IT outsourcing and India [1]

BIPIN NAMBIAR

Outsourcing became a fashionable term in the beginning of the 90s. Many companies, having decided to focus on their core competencies to excel at the market place, chose to outsource non-core activities like Information Technology (IT). Recently, faced with daunting challenges and unhealthy alliances, most companies have been rethinking their IT outsourcing strategy. This report looks at the benefits and risks in IT outsourcing, and how to mitigate these risks. The report also focuses on India - the world's favorite IT outsourcing destination - the opportunities offered by this country and the challenges faced by companies that have decided to outsource their IT projects and activity in India.

IT Outsourcing is defined as a decision taken by an organisation to contract-out or sell some or all of the organisation's IT assets, people and/or activities to a third party vendor, who in turn provides and manages the services for a certain time period and monetary fee.[2] In the recent years the term IT outsourcing is being increasingly used to include any IT activity that is not performed in-house by the company. These includes specific IT Projects, IT call center and service outsourcing etc. For the scope of this report, the latest definition will also be used as a basis for discussion. IT outsourcing industry is expected to grow at an annual rate of 16% to US$ 120 billion by the year 2002.[3] The estimated global market share of the IT outsourcing industry in 1998 was US$ 99 billion.

From a relatively unusual entrepreneurial activity, IT outsourcing has recently exploded across the global corporate landscape.[4] Companies outsource IT for many reasons, ranging from its high profile and current popularity to cost pressures from competition and economic recession.[5] Management often regard IT as a non-core activity and believes that IT service vendors have the necessary economics of scale and expertise to handle and provide better and more efficient IT services than their own in house IT department.

Some companies are compelled to outsource their IT activity because IT is an enabler in a company and not a revenue producing activity, and managers would rather outsource non-revenue producing activity to a third party who is better skilled in handling such an operation. This perception of IT as a cost burden encourages companies to outsource this activity.

Most of the IT operations are regarded as a commodity that does not differentiate the company from its competitors. When an IT operation does not provide a strategic advantage, companies prefer to outsource it to a third party or an outsourcing vendor, who generally claim that they can provide this service for less than what it costs the company's IT department.

In the IT sector, technology is changing at a tremendous pace and organisations cannot keep up with these changing standards and newer technologies. It is at these unpredictable times organisations look at IT vendors to gain access to the best technologies in a cost-effective way.

The biggest factor that inhibits growth of the IT activity in a company is not money or inaccessibility to new technologies. It is the lack of people. It is becoming increasingly expensive to find and retain IT programmers and specialists. Outsourcing the IT activity gives companies constant access to competent people through the vendor and reduces the investment in time and money involved in finding these specialists.

1. Risks in IT Outsourcing:

There is a saying that goes around in the IT industry: 'Every company gets the outsourcing partner it deserves'. There is a great element of truth in this saying. Companies that have inefficiently managed their IT department almost always find incompetent outsourcing partners. Whereas, organisations that outsource efficiently managed IT functions derive substantial and further benefits from outsourcing. Companies that have not done their homework prior to the outsourcing decision and companies that have viewed IT as a burden that has to be offloaded as soon as possible have realised that they are in a much worse quandary than ever before. Some of the other risks of IT outsourcing or causes for concern while considering to outsource are mentioned here:

- Some companies do not undertake market testing (comparing the IT outsourcing vendors in the market) and some do not even consider 'insourcing', where the company may be better of sourcing the activity to themselves, especially in the case of strategic IT functions.6
- Most companies do not realise that in order to manage the outsourcing activity they need to have good management expertise in the company to begin with. Companies that have faced challenges in managing their own IT department may find it more difficult to handle the outsourcing vendor. Outsourcing the IT function does not naturally take away the scope of management, in fact it demands more efficient and more organised management, which results in better control of the off-site vendor. There is no guarantee that a company that has been incapable of managing its own in-house IT service would be able to derive benefits from a well-run and efficient IT vendor. The word of Michael J. Earl, Professor of Information Management at London Business School, echoes this thought, 'In the long run, management tasks neither disappear nor remain static'.
- While many companies outsource their IT activity because they are incapable of finding and retaining programming staff, companies, much to their consternation, have realised that IT outsourcing vendors also face these same obstacles and challenges. There have been many instances where companies have discovered that IT vendors even bid for specialised projects for which they have no in-house expertise in the hope that they can find these specialists once the contract is secured. Companies that plan to outsource their IT activity may have to do in depth research on the bidders and their reputation and in-house talent.
- The biggest and the most frequent mishaps happen when companies focus on costs as their single most important driver for IT outsourcing. Most CEOs look at the balance sheet and see IT as one of the biggest consumers of company funds. This is because most of the cost benefits of IT are not transparent. While IT may help other departments to reduce costs, IT as itself may be seen as a department that has increasing costs year

