Chapter VI

Information Technology
Offshore Outsourcing:
A Perspective of
Advanced Countries

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Abstract

Offshore outsourcing is a term covering a range of information technology (IT) and business services delivered to companies in developed countries by IT personnel based in developing countries. The significant cost savings achieved by the offshore model is the prime factor in its growing acceptance and use. IT software and service outsourcing is becoming a new reality for employers, employees, government and academicians. The widespread use of Internet, standardization of software development methodologies, efficient IT project management techniques, low cost of telecommunications, have provided the necessary thrust for global production of software and services. In this chapter, we analyze the impact of today’s offshore outsourcing movement to the United States economy, education, jobs, wages, and social issues. We suggest that offshoring is a viable economic model. It leads to improved productivity, lower inflation and eventually growth in jobs and wages. The

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U.S. will also see significant numbers of “in-sourced” jobs because of subsidiaries of foreign based companies. Future job growth in different areas of business and skills, require young students and present IT workforce to acquire them with education and training. Federal Reserve chairman Alan Greenspan has also expressed the need to produce highly skilled workers. The loss of jobs of IT workers is the difficult aspect of offshoring. Laid-off workers should be provided assistance to find a new comparable job, both by the U.S. government and companies. In this chapter, we make some recommendations to reduce, minimize and overcome the hardships caused by the IT outsourcing.

Introduction

Gartner, a leading industry research firm says in a report (McDougall, 2005) that by 2015 the number of information technology jobs being outsourced from the United States and other developed countries is going to increase to 30%. India, China, Israel, South Africa, Northern Ireland, Southern Ireland, Czech Republic, Poland, Hungary and Russia are popular offshore outsourcing destinations. The IT offshore outsourcing is a global phenomenon. In this chapter, we primarily focus our attention on the exchange of IT activities between the U.S. and India; this allows us to site concrete illustrations for developing our scenario. Amongst America’s biggest companies, those using offshore software development include American Express, Aetna U.S. Healthcare, Compaq, General Motors, Home Depot, IBM, Microsoft, Motorola, Shell, Sprint and 3M. GE’s technology partnership with India in 1991 was a pioneering step in offshore outsourcing arena. Since then, India has grown its call center, business process outsourcing and software business. In addition, India has welcomed the research and engineering facilities established by the U.S. and multinational corporations like Microsoft and IBM. In the context of offshore IT projects, the comments of global business leaders on India’s potential are worth mentioning (NASSCOM). In the inaugural ceremony of John F. Welch Technology Center in Karnataka, India, on September 17, 2000, John F. Welch Jr., GE Chairman & CEO commented, “A truly global company will be one that uses the intellect and resources of every corner of the world. India is a developed country as far as intellectual capital is concerned. The opening of [offshore] development centers marks a new level of commitment by GE in India.” When Bill Gates, founder of Microsoft, visited Hyderabad (Microsoft India Development Center) India to mark Microsoft’s 25th anniversary on September 27, 2000, he commented, “Three years ago, during my visit to India, the country was emerging as an IT superpower. Today, the country is handling the most sophisticated projects in the world. I am impressed with the talent we have in our India Development Center and the quality of software being developed.” Total value of outsourcing to India was U.S.$17.2 billion in 2004, estimated at 44% of the worldwide total. By 2008 the value of work outsourced to India is forecasted to reach 48 billion (Ramadorai & Karnik, 2005).

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