality of service improving significantly. India's National Association of Software and Service Companies (NASSCOM) has played a critical role in outsourcing by acting as a coordinating body for the industry. It conducts surveys and conferences which help in the dissemination of knowledge and research in the outsourcing industry.

"While India's low-cost has helped its businesses grow, global incumbents have also recognized India's inherent advantage and have mastered this capability by off-shoring more work out of India." India's competitive advantage lies in its ability to provide huge cost savings and thus enabling productivity gains.

Trade liberalization: Since the late 1990s, the Indian central government has liberalized the domestic and international telecommunications services, helped establish several Software Technology Parks and Export Enterprise zones, and offered tax holidays similar to those enjoyed by the software industry. Various state governments have also provided assistance to companies in their internal recruitment, retention, and training programs to attract business process outsourcing firms to their states. India's 53 business process outsourcing (BPO) industry that began with data processing centres and customer call centres has rapidly progressed up the outsourcing value-added chain. The digital revolution and the 12-hour time differential between India and locations in the developed world opened up a range of services (customer interaction, back office operations, accounting, data entry, human resource services, market research and consultancy) that are provided in India. **Wage rate advantage:** The wage gap between the United States and India is significant, and the outsourcing of business services functions has enabled U.S. corporations to achieve labour cost savings of 40 to 50 percent of those costs in the United States. Kenny (2003) has estimated the wage level for the typical call centre worker in India is approximately \$10,354 per year, as compared to \$55,598 in the United States. Likewise, annual salaries for computer programmers in the United States 54 range between \$60,000 to \$90,000 whereas their Indian counterparts currently earn between \$6,000 to \$10,000 per year.

CURRENT GOVERNMENT POLICIES

- The reforms have reduced licensing requirements and made foreign technology accessible. The reforms have also removed restrictions on investment and made the process of

investment easier. This has tremendously helped the IT/BPO industries.

- The Indian government is actively promoting FDI and investments from NRIs (Non-Resident Indians). FDI can be brought in through the automatic route, based on powers accorded to the Reserve Bank of India.

- In pursuance of liberalization and globalization, the Indian government has been formulating and implementing more transparent and investment friendly policies. This is now reflecting in many areas.

- Another significant example of the liberal policy of the Indian government is the IT Act. The IT Bill passed in 2000 provides a legal framework for the recognition of electronic contracts, prevention of computer crimes, electronic filing of documents, etc.

- In pursuance of the liberal policies, the Indian government has been continuously proposing amendments in the Indian Evidence Act, Indian Penal Code and the RBI Act. The mechanism of digital signature has been proposed to address the issues of jurisdiction, authentication and origination.

NEED FOR BETTER REFORM

With economic development increasingly dependent on the country's more than 6,500 listed companies, high standards of corporate governance and transparency are fundamental. However, the Indian business sector is still characterised by concentrated ownership, widespread use of corporate pyramids and cross holdings of shares. As a result, there is both opportunity and incentives for a small group of controlling owners to act in their own interest, potentially to the detriment of minority investors. In 1998, India produced one of Asia's first substantial codes of best practice in corporate governance. Further improvements followed, including the introduction (and later expansion) by the securities regulator SEBI of Clause 49 in the Stock Exchange Listing Agreement, which expressly covers corporate governance. SEBI has recently proposed to amend its listing agreement to oblige listed companies to immediately disclose major related party transactions, and has also recommended changes to the Companies Bill 2011 (pending Parliamentary approval) to prohibit interested shareholders from voting on related party transactions. If passed, both reforms would be a significant step forward in protecting minority shareholders, which in turn

would help build market confidence and attract foreign investors. However, hurdles such as overburdened courts, and limited enforcement resources exist for the two oversight institutions. The government of India is also formulating an ambitious Responsible Business Conduct strategy that targets national development goals by promoting a dialogue between government, civil society and companies.

In 2009, the Ministry of Corporate Affairs released the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business. They were revised in 2011 to incorporate feedback from stakeholders and include a special chapter on the application to micro, small and medium enterprises and a special section on a possible reporting framework. With the development of its National Voluntary Guidelines, India is now considering the definition of a set of criteria to classify enterprises' projects as "Responsible Business" as well as the inclusion of specific RBC clauses in the national Company Bill pending in Parliament.

KEY RECOMMENDATIONS:

An administrative simplification programme will help to reduce the burdens and costs on businesses.

- Creating necessary policies, institutions, and procedures to implement a transparent, evidence based system using regulator based practice tools.
- Mitigate risks of surplus and
- corruption in the whole procurement cycle (from project design through the tendering process and to the contract management).
- Focus efforts to increase public limpidity and reinforce public trust.
- Strengthen the independence of the Lokpal/Ombudsman mechanism

REFERENCES

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[3] *OPEN UNIVERSITY INDIA, 2014* available at <http://vle.du.ac.in/mod/book/print.php?id=8454/>