after year. Some companies have even gone to the extent of admitting that the so called esoteric benefits derived by IT are not substantiated.

In such instances the companies readily outsource IT and see a change in their income statement that is immediate and in some cases even tremendous. But many companies are inadvertently signing away the investment in time and training incurred in developing an IT department. It is likely that the companies have sacrificed their crucial competencies and capabilities that may be extremely hard to regain when the company changes its focus in the future.

- One of the factors that motivate companies to outsource their IT activity is the belief that hey cannot hope to adapt to the rapid changes and new developments in the market place. The companies believe that the vendors will have the agility, ability and the economics of scale to respond to the latest trends and development. Companies often require cost reductions along with any other objective they had in their mind. When cost become an important factor in outsourcing contracts, vendors undercut themselves in order to secure the contracts and then they are forced to reduce their costs to sustain themselves and ensure profitability. In such cases the vendors themselves compromise on new investments in future technologies.
- The biggest dilemma companies face while deciding to outsource IT is the length of the contract. Some companies prefer short-term contract and some believe that long-term contract ensures long-term commitment from the vendor.

  Vendors typically do not prefer short-term contracts, but companies sometimes prefer such contracts as the field of IT is full of uncertainties and companies do not want to be stuck with a vendor who skills are no longer competitive in the market place. A long-term contract normally ensures more investment in time and money by the vendors and also gives the vendors incentive to update their skills. But more often than not companies that have signed long-term contracts have had to constantly grapple with vendor's technology skills that have not been updated. And as a result been stuck in a non-fruitful relationship with an IT outsourcing vendor who has no motivation to bring up to date their technological competencies.
- Usually when outsourcing contracts are signed, companies expect to find a major change in their bottom line. But companies fail to gauge the costs involved with managing the outsourcing vendor. The management costs, communication and co-ordination costs and in some cases the opportunity costs, take up a major chunk.

  Companies typically underestimate the set-up costs including redeployment costs, relocation costs and longer-than-expected hand off and parallel running costs.[7]
- When the decision to outsource occurs, companies essentially stop learning about newer technologies, and all the advantages gained by investment made in technology development and adaptation is sometimes wasted. In the long run, the company also finds that there is a lack of informed buyers in the Company as to tomorrow's technologies. In such a situation, the company is totally dependent on the vendor as to updating its technologies and usually it reaches a level where the company is forced to accede to the vendor demands on purchasing newer technologies. IT outsourcing sometimes does create a dent on the organisation's natural learning process.
- Some companies even regard outsourcing as a necessary evil as they have observed that IT outsourcing affects the innovative capacity of the organisation. Companies have often been disappointed when they expected the vendors to be innovative, while still asking them to focus on providing the lowest cost alternative. This leads to unrealistic

expectations. Innovation, to a large extent, requires flexibility, resources and certain competency levels that can sometimes be fostered only in-house.

While there are tremendous risks associated with outsourcing, the benefits derived from outsourcing the right way are manifold.

The growth of IT outsourcing is increasingly based on 'selective sourcing', characterised by short-term contracts for specific activities. Selective outsourcing meets customer needs while minimising the risks associated with total outsourcing approaches.[8]

2. Selective sourcing

While companies rarely outsource their complete IT activities these days, there is an increasing confusion as what to outsource and what not to. Managers essentially try to follow the rule of thumb: outsource non-strategic IT functions and retain in-house the strategic IT functions. Strategic IT functions include those core IT activities that differentiate the company from its competitors.

But, sometimes an IT system may be critical but not strategic. The system may be crucial as to providing the backbone to the organisation's systems but in no way differentiates it from the competitor. Or the function may be strategic, but other elements, especially the software, can be classified as a commodity that can be easily and more competitively provided by a vendor rather than the in-house IT department.[9]

The initial trends were to outsource all the IT functions to one major vendor or supplier. Now with increasing number of vendors and niche players, companies can afford to divide their IT activities and functions among different players and award the contracts to multiple providers. This maximises control and flexibility, which, should be the goal of any outsourcing venture from the company's viewpoint. Companies should try and foster competition among its prospective vendors and try to secure the best possible contracts. But this may not bode well for the market place if the company regards costs as the most important factor in awarding contracts. This may lead to vendors undercutting themselves in order to secure contracts, sacrificing on quality and innovation in the long run. This also compromises the standards of the industry in the long run.

One of the biggest success stories in selective outsourcing has been British Petroleum's outsourcing approach.[10] The success and seamless service British Petroleum achieved from multiple suppliers is well known in industry circles.

BP Exploration Operating Company, the $ 13 billion division of the British Petroleum Company, concluded that the company no longer needed to own the technologies that provide business information to employees. With the technology market providing a wide array of high-quality choices, the company could look at various options before coming to a decision. BP believed that outsourcing was not an end in itself but part of a broader initiative to reshape its IT department.

BP did not want to deal with a single supplier nor did not want to divide the IT operations into discrete slices that require far more management resources than they were worth.

BP achieved considerable success by following a strategy where they had the freedom to buy IT services from multiple suppliers and to have pieces delivered as if they came from a single supplier. BP hired three contractors and required them to work together to deliver a single seamless service. BP also expected the vendors to outsource or subcontract services that can be performed more effectively and less expensively than others and, more importantly, to manage these sub contracts.

Organisations increasingly selectively outsource their IT functions. The biggest challenges companies face is to what to outsource and what not to. An outsourcing decision does not have to mean compromising on the in-house capabilities, but rather should be seen as a chance to enhance these qualities. An outsourcing decision, if well thought out and scrutinised, can offer tremendous benefits and sustainable value addition to the companies IT infrastructure.

3. Maximising outsourcing benefits

Many organisations have a well thought out and structured system as to identifying a vendor, negotiating contracts and detailed guidelines, checklists and pointers to be considered prior to outsourcing. Some companies actually think about outsourcing when a vendor actually contacts them and details out to them the benefits of outsourcing IT to a third party. In such cases, the companies overwhelmed by the perceived benefits, get into hastily written out contracts that offers no long-term benefits and in certain instances compromising their in-house capabilities. IT outsourcing should not be regarded as an end in itself, but as a harbinger of future capabilities that enhance the organisation's core strengths in the competitive market place.

All outsourcing contracts should be given due consideration with regard to the strategic intent of the outsourcing activity. The relationship with the vendor - he contract type, decision rights, performance measures, and risk-and-reward allocation schemes - must be aligned with the strategic intent underlying the outsourcing initiative.[11] The following brief guidelines or points to be thought about before deciding to outsource and choosing a vendor are for those organisations whose motivations to outsource have evolved from a primary focus on cost reduction to an emerging emphasis on improving business performance.

Why outsource?

Probably the most evident question a company should ask itself before deciding to outsource. These days the companies are asking themselves the possibility of actually insourcing their IT capabilities. When BP Exploration Operating Company decided to outsource its IT functions, it was ready to consider the bidding of its in-house IT department, and for some specific functions found the in-house IT department to be as competitive as the external vendors. While deciding to outsource, companies should try and find ways to leverage existing capabilities by salvaging and making use of the prior investments made in enhancing these capabilities. Some organisations have tried to form strategic partnerships with vendors, where the in-house capacity is utilised to maximise the benefits of partnerships. In awarding contracts to an outside provider, companies are allowing that provider to figure out how to provide the services more efficiently and pocket the savings.[12]

Market research

Checking the capabilities of vendors and market testing prior to signing of outsourcing contracts can go a long way in maximising the potential benefits of an outsourcing deal. While reputation of the vendor is an important factor, companies do sometimes make the mistake of going for an outsourcing contractor based solely on the size and reputation of the vendor. Some big vendors lack focus on the specific needs of the client and some services are better provided by niche outsourcing providers who have focus and the agility to respond to the changing technologies that characterises the global IT market.

Length of contracts

Companies are shying away from signing contracts that last ten years or so. Long contracts limit the flexibility offered and there is no guarantee that changing technologies would not bring out more competitive providers into the arena. In such a case the company is restricted by the long-term contract it signed with the vendor. Signing short-term contracts may compromise on aspects like commitment from the vendor. Moreover the vendor may be less willing to invest in his Information Services performance since there may be insufficient time to recoup the costs. The ideal length of contract is regarded as two to three years for a typical outsourcing contract. Short-term contracts also ensure that the price stipulated will not be out of step with the market prices.

Multiple providers

These days it makes sense to keep multiple vendors so as to maximise flexibility and minimise risks. In some cases the vendors can even be encouraged to co-operate and co-ordinate with each other in providing IT services. Having multiple vendors fosters competition and forces the vendors to provide superior services. At the same time some companies fall into the trap of having too many vendors. This erases the cost benefits of outsourcing as companies have realised that management costs involved in handling the numerous vendors absorb the major share of benefits derived.

John Cross, the head of Information Technology for British Petroleum, says, ‘When companies cede control of IT to a single provider, it becomes dependent on the quality of the supplier’s skills, management, technology, and service know-how. In today’s dynamic IT services market, no one company can excel in all areas. Linking its destiny to a single supplier prevents a company from taking advantage of the many innovative, high-quality technologies and services offered by others in the market. Worse, a supplier’s capability may wane over the life of a contract as its competitor’s wax.

Whose contract?

Companies often sign pre-written contracts the vendors lay out for them. In some cases it is extremely difficult even for the company lawyers to decipher the constituents of the contract. This is more so in the case where companies are outsourcing a technology with which it is not familiar.

In their book A Business guide to IT outsourcing (Business intelligence, 1994), Leslie Willcocks and Guy Fitzgerald cite hidden costs as the biggest outsourcing problem. Some suppliers try to maximise profits by charging exorbitant fees for services the customers assume are included in the contract.

One way to deal with this is to have a contract that is written out jointly by the company and the vendor where all the clauses are transparent and there are no ambiguous elements in the fine print.

The contracts have to explicitly put emphasis on service levels, delivery and volumes involved.

Once elements of mistrust and overcharging creep in into the contracts it becomes increasingly difficult to derive benefits from the venture. The best way is to expect such misunderstandings and pre-emptively dealing with such possible occurrences.

Managing the vendor

An outsourcing contract does not automatically ensure less management. In fact in most cases it requires superior management skills to manage and control an off site vendor. While the new role of the in-house IT department changes from an implementer to a co-ordinator or a planner, management and staff grapple with organising such a change. IT managers in these cases become contract-managers and have to try not to be involved with the day to day operations. In such instances the IT department needs people who have the foresight to exploit the vendors expertise and co-ordinate the efforts rather than typical programming staff. This refocus can sometimes be a painful experience for the organisation and its people.

While the vendors have to detail out clearly the objectives they expect to achieve, the company must know how the vendor intends to achieve the desired objectives.

Partnering with the supplier

Managing outsourcing relationships as strategic alliances is a strategy that ascertains consistent quality and mutual gains. Outsourcing agreements that are structured to allow the vendors to make a fair profit ensures the survivability of the vendor and sustainability of the contract. Vendors should be provided incentives such as future contracts and re-negotiations of existing contracts in case of superior performance. Withholding a piece of business from the supplier and using that piece of business as a carrot ensures more commitment in certain cases.

Mary C. Lacity, Leslie P. Willcocks and Davis F. Feeny, in their article, 'IT Outsourcing Maximize Flexibility and Control', mentions the aspect of *Measurable Partnership,* in which the company and the supplier has complementary and shared goals. If a supplier is being hired to develop a new application, the contract might stipulate that the company and the supplier would share any profits that come from selling the application.

It is always difficult to ascertain the costs of outsourcing, especially in the case of new technologies, where benchmarking and comparison is impossible. In such cases the management can only calculate the intrinsic value provided by the new technology or its strategic importance and compare it with the outsourcing costs. It is extremely difficult to measure the breadth of supplier's technological capacity, especially when dealing with new technologies. It is also absurd to expect that the supplier is always going to interact with the company like a real partner. Ultimately a supplier's need to maximise profits conflicts with the customer's needs for good service, low costs and the ability to change course.[13]

4. Outsourcing in India

India started being taken seriously as a possible outsourcing destination when Indian programmers created a minor revolution in the Silicon Valley with their omnipresence in all major American software companies. Companies soon started to sit up and notice the value of these programmers. With nearly 30% of the programmers in companies like Microsoft, IBM and Xerox being Indians, companies started clamouring for their presence in their establishments. Highly qualified, motivated and English speaking, these programmers created a major niche for themselves in the Valley.

Soon American companies started looking at the possibilities of developing software in India, where they could have the multiple benefits of having Indian programmers in a cost-effective way. This sort of remote project management or outsourcing got a further boost when many Indo-American companies started being established in India, especially by the Silicon Valley émigrés. These companies leveraged their presence in America and obtained projects to be outsourced to India. The software educational sector, largely privately owned, responded to the market needs and structured and customised their education to the market needs and churned out an increasing number of programmers.

In IT exports, India is chasing a 10-fold jump in software earnings by 2008, from $5 billion to $50 billion, and the US is its most important market.[14]

Many people have various theories as to what is behind the success of the Indian software sector. By and large, the successes are attributed to the following reasons:

The educational system

India is renowned for its excellent educational system. Despite the low literacy levels, education, when available has superior standards and a very comprehensive nature. Specialisation into subjects begins only at a very later stage of education and this provides valuable broad-based education. The emphasis on mathematics and sciences contribute to a large extent in developing an analytical mind frame suitable for programming. The fact that the Government, unable to meet the educational needs by itself, have been encouraging private schools that provide very flexible education has also helped to a very large extent. There is a plethora of schools all around the country providing tailor made courses in programming and computer languages. These Schools act as a sort of one-stop-shop where the aspiring students can get introduced to modern and superior programs and languages at competitive prices.

India is also considered to produce the best engineers in the world. The Indian Institute of Technologies, known as IITs, is regarded as one of the best engineering schools in the world.

Ironically, the competitive nature of the Indian education system and a non-buoyant job market leaves student with little choice as to which direction they should follow. The students are forced to peruse educational goals that suit the market needs and demands. The market demand for Programmers and IT experts far outstrips the supply.

No legacy in software

India has been a late entrant into the field of software. This has proved a blessing in disguise. This means that the market got introduced to superior technology and plunged headlong into newer technologies, as it did not have to worry about utilising outdated and expensive legacy system. One of the most pertinent questions organisations face while adapting to newer technologies is to what to do with the older systems, mainframes and equipment and how to utilise them for a longer time to derive optimum value. At the same time they try to deal with the sophistication of the new technologies, and try not losing the competitive edge in the market by lateness in imbibing new technology.

Language and social aspects

The colonial legacy India adopted from the British made India is one of the largest English speaking countries in the world and an enviable influence of a good system of governance. Being one of the largest democracies in the world has ensured a vibrant market place and a very market sensitive business environment. There is a profusion of dot com companies all over India and some predict that it may be more difficult to match the internal manpower requirements in the software industry of the country itself in the future. The language aspect to a large extent has helped in creating an edge over china as far as the knowledge market is concerned.

The silicon valley factor

The presence of Indian software programmers and computer engineers in the Silicon Valley and their success stories have encouraged tremendous learning in this area. India still has to come in terms with the exodus of qualified engineers and programmers who take advantage of the free and superior state education and end up working in the US. But this Brain Drain has resulted in the Indian software industry being exposed to the latest technological advances via the Silicon Valley and has also aided the growth of outsourcing industry in the country.

Indian-owned IT and dotcom businesses in the US have created immense wealth and employment. The market capitalisation created by them in the past two years alone has been estimated at $100 billion. Indian firms based in India are meanwhile engaged in developing and implementing a range of IT solutions from telemarketing and airline reservation to medical transcription services. Despite the disparity in their economic development, an array of similarities exist between the United States and India - an open government, a strong spirit of entrepreneurship, the presence of a huge pool of highly-skilled professionals who are free-wheeling thinkers - that make them ideal partners in a knowledge economy.[15]

Governmental support

The three most important areas of software development in India-Bangalore (known as the Silicon Valley of India), Chennai (formerly known as Madras) and Hyderabad, have developed greatly due to governmental backing with regard to providing concessions such as tax holidays and other benefits. The Government has created Software Technology Parks (STPs) that have become areas of software development around the country. The companies located in these areas are encouraged to export software and tremendous concessions are provided by way of total tax exemptions on all exports and duty free hardware imports. All these concessions have resulted in the setting up of an assortment of companies providing generic and niche services, which has increased competition that has contributed to improved quality. Companies with hundred percent foreign equities are permitted in these areas and the State Governments ensure that there are no bureaucratic obstacles in setting up of these companies. There is a large-scale investment in infrastructural development including building of new roads, power plants and other allied industries. The recent development of healthy competition between the states in attracting investments bodes well for the software sector.

5. A guide to outsourcing in India

Outsourcing your IT in India has tremendous benefits. Once a company has made the outsourcing decision, after weighing the pros and cons of such a decision, they have to make a mature and a well thought out judgement as to how and what to outsource. While selective outsourcing is the smart option, companies have to avoid going for a solution that is not tailor-made for its individual requirements. India is a country that offers a wide variety of choices guaranteed to confuse the uninitiated. Few important pointers to consider before deciding to outsource your IT in India:

Size of the vendor

Many European companies, to avoid risks, succumb to the perceived safety of outsourcing to a large and reputed company. While reputation is an important factor, it is well worth investigating the niche players in the market place that can offer superior, customised and cost-effective services. Large outsourcing vendors typically look at large and long-term projects and may not give the required attention or the skilled manpower to medium sized or small contracts that European companies usually start with. Lots of Indian outsourcing vendors have offices in Europe and US. The company that decides to outsource believes that the presence of these offices in close proximity can improve control and co-ordination with the vendor. This is far from the truth. Generally the Europe and US offices of the Indian vendor serves only as a marketing hub and usually has no means to co-ordinate the activities once the outsourcing projects are underway. The cost benefits that can be derived from outsourcing in India are sometimes negligible when dealing with a big company. These vendors are used to dealing with high profile million-dollar projects and generally have the option to charge their clients as much as any other similar sized company in the world.

Ambiguity in contracts

Notwithstanding the knowledge of English India has, documents and contracts are not easy to understand. Indians pride themselves in using English that is of high standard that sometimes perplexing and extremely complicated to decipher. More often than not the companies signing the contracts do not understand the fine print or comprehend the subtle nuances involved. Many companies have ended up paying more than expected because of a certain lack of understanding as to clauses and penalties. Companies deciding to outsource should emphasis on signing contracts that are thought out by both parties and jointly written. This ensures that there is no ambiguity with regard to any part of the contract. A well-detailed exit strategy should also be mentioned in the contract in the event of poor service or not updating the technology simultaneously with the market developments.

Strategic partnerships with vendors

Outsourcing relationships built around strategic alliances and mutual incentives have higher rate of success than a pure client-supplier relationship. One of the outsourcing projects that the author helped to broker involved an Indian vendor and a Belgian Bank. The Indian vendor had developed a piece of Internet banking software that was evidently superior but untested at the market place. Instead of purely developing and installing the software, the vendor and the Bank decided to for a partnership wherein the two parties would share the development costs and other related costs in customising the software and jointly develops the whole program. The Bank and the vendor would share all the profits further accrued from selling this software to other parties.

Recognising the potential synergies of assets and capabilities of the client and the vendor, and ensuring that the rewards received by the partners are commensurate with the risks that each assumes, creates a mutually beneficial symbiotic relationship.

Testing the vendor

One of the best possible ways to ensure critical success in a relationship with an outsourcing vendor is to start with a small project. This gives the company a chance to gauge the performance and delivery patterns of the vendor, at the same time, helping the vendor to be accustomed to dealing with the client and become attuned to the company's needs. This sort of an approach decreases the risks of outsourcing to a foreign vendor.

Market testing is an important and valuable research that should not be avoided while deciding to outsource in India. Given the choices in the market place, it is always possible to find a vendor that may be best suited for the technological needs of the specific IT outsourcing activity.

Communication and co-ordination costs

One of biggest cost aspect companies fail to look at while deciding to outsource in India is the costs of frequent communication and co-ordination efforts involved in the upkeep of an outsourcing project. In a study undertaken in a particular company that had an overseas R&D centre, travel costs ranged from 3 to 7% of the total R&D budget.[16] In the case of a software outsourcing project that may require constant co-ordination with a remote overseas unit, the costs can be considerably higher. Most of the times the benefits derived substantiate these costs, but companies may well do to take into account these cost and consider this as an integral part of remote sourcing. All efforts should be made at controlling these costs without compromising on quality. These costs may not be of high concern with Belgian companies as Belgium has one of the highest labour costs in the world (57% of the total costs compared to 31% for an American worker).[17]

Despite living in the age of Internet and superior communication modes, the value of face to face communication between the company's developers and the vendor's programmers cannot be over- emphasised.

Initial face to face contact helps a great deal to foster the future success of any communication activity. Prof. T. J. Allen, in one of his papers, has repeatedly supported the notion that face to face contact is the backbone of efficiently operating information network.[18]

The eternal triangle

Many Indian companies faced with increasing competition and the consistent demand from the clients to maintain low costs depend on intermediaries or brokers to garner business for them. These intermediaries or Business Development Consultants are paid a percentage of the total value of the contract by the vendor. While the importance of this person who act as the go-between cannot be discounted, companies should avoid the pitfall of directing all communication through this intermediary once the outsourcing contract is signed. These liaison agents who in theory understands the user needs and conveys them to the specialists, while conveying the specialists' concerns to the users, succeeds only in keeping the communities apart and in creating more confusion.[19] Further, the companies involved in IT outsourcing in India should try and keep the number of coordinators on the vendor's side to a minimum. One of the frequent complaints the companies have while outsourcing to India is the number of layers they have to pass through before ultimately reaching the persons directly involved with the project.

Delivery problems

Notwithstanding the superior expertise of the programmers and the engineers, one of the common grouses the foreign companies have with the Indian outsourcing vendors is regarding the discrepancies in delivery. Guaranteed delivery dates are almost never adhered to. This may be an aspect of cultural difference between the west and the east. One way to avoid this problem is to allow the vendor to set the time frames required to complete a specific project, keeping in mind the deadlines the companies have to keep themselves. Having a carrot and stick policy with regard to keeping to the time frames is sometimes a workable option.

Instead of keeping a deadline for the whole contract or project, a more useful solution is to stipulate time frame for completion for each progressive step of the project and monitoring it.

Negotiating the contract

Negotiating a contract with an Indian Supplier can sometimes be a heady experience. Contracts can take time to be drawn out, especially with numerous clauses and so on. While negotiating the contract, the composition of the negotiating team is a crucial aspect. The best possible people to take the lead for negotiations are middle managers from the IT department who have broad knowledge of IT and the organisation. The team should also include a variety of specialists but not necessarily the CEO at the level of negotiation. The CEO should not be involved in actual negotiations; he or she must provide the team with a mandate and thus authority with both internal groups and vendor.[20] The cultural aspect of negotiating with Indian vendors is not a major reason for concern unlike dealing with the South East Asian cultures. Culturally Indian Managers are not much different from their European and American counterparts. But it pays to be direct, clear and transparent while negotiating.

'Less is more'

European companies are constantly overwhelmed by the low costs offered by Indian IT outsourcing vendors. After a vendor makes an initial proposal on a specific project, companies, upon investigation, find that there is always another vendor or supplier who is ready to offer the same services for a lower price. In the IT outsourcing sector in India rampant competition is causing the vendors to further undercut their rivals on already low prices. By the end of the day, companies who have been able to sign contracts with vendors for embarrassingly low rates find that they have compromised on quality and technological edge. The vendor, who is hard pressed to make a profit, tries to save costs on technology updates. The tight budgets often stifle creativity. In this event, companies are forced to make technological investments in the vendor and spend more time and money to make the contract workable. Eventually the company, which believed that it was getting a price *less* than the market rate, ends up paying *more* than it bargained for.

6. A new phenomenon – 'remote people sourcing'

Organisations are in search for efficient ways of outsourcing to India. The quality of project management does not always complement the technical expertise and competency levels possessed by the programming staff. As a result, even projects involving high quality team members do not deliver outcomes expected by the companies. Some companies eventually set up shop in India with dedicated programmers working for them. For the companies incognizant with the way of organising and managing in India, this may not offer predictable results. Furthermore this does not fall under the purview of outsourcing and hence it shall not be dealt with in depth.

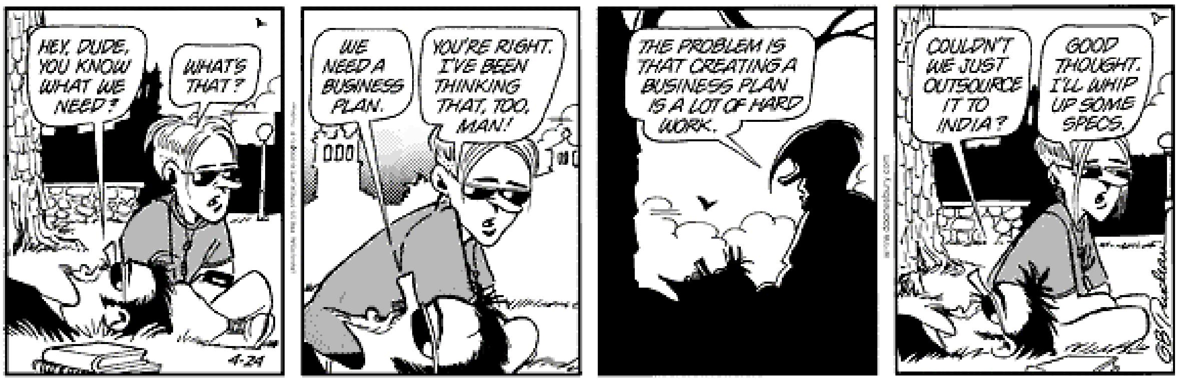
Remote People Sourcing involves the companies being associated with outsourcing vendors, who probe and ascertain the company's skill requirements and find the right programmers for the company. These programmers in effect become virtual employees of the company, even though they work at the vendor's base. The Company is allowed to coordinate all the programming activities directly with its dedicated programmers.

The vendor's responsibility is limited to finding the right candidates, managing them on a day-to-day basis and retaining them. Normally the vendor does not involve himself with programming bottlenecks. The programmers are usually well qualified and match the suitability requirements laid out by the company. But the company is responsible for teaching specific skill sets that may be required to program on a specific framework or platform. In a way, the company ends up making a substantial investment in that person in return for his expertise and skills. The commitment required by the company to make this venture operational is exactly what makes this endeavour successful.

The author interviewed a few company executives involved with the operations of this nature in India. Companies unanimously agree that despite the initial investments involved in training the staff and co-ordinating and smoothing out the usual communication problems, results are usually very satisfying. The companies have a semblance of control and freedom over their IT efforts and strategy. The low costs in India for skilled programmers ensure that the cost levels involved are almost always considerably lower than costs in Europe.

Companies in Europe, faced with tough laws of immigration, are impaired by the lack of software professionals to handle their critical and strategic IT activity. In the present world we live in, borders are not made of brick and mortar; they exist in the minds of individuals. Opportunities exist in abundance if one has the inclination to look beyond the set boundaries. Newer markets are opening up. They provide possibilities that never existed before. Prudent companies avail of these chances and find ways to work around debilitating laws and regulations. The IT industry is moving along at a rapid pace and the only reason Europe may get left behind is the acute manpower shortage in IT industry. The time has never been as ripe as present to look at new options and examine the emerging IT outsourcing markets like India.

Doonesbury[21]



Notes

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